COMMERCIAL NET LEASE REALTY INC
Form 424B3
June 04, 2002

PROSPECTUS SUPPLEMENT
MAY 30, 2002

Filed pursuant to Rules 424(b)(3)&(5)
Registration No. 333-53796

(TO PROSPECTUS DATED MAY 1, 2001)

COMMERCIAL NET LEASE REALTY, INC.

$50,000,000

7.75% NOTES DUE 2012

The notes will bear interest at the rate of 7.75% per year. Interest on the notes is payable semi-annually on June 1 and December 1, commencing December 1, 2002. The notes mature June 1, 2012, and are redeemable at any time at our option, in whole or in part. The redemption price will equal the sum of the outstanding principal of the notes being redeemed plus accrued interest and the Make-Whole Amount, as defined under the caption "Description of Notes - Optional Redemption". The notes do not have the benefit of any sinking fund.

The notes are unsecured and rank equally with all of our other unsecured senior indebtedness. The notes will be issued only in registered form in denominations of $1,000.

The public offering price is 99.426%. The underwriter has agreed to purchase the notes from us at 98.776% of their principal amount, which represents a .650% discount from the public offering price, resulting in aggregate proceeds to us of $49,388,000, before deducting expenses payable by us, plus accrued interest, if any, from June 4, 2002.

The underwriter may retain the notes, purchase the notes for its own account or sell the notes to one of its affiliates. In addition, any affiliate of the underwriter may purchase the notes directly from us.

The underwriter proposes to offer the notes from time to time for sale in one or more negotiated transactions, or otherwise, at market prices prevailing at the time of sale, at prices related to market prices or at negotiated prices. The price of the notes will include accrued interest, if any, from June 4, 2002.

We do not intend to list the notes on any securities exchange or to include them in any automated quotation system. Currently there is no public market for the notes.

INVESTING IN THE NOTES INVOLVES RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE S-6 OF THIS PROSPECTUS SUPPLEMENT.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS SUPPLEMENT OR THE ACCOMPANYING PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

We expect that the notes will be ready for delivery in book-entry form only through The Depository Trust Company on or about June 4, 2002.

WACHOVIA SECURITIES

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PROSPECTUS SUPPLEMENT

PROSPECTUS

SUMMARY

The following summary is qualified in its entirety by the more detailed information and consolidated financial statements and notes thereto appearing elsewhere in, or incorporated by reference into, this prospectus supplement and the accompanying prospectus. In this prospectus supplement, the words "we," "our," "ours" and "us" refer to Commercial Net Lease Realty, Inc. and its subsidiaries and joint ventures, unless the context indicates otherwise. The following summary contains basic information about the offering.

THE COMPANY

We are a fully integrated, self-administered equity real estate investment trust (REIT) formed in 1984 that acquires, owns, manages and indirectly develops a diversified portfolio of high quality, freestanding properties that are generally leased to major retail businesses under full-credit, long-term commercial net leases.

Our portfolio emphasizes properties that are located within intensive commercial corridors near traffic generators such as regional malls, business developments and major thoroughfares. These properties, which generally have purchase prices of up to $10.0 million, attract a wide array of established retail tenants, such as Academy, Barnes & Noble, Bed Bath & Beyond, Best Buy, Borders, CVS, Eckerd, Food 4 Less, IHOP, Office Depot, OfficeMax, Supervalu, The Sports Authority, Wal-Mart and 7-Eleven. Consequently, we believe that such properties offer attractive opportunities for stable current returns and potential capital appreciation. In addition, we believe that the location and design of properties in this niche provide flexibility in use and tenant selection and an increased likelihood of advantageous re-lease terms upon expiration or early termination of the related leases.

We generally acquire properties that are newly constructed or re-developed as of the time of acquisition. In addition, we generally acquire properties that are subject to a lease in order to avoid the risks of not finding a tenant on a timely basis and to provide an immediate revenue stream. Our leases typically provide that the tenant bears responsibility for substantially all property costs and expenses associated with ongoing maintenance and operation, including utilities, property taxes and insurance, and generally also provide that the tenant is responsible for roof and structural repairs. Such leases typically do not limit our recourse against the tenant and any guarantor in the event of a default and for this reason are considered "full-credit" leases. Our properties are leased on a long-term basis, generally 10 to 20 years, with renewal options for an additional 10 to 20 years.

As of March 31, 2002, we owned (or in certain limited cases ground leased), either directly or through investment interests, 361 properties, located in 40 states. At March 31, 2002, our portfolio was 89% leased. The weighted average remaining initial lease term of our properties was approximately 12 years. Leases representing approximately 70% of annualized base rental income from our properties, as of March 31, 2002, have initial terms extending until at least December 31, 2012. Approximately 81% of annualized base rental income is derived from leases that provide for

periodic, contractually fixed increases in base rent.

Our address and phone number are:

Commercial Net Lease Realty, Inc.
450 S. Orange Avenue
Suite 900
Orlando, Florida 32801
(407) 265-7348

THE NOTES

The following is a brief summary of certain terms of the notes. For a more complete description of the terms of the notes, see "Description of Notes" in this prospectus supplement and "Description of Debt Securities" in the accompanying prospectus.

Aggregate Principal Amount.....	$50,000,000.
Maturity.....	The notes will mature June 1, 2 redeemed.
Interest Rate and Payment Dates.....	The notes will bear interest at annum. Interest will be paid s December 1, commencing December
Ranking.....	The notes are our senior obliga any of our property or assets a of our unsecured creditors. The of our subsidiaries and will ra unsecured and unsubordinated in effectively subordinated to our indebtedness and to all indebte our subsidiaries.
Use of Proceeds.....	We will use the net proceeds fr borrowings under our credit fac principally to finance developm See "Use of Proceeds."
Optional Redemption.....	We may redeem some or all of th the redemption prices, includin Amounts," described under "Desc Optional Redemption," plus any unpaid on the date we redeem th not have the benefit of a sinki
Certain Covenants.....	We will issue the notes under a Bank, National Association, as

indenture will, among other thi
ability, and the ability of our

- incur debt without meeting

- secure debt with our assets
subsidiaries; and

- sell certain assets or merg

For more details, see the secti
Certain Covenants."

RATIO OF EARNINGS TO FIXED CHARGES

Our consolidated ratio of earnings to fixed charges for the three months ended March 31, 2002 was 3.03x and for the year ended December 31, 2001 was 2.09x. Our consolidated ratio of earnings to fixed charges and preferred distributions for the three months ended March 31, 2002 was 2.58x and for the year ended December 31, 2001 was 2.09x.

RISK FACTORS

In addition to the other information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus, you should carefully review the following considerations in determining whether to purchase the notes.

A SUBSTANTIAL PORTION OF OUR REVENUE IS DERIVED FROM A SMALL NUMBER OF TENANTS.

Eckerd accounted for approximately 13.7% of the annualized base rental income from our properties, or base rent, as of March 31, 2002. Our next five largest tenants - Best Buy, OfficeMax, Barnes & Noble, Academy and Borders Books & Music - accounted for an aggregate of approximately 26.8% of our base rent at March 31, 2002. The default, financial distress or bankruptcy of one or more of these tenants could cause additional vacancies among our properties. Vacancies reduce our revenues until we are able to re-lease the affected properties, and could decrease the ultimate sale value of each such vacant property. Upon the expiration of the leases that are currently in place, we may not be able to re-lease a vacant property at a comparable lease rate or without incurring additional expenditures in connection with such re-leasing.

VACANT PROPERTIES OR BANKRUPT TENANTS COULD ADVERSELY AFFECT OUR BUSINESS.

As of May 30, 2002, we owned 26 vacant, unleased properties, which account

for 8.3 percent of the total gross leasable area of the our portfolio. We are actively marketing these properties for sale or re-lease, but may not be able to sell or re-lease these properties on favorable terms or at all. Additionally, eight properties, representing 2 percent of the total gross leasable area of our portfolio, are leased to five tenants that have each filed a voluntary petition for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. As a result, each of the tenants has the right to reject or affirm its leases with us, which if rejected could increase our vacancy rate. The lost revenues and increased property expenses resulting from the rejection by any bankrupt tenant of any of their respective leases with us could have a material adverse affect on our liquidity and results of operations if we are unable to re-lease the properties at comparable rental rates and in a timely manner.

THE LOSS OF ANY MEMBER OF OUR MANAGEMENT TEAM COULD ADVERSELY AFFECT OUR BUSINESS.

We depend upon the services of James M. Seneff, Jr., as chairman of the board of directors and chief executive officer, and of Gary M. Ralston, as president. Loss of the services of either of Mr. Seneff or Mr. Ralston could have a material adverse effect on our business and financial condition. We have entered into employment agreements with both Mr. Seneff and Mr. Ralston. Our agreement with Mr. Seneff does not require that he devote all of his efforts to the company nor is it expected that he will devote all of his efforts to the company.

MR. SENEFF'S ABILITY TO DEVOTE HIS FULL ATTENTION TO US IS LIMITED.

Mr. Seneff manages numerous business ventures, and his responsibilities to these other ventures will reduce the amount of time that he may devote exclusively to us.

WE MAY NOT BE ABLE TO REPAY OUR DEBT FINANCING OBLIGATIONS.

While our organizational documents do not limit the level or amount of debt that we may incur, it is our current policy to maintain a ratio of total indebtedness to total assets (before accumulated depreciation) of not more than 50%. However, this policy is subject to reevaluation and modification by the board of directors without stockholder approval. If the board of directors modifies this policy to permit a higher degree of leverage and we incur additional indebtedness, debt service requirements would increase accordingly. Such an increase could adversely affect our financial condition and results of operations. In addition, increased leverage could increase the risk that we may default on our debt obligations, with resulting losses to our cash flow and asset value.

We are subject to the risks associated with debt financing. These risks include our possible inability to generate cash through our operating activities sufficient to meet our required payments of principal and interest and that rising interest rates may cause the rate on our variable rate credit facility to rise. In addition, we may not be able to repay or refinance existing indebtedness, which generally will not have been fully amortized at maturity, on favorable terms. In the event that we are unable to refinance our indebtedness on acceptable terms, we may be forced to resort to alternatives that may adversely affect our ability to generate cash to pay our debt service obligations, such as disposing of properties on disadvantageous terms (which may also result in losses) and accepting

financing on unfavorable terms.

THERE ARE A NUMBER OF RISKS INHERENT IN OWNING REAL ESTATE.

Factors Beyond Our Control Affect Our Performance and Value. Changes in national, regional and local economic and market conditions may affect our economic performance and the value of our real estate assets. Local real estate market conditions may include excess supply and intense competition for tenants, including competition based on:

- rental rates,
- attractiveness and location of the property, and
- quality of maintenance, insurance and management services.

In addition, other factors may adversely affect the performance and value of our properties, including:

- changes in laws and governmental regulations, including those governing usage, zoning and taxes,
- changes in interest rates and
- the availability of financing.

Illiquidity of Real Estate Investments. Because real estate investments are relatively illiquid, our ability to adjust our portfolio promptly in response to economic or other conditions is limited. Certain significant expenditures generally do not change in response to economic or other conditions, including:

- debt service (if any),
- real estate taxes, and
- operating and maintenance costs.

This combination of variable revenue and relatively fixed expenditures may result, under certain market conditions, in reduced income from investment. Such reduction in investment income could have an adverse effect on our financial condition, results of operations and ability to service the notes.

Environmental Matters. It is our policy, as part of our acquisition due diligence process, to obtain at least a Phase I environmental site assessment for each property. These studies typically include a review of historical information and a site visit, but not soil or ground water testing. Other than seven properties that we acquired under agreements executed before Phase I environmental site assessments became common practice, all of our properties have been subjected to Phase I environmental site assessments. The seven properties that were not subjected to Phase I site assessment are now leased to Golden Corral Corporation. To determine the status of the Golden Corral properties, we hired an environmental consultant in 1994 to review environmental regulatory databases containing a compilation of information by federal and state environmental agencies regarding sites reported to be contaminated. The consultant has advised us that none of the Golden Corral properties were identified in those databases. We cannot be sure, however, that such databases contain a complete and accurate list of all contaminated sites reported by federal and state environmental agencies. Further, we cannot be certain that we will not be required to undertake or pay for removal or remediation of any contamination of properties currently or previously owned by us or that the costs of such removal or remediation would not be material.

WE MAY NOT BE ABLE TO SUCCESSFULLY IMPLEMENT OUR SELECTIVE ACQUISITION STRATEGY OR FULLY REALIZE THE ANTICIPATED BENEFITS OF OUR RENOVATIONS AND DEVELOPMENT PROJECTS.

We cannot assure that we will be able to implement our investment strategies successfully. Additionally, we cannot assure that our property portfolio will expand at all, or if it will expand at any specified rate or to any specified size. In addition, investment in additional real estate assets is subject to a number of risks. Because we expect to invest in markets other than the ones in which our current properties are located, we will also be subject to the risks associated with investment in new markets that may be relatively unfamiliar to our management.

To the extent that we engage in development activities, we will be subject to the risks normally associated with such activities. Such risks include, without limitation, risks relating to the availability and timely receipt of zoning and other regulatory approvals, the cost and timely completion of construction (including risks from causes beyond our control, such as weather or labor conditions or material shortages) and the ability to obtain both construction and permanent financing on favorable terms. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken or provide a tenant the opportunity to terminate a lease. Any of these situations could have an adverse effect on our financial condition and results of operations and on the amount of funds available for distribution to stockholders.

WE MAY NOT BE ABLE TO SUCCESSFULLY INTEGRATE CAPTEC'S OPERATIONS WITH OURS.

Our merger with Captec Net Lease Realty, Inc. was completed on December 1, 2001 and involves risks related to the integration and management of acquired properties and operations. Because we did not retain any of Captec's management, the integration of our company with Captec has been and will continue to be a complex and time-consuming process and may disrupt our business if not completed in a timely and efficient manner. We may encounter substantial difficulties, costs and delays involved in integrating our operations with those of Captec, including:

- perceived adverse changes in business focus;

- potential conflicts in marketing or other important relationships; and

- the diversion of our management's attention from other ongoing business concerns.

Further, the merger poses risks for our ongoing operations, including that:

- we may not achieve the cost savings and operating efficiencies that we expected; and

- the Captec portfolio may not perform as well as we anticipated.

If we fail to integrate Captec successfully or fail to realize the intended benefits of the merger, we may face increased costs and inefficiencies that may result in reduced cash flow and adversely impact our ability to service our

indebtedness, including the notes.

WE HAVE POTENTIAL SUBSTANTIAL FINANCIAL EXPOSURE AS A RESULT OF LAWSUITS FILED IN CONNECTION WITH OUR MERGER WITH CAPTEC.

In 2001, following the public announcement of our proposed merger with Captec Net Lease Realty, Inc., certain Captec stockholders filed three lawsuits against Captec and its directors alleging breaches of fiduciary duty in connection with the merger and in connection with the sale of certain assets of Captec to CRC Acquisition LLC, a Michigan limited liability company controlled by a Captec officer. One of these lawsuits also named our company, but we have since been dismissed as a party to that lawsuit. In the lawsuits, which have been consolidated into a single action (the "Consolidated Action"), the plaintiffs are seeking a declaration that the action is properly maintainable as a class action, equitable relief that would enjoin the proposed merger, and unspecified damages. The plaintiffs also sought a preliminary injunction barring our proposed acquisition of Captec.

Captec and the other defendants have entered into a Memorandum of Understanding with the plaintiffs ("MOU"), pursuant to which the parties agreed in principle to settle the Consolidated Action. Under the MOU, Captec agreed to provide to its shareholders additional disclosures concerning the proposed merger with us and agreed, if the settlement is approved ultimately by the court, to pay plaintiffs' attorneys' fees in an amount to be determined by the court but not to exceed $350,000. The parties agreed in the MOU to withdraw their preliminary injunction request, to negotiate and execute a Stipulation of Settlement, and to submit the Stipulation of Settlement to the court for approval. Captec and the other defendants have entered into and filed with the court a Stipulation and Agreement of Compromise, Settlement and Release (the "Stipulation"), and the court has scheduled a hearing for July 26, 2002, to determine, among other things, if the proposed settlement should be approved and the order and final judgment provided in the Stipulation should be entered. If the Stipulation is not approved by the court, the Consolidated Action could continue and could result in substantial damage awards against Captec and/or its directors, damages for which as successor in interest to Captec we could be responsible.

On January 28, 2002, certain shareholders of Captec, who allege that they did not vote for the merger (and who allege that they

caused a written demand for appraisal of their Captec shares to be served on Captec), caused to be served on our company a Petition for Appraisal of Stock ("Appraisal Action"). The Appraisal Action alleges that 1,072,146 shares of Captec dissented from the merger and seeks to require our company to pay to all Captec shareholders who demanded appraisal of their shares at such time the fair value of those shares, with interest from the date of the merger. The Appraisal Action also seeks that our company pay all costs of the proceeding, including attorneys' and experts' fees and expenses. The Appraisal Action could result in a substantial damage award against our company.

In January 2002, Calapasas Investment Partnership No. 1 Limited Partnership, a Captec shareholder, filed a class action complaint against Captec, certain former Captec directors, and our company (as successor in interest to Captec) alleging that Captec and certain of its directors violated provisions of the Securities and Exchange Act of 1934, as amended, by misrepresenting the value of certain Captec assets on certain of its financial statements in 2000 and 2001 (the "Calapasas Action"). The Calapasas Action asserts that it is being brought

on behalf of a class of persons and entities (except insiders) who purchased Captec common stock from August 9, 2000, to July 2, 2001. The Calapasas action seeks to be certified as a class action and seeks compensatory and punitive damages for the plaintiff and other members of the class, as well as costs and expenses, including attorneys' fees and accountants' and experts' fees. The Calapasas Action could result in substantial damage awards against Captec and/or its directors, damages for which we, as successor in interest to Captec, could be responsible.

In addition, with respect to all three of these actions, to the extent that settlement negotiations and/or litigations require significant attention of our management, their attention could be diverted from the operations of our company.

TERRORIST ATTACKS, SUCH AS THE ATTACKS THAT OCCURRED IN NEW YORK AND WASHINGTON, D.C. ON SEPTEMBER 11, 2001, AND OTHER ACTS OF VIOLENCE OR WAR MAY AFFECT THE MARKETS IN WHICH WE OPERATE, OUR FINANCIAL CONDITION, RESULTS OF OPERATIONS AND OUR ABILITY TO SERVICE THE NOTES.

Terrorist attacks may negatively affect our operations. There can be no assurance that there will not be further terrorist attacks against the United States or United States businesses. These attacks may directly impact our physical facilities or the businesses of our tenants.

Also, as a result of terrorism, the United States has entered into an armed conflict which could have a further impact on our tenants. The consequences of any of these armed conflicts are unpredictable, and we may not be able to foresee events that could have an adverse effect on our business.

More generally, any of these events could cause consumer confidence and spending to decrease or result in increased volatility in the United States and worldwide financial markets and economies. They also could result in, or cause a deepening of, economic recession in the United States or abroad. Any of these occurrences could have a significant adverse impact on our financial condition, results of operations and our ability to service the notes.

OUR FAILURE TO QUALIFY AS A REAL ESTATE INVESTMENT TRUST FOR FEDERAL INCOME TAX PURPOSES WOULD AFFECT OUR ABILITY TO MAINTAIN OUR CURRENT LEVEL OF DISTRIBUTIONS AND COULD RESULT IN SIGNIFICANT TAX LIABILITY.

We intend to operate in a manner that will allow us to continue to qualify as a real estate investment trust. Although we believe that we have been organized as, and our past and present operations qualify us as, a real estate investment trust, we cannot assure you that we have so qualified, or that we will remain qualified as a real estate investment trust in the future. This is because qualification as a real estate investment trust involves the application of highly technical and complex Internal Revenue Code provisions for which there are only limited judicial or administrative interpretations and involves the determination of various factual matters and circumstances not entirely within our control.

If we fail to qualify as a real estate investment trust, we will not be allowed a deduction for distributions to stockholders in computing taxable income and would become subject to federal income tax at regular corporate rates for both current and past years. In this event, we could be subject to potentially significant tax liabilities, and the amount of cash available for distribution to stockholders would be reduced and possibly eliminated. Unless entitled to relief under certain statutory provisions, we would also be disqualified from treatment as a real estate investment trust for the four taxable years following the year during which we lost our qualification.

THERE WILL LIKELY BE A LACK OF PUBLIC MARKET FOR THE NOTES.

The notes are a new issue of securities for which there are currently no active trading market. If any of the notes are traded after their initial issuance, they may trade at a discount from their initial offering price, depending upon prevailing interest rates, the market for similar securities and other factors, including general economic conditions and our financial condition, performance and prospects. We cannot assure the development of any market, or the liquidity of any market that may develop, for the notes. We do not intend to apply for listing on the notes on any securities exchange or for quotation on the Nasdaq National Market.

USE OF PROCEEDS

We estimate that the net proceeds from this offering will be approximately $49.3 million, after deducting estimated expenses and discounts from the offering. We intend to use the net offering proceeds to repay $49.3 million outstanding under our credit facility. After this repayment, we will have approximately $65.2 million outstanding and approximately $134.8 million available for future borrowings under the credit facility as of June 3, 2002. Borrowings outstanding under the credit facility, which expires on October 31, 2003, currently bear interest at a rate of LIBOR plus 1.15%.

RATIO OF EARNINGS TO FIXED CHARGES

Our consolidated ratio of earnings to fixed charges for the three months ended March 31, 2002 was 3.03x and for the years ended December 31, 2001, 2000, 1999, 1998 and 1997 was 2.09x, 2.34x, 2.44x, 3.05x, and 3.43x, respectively. Our consolidated ratio of earnings to combined fixed charges and preferred distributions was 2.58x for the three months ended March 31, 2002 and 2.09x, 2.34x, 2.44x, 3.05x and 3.43x for the years ended December 31, 2001, 2000, 1999, 1998 and 1997, respectively. For the purposes of computing these ratios, earnings have been calculated by adding fixed charges (excluding capitalized interest) to income (loss) before taxes and extraordinary items. Fixed charges consist of:

- interest costs, whether expensed or capitalized, and
- the amortization of debt expense and discount or premium relating to any indebtedness, whether expensed or capitalized.

The ratios of earnings to fixed charges and preferred distributions were computed by dividing our earnings by fixed charges and preferred distributions.

CAPITALIZATION

The following table sets forth our historical capitalization as of March 31, 2002 and the capitalization as of that date as adjusted to reflect the sale of the notes offered hereby and the application of the estimated net proceeds of $49.3 million as described in "Use of Proceeds." The information set forth in the following table should be read in conjunction with our Consolidated Financial Statements (including the notes thereto) incorporated by reference herein and in the accompanying prospectus.

	March 31 (Unaudi
DEBT:	Historical
	(Dollars in
Credit facility	$110,900
Mortgages payable	36,412
Term note	70,000
Notes offered hereby	-
Notes due 2010	19,888
Notes due 2008	99,816
Notes due 2004	101,111
Total debt	$438,127
EQUITY:	
Preferred stock, $0.01 par value Authorized 15,000,000 shares; 1,999,974 issued and outstanding	$50,000
Common stock, $0.01 par value Authorized 90,000,000 shares; issued and outstanding 40,651,053	406
Excess stock, $0.01 par value Authorized 105,000,000 shares; none issued and outstanding	-
Capital in excess of par value	532,279
Accumulated dividends in excess of net earnings	(15,702)
Deferred compensation	(2,654)
Total stockholders' equity	$564,329
Total capitalization	$1,002,456

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

Subject to the preliminary considerations set forth in the prospectus, the following is a general discussion of the material U.S. federal income tax considerations applicable to initial holders of the 7.75% notes due 2012 (the "Notes"). Except as specifically provided below with respect to Non-U.S. Holders

(as defined below), the discussion is limited to holders of Notes that are U.S. Holders and who hold the Notes as capital assets. For purposes of this discussion, a "U.S. Holder" means a holder of Notes that for U.S. federal income tax purposes is (i) a citizen of the United States, (ii) a corporation or partnership (including an entity treated as a corporation or partnership for U.S. federal income tax purposes) created or organized in or under the laws of the United States or of a political subdivision thereof, (iii) an estate whose income is includible in gross income for U.S. federal income tax purposes regardless of its source, or (iv) any trust with respect to which (A) a U.S. court is able to exercise primary supervision over the administration of such trust and (B) one or more U.S. persons have authority to control all substantial decisions of the trust. A "Non-U.S. Holder" means any beneficial owner of a Note that is not a U.S. Holder.

Interest on the Notes. A U.S. Holder of the Notes generally will be required to report interest earned on the Notes as ordinary income in accordance with such U.S. Holder's method of tax accounting. The Notes are not expected to be issued with original issue discount for U.S. federal income tax purposes.

Disposition of the Notes. Upon the sale, exchange, redemption, retirement or other disposition of the Notes, a U.S. Holder will generally recognize capital gain or loss equal to the difference (if any) between the amount realized (other than amounts attributable to accrued but unpaid stated interest which will be taxable as ordinary income) and such U.S. Holder's tax basis in the Note. The U.S. Holder's tax basis for a Note generally will be the purchase price for the Note. Such gain or loss shall be treated as long-term capital gain or loss if the Note was held for more than one year.

Non-U.S. Holders. The rules governing the United States federal income taxation of Non-U.S. Holders are complex and no attempt will be made herein to provide more than a summary of such rules. Prospective Non-U.S. Holders should consult with their own tax advisors to determine the impact of federal, state and local laws with regard to the Notes.

A Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on payments of interest on a Note, provided that (i) the Non-U.S. Holder is not (A) a direct or indirect owner of 10% or more of the total voting power of all our voting stock, (B) a controlled foreign corporation related to us through stock ownership, or (C) a bank whose receipt of interest on a Note is pursuant to a loan agreement entered into in the ordinary course of business; (ii) such interest payments are not effectively connected with the conduct by the Non-U.S. Holder of a trade or business within the United States; and (iii) we or our paying agent receives certain information from the Non-U.S. Holder (or a financial institution that holds the Notes in the ordinary course of its trade or business) certifying that such holder is a Non-U.S. Holder. Generally a Non-U.S. Holder will not be subject to U.S. federal income or withholding tax on gains from the sale or other disposition of a Note provided that (i) such gains are not effectively connected with the conduct by the Non-U.S. Holder of a trade or business within the United States; (ii) such Non-U.S. Holder is not an individual who is present in the United States for 183 days or more in the taxable year of disposition and meets certain other requirements; and (iii) the Non-U.S. Holder is not subject to backup withholding (as described in the prospectus and as further modified below) as a result of failing to provide to the selling broker evidence establishing such holder's status as a Non-U.S. Holder, if required.

RECENT DEVELOPMENTS

Taxable REIT Subsidiaries. Beginning on January 1, 2001, we have been permitted to own up to 100% of the stock of one or more "taxable REIT subsidiaries" ("TRSs"). A TRS is a fully taxable corporation that may perform activities unrelated to our tenants, such as third-party management,

development, and other independent business activities, as well as provide services to our tenants, without disqualifying the rent that we receive from our tenants. We may lease space in a property to a TRS as long as at least 90% of the leased space in the property is rented to persons other than TRSs and related party tenants and the rent paid by the TRS is substantially comparable to the rent paid by the other tenants for comparable space.

We and a subsidiary must elect for the subsidiary to be treated as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 20% of the value of our assets may consist of securities of one or more TRSs.

The TRS rules limit the deductibility of interest paid or accrued by a TRS to us to assure that the TRS is subject to an appropriate level of corporate taxation. Further, the rules impose a 100% excise tax on transactions between a TRS and us or our tenants that are not conducted on an arm's-length basis.

We made elections for TRSs beginning in 2001 for the purpose of complying with the REIT Modernization Act of 1999. We believe that the value of the stock of our TRSs constitutes less than 20% of the value of our assets and that all transactions between us and our TRSs are conducted on an arm's-length basis.

Backup Withholding. The backup withholding rate has been reduced to 30% and is scheduled to be further reduced through 2006.

DESCRIPTION OF NOTES

The following description of the particular terms of the notes offered hereby supplements, and to the extent inconsistent therewith replaces, the description of the general terms and provisions of the debt securities set forth in the accompanying prospectus under "Description of Debt Securities," to which reference is hereby made.

GENERAL

The notes constitute a separate series of Debt Securities (which are more fully described in the accompanying prospectus) to be issued under an Indenture, dated as of March 25, 1998 (the "Original Indenture"), as supplemented by Supplemental Indenture No. 4 dated as of May 30, 2002 (the "Supplemental Indenture" and together with the Original Indenture, the "Indenture"), between us and Wachovia Bank, National Association, as successor trustee (the "Trustee"). The form of the Indenture has been filed as an exhibit to the Registration Statement of which this prospectus supplement is a part and is available for inspection at our offices. The Indenture is subject to, and governed by, the Trust Indenture Act of 1939, as amended (the "TIA"). The statements made hereunder relating to the Indenture and the notes to be issued thereunder are summaries of certain provisions thereof, do not purport to be

complete and are subject to, and are qualified in their entirety by reference to, all provisions of the Indenture and the notes. You should carefully read the Indenture and the notes as they, and not this prospectus supplement and accompanying prospectus, govern your rights as a noteholder. All capitalized terms used but not defined herein shall have the respective meanings set forth in the Indenture.

The notes will initially be limited to an aggregate principal amount of $50,000,000. The notes will be direct, senior unsecured obligations and will rank equally with all of our other unsecured and unsubordinated indebtedness from time to time outstanding. The notes will be effectively subordinated to our mortgages and other secured indebtedness and to the indebtedness and other liabilities of our subsidiaries. Accordingly, such indebtedness must be satisfied in full before holders of the notes will be able to realize any value from encumbered or indirectly-held properties.

As of March 31, 2002, on a pro forma basis after giving effect to the offering and the application of the proceeds therefrom, we would have had approximately $438.8 million of indebtedness, of which approximately $36.4 million would have been secured by 39 of our properties with a net book value of $76.1 million. We may incur additional indebtedness, including secured indebtedness, subject to the provisions described below under "-- Certain Covenants -- Limitations on Incurrence of Indebtedness."

The notes will only be issued in fully registered form in denominations of $1,000 and integral multiples thereof.

PRINCIPAL AND INTEREST

The notes will bear interest at 7.75% per annum and will mature on June 1, 2012. The notes will bear interest from June 4, 2002 or from the immediately preceding Interest Payment Date (as defined below) to which interest has been paid, payable semi-annually in arrears on June 1 and December 1 of each year, commencing December 1, 2002 (each, an "Interest Payment Date"), to the persons in whose name the applicable notes are registered in the Security Register on the preceding May 20 or November 20 (whether or not a Business Day, as defined below), as the case may be (each, a "Regular Record Date"). Interest on the notes will be computed on the basis of a 360-day year of twelve 30-day months.

If any Interest Payment Date or Stated Maturity falls on a day that is not a Business Day, the required payment shall be made on the next Business Day as if it were made on the date such payment was due and no interest shall accrue on the amount so payable for the period from and after such Interest Payment Date or Stated Maturity, as the case may be. "Business Day" means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banks in the City of New York or in the City of Charlotte are authorized or required by law, regulation or executive order to close.

The principal of and interest on the notes will be payable at the corporate trust office of the agent of the Trustee (the "Paying Agent") in the City of Charlotte, North Carolina, initially located at 1525 West W.T. Harris Boulevard, provided that, at our option, payment of interest may be made by check mailed to the address of the Person entitled thereto as it appears in the Security Register or by wire transfer of funds to such Person at an account maintained within the United States.

OPTIONAL REDEMPTION

We may redeem the notes at any time at our option, in whole or in part, at a redemption price equal to the sum of (i) the principal amount of the notes being redeemed plus accrued interest thereon to the redemption date and (ii) the

Make-Whole Amount, if any, with respect to such notes (the "Redemption Price").

If notice has been given as provided in the Indenture and funds for the redemption of any notes called for redemption shall have been made available on the redemption date referred to in such notice, such notes will cease to bear interest on the date fixed for such redemption specified in such notice and the only right of the Holders of the notes will be to receive payment of the Redemption Price.

Notice of any optional redemption of any notes will be given to Holders at their addresses, as shown in the Security Register, not less than 30 days nor more than 60 days prior to the date fixed for redemption. The notice of redemption will specify, among other items, the Redemption Price and the principal amount of the notes held by such Holder to be redeemed.

If we redeem less than all the notes, we will notify the Trustee at least 45 days prior to the giving of the redemption notice (or such shorter period as is satisfactory to the Trustee) of the aggregate principal amount of notes to be redeemed and their redemption date. The Trustee shall select, in such manner as it shall deem fair and appropriate, notes to be redeemed in whole or in part. Notes may be redeemed in part in the minimum authorized denomination for notes or in any integral multiple thereof.

"Make-Whole Amount" means, in connection with any optional redemption or accelerated payment of any note, the excess, if any, of (i) the aggregate present value as of the date of such redemption or accelerated payment of each dollar of principal being redeemed or paid and the amount of interest (exclusive of interest accrued to the date of redemption or accelerated payment) that would have been payable in respect of such dollar if such redemption or accelerated payment had not been made, determined by discounting, on a semi-annual basis, such principal and interest at the Reinvestment Rate (determined on the third Business Day preceding the date such notice of redemption is given or declaration of acceleration is made) from the respective dates on which such principal and interest would have been payable if such redemption or accelerated payment had not been made, over (ii) the aggregate principal amount of the notes being redeemed or paid.

"Reinvestment Rate" means .25 percent (twenty-five one hundredths of one percent) plus the arithmetic mean of the yields under the respective headings "This Week" and "Last Week" published in the Statistical Release under the caption "Treasury Constant Maturities" for the maturity (rounded to the nearest month) corresponding to the remaining life to maturity, as of the payment date of the principal being redeemed or paid. If no maturity exactly corresponds to such maturity, yields for the two published maturities most closely corresponding to such maturity shall be calculated pursuant to the immediately preceding sentence and the Reinvestment Rate shall be interpolated or extrapolated from such yields on a straight-line basis, rounding in each of such relevant periods to the nearest month. For such purposes of calculating the Reinvestment Rate, the most recent Statistical Release published prior to the date of determination of the Make-Whole Amount shall be used.

"Statistical Release" means the statistical release designated "H.15(519)" or any successor publication which is published weekly by the Federal Reserve System and which establishes yields on actively traded United States government securities adjusted to constant maturities or, if such statistical release is not published at the time of any determination of the Make-Whole Amount, then such other reasonably comparable index as we shall designate.

CERTAIN COVENANTS

Limitations on Incurrence of Indebtedness. We will not, and will not permit any Subsidiary to, incur any Indebtedness (as defined below) if, immediately after giving effect to the incurrence of such additional Indebtedness and the application of the proceeds thereof, the aggregate principal amount of all of our outstanding Indebtedness and our Subsidiaries (determined on a consolidated basis in accordance with GAAP) is greater than 60 percent of the sum of (without duplication) (i) our Total Assets (as defined below) and those of our Subsidiaries, as of the end of the calendar quarter covered in our Annual Report on Form 10-K or Quarterly Report on Form 10-Q, as the case may be, most recently filed with the SEC (or, if such filing is not permitted under the Exchange Act, with the Trustee) prior to the incurrence of such additional Indebtedness and (ii) the purchase price of any real estate assets or mortgages receivable acquired, and the amount of any securities offering proceeds received (to the extent that such proceeds were not used to acquire real estate assets or mortgages receivable or used to reduce Indebtedness), by us or any Subsidiary since the end of such calendar quarter, including those proceeds obtained in connection with the incurrence of such additional Indebtedness.

In addition to the foregoing limitation on the incurrence of Indebtedness, we will not, and will not permit any Subsidiary to, incur any Indebtedness secured by any Encumbrance (as defined below) upon any of our properties or any Subsidiary if, immediately after giving effect to the incurrence of such additional Indebtedness and the application of the proceeds thereof, the aggregate principal amount of all of our outstanding Indebtedness and our Subsidiaries (determined on a consolidated basis in accordance with GAAP) which is secured by any Encumbrance on our properties or any Subsidiary is greater than 40 percent of the sum of (without duplication) (i) our Total Assets, and those of our Subsidiaries, as of the end of the calendar quarter covered in our Annual Report on Form 10-K or Quarterly Report on Form 10-Q, as the case may be, most recently filed with the SEC (or, if such filing is not permitted under the Exchange Act, with the Trustee) prior to the incurrence of such additional Indebtedness and (ii) the purchase price of any real estate assets or mortgages receivable acquired, and the amount of any securities offering proceeds received (to the extent that such proceeds were not used to acquire real estate assets or mortgages receivable or used to reduce Indebtedness), by us or any Subsidiary since the end of such calendar quarter, including those proceeds obtained in connection with the incurrence of such additional Indebtedness.

We and our Subsidiaries will not at any time own Total Unencumbered Assets (as defined below) equal to less than 150% of the aggregate outstanding principal amount of Unsecured Indebtedness (as defined below) on a consolidated basis.

In addition to the foregoing limitations on the incurrence of Indebtedness, we will not, and will not permit any Subsidiary to, incur any Indebtedness if the ratio of Consolidated Income Available for Debt Service (as defined below) to the Annual Debt Service Charge (as defined below) for the four consecutive fiscal quarters most recently ended prior to the date on which such additional Indebtedness is to be incurred shall have been less than 1.5:1 on a pro forma basis after giving effect thereto and to the application of the proceeds therefrom, and calculated on the assumption that (i) such Indebtedness and any other Indebtedness incurred by us and our Subsidiaries since the first day of such four-quarter period and the application of the proceeds therefrom, including to refinance other Indebtedness, had occurred at the beginning of such

period; (ii) the repayment or retirement of any other Indebtedness by us and our Subsidiaries since the first day of such four-quarter period had been repaid or retired at the beginning of such period (except that, in making such computation, the amount of Indebtedness under any revolving credit facility shall be computed based upon the average daily balance of such Indebtedness during such period); (iii) in the case of Acquired Indebtedness (as defined below) or Indebtedness incurred in connection with any acquisition since the first day of such four-quarter period, the related acquisition had occurred as of the first day of such period with the appropriate adjustments with respect to such acquisition being included in such pro forma calculation; and (iv) in the case of any acquisition or disposition by us or our Subsidiaries of any asset or group of assets since the first day of such four-quarter period, whether by merger, stock purchase or sale, or asset purchase or sale, such acquisition or disposition or any related repayment of Indebtedness had occurred as of the first day of such period with the appropriate adjustments with respect to such acquisition or disposition being included in such pro forma calculation.

Provision of Financial Information. Whether or not we are subject to Section 13 or 15(d) of the Exchange Act, we will, within 15 days after each of the respective dates by which we would have been required to file annual reports, quarterly reports and other documents with the SEC if we were so subject, (1) transmit by mail to all Holders, as their names and addresses appear in the Security Register, without cost to such Holders, copies of the annual reports, quarterly reports and other documents which we would have been required to file with the SEC pursuant to Section 13 or l5 (d) of the Exchange Act, if we were subject to such Sections, and (2) file with the Trustee copies of the annual reports, quarterly reports and other documents which we would have been required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act, if we were subject to such Sections, and (3) promptly upon written request and payment of the reasonable cost of duplication and delivery, supply copies of such documents to any prospective Holder.

Waiver of Certain Covenants. We may omit to comply with any term, provision or condition of the foregoing covenants, and with any other term, provision or condition with respect to the notes, as the case may be (except any such term, provision or condition which could not be amended without the consent of all Holders of notes), if before or after the time for such compliance the Holders of at least a majority in principal amount of all of the outstanding notes, as the case may be, by act of such Holders, either waive such compliance in such instance or generally waive compliance with such covenant or condition. Except to the extent so expressly waived, and until such waiver shall become effective, our obligations and the duties of the Trustee in respect of any such term, provision or condition shall remain in full force and effect.

As used herein, and in the Indenture:

"Acquired Indebtedness" means Indebtedness of a Person (i) existing at the time such Person becomes a Subsidiary or (ii) assumed in connection with the acquisition of assets from such Person, in each case, other than Indebtedness incurred in connection with, or in contemplation of, such Person becoming a Subsidiary or such acquisition. Acquired Indebtedness shall be deemed to be incurred on the date of the related acquisition of assets from any Person or the date the acquired Person becomes a Subsidiary.

"Advisor Transaction" means the merger of CNL Realty Advisors, Inc. with and into a wholly-owned subsidiary of ours which was consummated on January 1, 1998.

"Annual Debt Service Charge" for any period means the aggregate interest expense for such period in respect of, and the amortization during such period of any original issue discount of, Indebtedness of us and our Subsidiaries and the amount of dividends which are payable during such period in respect of any

Disqualified Stock.

"Capital Stock" means, with respect to any Person, any capital stock (including preferred stock), shares, interests, participations or other ownership interests (however designated) of such Person and any rights (other than debt securities convertible into or exchangeable for corporate stock), warrants or options to purchase any thereof.

"Consolidated Income Available for Debt Service" for any period means Earnings from Operations (as defined below) of ours and our Subsidiaries plus amounts which have been deducted, and minus amounts which have been added, for the following (without duplication): (i) interest on Indebtedness of us and our Subsidiaries, (ii) provision for taxes of us and our Subsidiaries based on income, (iii) amortization of debt discount, (iv) provisions for gains and losses on properties and property depreciation and amortization, (v) the effect of any noncash charge resulting from a change in accounting principles in determining Earnings from Operations for such period and (vi) amortization of deferred charges.

"Disqualified Stock" means, with respect to any Person, any Capital Stock of such Person which by the terms of such Capital Stock (or by the terms of any security into which it is convertible or for which it is exchangeable or exercisable), upon the happening

of any event or otherwise (i) matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise (other than Capital Stock which is redeemable solely in exchange for common stock), (ii) is convertible into or exchangeable or exercisable for Indebtedness or Disqualified Stock or (iii) is redeemable at the option of the holder thereof, in whole or in part (other than Capital Stock which is redeemable solely in exchange for Capital Stock which is not Disqualified Stock or the redemption price of which may, at the option of such Person, be paid in Capital Stock which is not Disqualified Stock), in each case on or prior to the Stated Maturity of the notes.

"Earnings from Operations" for any period means net earnings excluding (i) gains and losses on sales of investments, extraordinary items and property valuation losses and (ii) costs and expenses associated with the Advisor Transaction, net as reflected in the financial statements of us and our Subsidiaries for such period determined on a consolidated basis in accordance with GAAP (which will include the fair market value, at the time of issuance of the shares of our common stock, $0.01 par value, issuable to the former shareholders of CNL Realty Advisors, Inc. as a result of the Advisor Transaction, reasonable attorney's and accountants' fees, and miscellaneous other expenses incurred by us in connection therewith).

"Encumbrance" means any mortgage, lien, charge, pledge or security interest of any kind.

"GAAP" means generally accepted accounting principles as used in the United States applied on a consistent basis as in effect from time to time; provided that solely for purposes of any calculation required by the financial covenants contained in the Indenture, "GAAP" shall mean generally accepted accounting principles as used in the United States on the date of the Indenture, applied on

a consistent basis.

"Indebtedness" of us or our Subsidiaries means any indebtedness of us or our Subsidiaries, whether or not contingent, in respect of (i) borrowed money or evidenced by bonds, notes, debentures or similar instruments whether or not such indebtedness is secured by any Encumbrance existing on property owned by us or any Subsidiary of ours, (ii) indebtedness for borrowed money of a Person other than us or our Subsidiaries which is secured by any Encumbrance existing on property owned by us or our Subsidiaries, to the extent of the lesser of (x) the amount of indebtedness so secured and (y) the fair market value (as determined in good faith by our Board of Directors) of the property subject to such Encumbrance, (iii) the reimbursement obligations, contingent or otherwise, in connection with any letters of credit actually issued or amounts representing the balance deferred and unpaid of the purchase price of any property or services, except any such balance that constitutes an accrued expense or trade payable, or all conditional sale obligations or obligations under any title retention agreement, (iv) the principal amount of all obligations of us or our Subsidiaries with respect to redemption, repayment or other repurchase of any Disqualified Stock, or (v) any lease of property by us or any Subsidiary as lessee which is reflected on our consolidated balance sheet as a capitalized lease in accordance with GAAP, and also includes, to the extent not otherwise included, any obligation by us or our Subsidiaries to be liable for, or to pay, as obligor, guarantor or otherwise (other than for purposes of collection in the ordinary course of business), Indebtedness of another Person (other than us or our Subsidiaries) (it being understood that Indebtedness shall be deemed to be incurred by us or our Subsidiaries whenever we or such Subsidiary shall create, assume, guarantee or otherwise become liable in respect thereof).

"Subsidiary" means, with respect to any Person, any corporation or other entity of which a majority of (i) the voting power of the voting equity securities or (ii) the outstanding equity interests of which are owned, directly or indirectly, by such Person. For the purposes of this definition, "voting equity securities" means equity securities having voting power for the election of directors, whether at all times or only so long as no senior class of security has such voting power by reason of any contingency.

"Total Assets" as of any date means the sum of (i) the Undepreciated Real Estate Assets and (ii) all other assets of us and our Subsidiaries determined on a consolidated basis in accordance with GAAP (but excluding accounts receivable and intangibles).

"Total Unencumbered Assets" means the sum of (i) those Undepreciated Real Estate Assets not subject to an Encumbrance for borrowed money and (ii) all other assets of us and our Subsidiaries not subject to an Encumbrance for borrowed money determined on a consolidated basis in accordance with GAAP (but excluding accounts receivable and intangibles).

"Undepreciated Real Estate Assets" as of any date means the cost (original cost plus capital improvements) of real estate assets of us and our Subsidiaries on such date, before depreciation and amortization, determined on a consolidated basis in accordance with GAAP.

"Unsecured Indebtedness" means Indebtedness which is not secured by any Encumbrance upon any of our properties or those of any Subsidiary.

See "Description of Debt Securities - Certain Covenants" in the accompanying prospectus for a description of additional covenants applicable to us.

EVENTS OF DEFAULT

The Indenture provides that the following events are "Events of Default" with respect to the notes:

- default in the payment of any interest on any notes when such interest becomes due and payable that continues for a period of 30 days;
- default in the payment of the principal of (or Make-Whole Amount, if any, on) any notes when due and payable;
- our default in the performance, or breach, of any other covenant or warranty in the Indenture with respect to the notes and continuance of such default or breach for a period of 60 days after written notice as provided in the Indenture;
- default under any bond, debenture, note, mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed by us (or by any Subsidiary, the repayment of which we have guaranteed or for which we are directly responsible or liable as obligor or guarantor), having an aggregate principal amount outstanding of at least $10,000,000, whether such indebtedness now exists or shall hereafter be created, which default shall have resulted in such indebtedness becoming or being declared due and payable prior to the date on which it would otherwise have become due and payable, without such indebtedness having been discharged, or such acceleration having been rescinded or annulled, within a period of 10 days after written notice to us as provided in the Indenture;
- the entry by a court of competent jurisdiction of one or more judgments, orders or decrees against us or any Subsidiary in an aggregate amount (excluding amounts covered by insurance) in excess of $10,000,000 and such judgments, orders or decrees remain undischarged, unstayed and unsatisfied in an aggregate amount (excluding amounts covered by insurance) in excess of $10,000,000 for a period of 30 consecutive days; and
- certain events of bankruptcy, insolvency or reorganization, or court appointment of a receiver, liquidator or trustee of us or any Significant Subsidiary. The Term "Significant Subsidiary" has the meaning ascribed to such term in Regulation S-X promulgated under the Securities Act.

If an Event of Default specified in the last bullet point above, relating to us or any Significant Subsidiary occurs, the principal amount of and the Make-Whole Amount on all outstanding notes shall become due and payable without any declaration or other act on the part of the Trustee or of the Holders.

DISCHARGE, DEFEASANCE AND COVENANT DEFEASANCE

The provisions of Article XIV of the Indenture relating to defeasance and covenant defeasance, which are described under "Description of Debt Securities - Discharge, Defeasance and Covenant Defeasance" in the accompanying prospectus, will apply to the notes. Each of the covenants described under "- Certain Covenants" in this prospectus supplement and "Description of Debt Securities - Certain Covenants" in the accompanying prospectus will be subject to covenant defeasance.

THE TRUSTEE

Wachovia Bank, National Association is the trustee under the Indenture and is the lead lender under our credit facility. One of its affiliates is the underwriter for this offering. Certain of its other affiliates have engaged and in the future may engage in joint investments, investment banking transactions and in general financing and commercial banking transactions with, and the provision of services to, us and our affiliates in the ordinary course of business.

BOOK-ENTRY SYSTEM

The notes will be issued in the form of one or more fully registered global notes ("Global Notes") which will be deposited with, or on behalf of, the Depository Trust Company ("DTC"), and registered in the name of DTC's nominee, Cede & Co. Except under the circumstances described below, the notes will not be issuable in definitive form.

Unless and until it is exchanged in whole or in part for the individual notes represented thereby, a Global Note may not be transferred except as a whole by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC or by DTC or any nominee of DTC to a successor depository or any nominee of such successor.

Upon the issuance of a Global Note, DTC or its nominee will credit on its book-entry registration and transfer system the respective principal amounts of the individual notes represented by such Global Note to the accounts of persons that have accounts with DTC ("Participants"). Such accounts shall be designated by the underwriter, dealers or agents with respect to the notes. Ownership of beneficial interests in a Global Note will be limited to Participants or persons that may hold interests through Participants. Ownership of beneficial interests in such Global Note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to beneficial interests of persons who hold through Participants). The laws of some states require that certain purchasers of securities take physical delivery of securities in definitive form. Such limits and laws may impair the ability to own, pledge or transfer beneficial interest in a Global Note.

So long as DTC or its nominee is the registered owner of such Global Note, DTC or its nominee, as the case may be, will be considered the sole owner or holder of the notes represented by such Global Note for all purposes under the Indenture and the beneficial owners of the notes will be entitled only to those

rights and benefits afforded to them in accordance with DTC's regular operating procedures. Except as provided below, owners of beneficial interest in a Global Note will not be entitled to have any of the individual notes registered in their names, will not receive or be entitled to receive physical delivery of any such notes in definitive form and will not be considered the owners or holders thereof under the Indenture.

Payment of principal of, any Make-Whole Amount on, and any interest on, individual notes represented by a Global Note registered in the name of DTC or its nominee will be made to DTC or its nominee, as the case may be, as the registered owner of a Global Note representing such notes. None of ourselves, the Trustee, any Paying Agent or the Security Registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Note for such notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

We expect that DTC or its nominee, upon receipt of any payment of principal, Make-Whole Amount or interest in respect of a permanent Global Note representing any notes, immediately will credit Participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Note as shown on the records of DTC or its nominee. We also expect that payments by Participants to owners of beneficial interests in such Global Note held through such Participants will be governed by standing instructions and customary practices, as is the case with securities held for the account of customers in bearer form or registered in "street name." Such payments will be the responsibility of such Participants.

If DTC is at any time unwilling, unable or ineligible to continue as depository and a successor depository is not appointed by us within 90 days, we will issue individual notes in exchange for the Global Note or notes representing the notes. In addition, we may, at any time and in our sole discretion, determine not to have any notes represented by one or more Global Notes and, in such event, will issue individual notes in exchange for the Global Note or notes representing the notes. Individual notes so issued will be issued in denominations, unless otherwise specified by us, of $1,000 and integral multiples thereof.

DTC has advised us of the following information regarding DTC: DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that its Participants deposit with DTC. DTC also facilitates the settlement among its Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in its Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants of DTC include securities brokers and dealers (including the underwriter), banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct Participant of DTC, either directly or indirectly. The rules applicable to DTC and its participants are on file with the SEC.

GOVERNING LAW

The Indenture will be governed by and shall be construed in accordance with the laws of the State of New York.

NO PERSONAL LIABILITY

No past, present or future shareholder, employee, officer or director of ours or any successor thereof shall have any liability for any obligation, covenant or agreement of ours contained under the notes or the Indenture. Each Holder of notes by accepting such notes waives and releases all such liability. The waiver and release are part of the consideration for the issue of the notes.

UNDERWRITING

Subject to the terms and conditions stated in the underwriting agreement dated May 30, 2002 that relates to the notes, we have agreed to sell to First Union Securities, Inc. (the "Underwriter") and the Underwriter has agreed to purchase from us, all of the notes offered hereby.

The underwriting agreement states that the obligation of the Underwriter to purchase and accept delivery of the notes offered by this prospectus supplement is subject to the approval of certain legal matters by its counsel and certain other conditions. Pursuant to the underwriting agreement, the Underwriter has agreed to purchase all of the notes if any of them are purchased.

The Underwriter may retain the notes, purchase the notes for its own account or sell the notes to an affiliate of the Underwriter. In addition, any affiliate of the Underwriter may purchase the notes directly from us.

The underwriter proposes to offer the notes from time to time for sale in one or more negotiated transactions, or otherwise, at market prices prevailing at the time of sale, at prices related to the prevailing market prices or at negotiated prices. In connection with the sale of any notes, the Underwriter may be deemed to have received an underwriting discount equal to the difference between the amount received by the Underwriter upon the sale of the notes and the price at which the Underwriter purchased the notes from us.

We have agreed to indemnify the Underwriter against certain liabilities, including liabilities under the Securities Act of 1933, as amended. Alternatively, we may contribute to payments the Underwriter may be required to make as a result of these liabilities.

Prior to this offering, there has been no public market for the notes. The Underwriter has informed us that it may make a market in the notes from time to time. The Underwriter is not obligated to do this, and it may discontinue this market making at any time without notice. Therefore, no assurance can be

given concerning the liquidity of the trading market for the notes or that an active market will develop. We do not intend to apply for the notes to be listed on any national securities exchange or national securities quotation system.

The Underwriter and its affiliates have performed certain investment banking and advisory services for us from time to time for which they have received customary fees and expenses. The Underwriter and its affiliates may, from time to time, engage in transactions with and perform services for us in the ordinary course of business.

We estimate that the total expenses of this offering, excluding the underwriting discount, will be approximately $50,000.

In addition, an affiliate of the Underwriter is a lead lender under our $200 million unsecured credit facility and will receive a proportionate share of any amounts repaid under that facility with the net proceeds of this offering.

Wachovia Bank, National Association will act as Trustee under the Indenture and will receive customary fees for its services. The Underwriter, a subsidiary of Wachovia Corporation, conducts its investment banking, institutional, and capital markets businesses under the trade name of Wachovia Securities. Any references to "Wachovia Securities" in this prospectus, however, do not include Wachovia Securities, Inc., a separate broker-dealer subsidiary of Wachovia Corporation and sister affiliate of the Underwriter which may or may not be participating as a separate selling dealer in the distribution of the notes.

RATINGS

The ratings currently assigned to certain of our long-term senior unsecured debt are as follows: Moody's Investor Service, Inc.: Baa3, Standard & Poor's Rating Services: BBB- and Fitch Incorporated: BBB-.

A rating assigned to our debt reflects the applicable rating agency's assessment of the likelihood that the holders of such debt will receive the payments of interest and principal required to be made. A rating is not a recommendation to purchase, hold, or sell the notes or any other debt of ours, and such ratings do not comment as to the marketability of the notes or any other debt of ours, their market price or suitability for a particular investor. There is no assurance that any rating will remain for any given period of time or that any rating will not be lowered or withdrawn entirely by a rating agency if in such rating agency's judgment circumstances so warrant. Each rating should be evaluated independently of any other rating.

LEGAL MATTERS

Certain legal matters will be passed upon for us by Shaw Pittman LLP, Washington, D.C., as our securities and tax counsel. Certain legal matters will be passed upon for the underwriter by Hunton & Williams.

EXPERTS

The consolidated financial statements and schedules of Commercial Net Lease Realty, Inc. and subsidiaries as of December 31, 2001 and for each of the years

in the three-year period ended December 31, 2001, have been incorporated by reference herein and in the registration statement in reliance upon the reports of KPMG LLP, independent accountants, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The SEC allows us to "incorporate by reference" into this prospectus supplement and the accompanying prospectus the information we file with it. This means that we have disclosed important information to you by referring you to those documents. The information we incorporate by reference is considered a part of this prospectus supplement and the accompanying prospectus, and information we file later with the SEC will automatically update and supersede this information. Our SEC filing number is 0-12989. We incorporate by reference the documents listed below which were filed by us with the SEC under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"):

- Annual Report on Form 10-K for the year ended December 31, 2001;
- Proxy Statement filed on Schedule 14A for our Annual Meeting of Stockholders on June 7, 2002; and
- Quarterly Report on Form 10-Q for the quarter ended March 31, 2002.

We also incorporate by reference each of the following documents that we may file with the SEC after the date of this prospectus supplement and prior to the end of the notes offering:

- Reports filed pursuant to Section 13(a) and (c) of the Exchange Act;
- Definitive proxy or information statements filed under Section 14 of the Exchange Act in connection with any subsequent stockholders' meetings; and
- Any reports filed under Section 15(d) of the Exchange Act.

You may obtain copies of these documents free of charge (other than exhibits) by writing or calling our Secretary at our principal offices, which are located at 450 South Orange Avenue, Suite 900, Orlando, Florida 32801, (407) 265-7348.

HOW TO OBTAIN MORE INFORMATION

We file reports, proxy statements and other information with the SEC. You may read any document we file at the SEC's public reference room at 450 Fifth Street, NW, Washington, D.C. 20549. Please call the SEC toll free at 1-800-SEC-0330 for information about its public reference room. You also may read our filings at the SEC's Web site at http://www.sec.gov.

We have filed with the SEC a registration statement on Form S-3 under the Securities Act of 1933. This prospectus supplement and accompanying prospectus do not contain all of the information in that registration statement. We have omitted certain parts of the registration statement, as permitted by the rules and regulations of the SEC. You may inspect and copy the registration statement, including exhibits, at the SEC's public reference facilities or Web site. Our statements in this prospectus supplement and accompanying prospectus about the contents of any contract or other document are not necessarily complete. You should refer to the copy of each contract or other document we have filed as an exhibit to the registration statement for complete information.

FORWARD-LOOKING STATEMENTS

Statements contained in this prospectus supplement and the accompanying prospectus, including the documents that are incorporated by reference, that are not historical facts are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Also, when we use any of the words "believe," "expect," "may" or similar expressions, we are making forward-looking statements. Forward-looking statements in this prospectus supplement include statements regarding the security of our rental income and our leases, possible property acquisitions and dispositions, our access to capital, expansion of our portfolio, our ability to pay distributions, policies and plans regarding investments, our tax status as a real estate investment trust and the ability of our properties to compete effectively. In part, we have based these forward-looking statements on possible or assumed future results of our operations. These are forward-looking statements and not guaranteed. They are based on our present intentions and on our present expectations and assumptions. These statements, intentions, expectations and assumptions involve risks and uncertainties, some of which are beyond our control, that could cause actual results or events to differ materially from those we anticipate or project, such as:

- the loss of any member of our management team;
- changes in general economic conditions;
- changes in real estate market conditions;
- continued availability of proceeds from our debt or equity capital;
- the availability of other debt and equity financing alternatives;
- market conditions affecting our equity capital;
- changes in interest rates under our current credit facilities and under any additional variable rate debt arrangements that we may enter into in the future;
- our ability to be in compliance with certain debt covenants;
- our ability to qualify as a real estate investment trust for federal income tax purposes;
- our ability to integrate acquired properties and operations into existing operations;
- our ability to refinance amounts outstanding under our credit facilities at maturity on terms favorable to us;
- our ability to locate suitable tenants for our properties;
- the ability of our tenants to make payments under their respective leases; and

- our ability to re-lease properties that are currently vacant or that become vacant.

Prospective purchasers should not place undue reliance on these forward-looking statements, as events described or implied in such statements may not occur. We undertake no obligation to update or revise any forward-looking statements as a result of new information, future events or otherwise.

The prospectus that accompanies this prospectus supplement contains important information regarding this offering, and you are urged to read both the prospectus and this prospectus supplement in full to obtain material information concerning the notes and an investment in the notes.

You should rely only on the information contained in or incorporated by reference into this prospectus supplement and the accompanying prospectus. We have not, and the underwriter has not, authorized anyone to provide you with different information. We are not, and the underwriter is not, making an offer of the notes in any state where the offer is not permitted. You should not assume that the information contained in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference is accurate as of any date other than their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

[COMMERCIAL NET LEASE REALTY, INC. LOGO]

$200,000,000
COMMERCIAL NET LEASE REALTY, INC.
DEBT SECURITIES, PREFERRED STOCK, DEPOSITARY SHARES,
COMMON STOCK AND COMMON STOCK WARRANTS

We, Commercial Net Lease Realty, Inc., may from time to time offer, in one or more series, separately or together, the following:

- our debt securities which may be either senior debt securities or subordinated debt securities;
- shares of our preferred stock;
- shares of our preferred stock represented by depository shares;
- shares of our common stock; and/or
- warrants to purchase shares of our common stock.

We will offer such securities at an aggregate initial public offering price of up to $200,000,000.

We will offer our securities in amounts, at prices and on terms to be determined at the time we offer such securities.

When we sell a particular series of securities, we will prepare a prospectus supplement describing the offering and the terms of that series of securities. Such terms may include limitations on direct or beneficial ownership and restrictions on transfer of our securities being offered that we believe are appropriate to preserve our status as a real estate investment trust for federal income tax purposes.

We may offer our securities directly, through agents we may designate from time to time, or to or through underwriters or dealers. If any agents or underwriters are involved in the sale of any of our securities, their names and any applicable purchase price, fee, commission or discount arrangement between or among them will be set forth or will be calculable from the information set forth in the applicable prospectus supplement. See "Plan of Distribution." None of our securities may be sold without delivery of the applicable prospectus supplement describing the method and terms of the offering of such class or series of the securities.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED THAT THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE DATE OF THIS PROSPECTUS IS MAY 1, 2001.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission using a "shelf" registration process. Under this shelf process, we may sell:

- debt securities,
- preferred stock,
- preferred stock represented by depositary shares,
- common stock, and
- warrants to purchase shares of common stock

either separately or in units, in one or more offerings. This prospectus provides you with a general description of those securities. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. You should read this prospectus and the applicable prospectus supplement together with the additional information described under the heading "Where You Can Find More Information."

The registration statement that contains this prospectus (including the exhibits to the registration statement) contains additional information about Commercial Net Lease Realty, Inc. and the securities offered under this prospectus. That registration statement can be read at the SEC's web site or at the SEC offices mentioned under the heading "Where You Can Find More Information."

WHERE YOU CAN FIND MORE INFORMATION

We file reports, proxy statements and other information with the Securities and Exchange Commission, or SEC. You may read and copy any document that we have filed at the SEC's public reference rooms at 450 Fifth Street, N.W., Washington, D.C. 20549; Seven World Trade Center, 13th Floor, New York, New York 10048; and Suite 1400, Northwestern Atrium Center, 500 West Madison Street, Chicago, Illinois 60661. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our filings are available to the public at the web site at http://www.sec.gov. Our common stock is listed on the New York Stock Exchange under the ticker symbol "NNN." You may inspect our reports, proxy statements and other information at the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

We have filed with the SEC a registration statement (of which this prospectus is a part) on Form S-3 under the Securities Act of 1933, as amended, with respect to our securities. This prospectus does not contain all of the information set forth in the registration statement, including the exhibits and schedules thereto, certain parts of which are omitted as permitted by the rules and regulations of the SEC.

We are incorporating by reference the information we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information we incorporate by reference is considered to be part of this prospectus, except for any information superseded by information in this prospectus. We incorporate by reference the documents listed below which

we have filed with the SEC under Sections 13(a), 13(c), 14 and 15(d) of the Securities Exchange Act of 1934, as amended (Exchange Act file number 0-12989).

a. Annual Report on Form 10-K for the fiscal year ended December 31, 2000.

b. Proxy Statement on Schedule 14A for the 2001 Annual Meeting of Shareholders.

All documents that we file after the date of this prospectus but before we terminate the offering of our securities shall be deemed to be incorporated by reference in this prospectus and will be part of the prospectus from the date we file that document. Any information in that document that is meant to supersede or modify any existing statement in this prospectus will so supersede or modify the statement as appropriate.

You may request a copy of any or all of the documents incorporated by reference in this prospectus, except the exhibits to such documents (unless such exhibits are specifically incorporated by reference in such documents), at no cost, by writing or telephoning our offices at the following address:

Commercial Net Lease Realty, Inc.,
450 South Orange Avenue, Suite 900,
Orlando, Florida 32801
Attention: Kevin B. Habicht,
(telephone number (407)265-7348)

COMMERCIAL NET LEASE REALTY, INC.

We are a fully integrated self-administered real estate investment trust, incorporated in Maryland, formed in 1984. We acquire, own, develop and manage a diversified portfolio of high-quality, single-tenant, freestanding properties leased to major retail businesses generally under full-credit, long-term commercial net leases. As of December 31, 2000, we owned 259 properties and had a 20% ownership interest in nine additional properties held in an unconsolidated partnership. Our properties were acquired for an aggregate purchase price of approximately $703.4 million and have an annualized cash on cost return (measured on an inclusive cost basis which means all costs related to acquisitions, including but not limited to the purchase price, legal fees and expenses, commissions and title insurance), of approximately 10.36%.

We acquire, own, develop and manage freestanding retail properties that are located within intensive commercial corridors near traffic generators such as regional malls, business developments and major thoroughfares. These properties, which generally have purchase prices of up to $7.5 million, attract a wide array of established retail tenants, such as Barnes & Noble, Eckerd Drug and OfficeMax. Consequently, our management believes that such properties offer attractive opportunities for stable current returns and potential capital appreciation. In addition, our management believes that the location and design of properties in this niche provide flexibility in use and tenant selection and an increased likelihood of advantageous re-lease terms upon expiration or early termination of the related leases.

We generally acquire properties that are newly constructed or re-developed as of the time of acquisition. In addition, we generally acquire properties that are subject to a lease in order to avoid the risks of not finding a tenant on a timely basis and to provide an immediate revenue stream. Our leases typically provide that the tenant bears responsibility for substantially all property costs and expenses associated with ongoing maintenance and operation, including

utilities, property taxes and insurance, and generally also provide that the tenant is responsible for roof and structural repairs. Our leases typically do not limit our recourse against the tenant and any guarantor in the event of a default and for this reason are considered "full-credit" leases. Our properties are leased on a long-term basis, generally 10 to 20 years, with renewal options for an additional 10 to 20 years. As of December 31, 2000, the average remaining initial lease term of our properties was approximately 13 years. Leases representing approximately 70.7% of annualized base rental income from our properties, as of December 31, 2000, have initial terms extending until at least December 31, 2011. Approximately 83% of annualized base rental income is derived from leases that provide for periodic, contractually fixed increases in base rent. These leases generally have increases which range from six to 12 percent after every five years of the lease term.

Our principal office is located at 450 South Orange Avenue, Suite 900, Orlando, Florida 32801 and our telephone number is (407)265-7348.

USE OF PROCEEDS

Unless otherwise described in the applicable prospectus supplement, we intend to use the net proceeds from the sale of our securities for general corporate purposes, which may include the repayment of certain indebtedness outstanding at such time, the acquisition of single tenant freestanding properties as suitable opportunities arise and the expansion and improvement of certain properties in our portfolio.

RATIOS OF EARNINGS TO FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

Our ratio of earnings to fixed charges for the years ended December 31, 2000, 1999, 1998, 1997 and 1996 was 2.37, 2.45, 3.05, 3.43 and 3.49, respectively. Earnings from operations for the years ended December 31, 2000, 1999 and 1998 includes a non-cash charge of $1.5 million, $9.8 million and $5.5 million, respectively associated with the costs incurred in acquiring our advisor from an affiliate. Excluding this charge, the ratio of earnings to fixed charges for the years ended December 31, 2000, 1999 and 1998 would be 2.42, 2.87 and 3.41, respectively. There were no shares of our preferred stock outstanding for any of the periods shown above. Accordingly, the ratio of earnings to combined fixed charges and preferred stock dividends is identical to the ratio of earnings to fixed charges.

For the purposes of computing these ratios, earnings have been calculated by adding fixed charges (excluding capitalized interest) to income before taxes. Fixed charges consist of interest costs, whether expensed or capitalized, and amortization of debt expense and discount or premium relating to any indebtedness, whether expensed or capitalized.

DESCRIPTION OF DEBT SECURITIES

The following is a general description of the debt securities that we may offer from time to time. The particular terms of the debt securities being offered and the extent to which such general provisions may apply will be set forth in the applicable indenture or in one or more indenture supplements and described in the applicable prospectus supplement. Therefore, you should read both the applicable prospectus supplement and the description of the debt securities set forth in this prospectus for a description of the terms of any series of our debt securities.

GENERAL

Our debt securities will be secured or unsecured direct obligations and may

be senior or subordinated to our other indebtedness. Our debt securities may be issued under one or more indentures that will be put into place prior to the date on which debt securities to which it relates are issued. The indenture will be filed as an exhibit to the registration statement of which this prospectus is a part. Each indenture will be entered into between us and a trustee. A trustee may serve as trustee under more than one indenture. Each indenture will be subject to, and governed by, the Trust Indenture Act of 1939, as amended. Any statements made in this prospectus, which relate to the indenture and our debt securities are only summaries of those provisions and are not meant to replace or modify those provisions. Capitalized terms used but not defined in this prospectus shall have the respective meanings set forth in the indenture.

Except as set forth in any prospectus supplement, the indenture will permit that:

- the debt securities may be issued without limits as to aggregate principal amount,

- the debt securities may be issued in one or more series, in each case as established from time to time by our Board of Directors or as set forth in the applicable indenture or one or more indentures supplemental to the indenture,

- all debt securities of one series need not be issued at the same time, and

- a series may be reopened, without the consent of the holders of the debt securities of such series, for issuance of additional debt securities of such series.

We may, but need not, designate more than one trustee in connection with an indenture, each with respect to one or more series of debt securities. Any trustee under an indenture may resign or be removed with respect to one or more series of debt securities, and a successor trustee may be appointed to act with respect to such series. If two or more persons are acting as trustee with respect to different series of debt securities, each of those trustees will be considered a trustee of a trust under the applicable indenture separate and apart from the trust administered by any other trustee. Unless this prospectus states otherwise, a trustee will only be permitted to take action with respect to the one or more series of debt securities for which it is trustee under the applicable indenture.

The following summaries set forth certain general terms and provisions of the indenture and our debt securities. The prospectus supplement relating to the series of debt securities being offered will contain further terms of the debt securities of that series, including the following specific terms:

(1) the title of the debt securities;

(2) the aggregate principal amount of the debt securities and any limit on the aggregate principal amount;

(3) the percentage of the principal amount at which the debt securities will be issued and, if applicable, the portion of the principal amount that is payable upon declaration of acceleration of the maturity of the debt securities, the portion of the principal amount of the debt securities which is convertible into shares of our common stock or other equity securities, or the method by which any such portion shall be determined;

(4) if such debt securities are convertible into equity, any limitation to the ownership or transferability of shares of our common stock or other equity securities into which such debt securities are convertible in connection with the preservation of our status as a REIT;

(5) the date or dates, or the method for determining the date or dates, on which the principal of such debt securities will be payable;

(6) the rate or rates (which may be fixed or variable), or the method by which such rate or rates shall be determined, at which such debt securities will bear interest, if any;

(7) the date or dates, or the method for determining the date or dates, from which any interest will accrue, the interest payment dates, the record dates for interest payment, the persons to whom interest shall be payable, and how interest will be calculated if other than that of a 360-day year of twelve 30-day months;

(8) the place or places where the principal of (and premium, if any) or interest, if any, on the debt securities will be payable, where the debt securities may be surrendered for conversion or registration of transfer or exchange, and where notices or demands to or upon us in respect to the debt securities and the applicable indenture may be served;

(9) the period or periods within which, the price or prices at which, and the terms and conditions upon which the debt securities may be redeemed, as a whole or in part, at our option, if we have such an option;

(10) our obligation, if any, to redeem, repay or purchase the debt securities, in whole or in part, pursuant to any sinking fund or analogous provision or at the option of a holder of the debt securities, and the periods, the prices, and other terms and conditions of such redemption, repayment or purchase;

(11) if other than U.S. dollars, the currency or currencies, including terms and conditions, in which the debt securities are denominated and payable, which may be a foreign currency or units of two or more foreign currencies or a composite currency or currencies;

(12) whether the amount of payments of principal (and premium, if any) or interest, if any, on the debt securities may be determined with reference to an index, formula or other method (which index, formula or method may, but need not be, based on a currency, currencies, currency unit or units or composite currency or currencies) and the manner in which any amounts shall be determined;

(13) any additions to, modifications of or deletions from the terms of the debt securities with respect to the events of default or covenants set forth in the applicable indenture;

(14) whether the debt securities will be issued in certificated or book-entry form;

(15) whether the debt securities will be in registered or bearer form or both and, if and to the extent in registered form, the denominations of the debt securities if other than $1,000 or any integral multiple of $1,000 and, if and to the extent in bearer form, the denominations and their terms and conditions;

(16) the applicability (or modification), if any, of the defeasance and covenant defeasance provisions described in this prospectus or in the

applicable indenture;

(17) the terms (and the class), if any, upon which such debt securities may be convertible into shares of our common stock or other equity securities and the terms and conditions upon which such

conversion will be effected, including, without limitation, the initial conversion price or rate and the conversion period;

(18) whether and under what circumstances we will pay additional amounts on the debt securities in respect of any tax, assessment or governmental charge and, if so, whether we will have the option to redeem the debt securities in lieu of making a payment;

(19) the provisions, if any, relating to the security provided for the debt securities; and

(20) any other terms of the debt securities not inconsistent with the provisions of the applicable indenture.

Certain of our debt securities may provide that if the maturity date is accelerated, we will be required to pay less than the entire principal amount. These securities are referred to as original issue discount securities. The prospectus supplement relating to these securities will describe any material U.S. federal income tax, accounting and other considerations that apply.

Except as may be set forth in the applicable prospectus supplement, our debt securities will not contain any provisions that would limit our ability to incur indebtedness or that would afford holders of our debt securities protection in the event of:

(1) a highly leveraged or similar action involving us;

(2) a change of control of us.

However, the requirements for an entity to qualify as a REIT include certain restrictions on ownership and transfers of our shares of common stock and other equity securities. These restrictions may act to prevent or hinder a change of control. See "Description of Common Stock -- Restrictions on Ownership." Provided below is a general description of the events of default and covenants contained in our indentures. You should refer to the applicable prospectus supplement for information on any variances from this general description.

DENOMINATIONS, INTEREST, REGISTRATION AND TRANSFER

Unless otherwise described in the applicable prospectus supplement, our debt securities of any series will be issuable in denominations of $1,000 and integral multiples of $1,000.

Unless otherwise specified in the applicable prospectus supplement, the principal of (and premium, if any) and interest on any series of debt securities will be payable at the applicable trustee's corporate trust office, the address of which will be set forth in the applicable prospectus supplement. We will retain the option to make interest payments by check, mailed to the address of the person entitled to the interest as it appears in the applicable register for such debt securities. We can also pay by wire transfer of funds to that person at an account maintained within the United States.

Any interest not paid or otherwise provided for when due with respect to a debt security will not be payable to the holder in whose name the debt security

is registered on the date we have specified as the date a registered holder of the debt security as of that date would be entitled to receive the interest payment due (the record date). Instead, the interest may be paid to the person in whose name such debt security is registered at the close of business on the date the trustee has set as the date on which a registered holder as of that date would be entitled to receive the defaulted interest payment (the special record date). Notice of the payment will be given to the holder of that debt security not less than 10 days before the special record date. It may also be paid at any time in any other lawful manner, all as more completely described in the applicable indenture. If interest is not paid within 30 days of the due date, the trustee or holders of not less than 25% of the principal amount of the outstanding debt securities of that series may accelerate the securities. See "-- Events of Default, Notice and Waiver."

Subject to certain limitations applicable to debt securities issued in book-entry form, our debt securities of any series:

- will be exchangeable for other debt securities of the same series and of a like aggregate principal amount and tenor of different authorized denominations upon surrender of such debt securities at the corporate trust office of the applicable trustee; and

- may be surrendered for conversion or registration of transfer at the corporate trust office of the applicable trustee.

Every debt security surrendered for conversion, registration of transfer or exchange must be duly endorsed or accompanied by a written instrument of transfer. No service charge will be made for any registration of transfer or exchange of any debt securities, but we may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with the registration or exchange. We may at any time change transfer agents or approve a change in the location through which any transfer agent acts. However, we will be required to maintain a transfer agent in each place of payment for such series. We may at any time designate additional transfer agents with respect to any series of debt securities.

Neither we nor any trustee will be required:

- to issue, exchange or register the transfer of any debt securities of any series during a period beginning at the opening of business 15 days before any selection of debt securities of that series to be redeemed and ending at the close of business on the day of mailing of the relevant notice of redemption;

- to exchange or register the transfer of any debt security, or portion of the security, called for redemption, except the unredeemed portion of any debt security being redeemed in part; or

- to issue, exchange or register the transfer of any debt security which has been surrendered for repayment at the option of the holder, except the portion, if any, of such debt security not to be so repaid.

MERGER, CONSOLIDATION OR SALE

Each indenture will provide that we may consolidate with, or sell, lease or convey all or substantially all of our assets to, or merge with or into, any other corporation. Those transactions are permitted if:

- we are the continuing corporation, or, if not, the resulting or acquiring

entity assumes all of our responsibilities and liabilities under the indenture, including the payment of all amounts due on the debt securities and performance of the covenants and conditions contained in the applicable indenture;

- immediately after giving effect to such transaction and treating any indebtedness which becomes our obligation or an obligation of any of our subsidiaries as a result thereof as having been incurred by us or such subsidiary at the time of such transaction, no event of default under the applicable indenture, and no event which, after notice or the lapse of time, or both, would become such an event of default, shall have occurred and be continuing; and

- an officer's certificate and legal opinion covering these conditions are delivered to the trustee.

CERTAIN COVENANTS

Existence. Except as permitted under "-- Merger, Consolidation or Sale," the indenture will require that we do or cause to be done all things necessary to preserve and keep in full force and effect our corporate existence, rights (by articles of incorporation, bylaws or statute) and franchises. We may, however, dispose of any right or franchise if we determine that the right or franchise is no longer desirable in the conduct of our business.

Maintenance of Properties. As required in the indenture, we will maintain, keep in good condition and make all necessary repairs, renewals, replacements, betterments and improvements of our, or our subsidiaries' properties that we deem necessary so that the business carried on in connection with those properties may be properly and advantageously conducted at all times. We, or our subsidiaries may, however, sell or otherwise dispose for value our properties in the ordinary course of business.

Insurance. We, and our subsidiaries, will maintain the customary policies of insurance with responsible companies, taking into consideration prevailing market conditions and availability, for all of our properties and operations.

Payment of Taxes and Other Claims. We will pay or discharge or cause to be paid or discharged (or, if applicable, cause to be transferred to bond or other security), before the same shall become delinquent,

- all taxes, assessments and governmental charges levied or imposed upon us or any of our subsidiaries or upon our income, profits or property or any of our subsidiaries, and

- all lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien upon our property or the property of any of our subsidiaries.

We will not however, pay or discharge (or transfer to bond or other security) or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings.

Provision of Financial Information. Whether or not we are subject to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the indenture will require that we, within 15 days after each of the respective dates by which we would have been required to file annual reports, quarterly reports and other documents with the SEC if we were so subject,

- transmit by mail to all holders of debt securities, as their names and addresses appear in the applicable register for such debt securities, without cost to such holders, copies of the annual reports, quarterly reports and other documents that we would have been required to file with the Securities and Exchange Commission pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended if we were subject to such Sections,

- file with the trustee copies of the annual reports, quarterly and other documents that we would have been required to file with the Securities and Exchange Commission pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended if we were subject to such Sections, and

- supply promptly upon written request and payment of the reasonable cost of duplication and delivery, copies of such documents to any prospective holder of debt securities.

Additional Covenants. If we make any additional covenants with respect to any series of debt securities we will describe those covenants in the applicable prospectus supplement.

EVENTS OF DEFAULT, NOTICE AND WAIVER

Unless otherwise indicated, an indenture will provide that the following events are "Events of Default" with respect to any series of debt securities issued:

- failure to pay interest on any debt security of that series for 30 days after the payment is due;

- failure to pay the principal of or any premium on any debt security of that series at its maturity;

- failure to deposit any sinking fund payment when due on debt securities of that series;

- failure to perform any of our other covenants in the applicable indenture (unless the covenant applies to a different series of debt securities issued under the same indenture), for 60 days after we receive written notice as provided in such indenture;

- default under any evidence of our indebtedness or any mortgage, indenture or other instrument under which such indebtedness is issued or by which such indebtedness is secured which results in

the acceleration of indebtedness in an aggregate principal amount exceeding $10,000,000, but only if such indebtedness is not discharged or such acceleration is not rescinded or annulled as provided in the applicable indenture;

- any case, proceeding or other action under bankruptcy, insolvency, reorganization or relief of debtors laws is initiated by or against us (or any of our Significant Subsidiaries) in which the entity initiating the case, proceeding or other action seeks to have an order for relief entered with respect to it, or seeks to adjudicate us (or any of our Significant Subsidiaries) bankrupt or insolvent, or seeks reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to our (or any of our

Significant Subsidiaries) debts;

- a court grants relief in connection with any of the cases, proceedings or other actions described above;

- we (or any of our Significant Subsidiaries) seek appointment of a receiver, trustee, custodian, conservator or other similar official for us (or any of our Significant Subsidiaries) or for all or any substantial part of our (or any of our Significant Subsidiaries') assets, or we (or any of our Significant Subsidiaries) makes a general assignment for the benefit of our (or any of our Significant Subsidiaries') creditors; and

- any other event of default provided with respect to that series of debt securities.

The term "Significant Subsidiary" means each of our significant subsidiaries (as defined in Regulation S-X promulgated under the Securities Act of 1933 which, in general, meet any of the following tests:

(i) our investments in the subsidiary or advances to it exceed 10% of our total assets; or

(ii) our proportionate share of the subsidiary's total assets exceeds 10% of our total assets; or

(iii) our equity in the income from the subsidiary's continuing operations exceeds 10% of our income.

If an Event of Default for any series of its outstanding debt securities occurs and is continuing, then the applicable trustee or the holders of at least 25% of the principal amount of the outstanding d