



CORPORATE PROPERTY ASSOCIATES 16 – GLOBAL

2006 ANNUAL REPORT



GENERATING INCOME FOR INVESTORS SINCE 2003



FINANCIAL HIGHLIGHTS

For the years ended December 31,
(In thousands except per share amounts)

	2003 ⁽¹⁾	2004	2005	2006
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OPERATING DATA

Revenues from continuing operations	\$ —	\$ 5,776	\$ 42,230	\$ 67,684
Net income	(42)	5,124	16,284	30,105
Cash flows from operating activities	(30)	7,584	40,338	52,255
Cash distributions paid	—	5,918	28,939	41,227

PER SHARE DATA

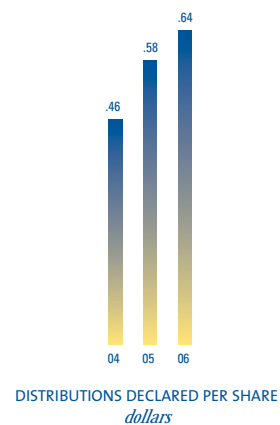
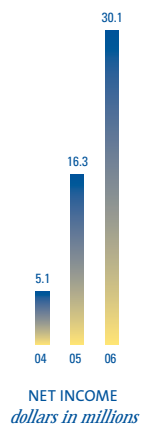
Distributions declared	—	.46	.58	.64
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BALANCE SHEET DATA

Total assets	\$ 1,230	\$ 585,512	\$ 929,649	\$ 1,775,640
Long-term obligations ⁽²⁾	—	105,226	376,078	662,762

(1) For the period from inception (June 5, 2003) through December 31, 2003. Prior to December 31, 2003.

(2) Represents limited recourse mortgage notes payable and deferred acquisition fee installments.



DEAR FELLOW SHAREHOLDERS

We are pleased to report that CPA®:16 – Global had a successful 2006. After a year-long fundraising hiatus, CPA®:16 – Global resumed fundraising in March of 2006 and raised \$550 million through December, bringing the total offerings of the fund to \$1.1 billion. As of December 31, 2006, our portfolio, consisting of 291 properties leased to 55 tenants, totaled approximately 17.5 million square feet and had a 100% occupancy rate.

2006 PORTFOLIO ACTIVITY

2006 was an active year for CPA®:16 – Global, as we completed 24 investments—14 domestic, five international, three build-to-suit, and two ventures—totaling approximately \$568 million, for the fund. Our portfolio of properties increased significantly during 2006. The following were among our 2006 investments:

- In December, CPA®:16 – Global purchased a 61-property logistics portfolio for \$68 million through a sale-leaseback with Europe's largest commercial truck and industrial vehicle leasing company, French-owned

Fraikin Group. Totaling more than one million square feet, the properties are situated throughout France, including prime locations in Paris, Lille, and Marseille. Founded more than 60 years ago, Fraikin serves the commercial fleet leasing needs of many of Europe's most well-known companies in France, Spain, Poland, Switzerland, and Slovakia.

- CPA®:16 – Global committed to provide approximately \$50 million in funding for the construction and development of a 255-room Hilton hotel in Bloomington, Minnesota. Anticipated to be completed in January 2008, the full-service hotel will feature several thousand square feet of meeting space, a business center, an indoor swimming pool and a fitness center.
- In May, CPA®:16 – Global completed a \$48.4 million, six-store sale-leaseback transaction with Kings Super Markets, Inc., a premium food retailer with stores located primarily in northern New Jersey. The transaction helped fund the acquisition of the New Jersey supermarket chain by an investor group.



PROVO CRAFT & NOVELTY, INC.
Spanish Fork, UT



TIETOENATOR PLC
Espoo, Finland



TRW VEHICLE SAFETY SYSTEMS INC.
Washington, MI

- Headquartered in Warsaw, Poland, OBI AG is the fourth largest Do-It-Yourself retailer in the world, operating stores in Poland, Austria, the Czech Republic, Germany, Hungary, Italy, Russia, and several other countries. In March, CPA®:16 – Global and affiliate, CPA®:15, purchased several facilities throughout Poland for \$183 million, which OBI plans to use to further expand its footprint through Central and Eastern Europe. CPA®:16 – Global owns a 25% interest and CPA®:15 owns a 75% interest in the facilities.

As we predicted in last year’s annual report, a significant percentage—36%—of CPA®:16 – Global’s real estate transactions in 2006 were international. This is due, in part, to the attractive risk adjusted returns we have found internationally.

NEW DIRECTORS

In the last year, CPA®:16 – Global was privileged to have both the former President of Penn Mutual Life Insurance Company, Mr. Richard J. Pinola, and the Wharton School’s Director of Financial Research, Dr. Marshall E. Blume, join its board. Mr. Pinola, a Certified Public Accountant, joined all three CPA® boards in September of 2006 as independent director and as chairman of the audit committees. Dr. Blume joined as independent director in April 2007.

We are extremely proud of our achievements in 2006 and look forward to another exciting year in 2007.

Thank you, our investors, for your continued support of our efforts.

Sincerely,



Wm. Polk Carey

Chairman of the Board (Left)



Thomas E. Zacharias

President (Center)



Gordon F. DuGan

Chief Executive Officer (Right)



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This annual report, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, contains forward-looking statements that involve risks, uncertainties and assumptions. Forward-looking statements discuss matters that are not historical facts. Because they discuss future events or conditions, forward-looking statements may include words such as “anticipate,” “believe,” “expect,” “estimate,” “intend,” “could,” “should,” “would,” “may,” “seeks,” “plans” or similar expressions. Do not unduly rely on forward-looking statements. They give our expectations about the future and are not guarantees, and speak only as of the date they are made. Such statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievement to be materially different from the results of operations or plan expressed or implied by such forward-looking statements. While we cannot predict all of the risks and uncertainties, they include but are not limited to, those described in Item 1A - Risk Factors in our annual report on Form 10-K. Accordingly, such information should not be regarded as representations that the results or conditions described in such statements or that our objectives and plans will be achieved.

As used in this annual report, the terms “the Company,” “we,” “us” and “our” include Corporate Property Associates 16 - Global Incorporated, its consolidated subsidiaries and predecessors, unless otherwise indicated.

SELECTED FINANCIAL DATA

<i>(In thousands except per share data)</i>	2006	2005	Years ended December 31,	
			2004	2003 ⁽¹⁾
OPERATING DATA				
Revenues	\$ 67,684	\$ 42,230	\$ 5,776	\$ —
Net income (loss)	30,105	16,284	5,124	(42)
Earnings (loss) per share	0.40	0.29	0.21	(2.08)
Cash distributions paid	(41,227)	(28,939)	(5,918)	—
Cash distributions declared per share	0.6373	0.5763	0.4569	—
Payment of mortgage principal ⁽²⁾	(6,397)	(2,821)	(344)	—
BALANCE SHEET DATA				
Total assets	\$ 1,775,640	\$ 929,649	\$ 585,512	\$ 1,230
Long-term obligations ⁽³⁾	662,762	376,078	105,226	—

(1) For the period from inception (June 5, 2003) through December 31, 2003.

(2) Represents scheduled mortgage principal paid.

(3) Represents limited recourse mortgage notes payable, a note payable and deferred acquisition fee installments.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In thousands, except share and per share amounts

EXECUTIVE OVERVIEW

Business Overview

As described in more detail in Item 1 of our annual report on Form 10-K, we are a real estate investment trust ("REIT") that invests in commercial properties leased to companies domestically and internationally. The primary source of our revenue is earned from leasing real estate, primarily on a triple-net lease basis. We were formed in June 2003 and are managed by W. P. Carey & Co. LLC and its subsidiaries (collectively, the "advisor"). As a REIT, we are not subject to federal income taxation as long as we satisfy certain requirements relating to the nature of our income, the level of our distributions and other factors.

In December 2003, we commenced our initial public offering of up to 110,000,000 shares of our common stock at \$10 per share pursuant to our registration statement filed with the United States Securities and Exchange Commission (the "SEC"). We also registered up to 50,000,000 shares issuable pursuant to our Distribution Reinvestment and Stock Purchase Plan (the "Plan"). We suspended sales activities with respect to this offering in December 2004 and formally terminated the offering in March 2005, excluding shares issuable under the Plan. Prior to terminating the offering we sold 55,332,415 shares.

In September 2004, we filed a registration statement with the SEC for a second public offering of up to 120,000,000 shares of our common stock at \$10 per share, including 40,000,000 shares of common stock issuable under the Amended and Restated 2003 Distribution Reinvestment and Stock Purchase Plan (the "2003 Plan"). In August 2005, we amended this registration statement to reduce the number of shares being registered to 95,000,000 shares of our common stock, comprised of 55,000,000 shares of common stock issuable under our second public offering and 40,000,000 shares of common stock issuable under the 2003 Plan. The SEC declared this registration statement effective in February 2006. We began fundraising in March 2006 and completed our second offering in December 2006, having sold 54,999,466 shares. In February 2007, we terminated our second offering, excluding shares issuable under the 2003 Plan. Through December 31, 2006 we have sold 3,454,629 shares of common stock through the Plan and the 2003 Plan.

Current Developments and Trends

Significant business developments that occurred during 2006 are detailed in Item 1 — Significant Developments During 2006 of our annual report on Form 10-K.

Current trends include:

During 2006 we continued to see increased competition for net leased properties as capital continued to flow into real estate, in general, and net leased real estate, in particular. We believe that low long-term interest rates by historical standards have created greater investor demand for yield-based investments, such as triple-net leased real estate, thus creating increased capital flows and a more competitive investment environment. We expect these trends to continue in 2007 but currently believe that several factors may provide us with continued investment opportunities in 2007, both domestically and internationally. These factors include increased merger and acquisition activity, which may provide additional sale-leaseback opportunities as a source of funding, a continued desire of corporations to divest themselves of real estate holdings and increasing opportunities for sale-leaseback transac-

tions in the international market, which continues to make up a large portion of our investment opportunities. Investment activity during the past three years is summarized as follows:

	2006	2005	2004
Total investments ^(a)	\$567,980	\$609,778	\$398,330
Number of investments	24	25	12
Average investment size	\$ 23,666	\$ 24,391	\$ 33,194
Percentage of international investments	36%	36%	36%

(a) Inclusive of minority interest or reflects our proportionate share of total cost under the equity method of accounting, as applicable, and based upon the applicable foreign exchange rate at the date of acquisition, as applicable.

Our investment activity in 2006 was relatively consistent with 2005 in terms of deal size and volume of deals. International investments have comprised a large portion of our investment activity during the past three years and we currently believe that this trend will continue, although the percentage of international investments in any given period may vary in the future.

We have a significant concentration of our investments in the automotive industry (approximately 17% of annualized contractual lease revenue for 2006, which represents the largest concentration by tenant industry in our portfolio). Companies in automotive related industries (manufacturing, parts, services, etc.) are currently experiencing a challenging environment. Our automotive related investments are currently comprised of investments leased to five tenants that accounted for lease revenues of \$6,665 in 2006 and have an aggregate carrying value of \$150,235 as of December 31, 2006. Annualized contractual lease revenue for these tenants is approximately \$12,400. None of these tenants has filed for bankruptcy protection as of December 31, 2006 (see Item 1A — Risk Factors of our annual report on Form 10-K). Despite these conditions, we continue to evaluate opportunities in these industries as we believe there still may be attractive investment opportunities due to the out-of-favor nature of this industry.

Increases in long term interest rates would likely cause the value of our real estate assets to decrease. Increases in interest rates may also have an impact on the credit profile of certain tenants. Rising interest rates would likely cause an increase in inflation and a corresponding increase in the Consumer Price Index (“CPI”). To the extent that the CPI increases, additional rental income streams may be generated for leases with CPI adjustment triggers and partially offset the impact of declining property values. In addition, we constantly evaluate our debt exposure and to the extent that opportunities exist to refinance and lock in lower interest rates over a longer term, we may be able to reduce our exposure to short term interest rate fluctuation.

We have foreign operations and as such are subject to risk from the effects of exchange rate movements in foreign currencies, primarily the British pound sterling and the Euro, which account for approximately 8% and 6% of annualized contractual lease revenues, respectively. Our results of foreign operations benefit from a weaker U.S. dollar and are adversely affected by a stronger U.S. dollar relative to foreign currencies. During 2006, the average rate for the U.S. dollar in relation to both the British pound sterling and the Euro was moderately weaker than 2005, and as a result, we experienced a moderately positive impact on our results of foreign operations for the current year as compared to 2005.

How Management Evaluates Results of Operations

Management evaluates our results of operations with a primary focus on the ability to generate cash flow necessary to meet our objectives of funding distributions to stockholders and increase our equity in our real estate. As a result, management's assessment of operating results gives less emphasis to the effect of unrealized gains and losses, which may cause fluctuations in net income for comparable periods but have no impact on cash flows, and to other non-cash charges, such as depreciation and impairment charges.

Management considers cash flows from operations, cash flows from investing activities and cash flows from financing activities (as described in Financial Condition, below) to be important measures in the evaluation of our results of operations, liquidity and capital resources. Cash flows from operations are sourced primarily from long-term lease contracts. Such leases are generally triple-net and mitigate, to an extent, our exposure to certain property operating expenses. Management's evaluation of the amount and expected fluctuation of cash flows from operations is essential in assessing our ability to fund operating expenses, service our debt and fund distributions to stockholders.

Management considers cash flows from operating activities plus cash distributions from equity investments in real estate in excess of equity income as a supplemental measure of liquidity in evaluating our ability to sustain distributions to stockholders. Management considers this measure useful as a supplemental measure to the extent the source of distributions in excess of equity income in real estate is the result of non-cash charges, such as depreciation and amortization, because it allows management to evaluate such cash flows from consolidated and unconsolidated investments in a comparable manner. In deriving this measure, cash distributions from equity investments in real estate that are sourced from the sales of the equity investee's assets or refinancing of debt are excluded because they are deemed to be returns of investment and not returns on investment.

Management focuses on measures of cash flows from investing activities and cash flows from financing activities in its evaluation of our capital resources. Investing activities typically consist of the acquisition or disposition of investments in real property and the funding of capital expenditures with respect to real properties. Cash flows from financing activities primarily consist of the payment of distributions to stockholders, obtaining limited recourse mortgage financing, generally in connection with the acquisition or refinancing of properties, and the payment of mortgage principal amortization. Our financing strategy has been to purchase substantially all of our properties with a combination of equity and limited recourse mortgage debt. A lender on a limited recourse mortgage loan has recourse only to the property collateralizing such debt and not to any of our other assets. This strategy has allowed us to diversify our portfolio of properties and, thereby, limit our risk. In the event that a balloon payment comes due, we may seek to refinance the loan, restructure the debt with existing lenders, and evaluate our ability to pay the balloon payment from our cash reserves or sell the property and use the proceeds to satisfy the mortgage debt.

Our operations consist primarily of the investment in and the leasing of commercial real estate. We acquired our first investment in 2004. Management's evaluation of the sources of lease revenues for the years ended December 31, 2006, 2005 and 2004 is as follows:

	2006	2005	2004
Rental income	\$49,032	\$29,416	\$2,901
Interest income from direct financing leases	15,095	9,689	2,769
	<u>\$64,127</u>	<u>\$39,105</u>	<u>\$5,670</u>

We earned net lease revenues (i.e., rental income and interest income from direct financing leases) from our direct ownership of real estate from the following lease obligations:

	2006	2005	2004
Telcordia Technologies, Inc. ^(a)	\$ 8,967	\$ 7,029	\$ —
The Talaria Company (Hinckley) ^{(a) (b)}	5,025	3,285	—
Huntsman International, LLC ^(a)	4,032	1,303	—
MetoKote Corporation, MetoKote Canada Limited and MetoKote de Mexico ^{(a) (c)}	3,834	2,162	—
Ply Gem Industries, Inc. ^{(c) (d)}	3,580	3,447	1,154
Finisar Corporation ^(a)	3,276	3,018	—
Foss Manufacturing Company, Inc. ^{(d) (e)}	3,212	3,196	1,598
Polestar Petty Ltd. ^{(c) (d)}	2,712	2,652	1,661
LFD Manufacturing Limited, IDS Logistics (Thailand) Limited and IDS Manufacturing SDN BHD ^{(c) (g)}	2,615	1,719	—
Kings Super Markets Inc. ^(f)	2,313	—	—
Edgen Murray Europe Limited (f/k/a Murray International Metals, Limited) ^{(a) (c)}	2,109	82	—
Bob's Discount Furniture, LLC ^(g)	1,786	359	—
HMS Healthcare, Inc. ^(a)	1,705	1,776	—
Plantagen Finland Oy and Plantagen Sverige AB ^{(c) (d)}	1,676	1,674	30
Xpedite Systems, Inc. ^(d)	1,593	1,593	467
Precise Technology Group, Inc. ^(a)	1,448	1,383	—
Castle Rock Industries, Inc. ^(d)	1,376	1,330	760
Dick's Sporting Goods, Inc. ^{(a) (b)}	1,349	113	—
Hilite Germany GmbH & Co. KG ^{(c) (f)}	1,243	—	—
Utex Industries, Inc. ^(f)	1,031	—	—
Career Education Corp. ^(a)	1,016	465	—
Other ^{(a) (b) (c) (f)}	8,229	2,519	—
	<u>\$ 64,127</u>	<u>\$ 39,105</u>	<u>\$ 5,670</u>

(a) We acquired or placed into service our interest in this investment during 2005.

(b) Includes lease revenues applicable to minority interests totaling \$3,031 and \$1,098 in 2006 and 2005, respectively.

(c) Revenue amounts are subject to fluctuations in foreign currency exchange rates.

(d) We acquired or placed into service our interest in this investment during 2004.

(e) In May 2006, Foss Manufacturing Company, LLC assumed the lease of Foss Manufacturing Company, Inc., which had been operating under bankruptcy protection since September 2005.

(f) We acquired or placed into service our interest in this investment during 2006.

(g) We acquired or placed into service our initial investment in 2005 and acquired or placed into service an additional investment in 2006.

We recognize income from equity investments in real estate of which lease revenues are a significant component. Our ownership interests range from 25% to 50%. Our share of net lease revenues in the following lease obligations is as follows:

	2006	2005	2004
U-Haul Moving Partners, Inc. and Mercury Partners, LP ^(a)	\$ 8,782	\$ 8,782	\$ 5,907
Thales S.A. (a) (c)	3,924	3,876	1,588
Hellweg Die Profi-Baumarkte Gmbh & Co. KG ^{(b) (c)}	3,164	1,628	—
Police Prefecture, French Government ^{(b) (c)}	3,123	1,397	—
Pohjola Non-life Insurance Company ^{(b) (c)}	3,059	2,984	—
TietoEnator Plc ^{(a) (c)}	2,852	2,792	1,352
OBI A.G. ^{(c) (d)}	2,639	—	—
Actuant Corporation ^{(a) (c)}	769	739	718
	<u>\$ 28,312</u>	<u>\$ 22,198</u>	<u>\$ 9,565</u>

(a) We acquired or placed into service our interest in this investment during 2004.

(b) We acquired or placed into service our interest in this investment during 2005.

(c) Revenue amounts are subject to fluctuations in foreign currency exchange rates.

(d) We acquired or placed into service our interest in this investment during 2006.

RESULTS OF OPERATIONS

We commenced real estate operations in 2004. The results of operations presented below are not expected to be representative of future results because we anticipate that our asset base will continue to increase substantially as we invest the proceeds of our second public offering. As our asset base increases, revenues and general and administrative and property expenses as well as depreciation are expected to increase. Interest expense is expected to increase as we obtain mortgage financing for our investments.

Lease Revenues

2006 vs. 2005 — For the years ended December 31, 2006 and 2005, lease revenues (rental income and interest income from direct financing leases) increased by \$25,022 primarily as a result of investment activity in 2006 and 2005. Lease revenues benefited by \$17,134 from the full-year impact of investments acquired or placed into service during 2005, while investments acquired during 2006 contributed \$7,807 of the increase.

2005 vs. 2004 — For the years ended December 31, 2005 and 2004, lease revenues increased by \$33,435 primarily as a result of investment activity in 2005 and 2004. Rent from several investments completed during 2005 contributed \$23,908 of this increase while the full year impact of several investments completed in 2004 contributed \$8,222 of the increase. We also completed a build-to-suit project in September 2005 that contributed \$1,303 of the increase.

Revenue is subject to fluctuation because of the timing of new lease transactions, lease terminations, tenant defaults, lease expirations and sales of properties. In addition, we have acquired several international investments and expect that these investments will continue to make up a significant portion of our investment activity. We expect lease revenue from our international investments to fluctuate in the future in connection with exchange rate movements in foreign currencies.

Other Income

Other income generally consists of interest income on mortgages receivable, costs reimbursable by tenants, lease termination payments and other non-rent related revenues including, but not limited to, settlements of claims against former lessees. We receive settlements in the ordinary course of business; however, the timing and amount of such settlements cannot always be estimated. Reimbursable tenant costs are recorded as both income and property expense and, therefore, have no impact on net income.

2006 vs. 2005 — For the years ended December 31, 2006 and 2005, other income increased \$432, primarily due to bankruptcy proceeds received from Clean Earth totaling \$261 and an increase in reimbursable tenant costs of \$234. In addition, Bluelix prepaid their mortgage note receivable in June 2006. The prepayment penalty of \$300 that we received in connection with their prepayment was offset by a \$447 reduction in interest income on mortgages receivable in 2006 due to this prepayment.

2005 vs. 2004 — For the years ended December 31, 2005 and 2004, other income increased \$3,019, primarily due to an increase of \$2,452 in interest income on mortgages receivable as a result of investments made in two mortgage loans in December 2004 and January 2005 totaling \$33,040. Other income also increased due to an increase in reimbursable tenant costs.

Depreciation and Amortization

2006 vs. 2005 — For the years ended December 31, 2006 and 2005, depreciation and amortization increased \$5,724 as a result of depreciation and amortization incurred on investments completed or placed into service during 2006 and the full year impact of investments completed or placed into service in 2005.

2005 vs. 2004 — For the years ended December 31, 2005 and 2004, depreciation and amortization increased \$6,861 as a result of depreciation and amortization incurred on investments completed in 2005 and the full year impact of investments completed in 2004.

Property Expenses

2006 vs. 2005 — For the years ended December 31, 2006 and 2005, property expenses increased by \$3,827, primarily due to an increase in asset management and performance fees paid to the advisor of \$3,658 as a result of the increase in our asset base due to investment activity in 2006 and 2005. Property expenses also increased due to an increase in reimbursable tenant costs and an increase in legal expenses related to the Clean Earth bankruptcy. These increases were partially offset by a decrease in uncollected rent expense as a result of Foss' emergence from bankruptcy in May 2006 and the assumption of the Clean Earth lease by EZ-Pack in July 2006.

2005 vs. 2004 — For the years ended December 31, 2005 and 2004, property expenses increased by \$6,882 primarily due to an increase in asset management and performance fees of \$5,758, an increase in reimbursable tenant costs of \$544, an increase in uncollected rent expense of \$337 and increases in carrying costs on certain properties.

General and Administrative

2006 vs. 2005 — For the years ended December 31, 2006 and 2005, general and administrative expenses increased \$1,854, due primarily to an increase in our share of expenses allocated by the advisor, including our share of rental expenses under an office-sharing agreement, totaling \$847; an increase in professional fees of \$423 and an increase in investor related costs, including printing and proxy solicitation costs totaling \$257. The increase in expenses allocated by the advisor resulted from the increase in our asset base due to investment activity in 2006 and 2005, while the increase in rent expenses was due to the overall increase in our revenue, as rent is allocated under the office-sharing agreement based on revenue. The increases in other general and administrative expenses reflect the

growth in our asset base following investment activity during 2006 and 2005 and the expansion of our shareholder base as a result of our second public offering.

2005 vs. 2004 — For the years ended December 31, 2005 and 2004, general and administrative expenses increased by \$2,276 primarily due to increases in our share of expenses allocated by the advisor and in our share of rental expenses under an office-sharing agreement totaling \$722, an increase in professional fees of \$513, an increase in state and local income taxes of \$464 and an increase in investor related costs, including printing and proxy solicitation costs totaling \$266. Increases in other general and administrative expenses in 2005 reflected the increase in our asset base as a result of investment activity in 2005 and 2004 and an increase in our shareholder base.

Impairment Charge

2005 — We recognized an impairment charge in the fourth quarter of 2005 of \$302 to reflect an other than temporary decline in the value of warrants we held in Clean Earth. Clean Earth filed for Chapter 11 bankruptcy in January 2006.

Income from Equity Investments in Real Estate

Income from equity investments in real estate represents our proportionate share of net income (revenue less expenses) from investments entered into with affiliates or third parties in which we have been deemed to have a non-controlling interest but exercise significant influence.

2006 vs. 2005 — For the years ended December 31, 2006 and 2005, income from equity investments in real estate increased by \$1,778, primarily due to the full year impact of two equity investments completed during 2005 and to a lesser extent, from two equity investments entered into during 2006.

2005 vs. 2004 — For the years ended December 31, 2005 and 2004, income from equity investments increased by \$3,002 primarily due to investment activity in 2005 and 2004. The full year impact of four equity investments completed in 2004 contributed \$1,913 of the increase while income from three equity investments completed in 2005 contributed \$1,089 of the increase.

Other Interest Income

2006 vs. 2005 — For the years ended December 31, 2006 and 2005, other interest income increased by \$6,832, primarily due to an increase in our average cash balances as a result of proceeds received from our second public offering and an increase in interest rates. As we invest the proceeds of our second public offering, we expect other interest income to decrease.

2005 vs. 2004 — For the years ended December 31, 2005 and 2004, other interest income increased \$3,502 primarily due to increases in interest rates and average cash balances maintained.

Minority Interest in Income

We consolidate investments in which we are deemed to have a controlling interest. Minority interest in income represents the proportionate share of net income (revenue less expenses) from such investments that is attributable to the partner(s) holding the non-controlling interest.

2006 vs. 2005 — For the years ended December 31, 2006 and 2005, minority interest in income increased \$1,223, primarily due to the full year impact of our acquisition of controlling interests in two investments during 2005. Two investments completed in the fourth quarter of 2006 in which minority partners have non-controlling interests did not have a material impact on minority interest in income during 2006.

2005 vs. 2004 — Minority interest in income of \$642 during 2005 reflects our acquisition of controlling interests in two investments during the second and fourth quarters of 2005.

Gain (Loss) on Foreign Currency Transactions and Other, Net

We have foreign operations that are subject to the effects of exchange rate movements of foreign currencies. We are a net receiver of the foreign currencies (we receive more cash than we pay out) and therefore our foreign investments benefit from a weaker U.S. dollar and are adversely affected by a stronger U.S. dollar relative to the foreign currencies. We recognize realized foreign currency translation gains (losses) upon the repatriation of cash from our foreign investments and recognize unrealized foreign currency translation gains (losses) due to changes in foreign currency on accrued interest receivable on notes receivable from subsidiaries. We may also recognize other gains and losses in the ordinary course of business.

2006 vs. 2005 — For the year ended December 31, 2006, we recognized a net gain on foreign currency transactions and other, net of \$407 as compared with a net loss of \$1,652 during 2005. Realized and unrealized gains on foreign currency transactions during 2006 totaled \$572 resulting from the weakening of the U.S. dollar since December 31, 2005. We also recognized a loss of \$165 in connection with Bluelinx's prepayment of their mortgage receivable during 2006.

2005 vs. 2004 — For the year ended December 31, 2005, we recognized a net loss on foreign currency transactions and other, net of \$1,652 as compared with a net gain of \$18 during 2004. The loss is primarily due to the strengthening of the U.S. dollar during 2005, which contributed to losses incurred on deposits held for new investments and the repayment of scheduled principal installments on intercompany subordinated debt or accrued interest on such debt.

Interest Expense

2006 vs. 2005 — For the years ended December 31, 2006 and 2005, interest expense increased by \$9,976. This increase is primarily due to the impact of limited recourse mortgage loans obtained on investments acquired or placed into service during 2006 and 2005, which resulted in higher average outstanding balances. During 2006, we obtained mortgage financing totaling \$267,606 on our investments and build-to-suit projects with a weighted average interest rate and term of 5.85% and 12.4 years, respectively.

2005 vs. 2004 — For the years ended December 31, 2005 and 2004, interest expense increased by \$13,165 primarily due to limited recourse mortgage loans obtained on investments in 2005 and the full year impact of mortgage loans placed on investments completed in 2004. During 2005, we obtained mortgage financing totaling \$269,801 on completed investments and build-to-suit projects with a weighted average interest rate and term of 5.82% and 14.5 years, respectively.

Net Income

2006 vs. 2005 — For the years ended December 31, 2006 and 2005, net income increased \$13,821, primarily due to the results of operations from our recent investments entered into during 2006 and 2005 and an increase in interest income generated by funds raised in our second public offering. Our investment activity in 2006 and 2005 resulted in increases in lease revenue and income from equity investments in real estate, which were partially offset by increases in interest expense, depreciation and amortization, property expenses and general and administrative expenses as described above.

2005 vs. 2004 — For the years ended December 31, 2005 and 2004, net income increased \$11,160, primarily due to income generated from investments completed in 2005 and the full year impact of investments completed

in 2004. Income generated from our investment portfolio was partially offset by foreign exchange losses. These variances are described above.

FINANCIAL CONDITION

Uses of Cash During the Year

Cash and cash equivalents totaled \$464,223 as of December 31, 2006, which represents an increase of \$308,849 since December 31, 2005. We completed our second offering of common stock in December 2006 and believe that we have sufficient cash balances to invest in a diversified investment portfolio and meet existing working capital needs. Our sources and use of cash during 2006 are described below.

Operating Activities

One of our objectives is to use the cash flow from net leases to meet operating expenses, service debt and fund distributions to shareholders. During 2006, cash flows from operations of \$52,255 were sufficient to fund distributions to shareholders of \$41,227, meet scheduled mortgage principal installments of \$6,397 and distribute \$1,672 to minority interest partners. For 2006, the advisor elected to receive asset management and performance fees in restricted common stock. As a result of this election, we paid asset management fees of \$5,360 through the issuance of common stock rather than in cash. Performance fees have not been paid as we have not yet achieved the performance criterion (see Cash Requirements below). For 2007, the advisor has elected to continue to receive asset management and performance fees in restricted common stock.

Investing Activities

Our investing activities are generally comprised of real estate related transactions (purchases and sales of real estate and mortgage loans collateralized by real estate) and the purchase of and sale of short-term investments and marketable securities which we intend to convert to cash. During 2006, we used \$485,948 to enter into 19 investments and to fund construction costs at six build-to-suit projects, three of which we entered into during 2006, and contributed \$12,697 to ventures in connection with the purchase of two equity investments in real estate. We also placed \$28,786 into escrow for investments in real estate and the completion of construction at various build-to-suit projects. During 2006, \$22,504 was released from these escrows for an investment that we entered into in July 2006 and \$4,802 was released to fund construction costs at existing build-to-suit projects. In June 2006, we received \$20,000 from the early prepayment of the Bluelinx's mortgage receivable. Our 2006 investment activity was funded through the use of existing cash balances, proceeds from our public offerings and proceeds from limited recourse mortgage financing.

Financing Activities

During 2006, we obtained \$509,617 from the issuance of stock, net of costs, primarily from our second public offering, which concluded in December 2006. We also obtained \$267,606 in mortgage financing to fund investment activity, of which \$9,399 was retained by a lender and was released to us in January 2007, and \$3,450 from a note payable to fund the payment of value added taxes in connection with an investment in France. We received contributions totaling \$14,061 from our minority partner in connection with two investments entered into in December 2006. In addition to making scheduled mortgage principal payments, paying distributions to

shareholders and minority partners, we used \$5,126 to purchase treasury shares through a redemption plan which allows shareholders to sell shares back to us, subject to certain limitations.

All of our mortgage obligations either currently bear interest at fixed rates or currently bear interest at fixed rates but may be reset to then prevailing market fixed rates in the future, pursuant to the terms of the mortgage contracts. Accordingly, our cash flow should not be adversely affected by increases in interest rates, which are low by historical standards. However, financing on future acquisitions will likely bear higher rates of interest.

Summary of Financing

The table below summarizes our mortgage notes payable and note payable as of December 31, 2006 and 2005, respectively.

	2006	December 31, 2005
BALANCE		
Fixed rate	\$ 594,693	\$ 358,370
Variable rate ⁽¹⁾	39,552	—
Total	<u>\$ 634,245</u>	<u>\$ 358,370</u>
PERCENT OF TOTAL DEBT		
Fixed rate	94%	100%
Variable rate ⁽¹⁾	6%	—
	<u>100%</u>	<u>100%</u>
WEIGHTED AVERAGE INTEREST RATE AT END OF PERIOD		
Fixed rate	5.87%	5.86%
Variable rate ⁽¹⁾	5.25%	N/A

(1) Included in variable rate debt at December 31, 2006 is (i) \$3,450 in aggregate principal of notes payable which have not been hedged and (ii) \$36,102 in mortgage obligations which are currently fixed rate but which have interest rate reset features which may change the interest rates to then prevailing market fixed rates at certain points in their term.

Cash Resources

As of December 31, 2006, our cash resources consisted of cash and cash equivalents of \$464,223, of which \$5,895, at current exchange rates, was held in foreign bank accounts to maintain local capital requirements, short-term instruments of \$2,615 that we intend to convert to cash, and unleveraged properties with a carrying value of \$66,750. Our cash resources can be used to fund future investments, as well as maintain sufficient working capital balances and meet other commitments. We intend to fund quarterly distributions from cash generated from our real estate portfolio.

We expect cash flows from operating activities to be affected by several factors in 2007 including:

- The impact from any investments we enter into during 2007, the full year impact of investments entered into in 2006 and the expected completion of several build-to-suit projects in 2007, all of which we currently expect will have a net positive impact on cash flow.
- The advisor's election in 2007 to continue to receive asset management and performance fees in restricted shares.
- Scheduled rent increases on several properties during 2007 should result in additional cash flow.

Cash Requirements

During the next twelve months, cash requirements will include scheduled mortgage principal payment installments (we have a \$3,450 note payable due in June 2008 and no balloon payments on our mortgage obligations until 2011), paying distributions to shareholders, funding build-to-suit commitments on projects that we currently estimate to total \$72,375 as well as other normal recurring operating expenses. In connection with a 2006 investment we made in a property in France, we entered into a commitment to purchase additional properties for approximately \$9,154 by March 31, 2007, of which approximately \$3,453 will be funded by the lender's commitment to provide financing. These transactions are described below in Aggregate Contractual Obligations.

In accordance with our advisory agreement with the advisor, we owe the advisor performance fees of 1/2 of 1% per annum of average invested assets as defined in the advisory agreement. Additionally, we owe the advisor deferred acquisition fees that are calculated based on the aggregate cost of investments acquired and are payable in equal annual installments over three years and bear interest at an annual rate of 5%. These performance and deferred acquisition fees are subordinated to the performance criterion, a non-compounded cumulative distribution return of 6% per annum. As of December 31, 2006, the non-compounded cumulative distribution return was 5.87%, and we expect to meet the 6% performance criterion in the second quarter of 2007. As of December 31, 2006, when the performance criterion is met we will owe the following amounts to the advisor:

- Deferred acquisition fee installments and interest on deferred acquisition fees totaling \$17,905 and \$1,928, respectively. These amounts will be paid in cash and we expect to use our existing cash resources to make these payments.
- Performance fees totaling \$10,045, which will be paid through the issuance of restricted common stock. As the advisor has elected to continue to receive asset management and performance fees in common stock in 2007, any performance fees that accrue during 2007 will also be paid through the issuance of common stock.

In accordance with a loan agreement, a venture in which we have an equity interest had an obligation to complete certain non-monetary actions within a specified period of time that were not completed and, as a result, an event of default occurred as of March 31, 2006. During the third quarter of 2006, the venture completed all of its obligations and remedied the default.

Aggregate Contractual Agreements

The table below summarizes our contractual obligations as of December 31, 2006 and the effect that such obligations are expected to have on our liquidity and cash flow in future periods.

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 years
Mortgage notes payable — Principal	\$ 630,795	\$ 9,656	\$ 24,240	\$ 29,129	\$ 567,770
Mortgage notes payable — Interest	377,120	36,608	72,254	69,018	199,240
Note payable — Principal ⁽¹⁾	3,450	—	3,450	—	—
Note payable — Interest	215	147	68	—	—
Deferred acquisition fees — Principal	28,517	17,905	10,612	—	—
Deferred acquisition fees — Interest	3,087	1,928	1,159	—	—
Build-to-suit commitments ⁽²⁾	72,375	72,375	—	—	—
Purchase commitments ⁽³⁾	5,701	5,701	—	—	—
Operating leases ⁽⁴⁾	3,038	248	601	622	1,567
	<u>\$ 1,124,298</u>	<u>\$ 144,568</u>	<u>\$ 112,384</u>	<u>\$ 98,769</u>	<u>\$ 768,577</u>

- (1) Represents a note payable obtained in connection with an investment in France in order to fund the payment of value added taxes.
- (2) Represents remaining build-to-suit commitments for five projects:
- Blairsville, Pennsylvania — estimated total construction costs are currently projected to total \$25,152 of which \$12,396 was funded as of December 31, 2006.
 - Plainfield, Indiana — estimated total construction costs are currently projected to total \$17,600 of which \$13,682 was funded as of December 31, 2006.
 - Laramie, Wyoming — estimated total construction costs are currently projected to total \$24,731 of which \$16,195 was funded as of December 31, 2006.
 - Bloomington, Minnesota — estimated total construction costs are currently projected to total \$47,200 of which \$8,746 was funded as of December 31, 2006.
 - Norwich, Connecticut — estimated total construction costs are currently projected to total \$12,500 of which \$3,789 was funded as of December 31, 2006.
- (3) In connection with a 2006 investment we made in a property in France, we entered into a commitment to purchase additional properties for \$9,154 by March 31, 2007, subject to completion of due diligence. We have obtained a commitment from the lender to provide limited recourse mortgage financing of \$3,453 at a fixed annual interest rate of 5.07% for a 10-year term.
- (4) Operating lease obligations consist primarily of our share of future minimum rents payable under an office cost-sharing agreement with certain affiliates for the purpose of leasing office space used for the administration of real estate entities. Such amounts are allocated among the entities based on gross revenues and are adjusted quarterly.

Amounts in the table above related to our foreign operations are based on the exchange rate of the local currencies as of December 31, 2006. As of December 31, 2006, we have no material capital lease obligations for which we are the lessee, either individually or in the aggregate.

In connection with the purchase of our properties, we require the sellers to perform environmental reviews. We believe, based on the results of such reviews, that our properties were in substantial compliance with federal and state environmental statutes at the time the properties were acquired. However, portions of certain properties have been subject to some degree of contamination, principally in connection with either leakage from underground storage tanks, surface spills from facility activities or historical on-site activities. In most instances where contamination has been identified, tenants are actively engaged in the remediation process and addressing identified conditions. Tenants are generally subject to environmental statutes and regulations regarding the discharge of hazardous materials and any related remediation obligations. In addition, our leases generally require tenants to indemnify us from all liabilities and losses related to the leased properties with provisions of such indemnification specifically addressing environmental matters. The leases generally include provisions which allow for periodic environmental assessments, paid for by the tenant, and allow us to extend leases until such time as a tenant has satisfied its environmental obligations. Certain of the leases allow us to require financial assurances from tenants such as performance bonds or letters of credit if the costs of remediating environmental conditions are, in our estimation, in excess of specified amounts. Accordingly, we believe that the ultimate resolution of any environmental matter should not have a material adverse effect on our financial condition, liquidity or results of operations.

Subsequent Events

In February and March 2007, we acquired several domestic properties for approximately \$120,200 and entered into a commitment to fund an expansion at one of the properties for a total projected cost of \$7,000, based on current estimates. Through March 2007, we have obtained limited recourse mortgage financing on six investments, including the investments made in February and March, totaling \$133,038 with a weighted average annual fixed interest rate and term of 6.06% and 13 years, respectively.

Effective April 2, 2007, Trevor Bond is resigning from our board of directors in connection with his appointment to the advisor's board of directors. Marshall Blume was appointed as an independent director of our board of directors, effective April 2, 2007.

CRITICAL ACCOUNTING ESTIMATES

Our significant accounting policies are described in Note 2 to the consolidated financial statements. Many of these accounting policies require certain judgment and the use of certain estimates and assumptions when applying these policies in the preparation of our consolidated financial statements. On a quarterly basis, we evaluate these estimates and judgments based on historical experience as well as other factors that we believe to be reasonable under the circumstances. These estimates are subject to change in the future if underlying assumptions or factors change. Certain accounting policies, while significant, may not require the use of estimates. Those accounting policies that require significant estimation and/or judgment are listed below.

Classification of Real Estate Assets

We classify our directly owned leased assets for financial reporting purposes as either operating leases or net investment in direct financing leases at the inception of a lease or when significant lease terms are amended. This classification is based on several criteria, including, but not limited to, estimates of the remaining economic life of the leased assets and the calculation of the present value of future minimum rents. In determining the classification of a lease, we use estimates of remaining economic life provided by third party appraisals of the leased assets. The calculation of the present value of future minimum rents includes determining a lease's implicit interest rate, which requires an estimate of the residual value of leased assets as of the end of the non-cancelable lease term. Different estimates of residual value result in different implicit interest rates and could possibly affect the financial reporting classification of leased assets. The contractual terms of our leases are not necessarily different for operating and direct financing leases; however the classification is based on accounting pronouncements which are intended to indicate whether the risks and rewards of ownership are retained by the lessor or substantially transferred to the lessee. Management believes that it retains certain risks of ownership regardless of accounting classification. Assets classified as net investment in direct financing leases are not depreciated but are written down to expected residual value over the lease term. Therefore, the classification of assets may have a significant impact on net income even though it has no effect on cash flows.

Identification of Tangible and Intangible Assets in Connection with Real Estate Acquisitions

In connection with the acquisition of properties, purchase costs are allocated to tangible and intangible assets and liabilities acquired based on their estimated fair values. The value of tangible assets, consisting of land, buildings and tenant improvements, is determined as if vacant. Intangible assets including the above-market value of leases, the value of in-place leases and the value of tenant relationships are recorded at their relative fair values. Below-market value of leases are also recorded at their relative fair values and are included in other liabilities in the accompanying financial statements.

The value attributed to tangible assets is determined in part using a discount cash flow model which is intended to approximate what a third party would pay to purchase the property as vacant and rent at current "market" rates. In applying the model, we assume that the disinterested party would sell the property at the end of a market lease term. Assumptions used in the model are property-specific as it is available; however, when certain necessary information is not available, we will use available regional and property-type information. Assumptions and estimates include a discount rate or internal rate of return, marketing period necessary to put a lease in place, carrying costs during the marketing period, leasing commissions and tenant improvements allowances, market rents and growth factors of such rents, market lease term and a cap rate to be applied to an estimate of market rent at the end of the market lease term.

Above-market and below-market lease intangibles are based on the difference between the market rent and the contractual rents and are discounted to a present value using an interest rate reflecting our current assessment of the risk associated with the lease acquired. We acquire properties subject to net leases and consider the credit of the lessee in negotiating the initial rent.

The total amount of other intangibles is allocated to in-place lease values and tenant relationship intangible values based on our evaluation of the specific characteristics of each tenant's lease and our overall relationship with each tenant. Characteristics we consider in allocating these values include the expectation of lease renewals, nature and extent of the existing relationship with the tenant, prospects for developing new business with the tenant and the tenant's credit quality, among other factors. Intangibles for above-market and below-market leases, in-place lease intangibles and tenant relationships are amortized over their estimated useful lives. In the event that a lease is terminated, the unamortized portion of each intangible, including market rate adjustments, in-place lease values and tenant relationship values, are charged to expense.

Factors considered include the estimated carrying costs of the property during a hypothetical expected lease-up period, current market conditions and costs to execute similar leases. Estimated carrying costs include real estate taxes, insurance, other property operating costs, expectation of funding tenant improvements and estimates of lost rentals at market rates during the hypothetical expected lease-up periods, based on assessments of specific market conditions. Estimated costs to execute leases include commissions and legal costs to the extent that such costs are not already incurred with a new lease that has been negotiated in connection with the purchase of the property.

Basis of Consolidation

When we obtain an economic interest in an entity, we evaluate the entity to determine if the entity is deemed a variable interest entity ("VIE"), and if we are deemed to be the primary beneficiary, in accordance with FASB Interpretation No. 46(R), "Consolidation of Variable Interest Entities" ("FIN 46(R)"). We consolidate (i) entities that are VIEs and of which we are deemed to be the primary beneficiary and (ii) entities that are non-VIEs which we control. Entities that we account for under the equity method (i.e., at cost, increased or decreased by our share of earnings or losses, less distributions) include (i) entities that are VIEs and of which we are not deemed to be the primary beneficiary and (ii) entities that are non-VIEs which we do not control, but over which we have the ability to exercise significant influence. We will reconsider our determination of whether an entity is a VIE and who the primary beneficiary is if certain events occur that are likely to cause a change in the original determinations.

In June 2005, the Emerging Issues Task Force issued EITF 04-05, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights" ("EITF 04-05"). The scope of EITF 04-05 is limited to limited partnerships or similar entities that are not variable interest entities under FIN 46(R). The Task Force reached a consensus that the general partners in a limited partnership (or similar entity) are presumed to control the entity regardless of the level of their ownership and, accordingly, may be required to consolidate the entity. This presumption may be overcome if the agreements provide the limited partners with either (a) the substantive ability to dissolve (liquidate) the limited partnership or otherwise remove the general partners without cause or (b) substantive participating rights. If it is deemed that the limited partners' rights overcome the presumption of control by a general partner of the limited partnership, the general partner shall account for its investment in the limited partnership using the equity method of accounting. We adopted EITF 04-05 in June 2005 for all arrangements created or modified after June 29, 2005. For all other arrangements, we adopted EITF 04-05 on January 1, 2006. The adoption of EITF 04-05 had no impact on our financial position or results of operations. In December 2006, we entered into two investments in which we have a 50% interest and which we consolidated under the provisions of EITF 04-05 as we are

the managing member in each of the limited liability companies that own the investments and there are no unaffiliated members with substantive kick-out or participation rights. The portion of these entities not owned by us is presented as minority interest as of and during the periods consolidated. All material inter-entity transactions have been eliminated.

Impairments

Impairment charges may be recognized on long-lived assets, including but not limited to real estate, direct financing leases, assets held for sale and equity investments in real estate. Estimates and judgments are used when evaluating whether these assets are impaired. When events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, we perform projections of undiscounted cash flows, and if such cash flows are insufficient, the assets are adjusted (i.e., written down) to their estimated fair value. An analysis of whether a real estate asset has been impaired requires us to make our best estimate of market rents, residual values and holding periods. In our evaluations, we generally obtain market information from outside sources; however, such information requires us to determine whether the information received is appropriate to the circumstances. As our investment objective is to hold properties on a long-term basis, holding periods used in the analyses generally range from five to ten years. Depending on the assumptions made and estimates used, the future cash flow projected in the evaluation of long-lived assets can vary within a range of outcomes. We will consider the likelihood of possible outcomes in determining the best possible estimate of future cash flows. Because in most cases, each of our properties is leased to one tenant, we are more likely to incur significant writedowns when circumstances change because of the possibility that a property will be vacated in its entirety and, therefore, it is different from the risks related to leasing and managing multi-tenant properties. Events or changes in circumstances can result in further non-cash writedowns and impact the gain or loss ultimately realized upon sale of the assets.

We perform a review of our estimate of residual value of our direct financing leases at least annually to determine whether there has been an other than temporary decline in the current estimate of residual value of the underlying real estate assets (i.e., the estimate of what we could realize upon sale of the property at the end of the lease term). If the review indicates a decline in residual value, that is other than temporary, a loss is recognized and the accounting for the direct financing lease will be revised to reflect the decrease in the expected yield using the changed estimate, that is, a portion of the future cash flow from the lessee will be recognized as a return of principal rather than as revenue. While an evaluation of potential impairment of real estate subject to an operating lease is determined by a change in circumstances, the evaluation of a direct financing lease can be affected by changes in long-term market conditions even though the obligations of the lessee are being met. Changes in circumstances include, but are not limited to, vacancy of a property not subject to a lease and termination of a lease. We may also assess properties for impairment because a lessee is experiencing financial difficulty and because management expects that there is a reasonable probability that the lease will be terminated in a bankruptcy proceeding or a property remains vacant for a period that exceeds the period anticipated in a prior impairment evaluation.

Investments in unconsolidated ventures are accounted for under the equity method and are recorded initially at cost, as equity investments in real estate and subsequently adjusted for our proportionate share of earnings and cash contributions and distributions. On a periodic basis, we assess whether there are any indicators that the value of equity investments in real estate may be impaired and whether or not that impairment is other than temporary. To the extent impairment has occurred, the charge shall be measured as the excess of the carrying amount of the investment over the fair value of the investment.

When we identify assets as held for sale, we discontinue depreciating the assets and estimate the sales price, net of selling costs, of such assets. If in our opinion, the net sales price of the assets, which have been identified for

sale, is less than the net book value of the assets, an impairment charge is recognized and a valuation allowance is established. To the extent that a purchase and sale agreement has been entered into, the allowance is based on the negotiated sales price. To the extent that we have adopted a plan to sell an asset but have not entered into a sales agreement, we will make judgments of the net sales price based on current market information. Accordingly, the initial assessment may be greater or less than the purchase price subsequently committed to and may result in a further adjustment to the fair value of the property. If circumstances arise that previously were considered unlikely and, as a result, we decide not to sell a property previously classified as held for sale, the property is reclassified as held and used. A property that is reclassified is measured and recorded individually at the lower of (a) its carrying amount before the property was classified as held for sale, adjusted for any depreciation expense that would have been recognized had the property been continuously classified as held and used or (b) the fair value at the date of the subsequent decision not to sell.

Provision for Uncollected Amounts from Lessees

On an ongoing basis, we assess our ability to collect rent and other tenant-based receivables and determine an appropriate allowance for uncollected amounts. Because we have a limited number of lessees (21 lessees represented 87% of annual lease revenues during 2006), we believe that it is necessary to evaluate the collectibility of these receivables based on the facts and circumstances of each situation rather than solely using statistical methods. We generally recognize a provision for uncollected rents and other tenant receivables and measure our allowance against actual arrearages. For amounts in arrears, we make subjective judgments based on our knowledge of a lessee's circumstances and may reserve for the entire receivable amount from a lessee because there has been significant or continuing deterioration in the lessee's ability to meet its lease obligations.

Interest to be Capitalized in Connection with Real Estate Under Construction

Operating real estate is stated at cost less accumulated depreciation. Costs directly related to build-to-suit projects, primarily interest, if applicable, are capitalized. Interest capitalized in 2006, 2005 and 2004 was \$1,875, \$725, and \$151, respectively. We consider a build-to-suit project as substantially completed upon the completion of improvements. If portions of a project are substantially completed and occupied and other portions have not yet reached that stage, the substantially completed portions are accounted for separately. We allocate costs incurred between the portions under construction and the portions substantially completed and only capitalize those costs associated with the portion under construction. We do not have a credit facility and determine an interest rate to be applied for capitalizing interest based on an average rate on our outstanding limited recourse mortgage debt.

Income Taxes

We have elected and expect to continue to be treated as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"). In order to maintain our qualification as a REIT, we are required, among other things, to distribute at least 90% of our net taxable income (excluding net capital gains) to our shareholders and meet certain tests regarding the nature of our income and assets. As a REIT, we are not subject to U.S. federal income tax to the extent we distribute our net taxable income annually to our shareholders. Accordingly, no provision for U.S. federal income taxes is included in the accompanying consolidated financial statements. We have and intend to continue to operate so that we meet the requirements for taxation as a REIT. Many of these requirements, however, are highly technical and complex. If we were to fail to meet these requirements, we would be subject to U.S. federal income tax. We are subject to certain state, local and foreign taxes.

State, local and franchise taxes of \$423, \$494 and \$30 are included in general and administrative expenses for the years ended December 31, 2006, 2005 and 2004, respectively.

We may elect to treat one or more of our corporate subsidiaries as a taxable REIT subsidiary (“TRS”). In general, a TRS may perform additional services for our tenants and generally may engage in any real estate or non-real estate related business (except for the operation or management of health care facilities or lodging facilities or providing to any person, under a franchise, license or otherwise, rights to any brand name under which any lodging facility or health care facility is operated). A TRS is subject to corporate federal income tax. We have elected to treat one of our corporate subsidiaries as a TRS.

Recent Accounting Pronouncements

EITF 04-05

We adopted EITF 04-05 in June 2005 for all limited partnerships created after June 29, 2005 and on January 1, 2006 for all other arrangements. Refer to Basis of Consolidation section above for a discussion of the effect of EITF 04-05 on our financial position and results of operations.

FSP FAS 13-1

In October 2005, the FASB issued Staff Position No. 13-1 “Accounting for Rental Costs Incurred during a Construction Period” (“FSP FAS 13-1”). FSP FAS 13-1 addresses the accounting for rental costs associated with operating leases that are incurred during the construction period. FSP FAS 13-1 makes no distinction between the right to use a leased asset during the construction period and the right to use that asset after the construction period. Therefore, rental costs associated with ground or building operating leases that are incurred during a construction period shall be recognized as rental expense, allocated over the lease term in accordance with SFAS No. 13 and Technical Bulletin 85-3. We adopted FSP FAS 13-1 as required on January 1, 2006 and the initial application of this Staff Position did not have a material impact on our financial position or results of operations.

SFAS 155

In February 2006, the FASB issued Statement No. 155, “Accounting for Certain Hybrid Financial Instruments an Amendment of FASB No. 133 and 140” (“SFAS 155”). The purpose of SFAS 155 is to simplify the accounting for certain hybrid financial instruments by permitting fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS 155 also eliminates the restriction on passive derivative instruments that a qualifying special-purpose entity may hold. We must adopt SFAS 155 effective January 1, 2007 and do not believe that this adoption will have a material impact on our financial position or results of operations.

FIN 48

In July 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109” (“FIN 48”), which clarifies the accounting for uncertainty in income tax positions. This Interpretation requires that we not recognize in our consolidated financial statements the impact of a tax position that fails to meet the more likely than not recognition threshold based on the technical merits of the position. We must adopt FIN 48 effective January 1, 2007. We are currently evaluating the impact of adopting FIN 48 on our consolidated financial statements.

SAB 108

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.” SAB 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify financial statement misstatements.

Traditionally, there have been two widely-recognized methods for quantifying the effects of financial statement misstatements: the “rollover” method and the “iron curtain” method. The rollover method focuses primarily on the impact of a misstatement on the income statement — including the reversing effect of prior year misstatements — but its use can lead to the accumulation of misstatements in the balance sheet. The iron curtain method, on the other hand, focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement. We currently use the iron curtain method for quantifying identified financial statement misstatements.

In SAB 108, the SEC staff established an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of our financial statements and the related financial statement disclosures. This model is commonly referred to as a “dual approach” because it requires quantification of errors under both the iron curtain and rollover methods. SAB 108 permits existing public companies to initially apply its provisions either by (i) restating prior financial statements as if the “dual approach” had always been used or (ii) recording the cumulative effect of initially applying the “dual approach” as adjustments to the carrying values of assets and liabilities as of January 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings. Use of the “cumulative effect” transition method requires detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose. We adopted SAB 108 effective December 31, 2006 using the cumulative effect transition method. The adoption of SAB 108 had no impact on our financial position or results of operations.

SFAS 157

In September 2006, the FASB issued Statement No. 157, “Fair Value Measurements” (“SFAS 157”). SFAS 157 provides guidance for using fair value to measure assets and liabilities. This statement clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing the asset or liability. SFAS 157 establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lowest priority to unobservable data. SFAS 157 applies whenever other standards require assets or liabilities to be measured at fair value. This statement is effective for our 2008 fiscal year, although early adoption is permitted. We believe that the adoption of SFAS 157 will not have a material effect on our financial position or results of operations.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In thousands

MARKET RISKS

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates and equity prices. In pursuing our business plan, the primary risks to which we are exposed are interest rate risk and foreign currency exchange risk.

We are exposed to the impact of interest rate changes primarily through our borrowing activities. To limit this exposure, we attempt to obtain mortgage financing on a long-term, fixed-rate basis. However, from time to time, we or our venture partners may obtain variable rate mortgage loans and may enter into interest rate swap agreements with lenders which effectively convert the variable rate debt service obligations of the loan to a fixed rate. These interest rate swaps are derivative instruments designated as cash flow hedges on the forecasted interest payments on the debt obligation. Interest rate swaps are agreements in which a series of interest rate flows are exchanged over a specific period. The notional amount on which the swaps are based is not exchanged.

Our objective in using derivatives is to limit our exposure to interest rate movements. We do not use derivative instruments to hedge foreign exchange rate risk exposure, credit/market risks or for speculative purposes.

Because we transact business globally, we are also exposed to foreign exchange rate movements. We manage foreign exchange rate movements by generally placing both our debt obligation to the lender and the tenant's rental obligation to us in the local currency.

Interest Rate Risk

The value of our real estate and related fixed debt obligations are subject to fluctuations based on changes in interest rates. The value of our real estate is also subject to fluctuations based on local and regional economic conditions and changes in the creditworthiness of lessees, all which may affect our ability to refinance property-level mortgage debt when balloon payments are scheduled.

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political conditions, and other factors beyond our control. An increase in interest rates would likely cause the value of our owned and managed assets to decrease, which would create lower revenues from managed assets lower investment performance for the managed funds. Increases in interest rates may also have an impact on the credit quality of certain tenants.

Although we have not experienced any credit losses on investments in loan participations, in the event of a significant rising interest rate environment and/or economic downturn, loan defaults could increase and result in us recognizing credit losses, which could adversely affect our liquidity and operating results. Further, such defaults could have an adverse effect on the spreads between interest earning assets and interest bearing liabilities.

The following table presents principal cash flows based upon expected maturity dates and scheduled amortization payments of our debt obligations and the related weighted-average interest rates by expected maturity dates for the fixed rate debt. As of December 31, 2006, annual interest rates ranged from 4.36% to 7.34% on fixed rate debt and from 4.27% to 6.63% on variable rate debt.

	2007	2008	2009	2010	2011	Thereafter	Total	Fair value
Fixed rate debt	\$ 9,493	\$ 10,971	\$ 12,430	\$ 13,456	\$ 14,620	\$ 533,723	\$ 594,693	\$ 587,662
Weighted average interest rate	5.87%	5.89%	5.91%	5.92%	5.97%	5.87%		
Variable rate debt	\$ 163	\$ 3,782	\$ 507	\$ 520	\$ 533	\$ 34,047	\$ 39,552	\$ 39,552

As more fully described in Summary of Financing above, our current variable rate debt obligations include some obligations which are currently subject to variable rate obligations and some obligations that reset to then prevailing market fixed rates at certain points in their term. Based on our current unhedged exposure to variable rates in the next twelve months, annual interest expense from variable rate debt would increase or decrease by \$396 for each change in annual interest rates. A change in interest rates of 1% would increase or decrease by an aggregate of \$25,152 the combined fair value of our fixed rate debt and our mortgage obligations which are currently fixed rate but which have interest rate reset features which may change the interest rates to then prevailing market fixed rates at certain points in their term.

Foreign Currency Exchange Rate Risk

We have foreign operations in the European Union, Thailand, Malaysia and Canada and as such are subject to risk from the effects of exchange rate movements of foreign currencies, which may affect future costs and cash flows. Although a significant portion of our foreign operations were conducted in the Euro and the British pound sterling, we are likely to continue to conduct business in other currencies as we seek to invest funds from our offering internationally. For all currencies we are a net receiver of the foreign currency (we receive more cash than we pay out) and therefore our foreign operations benefit from a weaker U.S. dollar and are adversely affected by a stronger U.S. dollar relative to the foreign currency. Net realized foreign currency translation gains (losses) were \$393, (\$1,527) and (\$174) for the years ended December 31, 2006, 2005 and 2004, respectively and net unrealized foreign currency translation gains (losses) were \$179, (\$125) and \$192 for the years ended December 31, 2006, 2005 and 2004, respectively. Such gains (losses) are included in the accompanying consolidated financial statements and are primarily due to changes in foreign currency on deposits held for new investments and accrued interest receivable on notes receivable from wholly-owned subsidiaries.

To date, we have not entered into any foreign currency forward exchange contracts to hedge the effects of adverse fluctuations in foreign currency exchange rates. We have obtained limited recourse mortgage financing at fixed rates of interest in the local currency. To the extent that currency fluctuations increase or decrease rental revenues as translated to dollars, the change in debt service, as translated to dollars, will partially offset the effect of fluctuations in revenue, and, to some extent mitigate the risk from changes in foreign currency rates.

During each of the next five years and thereafter, scheduled future minimum rents, exclusive of renewals, under non-cancelable leases resulting from our foreign operations are as follows:

Lease Revenues ⁽¹⁾	2007	2008	2009	2010	2011	Thereafter	Total
Euro	\$ 14,652	\$ 14,652	\$ 14,652	\$ 14,652	\$ 14,652	\$ 185,965	\$ 259,225
British pound sterling	5,929	5,991	6,054	6,119	6,186	120,256	150,535
Other foreign currencies ⁽²⁾	5,444	5,444	5,197	4,458	4,458	51,652	76,653
	<u>\$ 26,025</u>	<u>\$ 26,087</u>	<u>\$ 25,903</u>	<u>\$ 25,229</u>	<u>\$ 25,296</u>	<u>\$ 357,873</u>	<u>\$ 486,413</u>

Scheduled debt service payments (principal and interest) for mortgage notes payable during each of the next five years and thereafter, from our foreign operations are as follows:

Lease Revenues ^{(1) (3)}	2007	2008	2009	2010	2011	Thereafter	Total
Euro	\$ 7,241	\$ 11,327	\$ 8,028	\$ 7,949	\$ 7,724	\$ 131,741	\$ 174,010
British pound sterling	3,379	3,434	3,492	3,545	3,579	59,790	77,219
Other foreign currencies ⁽⁴⁾	2,470	2,780	2,748	2,724	3,075	35,818	49,615
	<u>\$ 13,090</u>	<u>\$ 17,541</u>	<u>\$ 14,268</u>	<u>\$ 14,218</u>	<u>\$ 14,378</u>	<u>\$ 227,349</u>	<u>\$ 300,844</u>

(1) Based on the applicable December 31, 2006 exchange rate. Contractual rents and debt obligations are denominated in the functional currency of the country of each property.

(2) Other currencies consist of the Canadian dollar, the Swedish krona, the Thai baht and the Malaysian ringgit.

(3) Interest on variable rate debt obligations was calculated using the applicable variable interest rate as of December 31, 2006.

(4) Other currencies consist of the Canadian dollar, the Swedish krona and the Thai baht.

**REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of Corporate Property Associates 16 - Global Incorporated:

In our opinion, the consolidated balance sheets and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Corporate Property Associates 16 - Global Incorporated and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.



PricewaterhouseCoopers LLP

New York, New York

March 22, 2007

CONSOLIDATED BALANCE SHEETS

In thousands, except share and per share amounts

	December 31,	
	2006	2005
A S S E T S		
Real estate, net	\$ 648,593	\$ 386,615
Net investment in direct financing leases	308,073	152,772
Equity investments in real estate	111,870	97,179
Real estate under construction	75,372	15,026
Mortgage notes receivable	9,603	29,798
Cash and cash equivalents	464,223	155,374
Short-term investments	2,615	1,698
Marketable securities	2,713	2,996
Funds in escrow	10,115	6,377
Intangible assets, net	108,001	66,589
Deferred offering costs	7,923	4,028
Other assets, net	26,539	11,197
Total assets	\$ 1,775,640	\$ 929,649
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Limited recourse mortgage notes payable	\$ 630,795	\$ 358,370
Note payable	3,450	—
Accrued interest	3,187	2,330
Accounts payable, accrued expenses and other liabilities	15,994	10,163
Due to affiliates	20,702	9,475
Deferred acquisition fees payable to affiliate	28,517	17,708
Prepaid and deferred rental income and security deposits	34,749	18,548
Distributions payable	16,067	8,926
Total liabilities	753,461	425,520
Minority interest in consolidated entities	31,358	17,134
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Common stock, \$.001 par value; 250,000,000 shares authorized; 114,701,851 and 57,268,850 shares issued and outstanding respectively	115	57
Additional paid-in capital	1,028,933	514,014
Distributions in excess of accumulated earnings	(40,679)	(22,416)
Accumulated other comprehensive income (loss)	9,090	(3,148)
	997,459	488,507
Less, treasury stock at cost, 713,803 and 162,564 shares, respectively	(6,638)	(1,512)
Total shareholders' equity	990,821	486,995
Total liabilities and shareholders' equity	\$ 1,775,640	\$ 929,649

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME*In thousands, except share and per share amounts*

	For the years ended December 31,		
	2006	2005	2004
REVENUES			
Rental income	\$ 49,032	\$ 29,416	\$ 2,901
Interest income from direct financing leases	15,095	9,689	2,769
Other income	3,557	3,125	106
	<u>67,684</u>	<u>42,230</u>	<u>5,776</u>
OPERATING EXPENSES			
Depreciation and amortization	(13,141)	(7,417)	(556)
Property expenses	(12,413)	(8,586)	(1,704)
General and administrative	(5,164)	(3,310)	(1,034)
Impairment charge	—	(302)	—
	<u>(30,718)</u>	<u>(19,615)</u>	<u>(3,294)</u>
OTHER INCOME AND EXPENSES			
Income from equity investments in real estate	7,120	5,342	2,340
Other interest income	12,622	5,790	2,288
Minority interest in income	(1,865)	(642)	—
Gain (loss) on foreign currency transactions and other, net	407	(1,652)	18
Interest expense	(25,145)	(15,169)	(2,004)
	<u>(6,861)</u>	<u>(6,331)</u>	<u>2,642</u>
NET INCOME	<u>\$ 30,105</u>	<u>\$ 16,284</u>	<u>\$ 5,124</u>
EARNINGS PER SHARE	<u>\$ 0.40</u>	<u>\$ 0.29</u>	<u>\$ 0.21</u>
DISTRIBUTIONS DECLARED PER SHARE	<u>\$ 0.6373</u>	<u>\$ 0.5763</u>	<u>\$ 0.4569</u>
WEIGHTED AVERAGE SHARES OUTSTANDING	<u>75,304,433</u>	<u>56,327,478</u>	<u>24,564,256</u>

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
In thousands

	For the years ended December 31,		
	2006	2005	2004
Net income	\$ 30,105	\$ 16,284	\$ 5,124
Other comprehensive income:			
Change in unrealized gain on marketable securities	(8)	(20)	—
Foreign currency translation adjustment	11,352	(7,181)	4,053
Unrealized gain on derivative instrument	894	—	—
	12,238	(7,201)	4,053
Comprehensive income	\$ 42,343	\$ 9,083	\$ 9,177

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended December 31, 2006, 2005 and 2004

In thousands, except share and per share amounts

	Common Stock	Additional Paid-in Capital	Distributions in Excess of Accumulated Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at January 1, 2004	\$ —	\$ 200	\$ (42)	\$ —	\$ —	\$ 158
51,406,720 shares issued \$.001 par, at \$10 per share, net of offering costs	51	465,092				465,143
Distributions declared			(11,270)			(11,270)
Net income			5,124			5,124
Change in other comprehensive income				4,053		4,053
Balance at December 31, 2004	51	465,292	(6,188)	4,053	—	463,208
5,348,113 shares issued \$.001 par, at \$10 per share, net of offering costs	6	45,407				45,413
331,453 shares issued \$.001 par to the advisor at \$10 per share	—	3,315				3,315
Distributions declared			(32,512)			(32,512)
Net income			16,284			16,284
Change in other comprehensive income				(7,201)		(7,201)
Repurchase of 162,564 shares					(1,512)	(1,512)
Balance at December 31, 2005	57	514,014	(22,416)	(3,148)	(1,512)	486,995
56,897,030 shares issued \$.001 par, at \$10 per share, net of offering costs	57	509,560				509,617
535,971 shares issued \$.001 par to the advisor at \$10 per share	1	5,359				5,360
Distributions declared			(48,368)			(48,368)
Net income			30,105			30,105
Change in other comprehensive income				12,238		12,238
Repurchase of 551,239 shares					(5,126)	(5,126)
Balance at December 31, 2006	\$ 115	\$ 1,028,933	\$ (40,679)	\$ 9,090	\$ (6,638)	\$ 990,821

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands

	For the years ended December 31,		
	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 30,105	\$ 16,284	\$ 5,124
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization including intangible assets and deferred financing costs	13,295	7,506	464
Straight-line rent adjustments and amortization of rent-related intangibles	(1,384)	(1,336)	(103)
Income from equity investments in real estate in excess of distributions received	(1,741)	(637)	—
Minority interest in income	1,865	642	—
Issuance of shares to affiliate in satisfaction of fees due	5,360	3,315	—
Impairment charge	—	302	—
Realized (gain) loss on foreign currency transactions, net	(393)	1,527	174
Unrealized loss (gain) on foreign currency transactions	(179)	125	(192)
Increase in funds in escrow	(2,145)	—	(745)
Increase in accrued interest	796	2,064	298
Increase (decrease) in accounts payable and accrued expenses ^(a)	667	1,819	(245)
Increase in due to affiliates ^(a)	6,888	4,753	1,305
Increase in prepaid and deferred rental income and security deposits	1,919	5,179	2,155
Net change in other operating assets and liabilities	(2,798)	(1,205)	(651)
Net cash provided by operating activities	52,255	40,338	7,584
CASH FLOWS FROM INVESTING ACTIVITIES			
Distributions received from equity investments in real estate in excess of equity income	6,563	3,482	985
Acquisition of real estate and equity investments in real estate ^(b)	(485,948)	(428,526)	(161,806)
Contributions to equity investments in real estate	(12,697)	(38,499)	(60,875)
Funds placed in escrow for acquisition of equity investments in real estate	(28,786)	(2,832)	(22,829)
Release of funds held in escrow for acquisition of equity investments in real estate	27,306	19,942	—
VAT taxes paid in connection with purchase of real estate	(3,677)	(5,976)	(1,780)
VAT taxes recovered in connection with purchase of real estate	4,008	—	1,694
Purchase of mortgage note receivable	—	(12,798)	(20,300)
Proceeds from (purchase of) short-term investments	—	7,871	(9,732)
Purchases of securities	—	(32,625)	(82,175)
Proceeds from sale of securities	—	102,525	12,275
Receipt of principal payment of mortgage note receivable	275	220	—
Receipt of principal prepayment of mortgage note receivable	20,000	—	—
Net cash used in investing activities	(472,956)	(387,216)	(344,543)

The accompanying notes are an integral part of these consolidated financial statements.

(Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands

	For the years ended December 31,		
	2006	2005	2004
CASH FLOWS FROM FINANCING ACTIVITIES			
Distributions paid	(41,227)	(28,939)	(5,918)
Distributions paid to minority interest partners	(1,672)	(161)	—
Contributions from minority interest partners	14,061	6,724	—
Proceeds from mortgages ^(c)	258,207	267,218	95,937
Proceeds from notes payable	3,450	—	—
Scheduled payments of mortgage principal	(6,397)	(2,821)	(344)
Deferred financing costs and mortgage deposits, net of deposits refunded	(2,799)	331	(1,294)
Proceeds from issuance of shares, net of costs of raising capital	509,617	45,413	465,143
Purchase of treasury stock	(5,126)	(1,512)	—
Net cash provided by financing activities	728,114	286,253	553,524
Effect of exchange rate changes on cash	1,436	(1,311)	575
Net increase (decrease) in cash and cash equivalents	308,849	(61,936)	217,140
Cash and cash equivalents, beginning of year	155,374	217,310	170
Cash and cash equivalents, end of year	\$ 464,223	\$ 155,374	\$ 217,310

The accompanying notes are an integral part of these consolidated financial statements.

(Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands

Non-cash investing and financing activities

- (a) Changes in due to affiliates and accounts payable, accrued expenses and other liabilities excludes amounts related to the raising of capital (financing activities) pursuant to the Company's public offerings. At December 31, 2006, 2005 and 2004, the amount due to the Company's advisor for such costs was \$7,924, \$4,028 and, \$3,080, respectively.
- (b) Included in the cost basis of real estate investments acquired in 2006, 2005 and 2004 are deferred acquisition fees payable of \$10,809, \$10,174 and \$7,534, respectively.
- (c) Net of \$9,399, \$2,325 and \$570 retained by mortgage lenders during 2006, 2005 and 2004, respectively.

Supplemental cash flows information

	2006	2005	2004
Interest paid, net of amounts capitalized	\$ 26,008	\$ 13,772	\$ 1,836
Interest capitalized	\$ 1,875	\$ 725	\$ 151

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In thousands, except share and per share amounts

1

ORGANIZATION

Corporate Property Associates 16 — Global Incorporated (the “Company”) is a real estate investment trust (“REIT”) that invests in commercial properties leased to companies domestically and internationally. The primary source of the Company’s revenue is earned from leasing real estate, primarily on a triple-net basis. As of December 31, 2006, the Company’s portfolio consisted of 291 properties leased to 55 tenants and totaled approximately 17.5 million square feet (on a pro rata basis), with a 100% occupancy rate. Subject to certain restrictions and limitations, the Company is managed by W. P. Carey & Co. LLC (“WPC”) and its subsidiaries (collectively referred to as the “advisor”). As a REIT, the Company is not subject to U.S. federal income taxation as long as it satisfies certain requirements relating to the nature of its income, the level of its distributions and other factors.

The Company was formed as a Maryland corporation in June 2003. In December 2003, the Company commenced its initial public offering of up to 110,000,000 shares of its common stock at \$10 per share pursuant to its registration statement on Form S-11 (No. 333-106838) filed with the United States Securities and Exchange Commission (the “SEC”). The Company also registered up to 50,000,000 shares issuable pursuant to its Distribution Reinvestment and Stock Purchase Plan (the “Plan”). These shares were offered on a “best efforts” basis through a subsidiary of the Company’s advisor, Carey Financial, LLC (“Carey Financial”), and other selected dealers. The Company suspended sales activities with respect to its initial public offering in December 2004 and formally terminated the offering in March 2005 by filing an amendment to the registration statement to deregister shares of its common stock that remained unissued as of March 8, 2005, excluding shares issuable under the Plan. Prior to terminating the offering the Company sold 55,332,415 shares.

In September 2004, the Company filed a registration statement on Form S-11 (No. 333-119265) with the SEC for a second “best efforts” public offering of up to 120,000,000 shares of its common stock at \$10 per share, including 40,000,000 shares of its common stock issuable under the Amended and Restated 2003 Distribution Reinvestment and Stock Purchase Plan (the “2003 Plan”). In August 2005, the Company amended this registration statement to reduce the number of shares being registered to 95,000,000 shares of its common stock, comprised of 55,000,000 shares of common stock issuable under its second public offering and 40,000,000 shares of common stock issuable under the 2003 Plan. The SEC declared this registration statement effective in February 2006. The Company began fundraising in March 2006 and completed its second public offering in December 2006, having sold 54,999,466 shares. In February 2007, the Company terminated its second public offering by filing an amendment to the registration statement to deregister the shares of common stock that remained unissued, excluding shares issuable under the 2003 Plan. Through December 31, 2006 the Company has sold 3,454,629 shares of common stock through the Plan and the 2003 Plan. As of December 31, 2006, the advisor owned 887,426 shares of the Company’s common stock.

2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

When the Company obtains an economic interest in an entity, the Company evaluates the entity to determine if the entity is deemed a variable interest entity (“VIE”), and if the Company is deemed to be the primary beneficiary, in accordance with FASB Interpretation No. 46(R), “Consolidation of Variable Interest Entities” (“FIN 46(R)”). The Company consolidates (i) entities that are VIEs and of which the Company is deemed to be the primary beneficiary and (ii) entities that are non-VIEs which the Company controls. Entities that the Company accounts for under the equity method (i.e., at cost, increased or decreased by the Company’s share of earnings or losses, less distributions) include (i) entities that are VIEs and of which the Company is not deemed to be the primary beneficiary and (ii) entities that are non-VIEs which the Company does not control, but over which the Company has the ability to exercise significant influence. The Company will reconsider its determination of whether an entity is a VIE and who the primary beneficiary is if certain events occur that are likely to cause a change in the original determinations.

In June 2005, the Emerging Issues Task Force issued EITF 04-05, “Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights” (“EITF 04-05”). The scope of EITF 04-05 is limited to limited partnerships or similar entities that are not variable interest entities under FIN 46(R). The Task Force reached a consensus that the general partners in a limited partnership (or similar entity) are presumed to control the entity regardless of the level of their ownership and, accordingly, may be required to consolidate the entity. This presumption may be overcome if the agreements provide the limited partners with either (a) the substantive ability to dissolve (liquidate) the limited partnership or otherwise remove the general partners without cause or (b) substantive participating rights. If it is deemed that the limited partners’ rights overcome the presumption of control by a general partner of the limited partnership, the general partner shall account for its investment in the limited partnership using the equity method of accounting. The Company adopted EITF 04-05 in June 2005 for all arrangements created or modified after June 29, 2005. For all other arrangements, the Company adopted EITF 04-05 effective January 1, 2006. The adoption of EITF 04-05 had no impact on the Company’s financial position or results of operations. In December 2006, the Company entered into two investments in which it has a 50% interest and which it consolidates under the provisions of EITF 04-05 as the Company is the managing member in each of these limited liability companies that own the investments and there are no unaffiliated members with substantive kick-out or participation rights. The portion of these entities not owned by the Company is presented as minority interest as of and during the periods consolidated. All material inter-entity transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Purchase Price Allocation

In connection with the Company's acquisition of properties, purchase costs are allocated to the tangible and intangible assets and liabilities acquired based on their estimated fair values. The value of the tangible assets, consisting of land, buildings and tenant improvements, are determined as if vacant. Intangible assets including the above-market value of leases, the value of in-place leases and the value of tenant relationships are recorded at their relative fair values. The below-market values of leases are also recorded at their relative fair values and are included in deferred rental income in the accompanying financial statements.

Above-market and below-market in-place lease values for owned properties are recorded based on the present value (using an interest rate reflecting the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the leases negotiated and in place at the time of acquisition of the properties and (ii) management's estimate of fair market lease rates for the property or equivalent property, measured over a period equal to the remaining non-cancelable term of the lease. The capitalized above-market lease value is amortized as a reduction of rental income over the remaining non-cancelable term of each lease. The capitalized below-market lease value is amortized as an increase to rental income over the initial term and any fixed rate renewal periods in the respective leases.

The total amount of other intangibles is allocated to in-place lease values and tenant relationship intangible values based on management's evaluation of the specific characteristics of each tenant's lease and the Company's overall relationship with each tenant. Characteristics that are considered in allocating these values include the nature and extent of the existing relationship with the tenant, prospects for developing new business with the tenant, the tenant's credit quality and the expectation of lease renewals among other factors. Third party appraisals or management's estimates are used to determine these values.

Factors considered in the analysis include the estimated carrying costs of the property during a hypothetical expected lease-up period, current market conditions and costs to execute similar leases. Management also considers information obtained about a property in connection with its pre-acquisition due diligence. Estimated carrying costs include real estate taxes, insurance, other property operating costs and estimates of lost rentals at market rates during the hypothetical expected lease-up periods, based on management's assessment of specific market conditions. Management also considers estimated costs to execute leases, including commissions and legal costs, to the extent that such costs are not already incurred with a new lease that has been negotiated in connection with the purchase of the property.

Intangibles for both in-place and above-market leases are amortized to expense over the remaining initial lease term while intangibles for both tenant relationships and below-market leases are amortized to expense over the remaining initial lease term and any expected renewal terms. No amortization period for any intangible asset will exceed the remaining depreciable life of the building. In the event that a lease is terminated, the unamortized portion of each intangible is charged to expense.

Real Estate Under Construction and Redevelopment

For properties under construction, operating expenses including interest charges and other property expenses, including real estate taxes, are capitalized rather than expensed and incidental revenue is recorded as a reduction of capitalized project (i.e., construction) costs. Interest is capitalized by applying the interest rate applicable to outstanding borrowings to the average amount of accumulated expenditures for properties under construction during the period.

Mortgage Notes Receivable

For investments in mortgage notes and loan participations, the loans are initially reflected at acquisition cost which consists of the outstanding balance net of the acquisition discount or premium. The Company amortizes any discount or premium as an adjustment to increase or decrease, respectively, the yield realized on these loans using the effective interest method. As such, differences between carrying value and principal balances outstanding do not represent embedded losses or gains as we generally plan to hold such loans to maturity.

Cash and Cash Equivalents and Short-Term Investments

The Company considers all short-term, highly liquid investments that are both readily convertible to cash and have a maturity of generally three months or less at the time of purchase to be cash equivalents. Items classified as cash equivalents include commercial paper and money-market funds. The Company's cash and cash equivalents at December 31, 2006 were held in the custody of several financial institutions, including international institutions, and these balances at times exceed federally insurable limits. The Company mitigates this risk by depositing funds only with major financial institutions. Instruments that have a maturity of three months or more at the time of purchase are classified as short-term investments in the accompanying consolidated financial statements.

Marketable Securities

Marketable securities, which consist of an interest-only participation in a mortgage note receivable as of December 31, 2006 and 2005 are classified as available for sale securities and reported at fair value with any unrealized gains and losses on these securities reported as a component of other comprehensive income until realized.

Other Assets

Included in other assets are deferred charges and deferred rental income. Deferred charges are costs incurred in connection with mortgage financings and refinancings and are amortized over the terms of the mortgages and included in interest expense in the accompanying consolidated financial statements. Deferred rental income is the aggregate cumulative difference for operating leases between scheduled rents, which vary during the lease term, and rent recognized on a straight-line basis.

Deferred Acquisition Fees Payable to Affiliate

Fees are payable for services provided by the advisor to the Company relating to the identification, evaluation, negotiation, financing and purchase of properties. A portion of such fees is deferred and is payable in annual installments totaling 2% of the purchase price of the properties over no less than three years following the first anniversary of the date a property was purchased. Payment of such fees is subject to the performance criterion (see Note 3).

Treasury Stock

Treasury stock is recorded at cost.

Real Estate Leased to Others

Real estate is leased to others on a net lease basis whereby the tenant is generally responsible for all operating expenses relating to the property, including property taxes, insurance, maintenance, repairs, renewals and improvements. Expenditures for maintenance and repairs including routine betterments are charged to operations

as incurred. Significant renovations that increase the useful life of the properties are capitalized. For the year ended December 31, 2006, lessees were responsible for the direct payment of real estate taxes of approximately \$6,959.

The Company diversifies its real estate investments among various corporate tenants engaged in different industries, by property type and geographically. One tenant, Telcordia Technologies, Inc., currently represents 14% of total lease revenue. Substantially all of the Company's leases provide for either scheduled rent increases, periodic rent increases based on formulas indexed to increases in the Consumer Price Index ("CPI") or percentage of sales rents. CPI increases are contingent on future events and are therefore not included in straight-line rent calculations. Rents from percentage rents are recognized as reported by the lessees, that is, after the level of sales requiring a rental payment to the Company is reached.

The leases are accounted for as operating or direct financing leases. Such methods are described below:

Operating leases— Real estate is recorded at cost less accumulated depreciation; future minimum rental revenue is recognized on a straight-line basis over the term of the related leases and expenses (including depreciation) are charged to operations as incurred (Note 4).

Direct financing method— Leases accounted for under the direct financing method are recorded at their net investment (Note 5). Unearned income is deferred and amortized to income over the lease terms so as to produce a constant periodic rate of return on the Company's net investment in the lease.

On an ongoing basis, the Company assesses its ability to collect rent and other tenant-based receivables and determine an appropriate allowance for uncollected amounts. Because the Company has a limited number of lessees, the Company believes that it is necessary to evaluate the collectibility of these receivables based on the facts and circumstances of each situation rather than solely using statistical methods. The Company generally recognizes a provision for uncollected rents and other tenant receivables and measures the allowance against actual arrearages. For amounts in arrears, the Company makes subjective judgments based on its knowledge of a lessee's circumstances and may reserve for the entire receivable amount from a lessee if there has been significant or continuing deterioration in the lessee's ability to meet its lease obligations. As of December 31, 2006 and 2005, the allowance for uncollected rents was \$215 and \$337, respectively.

Depreciation

Depreciation of building and related improvements is computed using the straight-line method over the estimated useful lives of the properties — generally ranging from 20 to 40 years. Depreciation of tenant improvements is computed using the straight-line method over the lesser of the remaining term of the lease or the estimated useful life.

Impairments

When events or changes in circumstances indicate that the carrying amount may not be recoverable, the Company assesses the recoverability of its long-lived assets and certain intangible assets based on projections of undiscounted cash flows, without interest charges, over the life of such assets. In the event that such cash flows are insufficient, the assets are adjusted to their estimated fair value. The Company performs a review of its estimate of residual value of its direct financing leases at least annually to determine whether there has been an other than temporary decline in the Company's current estimate of residual value of the underlying real estate assets (i.e., the estimate of what the Company could realize upon sale of the property at the end of the lease term). If the review indicates a decline in residual value that is other than temporary, a loss is recognized and the accounting for the direct financing lease will be revised to reflect the decrease in the expected yield using the changed estimate, that is, a portion of the future cash flow from the lessee will be recognized as a return of principal rather than as revenue.

Investments in unconsolidated ventures are accounted for under the equity method and are recorded initially at cost as equity investments in real estate and are subsequently adjusted for the Company's proportionate share of earnings and cash contributions and distributions. On a periodic basis, the Company assesses whether there are any indicators that the value of equity investments in real estate may be impaired and whether or not that impairment is other than temporary. To the extent an other than temporary impairment has occurred, the charge is measured as the excess of the carrying amount of the investment over the fair value of the investment.

When the Company identifies assets as held for sale, it discontinues depreciating the assets and estimates the sales price, net of selling costs, of such assets. If in the Company's opinion, the net sales price of the assets which have been identified for sale is less than the net book value of the assets, an impairment charge is recognized and a valuation allowance is established. To the extent that a purchase and sale agreement has been entered into, the allowance is based on the negotiated sales price. To the extent that the Company has adopted a plan to sell an asset but has not entered into a sales agreement, it will make judgments of the net sales price based on current market information. Accordingly, the initial assessment may be greater or less than the purchase price subsequently committed to and may result in a further adjustment to the fair value of the property. If circumstances arise that previously were considered unlikely and, as a result, the Company decides not to sell a property previously classified as held for sale, the property is reclassified as held and used. A property that is reclassified is measured and recorded individually at the lower of (a) its carrying amount before the property was classified as held for sale, adjusted for any depreciation expense that would have been recognized had the property been continuously classified as held and used or (b) the fair value at the date of the subsequent decision not to sell.

Foreign Currency Translation

The Company consolidates its real estate investments in the European Union, Canada, Malaysia and Thailand and owns interests in properties in the European Union. The functional currencies for these investments are the Euro, the British pound sterling, the Swedish krona, the Canadian dollar, the Thai baht, the Malaysian ringgit and the Polish zloty. The translation from these local currencies to the U.S. dollar is performed for assets and liabilities using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted average exchange rate during the period. The gains and losses resulting from such translation are reported as a component of other comprehensive income as part of shareholders' equity. As of December 31, 2006 and 2005, the cumulative foreign currency translation adjustment gain (loss) was \$8,224 and (\$3,128), respectively.

Foreign currency transactions may produce receivables or payables that are fixed in terms of the amount of foreign currency that will be received or paid. A change in the exchange rates between the functional currency and the currency in which a transaction is denominated increases or decreases the expected amount of functional currency cash flows upon settlement of that transaction. That increase or decrease in the expected functional currency cash flows is an unrealized foreign currency transaction gain or loss that generally will be included in determining net income for the period in which the exchange rate changes. Likewise, a transaction gain or loss (measured from the transaction date or the most recent intervening balance sheet date, whichever is later), realized upon settlement of a foreign currency transaction generally will be included in net income for the period in which the transaction is settled.

Foreign currency transactions that are (i) designated as, and are effective as, economic hedges of a net investment and (ii) intercompany foreign currency transactions that are of a long-term nature (that is, settlement is not planned or anticipated in the foreseeable future), when the entities to the transactions are consolidated or accounted for by the equity method in the Company's financial statements will not be included in determining net income but will be accounted for in the same manner as foreign currency translation adjustments and reported as a

component of other comprehensive income as part of shareholder's equity. The contributions to the equity investments in real estate were funded in part through subordinated debt.

Foreign currency intercompany transactions that are scheduled for settlement, consisting primarily of accrued interest and the translation to the reporting currency of intercompany subordinated debt with scheduled principal repayments, are included in the determination of net income, and the Company recognized unrealized gains (losses) of \$179, (\$125) and \$192 from such transactions for the years ended December 31, 2006, 2005 and 2004. For the years ended December 31, 2006, 2005 and 2004, the Company recognized realized gains (losses) of \$393, (\$1,527) and (\$174), respectively, on foreign currency transactions in connection with the transfer of cash from foreign operations of subsidiaries to the parent company.

Income Taxes

The Company has elected and expects to continue to be treated as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"). In order to maintain its qualification as a REIT, the Company is required, among other things, to distribute at least 90% of its net taxable income (excluding net capital gains) to its shareholders and meet certain tests regarding the nature of its income and assets. As a REIT, the Company is not subject to U.S. federal income tax to the extent it distributes its net taxable income annually to its shareholders. Accordingly, no provision for U.S. federal income taxes is included in the accompanying consolidated financial statements. The Company has and intends to continue to operate so that it meets the requirements for taxation as a REIT. Many of these requirements, however, are highly technical and complex. If the Company were to fail to meet these requirements, the Company would be subject to U.S. federal income tax. The Company is subject to certain state, local and foreign taxes. State, local and franchise taxes of \$423, \$494 and \$30 are included in general and administrative expenses for the years ended December 31, 2006, 2005 and 2004, respectively.

The Company may elect to treat one or more of its corporate subsidiaries as a taxable REIT subsidiary ("TRS"). In general, a TRS may perform additional services for the Company's tenants and generally may engage in any real estate or non-real estate related business (except for the operation or management of health care facilities or lodging facilities or providing to any person, under a franchise, license or otherwise, rights to any brand name under which any lodging facility or health care facility is operated). A TRS is subject to corporate federal income tax. The Company has elected to treat one of its corporate subsidiaries as a TRS.

During the third quarter of 2005, upon being advised that certain distributions, beginning with the April 2004 distribution, might be construed to be preferential dividends, the Company promptly notified the IRS and submitted a request for a closing agreement. In March 2006, the Company entered into a closing agreement with the IRS, under which the IRS reached a final determination that it would not challenge the Company's qualification as a REIT, or the deductibility of dividends paid to its shareholders, for the tax years ended December 31, 2005 and 2004 based upon the manner in which the Company issued shares in its distribution reinvestment plan. In settlement of this matter, the advisor made a payment of \$102 to the IRS and the Company cancelled the issuance of a de minimis number of shares issued pursuant to its distribution reinvestment plan that may have caused the dividends to be preferential.

Costs of Raising Capital

Costs incurred in connection with the raising of capital through the sale of common stock are charged to shareholders' equity upon the issuance of shares.

Earnings Per Share

The Company has a simple equity capital structure with only common stock outstanding. As a result, earnings per share, as presented, represents both basic and dilutive per-share amounts for all periods presented in the accompanying consolidated financial statements.

*Recent Accounting Pronouncements**EITF 04-05*

The Company adopted EITF 04-05 in June 2005 for all limited partnerships created after June 29, 2005 and on January 1, 2006 for all other arrangements. Refer to Basis of Consolidation above for a discussion of the effect of EITF 04-05 on the Company's financial position and results of operations.

FSP FAS 13-1

In October 2005, the FASB issued Staff Position No. 13-1 "Accounting for Rental Costs Incurred during a Construction Period" ("FSP FAS 13-1"). FSP FAS 13-1 addresses the accounting for rental costs associated with operating leases that are incurred during the construction period. FSP FAS 13-1 makes no distinction between the right to use a leased asset during the construction period and the right to use that asset after the construction period. Therefore, rental costs associated with ground or building operating leases that are incurred during a construction period shall be recognized as rental expense, allocated over the lease term in accordance with SFAS No. 13 and Technical Bulletin 85-3. The Company adopted FSP FAS 13-1 as required on January 1, 2006 and the initial application of this Staff Position did not have a material impact on the Company's financial position or results of operations.

SFAS 155

In February 2006, the FASB issued Statement No. 155, "Accounting for Certain Hybrid Financial Instruments an Amendment of FASB No. 133 and 140" ("SFAS 155"). The purpose of SFAS 155 is to simplify the accounting for certain hybrid financial instruments by permitting fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS 155 also eliminates the restriction on passive derivative instruments that a qualifying special-purpose entity may hold. The Company must adopt SFAS 155 effective January 1, 2007. The Company is currently evaluating the impact of adopting SFAS 155 on its consolidated financial statements.

FIN 48

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in income tax positions. This Interpretation requires that the Company not recognize in its consolidated financial statements the impact of a tax position that fails to meet the more likely than not recognition threshold based on the technical merits of the position. The Company must adopt FIN 48 effective January 1, 2007. The Company is currently evaluating the impact of adopting FIN 48 on its consolidated financial statements.

SAB 108

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB 108

was issued in order to eliminate the diversity of practice surrounding how public companies quantify financial statement misstatements.

Traditionally, there have been two widely-recognized methods for quantifying the effects of financial statement misstatements: the “rollover” method and the “iron curtain” method. The rollover method focuses primarily on the impact of a misstatement on the income statement — including the reversing effect of prior year misstatements — but its use can lead to the accumulation of misstatements in the balance sheet. The iron curtain method, on the other hand, focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement. The Company currently uses the iron curtain method for quantifying identified financial statement misstatements.

In SAB 108, the SEC staff established an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the Company’s financial statements and the related financial statement disclosures. This model is commonly referred to as a “dual approach” because it requires quantification of errors under both the iron curtain and rollover methods. SAB 108 permits existing public companies to initially apply its provisions either by (i) restating prior financial statements as if the “dual approach” had always been used or (ii) recording the cumulative effect of initially applying the “dual approach” as adjustments to the carrying values of assets and liabilities as of January 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings. Use of the “cumulative effect” transition method requires detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose. The Company adopted SAB 108 effective December 31, 2006 using the cumulative effect transition method. The adoption of SAB 108 had no impact on the Company’s financial position or results of operations.

SFAS 157

In September 2006, the FASB issued Statement No. 157, “Fair Value Measurements” (“SFAS 157”). SFAS 157 provides guidance for using fair value to measure assets and liabilities. This statement clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing the asset or liability. SFAS 157 establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lowest priority to unobservable data. SFAS 157 applies whenever other standards require assets or liabilities to be measured at fair value. This statement is effective for the Company’s 2008 fiscal year, although early adoption is permitted. The Company believes that the adoption of SFAS 157 will not have a material effect on its financial position or results of operations.

3

AGREEMENTS AND TRANSACTIONS WITH RELATED PARTIES

Pursuant to an advisory agreement between the Company and the advisor, the advisor performs certain services for the Company including the identification, evaluation, negotiation, purchase and disposition of investments, the day-to-day management of the Company and the performance of certain administrative duties. The advisory agreement between the Company and the advisor provides that the advisor receive asset management and performance fees, each of which are 1/2 of 1% per annum of average invested assets as defined in the advisory agreement. The performance fees are subordinated to the performance criterion, a non-compounded cumulative distribution return of 6% per annum. As of December 31, 2006, the non-compounded cumulative distribution return was 5.87%. The asset management and performance fees will be payable in cash or restricted stock at the

option of the advisor. For 2006, the advisor elected to receive its asset management and performance fees in restricted shares of common stock of the Company, at \$10 per share. The Company incurred base asset management fees of \$5,527, \$3,698 and \$820 in 2006, 2005 and 2004, respectively, with performance fees in like amounts, which are included in property expenses in the accompanying consolidated financial statements.

In connection with structuring and negotiating acquisitions and related mortgage financing on behalf of the Company, the advisory agreement provides for acquisition fees averaging not more than 4.5%, based on the aggregate cost of investments acquired, of which 2% will be deferred and payable in equal annual installments over three years with payment subordinated to the performance criterion. Unpaid installments bear interest at an annual rate of 5%. Current acquisition fees were \$13,510, \$12,717 and \$9,718 for investments that were acquired during 2006, 2005 and 2004, respectively. Deferred acquisition fees were \$10,809, \$10,174 and \$7,534 for investments that were acquired during 2006, 2005 and 2004, respectively, and were payable to the advisor subject to subordination to the performance criterion. For investments acquired using the proceeds from the Company's initial public offering, the Company paid the advisor an acquisition expense allowance of 0.5% of the cost of the investment in consideration for the advisor's payment of certain acquisition expenses. For investments acquired in 2006, 2005 and 2004, the allowance was \$1,224, \$2,903 and \$1,983, respectively. For investments that are acquired using the proceeds from the Company's second public offering, the advisor will not receive an acquisition expense allowance but will be reimbursed for all reasonable direct third party acquisition related costs incurred in connection with seeking acquisitions. During 2006, the Company completed the investment of funds raised in its initial public offering and commenced investment of the funds raised in its second public offering.

Included in deferred acquisition fees payable to affiliates and due to affiliates in the accompanying consolidated balance sheets as of December 31, 2006 and 2005, is \$40,490 and \$23,085, respectively, of deferred costs related to services provided by the advisor (as described herein). Payment of these amounts, which are inclusive of accrued interest payable on deferred acquisition fees of \$1,928 and \$859, respectively, is contingent on the Company meeting its performance criterion. The Company expects to meet the performance criterion during the second quarter of 2007, at which time the Company will pay the advisor accrued performance fees of \$10,045 through the issuance of restricted common stock and deferred acquisition fee installments of \$17,905 and interest on deferred acquisition fees of \$1,928 in cash.

The Company reimburses the advisor for marketing costs and broker-dealer commissions the advisor incurs in connection with the Company's offerings (see Note 11). In connection with managing the Company's day-to-day operations, the Company also reimburses the advisor for the allocated cost of personnel needed to provide administrative services to the Company. For the years ended December 31, 2006, 2005 and 2004, the Company incurred reimbursements totaling \$1,275, \$604 and \$50, respectively, which are included in general and administrative expenses in the accompanying consolidated financial statements.

The advisor is obligated to reimburse the Company for the amount by which operating expenses of the Company exceeds the 2%/25% guidelines (the greater of 2% of average invested assets or 25% of net income) as defined in the advisory agreement for any twelve-month period. If in any year the operating expenses of the Company exceed the 2%/25% guidelines, the advisor will have an obligation to reimburse the Company for such excess, subject to certain conditions. If the independent directors find that such excess expenses were justified based on any unusual and nonrecurring factors which they deem sufficient, the advisor may be paid in future years for the full amount or any portion of such excess expenses, but only to the extent that such reimbursement would not cause the Company's operating expenses to exceed this limit in any such year. Charges related to asset impairment, bankruptcy of lessees, lease payment defaults, extinguishment of debt or uninsured losses are generally not considered unusual and nonrecurring. A determination that a charge is unusual and nonrecurring, such as the

costs of significant litigation that are not associated with day-to-day operations, or uninsured losses that are beyond the size or scope of the usual course of business based on the event history and experience of the advisor and independent directors, is made at the sole discretion of the independent directors. The Company will record any reimbursement of operating expenses as a liability until any contingencies are resolved and will record the reimbursement as a reduction of asset management and performance fees at such time that a reimbursement is fixed, determinable and irrevocable. The operating expenses of the Company have not exceeded the amount that would require the advisor to reimburse the Company.

The advisor will be entitled to receive subordinated disposition fees based upon the cumulative proceeds arising from the sale of Company assets since the inception of the Company, subject to certain conditions. Pursuant to the subordination provisions of the advisory agreement, the disposition fees may be paid only after the shareholders receive 100% of their initial investment from the proceeds of asset sales and a cumulative annual return of 6% (based on an initial share price of \$10) since the inception of the Company. Payment of such amount, however, cannot be made until the subordination provisions are met. The Company has not sold any of its assets as of December 31, 2006 and no such disposition fees have been accrued.

The Company owns interests in limited partnerships and limited liability companies which range from 25% to 70% with the remaining interests owned by affiliates.

The Company is a participant in an entity with certain affiliates for the purpose of leasing office space used for the administration of real estate entities and sharing the associated costs. Pursuant to the terms of an agreement, the Company's share of rental occupancy and leasehold costs is based on gross revenues of the affiliates. Expenses incurred in 2006, 2005 and 2004 were \$347, \$171 and \$3, respectively. The Company's estimated current share of future annual minimum lease payments is \$314 through 2016.

4 REAL ESTATE

Real estate, which consists of land and buildings leased to others, at cost and accounted for as operating leases, is summarized as follows:

	2006	December 31, 2005
Cost	\$ 663,810	\$ 392,210
Less: Accumulated depreciation	(15,217)	(5,595)
	<u>\$ 648,593</u>	<u>\$ 386,615</u>

Scheduled future minimum rents, exclusive of renewals and expenses paid by tenants and future CPI — based increases, under non-cancelable operating leases amount are approximately as follows:

Year ending December 31,	
2007	\$ 63,655
2008	63,984
2009	63,892
2010	63,411
2011	63,779
Thereafter through 2031	784,838

5 NET INVESTMENT IN DIRECT FINANCING LEASES

Net investment in direct financing leases is summarized as follows:

	December 31,	
	2006	2005
Minimum lease payments receivable	\$ 517,566	\$ 308,157
Unguaranteed residual value	221,604	109,196
	739,170	417,353
Less: unearned income	(431,097)	(264,581)
	<u>\$ 308,073</u>	<u>\$ 152,772</u>

Scheduled future minimum rents, exclusive of renewals and expenses paid by tenants and future CPI – based increases, under non-cancelable direct financing leases are as follows:

Year ending December 31,

2007	\$ 24,969
2008	25,026
2009	25,084
2010	25,144
2011	25,204
Thereafter through 2031	392,139

6 EQUITY INVESTMENTS IN REAL ESTATE

On April 29, 2004, the Company, along with two affiliates, Corporate Property Associates 14 Incorporated (“CPA®:14”) and Corporate Property Associates 15 Incorporated (“CPA®:15”), through a limited partnership, in which the Company owns a 30.77% limited partnership interest, purchased 78 retail self-storage and truck rental facilities and entered into master lease agreements with two lessees that operate the facilities under the U-Haul brand name. The self-storage facilities are leased to Mercury Partners, LP and the truck rental facilities are leased to U-Haul Moving Partners, Inc.

Summarized financial information of the limited partnership is as follows:

	December 31,	
	2006	2005
Assets (primarily real estate)	\$ 311,116	\$ 323,364
Liabilities (primarily mortgage notes payable)	(194,281)	(196,752)
Partners' equity	<u>\$ 116,835</u>	<u>\$ 126,612</u>
Company's share of equity investee's net assets	<u>\$ 36,150</u>	<u>\$ 39,182</u>

	For the years ended December 31,		
	2006	2005	2004
Revenues (primarily rental income)	\$ 28,682	\$ 28,587	\$ 19,201
Expenses (primarily interest on mortgages and depreciation)	(19,018)	(18,989)	(13,552)
Net income	\$ 9,664	\$ 9,598	\$ 5,649
Company's share of net income from equity investment in real estate	\$ 2,949	\$ 2,929	\$ 1,723

The Company also owns interests in single-tenant net leased properties leased to corporations through noncontrolling interests in partnerships and limited liability companies in which its ownership interests are 50% or less and the Company exercises significant influence. The underlying investments are owned with affiliates that have similar investment objectives as the Company. The ownership interests range from 25% to 50%. The lessees are Actuant Corporation, TietoEnator Plc, Thales S.A., Pohjola Non-Life Insurance Company, Hellweg Die Profi-Baumarkte GmbH & Co. KG, Police Prefecture (French Government), OBI A.G. and Consolidated Systems, Inc. The interests in the properties leased to TietoEnator and Thales were acquired in 2004, the interests in the properties leased to Pohjola, Hellweg and Police Prefecture were acquired during 2005 and the interests in the properties leased to OBI and Consolidated Systems were acquired during 2006 (see Note 7).

Summarized financial information of the above mentioned equity investees is as follows:

	December 31,	
	2006	2005
Assets (primarily real estate)	\$ 856,156	\$ 575,944
Liabilities (primarily mortgage notes payable)	(635,993)	(419,690)
Partners' and members' equity	\$ 220,163	\$ 156,254
Company's share of equity investees' net assets	\$ 75,720	\$ 57,997

	For the years ended December 31,		
	2006	2005	2004
Revenues (primarily rental income and interest income from direct financing leases)	\$ 61,918	\$ 38,462	\$ 9,939
Expenses (primarily interest on mortgages and depreciation)	(48,031)	(30,964)	(7,779)
Net income	\$ 13,887	\$ 7,498	\$ 2,160
Company's share of net income from equity investments in real estate	\$ 4,171	\$ 2,413	\$ 617

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ACQUISITIONS OF REAL ESTATE-RELATED INVESTMENTS

Real Estate Acquired

2006—During 2006, the Company completed 19 investments, at a total cost of \$426,024, which is based on the applicable exchange rate at the date of acquisition and inclusive of minority interest, where appropriate. In connection with these investments, the Company obtained \$239,731 in limited recourse mortgage financing with a weighted average interest rate and term of approximately 5.78% and 11.3 years, respectively.

2005—During 2005, the Company completed 15 investments, at a total cost of \$391,799, which is based upon the applicable exchange rate at the date of acquisition where appropriate. In connection with these investments, the Company obtained \$243,202 in limited recourse mortgage financing with a weighted average interest rate and term of approximately 5.8% and 14.6 years, respectively.

Equity Investments in Real Estate Acquired

2006—During 2006, the Company, together with affiliates, completed two equity investments in real estate in entities where the Company's ownership interests are 50% or less. The Company is accounting for these investments under the equity method of accounting as the Company does not have a controlling interest but exercises significant influence. The Company's proportionate share of cost and limited recourse mortgage financing in these investments is \$53,340 and \$41,106, respectively. The weighted average interest rate and term of the mortgage financing are approximately 5.12% and 10 years, respectively.

2005—During 2005, the Company, together with affiliates, completed three equity investments in real estate in entities where the Company's ownership interests are 50% or less. The Company is accounting for these investments under the equity method of accounting as the Company does not have a controlling interest. The Company's proportionate share of cost and limited recourse mortgage financing in these investments is \$137,321 and \$99,749, respectively. The weighted average interest rate and term of the mortgage financing are approximately 4.5% and 10 years, respectively.

Mortgage Notes Receivable Acquired

2005—In January 2005, the Company originated a \$54,000 mortgage collateralized by the distribution and storage facilities of the borrower. The mortgage was originated as a 10-year loan with a 25-year amortization schedule, bearing interest at a fixed rate of approximately 6.34%. The advisor arranged for the syndication of the first \$41,260 in the form of an A-note, bearing interest at a fixed rate of 5.14%. In consideration for an investment of \$12,740, the Company obtained the \$12,740 B-note, which bears interest at a fixed rate of 6.34%, and an interest only participation in the A-note for the difference between the stated amounts payable under the A-note and the amounts receivable from the interests sold to the participants in the A-note (the difference between the amounts payable at an annual rate of 6.34% and 5.14%). The interest only participation is accounted for as a marketable security with changes in its fair value included in other comprehensive income.

Real Estate Under Construction

2006—During 2006, the Company entered into three build-to-suit projects for a total projected cost of up to \$88,616, based on current estimated construction costs. Costs incurred through December 31, 2006 in connection

with these investments have been presented in the balance sheet as real estate under construction. In connection with the completion of real estate under construction, the Company obtained limited recourse mortgage financing of \$36,259 with a weighted average interest rate and term of approximately 6.28% and 19 years, respectively.

2005— During 2005, the Company entered into build-to-suit projects for a total projected cost of up to \$67,918, based on current estimated construction costs. Costs incurred through December 31, 2005 in connection with these investments have been presented in the balance sheet as real estate under construction. In connection with the completion of real estate under construction, the Company obtained limited recourse mortgage financing of \$26,600 at a fixed interest rate of 6.2% for a term of 17 years.

See Note 17 for investments entered into subsequent to December 31, 2006.

8

I N T A N G I B L E S

In connection with its acquisition of properties, the Company has recorded net lease intangibles of \$90,659, which are being amortized over periods ranging from three years to 40 years. Amortization of below-market and above-market rent intangibles is recorded as an adjustment to rental income. Below-market rent intangibles are included in prepaid and deferred rental income and security deposits in the accompanying consolidated financial statements.

Intangibles are summarized as follows:

	2006	December 31, 2005
Lease intangibles		
In-place lease	\$ 67,984	\$ 43,481
Tenant relationship	19,778	12,808
Above-market rent	27,689	13,150
Less: accumulated amortization	(7,450)	(2,850)
	<u>108,001</u>	<u>66,589</u>
Below-market rent	(24,792)	(11,866)
Less: accumulated amortization	1,125	420
	<u>(23,667)</u>	<u>(11,446)</u>

Net amortization of intangibles, including the effect of foreign currency translation, was \$3,886, \$2,329 and \$101 for the years ended December 31, 2006, 2005 and 2004, respectively. Based on the intangibles recorded as of December 31, 2006, scheduled annual amortization of intangibles for each of the next five years is expected to be \$5,450 in 2007 and 2008; \$5,401 in 2009 and \$5,256 in 2010 and 2011.

9

DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments had the following carrying value and fair value as of December 31, 2006 and 2005, respectively:

	December 31, 2006		December 31, 2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Mortgage notes payable	\$ 630,795	\$ 623,764	\$ 358,370	\$ 351,424
Note payable	3,450	3,450	—	—
Mortgage notes receivable	9,603	9,401	29,798	29,645
Marketable securities ⁽¹⁾	2,742	2,713	3,017	2,996

(1) Carrying value represents historical cost for marketable securities.

The fair value of the Company's other financial assets and liabilities approximated their carrying value at December 31, 2006 and 2005. The fair value of debt instruments was evaluated using a discounted cash flow model with rates that take into account the credit of the tenants and interest rate risk.

During 2006, Bluelinx Holdings, Inc. prepaid its \$20,000 mortgage note receivable.

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MORTGAGE NOTES PAYABLE AND NOTE PAYABLE

Mortgage notes payable, all of which are limited recourse to the Company, are collateralized by an assignment of real property and direct financing leases with a carrying value of \$889,916 as of December 31, 2006. Substantially all of the Company's mortgage notes payable either currently bear interest at fixed rates or at fixed rates that may be reset in the future, pursuant to the terms of the mortgage contracts. Mortgage notes payable had fixed annual interest rates ranging from 4.36% to 7.34% and variable annual interest rates ranging from 4.82% to 6.63%. The Company also has a \$3,450 note payable, obtained in connection with an investment in France that bears interest at a variable annual interest rate of 4.27% at December 31, 2006, and matures in June 2008.

Scheduled principal payments during each of the five years and thereafter are as follows:

Year ending December 31,	Total Debt	Fixed Rate Debt	Variable Rate Debt
2007	\$ 9,656	\$ 9,493	\$ 163
2008	14,753	10,971	3,782
2009	12,937	12,430	507
2010	13,976	13,456	520
2011	15,153	14,620	533
Thereafter through 2031	567,770	533,723	34,047
Total	\$ 634,245	\$ 594,693	\$ 39,552

In accordance with a loan agreement, a venture in which the Company has an equity interest had an obligation to complete certain non-monetary actions within a specified period of time that were not completed and as a result, an event of default occurred as of March 31, 2006. Our proportionate share of this mortgage debt was \$27,229 at March 31, 2006. During the third quarter of 2006, the venture completed all of its obligations and remedied the default.

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COMMITMENTS AND CONTINGENCIES

As of December 31, 2006, the Company was not involved in any material litigation.

In March 2004, following a broker-dealer examination of Carey Financial, LLC (“Carey Financial”), the wholly-owned broker-dealer subsidiary of WPC, by the staff of the SEC, Carey Financial received a letter from the staff of the SEC alleging certain infractions by Carey Financial of the Securities Act of 1933, the Securities Exchange Act of 1934, the rules and regulations thereunder and those of the National Association of Securities Dealers, Inc. (“NASD”).

The staff alleged that in connection with a public offering of CPA®:15’s shares, Carey Financial and its retail distributors sold certain securities without an effective registration statement. Specifically, the staff alleged that the delivery of investor funds into escrow after completion of the first phase of the offering (the “Phase I Offering”), completed in the fourth quarter of 2002 but before a registration statement with respect to the second phase of the offering (the “Phase II Offering”) became effective in the first quarter of 2003, constituted sales of securities in violation of Section 5 of the Securities Act of 1933. In addition, in the March 2004 letter the staff raised issues about whether actions taken in connection with the Phase II offering were adequately disclosed to investors in the Phase I Offering.

In June 2004, the Division of Enforcement of the SEC (“Enforcement Staff”) commenced an investigation into compliance with the registration requirements of the Securities Act of 1933 in connection with the public offerings of CPA®:15’s shares during 2002 and 2003. In December 2004, the scope of the Enforcement Staff’s inquiries broadened to include broker-dealer compensation arrangements in connection with CPA®:15 and other REITs managed by WPC, as well as the disclosure of such arrangements. At that time WPC and Carey Financial received a subpoena from the Enforcement Staff seeking documents relating to payments by WPC, Carey Financial, and REITs managed by WPC to (or requests for payment received from) any broker-dealer, excluding selling commissions and selected dealer fees. WPC and Carey Financial subsequently received additional subpoenas and requests for information from the Enforcement Staff seeking, among other things, information relating to any revenue sharing agreements or payments (defined to include any payment to a broker-dealer, excluding selling commissions and selected dealer fees) made by WPC, Carey Financial or any REIT managed by WPC in connection with the distribution of WPC’s managed REITs or the retention or maintenance of REIT assets. Other information sought by the SEC includes information concerning the accounting treatment and disclosure of any such payments, communications with third parties (including other REIT issuers) concerning revenue sharing, and documents concerning the calculation of underwriting compensation in connection with the REIT offerings under applicable NASD rules.

In response to the Enforcement Staff’s subpoenas and requests, WPC and Carey Financial have produced documents relating to payments made to certain broker-dealers both during and after the offering process, for certain of the REITs managed by WPC (including Corporate Property Associates 10 Incorporated (“CPA®:10”),

Carey Institutional Properties Incorporated (“CIP®”), CPA®:12, CPA®:14 and CPA®:15), in addition to selling commissions and selected dealer fees.

Among the payments reflected on documents produced to the Staff were certain payments, aggregating in excess of \$9,600, made to a broker-dealer which distributed shares of the REITs. The expenses associated with these payments, which were made during the period from early 2000 through the end of 2003, were borne by and accounted for on the books and records of the REITs. Of these payments, CPA®:10 paid in excess of \$40; CIP® paid in excess of \$875; CPA®:12 paid in excess of \$2,455; CPA®:14 paid in excess of \$4,990; and CPA®:15 paid in excess of \$1,240. In addition, other smaller payments by the REITs to the same and other broker-dealers have been identified aggregating less than \$1,000.

WPC and Carey Financial are cooperating fully with this investigation and have provided information to the Enforcement Staff in response to the subpoenas and requests. Although no formal regulatory action has been initiated against WPC or Carey Financial in connection with the matters being investigated, the Company expects the SEC may pursue an action against either or both. The nature of the relief or remedies the SEC may seek cannot be predicted at this time. If an action is brought, it could have a material adverse effect on WPC and Carey Financial and the magnitude of that effect would not necessarily be limited to the payments described above but could include other payments and civil monetary penalties. Any action brought against WPC or Carey Financial could also have a material adverse effect on the Company because of our dependence on WPC and Carey Financial for a broad range of services.

Several state securities regulators have sought information from Carey Financial relating to the matters described above. While one or more states may commence proceedings against Carey Financial in connection with these inquiries, the Company does not currently expect that these inquiries or proceedings will have a material effect on WPC or Carey Financial incremental to that caused by any SEC action.

The Company is liable for certain expenses of offerings of its securities including filing, legal, accounting, printing and escrow fees, which are to be deducted from the gross proceeds of the offerings. The Company reimburses Carey Financial or one of its affiliates for expenses (including fees and expenses of its counsel) and for the costs of any sales and information meetings of Carey Financial’s employees or those of one of its affiliates relating to the Company’s securities offerings. Total underwriting compensation with respect to any offering may not exceed 10% of gross proceeds of such offering. The advisor has agreed to be responsible for the payment of (i) organization and offering expenses (excluding selling commissions and selected dealer fees paid and expenses reimbursed to the sales agent and selected dealers) which exceed 4% of the gross proceeds of each offering and (ii) organization and offering expenses (including selling commissions, fees paid and expenses reimbursed to selected dealers) which exceed 15% of the gross proceeds of each offering. The total costs paid by the advisor and its subsidiaries in connection with offerings of the Company’s securities were \$79,171 through December 31, 2006, of which the Company has reimbursed \$71,247. Unpaid costs are included in due to affiliates in the accompanying consolidated financial statements.

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RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS

Risk Management

In the normal course of its on-going business operations, the Company encounters economic risk. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to

interest rate risk on its interest-bearing liabilities. Credit risk is the risk of default on the Company's operations and tenants' inability or unwillingness to make contractually required payments. Market risk includes changes in the value of the properties and related loans held by the Company due to changes in interest rates or other market factors. In addition, the Company transacts business in Canada, Europe, Malaysia, Mexico, Thailand and the United Kingdom and is also subject to the risks associated with changing exchange rates.

Use of Derivative Financial Instruments

The Company is exposed to the impact of interest rate changes primarily through its borrowing activities. To limit this exposure, the Company attempts to obtain mortgage financing on a long-term, fixed-rate basis. However, from time to time, the Company may obtain variable rate mortgage loans and may enter into interest rate swap agreements with lenders which effectively convert the variable rate debt service obligations of the loan to a fixed rate. These interest rate swaps are derivative instruments designated as cash flow hedges on the forecasted interest payments on the debt obligation. The Company's objective in using derivatives is to limit its exposure to interest rate movements. The Company does not use derivative instruments to hedge foreign exchange rate risk exposure, credit/market risks or for speculative purposes.

The Company is also exposed to foreign exchange rate movements primarily in the Euro and the British pound sterling and, to a lesser extent, the Canadian dollar, Polish zloty, Swedish krona, Thai baht and Malaysian ringgit. The Company manages foreign exchange rate movements by generally placing both its debt obligation to the lender and the tenant's rental obligation to the Company in the local currency but remain subject to such movements to the extent of the difference.

During 2006, the Company obtained a 25% interest in a 120,257 variable rate mortgage loan (\$145,222 based upon the applicable exchange rate at the date of acquisition) in a venture which obtained two interest rate swap agreements which combined have a notional amount which match the scheduled debt principal amounts to the outstanding balance over the related term ending July 2016. The interest rate swap agreements became effective in July 2006. An affiliate of the Company owns the remaining 75% interest in this venture. As of December 31, 2006, the Company's interest in the interest rate swaps has a fair value asset of \$894 and is included in equity investments in real estate in the accompanying consolidated financial statements. The Company's share of the change in net unrealized gain is \$894 for the year ended December 31, 2006 and is included in other comprehensive income in shareholders' equity.

Concentration of Credit Risk

Concentrations of credit risk arise when a number of tenants are engaged in similar business activities, or conduct business in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations, including those to the Company, to be similarly affected by changes in economic conditions. The Company regularly monitors its portfolio to assess potential concentrations of credit risk. The Company believes its portfolio is reasonably well diversified and does not contain any unusual concentration of credit risks.

The majority of the Company's real estate properties and related loans are located in the United States, with New Jersey (20%) and Texas (12%) representing the only significant geographic concentration (greater than 10% of annualized lease revenue). The Company's real estate properties in Europe accounted for 15% of annualized lease revenue in 2006. One tenant, Telcordia Technologies, Inc., accounted for 14% of lease revenue in 2006. The Company's real estate properties contain significant concentrations in the following asset types as of December 31, 2006: industrial (49%), office (28%) and warehouse/distribution facilities (12%) and the following tenant industries as of December 31, 2006: automotive (17%), telecommunications (12%) and consumer non-durable goods (10%).

While the automotive industry is currently experiencing a challenging business environment, none of the Company's automotive tenants has declared bankruptcy as of December 31, 2006 and the Company continues to monitor these tenants closely.

13 SHAREHOLDERS' EQUITY

Distributions

Distributions paid to shareholders consist of ordinary income, capital gains, return of capital or a combination thereof for income tax purposes. For the years ended December 31, 2006, 2005 and 2004, distributions per share reported for tax purposes were as follows:

	2006	2005	2004
Ordinary income	\$ 0.62	\$ 0.51	\$ 0.34
Return of capital	0.02	—	0.12
Distributions reported for income tax purposes	0.64	0.51	0.46
Spillover distribution ⁽¹⁾	—	0.07	—
Total distributions	<u>\$ 0.64</u>	<u>\$ 0.58</u>	<u>\$ 0.46</u>

(1) This portion of the 2005 distribution was paid and taxed to the shareholder in 2006 as ordinary income.

The Company declared a quarterly distribution of \$0.1609 per share in December 2006 which was paid in January 2007 to shareholders of record as of December 31, 2006.

Accumulated Other Comprehensive Income (Loss)

As of December 31, 2006 and 2005, accumulated other comprehensive income reflected in shareholders' equity is comprised of the following:

	2006	2005
Unrealized loss on marketable securities	\$ (28)	\$ (20)
Foreign currency translation adjustment	8,224	(3,128)
Unrealized gain on derivative instrument	894	—
Accumulated other comprehensive income (loss)	<u>\$ 9,090</u>	<u>\$ (3,148)</u>

14 SEGMENT INFORMATION

The Company has determined that it operates in one business segment, real estate operations, with domestic and foreign investments.

For 2006, geographic information for the real estate operations segment is as follows:

	Domestic	Foreign ⁽¹⁾	Total Company
Revenues	\$ 52,915	\$ 14,769	\$ 67,684
Operating expenses	(27,762)	(2,956)	(30,718)
Income from equity investments in real estate	3,017	4,103	7,120
Interest expense, net	(6,591)	(5,932)	(12,523)
Other, net ⁽²⁾	(2,030)	572	(1,458)
Net income	<u>\$ 19,549</u>	<u>\$ 10,556</u>	<u>\$ 30,105</u>
Total equity investments in real estate	\$ 38,418	\$ 73,452	\$ 111,870
Total long-lived assets	922,830	329,079	1,251,909
Total assets	1,423,774	351,866	1,775,640

For 2005, geographic information for the real estate operations segment is as follows:

	Domestic	Foreign ⁽¹⁾	Total Company
Revenues	\$ 34,212	\$ 8,018	\$ 42,230
Operating expenses	(18,169)	(1,446)	(19,615)
Income from equity investments in real estate	2,200	3,142	5,342
Interest expense, net	(5,842)	(3,537)	(9,379)
Other, net ⁽³⁾	(966)	(1,328)	(2,294)
Net income	<u>\$ 11,435</u>	<u>\$ 4,849</u>	<u>\$ 16,284</u>
Total equity investments in real estate	\$ 39,182	\$ 57,997	\$ 97,179
Total long-lived assets	566,033	152,148	718,181
Total assets	768,025	161,624	929,649

For 2004, geographic information for the real estate operations segment is as follows:

	Domestic	Foreign ⁽¹⁾	Total Company
Revenues	\$ 3,893	\$ 1,883	\$ 5,776
Operating expenses	(3,289)	(5)	(3,294)
Income from equity investments in real estate	1,723	617	2,340
Interest expense, net	1,162	(878)	284
Other, net ⁽³⁾	(6)	24	18
Net income	<u>\$ 3,483</u>	<u>\$ 1,641</u>	<u>\$ 5,124</u>
Total equity investments in real estate	\$ 40,596	\$ 25,368	\$ 65,964
Total long-lived assets	169,898	67,430	237,328
Total assets	514,013	71,499	585,512

(1) Consists of operations in the European Union, Mexico, Canada and Asia.

(2) Consists of gains and losses on foreign currency transactions and other gains, net.

(3) Consists of gains and losses on foreign currency transactions.

(4) Consists of operations in the European Union and Canada.

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SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	For the three months ended			
	March 31, 2006	June 30, 2006	September 30, 2006	December 31, 2006
Revenues	\$ 14,323	\$ 16,461	\$ 17,715	\$ 19,185
Operating expenses	(6,752)	(7,059)	(7,993)	(8,914)
Net income	5,000	6,849	7,755	10,501
Earnings per share	0.09	0.10	0.10	0.11
Distributions declared per share	0.1575	0.1588	0.1601	0.1609

	For the three months ended			
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005
Revenues	\$ 6,443	\$ 10,017	\$ 11,975	\$ 13,795
Operating expenses	(3,169)	(4,890)	(5,873)	(5,683)
Net income	3,844	4,044	3,987	4,409
Earnings per share	0.07	0.07	0.07	0.08
Distributions declared per share	0.1250	0.1450	0.1500	0.1563

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PRO FORMA FINANCIAL INFORMATION (UNAUDITED)

The Company has entered into several investments during the past three years. In connection with this investment activity, the Company is presenting the following consolidated pro forma financial information as if the Company's acquisitions made and new financing obtained during 2006, 2005 and 2004 had occurred on January 1, 2006, 2005 and 2004 for the years ended December 31, 2006, 2005 and 2004, respectively. The pro forma financial information is not necessarily indicative of what the actual results would have been, nor does it purport to represent the results of operations for future periods.

	For the years ended December 31,		
	2006	2005	2004
Pro forma total revenues	\$ 91,852	\$ 87,698	\$ 82,487
Pro forma net income	22,755	18,882	19,745
Pro forma earnings per share	0.20	0.17	0.17

The pro forma weighted average shares outstanding for the years ended December 31, 2006, 2005 and 2004 were determined as if all shares issued since the inception of the Company were issued on January 1, 2004.

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SUBSEQUENT EVENTS

In February and March 2007, the Company acquired several domestic properties for approximately \$120,200 and entered into a commitment to fund an expansion at one of the properties for a total projected cost of \$7,000, based on current estimates. Through March 2007, the Company has obtained limited recourse mortgage financing on six investments, including the investments made in February and March, totaling \$133,038 with a weighted average annual fixed interest rate and term of 6.06% and 13 years, respectively.

Effective April 2, 2007, Trevor Bond is resigning from the Company's board of directors in connection with his appointment to the advisor's board of directors. Marshall Blume was appointed as an independent director of the Company's board of directors, effective April 2, 2007.

MARKET FOR COMPANY'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

There is no established public trading market for our shares. As of March 16, 2007, there were 36,621 holders of record of our shares.

Distributions

We are required to distribute annually at least 90% of our distributable REIT taxable income to maintain our status as a REIT. Quarterly distributions declared by us for the past two years are as follows:

Cash Distributions Declared Per Share:

	2006	2005
First quarter	\$ 0.1575	\$ 0.1250
Second quarter	0.1588	0.1450
Third quarter	0.1601	0.1500
Fourth quarter	0.1609	0.1563
Total:	\$ 0.6373	\$ 0.5763

Issuer Purchases of Equity Securities

2006 Period	Total number of shares purchased ⁽¹⁾	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs ⁽¹⁾	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs ⁽¹⁾
October	—	\$ —	N/A	N/A
November	—	—	N/A	N/A
December	151,511	9.30	N/A	N/A
Total	151,511			

(1) All shares were purchased pursuant to our redemption plan, which we announced in December 2003. Under our redemption plan we may elect to redeem shares of our common stock subject to certain conditions and limitations. The maximum amount of shares purchasable by us in any period depends on the availability of funds generated by the Amended and Restated 2003 Distribution Reinvestment and Stock Purchase Plan and other factors at the discretion of our Board of Directors. However, at no time during a 12-month period may the number of shares redeemed by us exceed 5% of the number of shares of our outstanding common stock at the beginning of such period. The redemption plan will terminate if and when our shares are listed on a national securities exchange or included for quotation on Nasdaq.

REPORT ON FORM 10-K

The advisor will supply to any shareholder, upon written request and without charge, a copy of the annual report on Form 10-K for the year ended December 31, 2006 as filed with the SEC. The 10-K may also be obtained through the SEC's EDGAR database at www.sec.gov.

CORPORATE INFORMATION

Management

Wm. Polk Carey
Chairman of the Board

Gordon F. DuGan
Chief Executive Officer

Thomas E. Zacharias
President

Mark J. DeCesaris
Managing Director, Acting Chief Financial
Officer and Chief Administrative Officer

Claude Fernandez
Managing Director and
Chief Accounting Officer

Benjamin P. Harris
Managing Director – Investments

Susan C. Hyde
Managing Director and
Director of Investor Relations

Jan F. Kärst
Managing Director – Investments

Edward V. LaPuma
Managing Director – Investments

John D. Miller
Chief Investment Officer

John J. Park
Managing Director –
Strategic Planning

Anne Coolidge Taylor
Managing Director – Investments

Douglas E. Barzelay
General Counsel

Jason E. Fox
Executive Director – Investments

Jeffrey S. Lefleur
Executive Director – Investments

Thomas Ridings
Executive Director – Accounting

Michael D. Roberts
Executive Director – Accounting

Gino M. Sabatini
Executive Director – Investments

Kristin Chung
Senior Vice President and Controller

Christopher Franklin
Senior Vice President

Donna M. Neiley
Senior Vice President –
Asset Management

Richard J. Paley
Senior Vice President and
Associate General Counsel

Gagan S. Singh
Senior Vice President – Finance

Yvonne Cheng
First Vice President –
Asset Management

L. Janusz Hooker
First Vice President – Investments

Robert C. Kehoe
First Vice President and Treasurer

Leonard Law
First Vice President and
Chief Information Officer

David G. Termine
First Vice President – Accounting

Sheena R. Laughlin
Director of Human Resources

**Investment Committee of
Carey Asset Management Corp.**

Nathaniel S. Coolidge
Former Head of Bond
and Corporate Finance Department,
John Hancock Mutual Life
Insurance Company

Dr. Lawrence R. Klein
Nobel Laureate in Economics,
Benjamin Franklin Professor Economics
(Emeritus), University of Pennsylvania

Frank J. Hoenemeyer
Former Vice Chairman and Chief
Investment Officer, The Prudential
Insurance Company of America

Dr. Karsten von Köller
Chairman, Lone Star
Germany GmbH

George E. Stoddard
Former Head of the Direct Placement
Department, The Equitable Life
Assurance Society of The United States

Directors

Wm. Polk Carey
Chairman of the Board

Gordon F. DuGan
Chief Executive Officer

Dr. Marshall E. Blume
Director, Rodney L. White Center
for Financial Research, University of
Pennsylvania

Elizabeth P. Munson
President, The Rockefeller Trust Company

Richard J. Pinola
Chief Executive Officer and Chairman,
Right Management Consultants

James D. Price
President, Price & Marshall, Inc.

Corporate Information

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Transfer Agent
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San Rafael, CA 94901
1-888-241-3737
www.wpcarey.com/shareholderaccess

Annual Meeting
June 15, 2007 at 9:30 a.m.
at the Executive Offices

Form 10-K
A Copy of The Company's Annual
Report on Form 10-K as filed with the
Securities and Exchange Commission
may be obtained at www.sec.gov or
without charge by writing the Executive
Offices at the above address.

E-Delivery
To receive future investor-related
correspondence electronically go to
www.wpcarey.com/shareholderaccess

Web site
www.cpa16.com

E-mail
CPA16@wpcarey.com

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