REALTY INCOME CORP
Form 424B5
November 29, 2006

Subject to Completion
Preliminary Prospectus Supplement dated November 29, 2006

The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS SUPPLEMENT	**Filed Pursuant to Rule 424(b)(5)**
(To prospectus dated April 12, 2006)	**Registration Number 333-133241**

Shares

% Monthly Income Class E Cumulative Redeemable Preferred Stock
(Liquidation Preference $25.00 Per Share)

We will pay monthly cumulative dividends, in arrears, on the Class E preferred stock from the date of original issuance. The Class E preferred stock will not be redeemable before December , 2011, except under circumstances intended to preserve our status as a real estate investment trust for federal and/or state income tax purposes. Beginning December , 2011, we may redeem any or all of the shares of the Class E preferred stock at $25.00 per share plus any accrued and unpaid dividends. The shares of Class E preferred stock have no stated maturity, are not subject to any sinking fund or mandatory redemption and will remain outstanding indefinitely unless we redeem or otherwise repurchase them.

Realty Income Corporation, The Monthly Dividend Company®, is a Maryland corporation organized to operate as an equity real estate investment trust, or REIT. We are a fully integrated, self-administered real estate company with in-house acquisition, leasing, legal, retail research, real estate research, portfolio management and capital markets expertise. As of September 30, 2006, we owned a diversified portfolio of 1,766 retail properties located in 48 states with over 15.0 million square feet of leasable space leased to 101 different retail chains doing business in 29 separate retail industries.

Currently no market exists for the Class E preferred stock. We intend to file an application to list the Class E preferred stock on the New York Stock Exchange. If the application is approved, trading of the Class E preferred stock on the NYSE is expected to begin within 30 days after the date of initial issuance of the Class E preferred stock.

Investing in the Class E preferred stock involves risks. See Risk Factors beginning on page S-12 of this prospectus supplement.

	Per Share	**Total**
Public offering price(1)	$	$
Underwriting discount(2)	$	$
Proceeds, before expenses, to Realty Income Corporation	$	$

(1) Plus accrued dividends from December , 2006, if settlement occurs after that date.

(2) Per share data reflects the weighted average underwriting discount and may reflect rounding. See Underwriting beginning on page S-29 of this prospectus supplement for a discussion regarding underwriting compensation and discounts.

The underwriters may also purchase up to an additional shares from us to cover overallotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares of Class E preferred stock will be ready for delivery on or about December , 2006.

Citigroup **Merrill Lynch & Co.** **Wachovia Securities**

Joint Book-Running Managers

A.G. Edwards **UBS Investment Bank**

Banc of America Securities LLC **Credit Suisse** **Raymond James** **RBC Capital Markets**

Robert W. Baird & Co. **BNY Capital Markets, Inc.** **BB&T Capital Markets**

JPMorgan **Stifel Nicolaus** **Wells Fargo Securities**

This date of this prospectus supplement is , 2006

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus and, if applicable, any other offering materials we may provide you in connection with this offering. We have not, and the underwriters have not, authorized any person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities or soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus, the documents incorporated by reference and, if applicable, any other offering materials we may provide you in connection with this offering is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

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Prospectus

PROSPECTUS SUPPLEMENT SUMMARY

This summary may not contain all the information that may be important to you. You should read the entire prospectus supplement and the accompanying prospectus and the documents incorporated and deemed to be incorporated by reference herein and therein, including the financial statements and related notes, and, if applicable, any other offering materials we may provide you in connection with this offering before making an investment decision. Unless this prospectus supplement otherwise indicates or the context otherwise requires, the terms Realty Income, our, us and we as used in this prospectus supplement refer to Realty Income Corporation and its subsidiaries on a consolidated basis. Unless otherwise expressly stated or the context otherwise requires, all information in this prospectus supplement assumes that the overallotment option granted to the underwriters is not exercised, and information relating to our properties excludes properties owned by our wholly-owned subsidiary Crest Net Lease, Inc. and its wholly-owned subsidiary, CrestNet 1 LLC, which we collectively refer to as Crest Net or Crest.

In this prospectus supplement, we sometimes refer to the % Monthly Income Class E Cumulative Redeemable Preferred Stock we are offering as the Class E preferred stock, and we sometimes refer to our outstanding 7.375% Monthly Income Class D Cumulative Redeemable Preferred Stock, our 9.375% Class B Cumulative Redeemable Preferred Stock, which was redeemed by us on June 6, 2004, and our 9.50% Class C Cumulative Redeemable Preferred Stock, which was redeemed by us on July 30, 2004, as the Class D preferred stock, the Class B preferred stock and the Class C preferred stock, respectively.

Realty Income

Realty Income is organized to operate as an equity real estate investment trust, commonly referred to as a REIT. Our primary business objective is to generate dependable monthly cash distributions from a consistent and predictable level of funds from operations, or FFO, per share. Additionally, we seek to increase distributions to stockholders and FFO per share through both active portfolio management and the acquisition of additional properties.

We are a fully integrated, self-administered real estate company with in-house acquisition, leasing, legal, retail research, real estate research, portfolio management and capital markets expertise. As of September 30, 2006, we owned a diversified portfolio of 1,766 retail properties located in 48 states, with over 15.0 million square feet of leasable space leased to 101 different retail chains doing business in 29 separate retail industries. Of the 1,766 properties in the portfolio, 1,759, or 99.6%, were single-tenant, retail properties and the remaining seven were multi-tenant, distribution and office properties. At September 30, 2006, 1,739, or 98.9%, of the 1,759 single-tenant properties were leased with a weighted average remaining lease term (excluding extension options) of approximately 12.2 years.

Recent Developments

Acquisition of $349.5 Million of Buffets/Ryan s Restaurant Properties

On November 1, 2006, Realty Income and Crest acquired 144 Buffets/Ryan s restaurant properties for approximately $349.5 million. The properties are leased under 20-year (on average), triple-net lease agreements. These properties were acquired subsequent to a merger between Buffets, Inc. and Ryan s Restaurant Group. This acquisition was funded with cash and cash equivalents held at September 30, 2006, proceeds from the public offering of common stock and borrowings under our credit facility. Of the 144 restaurant properties, 116 were acquired by Realty Income and 28 were acquired by Crest Net.

Acquisition of 94 Pizza Hut Properties for $65.5 Million

Between September 14, 2006 and October 12, 2006, Realty Income acquired a portfolio of 94 Pizza Hut properties for $65.5 million that have been leased back to NPC International, Inc. Through

September 30, 2006, we had acquired 75 of the 94 properties for approximately $49.6 million. These acquisitions were funded with borrowings under our credit facility.

Senior Unsecured Debt Rating Assigned a Positive Outlook by Moody s Investors Service

Moody s Investors Service announced on February 17, 2006 that it had assigned a positive outlook to Realty Income s senior unsecured debt rating of Baa2. Realty Income s current senior unsecured debt ratings are BBB+ (stable outlook) by Fitch Ratings, Baa2 (positive outlook) by Moody s Investors Service, and BBB (stable outlook) by Standard & Poor s Ratings Group. These rating agencies have also assigned investment grade credit ratings to our preferred stock. Fitch Ratings has assigned a rating of BBB (stable outlook), Moody s Investors Service has assigned a rating of Baa3 (positive outlook) and Standard & Poor s Ratings Group has assigned a rating of BBB- (stable outlook) to our preferred stock. These ratings are subject to ongoing evaluation by credit rating agencies and we cannot assure you that any such rating will not be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. Moreover, a rating is not a recommendation to buy, sell or hold our debt securities, preferred stock (including the Class E preferred stock offered hereby) or common stock.

Net Income Available to Common Stockholders

Net income available to common stockholders was $24.2 million in the third quarter of 2006 versus $20.8 million in the same quarter of 2005, an increase of $3.4 million. On a diluted per common share basis, net income was $0.27 per share in the third quarter of 2006 compared to $0.26 in the third quarter of 2005.

Net income available to common stockholders was $71.0 million in the first nine months of 2006 versus $64.2 million in the same period of 2005, an increase of $6.8 million. On a diluted per common share basis, net income was $0.82 per share in the first nine months of 2006 compared to $0.81 in the first nine months of 2005.

The calculation to determine net income available to common stockholders includes gains from the sale of properties. The amount of gains varies from period to period based on the timing of property sales and can significantly impact net income available to common stockholders. The gain recognized from the sales of investment properties during the third quarter of 2006 was $843,000 as compared to $303,000 for the third quarter of 2005. The gain recognized from the sales of investment properties during the first nine months of 2006 was $3.0 million as compared to $3.8 million for the first nine months of 2005.

Funds from Operations (FFO)

In the third quarter of 2006, our FFO increased by $6.3 million, or 19.9%, to $38.0 million versus $31.7 million in the third quarter of 2005. On a diluted per common share basis, FFO was $0.43 in the third quarter of 2006 compared to $0.40 for the third quarter of 2005, an increase of $0.03, or 7.5%.

In the first nine months of 2006, our FFO increased by $17.1 million, or 18.2%, to $110.9 million versus $93.8 million in the first nine months of 2005. On a diluted per common share basis, FFO was $1.27 in the first nine months of 2006 compared to $1.18 for the first nine months of 2005, an increase of $0.09, or 7.6%. For information on how we define FFO, as well as a reconciliation of net income available to common stockholders to FFO, see Management s Discussion and Analysis of Financial Condition and Results of Operations Funds From Operations Available to Common Stockholders (FFO) in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, which is incorporated by reference in the accompanying prospectus.

Notes and Common Stock Offerings

On September 13, 2006, we issued and sold 4,100,000 shares of common stock in an underwritten offering and, on September 28, 2006, we issued and sold an additional 615,000 shares of common stock upon the underwriters overallotment option that was exercised in full. On September 18, 2006, we issued and sold $275 million aggregate principal amount of 5.95% Notes due 2016 in an underwritten public offering, which we refer to herein as the notes offering. On October 23, 2006, we issued and sold 6,000,000 shares of common stock in an underwritten offering and, on November 20, 2006, we issued and sold an additional 900,000 shares of common stock upon the underwriters overallotment option that was exercised in full.

Total net proceeds of the September common stock offering, the notes offering and the October common stock offering, to us, after underwriting discounts and commissions but before deducting estimated expenses payable by us, were approximately $109.0 million, $272.5 million and $173.3 million, respectively. We used the net proceeds from these offerings to pay the redemption price of our 7¾% Notes Due 2007 (the 2007 Notes) as described below under Redemption of 2007 Notes , to repay borrowings outstanding under our $300 million acquisition credit facility, to fund a portion of the purchase price of the Buffets/Ryan s properties as described under Acquisition of $349.5 million of Buffets/Ryan s Restaurant Properties and for other general corporate purposes.

Redemption of 2007 Notes

On September 22, 2006, we redeemed all of our outstanding 2007 Notes issued in May 1997. Approximately $114.8 million of the net proceeds from the notes offering was used to fund the redemption, which included interest of $3.2 million that was paid at the time of the redemption.

Increases in Monthly Cash Distributions to Common Stockholders

We continue our 37-year policy of paying distributions monthly to our common stockholders. Monthly distributions per share were increased in April 2006 by $0.000625 to $0.116875, in July 2006 by $0.000625 to $0.1175, in September 2006 by $0.00775 to $0.12525 and in October 2006 by $0.000625 to $0.125875. The increase in October 2006 was our 36th consecutive quarterly increase and the 41st increase in the amount of our dividend since our listing on the New York Stock Exchange in 1994. In the first 11 months of 2006, we paid three monthly cash distributions per share in the amount of $0.11625, three in the amount of $0.116875, two in the amount of $0.1175, one in the amount of $0.12525 and two in the amount of $0.125875, totaling $1.311375 per share. In November 2006 we declared distributions of $0.125875 per share, which will be paid on December 15, 2006.

The monthly distribution of $0.125875 per share represents a current annualized distribution of $1.5105 per share, and an annualized distribution yield of approximately 5.6% based on the last reported sale price of our common stock on the NYSE of $26.80 on November 28, 2006. Although we expect to continue our policy of paying monthly distributions, we cannot guarantee that we will maintain the current level of distributions, that we will continue our pattern of increasing distributions per share, or what the actual distribution yield will be in any future period.

Property Portfolio Information

At September 30, 2006, we owned a diversified portfolio:

- Of 1,766 retail properties;
- With an occupancy rate of 98.8%, or 1,745 properties occupied of the 1,766 properties in the portfolio;

- Leased to 101 different retail chains doing business in 29 separate retail industries;
- Located in 48 states;
- With over 15.0 million square feet of leasable space; and
- With an average leasable retail space per property of approximately 8,500 square feet.

In addition to our real estate portfolio at September 30, 2006, our subsidiary, Crest had invested $40.3 million in 13 retail properties located in six states. These properties are classified as held for sale.

At September 30, 2006, 1,739, or 98.5%, of our 1,766 retail properties were leased under net-lease agreements. Net leases typically require the tenant to be responsible for minimum monthly rent and property operating expenses including property taxes, insurance and maintenance. In addition, tenants are typically responsible for future rent increases (generally subject to ceilings) based on increases in the consumer price index or fixed increases or, to a lesser degree, for additional rent calculated as a percentage of the tenants gross sales above a specified level.

Our net-leased retail properties primarily are leased to regional and national retail chain store operators. Most buildings are single-story structures with adequate parking on site to accommodate peak retail traffic periods. The properties tend to be on major thoroughfares with relatively high traffic counts, adequate access and proximity to a sufficient population base to constitute a suitable market or trade area for the retailer s business.

The following tables provide certain information with respect to our properties, tenants and leases. For additional information, you should review the documents we have filed with the Securities and Exchange Commission, or SEC, that are incorporated and deemed to be incorporated by reference in the accompanying prospectus and which you may obtain as described under Incorporation by Reference in the accompanying prospectus.

Industry Diversification

The following table sets forth certain information regarding Realty Income s property portfolio (excluding properties owned by Crest) classified according to the business of the respective tenants, expressed as a percentage of our total rental revenue:

	Percentage of Rental Revenue(1)						
	For the Quarter Ended	For the Years Ended					
Industries	Sept. 30, 2006	Dec 31, 2005	Dec 31, 2004	Dec 31, 2003	Dec 31, 2002	Dec 31, 2001	Dec 31, 2000
Apparel stores	1.4 %	1.6 %	1.8 %	2.1 %	2.3 %	2.4 %	2.4 %
Automotive collision services	1.4	1.3	1.0	0.3			
Automotive parts	2.7	3.4	3.8	4.5	4.9	5.7	6.0
Automotive service	9.0	7.6	7.7	8.3	7.0	5.7	5.8
Automotive tire services	5.8	7.2	7.8	3.1	2.7	2.6	2.3
Book stores	0.3						