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PRESENTATION

Operator

Good morning, and welcome to the Agree Realty's Third Quarter 2019 Conference Call. (Operator Instructions) Please note this event is being recorded.

I would now like to turn the conference over to Joey Agree, President and CEO. Please go ahead, Joey.

Joel N. Agree ***Agree Realty Corporation - President, CEO & Director***

Thank you, operator. Good morning, everyone, and thank you for joining us for Agree Realty's Third Quarter 2019 Earnings Call.

Joining me this morning is Clay Thelen, our Chief Financial Officer.

I'm very pleased to report another extremely strong quarter of execution across all aspects of our business. Robust acquisition activity during the quarter was at the highest quality in our company's history.

A record 85.5% of acquired annualized ABR was derived from leading retailers with investment-grade credit rates.

During the quarter, we invested over $252 million in 74 high-quality retail net lease properties across our 3 external growth platforms. 68 of these properties were sourced through our acquisition platform, representing aggregate acquisition volume of more than $246 million for the quarter.

The properties were acquired in a weighted average cap rate of 7% and had a weighted average remaining lease term of 12.3 years.

The acquired properties are located in 27 states and are leased to retailers operating in 16 different retail sectors, including off-price retail, convenience stores, auto parts, tire and auto service, dollar stores, home improvement, pharmacy and farm and rural supply.

Notable acquisitions during the quarter included the CVS in downtown Greenwich, Connecticut, located on Greenwich Avenue. CVS is committed to a long-term net lease with nearly 19 years of remaining base term. This acquisition adds yet another unique urban street retail asset to our portfolio.

During the quarter, we also acquired our first Mariano’s grocery store, located just outside of Chicago. The lease is guaranteed by the Kroger, which carries a BBB rating from S&P and has more than 15 years of remaining term.

We also acquired 10 7-Eleven properties located in Virginia and Florida, and we're very excited to have to work with 7-Eleven to construct a portfolio that has a weighted average lease term of more than 14 years. This was our first significant transaction with 7-Eleven.

Through the first 9 months of the year, we've invested a record $579 million and do 157 retail net lease properties, geographically diversified across 37 states. Of the nearly $580 million invested year-to-date, approximately $563 million was sourced through our acquisition platform.

The 147 properties acquired are at least 45 different retail tenants operating in 22 distinct sectors.

Most notably, 78% of the annualized base rental acquired during the first 9 months of the year comes from retailers that carry an investment-grade credit rating.

Our stringent focus on premier operators and avoidance of private equity sponsored, or second-tier retailers, is continuously demonstrated to the quality of our investment activity. We continue to view the retail world as dynamic and believe the risk-adjusted we are -- risk-adjusted returns we are achieving are exceptional. Given our record year-to-date acquisition activity improved visibility into the pipeline for the remainder of the year, we're increasing our full year 2019 acquisition guidance to a range of $650 million to $700 million. While increased in our full year acquisition guidance, I want to again reiterate that our activities remain granular in nature, and we continue to leverage our unique relationships and skill-sets to identify and execute on best-in-class opportunities.

During the quarter, we continue to add properties to our ground-lease portfolio. We acquired 4 ground-lease properties, including Wawa in Cocoa, Florida, and 3 geographically diversed AutoZone stores.

Today, our ground lease portfolio spans 60 assets, comprising 8.6% of total annualized base rents. At quarter end, nearly 90% of ground lease rents continue to be derived from leading investment-grade retailers, including Walmart, Home Depot, Costco, Aldi, Wawa, 7-Eleven and AutoZone.

Conversely, only 1% of the portfolios leased to sub-investment-grade tenants and the remaining 9% is leased to leading unrated retailers.

Our focus on creating the country's leading retail portfolio is also demonstrated by the continued transformation of our top tenant roster. During the quarter, we are very pleased to have added Home Depot to our top tenant list, marketing the third new entrant to be added to this list this year alone.

At quarter end, approximately 57% of our annualized base rents were derived from investment-grade retailers. This represents a nearly 1,000 basis points year-over-year increase. It's important to again note that the investment-grade makeup of our recent activities is a result of our rigorous focus on best-in-class retailers rather than an explicit focus on rated companies.

Turning to our development and partner capitalist solutions platforms, we had 10 development and PCS projects, either completed or under construction during the first 9 months of the year, that represent total committed capital of more than $32 million.

During the quarter, we completed 4 previously announced development in PCS projects. The projects had total aggregate cost of $12.2 million and includes the company's third and fourth developments with Sunbelt Rentals in Carrizo Springs, Texas and Georgetown, Kentucky; the company's first development with Gerber Collision in Round Lake, Illinois; and the company's redevelopment of the former Kmart space in Mount Pleasant, Michigan, for Hobby Lobby.

We also commenced our first development with Tractor Supply during the third quarter in Hart, Michigan. Anticipated completion is the second quarter of next year.

Construction continued during the quarter on the redevelopment of the former Kmart in Frankfort, Kentucky for Aldi, Big Lots and Harbor Freight Tools. The project is anticipated to complete in the first half of next year.

We continue to work to foster deeper relationships with retailers and our top tenant roster. These relationships enable our retail partners to leverage our capabilities, while consistently demonstrating our ability to add value across the full lifecycle of an asset.

While we strengthened our portfolio through a record year-to-date investment activity, we've also diversified our portfolio through strategic asset management and disposition efforts. During the quarter, those activities continued as we sold 3 properties for gross proceeds of approximately $8 million and a weighted average cap rate of 6.8%.

Dispositions during the quarter were comprised of Walgreens in Grand Lake, Michigan; a Mister Car Wash in Flowood, Mississippi; and a franchise operated, Taco Bell.

Through the first 9 months of the year, we sold 9 assets for total gross proceeds of $35.4 million. These dispositions were completed at a weighted average cap rate of 7.2%.

As I discussed on last quarter's call, we continue to be very discerning in our approach to the health and fitness phase. Subsequent to quarter end, we sold an LA Fitness in Maplewood, Minnesota. This disposition reduces our current LA Fitness exposure to approximately 2.6% of annualized base rents, representing a year-over-year decrease of approximately 100 basis points.

This week, we'd also be closing on the sale of another Walgreens in Ypsilanti, Michigan. Pro forma for this sale, our Walgreens exposure will be reduced to 3.5% of annualized base rents, a 270 basis point reduction year-over-year.

Our asset management team also continues to proactively address our upcoming lease maturities. As a result of their efforts at quarter end, our 2019 lease maturities represented just 0.2% of annualized base rents.

During the third quarter, we executed new lease of extensions or options on approximately 148,000 square feet of gross leasable phase. Notably, we acquired a 31,000 square-foot Best Buy in Sanford, Florida, and extended the lease commenced here with the acquisition.

As of September 30, our rapidly growing retail portfolio consisted of 789 properties across 46 states. Our tenants are comprised primarily of industry-leading retailers, operating in more than 28 distinct retail sectors, again, with nearly 57% of annualized base rents coming from investment-grade tenants.

The portfolio remains effectively fully occupied at 99.7% and has a weighted-average lease term remaining of 10.2 years.

Lastly, our second headquarters building continues to make substantial progress. We're looking going forward to having additional capacity for our growing team as well as providing enhanced amenities and functionalities to our team.

We anticipate movement to accrue by Thanksgiving and look forward to many of you visiting our campus in the future.

I thank you for your patience, and happy to answer any questions after Clay discusses our financial results for the third quarter. I'll turn it over to Clay.

Clayton R. Thelen ***Agree Realty Corporation - CFO & Secretary***

Think, Joey. Good morning, everyone. I'll begin by quickly running through the cautionary language. Please note that during this call, we will make certain statements that may be considered forward-looking under federal securities law. Our actual results may differ significantly from the matters discussed in any forward-looking statements.

In addition, we discuss non-GAAP financial measures including core funds from operations, or core FFO, adjusted funds from operations, or AFFO, and net debt to recurring EBITDA.

Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures can be found in our earnings release.

Core funds from operations for the third quarter was $33.4 million, representing an increase of 42.2% over the third quarter of 2018. On a per-share basis, core FFO increased to $0.78 per share, an 8.8% year-over-year increase.

Adjusted funds from operations for the third quarter was $32.7 million, a 40% increase over the comparable period of 2018. On a per-share basis, AFFO of $0.77, represented increase of 7.1% year-over-year.

General and administrative expenses in the third quarter totaled $3.8 million. G&A expense was 8% of total revenue or 7.4%, excluding the noncash amortization of above and below market lease intangibles. We continue to anticipate G&A as a percentage of total revenue to be an approximate 50 basis point improvement from our 2018 -- from 2018 or in the upper 7% range, excluding the impact of above and below market lease intangible amortization in total revenues.

On a quarterly and year-to-date basis, core FFO per share and AFFO per share were impacted by dilution required under GAAP related to the forward equity offerings we completed in September of last year and April of this year.

Treasury stock has been included within our diluted share count in the event that prior to settlement, our stock trades above the deal price from the offerings. There was no treasury stock dilution in the third quarter related to the September 2018 forward equity offering, given we settle the transaction in conjunction with our April forward offering. However, our year-to-date results included treasury stock dilution from both transactions.

The aggregate dilutive impact related to these offerings was roughly $0.01 to both core FFO and AFFO per share for the 3-month period and $0.03 for the 9-month period. To the extent that prior to settlement, our stock continues to trade above the deal price of the April 2019 forward. We will continue to record treasury stock dilution. To date, we have not settled any of the 3.2 million shares from our April forward, and view this as a meaningful equity backstop to fund future growth.

Now moving onto our capital markets' activities. In July, we entered into a new $400 million aftermarket equity program. During the third quarter, we issued over 400,000 shares of common stock through our new ATM programs at an average price of $74.30, raising gross proceeds of $33 million. We've raised more than $270 million via our ATM program in the past 4 quarters, which demonstrates our view that the ATM is an efficient tool to raise equity, given the granular nature of our business.

Subsequent to quarter end, we funded $125 million of senior unsecured notes per the agreement that we entered in June of this year. The proceeds were used to pay down the outstanding balance on our revolving current facility. The notes bear an interest at a fixed rate of 4.47% and have a 12-year term. As a reminder, in March, we've entered into forward starting interest rate swap agreements to fix the interest for $100 million of long-term debt until maturity. The company terminated the swap agreements at the time of pricing the senior unsecured notes in June. Taking into account the effect of the terminated swap agreements, the blended all-in rate for the $125 million private placement is 4.42%.

Our balance sheet continues to be in fantastic shape. As of September 30, our net debt to recurring EBITDA was approximately 5.1x, which is at the low end of our stated range of 5x to 6x. Pro forma for the settlement of the nearly $200 million in proceeds for our April 2019 forward equity offering, our net debt to recurring EBITDA is approximately 4x. Total debt to enterprise value at the end of the third quarter was approximately 23%, and our fixed charge coverage ratio, which includes principal amortization, increased to a company record of 4.3x.

The company paid a dividend of $0.57 per share on October 11 to stockholders of record on September 27, 2019, representing a 5.6% year-over-year increase. This was our company's 102nd consecutive cash dividend since our IPO 25 years ago.

For the first 9 months of the year, the company declared dividends of $1.695 per share, a 5.9% increase over the dividends of $1.60 per share declared for comparable period in 2018. Our quarterly payout ratios for the third quarter were 73% of core FFO per share and 74% of AFFO per share. For the first 9 months of 2019, our payout ratios were 75% of core FFO per share and 76% of AFFO per share, respectively. These payout ratios are near the low end of the company's targeted ranges and continue to reflect a very well-covered dividend.

With that, I'd like to turn the call back over to Joey.

Joel N. Agree ***Agree Realty Corporation - President, CEO & Director***

Thank you, Clay. To conclude, I'm very pleased with our execution through the first 9 months of the year, we're in excellent position to close out 2019, strong. At this time, operator, we'll open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Rob Stevenson with Janney.

Robert Chapman Stevenson ***Janney Montgomery Scott LLC, Research Division - MD, Head of Real Estate Research & Senior Research Analyst***

Joey, can you talk about the development and partner capital pipeline behind the 4 projects that you currently have? I mean you've got the 3 that are at the Frankfort site and then the Tractor Supply. I mean, how robust is the sort of shadow pipeline on the stuff that you're working on behind that? Is this -- as we look at this, is this going to grow? Or we're going to basically be at sort of 4 projects plus or minus at any given time over the next couple of years? How much of a focus is this for you guys going forward versus the acquisition? Can you just share a little insight there?

Joel N. Agree ***Agree Realty Corporation - President, CEO & Director***

Sure. I think, look, we look at all 3 external growth platforms as providing a unique value proposition for our sandbox of retailers. And again, that really consists of 30 to 35 retailers that we're focused on growing those relationships with. So we're very pleased to announce that Tractor Supply in Heart, Michigan, that the former Shopko, our first project with Tractor Supply on the development/redevelopment front. And then we've another -- a number of projects that are in the shadow pipeline that we anticipate commencing either fourth quarter this year, or first quarter of next year, really subject to weather and timing. Similar in scope to the Tractor Supply, existing retailers looking to grow our relationships. That said, we will continue to be discerning where we deploy, not only our capital but more importantly, our time and our energy. And so we got to continue to be a full-service provider for those leading retailers, but we're not willing to go up the risk factor down the credit spectrum to put shovels in the ground.

Robert Chapman Stevenson ***Janney Montgomery Scott LLC, Research Division - MD, Head of Real Estate Research & Senior Research Analyst***

Okay. And then the second one for me. Anything abnormal in the market that's causing you guys to see higher than normal acquisition opportunities? I guess what I'm getting at is if you have the people and the relationship right now to be able to do $650 million to $700 million of acquisitions this year, is there anything other than the availability of cost-effective capital that would suggest the 2020 run rate shouldn't be -- and forward, shouldn't be at that level or higher?

Joel N. Agree ***Agree Realty Corporation - President, CEO & Director***

What I'd say, there's nothing macro in the market today that changes our perspective. Hence, giving our balance sheet in such a prime position to continue to execute our operating strategy. That said, look, we are an aggregator by nature. We added approximately 70 properties to the portfolio in this last quarter alone. And so it's really opportunistic and opportunity dependent. But no, there is nothing out there the horizon that we see should change our level of activity or the opportunity set that we see.

Operator

Our next question comes from Nate Crossett with Berenberg.

Nathan Daniel Crossett ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***

I wanted to touch on, maybe tenant concentrations and Sherwin-Williams, and I'm wondering if you acquired any of those in the quarter? I saw that they reported today and they noted they opened 31 new stores year-to-date. I'm just curious on your parts for owning more Sherwin? And then, is there even an opportunity to maybe own · Benjamin Moore as more?

Joel N. Agree ***Agree Realty Corporation - President, CEO & Director***

I'll tell you first, thanks for joining us, Nate. Look, Sherwin-Williams has down to approximately 5%, just over 5% of the portfolio. That's up from 6% on the time of the sale leaseback transaction of the 100 plus stores. We didn't acquire any Sherwin-Williams during the quarter nor dispose of any Sherwin-Williams since the acquisition of those 103 stores. So we're not focused necessarily on Sherwin-Williams or Benjamin Moore today. It's really a natural attenuation of that 6% to 5.1% in terms of pro forma concentrations. But overall, I'll tell you that, we continue to be big fans of Sherwin and Benjamin Moore is a great operator as well. But really the portfolio of maintaining concentrations is really in a strong place. With Sherwin at approximately 5%, we anticipate just, again, just natural dilution from denominator growth. Sherwin will be sub-5%. So we have no really material concentrations that are outside to speak of.

Nathan Daniel Crossett ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***

Okay. And then, I mean, I know that they have a lot of locations in Canada and I'm just curious, Europe is probably too far away, but would you ever consider going to Canada with a tenant that you really like and deal with?

Joel N. Agree ***Agree Realty Corporation - President, CEO & Director***

No. We think the opportunity set here domestically at least for the foreseeable future for us is very vast. And we're focused really on the Continental United States. We're in 46 out of 48 continents of the United States today and that's really our focus.

Nathan Daniel Crossett ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***

Okay. And then just one quick and that may be on the G&A load. As you guys continue to kind of scale, are there any more heads that need to be added or you guys set for the time being?

Joel N. Agree ***Agree Realty Corporation - President, CEO & Director***

Yes. I'll let Clay speak to quantitatively in terms of G&A and trajectory, but I'll tell you with the addition of our new buildings, as I mentioned in the prepared remarks, it should really give us the continued opportunity to grow headcount across the organization while also gaining leverage in terms of the G&A as a percent of revenue. So we continue -- we had 2 new members of the acquisition teams joined 3 weeks ago. We have a new property -- a new member of the property management team growing. And as you expect with the dynamically growing portfolio, with revenue growing 40% year-over-year last quarter, we're going to continue to add headcount and frankly invest in the fantastic team that we built here.

Clayton R. Thelen ***Agree Realty Corporation - CFO & Secretary***

Sure. And Nate, in terms of run rate, we're guiding to a 50 basis point improvement as for G&A as a percentage of revenues year-over-year. We're currently in the middle of our annual budgeting process and going through 2020, we'll provide guidance again as a percentage of total revenue on our 4Q call for G&A.

Operator

Our next question comes from Collin Mings with Raymond James.

Collin Philip Mings ***Raymond James & Associates, Inc., Research Division - Analyst***

First question for me, Joey. I know in the past, you've discussed that your deal flow does not necessarily reflect spikes in terms of the market more broadly. That said, can you maybe update us on your take on competition for deals and sell a price in expectation, just give the move in interest rates, in particular, the tenure here over last few months?

Joel N. Agree ***Agree Realty Corporation - President, CEO & Director***

Sure. I think one is important to note, again, the average transaction here, it takes approximately 61 days from a letter of intent execution to close. And so there is always a lag in what we report to the market that we're close or what we originate. I'll tell you for a couple of months there with the tenure compressing approximately 50 basis points, the investment sale community as well as owners and developers, some of them saw an opportunity to try to compress cap rates or increase corollary increase pricing. I tell you, if anything on the margin, we're seeing cap rates for high-quality projects compressed with the tenure still below 1.8%, but in terms of competition, look, we are in a very unique position. We are the largest aggregator, the most well-capitalized aggregator in this space, and at the same time, we have the best relationships and capabilities. And so we don't see any changes on the horizon in terms of private or public purchasers in competition generally, and we think we're very well positioned to continue to execute.

Collin Philip Mings ***Raymond James & Associates, Inc., Research Division - Analyst***

Got it. So overall, the deal flow is still there, just maybe on the margin, a little bit more expensive, is that a fair way to take it?

Joel N. Agree ***Agree Realty Corporation - President, CEO & Director***

We don't anticipate our cap rates compressing at any material way. I'd tell you, I wouldn't assume a significant deceleration on activity, obviously, Q3 was a new record quarter for us. We'll continue to be highly selective and disciplined in what we acquire. There are no shortages of net lease retail products in this massive and fragmented space in which we operate. And just as a reminder to everybody, I look back in our notes and last year, this time, the Sherwin-Williams transaction had it even come up. Our original offer on the Sherwin-Williams transaction was sent November 10, 2018. So it is a very fluid marketplace. We tried to give the best guesstimate of our visibility. But it is large, it is fragmented, and we moved decisively and quickly.

Collin Philip Mings ***Raymond James & Associates, Inc., Research Division - Analyst***

Okay. And then one more for me. Can you expand on how the 7-Eleven opportunity came together? And then the potential to expand that relationship moving forward?

Joel N. Agree ***Agree Realty Corporation - President, CEO & Director***

Yes. It was originated as to the buyer acquisition team. It was an off-market opportunity region of third-party seller and we worked with our retail partners to create really a win-win situation for both parties. And so we're excited to add 7-Eleven in a material way. I think we had 1 or 2 prior to the transaction. But in the material way, obviously, a fantastic operator and fantastic credit. And so 7-Eleven now is a meaningful partner of our tenant roster.

Operator

Our next question comes from Christine McElroy with Citi.

Christine Mary McElroy Tulloch ***Citigroup Inc, Research Division - Director & Senior Analyst***

Joey, you highlighted the Greenwich CVS and the Mariano's in Chicago that you've completed in Q3. Can you just talk about the size and pricing of those deals relative to the rest? And what sort of your appetite for doing more of these kind of higher value urban deals like this going forward?

Joel N. Agree ***Agree Realty Corporation - President, CEO & Director***

Yes, good morning, Christy. I think the Greenwich CVS, we haven't obviously, we've not been an acquirer of pharmacy with the Walgreens disposition during the quarter, and then the one occurring this week and then we anticipate future Walgreen dispositions going forward. It's really a unique real estate opportunity, compelling value proposition in the heart of Greenwich, on Greenwich Avenue over 19 years left of remaining term, significant growth in lease. We're a big fan of high-quality street retail with long-term leases to leading operators, and so that was a very unique one for us. I tell you, I think it's fair to say that that wasn't given specific guidance, but that was inside of our 7-cap range. The Mariano's, again, Mariano's, Kroger guaranteed outside of Chicago. Not really, I wouldn't call it an urban street retail asset for us, but a high-performing location. Mariano's is really performing well for Kroger, and it's really become one of the dominant flags in the Chicago MSA. And so we'll continue to look at those transactions that are of that similar nature but really our business is aggregating $4.5 million to $5 million on average assets really across the country.

Christine Mary McElroy Tulloch ***Citigroup Inc, Research Division - Director & Senior Analyst***

Okay. And any changes in sort of how you're thinking about your targeted 30-tenant list? And as you continue to pursue deals with these and other investment-grade tenants, just kind of following up on Collin's question, you did comment that market cap rates have compressed a little bit, does it make finding some of these deals tougher as you look to remain disciplined? I mean are you seeing sort of more bidders out there in the market for deals in a lower cost of capital environment?

Joel N. Agree ***Agree Realty Corporation - President, CEO & Director***

Yes. So to the last part of your question, we aren't seeing necessarily more bidders. I'll tell you, we will be more opportunistic on the disposition side. But on the acquisition side, we do a lot of transactions with repeat developers, repeat sellers, we're not necessarily seeing more bidders. I think on the margin, pricing has skewed more expensive or, frankly, anticipated pricing has skewed expensive. But the proposition that we bring to close quickly decisively the relationships we bring, we don't think that's going to pose a challenge for us in this environment.

Christine Mary McElroy Tulloch ***Citigroup Inc, Research Division - Director & Senior Analyst***

Okay. And then just lastly a quick modeling question, the deal volume in Q3 was pretty heavy, obviously. Just -- when we think about the timing of when those deals closed through the quarter, was it more front-end or back-end loaded?

Joel N. Agree ***Agree Realty Corporation - President, CEO & Director***

Yes. We are a little bit more back-end loaded, Christy. Our weighted average closing date in the quarter was the 57th day of the quarter. So a little back-end weighted, which is fairly in line with our last couple of quarters as well.

Operator

Our next question comes from John Massocca with Ladenburg Thalmann.

John James Massocca ***Ladenburg Thalmann & Co. Inc., Research Division - Associate***

I guess how many buy and then extend transactions were acquired this quarter kind of similar to the Florida Best Buy if there were any others? And then, how big is that market for that type of transaction?

Joel N. Agree ***Agree Realty Corporation - President, CEO & Director***

Honestly, John, I don't have an exact talk for you. I would tell you, if I had to guess between 15 and 20, we recall for where will be your blend-and-extend transactions, that's out of the approximately 67 assets that we acquired.

John James Massocca ***Ladenburg Thalmann & Co. Inc., Research Division - Associate***

Okay. And then, is it just quarter-to-quarter, it's kind of again depend on what the deal flow? Is there a big market for that type of transaction given the kind of value add you want to do to maintain cap rates?

Joel N. Agree ***Agree Realty Corporation - President, CEO & Director***

Well, really -- in reality, we're really making the market, right? We are either with direction from our retail partners or acquisition team uncovering opportunities. We're really making a market there. So it's not a market per se. We're -- it's really a value creation. Look, we continue to uncover all different types of opportunities from ground leases to street retail, to blend-and-extend opportunities. And really, there, like I said, in previous quarters, there's really no rhyme or reason where you are playing in the market this size and with our breath. And so I would anticipate that there won't be necessarily a run rate for any types of transactions, frankly, for us. Sometimes, we're heavy on ground leases, like in Q2. This quarter was particularly heavy in blend-and-extend transactions. I think the one consistent is that we're going to focus on those retailers in our sandbox, the industry-leading retailers and the dominant players in the country.

John James Massocca ***Ladenburg Thalmann & Co. Inc., Research Division - Associate***

Okay. Makes sense. And then, can you maybe provide some color on the dollar store acquisitions in the quarter? It seemed like that was mostly Dollar Generals. What may be made those attractive given some of the different characteristics of dollar stores that, I guess, are both kind of loved and hated by the market?

Joel N. Agree ***Agree Realty Corporation - President, CEO & Director***

Look, I can talk about dollar stores, and specifically, Dollar General for a long time. I'll tell you that we have a few unique relationships with Dollar General, specifically, Dollar Tree to a lesser extent developers, where they are cycling through their pipeline, require capital for new stores in the ground. I'll tell you we are a fan. If you look at the overall grocery space in this country, we are a fan of what Dollar General is doing. You really see them in a lot of the rural food deserts in this country, combined with what we think is going to be some grocery store attrition in the near and medium-term here. You really see them providing, really filling that void for those rural food deserts. And so they are the grocery store, they are the one-stop shop, a lot of times through also the convenient store, when people don't want to make the 20-mile trip to the Walmart supercenter. And we think they are very well positioned. Obviously, their comps provide for and they continue to move into more and more perishables and freezer and cooled items. And so we like the business model, they are performing very well. And we continue to work with those developers on their pipelines.

John James Massocca ***Ladenburg Thalmann & Co. Inc., Research Division - Associate***

Understood. And then one last kind of quick one. Was there a big spread between cash and GAAP cap rates during the quarter? Or was it kind of a marginal spread, essentially just ballpark, will there be spread between cash and GAAP?

Joel N. Agree ***Agree Realty Corporation - President, CEO & Director***

Yes. Generally -- we generally were about 30 to 40 basis points, varies by transaction.

Operator

Our next question comes from Todd Stender with Wells Fargo.

Todd Jakobsen Stender ***Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst***

With the Home Depot being new to your top tenant list, it sounds like they're not ground leases like the Walmart. Maybe just describe what the deal contains and maybe some of the economics?

Joel N. Agree ***Agree Realty Corporation - President, CEO & Director***

Yes. So good morning, Todd. So we bought a Home Depot in Connecticut this quarter. Over 2/3s of our Home Depot exposure is ground lease. We'll continue to look to add high-performing Home Depots, again, a great retail partners of ours, obviously, a dominant player in the home improvement space. And we'll continue to add Home Depot in the fourth quarter as well as continue to add in 2020 as well.

Todd Jakobsen Stender ***Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst***

And cap rate wise, I would suspect that that's going to be in the, gosh, is it six or sub-six?

Joel N. Agree ***Agree Realty Corporation - President, CEO & Director***

That was a six, I mean, we're very rarely, if ever frankly have cracked six. That is in the, what's called the mid-six range on that transaction as well.

Todd Jakobsen Stender ***Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst***

And then back to CVS, the rent went up pretty meaningfully from Q2. I know you talked about the Greenwich asset. Did you buy anymore or that's just from that one?

Joel N. Agree ***Agree Realty Corporation - President, CEO & Director***

That is just the Greenwich asset on Greenwich Avenue, again, over 19 years of term, high-performing store, really unique irreplaceable real estate.

Todd Jakobsen Stender ***Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst***

At a pretty big price point. Is that fair to say in one asset? Is it a single tenant triple net lease?

Joel N. Agree ***Agree Realty Corporation - President, CEO & Director***

Correct. It's a single tenant triple net lease, that transaction was over -- approximately over $25 million.

Todd Jakobsen Stender ***Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst***

Okay. And then the Best Buy, so obviously consumer electronic retailer not quite in the nondiscretionary bucket that, I guess, we're used to seeing from you guys. Can you speak to the size of the real estate that you acquired, I know, some of the footprint has come down for Best Buy. Maybe just speak to what you like about the real estate and the blend-and-extend piece? How long was that lease and where did it go to?

Joel N. Agree ***Agree Realty Corporation - President, CEO & Director***

Yes. So we acquired a couple Best Buys during the quarter, the Sanford transaction, which you're referencing is a 10-year lease now, it's approximately 30,000 square foot store, high-performing unit immediate free standing, immediately adjacent to a Walmart supercenter. We also acquired a Best Buy in New York during the quarter as well. And so our Best Buy portfolio today is comprised of 6 assets: Fort Worth, Texas; Hillsboro, Oregon, immediately adjacent to a super target; Wetstyle, New York; Sanford, Florida; Visalia, California; and then Woodland Park, New Jersey. So high-performing assets. We have a great relationship with Best Buy. They are obviously the last man standing in the consumer electronics business and Hu Joly, what he started there and what he accomplished during his term as CEO and I was Executive Chairman, we think we are -- we think it is really just a wonderful and terrific example of how a retailer with a strong balance sheet and good leadership can thrive in an omnichannel world.

Todd Jakobsen Stender ***Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst***

And then just lastly. So the Tractor Supply project you are dealing is your first one with them. Can you speak to some of the economics around that? Where did you have due to get that deal? And do you expect more to come?

Joel N. Agree ***Agree Realty Corporation - President, CEO & Director***

Sure. So again, we're very pleased. We have a number of tractor supplies in the portfolio today, over 25 in the portfolio, again, a leading operator in farming rural supply. Unrelated retailer, but we suggested leverage and believe just under 2 times. So publicly traded, it's really a strong robust balance sheet. This is our first private form vacant Shopko. We acquired the vacant Shopko and they are retrofitting or redeveloping that existing building for Tractor Supply in Hart, Michigan. Those returns were in line with our historical, I'd call a PCS returns, quick turnaround for us and we'd love to continue to expand the relationship with Tractor Supply, just really a superior retailer though.

Operator

Our next question comes from [Linda Etsy] with Jefferies.

Unidentified Analyst

When you look at your year-to-date stock performance in multiple, it's clear you're serving investors well in terms of acquiring high-quality properties creatively and driving sustainable growth. That said, do you have a sense of how large this portfolio can become ultimately over the next few years? And then by extension, what do you view as a base case sustainable AFF growth rate? I know you just said that the factors are in place to stay on the same level of acquisitions headed into 2020.

Joel N. Agree ***Agree Realty Corporation - President, CEO & Director***

Look, great questions, Linda, I say, thanks for joining us. Look, in terms of how large the portfolio can grow, I kind of put my foot in my mouth a few years ago when I thought we have become a $3 billion diversified REIT. Today, we're north of $4 billion and we don't see any sign of slowing up. Look, we are in a highly fragmented space, a large space. Our capabilities, the team, individual team members continuing to do a fantastic job. And so I'm hesitant to put a cap on the size of this organization, the size of the portfolio. Most importantly, though, our mission is very clear. It's in our one-page operating strategy in bold letters. It's to create the highest-quality retail portfolio in the country. It's not the largest -- that is not the -- that is not in conjunction with being the largest operator or anywhere close. And so, look, we think we have significant runway. We think there's a vast opportunity set, we care that was a great balance sheet and a terrific team and then, let me get it get out and chop wood and execute. In terms of sustainable AFFO growth, look, we think mid-upper single digit AFFO growth and it's not difficult to people to model our growth rate given the denominator and given our acquisition investment activities is realistic for us. Our goal is to deliver double-digit total shareholder returns that on a risk-adjusted basis are, we think are superior and so that is -- we are using capital, frankly, very discriminately, very disciplined in the highest-quality assets paired with a cost of capital with sources that is very attractive today, which really provides for some meaningful spreads.

Unidentified Analyst

And just one more. In terms of being at the low end of the payout ratio on a historical basis, would that leave room to raise fee dividend more aggressively or does this just reflect a moment in time and the impact of lower equity issuance?

Joel N. Agree ***Agree Realty Corporation - President, CEO & Director***

I think it continues to allow us to raise the dividend on a consistent and transparent basis. We've effectively been on a Q2 and Q4 dividend run rate, we think that is core to our shareholders. As you pointed out, we are at the lower end of that payout ratio, which implies in the future, frankly significant room for growth, while also managing the retained earnings in the cheapest form of capital that we have to reinvest in.

Operator

(Operator Instructions) Our next question comes from Ki Bin Kim with SunTrust.

Ki Bin Kim ***SunTrust Robinson Humphrey, Inc., Research Division - MD***

So you guys bought about $250 million of assets at 7% cap rate with over 80% investment grade. So when I think about that, it is a little surprising, positively surprising. You wouldn't think you could buy that much -- with that much investment grade at 7%. So I'm just curious if you can provide a little more color behind that? And how much of the investment-grade terminology is related to the actual real estate being backed by a balance sheet at an investment grade versus a franchisee that's part of a flag best investment grade, where there isn't necessarily a credit backing behind it?

Joel N. Agree ***Agree Realty Corporation - President, CEO & Director***

So first of your last question is 0. We have no franchise restaurants or franchise operations, so this is all true investment-grade exposure. We've been net -- really net sellers of franchise operations, franchise driven or small balance sheet. So the last question is 0. The answer is 0. Look, good surprises are, look, we like providing those. I would tell you, again, it's a testament to our team. First of all, let me just speak to the quality of acquisitions because I appreciate you bringing it up, and I think it's frankly underappreciated by a number of market participants. We come from this perspective that retail, and I think everybody would agree is going through a dynamic transformation, the likes of which we've never seen inclusive of the Great Recession. I personally believe that this country is going from 24 square feet per capita on a retail basis to somewhere around 16 square feet in the medium-term. So basically, we're cutting GLA in this country down to medium term by approximately 1/3. That doesn't include the disruption that we foresee coming in a grocery space where we have nearly 40,000 grocery stores in this country, excluding Dollar Stores, warehouse stores and supercenters. And so we think that's on the horizon as well. So you have to ask yourself really we start with the preposition is, where do you see this significant GLA erosion coming from? Of course, the mall space is pretty well documented, it's pretty easily ascertainable given there is only about 1,000 malls in this country. But when you step back, the mall space only represents approximately 5%, 6% of GLA, retail GLA in this entire country. Open-air centers are approximately 30% of GLA, net lease retail is about 55% of GLA. So the bottom line is that the weaker in line and freestanding operators in this country are going to continue to erode with all the pressures that you're facing. I personally think we have another 10 years of description and adoption ahead of us in retail here. And so we're going to watch a legacy brick-and-mortar retails moved to an omnichannel world, which is very expensive. And we're watching native and online based historic online brands opening smaller formats stores and showcase their products. So we look at the retail world today and we say this is a world of haves and haves-nots and retail provider have the balance sheet flexibility, and generally, have an investment-grade credit rating absent to Hobby Lobbies or Tractor Supplies or AAA's or publics of the world that are unrated. And they have the ability to invest in price in an omnichannel future or we think they are eventually just going to die off. And so our focus is discretely on the best and brightest operators in this country and the majority of those operators carry an investment-grade credit rating. And so we are going to continue to leverage all of our capabilities and all of our resources and all of our relationships to focus on those retailers that are in our proverbial sandbox. And so 1,000 basis point increase or nearly 1,000 basis point increase year-over-year and a 57% investment grade is something that I think people are going to look back on and I think they're going to appreciate in time when we continue to see more disruption here.

Ki Bin Kim ***SunTrust Robinson Humphrey, Inc., Research Division - MD***

And just following up on that last statement. 57% of your portfolio is investment grade. So is that similar where 50 -- most of that or what percent of that is investment grade at the real estate level versus the franchisee thing we were discussing earlier?

Joel N. Agree ***Agree Realty Corporation - President, CEO & Director***

Again, no -- there is no franchise investment-grade exposure in that number. We don't score, we don't impute credit ratings. There is no franchise. So if we have a, for instance a Taco Bell franchisee, we are not imputing young brand's credit. It's the franchise credit. So that is a true investment-grade number without any third -- without any nonthird-party major agency validation.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Joey Agree for any closing remarks.

Joel N. Agree ***Agree Realty Corporation - President, CEO & Director***

Great. Well, thank you, everybody, for joining us this morning. Good look to earnings season. And we look forward to catching up in Marin, California in a few weeks. Thanks, again.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.