EDITED TRANSCRIPT

Agree Realty Corporation's
Fourth Quarter 2020 Earnings Conference Call
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CONFERENCE CALL PARTICIPANTS

Linda Tsai | Jefferies Group, LLC
Nate Crossett | Berenberg Capital Markets
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Katy McConnell | Citigroup
Wes Golladay | Robert W. Baird & Co.
Todd Stender | Wells Fargo Securities, Inc.
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PRESENTATION

Operator

Operator: Good morning, and welcome to the Agree Realty Fourth-Quarter 2020 Earnings Conference Call. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Clay Thelen, Chief Financial Officer. Please go ahead, Clay.

Clay Thelen | Agree Realty Corporation | CFO

Thank you. Good morning, everyone, and thank you for joining us for Agree Realty's Fourth-Quarter and Full-Year 2020 Earnings Call. Joey, of course, will be joining me this morning to discuss our record results for the past year.

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 for a number of reasons, including uncertainty related to the scope, severity and duration of the COVID-19 pandemic; the actions taken to contain the pandemic or mitigate its impact; and the direct and indirect economic effects of the pandemic and containment measures on us and on our tenants. Please see yesterday's earnings release and our SEC filings, including our latest Annual Report on Form 10-K and subsequent reports, for a discussion of various risks and uncertainties underlying our 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, website and SEC filings.

I will now turn the call over to Joey.

Joey Agree | Agree Realty Corporation | President & CEO

Thanks, Clay. And thank you, everyone, for joining us this morning. Before I begin, I would like to wish all of our listeners and their families health and safety as we continue to navigate these very difficult times.

Despite the incredibly challenging circumstances, our team had a tremendous year, achieving a number of notable milestones, including record investment activity of $1.36 billion, nearly doubling our previous record in 2019; adding 325 properties to our growing portfolio; the acquisition of 18 Walmart stores, cementing Walmart as our top tenant at 7.3% of annualized base rent; increasing our investment-grade exposure by 930 basis points to 67.5% of ABR; executing our inaugural public bond offering and receiving a BBB investment grade rating from S&P; and, lastly, surpassing $4 billion in equity GAAP and $5 billion in total enterprise value.

Just as important, we continued to invest in our people, adding 12 team members across an array of functions, as well as additions in our systems, with our state-of-the-art database driving tremendous efficiencies. These investments will enable us to continue on our robust growth trajectory. While we achieved yet another record year of record acquisition volume of $1.31 billion, our continued focus on best-in-class omnichannel retailers is demonstrated by nearly 84% of annualized base rent acquired being derived from leading investment-grade retailers.

Our laser-like focus is further cemented by the ground lease opportunities that we executed on during this past year. We added 26 ground leases to our portfolio during 2020, representing over 12% of annualized base rents acquired, increasing our overall ground lease exposure to 9.6% of our total portfolio. Several notable ground lease assets were acquired during the year, including our first Wegmans in Chapel Hill, North Carolina; 5 long-term Wawa convenience stores; 3 Walmart's, 2 Home Depots, 2 Aldi's, 2 Sheetz convenience stores; and a Lowe's in Toledo, Ohio. As a reminder, our ground lease portfolio derived more than 92% of rents from investment-grade tenants and is comprised of the country's premier retailers. We continued to identify additional compelling opportunities to add assets to this portfolio and I look forward to updating you in upcoming quarters.

We closed out the year with a strong fourth quarter, investing $363 million in 106 properties across our 3 external growth platforms. Consistent with our focus on quality throughout the year, more than 83% of annualized base rents acquired during the fourth quarter are derived from retailers with an investment-grade credit rating and more than 19% of annualized base rents acquired were derived from ground lease assets. The 100 properties acquired during the fourth quarter are leased to 31 tenants operating in 18 distinct sectors, including off-price retail, home improvement, auto parts, general merchandise, dollar stores, convenience stores, grocery stores and tire and auto service. The properties were acquired at a weighted average cap rate of 6.4% and had a weighted average lease term of 11.6 years.

Our pipeline heading into 2021 is robust and I am very pleased with our progress to date. As indicated by our initial acquisition guidance of $800 million to $1 billion, we are confident in our team's ability to aggregate high quality transactions comprised of leading omnichannel retailers.

Consistent with our initiative to ReThink Retail, we continue to construct a net lease portfolio with sector-leading operators that are well positioned to succeed in an omnichannel world. During this past year we added Kroger to our top tenants list, while reducing exposure to Mister Car Wash and Dave & Buster's, who are no longer amongst our top tenants.

As mentioned, at year end our portfolio's investment grade exposure stood at more than 67%, representing a year-over-year increase of more than 900 basis points and a 2-year stacked increase of more than 1,600 basis points. Our focus on best-in-class retailers will continue as we continue to not see it prudent to move up the risk curve.

Moving on to our Development and Partner Capital Solutions platforms, we had 12 Development and PCS projects either completed or under construction during the year, that represent total capital committed of more than $43 million. Nine of these projects were completed during the past year, representing total investment volume of approximately $31 million. Two of these projects were commenced during the fourth quarter, with total anticipated costs of just over $6 million. The projects consist of a Burlington in Texarkana, Texas and a Gerber Collision in Buford, Georgia. Construction continued during the fourth quarter on the Company's first development with Grocery Outlet in Port Angeles, Washington, which is expected to be completed in the second quarter of 2021.

Subsequent to quarter end, we commenced construction on our first 7-Eleven development in Saginaw, Michigan. 7-Eleven will be subject to a 15-year net lease upon rent commencement, which is anticipated to take place in the first quarter of 2022.

The continued growth of our pipeline demonstrates our efforts to expand our relationships with best-in-class retailers and leverage our 3-pronged external growth platform. These capabilities continue to produce opportunities that fit very nicely within our portfolio.

While we've fortified our portfolio through record investment activity, we have also diversified our portfolio during the year through strategic asset management and disposition activities. We sold 17 properties for total gross proceeds of just more than $49 million in 2020. These dispositions were completed at a weighted average cap rate of 7.1%. Notably, we sold 12 franchise restaurants during this past year, reducing the Company's franchise restaurant exposure to a mere 1.2% of annualized base rents at year's end.

Our asset management team remained diligently focused on addressing our upcoming lease maturities. As a result of their efforts, at year end our 2021 lease maturities stood at just 0.9% of annualized base rents, representing a year-over-year decrease of 170 basis points. During the fourth quarter we executed new leases, extensions or options on approximately 82,000 square feet of gross leasable area. For the full-year 2020 we executed new leases, extensions or options on approximately 518,000 square feet. Notable new leases, extensions or options included new 20-year leases on 3 Wawa convenience stores located in the Mid-Atlantic; a Dick's Sporting Goods in Boynton Beach, Florida; and a Giant Eagle in Ligonier, Pennsylvania. As of December 31st, our rapidly growing retail portfolio consisted of 1,129 properties across 46 states. This represents approximately a 38% increase in total property count over the course of just one year.

The strength of our carefully constructed portfolio was reflected in our collections data for 2020. During the year we received second, third and fourth-quarter rental payments originally contracted for in those quarters from 95, 98 and 99% of our portfolio, respectively. During that past year we also entered into deferral agreements for second and third quarters of 2% and less than 1% of fourth-quarter rents, respectively, net of repayments received. In January of this year we saw a continuation of these collection trends as we again collected 99% of rent. This marks the fifth consecutive month of 99% collections for our portfolio.

I will again highlight that our collections data includes both base rent and recurrent operating cost reimbursements. In addition, we include base rents and operating cost reimbursements charged to tenants in bankruptcy and have not made any COVID-related adjustments to the denominator when making these calculations. Our goal remains to provide complete and transparency to our investors and actual collections data.

As evidenced by our increasing investment-grade exposure, our expanding ground lease portfolio, our minimal near-term lease rollover and our leading rent collections, our portfolio is better positioned than it has ever been.

In January we launched our ReThink Retail initiative to challenge the misperceptions about the future of brick-and-mortar retail and highlight why net lease properties, and specifically our portfolio, is exceptionally positioned in an omnichannel retail world. Our newly launched website to include resources regarding our portfolio, as well as our first white paper, which provides our perspective on omnichannel retail. We will be putting out additional materials in the coming weeks focused on the dynamic nature of retail and how Agree Realty is positioned to capitalize on this landscape. I would encourage everyone to visit our new website and please provide any feedback as we continue to build out the content portal.

In January we also announced the conversion to a monthly dividend. The conversion to a monthly dividend is a testament to the reliability and consistency of our portfolio's operating cash flow, as well as the increased individual investor participation in the equity markets.

Lastly, I'd like to take a moment to welcome Karen Dearing to our Board of Directors. Many of you are very familiar with Karen as she serves as the Chief Financial Officer and Executive Vice President of Sun Communities. We're very excited to add Karen's accounting, finance, capital markets and REIT industry experience to our board. I look forward to her many insights and experiences as we continue to scale our growing and dynamic company.

I'll hand the call over to Clay and then we can open it up for any questions.

Clay Thelen | Agree Realty Corporation | CFO

Thank you, Joey. I'll start by providing a balance sheet update and an overview of our capital markets activities during the year. We were very active in the capital markets this past year, having raised or settled a record of nearly $1.5 billion, fortifying our balance sheet and positioning us for growth. In addition to external capital raised, we also generated approximately $85 million through our disposition activity and free cash flow after dividend during the year.

Some of our notable capital markets activity from the year includes $575 million of net equity proceeds raised or settled through our ATM program; a follow-on public offering of 2.9 million shares of common stock, including the underwriters' over-allotment option, for net proceeds of approximately $170 million; an underwritten public offering of 6.2 million shares of common stock in connection with a forward-sale agreement in which the shares were sold to Cohen & Steers. We settled the offering in tranches during the third and fourth quarters, realizing net proceeds of $355 million. And the completion of our inaugural public bond offering for $350 million of 2.9% senior unsecured notes due in 2030. Accessing the public debt markets represents an important milestone for our company, which we anticipate representing a meaningful source of capital in the future.

Subsequent to year end we completed an overnight offering of approximately 3.5 million shares, including the underwriters' option and received net proceeds of approximately $222 million. The proceeds were used to pay down our revolving credit facility, fund acquisitions and development activity and for working capital. Inclusive of the January offering, anticipated net proceeds from our outstanding forward equity and availability under our credit facility, we have nearly $700 million in liquidity.

As of December 31, our net debt to recurring EBITDA was approximately 4.8x. Pro forma for the settlement of our outstanding forward equity offerings, our net debt to recurring EBITDA, was approximately 4x. Total debt to enterprise value at year end was approximately 23.4%, while fixed charge coverage, which includes principal and amortization, remained at a Company record of 4.8x.

Moving to earnings, core FFO was $0.84 per share for the fourth quarter and $3.23 per share for the full-year 2020, representing 3.8% and 4.8% year-over-year increases, respectively. AFFO was $0.83 per share for the fourth quarter and $3.20 per share for the full year, representing 4.8% and 6% year-over-year increases.

During the past three quarters, we have elected to treat COVID-19 deferrals as delinquent receivables and our FFO measures include this revenue. On a quarterly and full-year basis, core FFO per share and AFFO per share were impacted by dilution required under GAAP related to our recent forward equity offerings. 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. The aggregate dilutive impact related to these offerings was roughly $0.01 to both core FFO and AFFO per share for the fourth quarter and approximately $0.03 for the 12-month period.

General and administrative expenses in 2020 totaled $20.8 million. G&A expense was 8.4% per total revenue, or 7.9% excluding the noncash amortization of above- and below-market lease intangibles. Given the recent changes to the leadership team and newly or recently amended employment agreements, G&A expense as a percentage of total revenue increased slightly year over year. For 2021 we expect that G&A expenses as a percentage of revenues will decrease approximately 100 basis points.

Income tax expense for the full year 2020 totaled $1.1 million. For 2021 we anticipate total income tax expense to be in the range of $1.4 million to $1.6 million.

The Company paid a cash dividend of $0.62 per share on January 6th to stockholders of record on December 31, 2020, representing a 6% year-over-year increase. This was the Company's 107th consecutive cash dividend since our IPO in 1994.

For the full year, the Company declared dividends of $2.405 per share, a 5.5% year-over-year increase. Our payout ratios for the fourth quarter were a conservative 74% of both core FFO per share and AFFO per share, respectively. For the full year 2020 on a per-share basis, our payout ratios were 75% of both core FFO and AFFO, respectively. These payout ratios continue to reflect a growing and very well covered dividend.

As Joey highlighted, in January we announced the transition to a monthly cash dividend and have since declared monthly dividends for January and February of $0.207 per share. This monthly dividend reflects an annualized dividend amount of just over $2.48 per common share, representing a 6.2% year-over-year increase.

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

Joey Agree | Agree Realty Corporation | President & CEO

Thank you, Clay.
At this time, Operator, we'll open it up for any questions.

QUESTIONS AND ANSWERS

Operator

We will now begin the question-and-answer session. [Operator Instructions] And the first question comes from Linda Tsai with Jefferies.

Linda Tsai | Jefferies

Could you just give us more color on your investor outreach to retail investors -- the new website, white papers, TikTok? Do you have a systematic strategy for this initiative? And how do you measure participation? How familiar are retail investors with net lease REITs?

Joey Agree | Agree Realty Corporation | President & CEO

Good morning, Linda. I appreciate the question. And I didn't realize we had a TikTok account. I think that may be my children. But, look, I think first and foremost the important piece was to build the infrastructure out here in terms of investor acceptability, so the new website, the Rethink Retail campaign, the industry insights inclusive of the white papers. And then we'll use different social media tools as well as other tools to continue to build out the individual investor strategy that we have, which is truly a medium-term platform for us, and we think is an incremental approach to our shareholder base. So it's not a whole change of direction here, but it's incremental and I think it's additive longer term to our shareholder base.

Linda Tsai | Jefferies

Thanks. And then, we saw in the news that Kroger's pitching a portfolio of 28 stores under its Fred Meyer banner. Is this something you're looking at and do you view this as indicative of the potential for more increased sale/leaseback deals coming to market in 2021?

Joey Agree | Agree Realty Corporation | President & CEO

Yes. I'm sure the team here will look at it. Retailers, they have access still with a historically low-rate environment [in] the unsecured debt markets there are retailers that are looking at sale/leasebacks. I would remind everyone that's not a predominant means of growth for us, although we explore all opportunities. We have seen that portfolio which you're referencing, and I'm sure the acquisition team will look at it. But for that to hurdle, it would have to not only hurdle from an earnings perspective or a -- it would also have to hurdle from a real estate perspective.

So, I'm sure we'll look at it like we do everything, but our typical MO of aggregating one-off isn't going to change soon.

Linda Tsai | Jefferies

Thanks. And then just a question for Clay. You talked about the 12 members you added to your team. Are there any other additions you need? And then in terms of the G&A going down 100 bps, could you provide a dollar range, too?

Clay Thelen | Agree Realty Corporation | CFO
Good morning, Linda. Appreciate the question. Look, in terms of building out the team, Joey mentioned 12 team members were added in 2020. That's in addition to the investment we made in processes and systems as well which, as a growing company, we continue to make and continue to invest in the business. So, in terms of additional hires, we'll continue to invest in the business. We'll continue to hire more and bring on new team members as the Company grows.

And that 100-basis-point reduction in G&A is reflective of continued growth in G&A. If you look back at where G&A has kind of grown or trended the past couple years, it's grown between 20 and 25% the past couple of years. And that's obviously with meaningful growth in revenues as well.

I won't provide a range in terms of dollars for the year, but we're certainly targeting 100-basis-point reduction as a percentage of revenues, which we think represents just the continued scaling of the Company.

Linda Tsai | Jefferies
Thanks.

Operator
The next question comes from Nate Crossett with Berenberg.

Nate Crossett | Berenberg Capital Markets
I was wondering if you could give some color on the outlook for pricing for this year. I know it's been pretty stable the last 6 months or so, but are you seeing any changes in competition or pricing? What should we expect in terms of yields?

Joey Agree | Agree Realty Corporation | President & CEO
Good morning, Nate. Pricing and interest rates and demand, there's causal here. Correlations are very difficult to determine. With the recent increase in the 10-year, I'd be hesitant to give any pricing forward-looking guidance. We've seen fairly static pricing, cap rates either in the same place, potentially marginally lower earlier in the year, or late last year I really should say. But, again, there's a lot of moving pieces here. As I think I mentioned on the last call, I think also which is very difficult to quantify, net lease specifically is one of the only investible asset class I think that can be [underwritten] today. And so, I think where you're going to see additional dollars pour into the space, the vast majority of those dollars are chasing higher yield non-credit, and so it's not incremental competition to us. I don't expect any true expansion of cap rates unless we see economic volatility that's unpredictable, which we [frankly] could see. But I think cap rates will remain effectively where they are today.

Nate Crossett | Berenberg Capital Markets
Okay. Could you maybe remind us the returns that you guys get on just your Development [stuff]? And what's I guess the guidance for Development starts for the year? Or is it more just ad hoc?

Joey Agree | Agree Realty Corporation | President & CEO
Well, I'd tell you Development and PCS are both value-added prongs to our external growth platform, which are targeting 200-plus-or-minus basis points above market cap rates, obviously subject to the duration of the project. If we're just financing to own a project, it's a very different rate of return than we're looking for if we're taking a project all the way through the permitting and title and construction phase.

We don't give forward-looking guidance in terms of acquisitions in Partner Capital Solutions. Those deals can obviously have a number of hurdles in front of them and are longer duration in terms of the life cycle of those assets and the gestation of those assets. I'll tell you our pipeline on both fronts continues to grow. We continue to see a number of interesting opportunities, specifically on the PCS front.

Nate Crossett | Berenberg Capital Markets
Okay. That's helpful. Thanks. And just one last one. Can you kind of remind us how you guys just source your overall deal flow? What percent is in-house generation versus other sources today? And has that changed at all over the last year, with all the adds that you guys have made?

Joey Agree | Agree Realty Corporation **|** President & CEO
Well, I'd tell you we have a 10-person origination team lead by our Chief Investment Officer, Craig Erlich, that is regionally focused. Transactions come from all different sources and relationships, from retailers to developers, owners, from leasing brokers, investment sale brokers. Frankly, the best transactions typically come from the strangest places, as you would expect. So, it's a very wide net that we cast. I think in the deck we go through the $30-billion-plus that we've underwritten -- and that's not reviewed, but truly underwritten and spent time on in the last few years. And so, it's a wide net. It's a low batting average with high hurdles. But we'll continue to focus on best-in-class retailers and the team, and the systems are built out to continue to build this out to scale.

Nate Crossett | Berenberg Capital Markets
Okay. Thanks, guys.

Operator
The next question comes from Haendel St. Juste with Mizuho.

Haendel St. Juste | Mizuho Securities USA
So, question on your -- looking back at last year, some of the investments [indiscernible] -- 84% of the deals were I-grade. The [walts] were closer to 11 years, almost 2 years above the portfolio average and higher yields than pre-COVID. I guess I'm curious if you think looking back at 2020 will [indiscernible] will prove to be an anomaly, given maybe some COVID dislocation. Or is it realistic to think you could repeat that level of I-grade and [walts] in your deals this year?

Joey Agree | Agree Realty Corporation **|** President & CEO
Well, I would tell you I would anticipate our investment-grade exposure to tick up this year. I would anticipate our ground lease exposure to tick up this year. And that's just in the visibility which we have today. It's hard to look forward. We have, we always say, 70 days of visibility into our pipeline. So, it's hard to look forward and predict those outcomes. We're focused on that sandbox of retailers, the 25, 30 best retailers in the country. The majority of those carry investment-grade credit ratings. And we're not seeing any deviation from traditional or last year's weighted average lease term, as you mentioned.

So, I think that is -- I wouldn't say it's an anomaly. I think we are targeting the same types of retailers. And so, outcomes wouldn't deviate very far from there.

Haendel St. Juste | Mizuho Securities USA
Got it. Thank you. Question on the 1% uncollected tied to the fitness operators. It's been a few quarters now with no movement there. Is it still your expectation of receiving those rents this year? Any recent conversations with them or any update to provide there?

Joey Agree | Agree Realty Corporation | President & CEO
We continue to have conversations. We anticipate receiving those rents. [Indiscernible] are the largest operator, effectively, in the country and we anticipate receiving those rents. I think everyone acknowledges that they are not only collectible, but they are due and owing. We'll look at our remedies and our recourse and will continue to engage in dialog with them.

Haendel St. Juste | Mizuho Securities USA
Got it. And one more on [indiscernible] 1031, but maybe from a different angle. I notice that you're an UPREIT and was curious that if -- if -- 1031 is repealed, would you consider issuing OP units to sellers of assets as maybe a tax mitigation strategy? Is that something that's come up in any conversations? And what do you see the pros and cons of maybe doing that, issuing OP units in some of the transactions to the seller you're dealing with?

Joey Agree | Agree Realty Corporation | President & CEO
It's a good question. It's a tool in our toolbelt that we continue to look at with select transactions. I'll say the frictional cost of doing it for something under, call it, $20 million, $30 million probably doesn't make much sense. It's a great currency that we have. I think with Karen's addition, specifically, to the Board and some Communities' history of using OP transactions and preferred OP units brings an additional experience to the Board of Directors level. We've looked at a number of transactions. Frankly, I'm surprised that more sellers don't look for OP units of larger portfolios or larger assets. But we'll continue to evaluate opportunities to use them as currency.

Haendel St. Juste | Mizuho Securities USA
Got it. Thank you, guys.

Operator
The next question comes from Katy McConnell with Citi.

Katy McConnell | Citigroup
Could you provide some more background on the ReThink Retail opportunity in your portfolio? And then, to what extent are you starting to see increased demand from traditional mall or strip-centered tenants today, to migrate to the net lease concept because of the flexibility?

Joey Agree | Agree Realty Corporation | President & CEO
I appreciate the question. Good morning, Katy. Look, the ReThink Retail campaign challenge is -- it's really double nuanced. Right? It challenges retail investors to rethink net lease and Agree Realty and then challenges real estate investors to think of net lease in an omnichannel world.

So, I think the 3-dimensional video on the landing page demonstrates the increased capabilities, enhanced capabilities that have been accelerated by COVID, everything from lockers and BOPIS and same-day delivery and pickup. If you go to Walmart's most recent press release, I believe just 3 or 4 weeks ago, it's on our website, you can see the pickup at windows, that they are now in micro-fulfillment centers, that they are now adding to their stores. The net lease format -- and we'll come out with another white paper that compares and contrasts net lease formats, or freestanding formats, with the shopping center format -- is amenable and capable of enhancing all of those different omnichannel capabilities, in contrast to being in line, stuck in the middle of a shopping center. So, we think that omnichannel capability is unique to net lease as we continue to move to a world where 25% of sales are ecommerce-related.

The second part of your question, will you remind me real -- oh, malls and shopping centers. Look, we continue to see what I'll tell you is a slow migration of retailers rethinking their own strategies in context of this omnichannel paradigm that we're in. Now, commercial real estate has leases that range from 5 to 25 years and so these changes are always slow. I mean, there are still Sears stores and Kmarts in existence. But these changes are always slow. They take time. But you see them on the margin continuing to move.

So, for example, Chipotle today is exploring a drive-thru-only store. You see the Walmart pickup and micro-fulfillment. You see all different retailers recalibrating, adding additional drive-throughs, adding -- you can just go to any of your local stores -- adding pickup spots. The bottom line is that those modalities are not capable to be fulfilled if you're in the middle of a mall or if you're in the middle of a shopping center. The middle of a shopping center you have a front door and you have a back door. The front door is for consumer traffic. The back door is for truck deliveries, compactors and trash. And so, if you are stuck in that middle of that shopping center, you cannot effectuate a true omnichannel micro-fulfillment strategy, which we think is the future.

Katy McConnell | Citigroup
Thanks. Then just a quick follow up. Based on the acquisition pipeline assumed today, how should we think about the pace of deal volume throughout the year?

Joey Agree | Agree Realty Corporation | President & CEO
As it always does, it ebbs and flows. Our pipeline changes every day. I will tell today our pipeline is quite strong. Again, I would always emphasize not only strength in terms of size -- I sound like a broken record -- but quality. It's easy to buy things. It's easy to create short-term spreads. It's easy to ignore residual values and acquire single-purpose buildings. We simply -- we just don't play that game. Everything in our pipeline stands on its own. It's qualitatively additive to this portfolio. It's obviously quantitatively additive in terms of earnings and the bottom line. But I think if you look at our investment-grade percentage, our ground lease percentages, they keep climbing because we're focused on the best of the best and we see no shortage of opportunities to create not only short-term, but long-term value embedded in this portfolio.

Katy McConnell | Citigroup
All right. Thanks.

Operator
The next question comes from Wes Golladay with Baird.

Wes Golladay | Robert W. Baird & Co.
Just want to go back to the ReThink Retail and the pace of adoption based on the retailers. Do you think this could accelerated? I think you mentioned a longer duration of typical change. But are you starting to see maybe existing tenants wanting to modify their stores? And then maybe when you look at your existing Walmarts, will any of those be local fulfillment centers?

Joey Agree | Agree Realty Corporation | President & CEO
No news from the Walmart -- to your last question, no news on the Walmart conversion to any of these micro-fulfillment centers. I wouldn't be surprised over time if that happens. They have a number of test stores that they're either working on currently, which I think is public knowledge.

In terms of the ReThink Retail campaign, I think if you just look around and you drive to your local stores, again, you can see the changes that they're making in their format. And it has been accelerated dramatically by COVID. And we think that adoption, even in a post-COVID world, isn't going to go away. It may not be as significant, but the adoption of omnichannel -- I mean, I'll tell you, my father, my parents, they're in their mid-70s. They've used Instacart for the first time. They've stayed in their car and had groceries put in their trunk for the first time. They've used DoorDash for the first time. We're in a world where all of these modalities have been accelerated from COVID. And, frankly, the most challenging -- one of the two most challenging demographics, you have the older and then the lower income. The older demographic has used these modalities the most. I mean, these are through apps and things where typically adoption is amongst the slowest.

And so, this is coming. It is inevitable. And we think we are uniquely positioned, given our portfolio and the retailers within it and the real estate in it, to be a major player there.

Wes Golladay | Robert W. Baird & Co.
Got you. And then I guess do you have any kind of guidance for G& -- or not G&A, because you already gave G&A, but bad debt reserve? What was last year's level and then what is the normal run rate for you?

Clay Thelen | Agree Realty Corporation | CFO
Sure. So, in terms of run rate, I guess -- let me start by saying in terms of what's still uncollected for 2020 we've put some additional disclosure at the bottom of our reconciliation on Page 15 of our release.

In terms of a run rate for bad debt, we specifically identify we don't have a general reserve related to any bad debts. In terms of what was written off this year, if we go back just related to COVID specifically in terms of tenants that were moved to cash basis, that was roughly $1.5 million in total for the full year.

Wes Golladay | Robert W. Baird & Co.
Great. Thanks for the detail.

Operator
The next question comes from Todd Stender with Wells Fargo.

Todd Stender | Wells Fargo Securities, Inc.
Can we hear a little bit more about the ground leases you acquired in the quarter, maybe [going in] yield? Any annual rent escalators? And then, how much term is left, if you can characterize the [16].

Joey Agree | Agree Realty Corporation | President & CEO
Yes. Just a little color. I don't have the granular detail on a lot of those, on the individual transactions, Todd. But I'll tell you a couple transactions. We bought a Walmart ground lease in Rancho Cordoba, California, a very unique store, very unique piece of real estate. We bought a number of Wawa ground leases. Those have significant escalators within them, 20-year typically Wawa ground leases where they constructed their own C store, put their own tanks and canopies. So, a number of -- we bought another good one, is a Hannaford grocery store, paying $4 a foot in Augusta, Maine, a very unique building. I'd encourage everyone to look at that structure itself. I'm trying to think off the top of my head. A Sheetz, one or two Sheetz, similar to Wawa, industry-leading C store. Those are ground leases as well. So, a number of ground lease transactions obviously that we've identified. And we continue to see those opportunities, frankly, during this quarter and upcoming quarters.

Todd Stender | Wells Fargo Securities, Inc.
Do we have a going-in yield, particularly for a Walmart in California, or maybe the Maine property? Any range you can give us?

Joey Agree | Agree Realty Corporation | President & CEO

Yes. Generally, they vary between 5.5 and 7, low 7s, subject to terms, subject to a number of things. I'd remind everybody that our relationships with retailers enables us enhanced visibility into real estate performance, store-level coverage and other things, metrics that are important. So, we have no problem buying short-term transactions, frankly. Some of those are some of the best deals that we do. So, I'd tell you the range of yields is within the band that equates to effectively the mid-6's in this case, approximately 6.4.

Todd Stender | Wells Fargo Securities, Inc.

Thanks. That's helpful. And you don't have a lot of leases expiring in the quarter, in Q4, and you really have a modest level coming up this year. Can you maybe just share some color on how these conversations are going? We're still in COVID. What's a tenant's willingness to sign a long-term renewal, or really, they're just reverting to kind of a 5-year renewal at this point?

Joey Agree | Agree Realty Corporation | President & CEO

We anticipate most tenants that are -- basically almost all the tenants that are upcoming this year, in 2021, it's only 0.9% of the total portfolio in terms of GAAP ABR, but we anticipate them effectively all exercising options. Those options typically are 5 years.

Todd Stender | Wells Fargo Securities, Inc.

All right. Thanks. Last one. And thanks, Clay, for the color on the G&A. But just as a reminder for timing for your forward equity offerings getting settled, is it fair to assume that once you hit the 12-month mark we'll see that being settled or maybe any timing color you can provide?

Clay Thelen | Agree Realty Corporation | CFO

Sure. Hi, Todd. In terms of timing, I think how we've approached forward settlement the past couple of quarters is a good indicator in terms of settling amounts to remain within our stated leverage range of 4x to 5x net debt to recurring EBITDA. You're right in that our forward contracts allow for up to a year of settlement, or a year to settle. Our first contract that comes up is in May, so we have ample time there and flexibility in terms of when we settle. And we have roughly $50 million or so in the second quarter that will come up for settlement.

So, a lot of flexibility there. But, again, I think the past couple of quarters is a good indicator in terms of solving within our targeted range of 4x to 5x.

Joey Agree | Agree Realty Corporation | President & CEO

One comment I'd add there, Todd. I think the forwards and inclusive -- you can see in our filings any swaps that we have in place for long-term debt -- is part of an overall hedging policy for what we think is the biggest threat to this business. It's very difficult to identify internal threats in terms of credit or lease duration or in the balance sheet. It is the macro environment. And so, we've used forwards both off of the ATM and regular way, as well as swaps on the debt side to mitigate volatility and, frankly, give us some medium-term visibility into our cost of capital. And so that overall hedging policy provides for stability and visibility there. And we pair that, obviously, with what I call the brains of the organization, is the origination capability. So, I've always looked at net lease as two pieces. You have the heart and then you have the brain. The heart is your cost of capital, preserving that cost of capital to create those spreads. And then the brains are the organization executing in terms of net investment activity and high quality real estate.

Todd Stender | Wells Fargo Securities, Inc.
That's helpful. Thanks, guys.

Operator
[Operator Instructions] The next question is a follow-up from Katy McConnell with Citi.

Michael Bilerman | Citigroup
It's Michael Bilerman. Joey, just on the ground lease portfolio, which obviously has been increasing in size, how do you think about typically the returns on ground leases are going to be lower than if you're just buying the box and the ground together. And if you're not getting a commensurate decline in the cost of capital, that inequity blended, how do you sort of keep up the accretion? I mean, I get the point of the quality of the real estate and the quality of the credit, but in order to drive cash flow and drive accretion you sort of need a commensurate drop in cost of capital. So are you thinking about different structures, there's the ground lease portfolio, which is only double digit today -- just go through some of that for us.

Joey Agree | Agree Realty Corporation | President & CEO
Yes. No, we aren't reaching on ground leases, so we are creating value in many of these ground leases. We are extending leases. We're working with tenants. We're sourcing them from unique structures. Back to Todd's question, these cap rates are falling within, generally speaking, in the ranges of our traditional turnkey acquisitions.

What I think is really interesting and, frankly, almost a little bit frustrating, goes almost to segmentation theory here, is our ground lease portfolio, which is going to -- I will tell you will increase. I anticipate it being double digits by the end of Q1 and surpassing 10% of the overall portfolio, is approaching $1 billion in value. It's 92% investment grade. It's got a weighted average lease term of nearly 12 years. I'd tell you it's vastly superior to the BBB to B-plus bond index. There's tremendous upside, fantastic real estate and free buildings if they ever leave. So, I think the market is missing the embedded value in that portfolio. And we aren't reaching to construct that portfolio. We're working through a whole range of origination capabilities to find them. I'll tell you, interestingly, I mean, the Rancho Cordova Walmart that we acquired was from Alex Trebeck's estate. And we're big Jeopardy fans here and may he rest in peace, but that was literally Alex Trebeck's Walmart.

And so, these are unique opportunities that we are finding through the origination team and all of our -- the 25,000-plus contacts in our CRM system, [but] we will not reach in terms of yield there.

Michael Bilerman | Citigroup
But thinking about not getting credit for, it sounds like you're frustrated that the equity market may not be giving you the appropriate credit for that income stream. I guess are you thinking about maybe capitalizing that portfolio either through the CMBS market or another [year or so] [indiscernible] of direct secured financing against it to effectively scrape that value that you think you -- and then roll that capital in? Or maybe it's through a joint venture with an institutional partner, I guess waiting for the equity markets to distinguish your income streams, ground lease versus traditional net lease assets. I just don't know if it's going to come, and so I just didn't know how much you're spending time trying to highlight or scrape that value for shareholders.

Joey Agree | Agree Realty Corporation | President & CEO
Yes. No, it's a great question. We are in the short term or the medium term, we're not looking at different financing options to encumber that portfolio or lever that portfolio. So, we will maintain an unsecured

balance sheet. We anticipate being a consistent unsecured borrower in the investment-grade public markets. I think what's most important is we'll continue to hammer home the embedded value in that portfolio. It seems like investors have understood it in context of safehold. We think these ground leases are very divergent for those. They have enhanced credit. These are not structured leases, or structured transactions. The tenants paid for their own building and their own improvements. Again, it's 92% investment grade.

I think the true change here, and to pierce that segmentation, just philosophy there, is to continue to educate investors on the embedded value in that ground lease portfolio and in the individual pieces of real estate that we're actually acquiring. But, look, I hope that works. My expectation is that education works. It's not easy in context of a vaccine trade and in the craziness, we see in the equity markets today. But longer term, if we're unable to effectuate that, we'll look at all options, as you mentioned.

Michael Bilerman | Citigroup
Is there a public market option that was creating this portfolio, which sounds like it's over $1 billion and more to come, of creating a tracking stock or a spinoff or a separate entity, where that income stream could be capitalized differently?

Joey Agree | Agree Realty Corporation | President & CEO
I wouldn't rule it out. I think that could be a longer-term solution here. Again, I think it's an extremely unique portfolio. If you look at the relative yields of the BBB, BBB-plus bond index, you look at the term credit and embedded escalators and residual value here, if I'm a fixed-income investor I'd much rather own this ground lease portfolio than the unsecured paper for the retailers within it. So, I think we will look -- we'll always evaluate options. But I think that is an option longer term that, if we don't think we're getting the correct value and it continues this scale, that that's an option that we should look at.

Michael Bilerman | Citigroup
And, by the way, you are a TikTok star. Your interview with Benzinga on TikTok. It looks you're in a C-store, by the way.

Joey Agree | Agree Realty Corporation | President & CEO
[Laughter] Well, I don't know. Social media is everywhere, I guess. But, look, part of our ReThink Retail campaign, back to the earlier question, part of the ReThink Retail campaign involves an enhanced digital and social effort on our part. I have been anti-digital social media for a long time, but I think it's important as we expand and increase our outreach to individual investors to use those mediums, I guess inclusive of TikTok.

Michael Bilerman | Citigroup
Right. I'm expecting a dance on the conference.

Joey Agree | Agree Realty Corporation | President & CEO
Do you have a TikTok account, Michael? We'll follow you.

Michael Bilerman | Citigroup
No, I don't. [Laughter]

Joey Agree | Agree Realty Corporation | President & CEO
Is that it? All right. Operator, any other questions?

Operator
No, that's it. This concludes our question-and-answer session. I would now like to turn the conference back over to Joey Agree for any closing remarks.

Joey Agree | Agree Realty Corporation | President & CEO
Thank you for your patience, everyone. Look forward to catching up virtually during upcoming conference season. And apparently, we have a TikTok account, so please follow us. And we'll talk to you soon. Thank you.

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