EDITED TRANSCRIPT

AGREE REALTY CORPORATION

Agree Realty Corporation's
Third Quarter 2016 Earnings Conference Call
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Craig Kucera *- Wunderlich Securities*

PRESENTATION

Operator
Good morning and welcome to the Agree Realty Third 2016 Earnings Conference Call. (Operator Instructions).

I would now like to turn the conference ever to Mr. Joey Agree. Please go ahead.

Joey Agree, *Agree Realty Corporation - President & CEO*
Thank you, Operator. Good morning and thank you for joining us for Agree Realty's Third Quarter 2016 earnings call. Joining me this morning is Matt Partridge, our Chief Financial Officer.

We are very pleased to report that we had another excellent quarter, as we continued to execute in all aspects of our operations. Strong activity across our three external growth platforms, opportunistic dispositions, and a number of strategic capital markets transactions drove robust year-over-year per share earnings growth.

Let's start off with our investment activities. Total investment volume for the quarter was approximately $54.0 million, as we invested in 17 high-quality retail net lease properties.

Of those 17 real estate investments, 14 properties were originated through our acquisitions platform, resulting in total quarterly acquisition volume of approximately $49.5 million. The acquired properties are located in 11 states and are leased to 13 national and super-regional tenants. These tenants operate in 11 diverse e-commerce and recession resistant retail sectors, including the crafts and novelties, farm and rural supply, grocery, specialty retail, discount, and auto parts sectors. The properties were acquired at a weighted-average cap rate of 8.0%, with a weighted-average remaining lease term of approximately 10.6 years.

On the development and Partner Capital Solutions fronts, we completed and brought online three projects during the quarter with aggregate costs of approximately $4.6 million. The projects have a weighted-average remaining lease term of 20.0 years.

Our activity throughout the first nine months of the year has been robust. We have invested a record $246 million into 66 high-quality retail net lease properties in 20 diverse retail sectors.

Of our 66 investments through September 30th, 60 properties were sourced through our acquisitions platform, representing total acquisition volume of $234 million. We've acquired these properties at a weighted-average cap rate of 7.8%, with a weighted-average remaining lease term of approximately 10.7 years.

Given our year-to-date acquisition volume and our pipeline, we are confident in our ability to achieve our targeted acquisition volume of $250 to $275 million for 2016.

We have completed or commenced 14 development or Partner Capital Solutions projects year to date representing capital deployed or in progress totaling approximately $38 million. We remain focused on expanding our existing retailer relationships as well as creating new relationships to leverage all capabilities across our three external growth platforms.

We have completed three projects during the quarter. Our previously announced Chick-fil-A in Frankfort, Kentucky opened and commenced rent in August. Chick-fil-A previously executed a 20-year ground lease. We are very pleased to welcome Chick-fil-A to our growing portfolio.

Also within the quarter, we completed our newest Wawa development in Orlando, Florida. The project, which represents the ninth Wawa in our portfolio, is under a new 20-year ground lease and had a total cost of $2.5 million.

And lastly, the second Burger King in our venture with Meridian Restaurants was turned over in August. Located in Devils Lake, North Dakota, the project is subject to a new 20-year net lease and had aggregate costs of approximately $1.5 million.

Through September 30th, we've completed and brought online six development and Partner Capital Solutions projects with total costs of approximately $11.6 million. These projects have a weighted-average remaining lease term of approximately 17.0 years.

We continue to make progress on a number of ongoing projects as well. The Company's first Starbucks development in North Lakeland, Florida continues on schedule with rent anticipated to commence during the quarter. Total project costs are approximately $1.3 million.

Construction activities continue to progress on the Company's first Texas Roadhouse in Mt. Pleasant, Michigan. Texas Roadhouse is under a new 15-year ground lease. Total project costs are approximately $600 thousand dollars on that project.

And lastly, construction is ongoing on the Company's first partner capital solutions project with Camping World in Tyler, Texas. The project is on schedule for a second quarter 2017 delivery. Total project costs are approximately $7.5 million.

Subsequent to quarter-end, we announced five additional projects with three high-quality retailers where we've had the opportunity to expand existing relationships.

We have commenced redevelopment activities in Boynton Beach, Florida on the former Off Broadway Shoes. The redevelopment includes the existing 20,745 square foot building and the construction of a 16,000 square foot expansion area. The redeveloped, approximately 37,000 square foot space, will be wholly leased to Orchard Supply Hardware and guaranteed by Lowe's Companies Inc., an A- rated company by S&P.   The property will be subject to a new 15-year net lease and rent is anticipated to commence in the third quarter of 2017. The Off Broadway lease expiration represented approximately half of the Company's expiring rental income in 2017. With our previously acquired Orchard Supply Hardware in Sunnyvale, California, this will be the second Orchard Supply in our portfolio.

In addition to this exciting redevelopment opportunity, we also recently announced the development of a new Camping World in Georgetown, Kentucky. The project is our first ground-up project for Camping World, who has signed a 20-year net lease to occupy the premises. Total project costs are approximately $8.5 million and rent is anticipated to commence in the third quarter of 2017. Our relationship with Camping World is representative of our unique ability to leverage multiple capabilities on behalf of our retail partners.

And finally, we commenced construction on three new Burger King restaurants during and subsequent to the quarter, as part of our ongoing partnership with Meridian Restaurants. These projects are all located in Hamilton, Montana, West Fargo, North Dakota and Heber, Utah. All three projects are leased to Meridian Restaurants under new 20-year net leases. The aggregate costs of these three projects is approximately $4.8 million.

To date, we have commenced or completed construction on five Burger King restaurants as part of our partnership with Meridian to develop up to 10 new Burger King locations.

I'm very pleased with our ability to execute our investment strategy at a very high level, while maintaining our disciplined approach that emphasizes retail real estate fundamentals. We continue to combine our bottoms up underwriting with a top down focus on retail sectors that are e-commerce and recession resistant.

As we've expanded and diversified our portfolio through our three external growth platforms, we've also been keenly focused on actively diversifying through dispositions. Building on our momentum from the second quarter, our team continued to execute on opportunistic dispositions in the third quarter, with the goals of proactively reducing existing concentrations and culling the portfolio of weaker performing assets.

During the third quarter, we closed on the sales of two Walgreens, located in Rancho Cordova, California and Macomb Township, Michigan. These two sales generated $15.4 million in proceeds and represented a 5.5% cap rate on net operating income.

Year-to-date, we have disposed of three Walgreens stores for proceeds of approximately $22.7 million, at a weighted average cap rate of 5.5%.

With these most recent dispositions and the continued expansion of our portfolio, in just 9 months we have reduced our Walgreens exposure by 450 basis points to approximately 12.7%, down from 17.2% at the beginning of the year.   We anticipate further reductions as we continue to execute on our operating strategy.

As of September 30, 2016, our expanding portfolio, which remains 100% comprised of retail properties, now consists of 341 properties in 43 states, with leading retailers operating in over 25 distinct sectors.

The portfolio remains effectively fully occupied, as our occupancy held steady at 99.6% at the end of the third quarter, while our weighted average remaining lease term remains healthy at 10.8 years.

We have no remaining lease maturities in 2016, so we've been diligently addressing and focusing on our limited rollover remaining in 2017. When accounting for our Orchard Supply redevelopment in Boynton Beach, our 2017 lease maturities now represent less than $900 thousand, or 1% of annualized base rent. Our portfolio today is the strongest and most diversified it has ever been. Our top tenants include industry leaders such as Walgreens, Walmart, Lowe's, Wawa, Hobby Lobby and Tractor Supply. As of September 30th, our top three tenants make up 20.8% of our annualized base rent, down more than 5% year-to-date. Furthermore, with over 46% of our annualized base rent coming from tenants with an investment grade credit rating, we're confident in the long-term viability of our tenants and our cash flows.

With the addition of Wawa in Orlando, Chick-Fil-A and Texas Roadhouse, our distinguished ground lease portfolio continues to grow. As we've noted in prior calls, we believe there is exceptional value in this portfolio, where we are the fee simple owner and ground lessor to leading national and super-regional retailers. Approximately 90% of our ground lease rental income is derived from tenants with an investment grade credit rating. This portfolio represents nearly 8% of our total base rental income and is just another reason why we believe our portfolio presents an extremely attractive risk-adjusted investment for our shareholders.

As we've continued to highlight throughout the year, we are becoming increasingly focused on retailers that are not only e-commerce resistant, but those that are successfully operating a well-defined omni-channel strategy, offering a value proposition or a unique customer experience that validates their brick & mortar presence.

Today's dynamically changing retail landscape and shifting consumer behaviors continue to reinforce our investment strategy. We believe the future of retail is centered around perceived value, customer service, convenience, adaptability and speed. While traditional brick & mortar retailers are continuing to evolve, we are now seeing notable digital retailers such as Amazon laying the initial groundwork for their complementary brick & mortar presence.

Retail net lease real estate benefits from a number of strategic characteristics that make it the format of choice in an omni-channel retail landscape. Physical characteristics such as strong visibility, ease of access and parking, combined with the ability to accommodate drive-thru and pick up windows, are critical aspects of a contemporary brick & mortar presence. The recent news of Amazon's entry into the grocery space with a free-standing concept, along with Walmart's initiative to add pick up windows to their stores only serves to reinforce our thinking. As this shift continues, we believe our portfolio and retail net lease space in general are extremely well-positioned.

With that, I'll turn it over to Matt to discuss our third quarter financial results. Matt?

Matt Partridge, *Agree Realty Corporation - CFO*
Thanks, Joey. Good morning, everyone. Before I begin, let me quickly run through the cautionary language.

As a reminder, 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 Funds from Operations, or FFO, and Adjusted Funds from Operations, or AFFO. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures can be found in our earnings release.

As we announced in yesterday's press release, total rental revenue, including percentage rents, for the third quarter of 2016, was $22.3 million, an increase of 32.9% over the third quarter of 2015.

Total rental revenue was positively impacted by the acceleration of $193 thousand of prepaid rent as a result of an early termination agreement with Off Broadway Shoes to vacate the premises in Boynton Beach, Florida. I'll note, this prepaid rent acceleration is one-time in nature.
Year-to-date, total rental revenue has increased 28.3% over the comparable period in 2015 to $60.9 million.

Corporate operating leverage continued to come down in the third quarter, as our corporate G&A expenses were approximately 8.4% of total revenue, which was a 155 basis point decrease year-over-year as compared to 9.9% of total revenue in the third quarter of 2015. Year-to-date, corporate G&A as a percentage of total revenue has decreased nearly 100 bps as compared to the first three quarters of 2015.

Funds from Operations for the third quarter was $16.2 million, representing an increase of 44.1% over the third quarter of 2015. Year-to-date, FFO has increased 31.9% over the comparable period in 2015 to $42.6 million.

Adjusted Funds from Operations in the third quarter was $15.8 million, which represented an increase of 41.5% year-over-year. Year-to-date, AFFO has increased 30.9% over the comparable period in 2015 to $42.2 million.

On a per share basis, FFO increased 11.0% over the prior year's results to $0.68 per share, and AFFO increased 9.0% to $0.66 per share.

FFO per share for the first nine months of 2016 increased 6.0% to $1.90 per share, whereas AFFO per share for the first nine months of 2016 increased 5.2% to $1.88 per share.

Turning to our capital markets activity, we issued 245,565 shares of common stock through our at-the-market equity program, realizing gross proceeds of approximately $12.2 million.

On July 6th, we announced $100 million of long-term, unsecured, fixed rate debt, which has a weighted average interest rate of approximately 3.87% and a blended term of 10 years. The financings were comprised of a $40 million unsecured 7-year Term Loan and $60 million of privately placed, 12-year, senior unsecured notes.

Similar to our other term loans, this new unsecured Term Loan has an interest rate based on a pricing grid over LIBOR, which is determined by the Company's leverage ratio. Through an interest rate swap, we have fixed LIBOR over the Term Loan's 7-year period. Based on our current and anticipated leverage levels, we expect the interest rate will be fixed at 3.05%.

The $60 million of privately placed, 12-year, unsecured notes, which closed in late July, are priced at a fixed interest rate of 4.42%.

Also within the quarter, we refinanced an existing $20.3 million amortizing mortgage note. The new refinanced $20.3 million term loan, which is now unsecured, matures in May 2019 and has a fixed interest rate of 3.62% through the use of an existing interest rate swap. The Company now only has secured debt representing only 6.8% of total assets as we continue our shift to an unsecured borrowing strategy.

Turning to the balance sheet, we have no debt maturities in 2017 and continue to maintain one of the strongest balance sheets in the industry. As of September 30, 2016, our total debt to enterprise value was approximately 27% and net debt to recurring EBITDA was approximately 5.3 times. Our fixed charge coverage ratio, which includes principal amortization, was an excellent 3.7 times.

And finally, on October 14th, the Company paid a dividend of $0.48 per share to stockholders of record on September 30, 2016. This was the Company's 90th consecutive cash dividend since its IPO in 1994. Our FFO and AFFO payout ratios for the quarter, which were 70.9% and 72.8%, respectively, were lower than normal because of reduced operating expenses and the prepaid rent acceleration from Boynton Beach, Florida.

Year-to-date, our FFO and AFFO payout ratios were 75.2% and 75.9%, respectively, reflecting a very well-covered dividend at the lower end of our targeted ranges.

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

Joey Agree, *Agree Realty Corporation - President & CEO*
Thank you, Matt.

Lastly, I would like to welcome Merrie Frankel to our Board of Directors. Merrie joins us after an extensive and impressive career in the real estate industry, most recently serving as Vice President and Senior Credit Officer at Moody's Investor Service. We are really very pleased to have Merrie join our already fantastic Board of Directors and look forward to working with her for years to come.

I appreciate everyone's patience. That completes our prepared remarks. At this time, we will open it up for questions.

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. (Operator Instructions).
Collin Mings of Raymond James.

Collin Mings, *Raymond James; Analyst*
To start, Joey, maybe just touch on how you're approaching movie theaters right now, and specifically the deal that moved Carmike into the top tenant list.

Joey Agree, *Agree Realty Corporation - President & CEO*
Sure. So, we have two movie theaters in our portfolio today; both are Carmike. Obviously, those are pending the AMC acquisition, which I believe is scheduled to be approved in November. We believe movie theaters are an aspect of a net-lease portfolio. Movie theaters will continue to be a small minority, low single digits in our portfolio in the aggregate. But, in terms of experiential retail and e-commerce resistance and recession resistant, the movie theater industry has demonstrated strongly that it's here to stay. So, we've acquired two new movie theaters both Carmikes, and we're happy with both acquisitions.

Collin Mings; *Raymond James; Analyst*
Okay. And just much more broadly as far as the acquisition pipeline and then more specifically within that, you've talked a lot about multi-tenant net lease properties before. It looks like there's a report that you guys have acquired an asset here in Port Arthur, Texas last week. Just maybe update us on the acquisition pipeline and then more specifically multi-tenant opportunities.

Joey Agree, *Agree Realty Corporation - President & CEO*
Sure. Our acquisition pipeline remains strong. We continue to execute across all three platforms this year. During the quarter, we acquired a number of prototypical assets for us. Tractor Supply, PPG Paints, AutoZone, O'Reilly, the one multi-tenant net lease asset that we acquired was at Hobby Lobby, Party City, and Pet Smart in Port Arthur, Texas. All brand-new leases, three boxes lined up on the hard corner,

dominant retail thoroughfare, fantastic piece of real estate, and we're excited to add all three of those tenants to our portfolio.

Collin Mings*; Raymond James; Analyst*
Can you touch on, Joey, just is there a cap rate opportunity whatever you can get for a little bit better, given the multi-tenant aspect of some of these net lease properties as you look at some of these acquisitions. And what's really the attraction there?

Joey Agree, *Agree Realty Corporation - President & CEO*
So, we really look at net lease retail a few different ways. Traditional single-tenant net lease retail freestanding boxes comprises the vast majority of our portfolio. If we're able to acquire industry leading retailers such as Hobby Lobby, Party City, and Pet Smart in Port Arthur and they share a roof, parking lot, and walls, frankly, that doesn't change our mentality. So, at times we're able to improve yield, at times we're able to work with existing relationships and potentially modify leases. You know, we also use our Partner Capital Solutions program as well in this arena. And so, we've had some great opportunities to take advantage of what we traditionally call multi-tenant net lease assets, two or three junior boxes lined up. And, frankly, we really like the real estate. So, these are dominant retail thoroughfares again. This is the hard corner here in Port Arthur, Texas, and it's a fantastic piece of underlying real estate with retailers that you have difficulty acquiring on a freestanding basis.

Collin Mings*; Raymond James; Analyst*
Okay. Very helpful, Joey. Thanks. And then one last one then I'll turn it over. You touched on this in the prepared remarks, but just as it relates to the leases you have expiring next year, can you provide a little bit more of an update on how those discussions are going? Are there extension options on some of the properties or are there some that you expect to re-tenant?

Joey Agree, *Agree Realty Corporation – President & CEO*
Sure. So, we've taken care of a significant piece of our weak maturities in 2017. 2016 we have none remaining. So, 2017 and beyond are our focus.

The early termination of the Off Broadway Shoes and the concurrent expiration of the Off Broadway Shoes allowed us to expand that former box for Orchard Supply Hardware. This will be our second Orchard Supply Hardware in the portfolio, the first in Sunnyvale as I mentioned in the prepared remarks. Both with Lowe's corporate guarantees, so fantastic credit. An exciting opportunity for us to really put one of the first Orchard Supplies in the ground in Southeast Florida in Boynton Beach.

So, that takes care of approximately half of our lease expirations in 2017. We really have five remaining lease expirations in '17, all of those have extension options. And we're currently in communication with all of them but nothing overly material. So, our 2017 lease expiration schedule's in fantastic shape right now.

Collin Mings*; Raymond James; Analyst*
Okay. I'll turn it over. Thanks, Joey.

Joey Agree, *Agree Realty Corporation – President & CEO*
Thank you, Collin.

Operator
Rob Stevenson of Janney.

Rob Stevenson*; Janney; Analyst*
Good morning. Joey, just to expand on the last question, when you look at the sort of 2.5% of the portfolio rolling in '18, you know, I don't know how much time you're spending on those with '17 still sort of front and center. But is there any sort of a known move out at this point for either the '17 or '18 expirations?

Joey Agree, *Agree Realty Corporation – President & CEO*
No, we don't have any known move-out today in '17 or '18, and we're spending our asset management team, led by Laith Hermiz our COO, spending a lot of time on both near and medium term lease expirations. We're constantly in communication with all our tenants understanding how their stores are performing, what they're seeing in the market. And so, you know, our active asset management is focused on being in front and aware of tenant store level performance and how they're performing in context of their districts and their markets. So, nothing going today. Most of the tenants all have options. We expect most of the tenants to exercise their option, in some instances frankly we'd prefer if they don't. So, we've got some fantastic pieces of real estate that are encumbered by leases including the K-mart lease in Frankfort, Kentucky, which is a fantastic piece of property maturing in 2018. So, we've got some opportunities in there and we look forward to addressing them.

Rob Stevenson*; Janney; Analyst*
When you're looking at your current acquisition pipeline, how do you characterize that relative to the fourth quarters of years' past being about a third of the way through this one? I mean similar size, similar amount of products, similar amount of yields, is there anything that is sort of changing as you see it from previous years when you're looking at what's coming across your desk today?

Joey Agree, *Agree Realty Corporation – President & CEO*
I tell you, fourth quarters are always interesting. At times, you have a flurry of activity typically driven by tax motivated sellers and at times fourth quarters can be calm and people can enjoy the holiday season. So, I tell you this year our fourth quarter is shaping up to be to be similar to our previous quarters this year, to be a strong quarter for us.

Frankly, a lot of our pipeline we're not sure at this point whether it be fourth quarter or first quarter closing. It's just simply too early to tell, but we have a number of opportunities across all three platforms that we're actively working on.

Rob Stevenson*; Janney; Analyst*
Okay. And just lastly the two Walgreens. Did you target those specifically for sale or were those just unsolicited offers that came in and you decided to hit the bid? Can you talk a little bit about that?

Joey Agree, *Agree Realty Corporation – President & CEO*
No, we specifically targeted those assets. And all three assets we've sold to date. Walgreens assets that we sold to date for sale and market them with brokers. These were all sold to 1031 purchasers. We look at our Walgreens' portfolio and all assets. We look at store level performance, demographic trends, the residuals on the real estate. Obviously, the store sales and their remaining lease term.

And from then prior to coming into 2016 we targeted specific assets of disposition candidates.

Rob Stevenson*; Janney; Analyst*
Okay. You can expect broadly any more dispositions for the remainder of the year to close in the fourth quarter here?

Joey Agree, *Agree Realty Corporation – President & CEO*
I would expect. Yes. I would expect one or two similar dispositions to close during the fourth quarter.

Rob Stevenson*; Janney; Analyst*
Okay. Thanks guys.

Operator
R.J. Milligan of Baird.

R.J. Milligan; *R.W. Baird; Analyst*
Hey. Good morning guys. Just more broadly on the acquisition side we've seen cap rates pause if not push back a little bit with some other sectors. Just curious if you're seeing any changes in the acquisition cap rate environment or any changes in the pool of potential buyers over the past couple months.

Joey Agree, *Agree Realty Corporation – President & CEO*
Good morning, R.J. We haven't seen any material cap rate compression or expansion in the last twelve to eighteen months. We've seen cap rates maintain a pretty steady level.

There's aggressive bids out there driven by 1031 all cash purchasers as well as an institutional bid for higher price point assets. I've always said we are not the best indicator or prognosticator of the market. We have larger peers who have much larger data sets, you know, because we are exploiting asymmetrical opportunities out there, leveraging our relationships, the information that we have, and looking for above market opportunities.

That said, we haven't seen any major disruption or vacillation of any cap rates.

R.J. Milligan; *R.W. Baird; Analyst*
Okay thanks. Yes, obviously using the ATM this past quarter, how can we think about what a maximum amount of equity you'd be willing to raise through the ATM per quarter? I mean given the fact that the stock price is as close to the all-time high? Just curious how you think about you know is that essentially the full amount that you would want to be comfortable issuing per quarter?

Joey Agree, *Agree Realty Corporation – President & CEO*
You know that's a good question, R.J. We look at the ATM as another tool in our tool belt. It's an effective and cost-efficient way for us to raise equity capital. It gives us the ability to match-fund purchases and capital deployment. So, it's a good tool in that regard.

In terms of overall ATM usage, we're very cognizant of the market we're targeting, of the float of our stock. And so, the last thing we want to do with be ATM is to impact share prices.

So, the ATM's been an effective tool for us. We'll continue to look to use the ATM in quarters and in the future, potentially. But it doesn't replace equity on a traditional overnight basis, but it supplements our existing tool belt.

R.J. Milligan; *R.W. Baird; Analyst*
Okay, thanks. And, Joey you guys started providing some acquisition guidance over the past couple years and I'm curious, Matt, now that you've been with the company for a while, how do you think about the pros and cons of issuing FFO or AFFO per share guidance going forward?

Matt Partridge, *Agree Realty Corporation – CFO*
Sure. I mean we talk about it, but being a small cap REIT that is materially impacted by the timing of capital makes it difficult to provide FFO or AFFO guidance right now.

You know, as we grow and things smooth out a bit, we'll take it under consideration. but at this time, you know, it's just too lumpy and too volatile for us to provide.

R.J. Milligan*; R.W. Baird; Analyst*
Okay. Great thanks, guys.

Joey Agree, *Agree Realty Corporation – President & CEO*
Thanks, R.J.

Operator
George Hoglund of Jefferies.

George Hoglund*; Jefferies; Analyst*
Hey, Good Morning guys. Just one question for me just in terms of the acquisitions and the developments that came online during the quarter, can we get some details on what kind of rent bumps are on those two different pools?

Joey Agree, *Agree Realty Corporation – President & CEO*
Sure. So, rent bumps vary obviously, asset by asset. I tell you in the development pipeline, specifically, traditional bumps are somewhere between 5% and 10% every 5 years. Typically, those are 20-year leases in the development pipeline.

On the acquisition side, frankly it's all over the board. We have assets that we've acquired that have annual bumps. We have assets that have 10% bumps every five years that we've acquired. It depends on the very nature of the underlying lease of the tenant, and then frankly what we're doing potentially in conjunction with the retailer on that lease.

George Hoglund*; Jefferies; Analyst*
Okay, thanks.

Joey Agree, *Agree Realty Corporation – President & CEO*
Sure. Thanks, George.

Operator
David Corak of FBR.

David Corak*; FBR; Analyst*
Hey guys. Just sticking with development here, I think you've talked about a target development exposure in the $50 million to $100 million range. Does that change at all as the company grows just looking at it on a relative basis to the size of the company? And then how scalable is that business? You know, what's the governor there? Is it, you know, the number of projects or the dollar size of the pipeline?

Joey Agree, *Agree Realty Corporation – President & CEO*
First, good morning, David. And thanks for joining us. I enjoyed reading your initiation on the company. So, what we've talked about historically over the past couple quarters is the medium-term goal of deploying $50 million, $100 million in the ground on an annual basis through our development and Partner Capital Solutions programs.

The real governor on that is of course relationships. This is a relationship business. Every site has its own entitlement, has its own seller, has its own lease.

And so, our focus is expanding as I think everyone has seen that we've been able to accomplish this quarter existing relationships as well as creating new programmatic relationships where we can be the developer, or partner of choice and bring the full value proposition that this company brings to the table. Being the only publicly traded net lease retail developer, we bring a balance sheet afforded to us by the public capital markets. But we also bring the expertise of a private developer. And so, retailers and our development partners understand that. And our goal is to continue to grow and scale both our Partner Capital Solutions as well as the development platform.

David Corak*; FBR; Analyst*
Okay. That makes sense. So, can you just touch on what you're seeing in terms of the market deal flow out there for development deals? I mean, can we expect another Meridian-type partnership or are these mainly going to be one off but relationship driven deals?

Joey Agree, *Agree Realty Corporation – President & CEO*
We hope so. We've been actively working with Burger King Corporate and a number of Burger King franchisees. I think the Meridian program has been a model for Burger King franchisees to show how we can parlay our expertise and our capital into helping facilitate their store expansion. So, the Meridian program has been a very fruitful program.

At the same time, outside of the franchisee world we're working with retailers such as Camping World on the new Georgetown, Kentucky ground-up project and the Orchard Supply Hardware in Boynton Beach, Florida. So, we're working with a number of retailers across retail sectors focusing on being able to create value for them and put shovels in the ground.

David Corak*; FBR; Analyst*
That makes sense. So, turning to just industry concentrated, we've talked a lot about grocery and a few other of the heavier sectors, but in terms of acquisitions can you just touch on the sectors where you want to increase exposure today?

Joey Agree, *Agree Realty Corporation – President & CEO*
Yes. There's a number of sectors that we are consistently focused on increasing exposure. And it all starts for us with that omni-channel/e-commerce lens that we approach retail with. Recession resistance is natural for us where I said before we're not acquiring Neiman Marcus or Tiffany's.

So, our focus is on discounters, is on auto parts, auto service, health and fitness, specialty retail, quick service restaurant, convenience stores. And so, those experiences in those brick and mortar destinations that frankly necessitate that brick and mortar presence and that aren't going to be translated over to e-commerce, those sales won't be translated over to e-commerce anytime soon.

David Corak*; FBR; Analyst*
Great. Thanks guys. That's all for me.

Joey Agree, *Agree Realty Corporation – President & CEO*
Thank you David.

Operator
Craig Kucera of Wunderlich.

Craig Kucera*; Wunderlich; Analyst*
You're selling your Walgreens in the mid-fives and then you're able to sort of self-fund and buy, you know,

8 CAP acquisitions which are, you know, deals that you like. When you think about your Walgreens exposure, do you have a targeted amount that you try to maybe work that down to whether it's just growing the overall portfolio and maybe selling some of those assets? Maybe it's below ten percent or are you just selectively harvesting value?

Joey Agree, *Agree Realty Corporation – President & CEO*
Well first, good morning, Craig. Our Walgreens exposure has been a focus for us that's come down obviously significantly this year and over the past two years our focus in the medium term will bring any kind of inclusive of Walgreens below that gray line of 5%. Near term we would anticipate Walgreens below 10% as we continue to grow the portfolio and selectively dispose of assets. As you mentioned, those are great spreads. You're talking about 250 basis point spreads be a disposition in redeployment to our acquisition platform. I tell you at the same time the spread between the development 9% and 10% percent year one on levered returns and 4 and 5.5 cap dispositions. We're talking about 400 basis points on average and you can see those numbers falling through our net income.

So, we're creating value on the development side. We're able to recycle those assets and redeploy them on a decretive basis into our acquisition development and Partner Capital Solutions platform.

So, we're focused on continuing to create the highest quality, most diversified retail portfolio in the net lease space. To do that we'll have to bring down any outside concentrations over the course of time here.

Craig Kucera*; Wunderlich; Analyst*
Got it. And I know a lot of things go into a cap rate, but if you had to, you know, all things being equal, what would you say the current spread is between investment grade and non-investment grade properties?

Joey Agree, *Agree Realty Corporation – President & CEO*
Oh, it's, you know. Craig, it's so tough because of the bifurcation driven by price points in our space. When you get under $2 million, $3 million dollars, your all cash purchasers acquiring fast food operations on a ground lease, or a turnkey, typically franchise operators in the low six caps today.

And so, it's difficult just to look at one set of criteria investment grade or no on a binary basis and drive to a cap rate. What we're seeing if you remove price point, if you remove real estate and real estate attribute, and then you fix a lease term we're basically seeing called 150 to 200 basis point spread there today.

Craig Kucera*; Wunderlich; Analyst*
Got it. And one more for me I know you guys did a, you know, a portfolio acquisition back in, you know, second quarter. Are you seeing any portfolios out there that are as attractive as what you saw in the second quarter or are they just, you know, the price point's just not attractive enough at this point?

Joey Agree, *Agree Realty Corporation – President & CEO*
I wish we did. I'll tell you that was the most attractive portfolio we've seen since the launch of our acquisition platform in 2010, we've never seen a diversified portfolio with the credit quality, the lease term, and the geographic concentration specifically in California as that portfolio. We wait impatiently for the next one. But frankly that was a very unique opportunity and one that we seized upon very quickly.

Craig Kucera*; Wunderlich; Analyst*
Okay, thanks guys.

Operator
Ladies and gentlemen, this will conclude our question-and-answer session. I would like to turn the conference back over to Mr. Agree for any closing remarks.

Joey Agree, *Agree Realty Corporation – President & CEO*
And with that I would like to thank everybody for joining us here today, and we look forward to speaking with you again next year when we report our year-end and fourth quarter results. Thank you everybody.