EDITED TRANSCRIPT

AGREE REALTY CORPORATION

Agree Realty Corporation's
First Quarter 2016 Earnings Conference Call
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PRESENTATION

Operator
Good morning, and welcome to the Agree Corporation first quarter 2016 conference call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note this event is being recorded.

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

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

We are pleased to report that 2016 is off to a strong start. In the first quarter, we invested over $38 million in 13 high-quality retail net lease properties. Of those 13 assets, we acquired 12 through our acquisition platform for a total investment of $33.3 million.

The acquired properties are located in 9 states and are leased to 13 national and super-regional tenants operating in 9 diverse retail sectors, including the entertainment retail, specialty retail, quick service restaurant, discount and auto services sectors.

The properties were purchased at weighted average cap rate of 7.9% with a weighted average remaining lease term of approximately 7 years.

Our first quarter acquisitions, combined with our robust potential, puts us well on our way to achieving our targeted 2016 acquisition volume of $175 million to $200 million. We are currently conducting diligence on a number of opportunities comprised of both individual assets, as well as portfolios.

On to the development front, we continue to see more opportunities to leverage our unique capabilities for a number of national and super-regional retailers. As previously announced, the Company completed its Hobby Lobby project in Springfield, Ohio, during the first quarter of 2016. The property, which is shadow-anchored by Wal-Mart, is located in the dominant retail trade area and is subject to a new 15-year lease. The development was completed ahead of schedule at a total cost of approximately $5 million.

In addition to the Company's recently completed Hobby Lobby development, construction has commenced on our previously announced Burger King in Farr West, Utah. The development has a total cost of approximately $1.6 million and is the inaugural project of our previously disclosed partnership with

Meridian Restaurants to develop up to 10 Burger King locations. The Company will own a 100% fee interest in the property upon the project's completion, and we anticipate rent to commence in the third quarter of this year.

Subsequent to quarter-end, we commenced construction on our second Burger King project in partnership with Meridian in Devils Lake, North Dakota, which like Farr West, will be subject to a new 20-year lease.

These projects are in addition to our Wawa in Orlando, Florida, our Chick-fil-A in Frankfort, Kentucky, as well as our Starbucks in Lakeland, Florida, all of which are currently under construction.

We also continue to make significant progress in our Partner Capital Solutions platform. Our three differentiated external growth platforms give us the capability to work with retailers at various points in their growth cycles, an ability that has positioned as a comprehensive solution and an uncommon and differentiated growth model in the net lease sector. As we continue to leverage our three external growth platforms, we look forward to updating you as these opportunities take shape.

We have maintained our disciplined bottoms-up underwriting approach emphasizing real estate fundamentals. We continue to couple that emphasis with a top-down focus on e-commerce resistant retail sectors. Our industry-leading portfolio is wholly concentrated in retail net lease properties, and represents a very well diversified mix of tenants, retail sectors and geography.

As of March 31, 2016, our growing retail net lease portfolio spans 42 states and consisted of 291 properties, with leading tenants that operate in over 25 distinct retail sectors.

By nearly any measure, our portfolio continues to be among the strongest in the net lease space. It is comprised almost exclusively of national and super-regional retailers with over 50% of annualized rents coming from tenants with an investment-grade credit rating.

In addition to our current acquisition, development and Partner Capital Solutions opportunities, we continue to believe that our portfolio has unique value that is attributable to our ground leased assets where the Company is a fee simple owner and ground lessor to leading retailers.

With over 8% of our total base rental income derived from these ground leases, we feel that the portfolio presents an extremely appealing risk-adjusted investment for our shareholders. Currently, 88% of these ground leases are with tenants that have investment-grade credit ratings, including JPMorgan Chase, McDonald's, all the PMC, Wal-Mart, Lowe's and Wawa. These assets are a direct reflection of the value that we can add through our development platform.

Overall portfolio occupancy rate remained 99.5% at the end of Q1. Hence, our portfolio continues to be effectively fully occupied and has a weighted average remaining lease term of 11.2 years. These metrics demonstrate a stable and long-term asset base.

As we look to our lease maturity schedule, we are in a fantastic position to maintain strong occupancy levels throughout the remainder of 2016 and into 2017. We now have no remaining lease maturities in 2016.

Last, but not least, I'd like to thank our many loyal shareholders for their continued support. Through a combination of share price appreciation and dividend growth, the Company realized a total return of nearly 15% in the first quarter of 2016, representing one of the highest total shareholder returns in the retail net lease space.

With that, I'll turn it over to Matt to discuss our first quarter 2016 financial results. Matt?

Matt Partridge, *Agree Realty Corporation - CFO*
Thanks, Joey. Good morning, everyone. Let me first 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 first quarter of 2016, was $18.7 million, an increase of 28.2% over the first quarter of 2015.

G&A expenses were approximately 10.1% of total revenue for the quarter as compared to 10.6% in the first quarter of 2015, a 48-basis point decrease year-over-year. We continue to expect decreases in corporate operating leverage as we grow the Company and realize operating efficiencies through increased scale.

FFO for the quarter was $12.7 million, which was an increase of 27.2% over 2015. Similarly, AFFO was also $12.7 million, an increase of 26.5% year-over-year.

On a per-share basis, FFO increased 8.5% over the prior year's results to $0.61 per share and AFFO increased 7.9% to $0.61 per share.

During the quarter, we repaid an $8.6 million mortgage secured by three Wawa properties in March, which represented our only debt maturities in 2016.

Also in the quarter, the Company issued 53,886 shares of common stock through its ATM program, realizing gross proceeds of approximately $2.1 million. We believe the ATM program is an efficient tool for us to reduce our overall cost of capital, improve timing and efficiency of raising capital and helps improve the liquidity of our stock.

We continue to maintain one of the more conservative balance sheets in the industry and as of March 31, 2016 total debt to enterprise value was approximately 30.3% and net debt to recurring EBITDA was approximately 5.3 times.

Our fixed-charge coverage ratio, which includes principal amortization, was a strong 3.5 times. These metrics are consistent with our targeted leverage and coverage levels and signify considerable capacity for future growth.

Finally, on April 15, the Company paid a dividend of $0.465 per share to stockholders of record on March 31, 2016, which represented a 3.3% increase over the $0.45 per share quarterly dividend declared in the first quarter of 2015. Since its IPO, the Company has paid 88 consecutive cash dividends.

Our payout ratios for the quarter were 77% and 76% for FFO and AFFO respectively, which are at the lower end of the Company's target ranges and reflect a very well covered dividend.

So we are very pleased with how 2016 is progressing and believe we are well positioned to perform at a high level through a combination of consistent execution, balance sheet strength and our emphasis on delivering attractive risk-adjusted total shareholder returns.

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

Joey Agree, *Agree Realty Corporation - President & CEO*
Thank you, Matt. To wrap up, the first quarter represented another strong quarterly performance for our Company. Our strategy has remained consistent and we've continued to grow and diversify our best-in-class retail net lease portfolio, while maintaining our capabilities through our industry-leading balance sheet. We are quite enthusiastic about our opportunities for the remainder of 2016 and beyond.

At this time, we'd like to open it up for questions.

QUESTIONS AND ANSWERS

Operator
Yes, thank you. We will now begin the question-and-answer session. (Operator Instructions). Collin Mings with Raymond James.

Collin Mings*, Raymond James; Analyst*
First question, can you touch on what drove the below-average lease term on the acquisitions that you guys completed during the quarter? They just seemed to be a bit below your Company average and some of the recent deals you've done.

Joey Agree, *Agree Realty Corporation - President & CEO*
Sure. I think first, it's a very small sample size, so to read anything into the lease term in that $33 million in acquisitions would do a disservice. I'd tell you, with that small sample size, it gives us the opportunity to articulate on some specific transactions that we executed on in the first quarter.

Specifically, we did a small portfolio working in conjunction with Aaron's Rents where they took over those stores from a franchisee; we acquired the real estate. These are our Wal-Mart out lots, fantastic underlying real estate there, but they took over from a distressed franchisee who had the ability to acquire that real estate with new buildings.

Second, we acquired our first Dave & Buster's in Austin, Texas; again, really a fantastic piece of real estate, a high-performing store. The store is already in percentage rent, really, main and main for Dave & Buster's in a unique location with underlying real estate attributes. So I think, all in all, reading into the shorter lease term of 6.9 years isn't indicative of what you'll see from us for the remainder of the year.

Collin Mings*; Raymond James; Analyst*
Okay. That's helpful color. Thanks, Joey. Switching just to the balance sheet, you guys, at the end of the quarter, had about $60 million I think on the line. Maybe update us on how you're thinking about handling that either through continued match funding with the ATM or potentially a longer term debt deal?

Matt Partridge, *Agree Realty Corporation - CFO*
Collin, it's Matt. Historically, the Company has used the ATM as bridge financing to fund the acquisition pipeline and then over the longer term, they've sourced long-term debt capital to pay that line down or equity. You should expect that we'll take a similar approach and we're evaluating the debt capital markets right now for long-term financing to pay down the line of credit.

Collin Mings*; Raymond James; Analyst*
Okay. And then maybe just on that front, Matt, just update us on what pricing would maybe for a 10-year private placement.

Matt Partridge, *Agree Realty Corporation - CFO*
I think for a 10-year private placement, you're in the low to mid-4s all-in. There's been a little bit of volatility in the 10-year treasury of late and it's run up, but pricing hasn't moved too much. Spreads tend to come in as the 10-year bounces around.

Collin Mings*; Raymond James; Analyst*
Okay. And then just one last one for me and I'll turn it over. It just doesn't look like you guys sold anything during the quarter. I know, Joey, longer term, you talked a little bit more about being a capital recycler just maybe outside just as it relates to the net lease portfolio, not just the shopping centers. Maybe just touch on your expectation as far as disposition activity through the remainder of the year.

Joey Agree, *Agree Realty Corporation – President & CEO*
We continue to maintain an active stance in terms of disposing of net lease assets; really, what we deem non-core net lease assets with a focus on reducing our pharmacy concentration. We did not have any dispositions close during the first quarter, but we're looking toward Q2 through Q4 of potentially realizing some of those transactions and recycling those proceeds.

Collin Mings*; Raymond James; Analyst*
Okay. And along those lines, still the bias is towards again that the pharmacy exposure, reducing that a little bit may be bringing down the Michigan concentration; is that fair?

Joey Agree, *Agree Realty Corporation – President & CEO*
Yes, that's fair. I think you can see our Walgreens exposure specifically came down 70 basis points just as a function of the growth in the underlying portfolio and the growth in the denominator. We've stated before pretty clearly that we're going to take an active stance in reducing that concentration and not only allow the Company to grow out of that position.

So it's a difficult market really driven by 1031 purchasers to pinpoint timing of dispositions, but we're confident that we will be able to transact on the disposition front on some of those assets through the remainder of the year.

Collin Mings*; Raymond James; Analyst*
All right. Thanks, guys. I'll turn it over.

Operator
Robert Stevenson with Janney Montgomery Scott.

Robert Stevenson*; Janney Montgomery Scott; Analyst*
Joey, just as a follow-up on the last question, if we think about what you are likely to sell this year, plus what you're likely to buy this year, can you talk about where you expect to end the year in terms of investment grade in the portfolio?

It's a little over 50% right now. Does that drop below 50% or are you cognizant of adding back for whatever you take out to keep it at that level? How should we be thinking about the way that you and the board are viewing the percentage of investment-grade tenants in the portfolio longer term?

Joey Agree, *Agree Realty Corporation – President & CEO*
That's a great question, Rob. We've been pretty clear that our driver is not, when we make investment decisions, whether or not a retailer carries an investment-grade credit rating. We're really looking for national and super-regional retailers, many of which carry investment-grade credit ratings, many of which are unrated.

As we've talked about historically and on the call today, we just wrapped up a Hobby Lobby, another Hobby Lobby. We have a Chick-fil-A in the ground currently in Frankfort, Kentucky. Those are unrated retailers. But I think if you ran them through -- we are pretty confident actually, if you ran them through a Moody's risk calc, or you did a dive into their balance sheet, they'd be investment grade. So we are not imputing any credit ratings to any retailers either; we are using the traditional ratings definitions.

So our focus is really maintaining the national and super-regional retailer perspective. It's focusing on main retail corridors. I think investment-grade exposure, as you mentioned, as we transact on the acquisition disposition, development and Partner Capital Solutions front, we will vacillate. I think our goal is to maintain a significant piece of our portfolio as investment grade, but we definitely don't have a hard line of 50% or anything of the sort.

Robert Stevenson*; Janney Montgomery Scott; Analyst*
Okay. And then what are you guys seeing in terms of incremental demand on the development side? Is that part of the business as there's a little bit of turmoil in the private markets likely to expand for you guys meaningfully; or basically, at this point, keeping it at more or less the same size going forward?

Joey Agree, *Agree Realty Corporation – President & CEO*
Turmoil in the private markets or any turmoil that you are referring to currently in the markets, that doesn't have an impact in the present. That could play out in the future. Laith Hermiz and his team here -- our Chief Operating Officer -- is doing a fantastic job working with retailers on development opportunities. We're seeing growth in our pipeline. These projects take an average of 24 months to bring to fruition.

We're seeing both external growth opportunities, but also internal growth, embedded growth, opportunities in context of our own portfolio currently. We have additional out lot opportunities. We have additional redevelopment opportunities that we are currently looking at and working on. And we look forward to really bringing everybody up to speed on those hopefully in the next quarter.

Robert Stevenson*; Janney Montgomery Scott; Analyst*
Okay. And then just lastly for me, around this time last year, the board bumped the dividend. What's been the recent discussions around the dividend going forward here?

Joey Agree, *Agree Realty Corporation – President & CEO*
Yes, so we are going to have a discussion shortly with the board regarding the dividend. Our current payout ratios, both on an AFFO and FFO basis, of 76% are at the lower end of our stated range. Our range has typically been 75% to 85%. And as Matt mentioned in the prepared remarks, that implies the ability for future growth. We've always wanted to maintain consistency and predictability with the dividend, maintain a conservative payout ratio, but a payout ratio that our shareholders continue -- really a fair yield that our shareholders continue to enjoy.

So the board will be discussing the dividend, the Q2 dividend, in the near term, and we look forward to continue to have the ability to raise the dividend in quarters and years to come.

Robert Stevenson; *Janney Montgomery Scott; Analyst*
Okay. Thanks, guys.

Operator
George Hoglund with Jefferies.

George Hoglund; *Jefferies; Analyst*
Just wondering if you could comment a bit about the acquisition pipeline and what you are seeing and how volume might ramp up over the course of the year.

Joey Agree, *Agree Realty Corporation – President & CEO*
Yes, thanks for the question, George. So the $33 million in the first quarter, we had talked historically about bringing approximately a $25 million transaction forward into Q4. So we feel like our Q1 run rate of $33 million plus that $25 million transaction we brought forward would have brought us to about $55-$58 million for the first quarter. So I wouldn't read into the Q1 run rate -- the Q1 $33 million and use that as a run rate. We're pretty confident we are going to be able to hit the $175 million to $200 million guidance that we put out earlier.

I will tell you, we've got quite a significant pipeline right now. As I mentioned, both individual one-off assets through multiple different sourcing channels that we typically find assets through as well as some small portfolio opportunities. All of these are, of course, subject to customary diligence, but we're seeing a lot of opportunities across all three of our external growth platforms, not just acquisitions.

And it's great to see the traction in the marketplace, and then being able to leverage those platforms not only on a discrete basis, but the leverage of those platforms and produce really superior risk-adjusted opportunities to what we see in the market.

George Hoglund; *Jefferies; Analyst*
Okay, thanks. And then also on the acquisition yields, 7.9% GAAP, what was the cash yield?

Joey Agree, *Agree Realty Corporation – President & CEO*
So the cash yields were in the upper 7s as well. They were due frankly to the shorter term nature of those, the cash yields were only about 10, 15 basis points out there.

George Hoglund; *Jefferies; Analyst*
Okay. And then just last one -- on the development, what are the yield on developments relative to the acquisitions?

Joey Agree, *Agree Realty Corporation – President & CEO*
Generally, we've always stated that our development yields, minimally, we look at it 250-basis point spread. That's on a float; on a variable basis, a 250-basis point spread above market cap rates. And if we're going to undertake a typical 2-year development project, we are going to be looking for that amount of cushion before we embark on a site selection entitlement and construction.

Our development yields, I will tell you, today are in the upper 9s and 10s, so we're really achieving yields here on fresh really 20 and 15-year terms on these transactions that are with some fantastic retailers and great opportunities. And that's a function of the value creation process that we undertake with development.

George Hoglund; *Jefferies; Analyst*
Okay. Thanks guys.

Operator
Craig Kucera with Wunderlich.

Craig Kucera*; Wunderlich; Analyst*
Appreciate the time this morning. Did you touch on the total expected development spend both for this year and for the entire pipeline?

Joey Agree, *Agree Realty Corporation – President & CEO*
Yes, we haven't given guidance just because of the variable nature of development and the timing, right? We don't control the timing. Many of these projects are going through entitlement, permitting and site selection process. To date, we have announced approximately $7.3 million in development. We anticipate additional announcements coming later this year, hopefully as soon as Q2.

And then we will see how the pipeline materializes throughout the course of the year. It's tough to pin down actual commencement dates, and we historically haven't announced a project until we effectively have a shovel in the ground.

Craig Kucera*; Wunderlich; Analyst*
Got it. When we looked at your non-cash comp this quarter, there was a bit of a lift from last year. Were there anyone one-time adjustments, or is that a pretty good run rate for where non-cash comp will be for this year?

Matt Partridge, *Agree Realty Corporation – CFO*
Craig, this is Matt. The non-cash comps spiked in Q1 because for the first time, the board took their fee in stock and that stock was granted in January. So we expensed that stock comp in January, so that won't be indicative of the run rate, but that's what it is due to.

Craig Kucera*; Wunderlich; Analyst*
Got it. Is that decision that the board makes, do they make that every quarter or is that for the entire year then?

Matt Partridge, *Agree Realty Corporation – CFO*
That's for the entire year, and that was a decision they chose to make. They have the option to take it in cash, but they all chose to take it in stock.

Joey Agree, *Agree Realty Corporation – President & CEO*
And then that's on an individual level, so I think it is a testament to frankly, the belief in the execution and the strategy. Every board member chose to take their board fees this year in stock rather than cash. And I think that's a great statement for the Company as well as the board members.

Craig Kucera*; Wunderlich; Analyst*
Got it. Can you talk about the acquisitions you did this quarter? We appreciated the color on the types of tenants, but do you have any sense of the store level rent coverage that you guys achieved this quarter? Or is it too difficult because some of these are larger tenants that just won't get back?

Joey Agree, *Agree Realty Corporation – President & CEO*
Typical tenants, national tenants, don't provide store level sales. I'll tell you that we do everything we can in our diligence and our investigative powers to understand the store level performance, and we also do understand the store level performance. For example, the Dave & Buster's transaction, I mentioned in Austin, that store is effectively now in percentage rents, so we understand the store level performance as well as the coverage there which is well north of 2.5 times. So most of it is anecdotal.

It will come through tenant interviews, our relationships with retailers and their real estate department as well as everything from our diligence on the ground at the store manager levels. So store level coverage, we're not writing with these leases especially in the first quarter. We are not writing new leases; we are taking subject to them. And most national retailers aren't providing that store level data.

Craig Kucera*; Wunderlich; Analyst*
Fair enough. One last one -- you historically have been buying more one-off assets. You mentioned you're looking at a couple of small portfolios. But when you talk about the larger portfolios, what kind of a portfolio premium are you seeing? Can you eyeball, in basis points, what you think some of the larger portfolios are trading more relative to where your sweet spot is?

Joey Agree, *Agree Realty Corporation – President & CEO*
Frankly, I don't think we are seeing a significant portfolio premium today as we saw in years past. I think portfolios today, there are opportunities where portfolios are trading potentially even at discounts. So the days of the portfolio premium is really driven by some of the large cap peers, as well as the non-traded vehicles snapping up assets left and right are essentially gone.

The opportunities we typically look at are either small sale leasebacks with retailers that we have the ability to then develop for and work with on an organic basis to leverage our balance sheet and execute on a sale leaseback; but then also on a go-forward basis to work on organic development and work with the real estate departments on their net new storing strategies; or diversified portfolios, diversified by tenant sector geography as well as lease term. So those are what we call mixed-bag portfolios but I think the days of the portfolio premium really driven by the non-traded entities out there I think we're past those days.

Craig Kucera*; Wunderlich; Analyst*
Okay. Then I do have one more question in that regard. Does that mean you see an opportunity to grow even faster than you have? If you find a large portfolio that really sizable pricing, your cost of capital has dropped because the stock has done so well. Do you press harder this year or are you still pretty comfortable sticking at $175 million to $200 million of acquisitions?

Joey Agree, *Agree Realty Corporation – President & CEO*
No, we are confident that our existing platform can aggregate $175 million to $200 million in unique net lease retail opportunities that are atypical to the market. We mentioned on the last call -- we got a similar question -- our cost of equity has improved. Our cost of capital has improved, but that's not going to change our bottoms-up underwriting approach.

At the margin, does it give us the ability on the margin to transact? Sure. But I think as we look forward in 2016, our core focus and our disciplined underwriting approach is still going to drive all of the investment decisions that we make.

Craig Kucera*; Wunderlich; Analyst*
Okay, great. Thanks, guys.

Operator
Dan Donlan of Ladenburg Thalmann.

Dan Donlan*; Ladenburg Thalmann; Analyst*
Just probably two questions for me here. Just going back to the development pipeline, what has been your gauge of either retailers or franchisees' willingness to expand versus years passed? Have you seen it start to accelerate? Is it pretty much unchanged over the last couple of years? What's their confidence in the future to build?

Joey Agree, *Agree Realty Corporation – President & CEO*
I think from 30,000 feet, we've seen the confidence improve. We are coming out honestly out of the great recession; consumer spending has improved marginally. I think consumer confidence obviously has improved. It really varies by sector and tenant. We obviously don't see the big-box retailers out there doing greenfield projects. That said, we see sectors, such as the fast food sector, such as the auto parts sector, and a number of others that are out there aggressively looking for new opportunities. These aren't pre-recession number of openings.

Our focus is working with the retailers that fit within our investment profile, that fit within that e-commerce resistant lens and that we can feel like we can partner with on a go-forward opportunity and deploy meaningful capital and be a material piece of their growth. Does that make sense, Dan?

Dan Donlan*; Ladenburg Thalmann; Analyst*
Yes, absolutely. I guess have you seen any retailers that have just roughly gone into a strip center or mall, a shopping center or whatever you want to call it? Have you seen any more of a willingness to explore single tenant boxes? Do you think that could that be a source of growth 5 years from now or a few years from now?

Joey Agree, *Agree Realty Corporation – President & CEO*
It's hard to look forward. I tell you, if you look at net lease retail, most retailers except some of the smaller mall-based retailers and the traditional mall anchors, will all look at freestanding formats, whether that's a junior box -- you see, freestanding Bed Bath & Beyond; you see freestanding TJX and HomeGoods combo stores today.

Most retailers who will go in a shopping center, unless they are a small tenant that feeds off of a traditional grocery anchor, will also look at freestanding formats. It frankly becomes a function of occupancy cost, right? To develop a freestanding store rather than go in line can be more expensive for them.

So I think the freestanding nature of assets, when you look at the visibility, the access, the parking, the ingress, the egress, the retail synergy that you can drive with a traditional freestanding net lease format is really a dominant format in the retail landscape today, coupled with one other thing. I think you see a lot of retailers in this Omni channel world that we are in today looking to add drive-thru's.

Wal-Mart has been very aggressive in adding pickup windows. If you want a pickup window, you either need an [end] cap, or you need to be freestanding to allow for the circulation as well as the vehicular traffic to access the exterior wall.

So I think as retailers look forward in 2016 and beyond, and they are looking in the Omni channel world, how their e-commerce presence, online ordering, physical pickup, more and more retailers are going to realize the benefits of net lease retail, and I think we are going to see more of it frankly.

Dan Donlan*; Ladenburg Thalmann; Analyst*
Okay. Thanks, Joey. I appreciate it.

Operator
(Operator Instructions). Tayo Okusanya with Jefferies.

Tayo Okusanya*; Jefferies; Analyst*
Two quick ones from me, Joey; the first one is when you take a look at what the portfolio looks like today, any particular changes you are looking to make over the next 12 months, whether it's more exposure to new market, to some particular retail category, to some particular kind of retail tenants, just as you look to further strengthen the overall quality of the portfolio?

Joey Agree, *Agree Realty Corporation – President & CEO*
I think reducing overall pharmacy is the only thing that we can point to, pharmacy exposure, and specifically Walgreens in the portfolio today. We are looking at what we believe and we are confident is the best net lease portfolio in the country. It's 100% retail; it's over 50% investment grade; got north of 11 years weighted average lease term. We have zero lease expirations remaining in 2016. And I will tell you, we've had the opportunity, since we launched the acquisition platform in 2010, and the Partner Capital Solutions platform in 2012, really to construct this portfolio anew.

So when you look at the retail landscape today and the distressed retailers that are having challenges and/or filing for bankruptcy, we have no exposure to them because frankly, since we launched the platforms, we just stayed away from them. We didn't believe in the strategies, their merchandising strategies; we didn't believe in their execution. So when you look across that landscape today, we don't have any Sports Authority's in our portfolio; we don't have any office supply stores in our portfolio.

We have been very specific with our investments in targeted sectors, and then targeted leading retailers in those sectors. And I think the results are today what you see and that portfolio, again, is -- we believe is industry-leading. We are focused on the one piece that I mentioned is reducing our pharmacy concentration, which we think is a great opportunity to divest and redeploy that capital on an accretive basis throughout the year.

Tayo Okusanya*; Jefferies; Analyst*
Okay. That's helpful. And then the second question is could you just talk a little bit about the overall rent coverage for the portfolio, and if you have any tenants in particular where rent coverage is particularly thin, maybe 1.2%, 1.3% or below?

Joey Agree, *Agree Realty Corporation – President & CEO*
Yes, so overall, rent coverage of the portfolio where we have tenants that were poor, which are traditional sale leasebacks typically with the franchise restaurant, is well over 2%. That's really our threshold. We have one restaurant in the portfolio that we acquired as part of a small portfolio transaction at the end of 2014. It was a Sonic restaurant that we immediately put on the market and disposed sub-6 cap. I think it was about a 5.5 cap that didn't meet that coverage threshold. So if we're going to enter into a lease transaction, typically a sale leaseback where we have rent coverage, we are targeting any rent coverage really north of 2 times.

Tayo Okusanya*; Jefferies; Analyst*
Great, okay. Thank you.

Operator
Thank you. And as there are no more questions at the present time, I would like to turn the call back over to management for any closing comments.

Joey Agree, *Agree Realty Corporation – President & CEO*
Great. Thank you. With that, we would like to thank everybody for joining us this morning, and we look forward to speaking to you again when we report our second quarter results. Thank you, everybody.

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