EDITED TRANSCRIPT

AGREE REALTY CORPORATION

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Agree Realty Corporation's
Fourth Quarter 2015 Earnings Conference Call
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PRESENTATION

Operator
Good morning, and welcome to the Agree Corporation fourth quarter and full-year 2015 conference call. Please note this event is being recorded.

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

Joey Agree, *Agree Realty Corporation - President & CEO*
Thank you, Emily. Good morning, everyone, and thank you for joining us for Agree Realty's fourth quarter and full-year 2015 earnings call. I'm very pleased to have Matt Partridge, our new Chief Financial Officer, joining me this morning.

Today, we believe we have the highest-quality portfolio in the net lease sector. Unique among our peers, we are solely focused on retail net lease, which provides investors a pure play in what we believe is the best risk-adjusted subsector in net lease real estate.

As of December 31st, 2015, our real estate portfolio consisted of 278 properties in 41 states. Our tenants operate in over 25 distinct retail sectors, and our portfolio continues to be effectively fully occupied in 99.5% occupancy, with a weighted average remaining lease term of 11.4 years.

Our portfolio is comprised of strong underlying real estate, fungible boxes and fantastic credit, as investment-grade retailers generate 51.9% of annualized rents across the entire portfolio. The quality of our portfolio, coupled with our focused and proven three-pronged growth strategy, as well as our industry-leading and growth-oriented balance sheet, position us very well for the future.

Moving on to our results -- capped by a strong fourth quarter, 2015 was another record year for our company. We invested or committed a record $235 million to high-quality retail net lease real estate, while maintaining our discipline and execution of our differentiated operating strategy. In doing so, we simultaneously completed the multiyear transformation of our portfolio, strengthened our robust balance sheet, and drove significant per-share earnings growth.

In the fourth quarter, we invested $65.8 million in net lease retail properties. The 14 acquired properties were purchased at a weighted average cap rate of 7.8%, with a weighted average remaining lease term of approximately 10.8 years. Over 50% of the annualized base rent from these acquisitions is derived from tenants that have investment-grade credit ratings, including leading operators in ecommerce and recession-resistant sectors, such as general merchandise, auto parts, auto service, and deep discount.

For the full year, we invested nearly $226 million into 74 retail properties located in 25 states. Our 2015 investments achieved a weighted average cap rate of 8% and a weighted average lease term of 12.2 years. The properties are net leased to 41 industry-leading tenants that operate across 19 different retail sectors. And 34% of the annualized base rent comes from tenants with investment-grade credit ratings.

Our acquisition methodology has been and continues to be a rigorous bottoms-up underwriting approach, with a focus on retail real estate fundamentals, combined with a top-down focus on ecommerce and recession-resistant sectors. Today, our industry-leading portfolio represents a well-diversified mix of tenants, retail sectors and geography; and is 100% concentrated in retail.

Moving on to the development front, where we continue to be the only REIT that specializes in retail net lease development -- we had an active second half of the year and committed nearly $15 million to development and partner capital solutions projects throughout 2015.

I'm pleased to announce that we now have an agreement in place to develop a Starbucks on the outlot that we retained upon the sale of our former shopping center in Lakeland, Florida. We expect construction to begin in the second quarter of 2016. This will be the Company's first Starbucks development.

Additionally, we have executed a 20-year ground lease with our first Chick-fil-A at a recently created outlot in Frankfurt, Kentucky. The project is under construction, and we expect rent to commence by the third quarter of this year.

Both the Chick-fil-A and the Starbucks projects are great examples of our ability to creatively source embedded opportunities within our portfolio and then execute on the development process to bring the projects to fruition. We believe that this is a capability that is unique to our company in the net lease space, and we foresee additional opportunities arising in the future.

In addition to our exciting new outlot projects, I'm pleased to announce that our cash-and-carry project in Salem, Oregon was completed in December of 2015. And our Hobby Lobby development in Springfield, Ohio recently held its grand opening on February 22nd. Both projects, which represent approximately $11 million invested, were on budget and completed ahead of schedule.

During the fourth quarter, we executed a 20-year ground lease with Wawa for the development of another convenience store with fuel in Orlando, Florida. The project has commenced construction and is anticipated to be completed during the third quarter of this year.

And finally, we are pleased to announce the initial project of our previously disclosed partnership with Meridian Restaurants for the construction of a Burger King in Farr West, Utah; which, as we noted in yesterday's press release, is about to commence construction.

We continue to make great strides in executing each of our three distinct external growth platforms. Our development, partner capital solutions, and acquisition platforms each provide an opportunity -- or, in many cases, opportunities -- for us to partner with retailers at multiple points in their growth cycles. We believe these distinct capabilities will enable our company to be the partner of choice for many retailers.

We are currently exporting opportunities including partnerships with established retailers in a number of sectors that will leverage our platforms and further demonstrate our distinctive proposition. We are excited for this momentum to continue as progress through 2016. And I look forward to updating you as these opportunities progress.

In addition to our active year on the acquisitions front and the momentum of our development and partner capital solutions programs, our asset management team made great progress in the transformation of our portfolio. In 2015, we sold eight assets for total gross proceeds of $29 million, including the disposition of three shopping centers. These dispositions allowed us to eliminate exposure to legacy assets, recycle capital, and reinvest into higher-quality, more stable retail net lease assets. These dispositions represent the completion of the Company's transformation into the highest-quality retail net lease portfolio in the industry.

A little color on that transformation -- since 2010, we have disposed of nearly $90 million in noncore assets, while simultaneously investing nearly $700 million in retail net lease properties. Our focus on aggressively diversifying our portfolio has resulted in a dynamic change in our asset base. In 2010, the NOI from our portfolio of 73 properties was nearly 30% driven by shopping centers. That number has now been reduced to 2%, with only the highest-quality assets remaining.

Our top-three tenant concentration in 2010 was 70%. Today, that number has been reduced to 25.6% -- all three of which carry investment-grade credit ratings.

From a geographic perspective, our portfolio today is well represented in 41 states across the country. That is in stark contrast to the 16 states in 2010.

And lastly, our portfolio in 2010 was heavily concentrated in just six retail sectors. Today, our tenants represent a broad cross section of over 25 retail sectors.

Moving forward, we'll continue to focus on actively managing our portfolio, including assessing dispositions, with the ultimate goal of reducing existing concentrations within our portfolio. We continue to believe there is unique value within our portfolio through our ground lease assets, where the Company is the fee simple owner and ground lessor to leading national retailers such as JPMorgan Chase, McDonalds, Aldi, PNC, Walmart, Lowe's, and Wawa.

These assets are a direct result of our development capabilities, as we continue to execute on additional ground lease opportunities, such as our Orlando Wawa and our Chick-fil-A project.

As of year-end 2015, 88% of our ground leases were with tenants that carried investment-grade credit ratings. Nearly 8.8% of our rental revenues were derived from these ground leases, which presents very compelling risk-adjusted investments for our shareholders.

As we look at our lease maturities schedule, we are in a fantastic position to maintain strong occupancies throughout 2016. As of today, we have one lease set to expire in 2016, which represents only 0.3% of our existing annualized base rent.

Lastly, I would like to thank our many loyal shareholders for their continued support. The Company achieved a total return of 16% in 2015 through a combination of dividend growth and share price appreciation, which represents the highest total shareholder return in the retail net lease space.

With that, I'll turn it over to Matt to discuss our fourth quarter and 2015 full-year financial results. Matt?

Matthew Partridge, *Agree Realty Corporation - CFO*
Thanks, Joey. Good morning, everyone.

I'd like to start by saying how excited I am to be here. I think there's a tremendous opportunity to continue the success the Company has experienced over the past few years. And I'm thrilled to join Joey and the rest of the team. I look forward to getting to know each of you on the call today.

With that, I'll move on to 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 for the fourth quarter of 2015 was $17 million, an increase of 26.2% over the fourth quarter of 2014. FFO for the quarter was $11.8 million, which was an increase of 30.3% over 2014; and AFFO was $11.6 million, an increase of 27.5% over 2014. On a per-share basis, FFO increased 5.7% over the fourth quarter of 2014, to $0.60 per share; and AFFO increased 3.4% over Q4 2014, also to $0.60 per share.

For the full year ended December 31st, 2015, rental revenue of $64.5 million represents an increase of 30.1% over the full year 2014. FFO of $44.1 million and AFFO of $43.9 million increased by 32.2% and 29.2% respectively.

2015 FFO per share of $2.39 was an increase of 10% over the full year 2014, and AFFO per share of $2.38 increased by 7.5% over 2014. G&A expenses were approximately 9.4% of total revenue for the quarter, as compared to 11.7% in the fourth quarter of 2014.

For the full year 2015, G&A as a percentage of total revenue was 10%, a 240-basis point decrease compared to 2014. We continue to anticipate G&A as a percentage of total revenues to be in the single digits in 2016, representing significant decreases in corporate operating leverage over the past few years. That's a trend that will carry forward as we continue to execute at that scale.

In December, the Company completed a common equity offering of 1,725,000 shares for net proceeds of $53 million. This was in addition to the $0.5 million the Company raised through its ATM program during the fourth quarter.

Turning to our balance sheet -- the Company continues to maintain one of the more conservative balance sheet in the industry. Total debt [to] total enterprise value as of December 31st, 2015 was approximately 30.9%. And net debt to recurring EBITDA was approximately 4.9 times. Our fixed-charge coverage ratio, which includes principal amortization, increased 3.7 times. These metrics are in line with our targeted leverage and coverage levels and reflect significant liquidity for future growth.

The Company only had $18 million outstanding on its $150 million revolving credit facility at year end, and only $8.6 million of debt scheduled to mature in 2016. Finally, the Company declared a dividend of $0.465 per share for the fourth quarter, or $1.86 per share on an annualized basis. This was the

Company's 87th consecutive cash dividend since its IPO. And the dividends declared in 2015 represent a 6% increase over 2014.

Our payout ratios for the quarter, which were 77% of FFO and 78% of AFFO, are at the lower end of the Company's targeted ranges and reflect a very well-covered dividend.

In summary, this was another exciting year for the Company. The team was able to execute another year of accretive growth, which was supported by a strong balance sheet and a portfolio that we believe is the best in the industry.

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

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

In closing, 2015 was a fantastic year for our company. With a conservative balance sheet, a great team, and a very high-quality portfolio, we feel we are well positioned to continue to execute on our operating strategy, with a goal of providing outsized risk-adjusted returns for our shareholders. In short, we expect 2016 to be another terrific year as we capitalize on our momentum and continue to execute at a high level.

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

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. Rob Stevenson, Janney.

Rob Stevenson, *Janney Montgomery Scott; Analyst*
Joey, how are you thinking about your investment opportunities today? I mean, the stock is at an all-time high. Are you opportunity-constrained if you wanted to go out there today and deploy $300 million or $400 million instead of the $170 million to $200 million in your cap rate range in your opportunity set?

Joey Agree, *Agree Realty Corporation - President & CEO*
Thanks for the question.

I think most importantly, we want to maintain our discipline and our investment parameters. Do I think we're opportunity-constrained? No, not necessarily. But at the same time, our focus is really growing and scaling all three platforms simultaneously -- acquisitions, development, and our partner capital solutions program. So we think there are opportunities discretely within each of those external growth platforms, as well as leveraging the three platforms to deploy multiple capabilities simultaneously.

So we look forward to growing each external growth platform. And I don't think we're necessarily opportunity-constrained; it's just a function of finding those opportunities and executing on them.

Rob Stevenson, *Janney Montgomery Scott; Analyst*
Okay.

You’ve got a couple of vacant assets in the portfolio. What are the plans for those? And, how are you thinking about 2016 dispositions?

Joey Agree, *Agree Realty Corporation - President & CEO*
The 2016 dispositions that I touched on in our prepared remarks really will be a shift from previous years. Our focus in the last few years has been culling and minimizing the shopping center portfolio, divesting of those assets and culminating in the three assets we disposed in 2015.

Our plans for 2016, and really beyond, are to focus on noncore underperforming assets. So, most importantly managing any existing concentrations that we have in our portfolio. We think there are opportunities to dispose of those assets, recycle that capital at attractive cap rates, and redeploy it on an accretive basis. And, most significantly, there is our Walgreen's exposure. Our focus in 2016 will be on divesting some of those assets opportunistically and redeploying that capital into high-quality net lease real estate.

Rob Stevenson, *Janney Montgomery Scott; Analyst*
What are you guys thinking in terms of today, is this $30 million, $50 million of dispositions? Could it be more?

Joey Agree, *Agree Realty Corporation - President & CEO*
No, I don't think it will be the upper end of that range. I think we'd like to see how that market materializes for us, as I think we discussed in the previous call. The challenge with that market is it's typically driven by 1031 purchasers. And certainty of execution can be challenging.

We're going to evaluate opportunities in that portfolio to divest of assets, like I mentioned. And I think we'll have a better sense of what we think the aggregate disposition volume will be probably in Q2.

Rob Stevenson, *Janney Montgomery Scott; Analyst*
Okay.

And then lastly, in terms of the vacancy in the portfolio, is that stuff that you guys are thinking to lease up, or is that disposition?

Joey Agree, *Agree Realty Corporation - President & CEO*
I think our focus would probably be to lease up. We don't have many vacancies in the portfolio. We're 99.5% occupied and so our focus, really, on dispositions will be on occupied assets in 2016.

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

Joey Agree, *Agree Realty Corporation - President & CEO*
Thanks, Rob.

Operator
Collin Mings, Raymond James. Please go ahead.

Collin Mings, *Raymond James; Analyst*
First thing for me, just going back to Rob's question, Joey, how are you guys thinking about the potential for a more transformative deal, especially given that some of your peers have talked about the potential pool of buyers for some of the larger deals out there may be a little bit shallower now than it was 6, 9, 12 months ago.

Joey Agree, *Agree Realty Corporation - President & CEO*

Yes. We evaluate all opportunities that range from $1 million up to a couple billion dollars. That said, we're focused again on really maintaining our discipline. We aren't going to stretch for a transformative opportunity or a larger portfolio opportunity that doesn't meet our existing investment parameters.

By nature, and by definition, we truly are aggregators. We're aggregators on the acquisition front and on the development front. The average price point of our transactions is just a few million dollars.

That being said, we'll look at all opportunities. We take a hard look at opportunities that are all across the board. And if we find something that we think is accretive in terms of earnings, accretive to our NAV, accretive to our overall portfolio and it fits within context of the strategy that we've outlined, we'd certainly take a look at it.

Collin Mings, *Raymond James; Analyst*
Okay.

And just along those lines, maybe just update us, too, on a pro forma basis, what would be the most tenant exposure, given the concentration already in Walgreens that you're trying to work down -- maybe what the most exposure you would look for in any additional single tenant?

Joey Agree, *Agree Realty Corporation - President & CEO*
That's a good question, Collin. As we look at our portfolio today, Walgreens is the outsized concentration. And we're aware of that, cognizant of it, and focused on both growing the Company and growing the denominator; and also being active asset managers, which is important to us in terms of evaluating potential disposition opportunities.

We don't have a hard line. Again, this is a company that's growing at 30% top-line clips over the last few years. So we don't necessarily have a hard line. And again, we want to be opportunistic when we look at opportunities.

That said, the 5% range has historically been a benchmark for us. And so we have, today, Walgreens and Walmart just exceeded that by not even a few hundred basis points. We don't anticipate them being above 5% for very long above that soft line. And again, we're not going to look to increase exposure, obviously, to Walgreens.

So we think we have some opportunities to divest of some of these assets at attractive cap rates and redeploy that capital into continued diversification efforts within our portfolio.

Collin Mings, *Raymond James; Analyst*
Okay.

Switching gears just to the capital market side of things -- just as far as debt costs, I think the last debt private placement you guys did, 11 years -- about 4.2% -- just maybe in context of the dislocation in the credit markets to start the year, maybe just update us on your cost to debt. Would the opportunity still be there to do a debt private placement? And what type of cost or spreads would you be looking at right now?

Matthew Partridge, *Agree Realty Corporation - CFO*
Yes, Collin, this is Matt. Thanks for the question.

The market has been pretty volatile of late. And that's in relation to the public market. I think spreads have maybe widened out a bit. But those, I think, will come back in as it settles down.

We're not actively in the market today. But I think where we got our last deal done is a good baseline as you see the market settle down.

Collin Mings, *Raymond James; Analyst*
Okay. So just in context, maybe the spreads of 10 years come down a little bit, but the spreads have widened a little bit -- kind of net-net, get you back to about the same pricing?

Matthew Partridge, *Agree Realty Corporation - CFO*
Yes. I think pricing is holding at all-in spreads. So as you see the 10-year fluctuate, I think the spread is going to offset that.

Collin Mings, *Raymond James; Analyst*
Okay.

And then, Matt, while I have you -- just as far as the ATM, just as you guys have continued to grow the market cap, update us on what you think would be reasonable to raise in any given quarter through ATM issuance, just given your float.

Matthew Partridge, *Agree Realty Corporation - CFO*
Yes, I mean, we'll be opportunistic with it. But it's going to be matched funding, and it's going to be in the context of a pipeline. So I'm not going to give hard numbers in terms of guidance for ATM usage in any particular quarter, but it'll be driven by the pipeline.

Collin Mings, *Raymond James; Analyst*
Okay. I mean, do you think it's fair to -- recognize you don't want to give a hard number -- is it fair to say it'd be $10 million to $15 million in any given quarter? Or is that maybe a little high? Or just some ballpark there would be helpful.

Matthew Partridge, *Agree Realty Corporation - CFO*
Our leverage levels are at the low end of our range. So I think for us, we're going to evaluate debt versus equity with where the stock is trading. And based on that evaluation, and what the pipeline looks like, that'll drive the ATM activity in any particular time.

Collin Mings, *Raymond James; Analyst*
Okay.

And then, just one last one for me -- can you just touch on your view of the health of Academy Sports and Dick's, just given the bankruptcy at Sports Authority, your take on those retailer's kind of on your tenant list, being collectively towards the higher end?

Joey Agree, *Agree Realty Corporation – President & CEO*
Sure. I wouldn't extrapolate anything from the Sports Authority bankruptcy. Academy Sports, we believe, is the premier operator in the space, with Dick's being, obviously, a close national second.

Sports Authority has had difficulties for a number of years. And so I would be careful not to extrapolate anything beyond, in terms of the overall sporting goods sector there.

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

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

Matthew Partridge, *Agree Realty Corporation - CFO*
Thanks, Collin.

Operator
R. J. Milligan, Baird.

R.J. Milligan, *Robert W. Baird & Co.; Analyst*
Joey, you talked about the development platform, as well as the joint venture capital solutions platform. But they tend to be relatively small dollars compared to the acquisition growth. And so I'm curious, how big do you want to grow both of those other platforms? Is that something that you're looking to grow? And just more thoughts on that.

Joey Agree, *Agree Realty Corporation – President & CEO*
That's a great question, R. J. And just for clarification purposes, we recently renamed our joint venture capital solutions platform the partner capital solutions, specifically just because we had some confusion, really from an investor perspective, whether those assets were truly in joint ventures or off-balance sheet.

Our partner capital solutions is really an inorganic development pipeline, which in transactions materialize in two ways. First, we will buy a transaction, which we'll call effectively ready-made or prepackaged, where we will purchase the transaction and oversee the land development and the vertical construction ourselves. And then secondly, as we did in Salem, Oregon, we will fund a developer's transaction, close on the land, and then, through a draw process, fund their construction of the asset with an offset at closing.

And so just for everybody's clarification, we renamed the program. And the goal with the program is the same as our development and acquisition. It's 100% fee simple ownership of net lease retail assets on-balance sheet.

Directly to your question, R. J., our goal is to really scale the partner capital solutions platform and development platform to $50 million to $100 million a year in the intermediate term. We like to say that that's a two- to four-year goal for us. We think the opportunities are there, both from an organic development perspective, but also working with private developers across this country to execute on their pipelines.

That being said, these platforms don't operate totally in distinct silos. Our focus, and we talked about it in the prepared remarks, is leveraging the capabilities of two or more platforms simultaneously with a retail partner or with a developer.

For instance, we have transactions where we're working with a developer on the partner side, but we will also purchase assets upon completion on the acquisition side. And the same can be materialized with retailers, where we are organically developing with retailers but also looking at sale leaseback transactions with retailers at the same time.

So we like to leverage each platform. At the same time, we have distinct goals for the amount of dollar volume, as you mentioned, that those platforms can originate.

R.J. Milligan, *Robert W. Baird & Co.; Analyst*
Okay, thanks.

And you just highlighted the fact that you signed, or renewed, a lease with JCPenney. I was wondering if there was any color behind those discussions for what's probably one of the last JCPenney leases you guys have in your portfolio, given the reduced shopping center exposure.

Joey Agree, *Agree Realty Corporation – President & CEO*
Yes, that's the only JCPenney in our portfolio. There was no discussion behind it; it was just JCPenney exercising an option there in Mount Pleasant, Michigan.

R.J. Milligan, *Robert W. Baird & Co.; Analyst*
Okay.

And I guess my last question is for Matt. Welcome aboard. What are your top two goals as the new CFO looking into 2016?

Matthew Partridge, *Agree Realty Corporation - CFO*
Thanks, R. J.

First and foremost, I think investor outreach is a big priority for me. It's a tremendous story that we have here. And getting it out to the retail and institutional investment community is a big focus of mine.

Beyond that, it's integrating into the team. Obviously, capital allocation is a big piece of the story in the net lease space, so I obviously have a hand in that. So those are two of the areas that I'm probably primarily focused on in the near term.

R.J. Milligan, *Robert W. Baird & Co.; Analyst*
Great. Thanks, guys.

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

Matthew Partridge, *Agree Realty Corporation - CFO*
Thanks, R. J.

Operator
Dan Donlan, Ladenburg Thalmann.

Dan Donlan, *Ladenburg Thalmann; Analyst*
Joey, just wanted to go back to Collin's question on portfolio deals. If you think that a portfolio fits your investment criteria and everything else, but maybe it's 25, 30, 40 basis points on a cap rate basis below where you've been acquiring on a one-off, is that something that would still be attractive, just given the type of scale that you could get with that type portfolio? Or are you still trying to narrow in on high sevens, 8% cap rate range on acquisitions?

Joey Agree, *Agree Realty Corporation – President & CEO*
Well, it's a hypothetical, and it's a good question. I think pricing is obviously an important aspect to any portfolio transaction or any transaction that we undertake. Obviously, we have some high hurdles on a one-off basis, which I think is fair to assume would also apply to a portfolio transaction.

That said, we are a bottom-up underwriter, in the sense that we're looking at underlying real estate values. We are marking to market the rents. We're looking at the fungibility of the boxes, traffic patterns, demographic patterns.

And if we see something in a portfolio that we think has fundamental real estate value, with credit and term tied to it -- and frankly, as you mentioned, fits within the context of our existing portfolio -- we will look at pricing. And can I say we'll be aggressive on pricing? Absolutely not. We're not going to be the highest bidder at any auction.

But pricing is an important component, obviously. And it's something that we take into account when we look at any transaction. It's difficult, in a hypothetical, without understanding lease structure and composition of a hypothetical portfolio.

But look, we will look at transactions, as I mentioned, from $1 million to a couple billion dollars. Our goal in the long term is scaling this company to what we believe our ideal operating size is -- $2.5 billion to $3.5 billion. We crossed the billion-dollar enterprise mark in the fourth quarter. We've tripled the size of the organization in the last few years and transformed the portfolio. We're confident, very confident, that we're going to do that again.

And whether we do that over the next few years, aggregating through acquisition, development and partner capital solutions, or where we found something that was transformative, we're going to evaluate all of them with the same lens and the same approach.

Dan Donlan, *Ladenburg Thalmann; Analyst*
Okay. That's helpful.

And then, maybe talk about cap rates going forward, your cost of capital has really come down to a good level here. Are you going to be bidding on assets that maybe your cost of capital prevented you from buying? Or are you still sticking to an 8% hurdle rate on future acquisitions?

Joey Agree, *Agree Realty Corporation – President & CEO*
First, we aren't entering bids and auctions on assets. That's first and foremost. That's not our business. We're cognizant of our cost of capital, we're cognizant of the decrease in our cost of capital, with the stock performance over the last 15 or so months.

That being said, we have been pretty consistent, not only to our execution but also how we've articulated our strategy, that we are value creators across all aspects of our business. And for us to simply enter into auctions, or be competitive in terms of our large-cap peers entering into large sale leaseback transactions or portfolios, that's just not our DNA. It doesn't fit within the core values of the organization; it doesn't surpass or muster weight in our underwriting criteria.

So we've always said that when we do, and we're confident that we will, benefit from a decreased cost of capital and we are benefitting from that today relative to where we were 18 months ago and two years ago, we think our spreads will widen out in terms of our investment activity.

So we're not going to remake our investment parameters. It gives us the ability, if something is potentially on the margin, to execute. But we're not going to remake the DNA of this company or change our underlying investment parameters.

Dan Donlan, *Ladenburg Thalmann; Analyst*
Okay. That's comforting to hear.

As far as the lease roll goes, you have hardly anything this year and still kind of de minimis in the following two years, I was just curious, how much of that is from the three shopping centers that you guys still own.

Joey Agree, *Agree Realty Corporation – President & CEO*
How much of the near-term lease roll?

Dan Donlan, *Ladenburg Thalmann; Analyst*
Yes, the near-term lease roll, let's say, the lease roll of the next three years. I mean, is it 50% shopping centers? What percentage is from the shopping center portfolio in the next, call it, two, three years?

Joey Agree, *Agree Realty Corporation – President & CEO*

So we effectively have two-and-a-half shopping centers remaining in the portfolio. We're currently in the process of adding outlots to those shopping centers. And so the near-term lease roll on those shopping centers, there is some near-term lease roll, really small-tenant lease roll, in those shopping centers.

We have a Kmart expiration in 2018, I believe, in Kentucky. We'd love to get those assets back, frankly. We think they are significantly below market. The two shopping center-based Kmarts that we have in the portfolio are paying effectively $2 a square foot; one on a net basis, one on a growth basis. The net basis, if you work that down to a triple net lease, is effectively paying $35,000 a year on an 86,000-square foot box and has an outlot opportunity in the parking lot. So we would love to get those assets back in the intermediate term there.

In 2017, we have an opportunity in Boynton Beach, Florida, where we have a former sublease from Borders, which is leased to Off Broadway Shoes, a regional operator; they have no options left in 2017. There's a potential expansion area adjacent to the store. We could have a great embedded opportunity there as well.

So, as you mentioned, we have one lease rolling this year, and we're pretty confident that tenant is going to exercise an option. And then, 2017 and 2018, we're talking about 1.7 million and 1.5 million offhand, with probably about a quarter of that rolling in the shopping center portfolio.

Dan Donlan, *Ladenburg Thalmann; Analyst*
Okay. Appreciate the color.

And then, last question for Matt -- and Matt, welcome to the exciting world that is net lease.

Matthew Partridge, *Agree Realty Corporation - CFO*
Thanks, Dan.

Dan Donlan, *Ladenburg Thalmann; Analyst*
I was just kind of curious -- the property taxes seemed to spike up quarter over quarter. And I was just curious if there's anything one-time-ish in that, or is that kind of a good run rate for us going forward?

Matthew Partridge, *Agree Realty Corporation - CFO*
Yes, good question.

I don't think there's anything significant that's one-time. Obviously, the property taxes get reset in the summer. So part of that is just the resetting of the rate. So I think that's probably a little high for a run rate, but it's not going to come down materially.

Dan Donlan, *Ladenburg Thalmann; Analyst*
Okay. Thanks. Have a good weekend.

Matthew Partridge, *Agree Realty Corporation - CFO*
Thank you, you too.

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

Operator
(Operator Instructions) Craig Kucera, Wunderlich.

Craig Kucera, *Wunderlich Securities; Analyst*
I had a question on the acquisitions you did here in the fourth quarter. And I think your cap rate was maybe 20 to 30 basis points inside of what you've been doing for most of the year. Was that a function of where the market went or was that sort of mix related towards more investment-grade? Or can you give us some color on kind of what you're seeing?

Joey Agree, *Agree Realty Corporation – President & CEO*
Yes, I wouldn't read into it too much. We were 18, 19 basis points effectively off where we were in the prior quarter. For the year, we were still at that 8%. It's really a function of just a couple transactions that we have in there, opportunities that we saw in the market we took advantage of. I wouldn't read into that on a run rate basis on a go-forward.

We made some fantastic acquisitions during the fourth quarter. It was a testament to our team uncovering opportunities that we think are great fits within our portfolio. Some of the tenants -- Mattress Firm, Verizon Wireless, Advance Auto Parts. We obviously acquired a Walmart in the fourth quarter, a DSW, which was the first DSW in our portfolio.

So some great opportunities in there, some opportunities we were able to negotiate early exercise of options or, quote-unquote, blend-and-extend opportunities; some off-market opportunities, where we really uncovered some value. So I wouldn't read into that too much.

Craig Kucera, *Wunderlich Securities; Analyst*
Okay.

As you look at the leverage of Agree over the past several years, the Company's overall leverage has increased and I would like to put that in the context of Matt's comments about being at the lower end of leverage. Matt, how are you thinking about where the band is or at least the spectrum of where leverage should be for Agree going forward?

Matthew Partridge, *Agree Realty Corporation - CFO*
I think, offhand, I think it's probably somewhere between five and six times net debt to EBITDA, keeping in mind we don't have any preferred equity. So in the context of the peer group, that's still relatively lowly levered, when you factor in the preferred. I think from a capital allocation standpoint, we're going to probably take a conservative approach to the balance sheet, as we've stated and as you guys would expect.

Joey Agree, *Agree Realty Corporation – President & CEO*
Most importantly, we're going to operate with an investment-grade mindset. Obviously, we don't have an investment-grade credit rating today, but our balance sheet is going to continue to enable our growth. It's going to be a growth-oriented balance sheet, it's going to facilitate and enable us to execute on opportunities and transactions that we uncover. And it's going to maintain that investment-grade mindset that one day we will pursue a rating and will attain an investment-grade credit rating, and will continue to pursue on secured financing to keep us in a position to obtain that rating down the road.

Craig Kucera, *Wunderlich Securities; Analyst*
Got it.

And going to your debt, your interest expense was up a bit higher than where it had trended, what we are looking for. Is there any color or one-time interest expense this quarter?

Matthew Partridge, *Agree Realty Corporation - CFO*
I think it's just a factor of timing related to draws down on the facility. And then, obviously, that was paid off with the equity offering in December.

Craig Kucera, *Wunderlich Securities; Analyst*
Got it.

One last one, as you look forward to your shopping center exposure, you mentioned that you've had about 2% left. Is that still a priority to sell that? It sounds like that's an asset or assets that you're pretty happy with. Are you still trying to become a pure play, or are you just happy keeping that?

Joey Agree, *Agree Realty Corporation – President & CEO*

Yes, we're really talking about two shopping centers out of 280-plus assets. Today, at 2% of rental revenues, that number will continue to decrease. Frankly, we think there are some fantastic opportunities embedded within those two assets, a couple of which we are executing on outlots right now, one the Chick-fil-A ground lease that we talked about. We retained the Starbucks outlot in Lakeland when we disposed of that portfolio.

So we think there's some embedded value opportunities, not only in the outlots, but as I touched on, these are our two Kmart anchored shopping centers that are paying $2 per square foot, one on a growth basis, one on a net basis. And outlot opportunities, as well as re-tenanting opportunities in those boxes, we think, are very strong.

So if the right offer or the right opportunity to dispose of those assets came along, we would definitely look at it. But in the meanwhile, we retain and continue, obviously, to have the development capabilities, the re-tenanting and the asset management capabilities, to create some significant value there. And we've got interested parties in those assets, if we were able to uncover that value.

So not a priority for us. In 2016, our priority is continuing to create value in those two assets. And our focus will be on net lease assets.

Craig Kucera, *Wunderlich Securities; Analyst*
Got it. Thanks a lot, guys.

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

Matthew Partridge, *Agree Realty Corporation - CFO*
Thanks.

Operator
Showing no additional questions, this concludes our question-and-answer session. I'd like to turn the conference back over to Joey Agree for any closing remarks.

Joey Agree, *Agree Realty Corporation – President & CEO*
Well, great, thank you.

And with that, I would like to thank everybody for joining us. And we look forward to speaking with you when we report our first quarter results. Thank you, everybody.

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