EDITED TRANSCRIPT

Agree Realty Corporation's
First Quarter 2023 Earnings Conference Call
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PRESENTATION

Operator

Good morning, and welcome to the Agree Realty First Quarter 2023 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 Brian Hawthorne, Director of Corporate Finance. Please go ahead, Brian.

Brian Hawthorne | Agree Realty Corporation | Director, Corporate Finance

Thank you. Good morning, everyone and thank you for joining us for Agree Realty's First Quarter 2023 Earnings Call. Before turning the call over to Joey and Peter to discuss our record results for the year, let me first run through the cautionary language.

Please note that during this call, we will make certain statements that may be considered forward-looking under federal securities law. Our actual results may differ significantly from the matters discussed in any forward-looking statements for a number of reasons. Please see yesterday's earnings release and our SEC filings, including our latest Annual Report on Form 10-K, for a discussion of various risks and uncertainties underlying our forward-looking statements.

In addition, we discuss non-GAAP financial measures, including core funds from operations or core FFO, adjusted funds from operations or AFFO, and net debt to recurring EBITDA. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures can be found in our earnings release, website and SEC filings.

I'll now turn the call over to Joey.

Joey Agree | Agree Realty Corporation | President & CEO

Thanks Brian and thank you all for joining us this morning. I'm extremely pleased to report that we're off to a strong start in 2023. The lack of competition amongst both public and private buyers has provided us with greater access to attractive risk adjusted opportunities than anticipated. As demonstrated by our first quarter investment activity, and even more evident in our pipeline, is seller fatigue that's contributing to a narrowing bid/ask spread.

We have seen a recent acceleration of seller capitulation as the reality of a new pricing paradigm has begun to set in. Due to market forces, capitalized competition within our targeted sandbox is extremely limited. Our ability to quickly diligence and certainty to close are very attractive propositions for owners that have been on and off market with private purchasers.

Our pipeline over the past few weeks has been very dynamic with a wide spectrum of opportunities. In the last several days alone, we executed letters of intent to acquire over $100 million in high-quality assets at attractive cap rates. Diversified portfolios, sale-leasebacks, distressed developers and early extensions are among the approximately 100 properties that we currently have under control.

Given our acquisition volume in the first quarter and increased visibility into our pipeline, we are raising our acquisition guidance from at least $1 billion to at least $1.2 billion for the year. That said, the world remains quite volatile, and we will not waiver from our stringent underwriting criteria.

The investments we have made in technology and our team have provided our company a distinct competitive advantage. Both our analyst and rotation programs, led by our EVP of People and Culture, Nicole Witteveen, have given us a deep bench of multifaceted and talented future leaders. Similarly, our multi-year investments in information technology, led by both ARC and our ERP system are continuing to bear fruit---enabling us to be nimbler and review, source and execute transactions more efficiently. Peter will speak to the G&A leverage we continue to gain in a few minutes.

Our decision to pre-equitize our balance sheet in advance of this year has proven prudent and we remain in an extremely strong position. We ended the first quarter with approximately $1.2 billion of liquidity, significant outstanding forward equity and well below the low end of our targeted leverage range.

On earlier calls, I stressed that we would avoid moving up the risk curve or shifting our strategy. We have been very successful leveraging our relationships and core competencies to identify extremely high-quality opportunities as economic and geopolitical uncertainties remain.

During the first quarter, we invested over $314 million in 95 high-quality retail net lease properties across our three external growth platforms. This includes the acquisition of 66 assets for approximately $302 million in the tire and auto service, home improvement, grocery, auto parts, dollar store, and farm and rural supply sectors, among others.

The weighted-average cap rate of the acquisitions was 6.7%, a 30-basis point expansion relative to the fourth quarter and 50 basis points higher than full-year 2022. 75% of the acquisitions were leased to investment grade retailers and our weighted average lease term of over 13 years was a 5-year high. We acquired two ground leases during the quarter representing $19 million, approximately 7% of total acquisition volume for the quarter.

The breadth and variety of transactions during the quarter demonstrates our unique value proposition and the strength of our industry-wide relationships.

We executed several sale-leasebacks with our retail partners, led by two transactions in the grocery space with national and super-regional operators, both of which carry investment grade ratings.

We also completed the acquisition of a diversified portfolio from an institutional seller, several blend & extend opportunities as well as a number of developer direct transactions. Our long-term vision...that of a full service, real estate focused, net lease retail REIT...and not simply a spread investor, has accelerated due to the capital constrained environment and our team's hard work across multiple fronts.

Moving on to our development and PCS platforms...we commenced five new projects with total anticipated costs of over $19 million. Construction continued during the quarter on 21 projects with anticipated costs totaling nearly $86 million. Three projects in Florida and California were wrapped up during the quarter for Gerber Collision.

In the aggregate, we had 29 projects completed or under construction during the quarter with anticipated total costs of $115 million, inclusive of the $59 million of costs incurred as of March 31st.

On the leasing front, we executed new leases, extensions or options on approximately 510,000 square feet of gross leasable area during the first quarter. Notable extensions, options or new leases included two Sam's Clubs located in Lansing, Michigan and Brooklyn, Ohio. We are in a very strong position for the remainder of the year with just 16 leases or 80 basis points of annualized based rents maturing.
At quarter end, our growing retail portfolio surpassed 1,900 properties across all 48 continental United States, including 208 ground leases representing over 12% of total annualized base rents. Occupancy remained very strong at 99.7%, and our investment grade exposure stood at 68%. Our portfolio continues to be the preeminent retail portfolio in the country and remains extremely well positioned to withstand any macroeconomic headwinds.

With that, I'll hand the call over to Peter and then we can open it up for questions.

Peter Coughenour | Agree Realty Corporation | CFO
Thank you, Joey.

Starting with earnings, Core FFO for the first quarter was $0.98 per share, representing a .6% year-over-year increase. AFFO per share for the first quarter increased 1.5% year-over-year to $0.98. We received over $1.2 million of percentage rent during the quarter, which contributed more than a penny of earnings to Core FFO and AFFO per share, respectively. This should largely dissipate for the remainder of the year as most tenants are obligated to pay during the first quarter.

As a reminder, treasury stock is included in our diluted share count prior to settlement if ADC stock trades above the deal price of our outstanding forward equity offerings. The aggregate dilutive impact related to these offerings was half a penny in the first quarter.
Our consistent and reliable earnings growth continues to support a growing and well-covered dividend. During the first quarter, we declared monthly cash dividends of 24 cents per common share for each of January, February and March. On an annualized basis, the monthly dividends represent a 5.7% increase over the annualized dividend from the first quarter of 2022. At 73%, our payout ratio for the first quarter was below the low end of our targeted range of 75% to 85% of AFFO per share.

Subsequent to quarter end, we announced a monthly dividend of 24.3 cents per share for April. The monthly dividend equates to an annualized dividend of nearly $2.92 per share, which represents a 3.8% year-over-year increase and a two-year stacked increase of 11.7%.

General and administrative expenses totaled $8.8 million in the first quarter. G&A expense was 6.5% of revenue adjusted for the non-cash amortization of above and below market lease intangibles, or 7% of unadjusted revenue. For the full year, we expect G&A to decline a minimum of 50 basis points as a percentage of adjusted revenue as our IT investments that Joey referenced earlier, and process improvements, have enabled us to scale very efficiently. This would represent a two-year stacked decrease of at least 100 basis points.

Total income tax expense for the first quarter was approximately $783 thousand. For the full-year 2023, we expect income tax expense to be between $3 and $4 million.

Moving on to our capital markets activities, we settled approximately 2.9 million shares of outstanding forward equity during the first quarter, realizing net proceeds of $195 million. At quarter end, we still had approximately 5.3 million shares remaining to be settled under existing forward sale agreements, which are anticipated to raise net proceeds of $362 million upon settlement.

As of March 31st, our net debt to recurring EBITDA was approximately 3.7 times, proforma for the settlement of our outstanding forward equity. Excluding the impact of unsettled forward equity, our net debt to recurring EBITDA was approximately 4.5 times.

Total debt to enterprise value at quarter end was approximately 24%, while our fixed charge coverage ratio, which includes principal amortization and the preferred dividend, remained at a very healthy level of 5.1 times.

We ended the quarter with total liquidity of $1.2 billion including approximately $804 million of availability on the revolver, $362 million of outstanding forward equity and $13 million of cash on hand.

In summary, we continue to maintain a fortress-like balance sheet that affords us tremendous flexibility to take advantage of the lack of competition in the market and execute on high-quality opportunities.

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

Joey Agree | Agree Realty Corporation | President & CEO
Thank you, Peter. At this time, operator, we will open it up for questions.

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. [Operator Instructions] At this time we will take our first question, which will come from Josh Dennerlein with Bank of America.

Joshua Dennerlein | Bank of America Securities
Joey, I want to explore your comment on your -- just everything that's gone on, your accelerating your shift to being like a full real estate provider for your partners. What's shifted, what's accelerated and maybe what's to come?

Joey Agree | Agree Realty Corporation | President & CEO
Good morning, Josh. I appreciate the question. I think this has been a long-term vision for us, building out all 3 platforms, all 3 external growth platforms, as well as the remainder of the team. So it's really a

function of being able to deliver on multiple different avenues for growth, whether that's sale/leasebacks with our retail partners, all the way to organic development and anything in between.

I think the personnel changes we've had here, the team that's developed through, again as I mentioned, the analysts and the rotation programs. We're actually celebrating the 10-year anniversary of our first analyst today at lunchtime. It's really provided us the opportunity to level multiple platforms. At the same time, retailers today, given the capital-constrained environment, I think appreciate our ability to really accelerate their growth and to step into challenging situations, given the availability of capital we have and then those multiple levers and options that we provide.

Joshua Dennerlein | Bank of America Securities
Got it. And then, maybe just on the cap rate side, the Fed feels like probably close to stopping interest rate increases from here. Just kind of curious. What are you seeing on the private side? Like, do you still feel like there's adjustments to come on the cap-rate side? Or what are -- is there further kind of uplift in cap rates?

Joey Agree | Agree Realty Corporation | President & CEO
Well, it's tough to predict the future in this world we live in today. What we see, as I mentioned during the prepared remarks, is we see, frankly, more seller fatigue and capitulation. That's accelerated in the past few weeks, as I mentioned, but we see sellers, frankly, meeting the market. And we are the purchaser of choice there. And so, what happens on a go-forward base will be difficult. Obviously, we have visibility into Q3. I anticipate cap rates could potentially tick up nominally as well -- sorry, Q2 could tick up nominally as well. Seeing beyond 70 days is very difficult. And I remind everybody this is a large and fragmented space. And we are looking for opportunities within it. And so I'm not sure if it's necessarily emblematic of the broader cap rate environment.

Joshua Dennerlein | Bank of America Securities
Thank you.

Operator
And our next question will come from Eric Wolfe with Citi.

Eric Wolfe | Citi
Looking at your revised acquisition guidance, it amounts to nearly 5% of your current enterprise value. Just curious whether you have any sort of internal rule as to how much cash flow growth should be created from this level of activity, call it every 10% growth in EV should equate to 4 to 5% growth in cash flow. Just basically internal rules that you have around rewarding capital providers.

Joey Agree | Agree Realty Corporation | President & CEO
Well, I'd tell you there's no internal hard and fast rule there. Obviously, enterprise growth should result in AFFO and increased dividend to shareholders. We're very cognizant investing capital to make sure that we're doing it on an accretive basis. At the same time, qualitatively I would tell you is just important. As you can see, during this quarter -- probably one of the highest quality quarter of acquisitions potentially we've ever had outside of maybe the depths of COVID. You're looking at 75% investment grade assets, over 13 years of term with some of the best retailers in the country.

So at the same time we want to deliver, obviously, accretion to our shareholders. We want to improve the portfolio. And as we've talked about for a couple of quarters here and as well in the prepared remarks, we're just not going to go up the risk curve there to create larger spreads while sacrificing on real estate and credit quality. That's not something we're willing to do.

And so, the most important thing that investors and listeners can take away from this call is we've been able to maintain our discipline. We haven't undertaken any strategic shifts. And we're able to execute through all of the different levers that we have in terms of growth.

Eric Wolfe | Citi
Got it. And then, is there any sort of I guess spread that would make you go higher on the risk curve, I mean, if you were able to get a 9 cap rate, for instance, versus say call it the 6.7? Because I'm just effectively trying to figure out if there's a certain level of loss that's embedded in your view of non-investment-grade tenants versus investment-grade that sort of would help explain if there's a certain spread that might make it more or less attractive.

Joey Agree | Agree Realty Corporation | President & CEO
It's a great question. It's case-specific for us. I'll remind everyone we don't target investment grade. That is not a bogey for us. We're huge fans of operators like Publix and Chick-fil-A and Hobby Lobby and Aldi, which don't carry an investment-grade credit rating. The predominance of the best retailers in this country obviously carry an investment-grade credit rating.

In terms of going up the risk curve in spreads, it's a function of credit, but also a function of just residual. And we're not interested in single-purpose boxes here. That is something that we avoid. We're not interested in car washes or Topgolfs. I'm just naming a few, obviously, that we can't get to the residual. I've always talked about a good net-lease investor as opposed to a fixed-income investor. It doesn't have a repayment of principal on the expiration of that term. The art of net-lease investing is understanding what that residual real estate is and what the demand for that is. So, single-purpose boxes to us are our biggest challenge. From a credit perspective obviously we're able to underwrite those. But, again, single-purpose boxes drive less demand and unfavorable outcomes when it comes to releasing in the event of a lease expiration or a bankruptcy and rejection.

Eric Wolfe | Citi
Got it. Thank you.

Operator
Our next question will come from Rob Stevenson with Janney. Please go ahead with your question.

Rob Stevenson | Janney
Joey, there's a slew of Gerber Collisions in the development pipeline and the ones you referenced that were recently completed. I think it's, like, 21 including the 3 completed. Once these are all completed by year end, where does that take the 1.7 of ABR? I know a lot depends on what else you acquire elsewhere, but where does that exposure sort of stabilize? Is that a 2% exposure tenant when all is said and done? 3%? How do you envision that?

Joey Agree | Agree Realty Corporation | President & CEO
No, I think you're dead on. I think that's most likely a 2 to 3% exposure. We've talked at length about Gerber Collision -- and probably on a lower end, frankly, that 2 to 3%. And we've talked at length about Gerber Collision, their relative position in their collision space. Again, there's 3 large operators in this country. Gerber is the only non-private, equity-owned, publicly-owned by Boyd Group. You can look and see their balance sheet, their financials, on the Toronto Stock Exchange. They're a tremendous operator. They're a great partner for us.

It is an extremely interesting space, given the depth and complexity of just the collisions and the repairs that occur today. I think I talked about it. You tap your bumper on a light pole today, it's two cameras and a sensor. And so, Gerber's got a very unique proposition and they're really aligned with the third-party payers, the auto insurers, in this country in terms of targeting net new store opportunities. And so we're a big fan of Gerber and we think that they are the preeminent operator in the collision space. But I think your 2 to 3% on the low end of that 2% is probably appropriate.

Rob Stevenson | Janney
And do they continue to be a disproportionate amount of the starts over the next 12 months? Or are there other -- has that sort of [winded] down now and replaced by other people in that development pipeline?

Joey Agree | Agree Realty Corporation | President & CEO
We'll see. I'd tell you we obviously have a significant pipeline to wrap up with Gerber. We completed 3 projects in Florida and in California. But we're always looking at opportunities with Gerber, but then also other retailers. It can change on a dime.

Rob Stevenson | Janney
Okay. And then, second question. How are you thinking about dispositions today given the current market environment? You've been buying, but is today also the right time to sell assets other than theaters? Or are you better off holding assets without near-term tenant issues until interest rates settle down? How are you thinking about that?

Joey Agree | Agree Realty Corporation | President & CEO
I think we're really -- first of all, we're really comfortable where the portfolio stands today. We have been active, especially on a relative basis, historically of the disposition front, whether it was reducing Walgreen's exposure, franchise restaurant exposure, health and fitness exposure. Luckily, we didn't make too many missteps along the way since launching the acquisition platform in 2010.

I think the biggest challenge with disposition activity today is just -- it's a cost/benefit analysis, frankly, of time. And this team, which works their butt off here, rolling through 1031 potential purchasers for 3 different purchase agreements and dropping them is just, frankly, an inefficient use of our time for minimal proceeds.

So, look, everything in our portfolio of 1,900 assets are for sale at the right price. But we aren't going to be inefficient and waste our time with buyers that aren't necessarily capable of executing. And so, we'll continue to vet opportunities. At the same time, we don't need to be in recycled capital mode to try to generate those spreads, given the position of our balance sheet.

Rob Stevenson | Janney
Okay. Thanks. Appreciate the time this morning.

Operator
And our next question will come from Haendel St. Juste with Mizuho.

Ravi Vaidya | Mizuho
This is Ravi Vaidya on the line for Haendel. I wanted to ask you about larger portfolio deals. Can you discuss the pricing of the larger deals within what you acquired this quarter? And are you still seeing large portfolios come to market? Should we still expect portfolio discounts in this current environment?

Joey Agree | Agree Realty Corporation | President & CEO
It's a moving target, Ravi. I think the portfolio transaction we did was a diversified portfolio of approximately 8 to 10 assets. There were some unique nature in terms of short-term leases in there and early extensions. I think the portfolio discount depends on who's out there in the market and wants to deploy capital at that time. And so a lot of it is time and place. What I will tell you is certainly there is less bidders out there. As I mentioned in our prepared remarks, the competition is infrequent, slim or none today.

And so it's really based upon the timing of that potential sale, as well as the composition of it, and then the select purchasers, or potential purchasers that are out there, their -- frankly, their needs at the time, I think.

Ravi Vaidya | Mizuho
Got it. Just one more here. Can you discuss your funding needs to execute on your revised acquisition target? And what would you let your leverage tick up from the 4.5 that it is today before issuing equity?

Joey Agree | Agree Realty Corporation | President & CEO
I'll let Peter talk about it in detail, but our funding needs, frankly, are none. We were very clear coming into the year, pre-equitizing the balance sheet, that we could execute while staying within our targeted leverage range. But I'll hand it over to Peter.

Peter Coughenour | Agree Realty Corporation | CFO
Yes, Ravi, we ended the quarter in a great position with pro forma net debt to recurring EBITDA of 3.7x, total liquidity of $1.2 billion, including $360 million of outstanding forward equity. And so, as Joey mentioned, we have plenty of capital today to execute on our acquisition guidance. And we don't have a need for additional equity this year and we can stay within our targeted leverage range while executing on that guidance. And so we're in an excellent position today.

Ravi Vaidya | Mizuho
Got it. Thank you. I appreciate the color.

Operator
And our next question will come from Linda Tsai with Jefferies.

Linda Tsai | Jefferies Group, LLC
Can you provide color on the profile of the sellers who are capitulating on pricing? And, with rates potentially stabilizing now, what do you think is the impact? And how long would it take to show up in pricing in the transaction market?

Joey Agree | Agree Realty Corporation | President & CEO
Good morning, Linda. It's a wide breadth and range of sellers that are meeting the market. I will tell you we've seen an acceleration in merchant builders, private owners specifically, none that are overly notable, but that were holding the line and hoping for 2021 and the first 2/3 of 2022 pricing and then have effectively capitulated to pricing that we think made sense. On prior calls I mentioned we hadn't seen O'Reilly's or Tractor Supply or any of those types of credit crack, call it, 6.15 on full-term assets. That's no longer the case.

And so, rates may be stabilizing here. Spreads are still wide. The cost of capital, the inputs for private owners today, whether it's construction loans or more permanent debt, is still obviously extremely disparate from where it was just a year ago. And so, we're going to continue to see, hopefully, more sellers meet that market and, frankly, get off of their 5 handle. And that was the real problem, is that sellers were holding on to those 5-handle transactions that frankly really weren't transactioning absent the lucky 1031 buyer.

Linda Tsai | Jefferies Group, LLC
And then on the merchant developers facing the need to sell that you've been talking about this past few quarters, how deep is this pool and how many more quarters do you think you could opportunistically buy from them?

Joey Agree | Agree Realty Corporation | President & CEO
Well, it's interesting. I would tell you that the conversations have now transitioned to our retail partners who are now looking at their 2024 pipelines in the merchant-build programs and how they can effectively backfield those programs. That can range from creating self-development programs, doing more on balance sheet, converting their merchant builders to fee programs, partnering with somebody like us to either develop or be the capital source. I'll tell you, those are weekly conversations that we have.
The merchant builder stuff will continue to flow. The question is how high do we frankly want to take some of these exposures, where merchant build programs were effectively the driver of growth for some of these retailers. But the conversations right now that we're having here are about solving for 2024 needs and beyond. And they involve both the merchant builders, but also the ultimate resolution is going to be driven by the retailer and how they can change their platforms to execute on their storing strategy in this new pricing paradigm that we're in today.

Linda Tsai | Jefferies Group, LLC
Thank you. Just one last question. In terms of portfolio allocation, how comfortable are you with exposure, I guess? Your grocery exposure ticked up a little bit, close to 11% now of ABR.

Joey Agree | Agree Realty Corporation | President & CEO
Extremely comfortable. We're not going up the risk curve. Obviously, Kroger jumped this quarter. We're not buying small grocers. Every grocery transaction we did during the quarter was with an investment-grade operator, including the 2 sale/leasebacks. We acquired our first Whole Foods this quarter, or this past quarter, as well. So I think if you look into that exposure, we're acquiring the best grocers in the country here, that we have very good relationships with.

Linda Tsai | Jefferies Group, LLC
Thank you.

Operator
Our next question will come from Brad Heffern with RBC Capital Markets.

Brad Heffern | RBC Capital Markets
I'm curious how much of the seller capitulation is just a final recognition that the world has changed and how much of it is more attributable to just the recent turmoil in the bank and financing markets.

Joey Agree | Agree Realty Corporation | President & CEO
Yes. I don't think any of it is, necessarily. I mean, that is obviously recent news here, in terms of the recent turmoil in the bank markets. I think it is sellers finally realizing that holding out for the 1031 or

private purchaser with that 5 handle just isn't working. Obviously, comps are trailing data. I think they're starting to see more realistic comps. I think they're talking to brokers here that are saying this is going to be sitting on market. It's slim to none that this actually trades in the mid-5's or low 5's. And I think we're just seeing, frankly, seller fatigue.

Now, this isn't across the board by any means. These are cracks. We're guiding to $1.2 billion, at least this year. This isn't a wholesale change, but we are seeing an acceleration, especially in the past few weeks, of sellers waving the flag.

Brad Heffern | RBC Capital Markets
Okay. I mean, do you think that there will eventually be maybe more on the cap rate side that emerges from this bank stuff? I'm just thinking that the market you guys compete in, 1031s with small boxes, like presumably a lot of people would go to a bank to finance things like that. So, do you think eventually it creates some sort of pressure?

Joey Agree | Agree Realty Corporation | President & CEO
It certainly can't hurt. It certainly can't hurt. I think that we've seen the 1031 market dwindle to a fractional piece of what it was. Many of those purchases, if they weren't all cash, as you mentioned, relied upon the regional bank market for leverage. And so it certainly can't hurt. I'd tell you that it does put wind at the back of a potential expansion of cap rates here. But, again, it really comes down to individual owners here and their willingness and/or decision to capitulate.

Brad Heffern | RBC Capital Markets
Okay. Got it. And then, Peter, going back to kind of the financing commentary from earlier, or the capital markets commentary, you mentioned no need for equity for the rest of the year. For the incremental debt, is the expectation that that just goes on the credit line or would you think about doing some sort of unsecured offering or term loan and locking in where rates are now?

Peter Coughenour | Agree Realty Corporation | CFO
Yes, I think that will ultimately depend, Brad, on the markets and what we see from a pricing perspective. As you mentioned, there's no near-term need for capital today. Our revolver has just under $200 million on it as of the end of the quarter. And so, we have plenty of capacity there, as well as the $360 million of outstanding forward equity. And so, in terms of access in the capital markets for the remainder of the year, we'll continue to monitor them and be opportunistic in terms of how and when we access.

Brad Heffern | RBC Capital Markets
Okay. Thanks.

Operator
Our next question will come from Wes Golladay with Baird.

Wes Golladay | Robert W. Baird & Company
How big can you get this development in PCS program this year? And then, can you give us an update on Bed Bath & Beyond? Can you start any redevelopments there this year if you get any back?

Joey Agree | Agree Realty Corporation | President & CEO
Good morning. To the second question, the Bed Baths, we have the 3 Bed Baths paying an average of $9.50 or $9.40 a foot in the portfolio. We are extremely excited to get those back. We think we'll see a significant NOI lift from those opportunities and have tenants effectively ready to go. It really depends on

when Bed Bath turns those stores over whether or not our CDs would be this year. I would anticipate most likely next year as Bed Bath continues to wind down through their liquidation process.

I would also add those leases could be acquired. Those leases could be acquired through the bankruptcy process. And then you'd have, on the flip side, absolutely no gap in terms of rent. So we'll see how those play out, but they're 3 really great pieces of real estate with significant interest from predominantly off-price players.

Now, your first question, what was it, Wes?

Wes Golladay | Robert W. Baird & Company
I think you started 5 projects in the first quarter. How big could that get this year for starts?

Joey Agree | Agree Realty Corporation | President & CEO
It's going to get as big as -- it can get as large and as deep as opportunities make sense in today's environment. Again, duration equals risk. Development has longer duration. And so it has to be appropriate spreads that we think we're going to be renumerated appropriately. And so, we will be selective on what we enter into from a development or partner capital solutions platform just because of that duration risk and the unknown macro cap rate, interest rate environment that we're in.

We're seeing a lot of projects. We're seeing a lot of opportunities on both fronts. We're working with a number of retailers on organic fronts. But we want to make sure we don't get caught behind the 8-ball here if we continue to see cap rate expansion and have shovels in the ground that are delivering 12 to 18 months from now.

Wes Golladay | Robert W. Baird & Company
Got it. And then just my final question. We've talked in the past about the cost of debt being maybe higher than the cost of equity, especially on the short term. Is there a point where a store forgets to -- where you just settle the forward early without acquisitions lined up and just pay down the line of credit?

Peter Coughenour | Agree Realty Corporation | CFO
Wes, this is Peter. I think we continue to view the revolver as an effective tool for shorter-term borrowings and we'll continue to utilize it throughout the year where appropriate. As you mentioned, we have $360 million of forward equity and fully backstopped our current outstanding balance on the revolver. And so, we'll continue to monitor what makes the most sense in the context of revolver pricing, our pipeline and other capital markets opportunities available to us.

Wes Golladay | Robert W. Baird & Company
Great Thanks, everyone.

Operator
And our next question will come from Ki Bin Kim with Truist.

Ki Bin Kim | Truist
So, Joey, given that your portfolio has a significant IG presence, what kind of cost-of-capital pressures are they feeling? And does that open up additional opportunities for you guys?

And, secondly, do you try to price your cap rates somewhat in lock step if you see a rise in cost of capital for your tenants?

Joey Agree | Agree Realty Corporation | President & CEO
Good morning, Ki Bin. It's a great question. You can see sale/leaseback transactions that trade extremely disparate or more in lockstep with the unsecured paper of the respective retailers. And that's an interesting question that Peter, frankly, often brings up when we look at potential transactions or transactions relative to the space.

I'll tell you we are seeing an increase in opportunities. We executed on a number of sale/leasebacks in the first quarter. Obviously, these retailers are very cognizant of where their costs of capital, specifically their cost of debt, is. There's a number of transactions in the pipeline we'll execute in Q2 and Q3. We're early in Q3 already. And so it is an opportunity for us that I think will be disproportionate in terms of volume and overall volume for the year if everything goes as anticipated, which is probably a big asterisk there. But we're seeing an increased flow from our retail partners that are coming to us and saying, "Where does this make sense to do a sale/leaseback?" And obviously they're comparing that at the CFO level to where they could issue unsecured paper.

Ki Bin Kim | Truist
And what do the cap rates look like for the acquisitions you have in the pipeline for 2Q? And, second, at what price can you raise debt at, longer-term debt?

Joey Agree | Agree Realty Corporation | President & CEO
I'll take the first part. I'll let Peter answer the debt question. Q2 as it stands right now will either be nominally higher, similar composition in terms of credit profile, nominally higher cap rates or equal, really depending on the timing of some closings here. But I think our Q2 pipeline obviously is strong. That's why we increased guidance here. And it's accelerated, as I mentioned in the prepared remarks, quite drastically in the last week.

Peter Coughenour | Agree Realty Corporation | CFO
And Ki Bin, in terms of our cost of debt, today we could price 10-year debt in roughly the mid-5's, which is relatively in line with what we discussed, I believe, on last quarter's call. But, again, today we don't have a near-term need for that debt capital.

Ki Bin Kim | Truist
And if I can cheat here and ask a third question. So you did a deal with Kroger. Obviously you have a joint venture with Ocado to build out their CFCs, the automated grocery distribution centers. Is that at all an opportunity you're looking at?

Joey Agree | Agree Realty Corporation | President & CEO
No. We're going to stick to retail. Obviously, they've actually pared back the openings with Kroger Ocado, but we're going to stick to a single-tenant retail here, with dominant operators. So, the 9 Krogers added during the quarter, I believe it was 9, were all freestanding grocery stores.

Ki Bin Kim | Truist
Okay. Thank you.

Operator
And our next question will come from Ronald Kamden with Morgan Stanley.

Ronald Kamden | Morgan Stanley & Company
Just a couple quick ones. Just on the ground leases, I appreciate the commentary on seller capitulation

on the acquisitions. And maybe can you talk specifically to the ground leases, what you're seeing there in terms of cap rate movements and opportunities?

Joey Agree | Agree Realty Corporation | President & CEO
Yes. I think, if anything, people have been more cognizant of ground leases. I've talked on previous calls, probably due to some of our fault and then [safes] recognition. And in the sell-side recognition, there's more attention paid to them. We acquired 2 during the quarter. There's a number of them in our pipeline. But I think people are becoming, generally speaking, more aware of the embedded value in the ground lease space. We were very fortunate to take advantage of it for a while. But we continue to find those select opportunities, whether they be blended extends. Bought a really interesting one in California this quarter with a former seller. But we'll continue to source those opportunities. But I do think there is more recognition of the embedded value in that space now.

Ronald Kamden | Morgan Stanley & Company
Got it. And then, the second question was just -- so obviously the acquisition guidance ticked up this quarter. You talked about sort of more seller capitulation. I think we can sort of appreciate that comment. But when do you think sort of like what needs to happen for acquisitions to get back to 10% of EV? Is it the macro? So what are we sort of waiting for to get this engine back, given that you guys are sort of in an advantaged position at this point?

Joey Agree | Agree Realty Corporation | President & CEO
Well, with $1.2 billion, we're more than 10% of EV for the year. Right? I think that we're still at, call it 12-ish-percent of enterprise value. I think what needs to happen is we need to see spreads adjust appropriately, whether the cost of debt comes in or cap rates rise or any of the cost-of-capital inputs give us a more favorable spread. And so, again, the year is still fairly young. It can change any day here. We don't have visibility outside of the first couple weeks, frankly, right now, of Q3 with an average transaction taking 71 days. Our commitment has always been as we see the pipeline materialize we're going to keep market participants current. And so that increase in guidance specifically reflects our Q2 pipeline and the beginning of Q3.

Ronald Kamden | Morgan Stanley & Company
Got it. Thanks so much.

Operator
[Operator Instructions] Our next question comes from Tayo Okusanya with Credit Suisse.

Tayo Okusanaya | Credit Suisse
Joey, you guys are clearly IG, but I think again a lot of your peers also come and do a lot of stuff in the non-IG middle-market side of the equation. I'm curious. Are you surprised you haven't seen more issues on that side of the tenant base? It just seems interesting that with everyone kind of talking about credit being -- debt being harder to get, the kind of talking about potential slowdown in consumer demand, all these kind of things, that credit across the board, both on the IG and non-IG side has been so stellar.

Joey Agree | Agree Realty Corporation | President & CEO
Well, I wouldn't tell you I'm surprised. I think we're seeing cracks that are publicly available. So, whether that's Bed Bath & Beyond, Party City, Tuesday Morning, filing bankruptcy as public entities, whether it's the Burger King franchisees we've seen that have made the news, I think a lot of the challenge is a lack of transparency in the space relative to individual assets, credit and then portfolio concentrations.

And so I would tell you the first step is always a rent concession or deferral. The second step is generally something more overt that's available to investors to see, if at all, which shows up in obviously occupancy first. But I would tell you we're very early on in this cycle. I continue to believe that we are seeing a post-COVID retail world that is rationalizing back to the pre-COVID world, which will involve more bankruptcies, more store rationalizations and the cream rising to the top. Now a lot of that is subject, obviously, to the macroeconomic outlook and we don't have a crystal ball, the strength of the consumer. But we're starting to see cracks in the casual dining space. You'll see lots of those assets currently flooding the market, with some names everybody's familiar with. I think the Red Lobster challenges have obviously been in the news with their parent company.

And so, I think we're going to continue to see this and it's not going to be a falling knife unless something dramatic happens to the economy. It continues to demonstrate itself and reveal itself in cracks. Now, how you read through those cracks and what you think the potential outcomes are relative to the macroeconomic outlook, I think that is up to everybody's individual discernment.

Tayo Okusanaya | Credit Suisse
Fair enough. Thank you for the commentary.

Operator
And that concludes our question-and-answer session. I'd like to turn the conference back over to management for any closing remarks.

Joey Agree | Agree Realty Corporation | President & CEO
Well, thank you, everybody, for joining us today. We'll look forward to seeing you at the upcoming conferences and we appreciate everybody's time.

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