EDITED TRANSCRIPT

Agree Realty Corporation's
First Quarter 2024 Earnings Conference Call
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PRESENTATION

Operator

Good morning and welcome to the Agree Realty First Quarter 2024 Conference Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Note today's event is being recorded.

I'd now like to turn the conference over to Brian Hawthorne, Director of Corporate Finance. Brian, please go ahead.

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 2024 Earnings Call. Before turning the call over to Joey and Peter to discuss our results for the quarter, 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. We mentioned on our last call that we will remain nimble and opportunistic, ensuring we are well positioned to capitalize on opportunities as we uncover them. I am pleased to report that is precisely what we have done so far this year and what our organization is focused on every day.

While the net lease transaction market continues to sort itself out, our team is doing a tremendous job leveraging our relationships and uncovering unique opportunities. We see little competition in the marketplace and are often the first and last call when a seller is prepared to transact. Though first quarter acquisition volume was light, we have seen an acceleration in the second quarter while achieving similar yields and continuing to focus on best-in-class retailers across the country. This is being driven by the sheer effort of our team, our proprietary data environment, and the depth of our industry-wide relationships.

Year to date, our origination team has made an average of approximately 420 outbound calls weekly to contacts within our vast database to mine for opportunities, which is up 20% year over year. Our conversion rate of deals approved by our investment committee to letters of intent signed is the highest in over two years at approximately 38%.

Simultaneously, we have ramped up our efforts and leveraged our tenant relationships exemplifying how we create proprietary deal flow and accretive off-market opportunities. We continue to work hand in hand with the country's leading operators to drive efficiencies and reduce operating expenses.

Our portfolio remains extremely well positioned with approximately 69% of rents derived from investment grade retailers, a weighted-average lease maturity of over 8 years and minimal lease term maturities. Similarly, our balance sheet is in excellent shape, with total liquidity of over $920 million, more than $385 million of hedged capital, and no material debt maturities until 2028.

This quarter marks the first time that we have introduced formal AFFO per share guidance. We believe it is important to demonstrate to shareholders that regardless of the environment, we can provide material earnings growth while adhering to our time-tested strategy. Our enhanced origination efforts, combined with our best-in-class portfolio and fortress balance sheet, give us confidence that we can achieve AFFO per share between $4.10 and $4.13 for the year. This reflects 4.2% year-over-year growth at the midpoint, demonstrating our ability to provide consistent and reliable, long-term earnings growth through different economic environments.

We have conviction that we will be able to continue to deploy capital consistent with the spreads we have articulated and achieved year to date. At this time, we have visibility into over half of the approximately $600 million acquisition guide.

With anticipated full-year disposition activity of $50 to $100 million, roughly $237 million of outstanding forward equity, and free cash flow approaching $100 million on an annualized basis, we will be able fund this activity on a largely leverage neutral basis, ending the year well within our targeted leverage range.

Turning to our three external growth platforms. During the first quarter, we invested $140 million in 50 high-quality retail net lease properties across all three platforms.

The efforts I highlighted earlier enabled us to push cap rates significantly higher during the quarter, with the weighted-average cap rate reaching 7.7%. This represents a 50-basis point increase quarter-over-quarter and a 100-basis point increase year-over-year. Investment grade retailers accounted for 64% of the annualized base rent acquired. Our focus remains on achieving investment spreads of at least 100 basis points on the best risk-adjusted opportunities, not simply aggregating volume.

During the quarter we also commenced four development and DFP projects with total anticipated costs of approximately $18 million. In total, we had 20 projects completed or under construction during the quarter

with anticipated total costs of approximately $82 million, inclusive of the $48 million of costs incurred through March 31st.

We mentioned the potential for more opportunistic dispositions on our last call, and that has come to fruition with six properties sold for gross proceeds of over $22 million during the quarter. The weighted-average cap rate for the dispositions was approximately 6.2%, and less than a third of the rents were derived from investment grade retailers. We will continue to sell assets at attractive yields and reinvest that capital at approximately 150 basis point spreads. Included in these sales were a select set of assets including a Mister Car Wash and Gerber Collision in Florida, which continues to see elevated 1031 activity relative to the overall market.

On the Asset Management front, we executed new leases, extensions or options on approximately 405,000 square feet of gross leasable area during the quarter. Notable extensions or options included a Best Buy in Danvers, Massachusetts, a Hobby Lobby in Port Arthur, Texas, and a Walmart Supercenter in Mena, Arkansas.

Two leases were executed with new tenants during the quarter: a former Rite Aid in North Cape May, New Jersey was leased to Fresenius Medical Care, and a former Big Lots in Jackson, Mississippi will be home to an O'Reilly Auto Parts hub store. We achieved favorable releasing spreads averaging 111% for both locations and are also the beneficiary of significant credit upgrades with long-term leases containing considerable escalations. Our remaining lease expirations for the year are de minimis with only 12 leases or 40 basis points of annualized base rents maturing.

Additionally, we are very pleased with the progress on the only former remaining Bed Bath and Beyond of the three that were in our portfolio. We intend to demolish the existing box and are currently negotiating leases and finalizing letters of intent with multiple retailers to ground lease to be created pad sites. While I should have more detailed information to share next quarter, I will say that we anticipate a very significant lift relative to the former Bed Bath and Beyond rent which I believe will further highlight our real estate underwriting.

Given the questions that we've received, I wanted to address the recently announced Dollar Tree and Family Dollar store closures. Based on our current discussions with Dollar Tree, they will not be closing any of our stores that have less than three years of lease term. The stores they do plan to close have a weighted average lease term of 7.5 years, in which Dollar Tree will continue to pay all rent and nets and represent only 30 basis points of our total portfolio base rent. We have already received interest from several of our retail partners to backfill half of the locations that are closing.

Lastly, with a best-in-class team and our proprietary technology platform, we see a significant opportunity to continue to drive earnings growth.

Our model is built for all markets. We are uncovering opportunities across all three platforms and are pleased that we can deliver AFFO per share growth of over 4% at the midpoint. Combined with a growing dividend that yields over 5%, the country's leading retail portfolio, and a fortress balance sheet, we believe we offer a very compelling value proposition in the current environment.

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 $1.01 per share, representing a 3.5% year-over-year increase. AFFO per share for the first quarter increased 4.6% year-over-year to $1.03. We received approximately $1.4 million of percentage rent during the quarter, which contributed more than a penny of earnings to Core FFO and AFFO per share, respectively. Tenants typically pay percentage rent during the first quarter of each year.

As Joey mentioned, we have introduced AFFO per share guidance for full-year 2024 of $4.10 to $4.13, representing 4.2% growth at the midpoint. We provide guidance on several other inputs in our earnings release, including acquisition and disposition volume, general and administrative expenses, non-reimbursable real estate expenses, and income and other tax expenses.

Our guidance further demonstrates our ability to drive consistent earnings growth, which supports a growing and well-covered dividend. During the first quarter, we declared monthly cash dividends of 24.7 cents per common share for each of January, February and March. On an annualized basis, the monthly dividends represent a 2.9% increase over the annualized dividend from the first quarter of 2023. Our dividend is very well covered with a payout ratio of 72% of AFFO per share for the first quarter. Subsequent to quarter end, we announced a monthly cash dividend of 25 cents per common share for April. The monthly dividend equates to an annualized dividend of $3.00 per share and also represents a 2.9% year-over-year increase.

Moving to the balance sheet, we remain in excellent position with over $920 million of total liquidity at quarter end, including roughly $237 million of outstanding forward equity, $670 million of availability on the revolver and more than $15 million of cash on hand. We have also entered into $150 million of forward starting swaps, effectively fixing the base rate for a contemplated 10-year unsecured debt issuance at just under 4%. Combined with our outstanding forward equity, this provides us with over $385 million of hedged capital to fund this year's investment activity. Our revolving credit facility and term loan also have accordion options, allowing us to request additional lender commitments of $750 and $150 million, respectively. Further bolstering our liquidity position is free cash flow after the dividend approaching $100 million on an annualized basis, and $50 to $100 million of anticipated disposition proceeds.

As of the end of the quarter, proforma for the settlement of our outstanding forward equity, net debt to recurring EBITDA was approximately 4.3 times, which is flat quarter over quarter. Excluding the impact of unsettled forward equity, our net debt to recurring EBITDA was 4.8 times. Our total debt to enterprise value was approximately 30%, while our fixed charge coverage ratio, which includes principal amortization and the preferred dividend, is very healthy at 4.9 times.

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
Thank you, ladies and gentlemen. (Operator Instructions). R.J. Milligan at Raymond James.

RJ Milligan | Raymond James & Associates
Joey, I just want to start off with the newly-issued AFFO per share guidance -- obviously, a long history of not providing it. I'm just curious what the catalyst was to provide it now?

Joey Agree | Agree Realty Corporation | President & CEO
Hey, good morning, R.J. I think a couple things. I think first, just given the most probably uncertainty in the macro environment, we're in a pretty crazy world, I think we're a boring net lease REIT. And that, by definition, should provide for clarity and certainty of execution and I think this guidance solidifies that in this macro environment. I don't recall a net lease REIT ever performing well with uncertainty surrounding it.

And then second, I think our investor deck, the third page is consistency. And we wanted to once again reinforce that we will be a consistent growth REIT here with a defensive portfolio, obviously, and a fortress balance sheet. And then lastly, I'd say just the confidence in the team here to recalibrate to the new world order that everybody is in. So this isn't easy going from a world of free money to today. And so frankly, most of them, or none of them, see it from that perspective, obviously, the last time being the GFC. So as a leadership team, we needed to reset internally. Our theme for the year is *Dialed In* and cascaded down to the entire team, so my hat's off to the leadership team. Also, thank you to the Lineage team, which has been integral in our operating strategy and our operating execution.

But everyone here is now embracing the new normal. We talked about it on the last call and we're working our tails off here. And we're not in this game just to play it; we're in it to win it. And so given those factors, I think providing this clarity to the Street is just -- is historically consistent with our performance.

RJ Milligan | Raymond James & Associates
That makes sense, thank you for that. You mentioned that you have visibility on about half of the total acquisition volume guidance for the year. Can you just talk about where those cap rates are falling?

Joey Agree | Agree Realty Corporation | President & CEO
Right in line effectively in line with Q1, that is Q2. We're just wrapping up sourcing for Q2 probably in the next few days here, so right in line, plus or minus 10 basis points, subject to timing of closings, or something leaking into Q3 or falling out, but right in line here. We're going to hold to that strict mandate of 100-basis-point-plus-spreads without blowing up the risk curve here.

RJ Milligan | Raymond James & Associates
And have you noticed any changes in terms of the pipeline, just given the move, the recent move, that we've seen in interest rates?

Joey Agree | Agree Realty Corporation | President & CEO
The most recent move, I assume?

RJ Milligan | Raymond James & Associates
That's right, yes.

Joey Agree | Agree Realty Corporation | President & CEO
I'll tell you, any changes in our pipeline, as I mentioned in the prepared remarks, are a function of the hard work. This isn't market-based transactions. And so with 400-plus outbounds that we track through ARC with conversion rates that are higher, we're extremely focused on those sellers that have a strong desire and/or

need to transact, and so we'll continue to attempt to push cap rates higher here. We'll look for those unique or asymmetrical opportunities where we have insight or knowledge that can create value or bring value to the table. But again, it's hard to see what cap rates will do from here with the volatility of the 10-year.

RJ Milligan | Raymond James & Associates
And just one follow-up. Joey, I think in your prepared remarks you mentioned 110% on some re-leasing. I'm just curious if you could clarify, is that 110% recovery or is that 110% of positive rent spread?

Joey Agree | Agree Realty Corporation | President & CEO
That's 110% percent recovery -- so the FRESENIUS in Cape May -- go ahead, sorry.

RJ Milligan | Raymond James & Associates
I was just going to say, so rents are 10% higher than the previous tenant.

Joey Agree | Agree Realty Corporation | President & CEO
Correct. The FRESENIUS in Cape May, New Jersey, which took the former Rite Aid and then the former Big Lots with the O'Reilly Hub. So, I think most importantly, or as important, is we're getting new 15-year base terms here with significant escalations with obviously, vastly superior operators as well.

RJ Milligan | Raymond James & Associates
Thank you so much.

Operator
Nick Joseph from Citigroup.

Nick Joseph | Citigroup
Joey, I just want to go over what is really driving the 50-basis point sequential increase in cap rates from first quarter to fourth quarter. Obviously, that was a pretty big jump. So, I just want to understand if there's any change in tenant credit there or the makeup of deal based on the fourth quarter.

Joey Agree | Agree Realty Corporation | President & CEO
No, very similar composition. We're still -- we're operating within the context of our sandbox as we've defined it. Obviously, volume was down for Q1. I talked about the acceleration coming for Q2. But we aren't stretching the box here, and we're going to remain disciplined, we're not going to go up the risk curve. We're not loading up on Dollar Stores and pharmacies to check the proverbial IG box, and so the composition is very similar to what you've seen historically, frankly, no new names.

Nick Joseph | Citigroup
Thanks. And then just kind of on the theme of where cap rates potentially may move, but given what's happening on the 10-year side, how long of a lag would you expect to see if the 10-year stays where it is, before cap rates start to adjust up? Or was the kind of the sequential increase you saw into the first quarter, already kind of contemplating a higher rate environment, and this is bringing it more into a normalized range?

Joey Agree | Agree Realty Corporation | President & CEO
It's a great question. There's no direct correlation. I think it's fair to say there's causation there. But what we see in the net lease and all stabilized real estate asset classes, without a need to sell, this applies all the way down to the single-family residential market. Without the need to sell, there just really isn't the impetus for owners to transact. And so again, our focus around what Peter often references -- refers to as the three Ds, situations where there's death, divorce, and debt maturing here; or shorter-term opportunities that we're working hand-in-glove with retailers to extend high-performing opportunities; or just solid underlying fundamental real estate where we know there's a market-to-market opportunity embedded in it.

So, I tell you, it will be interesting to see how cap rates -- I think we're -- I would hope we'll see more of those types of instances here. But a lot of it is driven, frankly, by sellers' hesitancy to transact in a market

when they were hoping for a March cut. Now they're hoping for a June cut or a September cut. And so, there's obviously murkiness to the overall environment from a seller's perspective, at least.

Nick Joseph | Citigroup
Thank you very much.

Operator
Ronald Kamdem from Morgan Stanley.

Ronald Kamdem | Morgan Stanley
Two quick ones, just on starting with the guidance, just what are you guys thinking in terms of bad debt? What's baked into that number, and how does that compare to historical?

Peter Coughenour | Agree Realty Corporation | CFO
Yes, so, Ron, this is Peter. Last year, when we came out with the do-nothing scenario of over 3% AFFO per share growth, we talked about embedded in that scenario about 50 basis points of credit loss, which at the time, we framed as a conservative assumption. I think that is still a conservative assumption today, and this guidance range contemplates 50 basis points of credit loss. I think as I've talked about historically, our longer-term average is closer to 25 basis points. And particularly with visibility here through April, we view 50 basis points as a conservative level in our guidance range today.

Ronald Kamdem | Morgan Stanley
Great. And then just my second quick one on the acquisitions. I think you talked about the cap rates, but can you talk about sort of sale leaseback activity in the ground lease market? How are things sort of reacting on a cap rate basis with the recent interest rate move?

Joey Agree | Agree Realty Corporation | President & CEO
Sale leasebacks, most tenants, unless they need the money, are very reticent to enter into the sale leaseback. We've had a couple -- market today, given the rising rates. We've had a couple of discussions in the last week with tenants that are in a holding pattern. We're working on a potential couple of opportunities in Q2, we'll see if those materialize. But I think sale leaseback activity outside of private equity sponsors here is going to be fairly muted until we get some stability in base rates.

And then most of these are IG issuers, right? And so they're comparing where they can issue in the unsecured market to the sale leaseback market. I think most importantly, we're not going to transact with any tenants that need our capital. And so I think they're being patient and we're being patient, but there are a couple of opportunities out there that we're looking at.

Ronald Kamdem | Morgan Stanley
And the ground lease market?

Joey Agree | Agree Realty Corporation | President & CEO
The ground lease market, Ron, like I've always said, is essentially the same sourcing methodologies and the same ownership pool and the same seller pool as the traditional net lease market. I would note that this quarter, our second-largest acquisition was a ground lease to Home Depot in Joliet, Illinois. Everyone can go take a look at it. It's a dominant retail corridor with 700 feet of frontage. It only has about four years remaining of lease term, paying approximately $600,000 in rent.

So to the questions out there that may be forthcoming, and for anyone who's wondering if we're going up the risk curve in terms of WALT, weighted average lease term, just look at the underlying real estate on your own Google Maps. This is a high-performing store with significant frontage subsidized by a Dunkin' Donuts sublease on one outlet. So we're finding those opportunities in the ground lease space, but it's the same sourcing methodology. And they've got to make sense for us in the confines of our underwriting.

Ronald Kamdem | Morgan Stanley
Great, thanks for the guidance. That's it for me.

Operator
Ki Bin Kim from Truist.

Ki Bin Kim | Truist
Just going back to your guidance, just trying to gauge how much conservativeness is built into the midpoint. Basically, trying to see how fast you have to run to achieve it, given that it's your first time issuing it. I think we're just trying to get a sense of your philosophical approach to it.

Joey Agree | Agree Realty Corporation | President & CEO
Well, I think our guidance is realistic. It's something that we're obviously confident that we're going to be able to achieve. As the year plays out, we'll hopefully have the opportunity to narrow that guidance and give it even more visibility.

Peter, anything you would add there?

Peter Coughenour | Agree Realty Corporation | CFO
No, I'd just add in April, obviously, we have some visibility into the year just in terms of timing of when we're introducing guidance. It's a relatively tight range from 4.10 to 4.13, and I think that speaks to the confidence we have in hitting that range.

Ki Bin Kim | Truist
Okay. And I guess what's changed over the past couple of months? Last quarter, you were talking about -- I don't want to put words in your mouth -- but more of a kind of pencil-down approach, that there was unclarity in the market, and maybe the deal flow wasn't there. What's basically changed in the past quarter?

Joey Agree | Agree Realty Corporation | President & CEO
Well, if you harken back to the fourth quarter, we saw the 10-year Treasury go from 4 to 5 down to 3.85 in a combined 80 days or so, plus or minus. Then we've had some stability. Obviously, the 10-year has been on a march upward. Since then, we've had some stability. But I think more important to that again, I'll reiterate, the team here, led by the leadership team, has recalibrated our approach. We are not wasting time on sellers that are in 2022 still.

We are focused on the opportunities that are readily available to transact with real sellers. And that, in conjunction with ramping our outbound efforts, rolling our sleeves up, and leveraging our tenant relationships, which are very deep, gives us proprietary access to deal flow. And so we're creating opportunities. I referenced manufacturing transactions on the last call. I apologize if that was taken incorrectly. When I referenced the manufacturing transactions, finding short-term opportunities and doing early extensions, finding high-performing stores, and working with retailers, working with retailers to reduce their occupancy costs on stores or the landlords that are no longer fit within their profile or framework.

So it's a value creation exercise, but this is hand-to-hand combat. This isn't wholesale buying, like most people were accustomed to, with 12 years of declining interest rates and cap rates. And so the team's done a tremendous job refocusing, recalibrating in a wholly different environment.

Ki Bin Kim | Truist
Okay. Thank you.

Operator
Joshua Dennerlein from Bank of America.

Farrell Granath | Bank of America
This is Farrell Granath on behalf of Josh. I just wanted to touch on -- I know last quarter, there were comments on the most attractive investment verticals in terms of investment spreads. Are you still seeing developments as being most attractive, or do you have any other commentary around that?

Joey Agree | Agree Realty Corporation **|** President & CEO
Our development and DFP platform remain active. The standard mode of the majority of retailers' growth through merchant developers is broken today. And so we continue to have those conversations with both the developers as well as the retailers on how we can step in and create value. As I mentioned last quarter here, we can be a solution, but that solution has duration risk, whether it's a 4-month project or an 18-month project, and we're going to price in that duration risk.

And so we continue to have those conversations. I'll be on the road actually, with a couple of retailers' headquarters in the next few weeks here to see how we can continue to be a solution in a world where elevated construction costs, lower loan-to-values, higher interest rates, and unknown cap rates upon completion, frankly, just inhibit a merchant builder's ability to perform.

Farrell Granath | Bank of America
Great. And also, when you were mentioning the increase in call volumes outbound, is this a new internal initiative just going forward, or what was the shift in the increase?

Joey Agree | Agree Realty Corporation **|** President & CEO
So ARC -- obviously ARC is instrumental and tracks all of our connections through conversion rates, utilizing KPIs across all functions really, here at the company. But we've made a concerted effort led by Craig Erlich, our Chief Growth Officer, to ramp that call volume up, to mine -- use our vast database embedded in ARC to mine for opportunities out there that aren't glossy brochures and in an auction environment. And so those -- I'll reiterate, those opportunities are really going to come to fruition more so in Q2 here.

Q1 sourcing, the majority of that was done during Q4, right? If we just use our standard 70 days to letter of intent execution to close, we only got 20 days of sourcing in Q1. Now Q2 is really post-rollout and coming up after the new year here of our dialed-in strategy, and that's the theme here for the year. It's *Dialed In*, and we'll see that come to fruition in Q2 here.

Farrell Granath | Bank of America
Great, thank you.

Operator
Eric Borden at BMO.

Eric Borden | BMO Capital Markets
Just one on the disposition guidance. I was hoping that you could talk about some of the opportunistic capital recycling programs that you have going on. What are the different tenant types or geographies that you're looking to prune from the portfolio?

Joey Agree | Agree Realty Corporation **|** President & CEO
Yes, as I mentioned in the prepared remarks, there seems to be a disproportionate amount of activity, albeit at a low base, of 1031 activity specifically in Florida. We disposed of a Gerber Collision, of a Mr. Carwash. I think you'll continue to see us dispose of and recycle some non-core assets primarily in Florida, but also opportunities that are inbound with a 1031 that needs to be filled quickly, where we can opportunistically sell an asset and recycle that capital 150 basis points spread. So again, Florida seems to be the hotspot for a number of reasons, and so we're very confident in that range of 50 to 100, considering we already closed over 20 and have visibility into over 20 for Q2.

Eric Borden | BMO Capital Markets
That's helpful. And then I just noticed that occupancy had a small dip sequentially. I was just hoping you could provide some additional color on the tenant vacates. And how should we be thinking about occupancy for the remainder of the year?

Joey Agree | Agree Realty Corporation | President & CEO
Well, we were 99.8% in Q4, which is pretty high; that's effectively occupied. I'd argue 99.6 is effectively occupied. It's really the resolution of one box, which we anticipate in Q2. We're going to have some interesting embedded real estate opportunities, inclusive of the Bed, Bath & Beyond redevelopment in Memphis, Tennessee, in Q2, it looks here. I think it's going to demonstrate our underwriting prowess and our real estate prowess, and also our ability to identify transactions and assets within our portfolio, I should say, not transactions, but assets within our portfolio that have real estate fundamentals that aren't being, frankly, utilized to the highest and best purpose. And so hopefully, those are done and complete in Q2, and we can give obviously, a much more detailed breakdown.

Eric Borden | BMO Capital Markets
All right. Thanks very much.

Operator
Rob Stevenson from Janney Montgomery.

Rob Stevenson | Janney
Joey, can you talk a little bit about the expected return on the $74 million of development in DFP projects that were under construction at the end of the quarter? And what was a similar sort of return to the projects you completed in 2023?

Joey Agree | Agree Realty Corporation | President & CEO
Yes, I don't recall the 2023 returns offhand. And again, it's really duration. Obviously, there's real estate and credit, but duration becomes the critical aspect. If we're able to retrofit an existing building through either project and the tenant's going to be paying rent in 120 or 150 days, we do that often with Sunbelt Rentals, we do that often with Gerber Collision. We're looking to, I would say, approximately 50-basis point spreads to where we can buy like-kind assets. Now, if we're talking about an entitlement process and our new-build, we're, very frankly, wide of that if it's going to be a 12-to-18-month project. We're not going to go out there on the duration curve without a significant preview.

And so that's really the tension again which we're trying to work through with retailers and merchant developers here. The team is on the phone all day talking to developers with broken projects, where they can't get financing, or the returns don't make sense and they're unable to perform or, frankly, just won't perform because they don't have clarity upon the back end. And so there's a significant opportunity there.

The question becomes which ones hit the risk-adjusted return threshold that we just talked about, Rob. But you can assume that if we're buying here in the mid-upper-7s, we're certainly not putting or financing shovels in the ground at those rates.

Rob Stevenson | Janney
Okay. And then you talked a bit earlier about the Dollar Trees. Can you talk about how many are likely to close or not likely to be Dollar Trees in the near future, given your current discussions, that you're going to need to re-tenant at some point? And what's the average size of those boxes?

Joey Agree | Agree Realty Corporation | President & CEO
Yes, so just to reiterate, we have no stores on the closing list that have less than 3 years of term. That is obviously subject to Dollar Trees' change. They'll be responsible for all rent and net. There's corporate guarantees behind all of these leases. Ironically, the weighted average lease term of the approximately 15 stores that will be closed is approaching 8 years, 7.5, 8 years, so they're on the hook there. And then we've had inbounds for over half.

We're going to start discussions. Obviously, they've got a lot of going through Dollar Tree right now, whether they're going to sub-lease or whether they'll want to pay a termination fee here. And then we'll enter into direct leases, but you can imagine the retail partners inclusive of other dollar stores, auto parts operators, low-price point operators that are looking at those opportunities. But I think we're very pleased. We're very pleased that with the outcome, given the store closure announcement there, it will have nothing expiring within 3 years. And again, these are average $100,000 in rent per-store with a weighted average lease term approaching 8 years.

Rob Stevenson | Janney

Okay. And then last one for me. Can you talk a little bit about the market out there for vacant sites, given the financing environment? So, if there's like your vacant Bed Bath Beyond, or whether or not there's movie theaters, etc., are there people out there actively buying these for redevelopment play at this point, or is the financing not allowing them to do that? Is that an opportunity for you guys to use capital on some of the better-located vacant retailers to do stuff like you're doing with the Bed Bath site, and you've done historically with a number of other stuff dating to the Kmart days?

Joey Agree | Agree Realty Corporation **|** President & CEO

Oh, the Kmart days. It's a broad question. First, the lack of financing, given the regional bank credit crunch here, has made development a very difficult proposition with loan-to-cost at 60% to 65% as opposed to getting 90%, 95% -- that's one -- plus obviously, the elevated interest rates. To the movie theaters, those are tear-downs, right? If you're a movie theater owner here, there's too many screens in this country, those are tear-downs and redevelopments. That's not really within our sandbox.

The Bed Bath and Beyond opportunity, I'll tell you -- well, first there's an insatiable appetite for highly or well-located boxes that are marketable size. So, if you have a 20,000 to 25,000 square foot junior box, the replacement cost on vertical alone is $160 per square foot and so those numbers don't pencil to build. And so, what we see is significant interest in any existing boxes that are well-located from a whole host of tenants. 90% of the tenants in our portfolio are looking to grow today. It's just the cost structures and the ability to execute that growth.

The Bed Bath and Beyond case -- and I'll give a little bit more detail on it -- is fairly unique. It's out in front of a mall in Memphis, Tennessee. It's perpendicular to the road and isn't maximizing the frontage. We've written white papers about this, and the migration to freestanding formats is driving really an insatiable demand for pad sites from C-store users, from chicken users or chicken sellers, chicken restaurants -- chicken-based restaurants, I'll call them; a lot of chicken going around. (Laughter).

Car washes, we all know, and so these freestanding operators are continuing to grow and grow and grow. We looked at the 45,000 square foot Bed, Bath and Beyond box. And I'll be honest, the 45,000 square foot box today isn't very marketable. There aren't many users for 45,000 feet. We had an offer to take the box in the mid-single digits from a user, and then we looked at it and said, wait a second, the highest and best use here is to take the box down and create freestanding pad sites along a major retail corridor.

It will be my first redevelopment of a freestanding box, which includes a total tear-down and conversion to pad sites in my career. And we're going to have a significant, very significant, lift here upon completion of that redevelopment. And we think there are other opportunities in the portfolio and both outside the portfolio to continue to really take advantage of the migration and really the expansion of the freestanding operators.

Rob Stevenson | Janney

Okay. Thanks. Appreciate the time.

Operator

Alec Feygin from Baird.

Alec Feygin | Baird
The first one is what are the plans, if any, to issue debt? And is there anything of the sort assumed in guidance?

Peter Coughenour | Agree Realty Corporation | CFO
Thanks, Alec, this is Peter. I think first, just in terms of our funding plans for the year, as we said in the prepared remarks, we can execute on that $600 million acquisition guide on a leverage-neutral basis without needing to raise any external capital. And so we're in a great position for the remainder of the year. We have plenty of flexibility in terms of how and when we access the capital markets.

In terms of debt funding plans for the year, again, we can be flexible. We do have $150 million of forward-starting swaps in place, which have hedged a future 10-year unsecured debt issuance at an effective base rate of just under 4%. And so, we'll look to be opportunistic in terms of accessing the debt markets. But we have over a year to use those swaps and can afford to be nimble and flexible in terms of how and when we come to the market.

Alec Feygin | Baird
That's helpful. Thank you. The second one for me is kind of on the pipeline of potential developer take-outs. And are those conversations increasing or decreasing? I know, Joey, you talked about this merchant developer or retailer kind of bind right now, but just curious if those conversations have been increasing?

Joey Agree | Agree Realty Corporation | President & CEO
Increasing. We built out that team, we've launched an ARC module for that team. We've added to that team in terms of team members. They are increasing their daily multiple times per day, trying to piece together projects that can work. And so it's really just sifting through the returns that work for the developer and/or retailer, the rents per square foot through the output, and figuring out the duration premium and/or term or credit premium that we're going to require relative to where -- a standard acquisition.

Alec Feygin | Baird
Got it. And one last one for me. Is the company having any more direct conversations with retailers about expansion? So not through the developers, but directly? I know you mentioned you're about to go meet with some retailers, but any more color on that?

Joey Agree | Agree Realty Corporation | President & CEO
Yes, very, very frequently. Whether it's coming in and stepping in as a solution, or working with retailers on a standard rollout, those are -- that's a big focus for us along with DFP.

Alec Feygin | Baird
Got it. That's it for me, thank you.

Operator
Linda Tsai from Jefferies.

Linda Tsai | Jefferies
I know you're confident about the 600 million in acquisitions this year, but what does the low and high end of AFFO per-share guidance baked in for acquisition volume?

Peter Coughenour | Agree Realty Corporation | CFO
So the acquisition -- or sorry -- the AFFO per-share guidance range assumes approximately $600 million of acquisitions. When I think about hitting the low end or the high end of that AFFO per-share guidance range, I would look to the other inputs that we guided to in the earnings release. And obviously, the more favorable end of those ranges will result in us being closer to the high end of our AFFO per-share guide range. At the less favorable end of those ranges, we'd be closer to the low end. But in terms of acquisition volume, we're assuming approximately $600 million.

Linda Tsai | Jefferies
Thanks, that's helpful. And the 5.7% to 6% of G&A, I know it's a little early, but would this be a reasonable run rate to assume as we look out to next year?

Joey Agree | Agree Realty Corporation | President & CEO
Well, I think, first, we've continued to scale. So, the G&A is a percentage of revenues has continued to scale. I would assume next year, you'll see that that continued scale as well. Obviously, that's subject to revenue, which is driven by investment volumes, but this company has become much more efficient from a technology standpoint, from a process standpoint. And so, you'll see that number continue to scale. The denominator there, I think, will be the biggest moving piece, the revenue number, right, Peter?

Peter Coughenour | Agree Realty Corporation | CFO
Yes, that's correct. And Linda, just for some more context, if you look back fours years ago, G&A as a percent of revenue was roughly 8%. And so, we've seen, based on our guide this year, roughly 200 basis points of scale just in the last four years, and expect that we'll continue to see scale here going forward.

Linda Tsai | Jefferies
Thanks for that. And those 15 Family Dollar boxes, what's the IRR you'll expect on those as you re-lease those?

Joey Agree | Agree Realty Corporation | President & CEO
Honestly, we haven't got that far yet. There is no resolution. We feel that, as I mentioned, inquiries for over half of them already. The base case is that Dollar Tree is on the hook for the weighted average lease term of almost eight years for the rent nets on all of them. But we haven't looked at disposition yet, or whether we're going to -- Dollar Tree will be subleasing themselves, or we would take a termination fee and enter into a direct lease with a net new tenant. So this is all pretty fresh, hot off the press, but we'll be working through that, I would think, this quarter.

Linda Tsai | Jefferies
Thank you. And one last question. You emphasized Florida a couple of times. Why is now the right time to sell there? Is it asset or state-specific?

Joey Agree | Agree Realty Corporation | President & CEO
State-specific. It just seems that a disproportionate amount of 1031 activity, which is very muted as we all know, is attracted to the Sunshine State. Florida seems to be the new California, it's international capital, it's private capital. Some of the stories, frankly, of the buyer profile don't even really add up, but if they come to the closing table, we're happy with that. We had a buyer walk away on a sale for the first time in my career, from a $75,000 nonrefundable deposit the day before closing on a couple million-dollar sale in Florida as well. So, it's very interesting. But we'll again continue to look to opportunistically dispose of assets at these cap rates and then recycle it. But Florida seems to be an outlier here of 1031 activity.

Now, I will mention it is fractional. 1031 overall activity is fractional of what it's been in the past few years, and so this is opportunistic. They don't all close, they don't -- half of them will terminate. But we're working prudently through it, and we've built out the disposition team under Nicole, and we're actively pursuing it.

Linda Tsai | Jefferies
Thanks for the color.

Operator
Haendel St. Juste at Mizuho.

Haendel St. Juste | Mizuho
Joey, can you talk a little bit about the economics behind backfilling for the Big Lots? I think it was filled within O'Reilly's. Maybe some color on the capital that was required, the new lease term, the re-leasing spreads? And I know Linda just asked a question about Dollar Stores, but I'm just curious how different are

the in-place rent and box sizes of the Big Lots versus the Dollar Stores? And anything else that could be relevant or informative there?

Joey Agree | Agree Realty Corporation | President & CEO

Yes, the only thing I can share with you, again, we put the two leases, 110% or 111% of former rents. Both leases, both the Big Lots -- sorry -- the O'Reilly as well as the Fresenius, are long-term leases with escalators. We're seeing tenants more amenable to escalators. Obviously, given the inflationary environment, I think there's a misnomer that investment-grade operators are flat leases. That is patently false. These leases would prove that wrong. De minimis landlord work, again, this is going to be a hub store, and so we have a few other hub stores, but these are the distribution as well for other commercial locations and body shops as well as a retail storefront. So we're excited to add that, obviously, a significant upgrade.

That box, if I recall, was probably 30,000 feet, so it was a larger box. The Dollar Stores range from about 8,000 to 10,000 feet generally, and so they're smaller boxes than the Big Lots. And so the marketability of them is very different, I would just say, from the perspective of tenant pool than a junior box such as the former Big Lots.

Haendel St. Juste | Mizuho

That's helpful. Appreciate it. And I wanted to go back quickly on the commentary earlier on. I think you were saying you're expecting less activity on the sale-leaseback side. I would have thought that with debt costs still fairly high here, that a lot of these guys don't have better alternatives than sale leaseback. So maybe some more color on what you're hearing or seeing on that front would be helpful.

Joey Agree | Agree Realty Corporation | President & CEO

Well, look, we're talking to sophisticated operators as potential counter-parties and former counter-parties on sale leasebacks. Most of them have extremely strong balance sheets rated BBB or higher, they're industry leaders. For them to go enter into a sale leaseback on a spread over where they could issue today, just doesn't make economic sense. And they have the balance sheets and liquidity profile to hope for lower rates, it's that simple. And so, I think all of them, knowing where cap rates would trade today, are holding out for honestly better pricing. And so, a number of the retailers we transacted with last year on the sale-leaseback front, we've had discussions with them and want to continue. They've publicly commented on their earnings calls about sale-leaseback activity.

But in reality, I'm not sure they're ready to stomach the pricing that is really going to clear in today's market and so it's a game of wait-and-see. Some are getting full on their balance sheet and looking for solutions; I know others are saying, hey, we'll hold for the long-term unless something -- unless the winds change. So again, the tenants that we're doing sale-leasebacks with don't need the money, that's the most important thing. We're a small piece of their overall capital stack and so it's almost a secondary exercise in terms of capital. It is a secondary exercise in terms of capital sourcing for them. If it's not favorable, they're not going to do anything.

Haendel St. Juste | Mizuho

Helpful, thank you.

Operator

Thank you. We have no further questions. I will turn the call back over for closing comments.

Joey Agree | Agree Realty Corporation | President & CEO

Well, thank you, everybody, for joining us this morning. We appreciate everyone's time and look forward to seeing you in the upcoming conferences. Appreciate it, thank you.

Operator

Thank you, ladies and gentlemen. This concludes your conference call for today. We thank you for participating and we ask that you please disconnect your lines.