EDITED TRANSCRIPT

Agree Realty Corporation's
First Quarter 2020 Earnings Conference Call
Tuesday, April 21, 2020; 9:00AM ET

Edited transcript as provided by by MultiVu, PR Newswire's
multimedia and broadcast services division.

NYSE: ADC

CORPORATE PARTICIPANTS

Joey Agree | Agree Realty Corporation | President & CEO
Clay Thelen | Agree Realty Corporation | CFO

CONFERENCE CALL PARTICIPANTS

Simon Yarmak | Stifel
RJ Milligan | R.W. Baird
Collin Mings | Raymond James
Christy McElroy | Citigroup
Nate Crossett | Berenberg
Rob Stevenson | Janney, Montgomery, Scott
Ki Bin Kim | SunTrust
Todd Stender | Wells Fargo
Linda Tsai | Jefferies
Chris Lucas | Capital One
John Massocca | Ladenburg Thalmann
Michael Bilerman | Citigroup

PRESENTATION

Operator
Operator: Good morning, and welcome to the Agree Realty First Quarter 2020 Conference Call. (Operator Instructions). Please note that today's event is being recorded.
At this time, I would like to turn the conference over to Clay Thelen, Chief Financial Officer. Please go ahead, Clay.

Clay Thelen | Agree Realty Corporation | CFO
Thank you. Good morning, everyone, and thank you for joining us for Agree Realty's first quarter 2020 earnings call. Joey will, of course, be joining me this morning to discuss our first quarter results.

Please note that during this call, we will make certain statements that may be considered forward-looking under federal securities laws. Our actual results may differ significantly from the matters discussed in any forward-looking statements for a number of reasons, including uncertainty related to the scope, severity and duration of the COVID-19 pandemic, the actions taken to contain the pandemic or mitigate its impact, and the direct and indirect economic effects of the pandemic and containment measures on us and on our tenants.

Please see yesterday's earnings release and our SEC filings, including our latest Annual Report on Form 10-K and subsequent reports for a discussion of various risks and uncertainties underlying our forward-looking statements.

In addition, we discuss non-GAAP 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
Thank you, Clay, and good morning, everybody, and thank you for joining us. First off, I would like to wish all of our listeners and their families health and safety during these difficult times. I'll start our call today broadly speaking about Agree Realty's response to this current pandemic.

The most significant lessons that I've learned from 2008 and the Great Recession uniquely position ADC to not only survive but thrive after this current crisis. That experience made us battle-tested and has applied the experiences gained through that recession to all aspects of our Company, most importantly, our balance sheet and our portfolio construction.

Our fortified balance sheet at approximately 0.7x net debt to EBITDA pro forma for our outstanding forward equity gives us complete flexibility and the unquestioned ability to pursue opportunities which we feel will be even greater this year and into the future. This was further validated by the receipt of an investment-grade credit rating from S&P in the midst of this pandemic, which I note was prior to equitizing our balance sheet with over $500 million in additional capital.

Given the market dislocation, strong visibility into our extremely high-quality pipeline and lack of capitalized competition, we are increasing our acquisition guidance to $700 million to $800 million for the year. Rest assured that we will maintain our historic discipline and that the quality of our pipeline is of the utmost importance, and we will -- and will further enhance our already stringent acquisition criteria.

Before I provide some data for the month of April, let me please take a moment to express my sincere gratitude to our finance, asset management, accounting, legal and lease administration teams for all their efforts, closing the quarter remotely during the pandemic, including an ATM filing and 2 equity offerings, truly a remarkable effort.

Regarding the month of April, our collections for the month demonstrates a thoughtful portfolio construction we have undertaken and the resiliency of our tenant base.

I am very pleased to report that over 87% of total outstanding rent has been received and that 100% of our investment-grade tenants paid their April rent.

We have created a cross-functional COVID response team that consists of asset management, legal, accounting and tenant relations that will manage any short-term challenges, while also seeking to create long-term value. Retailers that are opportunistic and choose not to pay rent will be met with full resistance and full recourse.

Longer-term, this crisis is a significant opportunity that our Company is poised to take advantage of. We have begun to see additional high-quality investment prospects and given the macro environment and our balance sheet and tenant relationships; I anticipate this to further accelerate. We expect a long, hard economic recovery for our country, with relative winners and absolute losers, and Agree Realty is positioned to emerge stronger than ever.

Now, excluding our strategic capital markets' execution, I'll get into what is probably the least important reporting quarter of our careers.

I'm pleased to report that the first quarter represented a strong start to the year, as we continue to capitalize on opportunities across all phases of our business. During the quarter, we further strengthened

our portfolio through strategic investment activity and proactive asset management, while taking significant steps to offensively fortify our industry-leading balance sheet.

During the quarter, we invested $231 million into 55 high-quality retail net leased properties across our 3 external growth platforms. 51 of these properties were originated through our acquisition platform, representing total acquisition volume of nearly $228 million. While we achieved another strong quarter of acquisition volume during these uncertain times, most notable again is our discipline, evidenced by a record 89% of annualized base rent acquired being derived from investment-grade retailers.

The 51 properties acquired during the quarter leased to 17 tenants operating in 14 sectors, including off-priced, general merchandise, auto parts, tire and auto service, dollar stores and home improvement.

The properties were acquired at a weighted average cap rate of 6.4% and had a weighted average lease term of 11 years. The acquisitions were marked by a number of unique opportunities.

Most notably during the quarter, we acquired 6 Walmart Supercenters, comprising more than 1/3 of total acquisition capital deployed. Today, I'm very pleased to report that Walmart is our largest tenant at 6.3% of annualized base rents and growing. We believe that the world's largest retailer is going to continue to thrive post-pandemic, while the majority of their competition will either struggle, go away or contract significantly. We continue to work with all of our retail partners to identify additional opportunities to add value.

Identifying unique real estate opportunities with our tenants has been a hallmark of our approach for years. I am very pleased to report that we acquired the HomeGoods Store in East Hampton, New York, this past quarter. This store took several years for the developer to entitle, permit and construct. I'm sure many of our listeners are familiar with the store. Its addition represents another trophy-like net lease asset to our portfolio.

Additionally, we executed on a 12-property sale leaseback transaction with National Tire & Battery, raising TBC Corporation to our ninth-largest tenant at 2.7% of annualized base rents. As you may recall, we added TBC, a leading investment-grade tire and auto service operator, to our top tenant list in 2019 through a similar transaction. Given the recessionary environment, I anticipate that tire and auto service, as well as auto parts, will continue to thrive. The average age of cars on the road is already approaching 12 years, a record in the contemporary United States. With new car sales grinding to a halt, this sector is poised to further strengthen.

We added 2 more assets to our ground lease portfolio during this past quarter, including a Lowes in Toledo, Ohio, and an ALDI in Minnesota. This ground lease portfolio stood at 8.5% of annualized base rents as of March 31 and continues to derive nearly 90% of base rents from leading investment-grade retailers.

Moving on to our development and partner capital solutions platforms…

We had 4 development and PCS projects either completed or under construction during the quarter that represented total committed capital of more than $15 million; 3 of those projects were completed during this past quarter, representing total investment volume of $12 million. The completed projects include the Company's redevelopment of the former KMart in Frankfort, Kentucky, for ALDI, Big Lots and Harbor

Freight Tools, our first development with Tractor Supply in Hart, Michigan, and our fifth development project with Sunbelt Rentals in Converse, Texas.

Construction continued during the quarter on our first development project with TJ Maxx in Harlingen, Texas, immediately adjacent to a Target, and rent is anticipated to commence there in the third quarter of this year.

You have all heard me speak about our full-service real estate capabilities before. Yet another tool that we have been working to deploy for several months is the screening of current national vacancies and the ability to quickly review them, using our comprehensive software for potential backfill candidates that are within our proverbial sandbox. It is very rewarding to see our teams' efforts come to fruition on such projects.

Subsequent to quarter-end, we commenced construction on our first redevelopment for O'Reilly Auto Parts in Mayflower, Arkansas, in a former box tenanted by Fred's. This project follows in the path of our Sunbelt Rentals projects and our Tractor Supply in Hart, where we redeveloped a formerly vacant, now Shopko.

We will continue to work with our retail partners to evaluate market vacancies and redevelop these buildings at a very attractive cost basis for both ADC and these growing retailers in our sandbox. I strongly prefer this approach to ground-up development, given the current GLA and vacant GLA that we anticipate seeing nationwide accelerate.

While we strengthened our portfolio through record investment activity, we've also diversified our portfolio through strategic asset management and disposition efforts during the year. The first quarter was very active on the disposition front, as we sold 6 assets for gross proceeds of approximately $25.1 million. Notable disposition activity during the first quarter included the sale of an Academy Sports, our only JOANN Fabrics, 4 franchise restaurants and another Walgreens.

Subsequent to quarter-end, we sold 3 additional assets for approximately $7.7 million, including a franchise Buffalo Wild Wings and 2 franchised Taco Bell assets, thus even further reducing our total franchised restaurant exposure to 1.9%.

I would also note that one of our 3 Dave & Buster's is currently under contract to sell. This purchase agreement was entered into after the rise of COVID-19 at a very attractive cap rate. The contract purchaser is now fully non-refundable with a $100,000 deposit, and closing, of course, is subject to customary conditions.

Given the current year-to-date disposition activities, we are raising the bottom end of our disposition guidance to $35 million for the year, which we will evaluate as the year progresses.

Our asset management team has also been diligently focused on addressing our upcoming lease maturities. As a result of these efforts, our 2020 lease maturity stand at only 5 remaining lease expirations and representing just 0.2% of annualized base rents at quarter-end.

During the first quarter, we executed new leases, extensions or options on approximately 180,000 square feet of gross leasable space. In addition to several notable options being exercised, we are very pleased to announce that Ulta will be joining Hobby Lobby in Mount Pleasant, Michigan, at the site of our former

Kmart development. This is yet another testament to our decision to hold this asset for redevelopment, and frankly, was a pleasant surprise.

As of March 31, our growing retail portfolio consisted of 868 properties across 46 states. Our tenants comprised primarily of industry-leading retailers operating in more than 31 retail sectors, with almost 60% of annualized base rents coming from investment-grade tenants. The portfolio remains nearly fully occupied at 99.3% and has a weighted average lease term of 9.8 years. The minimal drop in occupancy was related to the now-vacant Art Van flagship store.

I would like to take a moment to thank all of our loyal stakeholders for their support during these unprecedented and trying times. Recent events have validated the methodical portfolio construction that we embarked on almost a decade ago. And we remain more focused than ever on continuing to improve what we believe is the highest-quality retail portfolio in the country.

Thank you for your patience. Happy to answer any questions after Clay provides an update on our balance sheet and discusses our financial results for the first quarter.

I'll turn it over to you Clay.

Clay Thelen | Agree Realty Corporation | CFO
Thank you, Joey.

I'll start with a balance sheet update and highlights from our recent capital markets activities. We had a very active quarter in the equity capital markets, raising more than $400 million of common equity and an additional $370 million of common equity with yesterday's announcement. In addition to capital raised, we also generated almost $35 million through our disposition activity and free cash flow after dividend during the quarter.

In addition to yesterday's $370 million transaction, we commenced an overnight equity offering on March 30th totaling $175 million. Additionally, we were very active on our ATM during the first quarter and entered into forward sale agreements to sell 3.3 million shares of common stock at an average gross price of $69 per share for anticipated net proceeds of more than $228 million.

At the end of the quarter, we settled forward offerings totaling approximately $105 million. Given this settlement, and combined with the Company's 2019 forward equity activity, we had a total of approximately $267 million in unsettled forward equity available to us at quarter-end --- and as announced yesterday we will be settling these remaining forward offerings this week.

This capital raising activity provides us with tremendous optionality and puts us in a very strong liquidity position. Pro-forma at quarter-end for the settlement of our overnight equity offering and previously raised forward equity, we have full access to our $500 million credit facility, over $250 million in cash on hand, and the $370 million in gross forward equity proceeds announced yesterday.

Further, our balance sheet remains in its most fortified position in the history of our Company. As of March 31st, our net debt to recurring EBITDA was approximately 4.8 times. As Joey mentioned, proforma and inclusive of all our equity activities our net debt to recurring EBITDA was 0.7 times.

Total debt to enterprise value at quarter-end was approximately 26.5% while fixed charge coverage, which includes principal amortization, stood at a company record 4.4 times.

Core Funds from Operations for the first quarter was $0.82 per share, a 10.7% year-over-year increase. Adjusted Funds from Operations per share for the quarter was $0.81, an increase of 13% year-over-year.

General and administrative expenses in the quarter totaled $4.7 million. G&A expense was 8.3% of total revenue or 7.8% excluding the non-cash amortization of above and below market lease intangibles. We continue to anticipate G&A as a percentage of total revenue to be an approximate 50 basis point improvement from 2019 or in the lower seven percent range for 2020, excluding the impact of above and below market lease intangible amortization in Total Revenues.

Income tax expense for the quarter totaled approximately $260,000. For 2020, we continue to anticipate total income tax expense to be in the range of $1 million to $1.2 million.

The Company paid a dividend of $0.585 per share on April 9th to stockholders of record on March 27th, 2020, representing a 5.4% year-over-year increase. This was the Company's 104th consecutive cash dividend since our IPO in 1994.

Our payout ratios for the first quarter were a conservative 72% of Core FFO and AFFO per share, and we continue to believe we have a well-covered dividend.

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

Joey Agree | Agree Realty Corporation | President & CEO
Thank you, Clay.

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). Simon Yarmak of Stifel.

Simon Yarmak | Stifel
Congratulations on a solid quarter, strong April rent collections and the recent capital market activity. Over the last couple of years, you made a pretty conscious effort to increase your exposure to investment-grade tenants, approaching 60% at the end of the first quarter. Obviously, with the April rent collections, investment-grade tenants have essentially paid. How do you think about going forward where you want to take that number over the next couple of years?

Joey Agree | Agree Realty Corporation | President & CEO
Well, I appreciate the question, Simon. I would tell you, given the trajectory of our pipeline and what we closed in Q1, there's no doubt that number will continue to increase. You'd also have to add in the disposition efforts with subsequent to quarter-end with the 3 franchise restaurants, as I mentioned. So, our pipeline and closed to date are very similar. I would tell you, in terms of tenant credit quality, the 89% in Q1 obviously is elevated again. I would remind everybody we are not imputing shadow investment-grade credit ratings to Tractor Supply or Chick-Fil-A or the Publix's or Hobby Lobby's of the world. And so, as I always say -- and it's probably repetitive -- investment-grade is a data point for us; it's an output of our strategy. But there are still a number of retailers in this country that, for whatever reason, they may be private or may not have debt at all, don't carry an investment-grade credit rating. So, I wouldn't put a ceiling on that number. I would fully expect it to continue to rise and I would anticipate it surpasses 60% in Q2 here, at the end of Q2.

Simon Yarmak | Stifel
Thank you. You touched in your prepared remarks, you built this portfolio essentially over the last 10 years and you've done a great job at that. When you think about all we've been going through over the last couple of weeks here, the last couple of months, is there anything that you would do differently in constructing your portfolio going forward, after learning lessons from the pandemic?

Joey Agree | Agree Realty Corporation | President & CFO
Look, I think it's still early. I would tell you, we will no doubt, do an after-action review, hopefully sooner rather than later, after this pandemic. I would tell you this pandemic, from my perspective, has accelerated what we already believed to be the trends in retail. What we saw from retailers in a brick-and-mortar perspective or an e-commerce perspective, going to an omni-channel world, we always avoided experiential and discretionary goods and so that was already part of our strategy.

I think what this has done is exponentially increase what we already saw, and that's the stronger survive and the weak obviously disappearing. I think that's emblematic of the of the tens of millions of dollars and the 6 Walmart Supercenters we acquired during the quarter. And Walmart, as I said, is our top tenant. So, I would defer until after. I would tell you, I'm not thrilled to own 5 movie theaters today obviously, but that's a minority of our portfolio at approximately 1.5%. We haven't touched the movie theater space in a number of years.

But I would tell you that is the only sector in my head that I think that could potentially, we could have more actively avoided, but again, we haven't acquired a movie theater in, I believe, over 3.5 years. So, ask me -- hopefully, by the third quarter call, this will all be over and we'll have time to do an after-action review, but we will certainly undertake one.

Simon Yarmak | Stifel
Sure. Just the last question -- in terms of the competitive landscape that's been changing over the last 6, 7 weeks, most of your peers really are going to take down acquisition activity to a halt with the losses, cost of capital. How has that environment changed? How competitive is that today? How strong is the 1031 market in the current environment? And then lastly, what is the spread between the portfolio market and one-off transaction?

Joey Agree | Agree Realty Corporation | President & CEO
So, to your first question, most people think of our peers as our competition. We very, very, very rarely ever run into our peers. Most of them have differentiated business models and so we very rarely run into our peers. Our traditional competition in the net lease space, in this highly fragmented net lease space, which I'd tell you, our average price point of just over $4 million, is generally financed purchasers either from the 1031 market; that will be a larger 1031 transaction or a private-party purchaser.

And so, I would tell you with the lockup in the CMBS market and frankly, the unavailability of bank debt, that is very -- that's taking a significant amount of competition offline. Now, you didn't ask this directly, but I think we will hopefully see cap rates rise accordingly.

Your second question, Simon, was what?

Simon Yarmak | Stifel
The spread between portfolio sales and the one-off transaction?

Joey Agree | Agree Realty Corporation | President & CEO
I'll be honest, I think we have not actively reviewed any diversified portfolios, or any portfolios that are embedded in our Q1 activity or Q2 pipeline. So I would tell you it's a little too early to see if that spread -- what happens with that historic spread that -- really our guidance, I would mention, our increased

guidance of $700 million to $800 million, includes no portfolio activity, no M&A activity, no sale leaseback activity, just regular way 150 or 170 or so $4 million-plus transactions.

So, I think we're going to see a lot of this continue to materialize as obviously, a dynamic and fluid environment. And I want to be very careful on this call not to frankly set any expectations that we don't frankly have visibility or transparency into.

Operator
R.J. Milligan of R.W. Baird.

RJ Milligan | R.W. Baird
Joey, looking into obviously good rent collections in April, but looking into May, do you expect to get more or less rent collected in the month of May?

Joey Agree | Agree Realty Corporation | President & CEO
Again, a good question. I wish I had transparency and visibility. We thought it was important for market participants to understand where our April collections were. I would tell you again, the Governor of the great State of Georgia is opening everything up, it looks like, this weekend. I was talking to a friend of mine in Atlanta; I'm not sure if anyone is actually going to go to any of these places besides the required haircut. But it's going to be a function frankly of how quickly, one, retailers are actually able to reopen and potentially in the secondary level, drive actual sales. If people reopen businesses and don't drive sales, I'm not sure if that helps.

Second, it's going to be a function of individual choices. And I mentioned in my prepared remarks of retailers -- and we see retailers and many of them have gone public saying they are not paying rent. That is a unilateral choice to breach a contract which will rise to an eventual default, but it will be a choice of retailers. I would tell you, most of these data points I think are very misleading. I think April is helpful, so people can see the resiliency and strength of our portfolio in terms of the investment grade. But I would hope that no one was overly surprised or taken aback, given a 60% investment-grade portfolio, plus the shadow-rated portfolio, if you want to do those, run those on your own; plus, the ground leases. So, all of these data points are very fluid.

I'll tell you what I'm very confident in. We have not breached quiet enjoyment. This is not a force majeure event and these retailers that do not end up insolvent -- any retailer -- excuse me -- that does not end up in a restructuring and reject a lease or a liquidation, which we think we have very few of, we'll pay their rent. And so whether they pay April, or whether they pay May, we will collect those dollars. And we have reminded some retailers, in hopefully a friendly way, that they are accruing late fees, interest and penalties along the way. So short-term cash preservation now -- short-term cash preservation methods on the retailer side will be longer-term cash collected for us, absent a bankruptcy scenario.

RJ Milligan | R.W. Baird
Okay. That's helpful. And Joey, you mentioned the ground lease portfolio, which is a sizable part of Agree's portfolio. Were there any ground leases in which you didn't receive rent in April?

Joey Agree | Agree Realty Corporation | President & CEO
Yes, great question. We have 2 very small ground leases where we did not. I believe, one, we received 50% of the rent. The other one, we did not receive rent. We have, or will be, putting them into default, and we look forward to taking those buildings for free. I will tell you they are 2 casual dining operations, very de minimis in terms of the total rent. I would tell you, it's about $125,000 approximately off the top of my head, but frankly, I was hoping we would even see more of those tenants frankly default. Again, we have no basis in the building and we would own that building for free if they failed to cure. So, I would expect them to cure fairly quickly.

RJ Milligan / R.W. Baird
Okay. And my last question is obviously, we're dealing with the impacts of COVID, but what's to follow is probably a deep recession.

As you think out into 2021 and 2022, are there any categories, industries, that you're more concerned about versus less concerned about, not necessarily to deal with the shutdown, but the economic impact and longer-term impact?

Joey Agree | Agree Realty Corporation | President & CEO
I would tell you it is effectively the same as our historic investment criteria. And so, we have avoided, quote, unquote, "experiential," we've avoided restaurants, absent ground leases. We've avoided movie theaters, which I've mentioned; we've avoided sporting goods. We've avoided those discretionary goods that are easily replaceable online and frankly, more and more goods are becoming easily accessible online to more and more demographics and participants.

So, our focus -- and I think to your question -- our greatest emphasis now is doing our best to project what the world looks like post-pandemic in that recessionary environment. And so, I spoke to National Tire & Battery, and new car sales are going to go from 17 million to somewhere in the single-digit-million. So, then what are the impacts, secondary impacts, of new car sales dropping to such a degree? Well, I spoke to the National Tire & Battery and 12 years approaching average duration of car on the road. And so how does that then disseminate into our retail portfolio and our future portfolio of construction? Well, tire and auto service for older cars is going to be required, more auto parts for older cars -- AutoZone, O'Reilly, we have over 100, and they're great relationships in our portfolio -- are going to be required. Used car sales will most likely, right, accelerate on a relative basis to new car sales.

We do that, the same thing for grocery. Deep discount grocery is going to accelerate. Now that's a challenging sector because we'll see what the online participation rate does from historic 1.5%, but those will accelerate. At the end of the day here, off-price retail is going to have a field day, right? The TJ Maxx, the Marshalls, the HomeGoods, the Rosses, and most likely, the Burlington's, are going to have a field day because the department store space is all but effectively dead. And so, I look at the apparel space, and I say where are people going to buy apparel? It's either Walmart, Target, off-price and maybe Nordstrom's makes it, or maybe Kohl's makes it.

And so, I think our -- what my biggest challenge is, and what our biggest opportunity is, is to be at the forefront. We were at the forefront; I believe we are at the forefront, at least I will say. But we were at the forefront of omni-channel; now we have to be at the forefront of a post-pandemic recessionary environment with consumer behaviors that are structurally going to change for the rest of our lives.

Operator
Collin Mings of Raymond James.

Collin Mings / Raymond James
First, I wanted to go back to your discussion with Simon as it relates to the upward revision to acquisition guidance. Can you maybe just expand on what you've closed quarter to date or quantify a little bit more your pipeline as far as that you expect to close near term. In the past, Joey, you've touched on having visibility on activity for, call it, 60 days to 70 days. So particularly in the current environment, it would seem you have pretty good visibility on near-term opportunities to actually go out there and raise guidance.

Joey Agree | Agree Realty Corporation | President & CEO
You are correct, I won't get into any details, too many details, on the pipeline. I'll tell you it is not dissimilar from the closed in terms of Q1. I did mention that our Walmart activity will continue; we are very focused

there. The composition of that pipeline is very similar in terms of credit quality. We do have some time for some movement, both fallout and inclusions, into that pipeline, but it does give us full confidence that we will hit that $700 million to $800 million absent a second pandemic wave or something atypical hitting this country. So again, it's focused on the retailers you would expect that we've talked about frankly on this call, plus a few other ones, but it is very similar to Q1 at its current state.

Collin Mings | Raymond James
Got it. Okay. That's helpful. And then as far as the request for rent relief, in yesterday's release, you noted about a third of your tenants are asking for short-term rent relief or other considerations, just given the pandemic. You are pretty clear again on this call on your view about the obligations your tenants have. But to clarify, if anything, have you formally granted anything on the relief front yet? And then maybe how would you quantify the mix of requests that you actually view as valid?

Joey Agree | Agree Realty Corporation | President & CEO
To answer your first question, we have executed single-digit deferral requests predominantly with small operators, the few small operators that we have in our portfolio. Those are deferrals; they are not abatements, they are deferrals. Those deferrals will be paid back very quickly, and at times, we have credit enhancements on top of them.

In terms of the 33%, Collin, I'll be honest with you, I did not want to even include it in this release and in our remarks. It was required by counsel and we have fantastic counsel. I think the 33% I would warn all market participants, and everybody on this call, that the 33% ranges from the frankly absurd, retailers that have no debt that are open and operating, and a couple that are even thriving frankly in this environment; to a retailer that is a small operator that really needs help. And so, the spectrum there ranges from an email request, "Can you help us? Are you willing to offer us any help in the general form? Can we not pay April rent and defer it to later or abate?"

And so, it is such a wide spectrum, I think it's frankly a data point that everyone should be very wary of. To the opportunistic, I can't quantify that for you. I will tell you there are a few retailers we have had harsh discussions with. They are not considered long-term partners for us. We made them quickly aware of our remedies in those leases, and I would tell you some paid, some didn't. They will pay and we have put them on notice of the late fees, the penalties, the interest and our ability to either -- subject to the lease -- evict them and take possession or not evict them.

And we've also reminded them that we are not a shopping center REIT or a mall REIT that has co-tenancy implications or traffic flow implications. So net lease is very unique in that context, but we will vigorously pursue immediately default remedies upon any retailer that acts opportunistically.

That said, we are willing to partner with a very minority piece, a Planet Fitness franchisee or we've got a small tenant in a legacy shopping center; it's a Chinese buffet restaurant that my father developed 30 years ago and has been there literally since inception. We're willing to be partners there for retailers that really need it. But I think it's very important for people to understand, in net lease, we have fixed returns.

We don't get percentage rent; we don't get upside. We can't ask for more rent in the future and we are not willing to grant unilateral requests to retailers that have the ability to pay.

Collin Mings | Raymond James
Just on that last point, Joey, recognizing it's a handful of requests, can you maybe just expand upon what you're asking for in exchange for providing short-term relief? Again you touched on it's generally deferment as opposed to some sort of forgiveness, but just maybe expand on -- I think you touched on

credit enhancements, and it sounds like there is maybe some other options that may be long term to be beneficial to you as you work with some of these.

Joey Agree | Agree Realty Corporation | President & CEO
And I think that's the most important thing. So, I want to be clear, we have not abated $1; we don't intend to abate $1 of obligations here. The ones with the single-digits are deferrals. I think the opportunity -- and I spoke in the prepared remarks -- is for us to work with our retail partners. And that is a true partnership to help them potentially during this period of closure in exchange for consideration for long-term value. And the menu of options there is significant, and we've created and just preliminarily engaged in discussions like that.

We have the balance sheet and obviously, the liquidity profile, which Clay spoke to, and the ability to be a long-term partner and take short-term pain for long-term value creation for our shareholders. That menu of options includes exercises. That menu of options for us in consideration includes exercise current options. We could be your preferred developer; we can acquire short-term stores working in concert. We can do a sale leaseback if you have real estate on-balance sheet. We can do all types of different things given the unique full-service nature and the capabilities that this fantastic team in Agree Realty has.

That said, that retailer has to pass a few thresholds. Number one, they have to be a partner. Number two, they have to be solvent or we have to frankly be very confident in their future in that post-pandemic recessionary world. And number three, they have to be willing to come to the table to frankly make a new deal because that's what this is. It's not within the four corners of the document; we're willing to work with our partners, but that is a new deal and it's a new document.

Operator
Christy McElroy of Citi.

Christy McElroy | Citigroup
For the tenants that have not paid in April and for those that you don't expect to pay in May, understanding that they are in default, but how should we think about the other expenses that are typically paid directly by the tenant like utility costs and property taxes that don't generally run through your P&L? To what extent could landlords be on the hook for those, whether temporarily or permanently?

Joey Agree | Agree Realty Corporation | President & CEO
Yes, I'll speak to it generally for what our COVID response team has done. And then I'll let Clay talk into some of those details where they are obviously in our P&Ls. Number one, our COVID response team has confirmed -- has gone open occupancy. We've been confirming property taxes were paid and utilities, predominantly water bills -- that is just standard practice for us -- has been paid. And so that is an important question. You're right, it's an obligation that they have. Obviously, a net lease, some of those pieces run through our expenses and then we would get reimbursed, or sometimes tenants pay direct.

Clay, do you want to speak to the details of that question? They're over my head, frankly though.

Clay Thelen | Agree Realty Corporation | CFO
Yes, of course. So, in terms of what comes through our P&L in terms of real estate taxes and property operating expenses, that's approximately half of those expenses, Christy, just to provide a little -- provide some -- try to quantify that a little bit.

Christy McElroy | Citigroup
Okay. But presumably, if they are not paid by the tenant, you're obligated to pay those?

Clay Thelen | Agree Realty Corporation | CFO
Correct.

Joey Agree | Agree Realty Corporation | President & CEO
That's correct. If the tenant does not pay, that would be an event of default similar to not paying rent, and we would have the full remedies in the lease.

Christy McElroy | Citigroup
Okay. And I know you don't normally give FFO guidance, but just sort of how should we be approaching Q2 in terms of potential FFO impact in regard to the deferrals? But also, as you think about tenants that still haven't paid, how are you thinking about potentially assessing the collectability probability?

Joey Agree | Agree Realty Corporation | President & CEO
Well, I think the collectability, and I will turn again the details over to Clay. I'll tell you that going into Q2 right now in a dynamic and fluid situation, we're not even into May. Obviously, it's very difficult for us to provide any short-term guidance. I would encourage again people to, especially in the portfolio with the credit quality such of ours, to frankly to ignore some of these short-term; take them as data points, but don't let them be drivers.

Clay, I'll let you take the details of her question though.

Clay Thelen | Agree Realty Corporation | CFO
Sure, of course. It's important to note, as Joey mentioned, that our discussion with tenants have been focused on deferrals; so not rent relief, and specifically deferral. So, I'll focus on that. In terms of deferrals, it's really an impact in terms of the timing of when we collect cash, and so not the total amount of cash received. And so, since FFO reflects straight line, it will not be impacted by deferrals. However, on the other hand, AFFO is essentially a cash measure and therefore, it will reflect when the rent is due under the deferral agreements.

I'd highlight you mentioned collectability a little bit, Christy. We apply the new lease accounting that came effective in 2019. Under these rules, it's determining when it's probable or the probability of us collecting rents from a tenant. And we must write off any receivables, to the extent those receivables aren't collectible, at a probability of at least 75% chance or probability of collection. And so that assessment is something that we'll be very focused on going forward. It's something our COVID response team is very focused on, and we've obviously had a number of conversations certainly too across the organization and continuing to monitor that.

Operator
Nate Crossett of Berenberg.

Nate Crossett | Berenberg
Just on the equity raises, clearly a meaningful amount over the last couple of weeks. How are you guys thinking about longer-term leverage targets going forward? Are you kind of changing the threshold band you want to be in, or is this just kind of a temporary opportunistic type of leverage level?

Joey Agree | Agree Realty Corporation | President & CEO
I appreciate the question. I think these equity raises are clearly offensive for us. The equity we have

raised has, I am hesitant to use it, but I'll say it, has effectively built a war chest that enables us to go execute on the investment front. I think longer-term, which is an important question during this pandemic, and outside of this pandemic I would tell you, I think it is inappropriate to run a balance sheet at 5x to 6x levered for a net lease company. I would tell you that we will not most likely surpass 5x levered, absent having a forward equity option outstanding to us.

We can always raise debt; raising debt is very easy. We have access to the unsecured public bond market today, the private placement market, the term loan market. That is always easy. And so now what we have the ability to do is delever, which we have executed; delever this balance sheet in an offensive manner, add in debt when we feel appropriate, and in opportunities where it is obviously accretive to our portfolio; run a conservative balance sheet that gives us the offensive capabilities.

I think the most important part of your question is I would tell you our stated pre-pandemic range of 5x to 6x is now out the window, given the current environment.

Nate Crossett | Berenberg
Okay. That's helpful. And then just quickly on the debt, obviously, you don't need to raise any debt by any means right now, but if you were to go out, what does the pricing look like today versus pre-COVID I guess?

Joey Agree | Agree Realty Corporation | President & CEO
Yes, I'll let Clay speak to that generally. I'll tell you, we are not actively in the debt markets. We've obviously seen a number of companies access, so the market is open; it opens and shuts in windows as you would expect. Pricing spreads have gapped out significantly. I think frankly, our credit quality is only improving in this type of situation.

But Clay, do you want to give any specifics in terms of anticipated spreads? I know we haven't been active in the market looking.

Clay Thelen | Agree Realty Corporation | CFO
Look, I'd say it's tough to say, just given the current market and we're certainly watching closely. There just haven't been a lot of data points. There are a few investment-grade deals prior to earnings blackouts, but that's really been it. In those deals, obviously pricing spreads were much wider than they were 6 weeks ago, but just not a lot of data points currently. And it's certainly something we'll continue to monitor very closely.

Nate Crossett | Berenberg
Okay. And then just one more if I could. I suspect most of your tenants are too large for the PPP program, but what about the fed lending program? Do you think some of the more troubled tenants could tap that lending facility? And could you guys personally tap the PPP program to lower your own G&A costs?

Joey Agree | Agree Realty Corporation | President & CEO
I'll speak to the second question. We believe we would have been eligible to tap the PPP program. We did not think it was appropriate for us to tap the PPP program. We are obviously quite solvent; we have a balance sheet that we've spoken about pretty extensively here. We aren't going to opportunistically tap any government programs at Agree Realty. Frankly, that would defy our core values.

Second, to your first question, the government programs, the availability to our tenants are really subject. I'll tell you, we have not done a lot of research or spent our time in our tenants' ability to tap government

programs. The only one that I've really seen that could be applicable is some of the fallen angel stuff in terms of the bonds for former investment-grade companies. I haven't spent any time on it personally.

Clay, I don't know if you want to speak to it. I know you've been a little bit too busy, but we don't have a bunch of small tenants or small businesses in our portfolio that are reliant upon government loans right now.

Clay Thelen | Agree Realty Corporation | CFO
I would just add specific to the PPP program, our tenants, having above over 500 employees would eliminate them from being eligible. And so, we don't really view that as a real option, given our tenant base.

Operator
Rob Stevenson with Janney.

Rob Stevenson | Janney
Joey, what percentage of your acquisition pipeline is on tenants that are currently not open for business? And how are you thinking about that mix as you sort of back-fill the pipeline into the third and fourth quarters when you start looking out? Is that even a consideration, considering that the economy is likely to be open at that point in time, or is that still factoring into any relevant attractiveness of certain tenants?

Joey Agree | Agree Realty Corporation | President & CEO
That's honestly a great question. I would tell you, number one, most of the tenants that we're looking at, just because of the nature of their business, if you look at our portfolio and the statistics we released -- and again I think our property managers specifically who spent so much time calling every tenant and talking to them -- I would tell you I don't have an exact number, but approximately 80% I would tell you are open, at least, that was emblematic of our current portfolio. Now, whether or not they're currently paying rent, there is mechanisms to structure around that.

Again, I think as Collin mentioned earlier, our average duration to closing is 60 days to 70 days. So, we have some time to watch and see how they pay rent, if they ask existing sellers for deferrals. I'll tell you again, it's not a big consideration for us, given the long-term nature and duration of those leases.

The price point, frankly, the price per square foot and the basis we access these properties and acquire them at, and then our relationships with the tenant, I'll tell you, there is one acquisition in the first quarter, which we closed that was not open. And in that case, we looked to the seller to provide an escrow for any deferral that was structured pre-closing. And in that case, that could be a mechanism for any considerations in future acquisitions if we feel it's warranted.

Rob Stevenson | Janney
Okay. And then you talked about some of your non-long-term partners that are healthy and choosing not to pay. Have you had conversations with them that you would consider disclosing their names? Certainly, if they're public companies, that would be a problem for them and sort of shaming them publicly. Is that a consideration for you guys if that continues?

Joey Agree | Agree Realty Corporation | President & CEO
I hesitate, I will tell you that we have made tenants aware of our rights and our remedies, and I think that there are considerations for tenants here about the public perspective, frankly. I think there are those considerations for them, and I think they should take them into account. I think one other piece on that, when tenants say we're not paying rent, what many people forget -- and I think it was Connor Flynn that

actually mentioned it -- what many people forget is a lot of the rent is amortized TI across the space; not necessarily a net lease, but in shopping centers as well as the mall space.

So, landlords have effectively, in that case, been lenders to these tenants. They have built tenant specifics; they have either provided tenant TIA or landlords work that have effectively financed the tenants' operation in advance. And part of the rental rate that it's amortized into is frankly the repayment of those obligations.

And so, we don't have the option as to not pay our lenders. We don't have the option frankly -- well, we have the option, I guess, but we'd never consider it right now, to not pay our dividend. And so what I've told our tenants is if you are considering not paying your rent, on a unilateral basis, I will tell you that we will be paying all of our employees; we will be paying all of our lenders; we will be paying our dividend. And many of our shareholders are senior citizens or 70-year-olds that rely upon us to pay their rent, their mortgage and for frankly income. And so, your unilateral decision not to pay your rent, even though you're able to, has a cascading effect that frankly is not tolerable to us.

Rob Stevenson | Janney
Okay. And then one for Clay. When you factor in the forward deals and the debt capacity and the cash that you have right now, while staying within some sort of reasonable leverage level, how much of dry powder do you have to close the incremental $500 million to $600 million of acquisitions without raising any additional capital?

Clay Thelen | Agree Realty Corporation | CFO
So just to make sure I understand the question, Rob, I think you're asking, given the cash on hand, what capacity, what total volume and acquisitions are we able to close? And that's -- it's again, given the slightly lower leverage range and kind of where we're comfortable running the balance sheet, it's north of $1 billion. It's between $1 billion and $1.5 million in terms of what our capital available, including forwards outstanding, would allow us to acquire and still stay at a very low leverage point.

Joey Agree | Agree Realty Corporation | President & CEO
And Rob, this is Joey. Let me just jump in to kind of -- because I know there's a lot of numbers here, and there's the additional disclosure that's posted for the walk here that we posted to our website. But I think it's important for everybody to just -- a high level and I'm going to use round numbers, so details will be forthcoming obviously as we move through the year.

For us to achieve the upper end of our acquisition guidance this year, net of dispositions plus development, anticipated development, PCS spend, obviously, net of free cash flow after the dividend, we basically, prior to the Cohen & Steers transaction, would have ended the year at approximately, without any additional equity, at 5x.

So again, I'll just repeat that. Hitting the high end of our acquisition guidance, we would end the year, without the Cohen & Steers transaction, at approximately 5x net debt to EBITDA without any additional equity. What the Cohen & Steers transaction allows this Company to do is, number one, hopefully -- and as the year progresses, we'll get more visibility -- number one, exceed that guidance, given the market dislocation and the opportunities that we see, without exceeding that 5x. And it's on a forward basis at our election, as I think you're all aware.

Secondly, if we do not exceed that guidance, or if we end up at the lower end or middle end of that guidance, which frankly, I don't anticipate the lower end of that guidance today. If we don't exceed it, it basically starts funding our 2020 -- our 2021 -- [whatever] year it is now -- our 2021 pipeline. So again,

without [$1], Cohen & Steers' equity at the end of the year, top end of our guidance, we end up around 5%. And so I think that's what the transaction enabled us to do. It allows us to potentially exceed our guided base of 5x because that 5x to 6x is frankly out the window today; and/or fund our pipeline going into 2021, which frankly aggregation of that pipeline will start typically using that 70 days in mid-October of this year.

Rob Stevenson | Janney
Okay, perfect.

Joey Agree | Agree Realty Corporation | President & CEO
[Was that helpful?]

Rob Stevenson | Janney
Yes, that was exactly what I was looking for. Thank you. Thanks, guys.

Operator
Ki Bin Kim with SunTrust.

Ki Bin Kim | SunTrust
And I usually don't do this too often, but just wanted to say great job on having the right mentality and philosophy before all this. So my question is you raised your acquisition guidance, but I think we all realized cap rates tend to move slowly. So do you have any concerns that maybe is there a better price to be had if you just waited a little bit more?

Joey Agree | Agree Realty Corporation | President & CEO
Was there a better price to be had? Look, I think today's market trades as much frankly on the macro-dynamics. Oil has driven negative oil prices for March and April delivery or April-June -- April-May deliveries. The market is so dynamic and so fluid, the last thing that we would ever do to equitize our balance sheet and enable our capabilities is wait out for another $1 or $2 or $4, whatever it is. If you look at it big-picture, we effectively raised equity in the low 5x, all right?

Ki Bin Kim | SunTrust
Joey, I meant for your acquisitions, not for your own balance sheet.

Joey Agree | Agree Realty Corporation | President & CEO
Oh, oh, sorry, for acquisitions. Look, we anticipate that hopefully, cap rates will move, given the lack of bid. But I'll tell you, nothing that we do on the acquisition side is on the margin. If we can buy a Walmart high-performing Supercenter at a 6.5 cap, or we think, or we prospectively think, cap rates are going to go up, let's just use a round number of 30 basis points, we're not going to wait for that 30-basis point perspective and possible increase.

And so nothing we do -- the same thing with the HomeGoods in the Hamptons. We aren't going to wait for that HomeGoods in the Hamptons for the cap rates to move. The opportunities that we hit aren't marginal; the opportunities we hit or we look at is essential and we will execute to them.

And the good news is we continue to find more of them and we now have the balance sheet to continue to execute on them going into 2021. And so we're not going to wait for cap rates to prospectively rise because even if they do rise, which I think you mentioned or this could be slow and cascading -- even if they do rise, we're going to be there at that time too. So we have a fixed cost of capital; we know what that is today. We have the liquidity to execute.

Ki Bin Kim | SunTrust
Okay. And on real estate taxes, what do you think the end result will be? I'm assuming not just for yourselves, but the industry, is going to go back into municipalities to get -- to lower real estate taxes to reflect any reality? How do you think that all --

Joey Agree | Agree Realty Corporation | President & CEO
Yes, I would anticipate from everybody's home to their commercial real estate that the -- everybody -- the law firms are going to do great on those. We will work with our tenants in conjunction to hopefully lower their -- all of their obligations outside of their rent on a go-forward basis. We want their all-in occupancy costs to be as low as possible and so we will work with them -- obviously, this is a future consideration -- during the appropriate time, we will partner with our tenants, as we always do. They typically require both parties to potentially lower their real estate tax obligations, given the revaluation.

Ki Bin Kim | SunTrust
Okay. And just the last one. This is just a suggestion, but I think it will be helpful in the press releases just to provide a little table on your equity offerings, what's been done, what's left to do, just because you have many different layers going on at the same time.

Joey Agree | Agree Realty Corporation | President & CEO
I think -- noted. I think hopefully, that a reconciliation of net debt to recurring EBITDA that is posted to our website will be helpful. We work to expand disclosures. If everybody would note on Page 6, we have now disclosed all retail sectors. We used to have a significant amount; I can't recall the exact amount, but 20% to 30% in other. We have now broken that down all the way to miscellaneous, which is $75,000 a year at the bottom.

Again, that's on Page 6. And that's cell towers, billboards and donation bins that are on net leased properties that frankly we own that just came with it. So hopefully, that disclosure is helpful. The reconciliation again of net debt to EBITDA is helpful and we will take that into account as well for the future.

Ki Bin Kim | SunTrust
All right. Great job.

Operator
Todd Stender of Wells Fargo.

Todd Stender | Wells Fargo
Joey and Clay and the rest of your team, I hope everybody stays healthy and safe. Most of my questions have been answered. It had to do with the accounting around FFO, I guess the gap between FFO and FAD, which Clay answered. But probably an underwriting question going forward; when you look at your four-wall coverage, I would imagine that's going to deteriorate for all retailers, whether they're open or not. Just how are you looking at that? Maybe your acquisition guidance increased, but you probably need maybe a little bit more protection. And just as a safety net, going forward, how do you think this is going to change the underwriting?

Joey Agree | Agree Realty Corporation | President & CEO
Just four-wall coverage for us, again, most of our retailers do not report EBITDA. If you ask Walmart what their store sales or EBITDA is on any specific location, I think they would tell you nicely to fly a kite. It's never been a driver of underwriting. We have never thought it was a proxy for credit. You can have a poor -- I don't want to pick on Walmart; let's would pick somebody else. You can have a poor-performing Home

Depot location, but Home Depot Corporate is on the lease and the credit; and the performance of that retailer can change for the positive or the negative.

And so I would tell you much of our portfolio, the vast majority of which do not report EBITDA because we're not a lender; it's really a lender covenant. We're real estate owner. The vast majority -- I would say the majority of our portfolio is counter- cyclical, and so post-pandemic, I would anticipate again O'Reilly Auto Parts and AutoZone and TJ Maxx and the Walmarts of the world, frankly, their coverage to potentially go up.

So our portfolio -- and everyone's heard me say it -- has been constructed with two thoughts in mind. One of them wasn't a pandemic, I'll readily admit that. It was counter -- recession-resistant and e-commerce-resistant. And so much of that recession resistance -- frankly, Dollar General is going to thrive in a recessionary environment; so is National Tire & Battery and AutoZone and O'Reilly; at least, I believe they will.

Todd Stender | Wells Fargo
Great, that's helpful. And probably just the last question, just a balance sheet question. You referenced the 5x net debt to EBITDA. I think it was at the high end of your guidance. What kind of debt is assumed in there? And that was pre-Cohen & Steers offering, so that did assume some of the remaining shares and the forward equity to be settled. But what kind of debt expectations do you have in that number?

Joey Agree | Agree Realty Corporation | President & CEO
Type or amount of debt?

Todd Stender | Wells Fargo
You're kidding.

Joey Agree | Agree Realty Corporation | President & CEO
Todd, are you there?

Todd Stender | Wells Fargo
Yes, I sure am. Can you hear me?

Joey Agree | Agree Realty Corporation | President & CEO
Yes. Are you referencing amount of debt or type of --

Todd Stender | Wells Fargo
Yes, what's budgeted? I would imagine you'll tap the unsecured bond market now that you've got the investment-grade rating, but what kind of level is assumed in that number?

Joey Agree | Agree Realty Corporation | President & CEO
Clay, do you want to take that?

Clay Thelen | Agree Realty Corporation | CFO
Yes. Look, we're looking at -- obviously, we'll continue to be an unsecured borrower, Todd, and we have optionality now certainly in terms of now we have the second rating. I think your question in regards to sizing, ultimately, this is just ultimately dependent on timing of uses of capital. We have full optionality given our current position, our cash position, and certainly the equity outstanding as well and so ultimately dependent on uses and the timing of uses. And like I said, we will closely monitor the unsecured bond

market that's -- obviously, the private placement market takes its lead from that market. And so we'll continue to monitor both very closely and again, based on uses, execute accordingly.

Todd Stender | Wells Fargo
Great, thank you.

Operator
Linda Tsai with Jefferies.

Linda Tsai | Jefferies
Just given the comment on flow and cascading effect of cap rates, does that mean that you're not seeing COVID impacts change cap rates for the deals currently in your pipeline?

Joey Agree | Agree Realty Corporation | President & CEO
Good morning, Linda. I think you just hit it on the head; it's slow and cascading. And it's slow and cascading primarily because it's such a large and fragmented market in terms of ownership. And so I'll tell you, we have seen opportunities where cap rates have gapped out and we are under contract or have closed or under [LOI] on those opportunities because the seller has potentially a differentiated set of facts and circumstances. Maybe they need a liquidity event immediately. Then there are sellers that will continue to hold out and try to be opportunistic that have balance sheets and don't need the capital.

And so I think it is very likely to be slow and cascading. Our origination team, our acquisition team's, job is to find the opportunities where frankly, they move -- cap rates go up faster. And I'm not sure what the opposite of cascading is right now, but frankly, rise faster and so -- but I do agree with you, it will be slow and cascading in terms of macro cap rate environment.

Linda Tsai | Jefferies
Thanks. And just one more. What's the best way to think about run rate of acquisitions 2Q through 4Q? Do you think it will be -- do you think you'll see larger volumes in 3Q and 4Q?

Joey Agree | Agree Realty Corporation | President & CEO
In full transparency, I have no idea. Again, our increased guidance of $600 million $700 million anticipates no large transactions, M&A, portfolios or sale leasebacks; just run-of-the-mill regular way Agree acquisitions aggregating $4 million-plus transactions. Just for reference, the Sherwin-Williams transaction at the end of 2018 came together in 30 days from LOI execution or lease execution to close. And so really, those deals -- he bigger deals frankly typically happen faster. So I have no idea, but they're not currently in our guidance or frankly, in our pipeline.

Linda Tsai | Jefferies
Thanks.

Operator
Chris Lucas with Capital One Securities.

Chris Lucas | Capital One
It's been a long call, so I'll just ask one question. Have you guys seen -- or do you operate in any locations where civil authority may have created moral hazard by prohibiting commercial evictions and therefore, incentivizing tenants to withhold rent?

Joey Agree | Agree Realty Corporation | President & CEO
No, we've seen -- we have evaluated and reviewed, and our legal team has reviewed that. The last time I was updated was, I believe, it was a couple of counties in California where I don't think we have any assets. So no, that is not really a current consideration or concern of ours, but we will -- they will continue to monitor it. Obviously, it's a pretty expansive monitoring process.

Chris Lucas | Capital One
Okay. Thanks, guys, appreciate it.

Operator
John Massocca with Ladenburg Thalmann.

John Massocca | Ladenburg Thalmann
So just kind of building on Chris's question a little bit -- and obviously, hopefully it doesn't come to this with most tenants. To the extent you have a tenant that is not paying April or even May rent, can you walk us through the general process and timeline through kind of unilaterally rectifying any disagreement and maybe your ability to kind of get value out of that asset?

Joey Agree | Agree Realty Corporation | President & CEO
Look, it's all subject to obviously, leases and landlord remedies and cure periods. I would tell you, I wouldn't use the word rectify it; there's defaults. We will put landlord -- basically, you have to notice a tenant essentially generally have a period then to respond and pay rent. If they don't, they are then in default. Some leases have cure periods to varying degrees. The random lease, you have to have them send a second notice or a second reminder. And then, the landlord's remedies can range from acceleration of all obligations, which some leases have, so all rental obligations accelerated, to taking possession, evicting the tenant. You can keep the tenant in place and make him pay rent.

If you do evict the tenant, often there are responsibilities for a landlord to use reasonable efforts to relet through commercial efforts (inaudible) efforts to relet that premises. If you evict the tenant, the tenant is still on the hook for the rental rate, for the rental income to the landlord, offset by any rental -- any re-tenanting of the property. And generally, the tenant is also responsible -- if they are then -- are then responsible for the landlord's costs, including tenant allowance, build-outs, leasing commissions, interest, penalties and any other costs associated with retenanting.

So to put that in perspective, generally speaking, a national tenant or a regional tenant with a big balance sheet and a down-the-middle lease needs to pay their rent.

John Massocca | Ladenburg Thalmann
And then just broadly speaking in that kind of a situation -- and I know it's going to vary from locality to locality -- but any kind of recovery in a situation where a tenant refuses to pay rent? Is that going to be something that happens potentially by the end of this year, or is it more of a 2021 type of situation?

Joey Agree | Agree Realty Corporation | President & CEO
All depends. Obviously, back to Chris's question, the courts, the timings, everything else, I will tell you that if I'm a national retailer and I know I am obligated, and I know I have liquidity to pay rent, and I am not filing, potentially filing, bankruptcy and in cash conservation mode, I'm not sure I want to undertake the frictional costs and the risks to fight a bunch of landlords across the country. And so again, my expectation for tenants is for them to pay their full rent on a timely basis and we will continue to remind them of that.

John Massocca | Ladenburg Thalmann
Okay. And then just one last quick kind of detailed question. How does the 87% of cash rent received in April compare to either last year's April cash rent receipts or the last couple of months?

Joey Agree | Agree Realty Corporation | President & CEO
Clay, if you want to get into details -- but generally, we receive all our rent so --

Clay Thelen | Agree Realty Corporation | CFO
Yes, that's right Joey. We're at the 21st of the month or the 20th of the month when we report it. So everything would be fully received.

John Massocca | Ladenburg Thalmann
Okay. That's it for me. Thanks very much.

Operator
Michael Bilerman with Citi.

Michael Bilerman | Citigroup
It's Michael Bilerman. Joey, the direct issuance you did to institutional investor announced yesterday, 6.2 million shares, well over 10% of your share base, even taking into account the other forwards. How did you think about the execution of doing something direct of that size, and effectively not providing your other institutional shareholders the ability to buy at a discounted price to maintain their ownership, pro rata ownership levels?

Joey Agree | Agree Realty Corporation | President & CEO
Yes, Michael, you're breaking up a little bit. I understood the question; hopefully, everybody heard it.

Michael Bilerman | Citigroup
I am happy to say it again if you want.

Joey Agree | Agree Realty Corporation | President & CEO
I think you're still chopping up; it could just be the line generally, but I think everybody can hear and see the transcript. But the question was basically, the difference between this transaction and the marketed transaction and how we perceive -- what was it again, you said?

Michael Bilerman | Citigroup
Well, effectively, you took the opportunity to issue 6.2 million shares direct to one institutional investor. That's well over 10% of your diluted share base, even when you take into account the other forwards you have outstanding. You didn't provide that same opportunity to all your other existing shareholders to maintain their effective ownership base.

Joey Agree | Agree Realty Corporation | President & CEO
Got it, got it.

Michael Bilerman | Citigroup
And so I think most of times, you see companies do smaller transactions direct either off their ATM or a direct transaction. This was quite sizable, and so how do you sort of balance your relations with other shareholders versus one single one?

Joey Agree | Agree Realty Corporation | President & CEO
Yes, understood. I think its context is important and then the details, I think through the marketed offering

we did at the end of March, also the ATM activity, which the vast majority comes through reverse in terms of aggregate dollars raised. I think shareholders have had hopefully, significant opportunities plus buying in the open market to establish positions. That's one. Two, I would point out with this offering, I really look at it as one. It was a unique opportunity; it was really a reopening of the last deal, it was double the amount of the last deal. We weren't actively looking. Given the opportunity set, we thought it was the right thing to do.

I will note that it was at a tighter discount frankly than the marketed deal, and the net proceeds to the Company were approximately $0.20 higher on the Cohen & Steers transaction than the fully marketed deal. So it was a tighter discount with higher net proceeds to the Company and so we thought that made sense for all constituents, which were taken into account.

Michael Bilerman | Citigroup
And then as you think about that 87%, so clearly, you would have been at 100% in March at this point. I think that's what you effectively insinuated in the last comment. So of that 13% that hasn't paid, I guess what's your expectation as we go into May about how much of that 13 percentage points will be deferred? So I don't know if it's half that you're working on right now versus, I don't know, is it half that you expect to take to court and use your rights under your leases? Just give us some sense of where things stand overall.

Joey Agree | Agree Realty Corporation | President & CEO
I think the best place to look for that, the starting point is probably, I believe, was our March 19 press release, which outlined the 4 retail sectors that people considered at risk. And then you have to really go through -- that aggregates to approximately 10%; if I'm not wrong, Clay, correct me. And then you got to go through there, and there's a lot of media reports out there, frankly, public statements from some of these retailers. You have to go through and say what is the eventual outcome. And that's when we'll have to put the 75% test now to them that Clay referenced in terms of probability of paying.

Some of those retailers that are in the news, i.e., a large movie theater, I think people are going to have to really look at that test pretty closely. And so the entertainment retail portion, the movie theater portion, are the biggest, the most significant pieces of those for us. I think anticipation of May collection versus April collection, or a greater collection in May versus April, I'm not sure if that's the most probable outcome, given their cash liquidity positions and what we've read in the news.

Michael Bilerman | Citigroup
But of that 13 percentage points of rent that you haven't collected, it sounds like the vast majority, maybe up to 10 percentage points, it's just not going to get paid because of the issues; whereas, 300 basis points maybe you're working on deferrals. I'm just trying to get very specific in terms of how much you are actually working on these deferral program, so that we can start thinking about the cash impact and the cash rents collected and your ability to --

Joey Agree | Agree Realty Corporation | President & CEO
No, I understand.

Michael Bilerman | Citigroup
-- [fund] your obligations.

Joey Agree | Agree Realty Corporation | President & CEO
I fully understand. It literally comes down to what does Dave & Buster's do. We have three -- I mentioned one is under contract with $100,000 non-refundable deposit at our title company. I'm not sure if we'll own

it or not, but that's [how] we have to walk away from $100,000. What happens with Dave & Buster's? Frankly, that's going to be subject to how quickly this virus dissipates -- I'm just using them as an example, by the way -- how quickly this virus dissipates, the reopening rate of states, the return rate of customers.

There are other -- there are capital providers outside of landlords' willingness because to -- willingness to frankly support them. You could be looking at -- they did a recent financing; I'm just using that for example. Then you take that through the movie theater space.

I would tell you, I don't think it's the full 10% we referenced in the release because I think a lot of those -- there is some opportunism in the restaurant space, which is very de minimis for us, specifically the fast food, their drive-throughs and windows. We have a couple of fast food franchisees, I'll call it the big whoppers -- not McDonald's -- but we have a couple of fast food franchisees that did not pay their rent. We know they are open for drive-through and pick-up. They chose not to pay their rent. That is a choice they made. They will be put in default. We anticipate that they will either pay their rent; whether they pay May or not, we'll see; that's their choice.

So it's hard because again, these are unilateral decisions to not pay their rent that are on our counter-parties, that we can cajole and tell them what we're going to do and telegraph the future, but at the end of the day, they got to cut the checks (inaudible).

Michael Bilerman | Citigroup
All right. So it doesn't sound like from -- you're not working on any abatements in terms of rent reductions. It's all deferrals or trying to get the tenant to pay. It sounds like the deferral amount is pretty marginal in terms of how much you're working on, right?

Joey Agree | Agree Realty Corporation | President & CEO
Yes, we've given we've given zero abatements; we will not give any abatements. They will all be -- any deferral that we give will be amortized into a -- every deferral we have given, or will give, will be amortized into the rental rate and paid back over a quick period; especially subject to any credit concerns that we have, it will be paid back faster. The higher credit quality, we would potentially look out a little bit longer, but again, we're talking months here, not years. And then I'm interested to see, frankly, myself what some of these retailers try to pull in May. We've got a lot of opportunists out there.

Michael Bilerman | Citigroup
Well, that's (inaudible).

Joey Agree | Agree Realty Corporation | President & CEO
And a lot of people --

Michael Bilerman | Citigroup
Right.

Joey Agree | Agree Realty Corporation | President & CEO
Yes.

Michael Bilerman | Citigroup
Because you already -- you said that 33% have asked something, right?

Joey Agree | Agree Realty Corporation | President & CEO
Yes.

Michael Bilerman | Citigroup
And I understand that some of that you feel is opportunistic and ridiculous. I'm trying to understand is as we move into May, is that 87% going to drop down to, I don't know, 75% just because of the number of tenants that have decided, all right, we paid our April, but we're not going to pay May. I'm just trying to understand the direction of where you think that's going to come out?

Joey Agree | Agree Realty Corporation | President & CEO
I think it's -- I wish I fully could tell you I knew that answer. I think it will be up to those -- again, up to those retailers' decisions and up to governors opening states and the dissipation hopefully and the elimination of this virus, which I don't anticipate happening frankly in May so -- but again, I understand 100% what you're trying to drive to. I would like to drive to and get full visibility myself. For us, specifically, given our balance sheet and our liquidity profile, I would just encourage shareholders to look past short-term cash flow. Clay mentioned the difference between FFO and AFFO and you obviously understand that.

Short-term cash flow and tenants' unwillingness to pay their contractual obligations versus the longer term, what's really going to happen here. And in the longer term, this portfolio and this balance sheet, and the tenants that we own the real estate under, are going to survive, thrive. Will we have a little bit of minimal fall-off? Sure, there may be a movie theater operator that doesn't make it, but on a relative basis, we come out big winners.

Michael Bilerman | Citigroup
Yes, okay. Thank you.

Operator
At this time, we are showing no further questioners in the queue and this concludes our question-and-answer session. At this time, I would like to turn the conference back over to Joey Agree for any closing remarks.

Joey Agree | Agree Realty Corporation | President & CEO
Well, thank you, everybody, for joining us. Please stay safe. Good luck to the rest of earnings season. I appreciate your patience; I know that was a long call. Good luck and talk to you -- hopefully, see you all soon. Bye.