EDITED TRANSCRIPT

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

Operator
Good morning, and welcome to the Agree Realty second-quarter 2016 conference call. (Operator Instructions)

Please note this event is being recorded.

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

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

So let's get started, as we have a lot of exciting things to discuss.

I am very pleased to report on our record setting quarter, where we continued to build momentum in all phases of our operations. Led by record investment activity and capital raising efforts, including the largest equity raise in the Company's history, we believe this quarter was a milestone in our Company's progression. Notably, we surpassed the $1-billion-dollar equity cap mark, thus increasing liquidity for our shareholders, while significantly improving the quality and diversity of our industry-leading retail net lease portfolio.

During the second quarter, we invested approximately $154 million into 36 high-quality retail net lease properties. Of our 36 investments, 34 properties were sourced through our acquisitions platform, for a total acquisition volume of $151.5 million. The properties were purchased at a weighted-average cap rate of 7.8%, with a weighted-average remaining lease term of approximately 11.6 years. The acquired properties are located in 15 states and are leased to 22 national and super-regional tenants operating in 15 diverse e-commerce resistant retail sectors, including the home improvement, farm and rural supply, discount apparel, crafts and novelties, grocery, specialty retail, quick service restaurant, discount, and auto service sectors. New tenants to our portfolio include, Burlington Coat Factory, Walmart Neighborhood Market, Orchard Supply Hardware, Mister Car Wash and Porter Paints.

As previously disclosed, we closed on a $79.5 million acquisition of a diversified portfolio of 11 high-quality retail net lease properties. The portfolio consists of properties net leased to industry-leading retailers, with nearly 40% of the portfolio's net operating income derived from investment grade tenants. Notable retailers include Orchard Supply Hardware, which is a growing small format, home improvement concept that is owned by Lowe's, as well as Walmart Neighborhood Market, Hobby Lobby, Smart & Final, Ross Dress for Less and Big Lots. These retailers operate in sectors such as home improvement, crafts

and novelties, grocery, discount apparel, and specialty retail, where their brick and mortar presence serves as the foundation to their omni-channel retail strategy.

In addition to the credit quality and sector diversity of the portfolio being both unique and compelling, the geographic diversification was also extremely attractive. Over 50% of the net operating income of the portfolio comes from the Los Angeles and San Francisco markets, and an additional 30% is attributable to properties proximate to the Seattle, Denver, Austin and Orlando major metropolitan markets.

The portfolio has a weighted average remaining lease term of 11.4 years and over 6% of the portfolio's net operating income is derived from assets where the Company is the fee simple owner of the land and ground lessor to industry-leading retailers. The majority of the ground lease NOI is derived from our first Walmart Neighborhood Market, located in Vero Beach, Florida, which we anticipate construction will commence in the next 60 days.

During the quarter, we materially increased our exposure to Lowe's, Tractor Supply Company and Hobby Lobby, which are now our number 3, 11 and 12 tenants, respectively. All of these companies maintain extremely strong brick and mortar operations and are the industry leaders in their respective retail sectors. While neither Tractor Supply Company nor Hobby Lobby maintain a public credit rating, both possess investment grade-quality financials with very strong balance sheets.

During the quarter, we also acquired a number of Mister Car Wash locations. We are very excited about our relationship with Mister Car Wash, whom we have been working with for over a year. They are the largest car wash operator in the country, led by a fantastic management team and have a committed sponsor in Leonard Green & Partners. We look forward to expanding our relationship with Mister Car Wash and are exploring ways to continue to deploy our capabilities in partnership with them.

Through the first 6 months of 2016, we've invested a record $192 million into 49 high-quality retail net lease properties in 17 diverse sectors. Of the total first half investment volume, $184.8 million, or a total of 46 properties, were sourced through our acquisition platform. The properties were acquired at a weighted-average cap rate of 7.8%, with a weighted-average remaining lease term of approximately 10.7 years. Spread across 20 states, the properties are leased to 36 national and super-regional tenants with a conscious focus on high-performing retailers in the auto service, farm and rural supply, home improvement and discount grocery sectors.

Our year-to-date acquisition volume of $185 million, as well as our pipeline, puts us right on track to achieve our 2016 increased acquisition volume of $250 to $275 million.

While the second quarter of 2016 was our single largest quarter in terms of acquisition volume, I want to stress that our acquisition methodology continues to maintain a disciplined, bottoms-up underwriting approach, which emphasizes real estate and consumer fundamentals. Our underwriting is combined with a top-down focus on e-commerce and recession resistant retail sectors. We are increasingly focused on retailers that are outperforming in today's omni-channel environment, offering either a value proposition or a unique customer experience that necessitates a brick & mortar presence.

Turning our attention to the development and Partner Capital Solutions front, we continue to gain momentum and are seeing increased opportunities to leverage our distinctive capabilities for a number of national and super-regional retailers.

We currently have nine development or Partner Capital Solutions projects completed within the year or currently under construction, with capital deployed or projects in progress totaling over $20 million. As we move into the back half of 2016, we anticipate our pipeline continuing to evolve, and anticipate increased activity heading towards 2017.

During the second quarter we brought two projects online. Construction was completed on the Company's previously announced Burger King located in Farr West, Utah. This development, which is subject to a new 20-year lease and had a total project cost of approximately $1.6 million, was the inaugural project of our partnership with Meridian Restaurants to develop up to 10 new Burger King locations.

The Company also completed a Family Fare Quick Stop project in Marshall, Michigan. This project is subject to a new 10-year ground lease.

In addition to these completed projects, we have a number of exciting developments where construction commenced or continued to progress during the second quarter.

In April, construction commenced on our second Burger King project with Meridian in Devils Lake, North Dakota. Similar to our Farr West project, this location is subject to a new 20-year lease and has a total estimated cost of $1.6 million. We anticipate rent commencing during the third quarter.

We continue to make progress on our Wawa in Orlando, Florida, our Chick-fil-A in Frankfort, Kentucky and our Starbucks in North Lakeland, Florida.

Our Orlando Wawa project, which represents the ninth Wawa in the Company's portfolio, continues to make fantastic progress and we anticipate rent commencing during the third quarter of this year. The project has a total cost of approximately $2.5 million and is subject to a new 20-year ground lease.

In Kentucky, the Company's first Chick-fil-A is also expected to commence rent during the upcoming quarter. This project is subject to a new 20-year ground lease. The total project cost is approximately $0.6 million. We are very pleased to add such a high-quality retailer to our portfolio.

The Company's first Starbucks development in North Lakeland, Florida continues to make progress and is expected to commence rent in the first quarter of 2017. Total project costs are approximately $1.3 million.

Subsequent to quarter end, I am very pleased to announce that construction has commenced on two additional exciting projects.

We commenced construction of the Company's first Texas Roadhouse in Mt. Pleasant, Michigan. The project is located on a recently created out lot to our Central Michigan Commons property. Similar to our Starbucks and Chick-fil-A developments, our asset management team, led by our Chief Operating Officer, Laith Hermiz, did a fantastic job identifying this embedded opportunity within our existing portfolio. The development is subject to a new 15-year ground lease and has a total project cost of approximately $0.6 million.

In July, construction commenced on the Company's first Camping World project in Tyler, Texas. This project has a total cost of $7.5 million, is subject to a new 20-year lease, and represents a differentiated opportunity for our Company to partner with an industry-leading retailer on their national expansion plans. This is our first project partnering with Camping World and we will look to deploy our unique capabilities in partnership with them in the future.

Lastly, while we have no remaining lease maturities in 2016, our asset management team has been proactive addressing future lease maturities. Of note, our largest maturity in 2017 is an Off Broadway Shoes located in Boynton Beach, Florida. Off Broadway has no options remaining and this single maturity represents nearly half of our 2017 expiring rent. We have recently executed a lease with a dominant

national retailer and are pursuing a unique opportunity to densify the site and create additional value. The project, which is still subject to customary conditions, entails expanding the existing building's square footage by nearly 75% to approximately 36,000 square feet. We look forward to discussing the project in further detail in upcoming quarters.

The increasing activity of our three external growth platforms continues to reflect our capability to work with retailers at any point in their growth cycle, demonstrating our Company's distinctive operating model in the retail net lease sector.

In addition to our investment activities, our disposition program has started to take shape. We currently anticipate disposing of between $20 and $50 million of assets in 2016. As previously discussed, our focus is on opportunistically and proactively reducing existing concentrations in our portfolio.

During the second quarter, we closed on the sale of our Walgreens in Port St. John, Florida for $7.3 million, which represents a 5.5% cap on in-line net operating income.

As a result of this sale and the Company's growth, our Walgreens exposure has decreased to approximately 14%, down from 18.7% at this time last year, nearly a 500 basis points decrease in only 12 months. We anticipate that our Walgreens exposure will continue to decrease as we opportunistically dispose of additional Walgreens assets and as our portfolio continues to expand.

Furthermore, in addition to our evolving tenant diversification, our geographic diversity has continued to improve. In just the past year, our Michigan exposure has been reduced by over 600 basis points. Michigan now makes up only 16.7% of in-place rents, down from nearly 23% this time last year. Additionally, we've strategically increased our California exposure to 4.9% of in-place rents, which now represents our 6th largest state.

Now let me elaborate on some of our existing portfolio's characteristics, which remains 100% concentrated in retail and is one of the strongest in the net lease space by almost any measure. It is comprised almost exclusively of national and super-regional tenants, with over 46% of annualized rents coming from tenants with an investment grade credit rating.

The portfolio remains effectively fully occupied, as our overall portfolio occupancy rate increased slightly to 99.6% at the end of the second quarter, and has a weighted average remaining lease term of 11.0 years.

As of June 30th, our expanding retail net lease portfolio consisted of 326 properties comprised of industry-leading tenants that operate in over 25 diverse retail sectors. Our portfolio spanned 42 states and totaled 6.3 million square feet of gross leasable space.

Within the portfolio, we continue to believe there is exceptional value that is attributable to our ground leased assets, where the Company is the fee simple owner and ground lessor to prominent national and super-regional retailers. In just this past quarter, we have added Walmart Neighborhood Market, US Bank, Chick-Fil-A, Texas Roadhouse and another Wawa to this unique portfolio. These ground leases, which comprise nearly 8% of total base rental income, are another reason that our portfolio presents an extremely attractive risk-adjusted investment for our shareholders, as nearly 90% of this portfolio is leased to leading retailers that have an investment grade credit rating.

With that, I would like to thank our many loyal shareholders for their continued support. Through a combination of share price appreciation and dividend growth, the Company has realized a total return of

45.1% for the first half of the year, representing the highest total shareholder return in the retail net lease space.

I'll now turn it over to Matt to discuss our second quarter 2016 financial results. Matt?

Matt Partridge, *Agree Realty Corporation - CFO*
Thanks, Joey. Good morning, everyone. Before I begin, let me quickly run through the cautionary language.

As a reminder, please note that during this call, we will make certain statements that may be considered forward-looking under federal securities law. Our actual results may differ significantly from the matters discussed in any forward-looking statements. In addition, we discuss non-GAAP financial measures including Funds from Operations, or FFO, and Adjusted Funds from Operations, or AFFO. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures can be found in our earnings release.

As we announced in yesterday's press release, total rental revenue, including percentage rents, for the second quarter of 2016, was $19.9 million, an increase of 23.6% over the second quarter of 2015. Year-to-date, total rental revenue has increased 25.8% over the comparable period in 2015 to $38.6 million.

G&A expenses were approximately 9.3% of total revenue in the second quarter, which is a 78 basis point decrease year-over-year as compared to 10.1% in the second quarter of 2015. As we've noted in the past, we expect to continue to achieve decreases in corporate operating leverage as we grow the Company and realize greater operating efficiencies through increased scale. Since 2012, G&A as a percentage of total revenues has decreased nearly 700 basis points.

FFO for the second quarter was $13.8 million, representing an increase of 23.8% over the first quarter of 2015. Year-to-date, FFO has increased 25.4% over the comparable period in 2015 to $26.4 million. Similarly, AFFO for the second quarter was $13.7 million, representing an increase of 24.3% year-over-year. Year-to-date, AFFO has increased 25.3% over the comparable period in 2015 to $26.5 million.

On a per share basis, FFO decreased 1.8% over the prior year's results to $0.61 per share, and AFFO decreased 1.4% to $0.61 per share, both materially impacted by the expected near-term dilution from our May equity raise, which was completed in order to, in part, prefund the $79.5 million portfolio acquisition we closed in June and to fund our healthy pipeline. FFO and AFFO per share for the first six months of 2016 have increased 3.0% year-over-year to $1.22 per share.

As previously noted, in May we completed the largest follow-on offering in the Company's history, issuing 2,875,000 shares of common stock, which included the underwriters' full exercise of their option to purchase additional shares. After deducting the underwriting discount and offering expenses, total net proceeds from the common equity offering were approximately $109.7 million.

In addition to the follow-on public offering, the Company issued 15,156 shares of common stock through its at-the-market equity program, realizing gross proceeds of approximately $0.5 million. We continue to view the ATM program as an efficient tool for us to reduce overall cost of capital, as well as improve the timing and efficiency of raising capital.

Now let's turn to our balance sheet, which continues to be one of the strongest in the industry. As of June 30, 2016, total debt to enterprise value was approximately 25% and net debt to recurring EBITDA was approximately 5.1 times, at the low end of our stated leverage range of 5-to-6 times. Our fixed charge

coverage ratio, which includes principal amortization was a healthy 3.6 times. These metrics indicate significant liquidity for future growth, and continue to align with our targeted leverage and coverage levels.

Subsequent to the end of the quarter, we completed $100 million of long-term, unsecured, fixed rate debt, which has a weighted average interest rate of approximately 3.87% and a blended term of 10 years. The financings were comprised of a $40 million unsecured 7-year Term Loan and $60 million of privately placed, 12-year, senior unsecured notes.

The unsecured Term Loan has an interest rate based on a pricing grid over LIBOR, which is determined by the Company's leverage ratio. The Company has a fixed LIBOR over the Term Loan's 7-year period, and we anticipate the interest rate will be fixed at 3.05%, based on current leverage levels.

The $60 million of privately placed, 12-year, senior unsecured notes are priced at a fixed interest rate of 4.42%. Closing and funding of the new private placement of Senior Notes is expected to occur later this week.

Finally, on July 15th, the Company paid a dividend of $0.48 per share to stockholders of record on June 30, 2016, which represents a 3.2% increase over the $0.465 per share quarterly dividend declared in the second quarter of 2015. The company has paid 89 consecutive cash dividends since its IPO in 1994 and the dividend represents a 20% increase over the quarterly dividend paid in 2011. Our payout ratios for the quarter were 79% of both FFO and AFFO, which were elevated because of the increased share count from the May equity raise, but still remain in the lower half of the Company's targeted ranges and reflect a very well-covered dividend.

We are thrilled with how the first half of 2016 has developed, and believe we are extremely well-positioned to continue to execute on our operating strategy, maintain our conservative balance sheet, and provide very appealing risk-adjusted total returns to our shareholders.

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

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

To conclude, the second quarter represented an exceptionally active quarter for our Company, which will drive increased earnings performance in the quarters and years to come. Our strategy has been unwavering, and we've continued to expand and differentiate our retail net lease portfolio, while maintaining our ability to opportunistically execute through our industry-leading balance sheet. We are confident in our ability to continue carrying out our growth strategy for the remainder of 2016 and beyond.

At this time, we will open it up for questions.

QUESTIONS AND ANSWERS

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

Collin Mings, *Raymond James; Analyst*
First question from me, just as it relates to the acquisition pipeline, Joey, maybe can you touch on what you're seeing in terms of other small to midsize portfolio deals like what you completed in the quarter?

Joey Agree, *Agree Realty Corporation - President & CEO*
Sure. We're typically an aggregator by nature, across all three external growth platforms. That said, we're always evaluating portfolios of any size and shape. We don't see anything in our pipeline today similar to the portfolio we closed on during the second quarter. But we're always looking, typically at diversified, smaller portfolios of net lease assets.

Collin Mings; *Raymond James; Analyst*
Okay, that's helpful. And then just switching gears as far as just on the disposition activity that you talked about in the prepared remarks. Can you maybe talk us through the timing of that? And then, given the shift towards being a more opportunistic seller, should we expect a 5.5% cap rate like what you completed on during the quarter for the remainder of the year on what you're selling?

Joey Agree, *Agree Realty Corporation - President & CEO*
Right. So, our dispositions platform will continue to focus on concentrations within the existing portfolio, most notably Walgreens. It's a great time to be disposing of those assets. And we've discussed before 5 to 6 caps. This sale in Port Saint John was right in the middle of that range. Nothing notable about the store, the real estate or the store performance, at a 5.5% cap.

So our Walgreens exposure year over year is down nearly 500 basis points, like we discussed in the prepared remarks. Our focus will be continuing to opportunistically divest of those assets and redeploy it into all three of our external growth platforms.

To speak to timing, it's challenging, Collin, to be honest. The majority of purchasers in the space are 1031 purchasers. And just by the very nature of the 1031 laws, until a purchaser, frankly, has closed it doesn't provide for the most certainty of execution. That said, we're looking to maximize price on these dispositions. And we can tolerate a little bit of flex in the timing.

Collin Mings; *Raymond James; Analyst*
Okay. And then just going back to the changes in your sector concentration, Joey, just touch a little bit more on the increase in the grocery store exposure and just how you're thinking about that category, some of the underwriting requirements you're looking at as it relates to that segment, and just any sort of other deals in that pipeline.

Joey Agree, *Agree Realty Corporation - President & CEO*
Sure. So our grocery exposure is up, let's call it, about 170 basis points to our third largest sector. When we really focused on what we call really brick and mortar foundational businesses that in the context of an omni-channel retail world, we see those brick and mortar operations with improving same-store sales.

So specific to grocery, our focus in the grocery space is in the deep discount. We're not a high end grocery buyer. We typically don't buy a middle of the road grocers. So our exposure has been increased from the Walmart Neighborhood Market in Vero Beach -- that's our first Walmart Neighborhood Market. That's a brand new ground lease where Walmart is currently paying rent and we'll commence construction in the next 60 days.

Additional grocery exposure, in the form of the Smart & Final stores in California. Obviously, very unique merchandising, unique shopping experience at Smart & Final. And they continue to perform very, very well in California.

And so our focus on these sectors, on grocery, on farm and rural supply, on home improvement, our focus on these sectors is really driven by our top-down approach to retail and how we view retail with that

ecommerce-resistant lens. And then we're focused on acquiring, developing, and deploying capital on our Partner Capital Solutions platform to the industry leaders in those respective sectors.

So as you can see, Lowe's is now our number 3 tenant, Tractor Supply our number 11 tenant, Hobby Lobby our number 12 tenant -- home improvement, farm and rural supply, and crafts and hobbies, respectively. And we're confident that those sectors are going to continue to perform well and that we've targeted the best operators, frankly, in those sectors.

Collin Mings*; Raymond James; Analyst*
Thanks for all that detail, Joey. One last one for me, just on the development and Partner Capital Solutions pipeline. Just given the rising costs of both land and labor, just talk about how you're mitigating those risks as you continue to build out that pipeline.

Joey Agree, *Agree Realty Corporation – President & CEO*
Sure. So we aren't speculating on land. We aren't speculating on any GLA. So we have all of our costs buttoned up prior to close. Again, people confuse our development pipeline with a speculative pipeline or think it entails increased risk. I would tell you it's the exact opposite. Before we close on any parcel of land, we have a lease with all contingencies waived, all entitlements and permits in hand, and we have a fixed lump sum contract from a general contractor. So we know what our costs are going into these projects. Any appreciation in land prices or appreciation in labor or material costs or inflation of labor and material costs, we've got our arms around, obviously, before we put a shovel in the ground or close on a piece of property.

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

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

R.J. Milligan*; R.W. Baird; Analyst*
Joey, the slight deterioration in the percentage of investment grade tenants this quarter given the acquisitions, as well as the Walgreens disposition. Curious what level you're comfortable with in terms of percentage of rents coming from investment grade tenants as we get into the end of this year and we get into 2017 as you reduce your Walgreens exposure and continue to acquire assets that might not necessarily be investment grade.

Joey Agree, *Agree Realty Corporation – President & CEO*
Sure. And I appreciate the question. So the only statement, part of the question, I'll take issue with is "deterioration". We are using major rating agencies in terms of denoting our investment grade exposure. And you can see in our filings, Tractor Supply and Hobby Lobby are now our number 11 and 12 tenants, respectively. Both of those retailers have very, very strong financials, effectively minimum or no debt.

We aren't going to impute credit ratings to them, combined Tractor Supply and Hobby Lobby in our portfolio today are 4.2%. If you add that to the 46% we're again north of 50%. So we're not going to impute credit ratings. We're not going to come up with our own scoring system. We'll continue to follow the major rating agencies. Our focus in investing capital is on industry-leading retailers in the respective sectors, which we just discussed. Whether or not they have a credit rating, that won't drive our investment decisions.

Another perfect example there is our Chick-fil-A in Frankfort, Kentucky. Again, an unrated company, Chick-fil-A is obviously a fantastic operator, with an investment grade balance sheet. But since they're unrated we aren't going to put them in the investment grade pool.

Looking forward into the future, we're going to continue to operate by that same M.O. I mean, we're going to acquire the best operators in the ecommerce- and recession-resistant spaces where we feel comfortable that the brick and mortar foundation is an essential piece of their omni-channel retail experience. We're not going to allow an investment grade credit rating or lack thereof drive our investment decision.

Today our investment grade exposure is still the highest in the space. It's 100% retail, the investment grade exposure. You add in the 8% ground leases. I think by any measure our portfolio stacks up very well against, frankly, any other portfolio in the country today.

R.J. Milligan*; R.W. Baird; Analyst*
Okay, that's helpful. Thanks, Joey. And one last question. In terms of the Partner Capital Solutions arm as well as the development, those projects in terms of numbers are increasing, yet they tend to be small dollar volume. And I'm wondering, as you grow your company's size with the bulk of that growth coming through acquisitions, is there a point where those other two platforms don't make sense just in terms of effort versus dollars going out the door?

Joey Agree, *Agree Realty Corporation – President & CEO*
That's a great question, R. J. So we talked about what we think is the ideal size for this company of $2.5 billion to $3.5 billion enterprise value, effectively doubling the size of this portfolio, the balance sheet, once again.

And the reason we really get to that size, that $2.5 billion to $3.5 billion, is we're comfortable and confident that we'll have an investment grade credit rating at that time. We'll also have a balance sheet which can tolerate an index-eligible public bond. And we'll also be able to move the needle on a consistent basis through all three of our external growth platforms.

What you see this quarter is, frankly, is what we believe is the next step in the evolution of this company where we can deploy all three capabilities in addition to a sizeable balance sheet that's north of, I'll call it, $1.5 billion today in enterprise value, where we can deploy those capabilities simultaneously or concurrently to really add value to a retailer at any point in their growth cycle.

So we have smaller projects in here such as the Burger King. We have larger projects in here, such as our first Camping World project. Any shape or size, as long as we're comfortable and confident that we are going to have a partner with a retailer, and be able to deploy our capabilities and invest a material amount of capital over the course of one year and three years. I think you're going to see us take advantage of those opportunities and drive outsize returns for our shareholders.

R.J. Milligan*; R.W. Baird; Analyst*
Great. Thanks for the color.

Operator
Rob Stevenson of Janney.

Rob Stevenson*; Janney Montgomery Scott; Analyst*
Matt, how should I be thinking about the debt capacity or the investing firepower for you guys post this $100 million debt issuance? I assume you're paying down the revolver and then basically using that to fund acquisitions going forward. I mean, in addition to the $100 million of capital you deploy, how much additional debt are you guys comfortable putting on the Company at this point without hitting the corresponding equity, whether or not it's asset sales, ATM program, or a secondary offering?

Matt Partridge, *Agree Realty Corporation – CFO*
You're exactly right. The line was $98 million at the end of the quarter. We sourced $100 million of long-term debt to pay that down. You should expect us to continue to use the line to fund acquisitions over the near term.

In terms of future capacity and what we're comfortable putting on the balance sheet from a debt perspective, we're going to operate within that 5 to 6 times leverage range that we've talked about in the past. That's where we're comfortable. Today we're at 5.1, so at the low end of that range. And as we continue to execute on our guidance through the end of the year both with acquisitions and dispositions, we're comfortable that we can stay within that range without tapping further equity.

Rob Stevenson*; Janney Montgomery Scott; Analyst*
Okay. And then, Joey, given your comments about selling down some of the concentration, including Walgreens, et cetera, how should we be thinking about the size of a potential sale/leaseback transaction that you would be comfortable with, given the now more than $1 billion size of the Company? Is it 30, 50, 75? When you think about that in terms of adding back significant concentration through a transaction of that type of nature, what's your tolerance for that? And is that something that you're looking to do or thinking about doing any time in the near future?

Joey Agree, *Agree Realty Corporation – President & CEO*
I think first, our tolerance for any single tenant concentration is, let's call it, a gray line of approximately 5%. The only tenant who really is north of that today is Walgreens, and as we talked about, they're down to 14% now and that number will continue to decrease.

In terms of a large single credit sale/leaseback, I'll be frank with you. That truly is not -- it's not our M.O. It's not really in our DNA or our business model to take on a massive or extremely large sale/leaseback with a single credit. We look to leverage our balance sheet and utilize our balance sheet in a sale/leaseback transaction when we feel like we have other opportunities to deploy capital with that prospective partner or tenant.

And so we'll do so on an opportunistic basis. I would expect us to continue -- for us to do that throughout the course of the year and upcoming quarters. But in terms of the large, single credit sale/leaseback transaction, it really goes against our bottoms-up underwriting approach. So I wouldn't anticipate anything overly material on that front.

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

Operator
George Hoglund of Jefferies.

George Hoglund*; Jefferies; Analyst*
One question in terms of acquisitions and looking at your underwriting, has the recent run in the stock impacted the way you think about deals or think about what required returns you would look for to buy a deal?

Joey Agree, *Agree Realty Corporation – President & CEO*
Well, it really hasn't. I would tell you that it allows us, our improved cost of capital, most notably our improved cost of equity due to the stock price, allows us to look at transactions potentially different on the margin. But we really look at two things. From 30,000 feet we're looking at e-commerce resistance and an omni-channel future and recession resistance. And then our bottoms-up underwriting approach we're

really focused on the market dynamics, the four-wall performance of the store, the retail synergy, the price per pound, and really marking to market where that tenant is paying a rental rate.

And so on the margin in terms of the portfolio transaction that we executed on in the quarter, I would tell you that it helps there. But you will not see us deviate from our historical underwriting approach.

What you will see, frankly, is we'll benefit from wider spreads. And so we don't feel like we have to chase cap rates down to 1031 market cap rates. We think we can continuously source opportunities across all three external growth platforms, frankly, that aren't related to market cap rates today.

George Hoglund*; Jefferies; Analyst*
Turning from a modeling perspective, I guess, it's fair to assume that cap rates, at least on a GAAP basis, would remain kind of the high 7s, around 8% range.

Joey Agree, *Agree Realty Corporation – President & CEO*
That's fair. Yes.

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

Operator
(Operator Instructions) Daniel Donlan of Ladenburg Thalmann.

Daniel Donlan*; Ladenburg Thalmann; Analyst*
I was wondering if you could talk a little bit about the Mister Car Wash and kind of where those assets were purchased, geographically where they are and kind of how that transaction came to be.

Joey Agree, *Agree Realty Corporation – President & CEO*
Sure. So we'd been talking and working with Mister Car Wash since prior to the RECon Conference in Las Vegas in 2015. So we've been working with Mister Car Wash and their management team for about 18 months. The assets that we purchased are in Mississippi, Iowa, and Colorado. We think we've built a good, diversified portfolio of Mister Car Wash locations. Look, they are the leading operator in the space. They have a fantastic management team and obviously a large sponsor in Leonard Green.

Our focus, as we touched on in the prepared remarks, will be to deploy our capabilities in partnership with Mister Car Wash and continue to help them facilitate their expansion and their real estate operations.

Daniel Donlan*; Ladenburg Thalmann; Analyst*
I appreciate that. And then, the Camping World, kind of curious the genesis there. Did that come through the PCS program or is that a result of negotiating directly with the retailer?

Joey Agree, *Agree Realty Corporation – President & CEO*
So that's working directly with Camping World, another retailer that we've got great respect for and enjoy working with in partnership with. That came directly with Camping World, who we've been working with for upwards of two years on different opportunities.

And so our PCS platform can work with retailers as well as developers. Similar to Meridian and our Burger King program with Meridian where we continue to enjoy that relationship. So it is, again, another opportunity for us to invest capital at any point in any type of transaction in a retailer's growth cycle.

Daniel Donlan*; Ladenburg Thalmann; Analyst*
And then, not to put you on the spot here, but this is what these calls are for to some degree. But if I was to look at page 3 and you were to aggregate all those different projects, what do you think would be an average going-in cap rate that you would achieve if you aggregated all that stuff together?

Joey Agree, *Agree Realty Corporation – President & CEO*
Well, I wouldn't expect anything less from you, Dan, than to put us on the spot. We've been very clear about our development and Partner Capital Solutions platform. We are typically from the development side targeting a minimum of 250 basis points above market cap rates, or where we typically acquire we see a like kind product. Our Partner Capital Solutions platform falls in between our development returns and our acquisition returns.

So in terms of the projects you have on here, I'd tell you that we have returns that have teens in front of them and we have returns that are substantially lower on a blended basis. Typically, we're targeting almost approximately a 9% cap rate.

Daniel Donlan*; Ladenburg Thalmann; Analyst*
Okay, perfect. And then, as far as the guidance is concerned on the acquisitions basically you have about $90 million or so left to do in order to complete the top end of guidance. Was just kind of curious, why not boost the upper end of the range? Are you just being conservative, or do you see kind of a slowdown in the back half of the year? Or just kind of what are your thoughts on the second half of this year?

Joey Agree, *Agree Realty Corporation – President & CEO*
Well, we think we're on track to achieve that increased guidance. We've talked about growing and building out and really scaling all three external growth platforms. So our initial guidance for $135 million to $200 million, didn't take into account the $80 million portfolio transaction. If you back that out, we're effectively in the same targeted range of $175 million to $200 million from our increased guidance of $250 million to $275 million.

Look, we're confident that our team is doing a fantastic job, can aggregate opportunities to the tune of $175 million to $200 million. Now, Investment Committee, we meet twice a week. We're constantly seeing new opportunities. We underwrite a few billion dollars a year in transactions. We're a singles hitter, we're a sharpshooter. That guidance I think is right for what we see in the pipeline today, what we've closed on in the year. And we'll see what opportunities arise in the back half of this year later on.

Dan Donlan*; Ladenburg Thalmann; Analyst*
Okay. And then lastly, for Matt, just kind of curious on leverage metrics. I think in the past the range has been 4.5 to 5.5 and then on occasion maybe 5 to 6. Just kind of looking at the most recent offering and your guidance, it looks like you're looking to maintain your net debt to EBITDA kind of in the 4.5 to 5.5 range. Is that fair, or you're willing to take it up kind of into the higher 5 times range?

Matt Partridge, *Agree Realty Corporation – CFO*
No, Dan, I think we've consistently said that we want to be somewhere between 5 and 6. We don't have any preferred in the capital stack. So when you look at us relative to other net lease companies that seems like a pretty conservative leverage level.

That being said, we'll go below 5 times and we may go above 6 times, depending on what's happening in the market and depending on our acquisition pipeline. But we intend to be in that 5 to 6 times range.

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

Operator
Craig Kucera of Wunderlich.

Craig Kucera; *Wunderlich; Analyst*
Appreciate the color on the underwriting. A lot of the questions have kind of circled around that and I've got another way to ask it. Sounds like you're sticking with your knitting. Your cap rates are still in the high 7s. But it seems that a drop in your cost of equity could allow some more volume. When you think about your capacity, would you need to hire more people? If you were to close, maybe next year if you're thinking about $300 million or $350 million, do you have the people you need right now or would you need to hire more people?

Joey Agree, *Agree Realty Corporation – President & CEO*
I think we've got a great young and dynamic team here at the Company. Our analyst program continues to produce fantastic young additions to our team. We've built a leadership team that we have in place here, with Matt, Dan Ravid, and Laith Hermiz, that's experienced. And our middle management continues to grow and gain experience. So we think the Company is currently staffed to continue to really grow all three platforms.

That said, we're always looking for young, talented and also experienced professionals to add to this team. Our goal is, frankly, to build something great here. And we're always looking for opportunities to add team members.

Craig Kucera; *Wunderlich; Analyst*
Got it. So when you think about your pipeline, I think you mentioned you look at maybe $1 billion or $2 billion. I guess what it sounds like is you wouldn't necessarily to bring a lot more folks. You're fairly scalable as you stand today?

Joey Agree, *Agree Realty Corporation – President & CEO*
Oh, we think we're very scalable as we stand today. And, look, we'll continue to execute but we'll also continue to always be in the market and looking at talent and looking for additions to this organization. I think that's probably necessary of any organization.

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

Operator
Ladies and gentlemen, this will conclude our question-and-answer session. I would like to turn the conference back over to Joey Agree for any closing remarks.

Joey Agree, *Agree Realty Corporation – President & CEO*
Well, I'd like to thank everybody for joining us this morning, and we look forward to speaking with you again when we report our Q3 results. Thank you, everybody.