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Agree Realty Corporation's
Second Quarter 2023 Earnings Conference Call
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CORPORATE PARTICIPANTS

Brian Hawthorne | Agree Realty Corporation | Director, Corporate Finance
Joey Agree | Agree Realty Corporation | President & CEO
Peter Coughenour | Agree Realty Corporation | CFO

CONFERENCE CALL PARTICIPANTS

Farrell Granath | Bank of America Securities
Eric Wolfe | Citi
Brad Heffern | RBC Capital Markets
Haendel St. Juste | Mizuho
Rob Stevenson | Janney
Ki Bin Kim | Truist
Wes Golladay | Robert W. Baird & Company
Ronald Kamden | Morgan Stanley & Company
Linda Tsai | Jefferies Group, LLC

PRESENTATION

Operator

Operator: Good day, and welcome to the Agree Realty Second Quarter 2023 Conference Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Note today's event is being recorded.

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

Brian Hawthorne | Agree Realty Corporation | Director, Corporate Finance

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

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

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

I'll now turn the call over to Joey.

Joey Agree | Agree Realty Corporation | President & CEO

Thanks Brian and thank you all for joining us this morning. This quarter we celebrated several notable milestones for our Company. We surpassed the 2,000-property mark in 49 states adding Alaska to our

geographic reach. Our tremendous team has now doubled the size of our portfolio in less than three years.

Additionally, we have completed and moved into our new state-of-the-art headquarters to support our continued growth. The building includes cutting edge technology, a wellness center, locker rooms, an auditorium, a coffee bar, outdoor spaces, and other collaborative meeting areas. We have incorporated a number of environmentally friendly features and anticipate that the building will achieve LEED certification in the near future.

Lastly, we have continued to invest in information technology and made further enhancements to our proprietary arc database with the roll-out of an updated module for development & construction. These investments are paying significant dividends as they have increased automation and significantly reduced manual entry. This has created thousands of hours of time savings that have enabled us to strategically reallocate resources to further bolster our sourcing, underwriting and relationship management capabilities. In addition, these savings and our continued top-line growth are anticipated to bring G&A as a % of revenue down at least 50 basis points to 6% or lower this year.

Looking ahead, we have ambitious plans for our IT environment, and we look forward to sharing more with you in the coming months.

Moving on to our results, I'm very pleased to report that we continued our strong start to the year, deploying significant capital across our three external growth platforms, maintaining near full occupancy, and further solidifying our balance sheet.

During the quarter, we invested approximately $324 million in 120 high-quality retail net lease properties across our three external growth platforms. This includes the acquisition of 92 assets for approximately $305 million. The properties acquired during the second quarter are leased to leading retailers operating in sectors including off-price retail, farm and rural supply, dollar stores, auto parts, and tire and auto service.

Our closed transactions to date and current pipeline include a myriad of different transaction structures: sale-leasebacks with leading operators, blend and extend opportunities, new and repeat sellers as well as distressed developers. We continue to be the first and last call in a highly fragmented and fatigued market. Cap rates continue to move in our favor as demonstrated by our second quarter results.

The acquired properties had a weighted-average cap rate of 6.8%, a 10-basis point expansion relative to the first quarter and 60 basis points higher than full-year 2022. The weighted-average lease term was close to 10 years and approximately 73% of annualized base rents are derived from investment grade retailers. We acquired three ground leases during the quarter representing approximately $26 million, or 8% of total acquisition volume for the quarter.

Given our acquisition volume year-to-date and increased visibility into our growing pipeline, we are raising our acquisition guidance from at least $1.2 billion to at least $1.3 billion for the year. I anticipate the third quarter to be our largest volume quarter to date this year as our pipeline has grown significantly. As always, we will remain disciplined to our underwriting criteria and avoid moving up the risk curve or deviating from our strategy.

Our fortress balance sheet enables us to execute on many exciting opportunities while most of our competition is sidelined. As mentioned on prior calls, there continues to be a lack of competition within our targeted sandbox, and our ability to move quickly and with certainty make us the buyer of choice in today's market. As seller fatigue continues to settle in, we've been able to execute on extremely high-quality opportunities, while pushing cap rates 60 basis points above last year's average.

Through the first half of the year, we've invested $638 million across 189 retail net lease properties spanning 36 states and 22 retail sectors. Approximately $607 million of our investment activities originated from our acquisition platform. Close to three quarters of the annualized base rent acquired in the first six months of the year comes from leading investment grade retailers. These metrics demonstrate our continued ability to execute on opportunities with best-in-class retailers across multiple different avenues...including one-off acquisitions from both individual and institutional counterparties, sale-leasebacks with our retail partners, diversified portfolios, development and our Partner Capital Solutions program.

In light of the increased interest in the program and to more clearly define it for future prospective developers, we are renaming the program Developer Funding Platform, or DFP. The increased activity we're seeing across our development and DFP platforms is evidenced by the 31 projects completed or under construction representing a record capital commitment of approximately $126 million. As of 6/30, we incurred approximately $78 million of costs related to the 31 completed or ongoing projects.

During the quarter, we commenced two new projects with total anticipated costs of approximately $10 million. Construction continued during the quarter on 20 projects with over $87 million of anticipated total costs. Six projects were completed during the quarter, including a HomeGoods in South Elgin, Illinois, a Sunbelt Rentals in St. Louis, Missouri, and three Gerber Collision developments.

Moving on to leasing, we executed new leases, extensions or options on over 280,000 square feet of gross leasable area during the second quarter including a Walmart in Lansing, Michigan and a Hobby Lobby in Mt. Dora, Florida. Through the first six months of the year, we executed new leases, extensions or options on approximately 793,000 square feet of gross leasable area. We are in an excellent position for the remainder of the year with just 10 leases or 30 basis points of annualized based rents maturing.

As I mentioned earlier, our best-in-class portfolio now spans more than 2,000 properties across 49 states, including 210 ground leases representing 11.9% of total annualized base rents. Occupancy this quarter remained very strong at 99.7% and our investment grade exposure is approaching 68%.

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

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

Starting with earnings, Core FFO per share for the second quarter was unchanged compared to the same period last year at $0.98. AFFO per share for the second quarter increased 1.1% year-over-year to $0.98.

In April, we increased our monthly cash dividend to 24.3 cents per share, representing a 1.3% month-over-month increase. We subsequently declared monthly cash dividends of 24.3 cents per share for each of May, June and July. The monthly dividend represents an annualized dividend amount of almost $2.92

per share and is 3.8% higher than the annualized dividend from the comparable periods in 2022. Our payout ratio for the second quarter was below our stated range at 74% of AFFO per share. Our growing dividend continues to be supported by our strong payout ratio and continued earnings growth.

General and administrative expenses totaled $8.4 million in the second quarter. G&A expense was 6.1% of revenue adjusted for the non-cash amortization of above and below market lease intangibles, or 6.5% of unadjusted revenue. As Joey mentioned earlier, we continue to gain G&A leverage. For the full year, we still expect G&A to decrease at least 50 basis points as a percentage of adjusted revenue.

Income tax expense was approximately $709 thousand during the second quarter. For the full year, we now expect income tax expense to be between $2.5 and $3.5 million, down from the previous range of $3 to $4 million.

Moving to our capital markets activities, we further fortified our balance sheet during the quarter with commitments for a $350 million 5.5-year term loan with strong support from our key banking partners. We closed the term loan on July 31st and drew the full $350 million, which was used to pay down all amounts outstanding on the revolver. Today, we have no variable rate debt outstanding and no material debt maturities until 2028.

This was a market-leading financing and the 5.5-year term allowed us to extend the maturity into 2029, which fits nicely into our debt maturity schedule. In advance of closing the term loan, we entered into $350 million of forward starting swaps to fix SOFR over the 5.5-year period. Including the impact of the swaps, the interest rate on the term loan is fixed at 4.52% based on our current credit rating. The term loan also includes an accordion option that allows us to request additional lender commitments up to a total of $500 million.

We settled approximately 3.1 million shares of outstanding forward equity during the second quarter, realizing net proceeds of over $205 million. As of June 30th, we still had approximately 2.9 million shares remaining to be settled under existing forward sale agreements, which are anticipated to raise net proceeds of $202 million upon settlement.

At quarter end, our net debt to recurring EBITDA was approximately 4.1 times, proforma for the settlement of our outstanding forward equity. Excluding the impact of unsettled forward equity, our net debt to recurring EBITDA was approximately 4.5 times.

Our total debt to enterprise value at quarter end was approximately 25%, while our fixed charge coverage ratio, which includes principal amortization and the preferred dividend, remained in a very healthy position at 5.1 times.

We had total liquidity of over $910 million at quarter end, including nearly $700 million of availability on the revolver, over $200 million of outstanding forward equity, and more than $12 million of cash on hand. Proforma for the recent closing of the $350 million 5.5-year term loan, total liquidity is bolstered to approximately $1.3 billion.

Lastly, I want to thank our ESG Steering Committee for issuing our third annual ESG report during the quarter. The report outlines the significant progress that we've made on ESG initiatives in the past year, including earning Gold-level recognition from the Green Lease Leaders program and introducing reporting

on greenhouse gas emissions. In addition, the report highlights our new headquarters, which as Joey mentioned earlier is anticipated to receive LEED certification.

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

Joey Agree | Agree Realty Corporation | President & CEO
Thank you, Peter. The opportunity set in front our Company is truly exciting. We are uniquely positioned to execute within a distressed environment with a lack of competition.

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

Operator
Thank you. We will now begin the question-and-answer session. (Operator Instructions). Joshua Dennerlein of Bank of America.

Farrell Granath | Bank of America Securities
This is Farrell Granath on behalf of Josh Dennerlein. And just had a quick question about if you can make a comment on your choice of issuing the term loan, and your view of cost of capital, and maybe how that's transpiring, especially with your forward equity also outstanding?

Peter Coughenour | Agree Realty Corporation | CFO
Sure. Thanks for the question. This is Peter. First, I want to thank our bank group for their continued support and participation in the term loan. In terms of our process, we evaluated all options prior to moving forward with the term loan, and considered the term of market pricing to be most attractive. In addition, we were able to issue a 5.5-year term loan and there have not been many, if any, 5.5-year deals in the REIT market recently, which allowed us to push the maturity into 2029, where we had a window in our debt maturity schedule. So this accomplished our goal of issuing attractively-priced fixed rate debt that fits well into our well letter debt maturity schedule, and allowed us to maintain no material debt maturities until 2028.

In terms of our cost of capital today, as we mentioned, we have the $350 million term loan at 4.5% that we just closed. We have $200 million of outstanding forward equity in the high 5s, and our cost of equity today is in a fairly similar range. And when you take those inputs and combine them, that puts our weighted average cost of capital roughly in the mid-5s today.

Farrell Granath | Bank of America Securities
Great, thank you so much.

Operator
Eric Wolfe from Citi.

Eric Wolfe | Citi
In the past, you've talked about the merchant developers, but hadn't really made any profit on the development, would need to find liquidity eventually. Just curious how much of that inventory has been worked through at this point? And then as you look forward, for Dollar General and others that merchant development was a big part of their store openings, how are they satisfying their needs? Once they open stores, what solutions are they looking for?

Joey Agree | Agree Realty Corporation | President & CEO
Hey, good morning, Eric, it's Joey. That's very topical. We continue to have conversations, and constructive conversations, with retailers that have historically relied upon merchant builders to deliver net new stores. Frankly, the development market, and developers in particular, face significant challenges and headwinds today. Not only have obviously rates and cap rates gapped out, but with the regional

banking crisis and the lending constraints that we're seeing from primarily the regional lenders, local and regional lenders that supported those developers through construction loans and facilities, have really pulled back.

So we're in conversations with developers, we're in conversations with retailers. We heard Tractor Supplies' commentary. I believe it was last week in their earnings call, how they anticipate moving to more of a really either a fee or on-balance sheet program. This is going to be a topic of conversation for the next couple of years. Where and when we can provide solutions, whether through our developer funding platform, organic development and/or sale leasebacks, we're looking at all of those opportunities. But it's a significant point of distress.

I'll tell you, during the second quarter, specifically, our acquisition volume did not have an abundance of merchant developer transactions. We were really more focused in the second quarter, had some unique opportunities with third-party sellers and stabilized the assets.

Eric Wolfe | Citi
Understood. And then just, I guess, it's probably kind of different for every single tenant, but like in terms of the sort of percentage, if you will, of the stores that they typically source through this -- I'm just trying to understand -- is it 20%, was it 60%? And then looking forward, I've seen that that pipeline has gone to zero. Maybe I'm wrong in that because I'm trying to understand. I think you would need at least probably north of an 8-yield to develop today, but curious on your thoughts there as well?

Joey Agree | Agree Realty Corporation | President & CEO
I think it's the first part of it. We broke ground on two projects during the quarter; we'll break ground on additional projects this year. We're going to continue to be selective. You mentioned that 8-yield; I think that's probably appropriate, obviously, given term credit underlying real estate here. But again, duration equals risk. We're not going to take speculative risk, of course, but we're also not going to take duration risk without the appropriate risk-adjusted returns through either a development funding platform or true organic development.

But I think we're going to see more and more challenges. I feel the number of phone calls personally from large developers that are out there looking to fill that major gap in their capital stack. And we're going to continue to see retailers change their operating strategies for new store growth.

Eric Wolfe | Citi
All right. That's helpful. Thank you.

Operator

Brad Heffern with RBC.

Brad Heffern | RBC Capital Markets
Joey, can you talk about your expectation for cap rates, and if they've largely settled out, or if the acquisitions in the pipeline have some additional upward pressure?

Joey Agree | Agree Realty Corporation | President & CEO
Yes, we talked about in the Fall heading back all the way to NAREIT, that we thought it would be an incremental increase in cap rates, that they weren't going to exponentially gap out. At the same time, we were going to be prudent and disciplined, given the volatility in the market and the pre-equitization of our balance sheet without moving up the risk curve. And I think you've seen that once again from us this quarter with our activity again, 73% investment grade, 8% ground leases, not reliant upon Walgreens or carwashes or retailers that are in decline, or have balance sheets that are frankly on the weaker end.

And so, look, I will tell you for Q3, our pipeline is large. It will be emblematic of 2022. The difference is it's going to be about 70 basis points higher in 2022. So 2022 Q3 was approximately $360 million. I anticipate our Q3 acquisitions will surpass that, and again, be about 70 basis points higher year-over-year. And so

we continue to see more migration, more frankly capitulations on sellers' end and realization that the new normal is here, and it's here to stay. And it's here to stay for who knows how long, but it's going to be here for a while.

Brad Heffern | RBC Capital Markets
Okay. Thanks for that. And then have you been surprised that we haven't seen more credit issues that resulted in lost rent so far across the industry? And do you think that that's something that we'll continue to see going forward, or do you see a change in that?

Joey Agree | Agree Realty Corporation | President & CEO
No, we've talked it about before. I think we're back to a pre-Covid world where retailers thrive, and then retailers have challenges. There are a number of retailers out there today, Joann, At Home; you can keep going down that list, that are having challenges. We're going to see additional bankruptcies across the retail space. But again, that was -- that's normal; it happens in every industry. It just didn't really happen during Covid when everybody either had a stay for deferred rent, or were able to access cheap capital. So we're going to continue to see the retailers with the balance sheets and liquidity to invest in fulfillment options, in labor and in price, thrive.

And those that don't have that liquidity, there's a great piece in -- I believe it was the Wall Street Journal last week -- talking about the demise of Bed Bath & Beyond, and Holly Etlin's work there, in her commentary. But I think we're going to continue to see those retailers that don't have that liquidity and balance sheet to invest in those three areas of their business, continue to degrade until frankly, they can no longer survive and can't get inventory.

Brad Heffern | RBC Capital Markets
Appreciate it, thank you.

Operator
Haendel St. Juste from Mizuho.

Haendel St. Juste | Mizuho
Joey, I just wanted to follow up on the last question. In your remarks, you talked about the lack of competition, and also that your pipeline has some sale leasebacks, and that you're in discussions with some distressed developers. So I was curious if you could talk a bit more about the range of opportunities you're looking at today within the pipeline. Does it include any portfolios, any new sectors? And how do the range of yields compare to your recent activity here in the high 6s?

Joey Agree | Agree Realty Corporation | President & CEO
Yes, Haendel, thanks, I appreciate the question. As I mentioned in the prepared remarks, it is a wide range of opportunities. Frankly, I've never seen such a wide range of opportunities in my career, all the way from retailers trying to figure out how to get new stores in the ground for 2024 and 2025 openings, to sale leasebacks, which will ramp here for us in Q3. We have a number, a couple of our sale leaseback that are fairly significant here in Q3. So it's a very, very wide range of opportunities.

The key for us is selecting those opportunities that make sense not only quantitatively, but qualitatively within our portfolio. Again, we're just not going to go up the risk curve here. We're seeing yield incrementally come our way again, printing at 6.8 this quarter, at 6.7 last quarter. And I anticipate printing higher than a 6.8 next quarter. Where that migration in terms of yield or expansion ends up is anybody's guess at this time. And so I think we're going to continue to be selective, but I'll tell you, we've never seen the diverse set of opportunities that we've seen.

The lack of competition in the market is frankly stunning. It's us and sellers' expectations. And so the private 1031 buyer has vanished, except the infrequent ones; the high-net-worth individuals, you don't hear about them overly too much. The non-traded REITs, of course, aren't playing in this space anymore, and then the levered private purchasers can't get the leverage. So we really have our choice here and it's

an interesting paradigm to be in. And as I mentioned in the prepared remarks, I've never seen an opportunity so ripe and fruitful with that wide-ranging spectrum of opportunities.

Haendel St. Juste | Mizuho
That's really helpful. Are you seeing any new capital starting to nibble or enter into the space at all?

Joey Agree | Agree Realty Corporation | President & CEO
Absolutely zero; we are seeing a paralysis on this market. And every day, we get a seller or a developer who crosses the line into the 2023 new normal, and says what raises the white flag? And that is what we're seeing daily and it's accelerated into Q3. We have limited visibility into Q4. As I said, Q3 will be larger than last year's Q3. It'll be fairly or significantly larger than Q2 or Q1 this year.

But this market continues to have fatigue. Again, I'll reiterate, where that goes in terms of pricing beyond Q3, anybody's guess. I don't see a contraction there happening anytime in the near future, but it's opportunities galore. It just questions the strike price and frankly, where sellers finally give in and where they realize that 2023, it's a different world.

Haendel St. Juste | Mizuho
That's helpful. Thank you. And one quick one on 7-Eleven. Now they're a top-10 tenant of yours. Can you discuss the availability and pricing you're seeing in the C-stores, and if that'll be an area of focus going forward as well?

Joey Agree | Agree Realty Corporation | President & CEO
Yes, it will be. C-stores, specifically large-format C-stores, are a major area of focus for us across all three platforms. The largest transaction of the quarter, as you mentioned, was a 7-Eleven portfolio from a third-party seller, 10 stores; 9 out of 10 are in the Charlotte MSA. Transaction was just over $32 million. It was a repeat seller for us. The disposition during the quarter was tied to that acquisition. It was actually a 7-Eleven that we acquired from that seller and so somewhat of a horse-trade there. We are seeing significant activity across the C-store space.

There are two C-stores called Sheetz and Kum & Go, which is being acquired by Maverick entering our backyard as we speak. We're working on the sale leaseback front; we're working out with developers, who frankly, have gapped-out their cap rates 100 to 150 basis points on a one-off basis, and then looking at some institutional-level platforms that could potentially make sense for us. There's some major expansion plans with most of the regional C-store operators in this country, whether it's Wawa or Sheetz or Kwik Trip or Kum & Go, Maverick now. There are a lot of C-stores in the works and in the planning phases. There's not a lot of capital to fund them. So it could present even more interesting opportunities and we are in active discussion today.

Haendel St. Juste | Mizuho
Can you give us a sense of yield you are seeing broadly?

Joey Agree | Agree Realty Corporation | President & CEO
Sorry, Haendel, would you repeat that?

Haendel St. Juste | Mizuho
Can you give us a sense of the yields you're seeing there broadly?

Joey Agree | Agree Realty Corporation | President & CEO
It's across-the-board, I'll be honest. The one-off transactions, frankly, depends on the level of desperation and certainty required by the developer. I'll tell you that we are in sale leaseback discussions, and have some in our pipeline that are wider, the institutional sellers or frankly, the corporates themselves, that want to recycle and redeploy that capital into that business. And so there's a range, I would tell you, from 6 to 7 that we were able to strike on those transactions.

Haendel St. Juste | Mizuho
Perfect, thank you.

Operator

Rob Stevenson with Janney.

Rob Stevenson | Janney
Joey, what does the ground lease market look like today? Does it look any different from the changes you've seen in the fee-simple market over the last year or so?

Joey Agree | Agree Realty Corporation | President & CEO
No, Rob, it's really the same. They're really a parallel market, similar sellers often, similar types of transactions. It's just the lease structure. During the quarter, as I mentioned, we acquired three ground leases, I believe it was. The largest was a Lowe's ground lease in Rhode Island for just over $15 million. We're seeing a number of opportunities on the ground lease front. Q3 for us will have a significant ground lease exposure. But really, no change there in terms of differentiation from the traditional turnkey market.

Rob Stevenson | Janney
Okay. So not harder there to get to the right price on those assets today versus a fee-simple asset?

Joey Agree | Agree Realty Corporation | President & CEO
It's all seller-specific, regardless of the lease structure.

Rob Stevenson | Janney
Okay. And then you just talked about the one small asset that you sold year-to-date. How are you thinking about that over the back half of 2023, not only from a portfolio pruning perspective, but also as a source of equity capital versus a low-to-mid-60 stock price?

Joey Agree | Agree Realty Corporation | President & CEO
We've talked about it heading into Q4 of last year. The 1031 market, I continue to believe, is an unproductive use of this team's time. And we have the portfolio in a position that we really like, frankly, we're fond of unless somebody wants to buy one of our couple of movie theaters. But I'll mention Regal affirmed our lease officially, which we had no concern over in New Jersey or -- so Regal, everything is for sale. The problem is frankly, the execution and just the human capital time and resources.

So we pruned the portfolio actively for years. It was at least -- at the very least, a nominal source of recycling, every asset for sale in the portfolio. Just show us the money in the bank and we're happy to look at some real offers. But we're not going to play Go Fish with 1031 buyers today, and frankly, have the inefficiency of time and resources. This team, as I mentioned in the prepared remarks, has really been recalibrated, given the automation and lack of manual entry to our IT investments to be the tip of the spear. And today, transacting in a 1031 market is a difficult proposition.

Rob Stevenson | Janney
Okay. Thanks, guys, appreciate the time.

Operator

Ki Bin Kim with Truist.

Ki Bin Kim | Truist
Joey, just wanted to go back to the topic of the improved acquisition environment. I was wondering if you can help kind of paint the picture a little bit more? I'm not sure if it's possible to answer it this way, but if you can try to quantify that? For example, if you were seeing a couple billion dollars' worth of deals to close 300 million maybe 6 months ago, is it $2.5 billion that you're seeing, is it $3 billion? Just trying to get a better understanding of how much it's improved.

Joey Agree | Agree Realty Corporation | President & CEO
Ki Bin, I don't have ARC open in front of me; I could pull that data really quickly if we had ARC. And as I mentioned in the prepared remarks, we're looking at doing something to demonstrate the enhanced IT capabilities and infrastructure that we're now -- we've achieved. And then we'll pull that for you after the call. I'll tell you, from my perspective, it's the quality of the inbounds that we're now seeing. Real sellers who need to really transact and want certainty, most of them have been on the market, either had a 1031 fish on the hook that dropped, maybe even a second one, and finally, are saying -- or perhaps their lender is saying -- it's time to move.

And so we're seeing more realistic pricing; the bid-ask gap is closing on more assets quarter-over-quarter, we're within striking distance. And I'll tell you, our reputation, the team's work here is second to none and so we'll continue to get those first and last calls. We're not getting as many of the calls that are still asking for four handles or five handles because I think the market has come to the realization that those just frankly, don't fit in today's world. So from a quality perspective, it is noticeable. We'll get you some actual statistics pulled from ARC after the call.

Ki Bin Kim | Truist
Great. And your leverage on a spot basis was 4.5x in the first quarter, and the same in the second quarter. Just high-level, going to 2024, where do you think average leverage will settle out at?

Joey Agree | Agree Realty Corporation | President & CEO
We have no problem running leverage, obviously, from here as Peter did a tremendous job and his team on the term loan, we have no debt maturities, as Peter mentioned, till 2028. Our stated leverage range of 4x to 5x was from Covid. Historically before that, I believe we were at 5x to 6x; migrating to 5 or above 5 is no challenge here. We have again no near-term debt maturities, no floating rate exposure. So the balance sheet is going to remain fortified, but operating the balance sheet at 5x or up to 5.5x, it doesn't scare me in the least.

We've always run the balance sheet in a conservative -- obviously, with a conservative approach. We pioneered forward equity in the space. We'll continue to monitor all sources of capital, and when advantageous, execute on it. But by no means, do we feel the need that a leverage has to run in the low 4s. If you look at the composition of our portfolio, our balance sheet, the maturity schedule of that balance sheet and the duration of the leases and quality of those leases and underlying assets, there's absolutely no challenge running leverage higher. And you won't see us issuing equity at $64.50 or wherever we closed yesterday, that's for sure.

Ki Bin Kim | Truist
Okay. Thank you.

Operator

Wes Golladay with RBC Capital Markets

Wes Golladay | Robert W. Baird & Company
I think you guys have my old dial-in program that's at Baird now. Just a quick question on the DFP program. It sounds like that's going to be just a lending component. But maybe you can talk about the mix of how you're going to help the developers or the retailers. Do you have any sense of the mix of actual lending that you're going to do, versus the other product you offer, such as actual development, yourself?

Joey Agree | Agree Realty Corporation | President & CEO
So Wes, just for clarity purposes, we will not lend if we don't own fee simple. We're not going to have a mortgage platform here, we don't have that in place today. We're not carrying any notes payable on the balance sheet today, but that's the chasm. You hit it on the head, it's the second question. You hit it on the head, is what do retailers do relevant to merchant builders for net new store growth? And it's about a 30%, 40% gap if they can even obtain financing today, and we're exploring different opportunities.

The key question is, what is the exit pricing when that asset comes online, whether it be in 2024 or early 2025? So that's the crux of the question here. But where developers are seeing credit being extended today is -- frankly, it does not provide the capital staff to execute on their pipeline.

Wes Golladay | Robert W. Baird & Company
Got it. And this is kind of a big shock, what's happened in the last year, and these companies probably take a long time to change their mindset. And it sounds like they're doing it a little bit. Last year, you just dropped a bunch of Gerber Collisions, and I imagine you have in the background a wide array of people you're talking to. So I'm just kind of curious, how big is the shadow pipeline of retailers that you're working with now?

Joey Agree | Agree Realty Corporation | President & CEO
So subject to how you're defining shadow pipeline, I'll tell you, we've never had as many conversations with both significant developers and with retailers trying to find solutions at the asset or the programmatic level. Again, those solutions can be challenging. We see retailers changing their platforms, doing speed development, doing it on-balance sheet, holding returns. Some are expanding returns for developers, but none of it resolves the underlying problem here. And so those conversations are daily, they're ongoing. We're seeing one-off, we're seeing a multitude of the portfolio and pipelines and developers that are short, anywhere between $5 and $250 million for their pipeline. The question is where to strike and we're just not willing to take speculative risk, that's our line.

Wes Golladay | Robert W. Baird & Company
Got it. Thanks for the time, everyone.

Operator

(Operator Instructions). Ronald Kamdem from Morgan Stanley.

Ronald Kamden | Morgan Stanley & Company
Just two quick ones. So one, going back to the cost of capital calculation, I think you've been in the mid-5s. I think we're sort of getting into similar numbers. So where on the -- I think you talked about not doing equity here. But where's the right level and how you guys sort of think about it in terms of where it makes sense to press?

Joey Agree | Agree Realty Corporation | President & CEO
I won't declare a spot price, I think it's subject to the pipeline. But I think we came into the year saying we don't need equity; we don't need equity to hit the 1.3, and stay within our current stated leverage range. And so we'll continue to evaluate all of those markets, and then importantly, the relative cost of capital in each and every single one of them. So Peter and his team will continue to evaluate it. We'll be opportunistic; we don't anticipate preferred coming back at 4.25 anytime soon, that's for sure. The 10-year market doesn't look overly attractive, hence, the term loan this quarter.

The good news is we don't need any capital. That's the best news is we don't need any capital. That was the plan coming into this year. We have strong lenders support from obviously, the term loan, the 5.5-year term loan, and we can continue to remain opportunistic.

Ronald Kamden | Morgan Stanley & Company
Got it. And then you guys always have sort of the lowest bad debt versus peers. Just can you remind us how much is budgeted, how much you've gone through year-to-date? And maybe -- I think you hit on the Regal. So maybe hit on the Bed-Bath and Party City and what you're thinking, what's it looking like there?

Joey Agree | Agree Realty Corporation | President & CEO
Yes, I will hit the second question and turn it over to Peter. Regal in Sewell, New Jersey, was a firm; Bed-Bath, we had three Bed-Bath total entering the bankruptcy. One was purchased by Burlington, which is out there in the ecosystem already. The second one is near resolution where we anticipate we'll execute

a new lease shortly, tenant-approved with a significant NOI. And then we're working through the third one. In terms of Party City, all leases were affirmed except one, which we recaptured, and have entered in -- or about to enter in -- to a lease with a far vastly improved tenant there on a new term with a significant NOI lift as well.

Peter Coughenour | Agree Realty Corporation | CFO

And Ron, in terms of bad debt expense, we don't guide to a specific number. Year-to-date, we've recorded bad debt expense of approximately $275,000. That's roughly 10 basis points of revenue and roughly in line with the bad debt expense that we recorded last year as a percentage of revenue. Looking back historically, that's slightly below our longer-term average. We've been closer to 20 or 25 basis points. But as Joey mentioned, the portfolio is in great shape, and we don't expect any material deviation from those levels.

Ronald Kamden | Morgan Stanley & Company

Helpful, thanks so much.

Operator

Linda Tsai from Jefferies.

Linda Tsai | Jefferies Group, LLC

Do you feel like the group of retailers that can do development on-balance sheet is limited? And presumably, the ones doing this now have had previous experience?

Joey Agree | Agree Realty Corporation | President & CEO

It's a great question, Linda. It's not easy to transition to self-development if you've historically relied upon merchant builders. So retailers -- I'll tell you, I'll focus on the retailers that are in our sandbox, the large national operators, generally our large super-regional operators. Transitioning to an internal model, while it sounds like an easy solution, if they have the balance sheet and the liquidity to do it, is very difficult. Not only do you need to have the entitlement, the development, the construction expertise, the permitting expertise, it's a major overhaul.

And so what we're seeing is retailers who had some, let's call it a fractional portion of their net new store development, that were on-balance sheet, increasing that. Hence, Tractor Supply or Wiley, I believe, has signaled the same; Walmart, Home Depot with their net new store growth, inclusive of Sam's Club, will do it on-balance sheet.

The real challenge is for retailers that historically didn't have that self-development experience on-balance sheet, how they moved that needle forward with net new store growth, that's a real challenge; that's a gaping hole in this market. I haven't heard a solution yet for it, but we continue to listen, and frankly, propose solutions that will hopefully get their pipelines ramped back up. But as I mentioned earlier, it's a daily conversation and very topical.

Linda Tsai | Jefferies Group, LLC

Thanks for that color. And then it seems like you're seeing more of an inflection point in cap rate expansion, given the distress you're seeing today. Would you expect the spread between acquisition cap rates and your cost of capital to increase as you look forward to next year?

Joey Agree | Agree Realty Corporation | President & CEO

Linda, I hope so. Look, I hope our cost of capital goes down and I hope cap rates gap out. I can only tell you what we're seeing in about that 70-day period, and that's why I've been very clear about Q3. We're just starting to build Q4 right now. Again, we see more sellers, institutions, retailers, one-off, developers, you name it, come across the line and say, all right, we're ready to do something here. Heading into 2024, I wish I had my crystal ball and I could make those predictions. But look, this is a volatile environment, but

what we've seen year-to-date is 6.7 to 6.8 and what I've telegraphed already in Q3 is a larger volume number at a higher yield. Q4, ask me in about 60 days and we'll have full clarity.

Linda Tsai | Jefferies Group, LLC
Great, thank you.

Operator

That concludes our question-and-answer session. I would now like to turn the conference over to Joey Agree for any closing remarks.

Joey Agree | Agree Realty Corporation | President & CEO
Well, thank you, everybody, for joining us. I hope you enjoy the rest of your summer. And we look forward to seeing everybody in the upcoming conference season. Thanks again.

Operator

The conference has now concluded. Thank you, everybody, for attending today's presentation. You may now disconnect.