EDITED TRANSCRIPT

Agree Realty Corporation's
Second Quarter 2020 Earnings Conference Call
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PRESENTATION

Operator

Operator: Good morning, and welcome to the Agree Realty Second 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, Operator. Good morning, everyone, and thank you for joining us for Agree Realty's Second-Quarter 2020 Earnings Call. Joey will, of course, be joining me this morning to discuss our second-quarter and first-half 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 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

Thank you, Clay, and thank you all for joining us this morning. I hope that all of our listeners and their families are staying healthy and safe through these challenging times.

Before providing our standard update, I'd like to start by outlining the additional steps that we've taken to

further strengthen our position amidst this ongoing crisis. As mentioned on last quarter's call, we created a cross-functional COVID response team that consists of asset management, legal, accounting and tenant relations. They've done an outstanding job helping us navigate through this pandemic.

Since the beginning of the year we've raised more than $825 million in gross equity proceeds, positioning our company to execute on the high-quality opportunities that are emerging throughout this crisis. At quarter end, pro forma for our outstanding forward equity, our fortified balance sheet that is 1.6x net debt to recurring EBITDA, our balance sheet and nearly $1 billion in liquidity provides us with an unparalleled optionality as we continue to execute on the numerous opportunities that we're uncovering.

Given our record investment activity of more than $0.5 billion during the first half of the year, our fortress balance sheet and liquidity, we have continued to amass an incredibly high quality and robust pipeline. I am pleased to announce we have increased our acquisition guidance to a range of $900 million to $1.1 billion. As evidenced by the best-in-class nature of our year-to-date activity, rest assured we will maintain our disciplined underwriting standards that are focused on the premier retailers in the country.

The quality of our carefully constructed portfolio is reflected in our second-quarter and July rent collections data, which continue to lead the retail sector. We received April, May and June rent payments from 92%, 89% and 89% of our portfolio, respectively. In the aggregate, we received second-quarter rent payments from approximately 90% of our portfolio and entered into limited deferral agreements representing approximately 3% of total rents. For the month of July our collection data has continued on this positive trajectory. To date we have received July rental payments from 94% of our portfolio, while also entering into limited deferral agreements with tenants representing an additional 3% of July rents.

What we have confirmed is that quality and discipline count. Tenant credit, real estate fundamentals and sound balance sheet management have been a mainstay of our strategy before COVID and will continue to drive our activities during and after this pandemic. Our company is positioned to emerge stronger than ever, with best-in-class collections, a fortress balance sheet and organizational momentum that will allow us to execute on a myriad of high quality opportunities that we see accelerating in this environment.

With that, allow me to run through our standard update. I'm very pleased to report that, despite the ongoing disruption caused by COVID-19, the second quarter represented a record quarter for Agree Realty. During the quarter we invested a record $276 million in 78 high quality, retail net lease properties across our three external growth platforms. 75 of these properties were originated through our acquisition platform, representing record acquisition volume of approximately $272 million.

While achieving a record volume during these unprecedented times, we remain extremely disciplined in our approach, as demonstrated by approximately 80% of acquisition volume being derived from investment grade retailers. The 75 properties acquired during the second quarter [were] leased to 16 tenants operating in 11 distinct sectors, including best-in-class operators in the off-price, general merchandise, auto parts, tire and auto service, grocery, dollar stores and convenience store sectors. The properties were acquired at a weighted average cap rate of 6.5% and had a weighted average lease term of 10.9 years.

Most notably, during the quarter we acquired 7 additional Walmart stores comprising more than 1/4 of total acquisition capital deployed. I'm very pleased to report that Walmart remains our largest tenant at 7.6% of annualized base rents, representing a year-over-year increase of roughly 320 basis points. We continue to enjoy a very productive and strong relationship with the world's largest retailer.

Through the first 6 months of the year we've invested a record $507 million into 132 retail net lease properties spanning 33 states across the country. Of that $507 million invested, approximately $500 million was via our acquisition platform. The 126 properties acquired in the first half of the year are leased to 24 leading tenants operating in 17 distinct sectors. An unparalleled 84% of the annualized base rent acquired in the first half of the year comes from investment grade operators, while almost 1/3 of acquisition capital deployed in the first half of the year was invested into 13 Walmart stores.

As previously mentioned, given our record acquisition volume to date and our robust pipeline, we are increasing our 2020 acquisition guidance to a range of $900 million to $1.1 billion from our previous range of $700 million to $800 million. The low end of this range would represent a record acquisition volume for our company, easily surpassing the $700 million acquired last year.

We continue to source a number of ground lease opportunities with leading retailers, adding 13 assets during the past year to this portfolio. Today our ground lease portfolio spans 69 properties comprising 8% of total annualized base rents. Our current pipeline includes several significant ground lease opportunities that we anticipate closing during the upcoming quarter. At quarter end nearly 90% of our ground lease rents were derived from investment grade retailers, including Costco, Walmart, ALDI, Home Depot, Lowe's, National Tire & Battery and Wawa. Only 1% is leased to sub-investment-grade operators and the remaining 10% of the ground lease portfolio is leased to unrated retailers.

At quarter end our portfolio's investment grade exposure stood at 61%, representing a substantial year-over-year increase of nearly 700 basis points. On a 2-year stacked basis, our investment grade exposure has been improved by more than 1,400 basis points. As we continue to focus on best-in-class operators that are poised to thrive in an omnichannel environment, I anticipate our investment grade concentration to continue its upward trajectory.

Moving on to our development and partner capital solutions platforms, we had 6 development and PCS projects either completed or under construction during the first half of the year that represent total committed capital of more than $19 million. One of those projects was completed during this past quarter, our first development with Family Dollar in Grayling, Michigan in a vacant Rite Aid that we acquired. Construction continued during the quarter on our first project with T J Maxx in Harlingen, Texas, immediately adjacent to a high-performing Target. Rent is anticipated to commence in the third quarter of this year. We commenced construction on one new project during the quarter, our second development with Harbor Freight Tools in Weslaco, Texas. The project is subject to a 15-year net lease upon completion, with rent anticipated to commence in the fourth quarter of this year.

These recent projects are the result of our team's effort to screen vacancies, utilizing our software to identify potential backfill candidates within our sandbox of leading omnichannel retailers. We continue to work with retailers to evaluate market vacancies and redevelop buildings at a very attractive cost basis for both ADC as well as our retail partners. Our pipeline consists of a number of projects that I anticipate announcing in conjunction with next quarter's earnings.

While we've fortified our portfolio through recent investment activity, we were again quite active on the disposition front during the quarter, as we sold 8 assets with proceeds of approximately $19 million at a 6.3% cap rate. Notable disposition activity during the quarter, [including] the sale of 7 franchise restaurants, further reducing our total franchise restaurant exposure to a mere 1.5%. This represents a decrease of approximately 230 basis points in the past 18 months.

Dispositions for the first 6 months of the year have totaled 14 assets, for proceeds of just more than $44 million, with a weighted average cap rate of approximately 7.2%. Given our disposition activity during the first half of this year, we are raising the bottom end of our disposition guidance to $50 million for the full year 2020.

Our asset management team has also been diligently focused on addressing upcoming lease maturities. As a result of their efforts, our 2020 lease maturities stand at only 3 remaining lease expirations and represent just 0.1% of annualized base rents. We have similarly made significant progress on our 2021 upcoming maturities, and with additional announcements that I anticipate during our next quarterly call.

During the second quarter we executed new leases, extensions or options on approximately 92,000 square feet of space. We are very pleased to have executed a new 20-year net lease with Love's Furniture to backfill the former Art Van flagship store in Canton, Michigan. We anticipate recovering 100% of the prior Art Van rent upon Love's rent commencement during the latter half of the third quarter. During the first 6 months of the year we executed new leases, extensions or options on approximately 272,000 square feet of gross leasable space.

As of June 30, our growing retail portfolio consisted of 936 properties across 46 states. We anticipate surpassing the 1,000-property milestone in this upcoming year. Our tenants are comprised primarily of industry leading operators operating in more than 31 retail sectors, again with 61% of annualized base rents coming from investment grade tenants. The portfolio remains fully occupied at 99.8% and has a weighted average remaining lease term of 9.7 years.

Before handing the call over to Clay, I would like to thank all of our loyal stakeholders for their continued support during these difficult and trying times.

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

Clay Thelen | Agree Realty Corporation | CFO

Thank you, Joey.

I'll start with a balance sheet update and highlights from our capital markets activities over the past quarter, some of which we discussed on last quarter's call. We had another very active quarter in the equity capital markets, raising more than $400 million of common equity for the second consecutive quarter. In addition to capital raised, we also generated approximately $25 million through our disposition activity and free cash flow after dividend during the quarter.

On April 22, we closed an underwritten public offering of 6.2 million shares in connection with a forward sale agreement in which the shares were sold to Cohen & Steers. Commensurate with the Cohen & Steers transaction, we settled all of our then outstanding ATM forward equity offerings, realizing net proceeds of approximately $267 million. Following the Cohen & Steers transaction, we were again active on our ATM program, entering into forward sale agreements to sell more than 740,000 shares of common stock at an average gross price of $66.61, for approximately $48 million of anticipated net proceeds.

To date we have not settled any of the Cohen & Steers or second-quarter ATM forward offering and have approximately $411 million of anticipated net proceeds available to us upon settlement. This capital

raising activity further bolsters our balance sheet and provides the Company with nearly $1 billion in liquidity. In addition to the $411 million of net proceeds available to us upon settlement of our outstanding forward equity, we ended the quarter with full availability on our $500 million revolver and approximately $36 million of cash on hand.

As of June 30 our net debt to recurring EBITDA was approximately 3.5x. Pro forma for the settlement of our outstanding forward equity offerings, our net debt to recurring EBITDA was approximately 1.6x. Total debt to enterprise value at quarter end was approximately 18.2%, while fixed charge coverage, which includes principal amortization, stood at a Company record 4.6x.

Moving to earnings, core funds from operations for the second quarter was $0.76 per share, a 2.1% year-over-year increase. Adjusted funds from operations per share for the quarter was $0.76, an increase of 3% year over year.

During the quarter we elected to treat COVID-19 deferrals as delinquent receivables and our FFO measures include this revenue. Please refer to the supplemental disclosures within the FFO table of our press release and 10-Q that provide enhanced disclosure regarding the amount of rent subject to deferral.

On a quarterly and year-to-date basis, core FFO per share and AFFO per share were impacted by dilution required under GAAP related to recent forward equity offerings. Treasury stock is to be included within our diluted share count in the event that prior to settlement our stock trades above the deal price from the offerings. The aggregate dilutive impact related to these offerings was roughly $0.01 to both [core] FFO and AFFO per share for the second quarter and the 6-month period.

General and administrative expenses in the second quarter totaled $4.6 million. G&A expense was 8% of total revenue, or 7.5% excluding the noncash 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 7% range for 2020, excluding the impact of above- and below-market lease intangible amortization and 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 $0.60 per share on July 10 to stockholders of record on June 26, representing a 5.3% year-over-year increase. This was the Company's 105th consecutive cash dividend since our IPO in 1994. For the first 6 months of the year, the Company declared dividends of $1.185 per share, a 5.3% increase over the comparable period in 2019. Our quarterly payout ratios for the second quarter were 79% of core FFO per share and AFFO per share, respectively. For the first 6 months of 2020, our payout ratios were 75% of core FFO per share and 76% of AFFO per share, respectively. These payout ratios are at the mid to low end of the Company's targeted ranges and continue to reflect a very 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.

Operator, at this time, we will open it up for questions.

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QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. (Operator Instructions). Our first question today will come from Rob Stevenson of Janney.

Rob Stevenson | Janney
Good morning. Joey, what's the discussion like with tenants that are not paying and not under deferral agreements these days? Is there just an inability to come to an agreement or does coming to any agreement with you limit their options going forward? Can you give us an idea of what's really going on behind the scenes there in [internal] terms?

Joey Agree | Agree Realty Corporation | President & CEO
First, good morning, Rob. I think it spans the full spectrum there. I think there's an inability obviously to come to an agreement. We have tenants that are obviously in cash conservation mode and then there are tenants that continue to be opportunistic in terms of seeking abatements, deferrals or other types of concession. So, obviously it's a minority of our portfolio today, but we continue to make progress there. But at the same time we've been very clear that we are not going to give up any contractual rights without consideration.

Rob Stevenson | Janney
Okay. And so, does that statement sort of lead you to just waiting it out rather than any benefit to moving now on these tenants and locations versus waiting for the bankruptcy filing, if that's indeed what's the sort of end result? Or just let it play out at this point and your position is better in bankruptcy?

Joey Agree | Agree Realty Corporation | President & CFO
Well, I think it's a case-by-case basis. I think the majority of our holdouts, I would tell you, are not near-term bankruptcy threats. So our COVID response team evaluates every lease and every tenant with different options here, in terms of legal options and different remedies that we can pursue. But I would tell you we will pursue litigation and collection and/or eviction in certain circumstances. At the same time, we'll work toward a mutually acceptable conclusion in others. But we'll remain flexible there, with all our options on the table.

Rob Stevenson | Janney
Okay. And then, Clay, the uncollected contractual rents not subject to deferrals -- I think it's, like, $3.527 million on Page 14. Is that the amount that's fallen below the sort of 75% collectability test and had to be moved to cash accounting? Or is that sort of bucket somewhere else or another number?

Clay Thelen | Agree Realty Corporation | CFO
No. So the $3.5 million you're highlighting on Page 14 is included in revenues. And it was still accrued for purposes of FFO and AFFO.

Rob Stevenson | Janney
Have you had to move anybody into cash accounting because they've fallen below the collectability

standards?

Clay Thelen | Agree Realty Corporation | CFO
We did. We moved 3 tenants to cash basis in the quarter. Had an immaterial impact on our financials for the quarter, roughly $500,000. But it was 3 tenants in total.

Rob Stevenson | Janney
Okay. And then, Joey, you guys have been scooping up a bunch of Walmarts. And obviously they're a great tenant and great credit quality. When you look at the portfolio just from a risk management standpoint, what's the sort of ceiling in terms of the amount of Walmart exposure that's sort of prudent that you guys are willing to take? Meaning if we keep going 7, 8 Walmarts a quarter on your last few quarters' trend, you're going to be getting up there pretty high pretty soon.

Joey Agree | Agree Realty Corporation | President & CEO
Yes. Well, look, we're cognizant of all -- of any tenant exposure in the aggregate. Obviously, Walmart Supercenters we're extremely comfortable with. We started really pursuing Walmart Supercenters aggressively in Q4, which led to the Q1 acquisitions earlier this year. I'd remind everybody that many of these are ground leases. So beyond even the Walmart credit here they're ground lease structures. And we're targeting high performing stores. We enjoy a fantastic relationship with Walmart, as I mentioned in the prepared remarks. And we'll continue to target high-performing stores with great underlying real estate and, frankly, a low basis in terms of rental rates as well as our cost basis. So we're extremely comfortable, especially given the circumstances of the macro environment that we're in today, with Walmart being in that mid upper single-digit range.

Rob Stevenson | Janney
Okay. Thanks. Appreciate it.

Operator
Christy McElroy of Citi.

Christy McElroy | Citigroup
Good morning. Just a quick follow-up on Rob's question. So just thinking about the $3.5 million that was accrued but remains unresolved, and that's net of what you wrote off, which you said was immaterial, about $500,000. As you think about sort of that collectability assessment going forward and you don't keep a general reserve, I guess the question is, of that $3.5 million is there a risk that more could be written off in future quarters? Right?

Joey Agree | Agree Realty Corporation | President & CEO
Well, I think, yes, that there is a risk. I'll tell you the bulk of that is 2 tenants, 1 in the health and fitness industry and 1 in the entertainment retail. You can see in terms of the collection data on Page 7 of our release and I think you can imagine who those 2 are. So, yes, there is a risk. I'd tell you that both are leading operators in the spaces. I think the risk here is -- truly only probably maybe Dr. Fauci knows. The risk is really how long this ongoing health crisis goes on, and then their ability to reopen. And so, you'll see we did have some rent collection specifically in the health and fitness sector in Q2, 20%. The entertainment retail sector specifically at zero percent, is our 3 Dave & Buster's.

Christy McElroy | Citigroup
And I guess what's the risk that any of those tenants might fall out? Right? So how should we be thinking about potentially modeling maybe a dip in occupancy as we move forward later in the year?

Joey Agree | Agree Realty Corporation | President & CEO
Yes, Christy. Again, I think it really comes down to the health crisis here. Right? It really comes down to the underlying COVID-19 pandemic and the ability for these operators to open their doors and/or get alternative financing. And we've seen Dave & Buster's raise I think it was $200 million in equity. And so there are sporadic openings, obviously sporadic closings now, or re-closings. So I would hate to predict here the underlying health crisis. I'll tell you obviously the July collections at 94% were stronger. But, look, we all know -- we see states, municipalities, counties, closing doors on certain types of establishments here. And those 2 types of establishments still are in that wheelhouse for doors being shut.

Christy McElroy | Citigroup
And then just a bigger-picture question on acquisitions. I guess in regards to the transaction market and understand that you're buying high quality investment grade stuff, you're sticking with a narrow band of tenants. Just as you think more broadly about the next year and you have significant dry powder to invest, do you anticipate further changes to the investment landscape, any sort of big changes in terms of pipeline and pricing? What do you see as the biggest opportunity to take advantage of here in terms of disruption that is occurring or could occur?

Joey Agree | Agree Realty Corporation | President & CEO
Well, I think we're investing in the 99th percentile of retail. From my perspective, 99% of retail is almost un-investible or very difficult to underwrite if you're willing to invest in it. So we're playing in the top 1%. That is what we call our sandbox, the 20 to 30 tenants -- we acquired I think 17 different tenants this quarter.

My expectation, frankly, is that cap rates could -- are going to at least remain stable to that 1 percentile, or that 99th percentile, I should say, or even potentially compress. And I'm sitting here looking at the 10-year unsecured bonds for many of the retailers that we are acquiring and it reminds me very similarly of the Great Recession. Different interest rates, different cap rates, but if we think back to the Great Recession over 10 years ago, the 10-year treasury was approximately 3%. We were acquiring -- and high credit quality -- we were trading at approximately 8% on a transactional basis. So basically about a 500 basis point spread. Today when you look at the landscape, Walmart 10-year paper today is trading at 1.12; Costco is at 1.3; T J Maxx is at 1.65. We're acquiring, again, at a 500 basis point spread to where their unsecured 10-year paper is trading. So it's a very similar situation, not to say a much lower interest rate environment, a different cost of capital for us specifically, but for some acquirers out there in the marketplace.

And so I think we're going to see demand for high credit quality. The unique capabilities that we bring to the table is obviously our balance sheet, our cost of capital and liquidity. But most importantly, I would stress to everybody, it's the relationships we have with our retail partners and our ability for our team, which has done a fantastic job, to source opportunities that fit within their long-term strategy.

Christy McElroy | Citigroup
Thanks, Joey.

Operator
Nate Crossett of Berenberg.

Nate Crossett | Berenberg
Good morning. I was wondering if you could just touch on competition over the last 3 months. Obviously, your cost of capital is a lot better than most of the peers in the space. So any color on competition over the last month or two would be helpful.

Joey Agree | Agree Realty Corporation **|** President & CEO
Well, I appreciate the question, Nate. I mean, undoubtedly there is less competition right now, given that many potential purchasers are on their heels. They're dealing with defensive [oriented] measures due to COVID-19. But, look, this is a broad, fragmented space. It's a huge space, as we talked about before. 65% of US retail GLA is net lease. And so we face competition. That said, the team here is second to none. Our relationships, as I mentioned with Christy's question, are second to none and, frankly, we're not having trouble finding opportunities to strike up.

Nate Crossett | Berenberg
Okay. And just on the more challenged tenants, we're obviously following all of those. And some of those guys have gotten funding from either the public markets or PE. So I'm just wondering. Have you noticed kind of a change in the dialog once that funding is secured?

Joey Agree | Agree Realty Corporation **|** President & CEO
It's a good question. It's a broad question. I'd tell you there's such a range of conversations that our COVID response team is [having], led by Laith Hermiz, our COO, and Danielle Spehar, our General Counsel. But it's tough to paint with a broad brush. I think that isn't the case for many of our tenants, where private equity has stepped in. Or outside the Dave & Buster's equity raise, I think that was a block trade, that isn't the case. So I'd be hesitant to really draw any conclusions there for you.

Nate Crossett | Berenberg
Okay. And then just wondering on the G&A, you guys are obviously acquiring quite a bit and that's ramping up. In terms of the workforce, do you see many additions next year? Or are you kind of all set?

Joey Agree | Agree Realty Corporation **|** President & CEO
No, no. We will continue to grow the team in all aspects. As I mentioned, we'll surpass 1,000 properties in short order here. We'll continue to grow. We were very pleased to be named one of the best places in real estate to work recently. And we'll continue to attract and retain talent, and we're very focused on the full talent management cycle.

That said, in terms of G&A we have also spent several hundred thousand dollars and will continue to invest in IT and our systems. That has been a huge push for us over the last 3 years and probably will never end. But we're obviously -- we are seeing a lot of efficiencies from our IT improvements. We anticipate seeing additional efficiencies and capabilities from them. But there's no question this team will continue to grow as the platform continues to grow.

Nate Crossett | Berenberg
Okay. Great quarter. Thanks.

Operator
Linda Tsai of Jefferies.

Linda Tsai | Jefferies
Thanks for taking my question. Those 3 tenants you moved into cash accounting totaling $500,000, what industries were those 3 tenants in?

Joey Agree | Agree Realty Corporation | President & CEO
Go ahead, Clay.

Clay Thelen | Agree Realty Corporation | CFO
The vast majority was related to a tenant in the health and fitness sector. The other 2 were pretty small.

Linda Tsai | Jefferies
Got it. Maybe this answers the next question. The $3.5 million of uncollected rents not subject to deferral, in your view do those -- the entertainment and fitness centers, do they fall more in the category of inability to pay or unwillingness to pay?

Joey Agree | Agree Realty Corporation | President & CEO
That's a good question, Linda. I would tell you it's more unwilling necessarily at this time to pay. We've had different and varied proposals, which included partial payment, included deferred payment or partial abatements. And so this isn't binary, where they're unable to pay. That said, are they conserving cash? Definitely. But I think we'll continue to see, as we did in July, additional collections. And then we're just dealing with, effectively, arrears unless they are re-shut down and then again decide not to pay.

Linda Tsai | Jefferies
Thanks for that. And then last one. On selling the Art Van store, I think you said in the past you were a little bit more bearish on commoditized furniture stores. So what kind of due diligence did you do for this tenant? Or what makes you comfortable about they're sustainable.

Joey Agree | Agree Realty Corporation | President & CEO
Yes. So Love's obviously took a number of the Art Van stores. I think, given the difficulty in the overall leasing environment in the midst of a pandemic, with minimal landlord costs here on our end, we felt comfortable allowing Love's to take that space with 100% of the former rent. Now, we are hopeful that Love's will thrive as a company. We are very confident in the underlying real estate and, specifically, this unit, this store. And so, like I said, we're hopeful this will thrive. If not, this is a fantastic piece of real estate. But, given the overall leasing environment, given the minimal landlord costs here and investment and, frankly, the 100 cents on the dollar that we recovered, we thought it made sense to enter into this transaction.

Linda Tsai | Jefferies
Got it. Thanks.

Operator
Todd Stender of Wells Fargo.

Todd Stender | Wells Fargo
Thanks. And, Joey, you gave some bond coupons of some of the larger tenants, who have access to capital. And the debt markets have been fairly open. How about other tenants who may not have that kind of access? How is the trajectory, I guess, of sale/leaseback discussions gone through this COVID period?

Joey Agree | Agree Realty Corporation | President & CEO
Very few and far between for us, Todd. The only sale/leaseback we've entered into is the National Tire &

Battery sale/leaseback. And so, again, we're playing in a really tight sandbox here with the best and brightest retailers in the country. The vast majority of those have access to both the debt and equity markets. The debt markets are obviously very favorable today. And so very few sale/leaseback discussions. Again, it's a capability we'll deploy selectively. We're more than happy to discuss it, but it's really not our MO.

Todd Stender | Wells Fargo
Okay. And how about visibility for tenants, and/or I guess for you guys with your PCS platform, to maybe break ground this fall? How are you viewing your pipeline on breaking ground and maybe tenants thinking about their growth?

Joey Agree | Agree Realty Corporation | President & CEO
So as I mentioned in the prepared remarks, we have a number of projects that we anticipate announcing commensurate with our third-quarter earnings. They're either going through the entitlement or permitting processing currently. There are tenants in this country that continue to grow. The dollar stores obviously are growing. The auto parts retailers, the discount grocers are continuing to grow. Tractor Supply is continuing to grow, amongst others. So, we'll continue to work with those retailers in our sandbox on either development or PCS projects. At the same time, we will deploy that capability very selectively. Given the robust nature and high quality nature of our pipeline right now, this is a very busy team and we want to be careful where we spend our time, which is our most precious commodity.

Todd Stender | Wells Fargo
All right. Just last one for me. You had pretty good acquisition volume, obviously, in the quarter and you raised it. And the cap rate was a 6.5. Can you discuss what the range of cap rates were in the quarter, just to see how far you'll go, maybe into the 5's and maybe how high you'll go? Thanks.

Joey Agree | Agree Realty Corporation | President & CEO
Yes. I'd tell you generally we're operating between a 5.5 and a 7.5, dependent upon lease structure, terms, credit, underlying real estate. We made some very unique acquisitions during the quarter inclusive of the Walmarts, the CarMax, the QuikTrip portfolio, amongst others. And so I would tell you that kind of averages out into that 6.5 range there. And that's kind of what we see going forward.

Now, our Q3 pipeline, which I mentioned on the call is sizeable. It has some very unique qualities to it. We're very excited about it. It has a number of ground lease opportunities in it, where we've been able to find some really one-of-a-kind opportunities that we're excited about.

And so that 6.5 will vacillate up and down, call it maybe 10 basis points. But, again, that's kind of the midpoint of our [strike] pricing.

Todd Stender | Wells Fargo
Thank you.

Operator
John Massocca with Ladenburg Thalmann.

John Massocca | Ladenburg Thalmann
Good morning. So maybe delve in a little bit on that kind of last line of questioning. Can you provide a little color on how much of your investment opportunities today come from -- on the acquisition side come

from developer sellers? And is there a possibility that maybe you'd see some headwinds in terms of that opportunity set as you look out maybe 6 to 3 months from now, maybe even 9 months from now?

Joey Agree | Agree Realty Corporation | President & CEO
Yes. You know, I can't give you an exact number. I'll tell you we work with a number of developers/repeat sellers on a direct basis. I don't anticipate that that would -- typically those are smaller price point assets, the auto parts retailers of the world amongst them. So I wouldn't anticipate that becoming any headwind for us in terms of acquisition volume. It's a piece of what we do, but I'd remind everybody that we're acquiring from large institutional sellers all the way to individual owners who own a single piece of net lease real estate. And so it's a wide range and a myriad of transaction types that really has no rhyme nor reason on a quarter-to-quarter basis.

John Massocca | Ladenburg Thalmann
Okay. Any just specifically, though, with the developer sellers? Are they -- have they kind of bounced back? Are they relatively healthy or is there a little bit of stress there on their end -- it doesn't affect your in-place portfolio but just as we kind of think about that acquisition vertical.

Joey Agree | Agree Realty Corporation | President & CEO
Well, it varies from developer. I mean, there are developers that got outside of their typical wheelhouse and maybe got into shopping centers or mixed use. But it really varies upon individual developers. I don't have much insight. Again, we don't rely on any single developer for a large piece of our pipeline, or I'd tell you even a small piece of our pipeline. And so, I really don't have insight into their individual financial situations today. But, again, we continue to see those opportunities, but they're just a small piece of what we do.

John Massocca | Ladenburg Thalmann
Okay. And then switching gears a little bit to the in-place portfolio, can you provide some color maybe on your rent collections in the movie theater industry? I just note it because there was kind of a significant increase in the quarterly collection versus what you had collected in April.

Joey Agree | Agree Realty Corporation | President & CEO
Yes, we had guys pay. I mean, that's the bottom line. Guys decided to pay. And so I think that has a -- both the reopening, their willingness to pay, our ongoing negotiations and tactics that the COVID response team is taking, resulted again -- I'd remind everybody, we only have 5 movie theaters here -- AMC, Regal and Cinemark. So it's not a big subset, obviously, of our portfolio and probably not representative of the overall theater industry. But in July you saw that payment activity definitely tick up there.

John Massocca | Ladenburg Thalmann
Was that kind of unprompted or was that maybe intentionally, given kind of conversations you have had with them, maybe relatively expected?

Joey Agree | Agree Realty Corporation | President & CEO
I would say nothing is overly unprompted. We're engaged in active dialogue with all of our tenants, most notably probably the nonpayers or the late payers. So it's definitely not unprompted. In terms of expectations I think it varies across the board. Some were surprising. You know, these conversations -- to be frank, these conversations are very fluid. They're very dynamic. And sometimes, frankly, a check or a wire just shows up out of nowhere. And so there really is no rhyme or reason sometimes for these conversations. I think everyone has to remember here that the default is that tenants are responsible for

their rent. This pandemic was not a force majeure event. We have not reached quiet enjoyment. Their unilateral unwillingness to pay is a breach. It will eventually turn into a default. And then we have a host of remedies based upon the contractual remedies in the leases.

And so there are tenants that -- we had one just this weekend that just decided after 4 months of nonpayment and partial payment and all different types of payment that they're just going to pay everything now. Because, frankly, I think they realized that they have bigger problems to deal with than our 3 or 4 stores that we owe. So we anticipate that these collection numbers will continue to tick up. And a lot of them, frankly, are just a function of extended conversations here with these tenants.

John Massocca | Ladenburg Thalmann
Okay. I mean, as we kind of think about the July collection versus 2Q, was there any specific kind of industry that drove that, or was it pretty broad-based?

Joey Agree | Agree Realty Corporation | President & CEO
I think it's pretty broad-based. I think notable in there obviously was the theater collection, 71%. But I think - -

John Massocca | Ladenburg Thalmann
But I was thinking kind of June to July.

Joey Agree | Agree Realty Corporation | President & CEO
Yes. I think it was pretty broad-based. I think between gyms and theaters you have some additional collection activity in there. And other tenants that were either potentially either able to open in certain regions and/or decided that payment was appropriate at this time, given the different pressures that they faced.

John Massocca | Ladenburg Thalmann
Okay. That's it for me. Thank you all very much.

Operator
Michael Bilerman with Citi.

Michael Bilerman | Citigroup
It's Michael Bilerman here with Christy. So, Joey, I was wondering. As you think about acquisitions are you willing to do any sort of larger portfolios or even larger-scale M&A where you would obviously not get 100% of this top 1% in terms of the type of assets that you normally buy, but given the size of the company portfolio today, are you willing to take on some non-core properties to be able to get a larger set of investments that fit your criteria? I guess are you willing to take the risk of selling non-core to deploy more capital?

Joey Agree | Agree Realty Corporation | President & CEO
I appreciate the question, Michael. Look, we are consistently looking at larger opportunities, diversified portfolios. And the challenge we always run into is, again, are we willing to take on and/or have to dispose of that bottom tier. And that is typically our largest challenge. Now, given the organic nature of our pipeline, given the depth, breadth and I would tell you the quality of the pipeline right now -- this is a conservative organization. To take our midpoint of our guidance up 33%, people should take that with a -- pretty strongly.

It obviously isn't necessary for us. So it's something that we'll look at, we will continue to look at. It's always been a challenge. My number one threshold here has always been we are not going to dilute the quality of this portfolio. And we are on a significant march, 1,400 basis points in terms of investment grade exposure. I think qualitatively this portfolio has improved. You're going to see it consistently improve quarter over quarter. And my biggest challenge with larger portfolios as you mentioned has always been taking on the bottom quartile of assets there, or sometimes even larger.

Michael Bilerman | Citigroup
Right. But even thinking -- let's say you find an M&A deal of -- let's say it's $1 billion. Right? And bottom quartile would be $250 million. All of a sudden $250 million over a pro forma portfolio of $4.5 billion is not that much. Right? And I would argue 25% is probably a high number in terms of noncore in a portfolio. So I just don't know -- I could understand maybe 2 years ago or even 3, 4 years ago when the Company was a lot smaller, those sorts of transactions would have a much higher hurdle rate. I just don't know if we've sort of crossed the Rubicon at this point, where you would pursue those because the resultant noncore is just not a significant enough of a percentage of the pro forma total.

Joey Agree | Agree Realty Corporation | President & CEO
I agree. I think it's -- obviously with the growth of the Company and the portfolio and then the de minimis exposure to that noncore that a pro forma transaction would result in gives us more -- us ability to look at those transactions and to scrutinize them. Now, that said, we have no problem -- and I'll tell you the other challenge with these types of portfolios. The team here, the acquisition team here, is the best team in the business, period. We can go assemble most of these portfolios frankly at higher cap rates than we can buy them on a one-off basis. Now, we save frictional cost obviously in time and transactional costs and everything else. But there isn't a portfolio in this country that we can't assemble, I would tell you, probably within 120 days if we just went and attacked it.

And so, given everything that you said, and I think there is merit, I think the size of this company now does open up different avenues for us -- potential avenues I should say, to grow. I think what's more interesting is just the sheer success and, frankly, the velocity of the success we're having and the organic one-off nature right now, make those transactions I think even less attractive [on] the portfolio basis. Right? That's the struggle we have.

Michael Bilerman | Citigroup
And then, are you able to break down in terms of the pipeline by sort of one-off, single assets, portfolios, types of retailers, just to give -- and then how large it is, because obviously some stuff will fall out -- just as we think about the next 6 to 12 months in terms of deployment?

Joey Agree | Agree Realty Corporation | President & CEO
You asked if we could break it down?

Michael Bilerman | Citigroup
Yes. Just give more color around the pipeline where you talked about it's the largest pipeline, it's organic, [things like that].

Joey Agree | Agree Realty Corporation | President & CEO
Yes. In full transparency, it's the largest pipeline that we've ever had. It is of similar quality to what you've seen from us from Q1 and Q2, over 80% investment grade. I'd tell you there are some small portfolios, typically single credit, that is 2, 3 4 assets, for example, 4 O'Reilly Auto Parts or 2 Tractor Supplys. There are some larger price point ground leases that we are very excited about. There are some unique pieces

of real estate, that I would tell you not overly dissimilar from the Hamptons HomeGoods that we acquired.

So it's really an aggregation of very different property types. But I'd tell you it's top tier. There's no question about that.

Michael Bilerman | Citigroup
And then just lastly, I guess if you're not willing to buy noncore to get to a core portfolio, are you going to accelerate the disposition volumes of what remains noncore today? And what is that estimate in your mind? Is it 10%, 15%, 20% of the portfolio? I guess if you had your druthers and you were able to execute at prices that you feel comfortable with, what percentage of the portfolio would you seek to liquidate?

Joey Agree | Agree Realty Corporation | President & CEO
So we've been very aggressive, obviously, in the franchise restaurant space, with that down to 1.5%. We sold 4 Taco Bells, a Buffalo Wild Wings, a Burger King and a Wendy's during Q2. Subsequent to quarter end we have a couple additional sales that are very similar. I would love to sell the LA Fitness, the Dave & Buster's and the movie theaters, so if anyone likes them, please give us a call. I mean, that's what I truly view as noncore today. The marketability of those assets obviously is in question. But we've really pared back fairly aggressively here, and at aggressive cap rates, at a 6.3% in Q2, the noncore generally lower price point 1031 transactions that we sell into that market. But I think the distressed tenants or the watch list that everyone is focused on, is what we've effectively -- is our noncore portfolio.

Michael Bilerman | Citigroup
And so what percentage remains?

Joey Agree | Agree Realty Corporation | President & CEO
Let's call it 6%, 7% when you take the 3 entertainment retail assets, the 5 movie theaters and the health and fitness operator we have.

Michael Bilerman | Citigroup
Are you worried about the 1031 market at all and potential changes?

Joey Agree | Agree Realty Corporation | President & CEO
No. I think, frankly, we were very aggressive. We've sold 30-plus restaurants, franchise restaurants, into the 1031 market over the past, call it, [50] months. And so we were very aggressive. I think taking the 1031 market -- or I wouldn't say taking offline, but the shifting dynamics of the 1031 market, it will be interesting to see the implications. But I think those implications will be for the lower price point assets potentially, like those restaurants which we've really divested of. I would tell you our average transaction this year has ticked up from the $4.2 million last year with intent, really driven by the 13 or 14 Walmarts we've already announced the acquisition of, as well as some Home Depot and Lowe's activity, typically ground leases. And so we don't see a lot of 1031 competition in that space, though. It's typically dominated by more institutional purchasers who we really don't see competing at the same level anymore.

Michael Bilerman | Citigroup
All right, Joey. Thanks for the time.

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

Joey Agree | Agree Realty Corporation | President & CEO
Well, thank you for your patience, everyone. Please be safe and good luck through the rest of earnings season. And we will talk to you shortly. Thank you.