EDITED TRANSCRIPT

Agree Realty Corporation's
Third Quarter 2023 Earnings Conference Call
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PRESENTATION

Operator

Operator: Good day, and welcome to the Agree Realty Third 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 Third 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

Thank you, Brian. Good morning and thank you all for joining us today. I'm pleased to report another quarter of strong performance as we executed our operating strategy in a disciplined manner. We invested in high-quality opportunities across all three external growth platforms, while increasing our investment grade exposure to an all-time high of nearly 69%.

Our record investment grade exposure is emblematic of the strength of our portfolio, which should provide for more durable cash flows in today's environment. Our portfolio is paired with a conservative balance sheet, with 4.5 times net debt to recurring EBITDA at quarter end and no material debt maturities until 2028.

We continued to push cap rates higher during the quarter without sacrificing quality and maintaining our stringent underwriting criteria. Within our targeted sandbox, there continues to be a lack of capitalized competition, and our track record of execution makes us the buyer of choice in today's market. We anticipate this dynamic will persist and consequently cap rates will continue to move higher, albeit slowly and steadily, given the large and fragmented nature of the net lease space.

We are in an enviable position for the upcoming year. Our fortress balance sheet has no material debt maturities until 2028, avoiding refinancing headwinds. Simultaneously, our best-in-class portfolio with minimal near-term lease maturities provides stable and growing cash flows. Even in the absence of external growth, this will enable us to deliver AFFO, or true cash growth, of over 3% next year on a per share basis. Embedded in this "base case" is a conservative credit loss amount, inflationary growth in G&A of over 5% and any outstanding borrowings on the revolver assumed at the current forward SOFR curve.

This base case AFFO growth combined with our current dividend yield sets the stage for high-single digit returns in 2024 even in the absence of additional capital or external growth.

As discussed on previous calls, we will continue to avoid going up the risk curve, investing capital only in the country's leading operators with high-quality underlying real estate.
While our relationships and acquisition funnel continue to provide a strong pipeline, we will remain disciplined capital allocators to ensure that our risk adjusted spreads are appropriate and our cap rates are reflective of broader market conditions.

This past quarter, we invested approximately $411 million in 98 high-quality retail net lease properties, including the acquisition of 74 assets for $398 million. The properties acquired during the quarter are leased to leading operating in sectors including farm and rural supply, auto parts, tire & auto service, convenience stores, off-price retail, home improvement and warehouse clubs.

We executed several sale-leaseback transactions this quarter with our retail partners, including best-in-class operators in the farm and rural supply and convenience store sectors. As mentioned on prior calls, sale-leaseback activity has increased for us this year, and it is another example of our ability to be a full-service, comprehensive real estate solution for leading operators.

The acquired properties had a weighted-average cap rate of 6.9%, a 10-basis point expansion relative to the second quarter and 70 basis points higher than full-year 2022. The weighted-average lease term was 11.5 years and approximately 73% of annualized base rents are derived from investment grade retailers. We acquired seven ground leases during the quarter representing approximately $35 million, or 8.2% of total acquisition volume for the quarter.

Through the first nine months of the year, we've invested more than $1 billion in 265 retail net lease properties spanning 38 states. Over 73% of the annualized base rent acquired is derived from leading

investment grade operators. These metrics demonstrate our continued focus on leveraging all three external growth platforms to execute on opportunities with best-in-class retailers.

Our development and DFP programs continue to see increased activity with a record of over $137 million of capital committed this year. Our team continues to uncover exciting opportunities and our platform is uniquely situated to provide struggling merchant developers with the ability to lock in funding, while providing us with the opportunities to drive superior risk-adjusted returns. We continue to have dialogue with many of our retail partners to find solutions that fit within their store growth strategies.

We commenced two new development and DFP projects during the quarter with total anticipated costs of $11 million. Construction continued during the quarter on 14 projects with anticipated costs totaling approximately $56 million. Lastly, we wrapped up construction on eight projects during this past quarter with total costs of approximately $41 million.

Moving on to leasing, we executed new leases, extensions or options on over 655 thousand square feet of gross leasable area during the third quarter. Notable new leases, extensions or options included a 220 thousand square foot Walmart in Wichita, Kansas, a 130 thousand square foot Lowe's in North Providence, Rhode Island, and a 40 thousand square foot Marshalls & HomeGoods in Napa, California. Through the first nine months of the year, we executed new leases, extensions or options on just over 1.4 million square feet of gross leasable area. We are in an excellent position for the remainder of the year with just 8 leases or 30 basis points of annualized based rents maturing.

Our best-in-class portfolio now spans 2,084 properties across 49 states, including 217 ground leases representing 11.6% of total annualized base rents. Occupancy for the quarter remained very strong at 99.7% and again, our investment grade exposure reached a record of approximately 69%.

Before I turn the call over to Peter, I want to congratulate Nicole Witteveen on her promotion to Chief Operating Officer. Nicole has had tremendous accomplishments throughout her career at Agree. Her operational prowess makes this promotion very well deserved. Craig Erlich has now stepped into the newly created role of Chief Growth Officer, where he will devote his full focus to our external growth platforms and tenant relations.

Lastly, I'm extremely pleased to welcome Ed Eickhoff to our team as Executive Vice President of Asset Management. Ed has nearly 40 years of industry experience and will help optimize our asset management platforms.

I'll now 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 third quarter of $0.99 was 2.1% higher than the same period last year. AFFO per share for the third quarter increased 4.2% year-over-year to $1.00.

In the third quarter, we declared monthly cash dividends of 24.3 cents per share for July, August and September. This represents a 3.8% year-over-year increase. While raising our dividend twice over the past year, we maintained conservative payout ratios for the third quarter of 74% of Core FFO per share and 73% of AFFO per share, respectively.

Subsequent to quarter end, we again increased our monthly cash dividend to 24.7 cents per share for October. The monthly dividend reflects an annualized dividend amount of over $2.96 per share, or a 2.9% increase over the annualized dividend amount of $2.88 per share from the fourth quarter of 2022.

General and administrative expenses totaled $8.8 million in the third quarter. G&A expense held steady quarter-over-quarter at 6.1% of revenue adjusted for the non-cash amortization of above and below market lease intangibles, or 6.5% of unadjusted revenue. For the full year, we still expect G&A to decrease a minimum of 50 basis points to 6% of adjusted revenue or lower.

Income tax expense was approximately $709 thousand during the third quarter. For the full year, we continue to expect income tax expense to be between $2.5 and $3.5 million.

Moving to our capital markets activities, during the quarter we sold more than 1.3 million shares of forward equity via our ATM program for net proceeds of approximately $87 million. Including the shares sold in the period, we settled almost 4.3 million shares of forward equity during the quarter at an average price of more than $68 per share, realizing net proceeds of approximately $290 million.

We further strengthened our balance sheet during the quarter and demonstrated our ability to access the bank debt market, closing on the previously announced $350 million 5.5-year term loan. Prior to 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%. The term loan was a market-leading financing with strong support from our key banking relationships, and the 5.5-year term allowed us to extend the maturity into 2029. As Joey mentioned, our debt maturity schedule remains in excellent position with no material maturities until 2028.

At quarter end, we had total liquidity of over $957 million, including $951 million of availability on the revolver, and more than $6 million of cash on hand. In addition, our revolving credit facility and term loan have accordion options, allowing us to request additional lender commitments of $750 and $150 million, respectively. As of September 30th, our net debt to recurring EBITDA was approximately 4.5 times. Our total debt to enterprise value was approximately 28%, while our fixed charge coverage ratio, which includes principal amortization and the preferred dividend, remained in a very healthy position at 5.1 times.

Lastly, I'm pleased to report that MSCI, a leading provider of ESG indices, upgraded our rating from B to BBB last week. This follows the recent upgrade of our GRESB Public Disclosure Score from D to B, as well as the Gold Level recognition from Green Lease Leaders that I discussed on last quarter's call. These achievements demonstrate the significant progress that we've made on our ESG objectives and are a testament to the efforts of our ESG Steering Committee and our outstanding team.

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

Joey Agree | Agree Realty Corporation | President & CEO

Thank you, Peter. To summarize, we are very well positioned to drive earnings growth and provide a consistent, well-covered, growing dividend despite the turbulence we are seeing in the markets.

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

Questions and Answers

Operator

We will now begin the question-and-answer session. (Operator Instructions) The first question today comes from Eric Wolfe with Citi.

Eric Wolfe | Citi

Just curious what level of acquisitions you have on your contract right now for the fourth quarter. And as we think about the remaining, call it, portion of your guidance to get to that $300 million for the quarter, what's the investment framework you're going to be using to determine whether it can make sense to keep acquiring?

Joey Agree | Agree Realty Corporation | President & CEO

Eric, it's Joey. Well, first, I think it's notable that we changed the phraseology in the release to approximately $1.3 billion. Without giving any guidance or forward-looking statements, I'll tell you that we're going to maintain flexibility here in terms of what we acquire this year. And so that approximately $1.3 billion could be anywhere between $1.2 billion and $1.35 billion, but I think it's prudent for us to watch the macro here and make some really consequential decisions on whether or not we want to proceed with specific acquisitions or not. So maintaining flexibility, hence the approximate verbiage in the release, is critical.

In terms of the framework, the framework is going to be one. In today's environment, capital is at least semiprecious. And two, I think we have to make sure that we're acquiring things and being patient where we think cap rates are going to continue to creep up here without deploying capital at spreads that we think will improve.

Eric Wolfe | Citi

Got it. And then you mentioned that you can grow AFFO per share more than 3% next year without any acquisitions. Does that include the full impact of $300 million of acquisitions in the fourth quarter? Or could you get there with just doing the $200 million that you mentioned on that lower end? Just trying to understand whether if you did the full $300 million in the fourth quarter, or even going above that, if it would just be additive to the 3% growth that you mentioned in your remarks.

Joey Agree | Agree Realty Corporation | President & CEO

It's truly immaterial on a denominator the size of ours today. So that, call it, $150 million-ish range in there, embedded in that range, is really immaterial in terms of that 3%, which I'll call base case. And just to clarify, that base case is Joey takes up golf and Mahjong and Canasta and we do nothing next year.

And so we're very confident regardless of the amount of acquisitions that we execute during the fourth quarter that we're going to grow AFFO next year over 3% without doing anything. That's no new capital. That's no new acquisition activity. And so that is, we think, a very strong, I'll call it again, the base case.

Operator

The next question comes from Joshua Dennerlein with Bank of America.

Joshua Dennerlein | Bank of America

Joey, last time we spoke at our conference, you were talking about some constructive conversations you were having with retailers on partnering with them just as they try to hit their store opening goals. Just what's the latest on that?

Joey Agree | Agree Realty Corporation | President & CEO

Those conversations continue. We're executing on projects that are both announced and unannounced. But those conversations continue. And I think retailers, I would tell you that they are quickly realizing even faster than at your conference that the new store deliveries that they're anticipating from merchant builders and private developers aren't going to come to fruition.

And so we're going to be patient and allow these yields, or these return on cost plus the cap rates on stabilized assets, to come to us here. Obviously, we've seen the activity in the 10-year and that meteoric

rise over the past 60, 90 days. So we're going to maintain patience here and not jump into anything too quickly.

And like I said, I think it's going to come to us. Those conversations continue. We're one of the only few viable solutions that they have without just self-developing and putting it on balance sheet if they have those capabilities. And so we'll be ready and willing. But again, for us to pull the trigger, it's got to be appropriate risk-adjusted spreads.

Joshua Dennerlein | Bank of America
Okay. Appreciate that color. And then I'm just trying to think through the dynamic. If you guys are pulling back, I'm assuming others might pull back. How do we think cap rates respond? Or is there just so much capital out there that wants to -- that has to be put to work, it's going to take a while? Just trying to think through the market dynamic.

Joey Agree | Agree Realty Corporation | President & CEO
Well, it's certainly not the latter, so much capital that has to be put to work here. I think the 1031 market is down over 50% and edging even higher. Some estimates are at 70%. Commercial real estate transactions are down massively. And so look, we remain the buyer of choice here. And now it's at our discretion where and when we want to execute.

I think if we roll the clock back to fall of last year when we pre-equitized the balance sheet and we put ourselves in a position to execute this year, we were very wary of the capital markets. We said cap rates would move slowly up. We think that the standard answer, frankly, and the baseline expectation in a fragmented and illiquid market, the size of net lease, we see that continuing.

I've heard comments that they may have plateaued in the last few months. I've heard comments they were going to move abruptly. That's not what happens in a fragmented and large space like ours. And so we anticipate yields continuing to creep up, and we'll deploy capital as we see prudent therefore when those yields do creep up.

Operator
The next question comes from Nate Crossett with BNP.

Nathan Crossett | BNP
The 3% growth for next year, what percent are you assuming for, maybe, credit loss? And then can you just talk about your Rite Aid exposure? And then are there any other tenant issues we should be aware of?

Joey Agree | Agree Realty Corporation | President & CEO
Nate, I'll hit the last question first, Rite Aid exposure. We have a total of five Rite Aids in our portfolio, two we acquired subleased already to investment-grade tenants. We anticipate a credit upgrade there once -- one has already been rejected, the prime lease. And so we're entering into a sublease with a significant lift with an investment-grade tenant that's already in place, which will increase term as well as rent at approximately 50% from the former Rite Aid rent.

So we truly have three Rite Aids in the portfolio. We haven't acquired a Rite Aid since the launch of the acquisition platform in 2010. These are legacy assets, none of which are on the initial rejection list. And we're very comfortable with the real estate and the rents there if we were to get them back and have already -- frankly, already received significant interest from national retailers to take those spaces.

Again, before I turn it over to Peter to talk about that 3%, again, base case, I want to reiterate, that base case, as I said in the prepared remarks, includes inflationary growth with G&A, no new net acquisition activity in 2024. And so that is a base case. It is the baseline. It's the basement, and I don't anticipate that materializing. But I'll turn it over to Peter to give those building blocks.

Peter Coughenour | Agree Realty Corporation | CFO

Sure. Nate, just to talk through some of the primary drivers of AFFO per share growth being north of 3% next year. First is the impact of rent bumps in the portfolio, which should drive about 1% of growth next year. We typically see about 1% of growth from internal lease escalators in the portfolio.

The second driver of growth will be the run rate impact of 2023 acquisitions, which we already talked about, and as which Joey mentioned, have been very accretively financed with the forward equity we raised coming into the year as well as the $350 million term loan that we closed in July at a rate of 4.5%.

Lastly, we have free cash flow, which is approaching $100 million annually that we can use either to pay down amounts outstanding on the line or reinvest those proceeds. And so those are the primary drivers of the 3% plus growth in AFFO per share next year.

As Joey mentioned, that would be offset by growth in G&A of more than 5% as well as a conservative credit loss number. We've assumed in there 50 basis points. That compares to the credit loss that we realized this year of 10 basis points so far through the first nine months of the year. That's in line with the credit loss that we realized in 2022 of 10 basis points as well, but trends below our longer-term average of 25 basis points in terms of credit loss. And that's a fully loaded credit loss number, so we feel that 50 basis points is very conservative.

Nathan Crossett | BNP
Okay. That's helpful. And then maybe just one on leverage. If you were to do acquisitions next year, what's your tolerance to do -- lever up?

Joey Agree | Agree Realty Corporation | President & CEO
Yes. We have effectively 100% availability under our $1 billion revolver, excluding the accordion. We only have $350 million in bank debt. The term loan market is open to us. The 10-year unsecured market is open, but at unfavorable pricing. I said in the last call, we look at leverage here over a full cycle. And so piercing 5x has no problem -- is no problem to us. We're sitting at 4.5x levered with significant liquidity and, frankly, flexibility to execute on transactions that provide for the spreads that are necessary to drive AFFO growth.

What we will not do, I think, is as important as what we will do, is we will not get onto the treadmill, grow a denominator, invest capital at immaterial spreads or de minimis spreads. That's just not something that is -- that, frankly, is in our strategy or is in our wheelhouse. We're sitting here with a portfolio now approaching 70% investment grade, over 11.5% ground leases, no material debt maturities until 2028, no refinancing headwinds. We're not going to cause -- we're not going to create self-created -- self-caused problems here, or self-inflicted wounds. We are going to be prudent and disciplined in turbulent times. We're going to watch them play out and read and react accordingly.

Operator
The next question comes from Haendel St. Juste with Mizuho.

Haendel St. Juste | Mizuho
So Joey, I wanted to follow up on your comments about appropriate risk-adjusted spreads that you're looking to underwrite here in the current environment. I guess I'm curious, what exactly does that mean? What's the minimum spread you're looking for today in light of your higher cost of capital? And then perhaps dispositions. Will that maybe play a greater role near term in some of the funding?

Joey Agree | Agree Realty Corporation | President & CEO
Haendel, certainly, we'll look at dispositions. We have a high-quality portfolio that we can dispose into the 1031 market. I've talked about that historically. It's not the most efficient or time effective, but we have dispositions that are a potential source for us if we so choose to go down that road.

In terms of appropriate spreads, I'd tell you it's really across three external growth platforms. Those deviate, right? Because duration equals risk there. And then also qualitative aspects. But investing capital, sub-70, 75 basis points without a compelling underlying real estate case for the ability to mark to

market doesn't make much sense, and frankly, doesn't move the AFFO or the earnings needle here unless you did such in massive quantities, which isn't appropriate in today's environment.

Haendel St. Juste | Mizuho
And a bit more maybe on the hurdle rates, the minimum spread that you'd be looking to invest in today?

Joey Agree | Agree Realty Corporation | President & CEO
Will you repeat that Haendel? Sorry.

Haendel St. Juste | Mizuho
A bit more color on the appropriate risk-adjusted spreads, maybe perhaps some color on how you're thinking about what level of spread versus your cost of capital that you would require today in the current environment?

Joey Agree | Agree Realty Corporation | President & CEO
Yes. I think -- again, look, I think we will not be acquiring -- I can say fairly succinctly at this time, we won't be acquiring sub-7, certainly. That doesn't make sense given our -- given the cost of capital in the environment, I don't think there's a purchaser of sub-7 out there outside of a 1031 buyer.

Second, if we look at our development in PCS platforms, we're going to be looking to a, depending on duration and scope of the project, 50 to 150-basis point spread of where we could acquire or would acquire a like-kind asset in a 70-day period. Again, each transaction is specific.

One thing I would note is we don't have to qualitatively improve this portfolio. We're not going to degrade it, but again, reaching record investment-grade exposure here, again, we aren't insinuating any shadow ratings in that number either. We don't have the qualitative aspects in terms of improving the portfolio sitting here where we are today. And so the #1 driver for us is not sacrificing quality, but at the same time, driving spreads that are appropriate based upon the credit risk, underlying duration of the project or of the real estate and then the long-term viability of that asset with the real estate fundamentals.

Operator
The next question comes from Brad Heffern with RBC Capital Markets.

Brad Heffern | RBC Capital Markets
Joey, you mentioned that you expect cap rates to increase gradually. But if both cap rates and cost of capital stayed sticky at current levels, how would you treat capital deployment? Would it just be free cash flow that you would deploy? Or do you think that you would still have the ability to use debt or something like that to actually have acquisition activity beyond the free cash flow level?

Joey Agree | Agree Realty Corporation | President & CEO
Well, I think that case is very -- I would tell you, after the rise we've seen in the 10-year, for cap rates not to continue to incrementally adjust again, it will take time. I think that is highly unlikely. Second, I think what you're referring to there is if they don't adjust and the 10-year stays in this 4.8% to 5% range, what will we do? And I think, again, that reflects back whether we can uncover opportunities through all three platforms that will provide the appropriate spread.

In the unlikely event or, I'll tell you, most likely impossible event, we're unable to find any opportunities across those three platforms, that reflects back to the base case, which Peter just gave the walk on, again, over 3% AFFO growth; frankly, delevering or leverage neutral; not investing any capital; not raising any capital; and I start taking golf lessons.

Brad Heffern | RBC Capital Markets
Okay. Fair enough. And then if you do have a big decline in activity overall, where does the first dollar go? Is that largely development activity? Or is it a mix of development and acquisitions?

Joey Agree | Agree Realty Corporation | President & CEO

I would assume it's a hybrid. Look, we're seeing all different types of activities. Our funnel has never been as wide as it is today. We're seeing all different types of opportunities across all three external growth platforms. And so it's really -- it's individual transactional specific here. And the merits and considerations, again, when you get to development, or DFP, when you get to those two points, you're really looking at the duration of those projects.

And so look, we will be disciplined capital allocators and, again, have the appropriate premium for duration risk, whether that be a 120-day retrofit of an existing building or 1.5-year true ground-up development.

Operator
The next question comes from R.J. Milligan with Raymond James.

R.J. Milligan | Raymond James
First, quick question, just a slight impairment in the third quarter. I'm just curious what drove that $3 million impairment.

Peter Coughenour | Agree Realty Corporation | CFO
Yes. The impairment that was recorded during the quarter is related to one asset that we're targeting for disposition. The tenant's lease is expiring, and they've opted not to renew that lease.

R.J. Milligan | Raymond James
Any color as to what industry that tenant is in?

Peter Coughenour | Agree Realty Corporation | CFO
Yes. The tenant is in the grocery sector.

R.J. Milligan | Raymond James
Okay. Thank you. And Joey, just a follow up. On the last quarter conference call, the stock was trading around $64 a share. You commented that ADC wouldn't be issuing equity at those levels. And I'm just curious, is that still a line in the sand? Or what would need to change for you guys to be willing -- what would need to change for you guys to be willing to issue equity at a price below that or at current levels?

Joey Agree | Agree Realty Corporation | President & CEO
Cap rates would have to adjust, and returns have to adjust. Again, this is -- at the end of the day, we're going to focus on driving spreads here. And so we're not going to go up the risk curve. We're not interested in the entertainment -- family entertainment or childcare or car wash space. We're not going to enter into sale lease-backs with private equity-sponsored retailers. Again that is -- I'll tell you, that's the firm line. That's the red line.

The line in the sand is if the wind shifts and cap rates move, which we anticipate them to move, it's going to be incremental and take time, we'll look at what those appropriate spreads are, where our relative costs of capital are, and we would invest capital at an appropriately accretive basis if that were the case. So again, raising capital at these types of yields, unless we're going significantly up the risk curve, which we won't do, doesn't provide for shareholder returns at the end of the day.

R.J. Milligan | Raymond James
My last question. Joey, you're the, I guess, second or third net lease REIT to report earnings thus far and give a little bit additional commentary on the transaction market. Just more broadly, outside of ADC, how do you think the transaction volume will trend in the fourth quarter and as we get into next year?

Joey Agree | Agree Realty Corporation | President & CEO
Undoubtedly, significantly down. There's no question. Anybody who goes against the grain in terms of transaction volume or hits the pedal right now and slams that pedal down probably needs to rethink that position given the -- in light of the macro environment we're in and the rate environment that we're in.

Operator
Next question comes from Connor Siversky with Wells Fargo.

Connor Siversky | Wells Fargo
A couple of quick ones for Peter on the term loan. Could you just walk us through the math on the swap again? And then in the event that you were looking at the unsecured market instead of the term loan market, any sense what that rate would have looked like?

Peter Coughenour | Agree Realty Corporation | CFO
Sure. So to hit on the $350 million term loan that we closed in July, that's at all-in rate, including the swaps that we entered into, fixed at roughly 4.5%. Those swaps were entered into in the mid-3s, and then there's a spread on top of that that gets us to the mid-4s.

We also have an accordion option on that for $150 million on that term loan. We could exercise that accordion option today or look to a term loan of a different tenor with pricing likely in the mid-5s today. And we continue to have strong support from our bank group. And the $350 million term loan is the only bank debt that we have outstanding today. And so I think the bank debt market is certainly open for us today.

In terms of a public unsecured issuance, a 10-year issuance today for us would likely be in the high 6s. And obviously, there's been a significant move in rates since our last call. The 10-year is up about 80 basis points since early August.

Connor Siversky | Wells Fargo
Got it. Thank you. And then maybe one for Joey. Late in the summer, there was some commentary out there that certain blue-chip retail operations were looking to expand their footprints. I'm just wondering, in the context of rising rates since then, if those conversations have died out somewhat and maybe those retailers are reconsidering those expansion plans?

Joey Agree | Agree Realty Corporation | President & CEO
Haven't seen any instance of retailers reconsidering their expansion plans. The true challenge is the mode and method which they execute those expansion plans. And that continues to be, as you would anticipate, with the 10-year at 4.9% this morning and SOFR where it is and the curve where it is and, frankly, the regional banks who are typically lending to merchant builders. That continues to be the choke point. And so those conversations between us and retailers, the growing retailers or retailers that want to grow, continue.

But I'll tell you, every day, they're getting a developer call them and telling them that they need to move up the return profiles because they can't make that historic return work anymore. And so we're seeing a shift, albeit it's slow because of the gradual and fragmented nature of the space, but we're seeing a shift upwards. We'll continue to have dialogue with those retailers and see if we can come to a solution that makes sense for both parties. But I think we're only going to continue to see those trends continue.

Operator
The next question comes from Ki Bin Kim with Truist.

Ki Bin Kim | Truist
So the deals you closed on this quarter at a 6.9% cap rate. Obviously, those deals were probably underwritten a couple of months ago at least. When you look at the conversations you're having today, and I realize cap rates can take a while to change, but how much has it changed so far from that 6.9% to today?

Joey Agree | Agree Realty Corporation | President & CEO
Well, I'll tell you that we anticipate printing north of a 7% in Q4. Again, volume is still up in the air. That will be at our election. Those conversations continue to move gradually, Ki Bin. These are one-on-one, one-off sellers, and they are sellers that -- some are still hopeful for yesteryear, hence the challenge in moving

cap rates in a quick and decisive manner. There are those that need immediate liquidity. I anticipate the year-end closures now really rethinking their pricing -- or the closures, I should say the owners that want to sell by year-end and have a closing by year-end rethinking their strategies.

We still see a wide range of asking cap rates. It's truly amazing how many e-mail blasts we get that are still asking 4% handles in front of things with the 10-year at 4.9%. And so, look, we'll continue to see that move upwards. You're right in terms of our Q3 transactions. Again, average 70 days to close here. That's from letter of intent execution to closing. And those transactions were prefunded with equity and debt, honestly, frankly, at different cost structures and different pricing.

So we're going to continue to see cap rates move up. We'll be patient. It's difficult or, really, frankly, impossible for us to tell you what pace they will move up. That's going to be dependent upon individual sellers plus the macro environment here.

Ki Bin Kim | Truist
And if you had to raise new bank debt, so not on the accordion feature, but just if you had to raise new bank debt, what would that rate be?

Peter Coughenour | Agree Realty Corporation | CFO
Assuming that we enter into a swap to fix the rate on a term loan, whether that's exercising the accordion on the $350 million term loan in July or entering into a net new term loan, the cost today would be in the mid-5s.

Operator
The next question comes from Michael Gorman from BTIG.

Michael Gorman | BTIG
Joey, I'm just trying to triangulate, obviously, a lot of conversations about the acquisitions market and the capital markets. As we think about your strategy over the next three months given what you're seeing in the marketplace today, how are you thinking about your ability to finance versus the pricing that is actually flowing through your deal pipeline? So we get to the end of the year. Will we see the debt to EBITDA move up towards that 5x? Or are you seeing cap rates where you would also be comfortable issuing on the ATM if you can close enough volume?

Joey Agree | Agree Realty Corporation | President & CEO
Again, it's really case-specific for us. I would anticipate that debt to EBITDA, we're sitting at 4.5x, to most likely migrate up nominally. But in terms of issuing capital on the ATM, again, if we saw something that was sizable, notable and it was, frankly, risk-adjusted appropriate, that's possible. But I would tell you, I think most likely here, we exhibit patience and discipline.

Michael Gorman | BTIG
Okay. And then maybe just on the on the retailer side of the buy box. Are you seeing anything in the underlying macro data or in the financing markets for your tenants that's shrinking the targeted retailers or leading you to take some of them off of your target list because of the current environment?

Joey Agree | Agree Realty Corporation | President & CEO
Generally, no. We're always looking at the retailers within our "sandbox", evaluating them both in terms of exposure within our portfolio, but also how they're performing, inclusive of their balance sheet and any challenges or refinancing headwinds they have there. We really aren't seeing any challenges.

Again, we're starting with the biggest retailers in the world here, generally, that have large a liquid balance sheet and are primarily investment grade, or if you ran them through some risk calc, would spit out investment grade. Some of them, frankly, have no debt, the private or unrated retailers. So we're not seeing any of that flow through yet.

If we see a material slowdown in consumers -- again, in the consumer behavior, I would tell you, it'd probably inure to the benefit of the retailers in our portfolio due to the trade-down effect.

Operator

The next question comes from Rob Stevenson with Janney.

Rob Stevenson | Janney

Joey, looks like you added a few CVSs in the quarter. What has you adding pharmacy given the issues in the store closures going on in that space?

Joey Agree | Agree Realty Corporation | President & CEO

Well, the store closes are very specific here. I mean, if you go through the major pharmacies, Rite Aid, obviously, with the bankruptcy; Walgreens, which we've called out now for years and reduced to a de minimis piece of our portfolio, used to be a top tenant for us, going through their challenges. CVS store closures are primarily stores that are high occupancy rates and, frankly, lease expiration. We're targeting and worked jointly with our retail partners for low-basis assets. Those are low rents per square foot, high-performing stores, blend and extends and/or ground leases.

At the same time, our pharmacy exposure now is fairly de minimis. I mean, it's down to 4.4% in the aggregate. That's including the three Rite Aids of the overall portfolio. When you look at it relative to any peers, or most peers, I would tell you that's on the very low end.

And so we've curated now a pharmacy portfolio which we think has the cost structure to be successful in an omnichannel world, and also but in a vertically integrated healthcare world. And so we work closely specifically with the tenants in the pharmacy space, and there's only one that we acquire, to identify high-performing stores and/or opportunities that are, frankly, very different than the $350,000 to $400,000 per year in rent prototypical suburban pharmacy with a competitor across the street.

Rob Stevenson | Janney

Okay. That's helpful. And then given the commentary on asset pricing and given that you have this grocery box that's soon to be vacated, how much demand is out there in the marketplace to sell vacant assets today? Who's buying those? I mean, you've talked about the cap rate inflation on existing performing assets. For nonperforming assets and vacant assets, how is that market? Is that something that's gone south even faster? How should we be thinking about that?

Joey Agree | Agree Realty Corporation | President & CEO

It's really case-specific, Rob. If you have a fungible box -- the one asset that Peter referenced in the grocery space we took an impairment on was a small format, rural grocery store acquired several years ago in the grocer's hometown. It was a very, frankly, rare store closure for them and has caused some upheaval in that -- frankly, in that community. But they had a second store in the community, which they thought was more viable on a go-forward basis.

In terms of asset pricing for vacant box, it's really all over the board based upon what the -- obviously, with the demographics and transactional activity and, really, that micro submarket looks like, but also the fungibility of that box. And so the adaptive reuse of the box, which we always stress here, is we wanted at the end of the day, if and when we were to have a vacancy, to have a fungible box that has a strong demand curve to it on the backside for uses.

So if you have a large format vacant box today, and I'll say large format being anything over 40,000 feet, you're going to most likely have challenges. If it's a smaller box, again, in reference to our three Rite Aids, if we were to get those back, we're going to have significant demand. And so a lot of it is related to the adaptive reuse of the box.

Redeveloping larger boxes, cutting them up today with the cost challenges, is very challenging. That's not something that we'd want to endeavor on. And so again, we're focused on those smaller assets that have the high-quality tenancy in place, but also the residual that we can get our arms around.

Rob Stevenson | Janney
And to be clear, the grocery box, you're looking to sell that? Or are you in the process of trying to re-tenant that?

Joey Agree | Agree Realty Corporation | President & CEO
That will most likely be a disposition.

Operator
The next question comes from Al Fegin with Baird.

Al Fegin | Robert W. Baird & Company
The first one is, does ADC specifically target investment-grade tenants? And what is the competition like for those deals right now relative to the beginning of the year?

Joey Agree | Agree Realty Corporation | President & CEO
We've always said that's really an output -- our rating, our investment-grade rating, is really an output focusing on the 30 to 35 best retailers in the country. We have a number of retailers that we're actively targeting and/or working with, Hobby Lobby, Publix, Ulta, in the portfolio today. And in the future, the don't carry -- Chick-fil-A being another one that we actively target and work with. So that's really an output for us. What was the second question?

Al Fegin | Robert W. Baird & Company
It's on the competition for those investment-grade type --

Joey Agree | Agree Realty Corporation | President & CEO
Very little. Yes. Very little today. At the price points we're competing at, it's with the rare 1031 or private buyer, which has slowed down dramatically. And so there's very little competition except sellers' expectations themselves in this environment.

Al Fegin | Robert W. Baird & Company
Okay. Helpful. Thank you. On the two development deals you guys signed this quarter, was that in the later half of the quarter or closer to the beginning?

Joey Agree | Agree Realty Corporation | President & CEO
Peter, do you have that off hand?

Peter Coughenour | Agree Realty Corporation | CFO
I don't have the timing for those two specific projects off hand. No.

Joey Agree | Agree Realty Corporation | President & CEO
Yes. We can get back to you, Al, on the specific timing.

Operator
The next question comes from Ronald Kamdem with Morgan Stanley.

Ronald Kamden | Morgan Stanley & Company
Just two quick ones. So one on the pipeline. I think you talked about over seven coming through. Just curious, does this pipeline look any different from what it did early in the year, whether in terms of size or tenant mix? Just trying to figure out how that pipeline has shifted, if at all.

Joey Agree | Agree Realty Corporation | President & CEO
Tenant mix is the same as you've seen throughout the year and will continue to be similar as we've executed in years past. Size, again, is really at our election, subject to where we think the appropriate risk-adjusted spreads are. So we have a number of assets that are currently under properties that are currently under control. We'll make decisions.

We're nonrefundable on purchase agreements, we have letters of intent executed. Given the rapid rise in the 10-year and the relative cost of capital, we'll make decisions in the upcoming weeks on whether or not we want to pursue those acquisitions to close or we want to be patient and remain disciplined capital allocators.

Ronald Kamden | Morgan Stanley & Company
Great. And then on the ground leases acquired during the quarter as well as the portfolio, maybe can you talk about, are those cap rates behaving any differently from the rest of the market? And what opportunities -- or how are you seeing opportunities shake out on the ground lease front?

Joey Agree | Agree Realty Corporation | President & CEO
Yes. Really no differentiated behavior than the rest of the market. I'd tell you, right now, our Q4 pipeline has a -- and that could change based upon the election what we proceed with as well as what we source. Our Q4 pipeline has a material component of ground leases. But it's been pretty consistent throughout the year at that, call it, that 8-plus or minus percent, but no true differentiated trends that you can see there versus standard or typical net leases.

Operator
The next question comes from Linda Tsai with Jefferies.

Linda Tsai | Jefferies Group, LLC
What percent of your deals have been sale leasebacks year-to-date? And would you expect that to grow as a percentage headed into next year?

Joey Agree | Agree Realty Corporation | President & CEO
Linda, so this year, approximately 25% of our transactions have been sale leaseback. That's in comparison to historic couple -- past years here, it was about 10%. We're always working with retailers on potential sale leaseback transactions.

We did a couple of new -- worked with a couple of new retailers this quarter on sale leaseback transactions, most notably in the farm and rural supply space. We'll continue to evaluate that market. We're engaged in active dialogue. And again, it comes down to cap rate and risk-adjusted returns for us.

Linda Tsai | Jefferies Group, LLC
And then how do you think about the retailer environment right now? I think people thought we might have been in a recession by now, but clearly, that hasn't happened. And so do you feel better about the overall consumer environment now versus, say, a quarter ago?

Joey Agree | Agree Realty Corporation | President & CEO
It's been a long 90 days. It's tough to remember a quarter ago. Look, I think we have talk of hard landings again. I think we're looking at a consumer that is really trifurcated and not bifurcated. I think we're seeing pressure on that consumer with multiple different data points. And so it's a unique -- look, this is a unique and one-of-a-kind environment that we've never been through in history.

I'm not going to pontificate or guess in the probability of a hard landing or soft landing or no landing at all. But I do think we're going to watch the consumer. But I think most importantly, again, this is not a discretionary-based portfolio. It's not an experiential-based portfolio. This is a portfolio that consists primarily of core brick-and-mortar goods and services with the largest retailers in the country.

So if and when that consumer weakens significantly, I would expect the retailers, the largest retailers in the world that are contained within our portfolio, to outperform and take share. And that's been the consistent theme that we've seen all year even in the absence of a recession, is these retailers that have the balance sheets to invest in price, fulfillment strategies as well as labor are taking market share from smaller retailers today.

And so those three strategies of investment are really taking hold. We see it in Walmart's prints. We see it in Home Depot's prints. We see it in Lowes' prints. We see it in all the larger retailers out there today, are still successfully navigating this environment for the most part.

And so again, if we had an experiential or discretionary-based portfolio or a luxury-based portfolio, I would be concerned. I think ultimately, if and when we do enter into a recession, the retailers in this portfolio will benefit.

Operator

This concludes 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, thanks, everybody, for joining us today. We look forward to talking to you or seeing you in the near future, and we appreciate everybody's time. Thanks again.

Operator

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