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A Small but Beautiful REIT

By [Louis Wolfowitz](#)
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Market Overview



DJIA 10328.89
 0.2 ↑ 20.63
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S&P 1102.47
 0.58 ↑ 6.4
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NASDAQ 2211.69
 1.45 ↑ 31.64
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Agree Realty (ADC:NYSE)	BULLISH
Price: \$26.96 52-Week Range: \$26.01-\$31.88	
<ul style="list-style-type: none"> • Agree has one of the most conservative balance sheets in the REIT industry and a 7% dividend yield. • Agree hopes to increase both the volume of its development activity and the size of the buildings. • A relative sapling in the REIT forest, Agree may favor the small investor. 	
Position: None	

It's easy to get lost in REIT-land, there being more than 120 publicly traded real estate investment trusts. Most of the attention in this sector is captured by the "brand name" companies, such as Simon Property Group ([SPG](#) - [commentary](#) - [Cramer's Take](#)), Equity Office Property Trust ([EOP](#) - [commentary](#) - [Cramer's Take](#)) and Boston Properties ([BXP](#) - [commentary](#) - [Cramer's Take](#)). But REITs come in all shapes and sizes, and sometimes the smaller ones that fly under the radar offer the greatest opportunity for investors.

That's the story with Michigan-based small-cap REIT Agree Realty ([ADC](#) - [commentary](#) - [Cramer's Take](#)) (pronounced AY-gree). With a total market capitalization (market value of equity plus debt and preferred stock) of just under \$300 million, Agree has built a successful 10-year track record by avoiding a "growth for growth's sake" approach.

Agree owns 56 properties, almost all of which are free-standing single-tenant buildings leased to leading national and regional retailers. As of the end of the third quarter, the portfolio's occupancy was over 98%. Half

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of Agree's rental income comes from Borders Group ([BGP - commentary - Cramer's Take](#)) and investment-grade-rated Walgreen ([WAG - commentary - Cramer's Take](#)). Another 15% comes from the former Kmart Corp., whose credit has improved considerably with its transformation into Sears Holdings ([SHLD - commentary - Cramer's Take](#)). In all, nearly 90% of its rental income is derived from retailers with a national footprint.

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Although Agree is commonly seen as a shopping-center REIT, it has more in common with REITs that invest in net lease properties; other REITs of this type invest in such diverse property types as bank branches, movie theaters, convenience stores and fast-food restaurants. In each case, the properties are leased on a long-term (20 years or more) triple-net basis, meaning that the tenant is responsible for all of the costs of operating the property, including maintenance, real estate taxes and insurance. The landlord's responsibility is pretty much limited to collecting the rent every month. Basically, Agree provides a service to its retailer clients by providing them with long-term real estate solutions.

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Wolfowitz had no positions in stocks mentioned at the time of publication. An employee of Cushman & Wakefield serves on the board of directors of Agree Realty Corporation.

Louis Wolfowitz is a managing director in Cushman & Wakefield's Capital Markets Group and leads the firm's real estate securities research business. Prior to joining Cushman & Wakefield, he was a Senior

Vice President in the Business Development Group at GE Real Estate (GE Capital). Previously, Wolfowitz was an investment banker with Merrill Lynch & Co., Smith Barney, and Donaldson, Lufkin and Jenrette. He is a registered securities principal, an NASD-qualified research analyst, and a licensed real estate broker in New York.

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