EDITED TRANSCRIPT

Agree Realty Corporation's
Third Quarter 2014 Earnings Conference Call
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CONFERENCE CALL PARTICIPANTS

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PRESENTATION

Operator
Good morning, ladies and gentlemen, and welcome to Agree Realty Corporation's Third Quarter 2014 Earnings Conference Call. During today's presentation, all parties will be in a listen-only mode. Following the formal presentation, the conference will be opened for questions.

As a reminder, this conference is being recorded.

It is now my pleasure to introduce Joey Agree, President and Chief Executive Officer of Agree Realty Corporation. Mr. Agree, you may begin.

Joey Agree *Agree Realty Corporation - President & CEO*
Thank you, and good morning, everyone, and thank you for joining us for Agree Realty's Third Quarter 2014 Conference Call.

Joining me today is Brian Dickman, our Chief Financial Officer.

Overall, I'm very pleased with the Company's performance in the quarter. All three of our external growth platforms produced exciting real estate opportunities. Our acquisition volume of over $41 million was a record pace. We completed two developments for industry-leading restaurant operators, as well as our joint venture Capital Solutions project in New Lenox, Illinois. Meanwhile, our continued focus on disciplined capital deployment has enabled us to scale and diversify the portfolio, generate earnings growth, and maintain a strong balance sheet.

As we look to the end of 2014 and into 2015, we are enthusiastic about our investment pipeline. We are currently going through diligence on a robust set of opportunities, including potential transactions in the gas and convenience store, quick service restaurants, auto parts, auto service, and sporting goods, among other retail sectors.

Our investment teams continue to do a great job of sourcing transactions that meet our underwriting criteria, and we look forward to building off the momentum we established in the third quarter.

Before I summarize the quarter, a few thoughts on our year-to-date activities.

Thus far in 2014, we've added 33 properties to our net lease portfolio, which now spans 22 diverse retail sectors. Net of dispositions, we have increased annual rental income by over 13%, while reducing the rental income generated by our top 10 tenants from 65% to 58% and reducing exposure to Michigan from 36% to 30%. This has resulted in higher quality and more diversified revenues while generating 4.5% year-to-date growth in both FFO and AFO per share.

As announced earlier this quarter, we also closed on our new $250 million credit facility. This facility provides us the additional balance sheet capacity and flexibility to accommodate our growing platforms.

Subsequent to quarter end, we announced the disposition of another non-core shopping center, Petoskey Town Center, which further improves our earnings quality. The recent addition of Hobby Lobby to the asset provided for the opportune time to divest and redeploy the capital into our core net piece business. With this disposition, rental income derived from our shopping center portfolio has decreased to 11% and rent attributable to Kmart has been reduced to 3.9%.

At quarter end and pro forma for the sale of Petoskey Town Center, our portfolio consisted of 161 properties in 35 states and encompassing approximately 4.1 million square feet of growth leasable area. The portfolio was 98.5% occupied and consisted of 154 retail net lease assets, which generated over 89% of our annualized base rent and seven community shopping centers, which generated the remainder.

You'll note in our press release that we took the additional step of breaking out our net lease properties that are ground leased to tenants. These properties generate approximately 11% of our annualized base rent and generally command a significant market premium as a result of the ground lease structure.

While Agree is a fee simple owner of these properties, the tenants have invested significant capital to construct their site improvements and buildings. Approximately 89% of our ground lease rental income is derived from investment-grade retailers, such as Wal-Mart, Lowe's, Chase Bank, Wawa, and McDonald's. These leases have a weighted average of 14.8 years of lease term remaining.

As of September 30, the Company's total portfolio had a weighted average remaining lease term of approximately 11.6 years, which increases to 12.5 years specifically for the net lease portfolio. Investment-grade retailers generated approximately 58.4% of annualized rent across the entire portfolio and approximately 64.5% when looking specifically at the net lease assets. This quarter's acquisition volume was a record $41.3 million and included a 13-property Taco Bell portfolio leased to Charter Foods North, as well as properties leased to Giant Eagle, Bridgestone/Firestone, 24 Hour Fitness, Golden Corral, and Giant Gas. These 18 properties were acquired at a weighted average cap rate of 8.14% and carried a weighted average remaining lease term of almost 16 years.

These acquisitions are consistent with our deliberate strategy of acquiring high-quality properties leased to leading retailers operating in e-commerce and recession-resistant sectors. All of these tenants are new to the Company's portfolio.

On the development front, during the third quarter, the Company completed projects for Buffalo Wild Wings in St. Augustine, Florida and McDonald's in East Palatka, Florida. Both restaurants were delivered ahead of schedule and held their respective grand openings in September. Buffalo Wild Wings is on a net lease through September 2029, and McDonald's is on a 20-year ground lease that expires September of 2034. These projects represent the Company's first Buffalo Wild Wings development and the second ground lease development for McDonald's.

In addition, TJ Maxx, Petco, and Ross Dress for Less have all opened for business at the Company's Joint Venture Capital Solutions project in New Lenox, Illinois. Our development and construction team did an outstanding job on this project, delivering it both timely and on budget despite the difficult conditions experienced this past winter. We are excited to add these three new tenants to the Company's portfolio and look forward to growing our relationship with each of them.

Work continues on our JVCS project in Burlington, Washington, and we expect to deliver the building ahead of schedule. This property is preleased to Cash & Carry under a 15-year net lease, and we anticipate rent to commence late in the fourth quarter.

Lastly, leasing activity during the quarter was also significant. In addition to Staples executing a five-year lease extension to remain at the Company's Central Michigan Common Shopping Center until July 2020, the Company also executed new leases or extensions for an additional 21,000 square feet of small shop space within the shopping center portfolio.

We also filled an 8,000-plus square foot vacancy adjacent to the Company's recently acquired Academy Sports in McKinney, Texas. We acquired this asset in June, having underwritten the vacancy but were quickly able to lease the space to Texas Archery Academy and increased NOI at the property by approximately 5% in less than two months post-closing. It is transactions such as this that differentiate our firm in the net lease space. We are able to leverage our relationships and real estate capabilities to immediately enhance value.

With that, I'll turn it over to Brian to discuss our financial results.

Brian Dickman *Agree Realty Corporation - CFO*
Thanks, Joey. Good morning, everyone.

As a reminder, please note that during this call, the Company 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. In addition, we discuss non-GAAP financial measures, including funds from operations, or FFO, and adjusted funds from operations, or AFFO. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures can be found in the Company's earnings release.

As announced yesterday, for the third quarter of 2014, the Company reported rental revenue of $12.6 million, an increase of 21.2% over Q3 2013. FFO for the quarter was $8.3 million, an increase of 14.7%, and AFFO was $8.4 million, an increase of 13.7% over 2013.

On a per-share basis, FFO of $0.55 and AFFO of $0.56 represented increases of 1.8% and 1.9%, respectively, over Q3 2013.

For the nine months ended September 30, 2014, revenue of $36.1 million was up 21% over the comparable period in 2013. FFO of $24.3 million and AFFO of $24.8 million were both up approximately 19% over the nine months ended September 30, 2013. And on a per-share basis, year-to-date FFO of $1.61 and AFFO of $1.64 each increased by approximately 4.5% over the same period in 2013.

The Company sold one property in the third quarter for a gross sales price of $1.8 million, incurring a loss of approximately $293,000 as a result of the sale. The property, a land parcel under a third party-owned Rite-Aid in East Lansing, Michigan, was subject to a purchase option held by the ground lessee.

Moving on to the balance sheet, the Company continues to maintain a very strong credit profile. Total debt to total market capitalization at September 30 was approximately 35%, and debt to EBITDA was approximately 5.2 times. These metrics are comfortably within our targeted leverage levels of 30% to 40% and 4.5 to 5.5 times, respectively, an imply a balance sheet with additional capacity for growth.

Fixed charge coverage, which includes principal amortization, was robust at 3.3 times. The Company has no debt maturing in 2014 or 2015 and only one $8.6 million loan maturing in 2016.

As mentioned previously, we closed on a new $250 million unsecured credit facility early in the third quarter. The transaction included a new $150 million revolver, a new $65 million seven-year term loan, and conforming amendments to our existing $35 million term loan. We're very pleased with the new facility and the increased borrowing capacity and additional flexibility it provides us as we continue to grow the Company. We appreciate the support of the eight financial institutions that participated in the transaction.

Finally, the Company paid a dividend of $0.43 per share in the third quarter, or $1.72 on an annualized basis. This represents the Company's 82nd consecutive cash dividend. Our payout ratios, currently at 78% of FFO and 77% of AFFO, are at the lower end of the Company's target ranges and imply a very well-covered dividend.

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

Joey Agree, *Agree Realty Corporation - President & CEO*
Thank you for the update, Brian.

In conclusion, it was a very strong quarter for the Company as we remain dedicated to executing our operating strategy. We continue to strategically deploy capital in a disciplined manner, improving and diversifying our portfolio while maintaining a best-in-class balance sheet. We look forward to delivering more of the same results as we close 2014 and move into 2015.

At this time, we'd like to open it up for questions.

QUESTIONS AND ANSWERS

Operator
Thank you. We will now begin the question-and-answer session.

RJ Milligan*, Raymond James - Analyst*
I was wondering if you could give a little bit more color on the disposition of the Petoskey Town Center, the thought process there. I know you guys had recycled out of the lower quality shopping centers that you wanted to get rid of out of the portfolio over the past couple years. I'm just curious about the thought process in terms of timing today as to what prompted that sale.

Joey Agree *Agree Realty Corporation - President & CEO*
Sure. I think back in 2012, the vacant grocer provided an opportunity for us to backfill that box, which was approximately 50,000 square feet. Upon executing the lease for Hobby Lobby, doing some minor TI work and Hobby Lobby opening for business, we thought it provided the opportune time, as I mentioned in the prepared remarks, to market the asset for disposition, and that's exactly what we did, transacting on it just subsequent to the quarter close.

RJ Milligan*, Raymond James - Analyst*
And how much were the TI’s to put in the Hobby Lobby?

Joey Agree *Agree Realty Corporation - President & CEO*
Pretty minimal on the TI end. It involved some miscellaneous roof repairs and some HVAC units, so it was essentially an as-is deal for Hobby Lobby. They put their own capital in the store and executed a new 10-year lease, which really provided the opportune time to monetize and redeploy into the net lease portfolio.

RJ Milligan*, Raymond James - Analyst*
Looking at acquisitions, first purchase here in Colorado, curious as to if you're going to be more aggressive in terms of diversifying geographically. I know you've obviously been focused on diversifying the tenant base, but just curious as to how you're thinking about your geographic exposure.

Joey Agree *Agree Realty Corporation – President & CEO*
Yes, that's a great question. We look at diversification in three ways. First, and most importantly, by tenant; second, by sector, where we've, of course, been focused on, really e-commerce resistant and recession-resistant tenants; and then, third, geographically.

That said, as I mentioned earlier in the call, from a geographic perspective we've made significant inroads. We diversified away from our home state of Michigan, which now represents less than 30% of the total ABR for the portfolio, and today we're really broadly represented across the continental United States.

So we're pleased to add Colorado to the map. I can tell you that geographic location itself is not a driver for us. That said, we're cognizant of continuing to diversify the portfolio, and we're looking at a number of assets spread throughout the continental United States.

RJ Milligan*, Raymond James - Analyst*
Okay, thanks, Joey. And just one more question on the development side. Obviously, you guys have a couple of projects a year that you announce, and we're not really building any new malls, very few shopping centers, and I'm just curious what the development demand is from retailers out there for more of the single tenant type properties and if you're seeing a pick-up there in terms of demand for new projects.

Joey Agree *Agree Realty Corporation - President & CEO*
Another good question, and that really varies by sector and by tenant. So we've seen some significant slowdown in terms of obviously big box and home improvement retailers. Pharmacy retailers have slowed down post-recession. But at the same time, auto, auto service, and tire stores have ramped up development. We've seen wholesale clubs ramping up development. Restaurant operators focused in the quick service sector. Buffalo Wild Wings is a good example of a casual dining operator. So it varies pretty dramatically across sectors. We've seen some exponential growth in terms of dollar stores, obviously.

We're really focused on working with both existing tenants in our portfolio, such as Buffalo Wild Wings and McDonald's, but also new tenants that have significant plans for geographic expansion, as well as relocation of older profitable locations. Another sector that's expanding pretty rigorously throughout the country is the gas and C-store space, and obviously, we have our relationship with Wawa, but you can look at a number of those regional operators, which continue to expand pretty aggressively, rolling out larger store formats in 4,000 to 5,000 square feet with multiple fuel dispensers.

RJ Milligan*, Raymond James - Analyst*
Okay, and I know acquisitions has been the big driver for growth over the past couple of years, and given that development backdrop, would you expect development to be a larger contributor? At least, would you expect it to announce more projects than average that we've seen over the past couple years going forward or given the size of the organization, assuming that we're going to see the same number of development projects announced?

Joey Agree *Agree Realty Corporation - President & CEO*
That's a very good question. I think it depends on a multitude of factors, and I think, most importantly, our capabilities and the diverse capabilities, and our ability to deploy those capabilities across acquisitions, development, as well as joint venture, provides us a number of unique opportunities., Projects such as the Burlington JVCS project, the New Lenox JVCS project, where we can bring skills and experience to the table to unique types of structures.

That said, we have a number of relationships that we're working on in the development arena. Obviously, nothing that we've announced to date, nothing that shows up in CIP or, frankly, some of them don't even

have leases signed to date. But we're working with a number of retailers on an organic development basis, which have expressed interest in some pretty significant growth.

Now, whether those opportunities materialize is another thing. We don't fully control that. There's entitlement hurdles. There are, obviously, macroeconomic conditions which can change retailers' priorities.

So to look at it today, I think, is premature. I think we'll see throughout the course of the remainder of 2014 and throughout the course of 2015 how some of those relationships play out. We're very excited about them. Some are smaller opportunities on a dollars per asset. Some of them are larger opportunities. But we're really focused on converting those going into 2015 and, hopefully, having some announcements which will bring some new tenants and, again, some existing tenants back in the fold.

RJ Milligan*, Raymond James - Analyst*
All right. Thanks, guys.

Joey Agree *Agree Realty Corporation - President & CEO*
Thanks, RJ.

Craig Kucera*, Wunderlich Securities - Analyst*
I jumped on the call a little bit late, so I might have missed this. You did have record acquisition volume and referenced that. Can you discuss what drove the acceleration? Did pricing or spreads improve and you put more bids out, or did you just happen to win a greater percentage of the bids that you would typically have out there?

Joey Agree *Agree Realty Corporation - President & CEO*
I think, first, we aren't traditional buyers in the sense that we're out there in an auction-like environment putting bids forward. I wouldn't think of our acquisition platform in that context. Do we have competing offers for properties at times? Sure. But we're really focused on sourcing through relationships with brokers, direct to developers, general contractors, a number of different avenues, opportunities that are pretty unique.

I think the volume in the quarter was obviously driven by the Taco Bell sale leaseback with Charter Foods North. That was almost $20 million. That was a historical opportunity we've been tracking in conjunction with a franchise finance advisor and working with the franchisee for, frankly, upwards of three quarters. That transaction really manifested itself with a different purchaser later in the game, a different purchaser on the operator side, and our participation in the sale leaseback really came to fruition because of our knowledge of the assets, as well as some intricacies with the transaction. So I think that was approximately 50% of the volume.

And I would tell you that the remainder of the volume was one-off opportunistic transactions that we were able to source during the quarter. The Giant Eagle in Ligonier, the Bridgestone in Columbus, Giant Gas. Golden Corral was a relationship transaction we participated with another acquirer. And then the 24 Hour Fitness was a transaction that was sourced really in the first quarter and had to go through the CMBS debt assumption process, and was able to close in the third quarter.

So I think the volume isn't related to any change either from external or internal conditions, but just transactions materializing, and frankly, the growth of our platform and the growth of our pipeline, which continues to engender itself to the investment sale community, the development community, and as we saw with the Taco Bell, with the franchise restaurant community.

Craig Kucera, *Wunderlich Securities - Analyst*
No, that makes sense, and I appreciate the color. I guess asked differently then, with the transactions that you originated during the quarter, did you see any change in pricing? Your average cap rate was still in the 8%-plus range. Did you see any movement there, though, with the things you were looking at as the 10-year sort of drops throughout the quarter?

Joey Agree *Agree Realty Corporation - President & CEO*
No, I think the investment sale community isn't attuned to the 10-year dropping or, frankly, raising that quickly. I think it takes time for interest rate fluctuations to really roll through to cap rates. How much of a lag is for debate, but I don't think the volatility in the 10-year directly affected pricing. I think in terms of our metrics for the quarter, we were right where we anticipated to be, and we were operating, frankly, to plan.

Craig Kucera, *Wunderlich Securities - Analyst*
Got it. Great. Thanks. Appreciate the color.

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

Dan Donlan *Ladenburg Thalmann*
Joey, just really quick on the cap rate you guys cited year to date. I think it was 8.21%. That's a GAAP cap rate, I would imagine. What's the cash cap rate for your year-to-date acquisitions?

Joey Agree *Agree Realty Corporation - President & CEO*
Correct. That 8.21% is a GAAP cap rate. On a year-one basis, you can think of these as mid to high 7s.

Dan Donlan *Ladenburg Thalmann*
Okay, perfect. And then as far as -- I'm kind of blanking right now on the next question I had -- but as far as the sale of the shopping center goes, what's the cap rate range on that? I'm sorry if you provided. I got on the call a little bit late.

Joey Agree *Agree Realty Corporation - President & CEO*
No, that's okay. There's a few different ways to look at that since Kmart had lease maturing in November of next year. We look at that on a semi-stabilized basis in the mid-teens.

Dan Donlan *Ladenburg Thalmann - Analyst*
Okay. And then as far as the additional disclosure you provided, really appreciate that. How should we think about the ground lease assets in terms of where to value those for your net asset value versus the ones that are just straight single tenant where you own the entire building and everything? I realize the ground leases are almost 90% investment grade, so that probably makes them worth even more, but what's a general rule of thumb for a delta and how we should value the ground leases versus leases where you own the land and building?

Joey Agree *Agree Realty Corporation - President & CEO*
Yes, that's a great question. A general rule of thumb is 75 basis points inside a turnkey lease, and that's pretty broad. Now, when you get into some of the lower price points, typically sub-$2 million ground leases, a number of which we have in here, the JP Morgan Chase ground leases, the PNC ground leases, the McDonald's ground leases, some of the Wawa ground leases, those can be even further -- frankly, inside of that -- outside, I would say, of that 75 basis -- greater than 75 basis points inside of those turnkey transactions.

I think, in general, our ground lease portfolio, as you mentioned and as we disclosed this quarter, you're talking about assets that are 90% investment grade, almost 15 years of weighted average term remaining. Typically, those assets have anywhere from 5% to 10% bumps every five years, so there's a significant GAAP step-up to the cap rate, anywhere from a 50 to 125 basis points. If you marked those assets to market today, those are five cap assets. We don't spend a ton of time marking them to market, but there is a significant and serious appetite out there from 1031 buyers, from private investors that want to park capital, and frankly, investors that like to see their tenants shoulder to shoulder in terms of the investment.

I think another thing that really differentiates this ground lease portfolio, as well, a number of these opportunities not only did we not -- not only did the tenant deploy the capital to construct the buildings; they also constructed their own site improvements. So what you see is a lot of times tenants really -- tenants with a significantly lower cost of capital than we do or, frankly, any REITs do, JP Morgan Chase, McDonald's, Wal-Mart, PNC, really leveraging our real estate expertise all the way from site selection to entitlement and permitting expertise. We will then take down the land, potentially demolish any existing structures, and then turn over the project to those retailers. So their capital contribution to the project, inclusive of both site improvement as well as vertical construction, often exceeds ours, and the Palatka McDonald's is a perfect example of that. That was a multi-parcel assemblage, offsite detention, some entitlement work that was, I'll call it, semi-difficult to procure. After that, we really turned that project over to McDonald's, and they constructed their own building, put in their own improvements, and their investment exceeds ours there. So you see a number of investors, obviously, who are attracted to that type of lease structure also attracted to the amount of the investment that the retailer has in there.

Dan Donlan *Ladenburg Thalmann - Analyst*
Okay. Thank you, Joey.

Joey Agree *Agree Realty Corporation - President & CEO*
Thanks, Dan.

Operator
As there's no further questions, this concludes our question-and-answer session. I would like now to turn the conference back over to Mr. Joey Agree for any closing remarks.

Joey Agree *Agree Realty Corporation – President & CEO*
Thank you very much. That about wraps it up. Again, I'd like to thank everyone for joining us. We look forward to speaking with you when we report fourth quarter and full-year 2014 next year. Thank you.

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