EDITED TRANSCRIPT

Agree Realty Corporation's
Second Quarter 2017 Earnings Conference Call
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CORPORATE PARTICIPANTS

Joey Agree, *Agree Realty Corporation - President & CEO*
Ken Howe, Agree Realty Corporation – Interim CFO

CONFERENCE CALL PARTICIPANTS

Collin Mings; *Raymond James*
Nick Joseph; *Citigroup*
Will Harman; *Robert W. Baird*
David Corak; *FBR Capital Markets*
Rob Stevenson; *Janney Montgomery Scott*
Dan Donlan; *Ladenburg Thalmann & Co.*
George Hoglund; *Jefferies LLC*
Todd Stender; *Wells Fargo Securities*
Ki Bin Kim; *SunTrust Robinson Humphrey*

PRESENTATION

Operator
Operator: Good morning, and welcome to the Agree Realty third quarter 2017 conference call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note this event is being recorded.

I would now like to turn the conference over to Joey Agree, President and CEO. Please go ahead, Joey.

Joey Agree
Thank you, operator, and good morning, everyone. Thank you for joining us for Agree Realty's third quarter 2017 earnings call. Joining me this morning is Ken Howe, our interim Chief Financial Officer.

I am pleased to report another strong quarter as we continue to execute on our operating strategy. During the quarter, we further strengthened our industry-leading portfolio through high-quality investment activity and proactive asset management, while also solidifying our leading balance sheet through strategic capital market transactions.

While our real estate transactional activity has continued to scale, our focus on building our Company via people, processes and systems are at its core.

We have added several outstanding key members during the past 12 months. This quarter we are very pleased to have welcomed Phil Carbone to our team as Director of Transactions. Phil has over 15 years of extensive experience in real estate transactions, including acquisitions and dispositions, leasing, financing and sale leaseback. Phil has made an immediate impact to facilitating our transactional activity and we are lucky to have him on board here at Agree.

With 32 team members today, we've more than doubled the size of our team since 2015. We've added key personnel in accounting, construction, development and diligence.

Notably, we've increased the size of our acquisition team from 2 people in 2015 to 7 team members today.

While building our team to scale, we've also managed to reduce our G&A as a percentage of total revenues by roughly 240 basis points since the beginning of 2015, and approximately 600 basis points in the past 5 years.

Likewise, our focus on systems improvements have begun to bear fruit. During this past year, we have automated accounts payable, implemented a CRM system, enhanced our project management capabilities and installed a comprehensive data warehouse and planning analytics software.

We have also worked to streamline and improve processes. Our operational team has been undergoing lean training, working to eliminate waste and optimize all areas of our business. Similarly, we have launched a professional development program to build, coach and mentor our growing management team.

While these initiatives don't directly show up in our results, they have positioned our Company to best manage its current, as well as anticipated future growth.

Moving on to our standard update -- in the third quarter, we invested $69 million in 19 high-quality retail net lease properties via our 3 external growth platforms. Of those investments, 14 properties were sourced through our acquisition platform, resulting in total acquisition volume of approximately $55 million for the quarter. The properties were acquired at a weighted average cap rate of 7.4% and had a weighted average remaining lease term of 11.2 years.

Of note, 44% of rent acquired during the quarter comes from ground lease properties, where the Company owns the fee simple interest in the real estate and the tenant has paid for and constructed their building and/or improvements.

The acquired properties are located across 12 states and are leased to 12 industry-leading tenants. These tenants operate in 9 sectors, including off-price retail, convenience stores, auto parts, tire and auto service, health and fitness and home improvement.

The properties acquired during the quarter derived 64% of annualized base rent from investment-grade tenants and include Lowe's, T.J. Maxx, Burlington Coat Factory, O'Reilly Auto Parts and AutoZone.

Through the first 9 months of the year, we have invested in 70 properties in 29 states, representing record investment volume of $279 million. Of the $279 million invested year-to-date, we sourced a record $239 million through our acquisition platform.

The 61 properties acquired through the first 3 quarters are leased to 45 sector-leading retail tenants operating in more than 20 sectors. Over half of the properties that we've acquired year-to-date are leased to investment-grade retail tenants.

Given our record acquisition volume through the first 9 months of the year and our healthy pipeline, we are increasing our 2017 acquisition guidance to a range of $300 million to $325 million.

While able to raise our acquisition guidance for the year, I want to stress that we remain disciplined through our rigorous underwriting standards that emphasize retail real estate fundamentals, including adaptability, retail synergy, visibility, demographic trends, traffic patterns and access.

We combined our bottoms-up analysis of real estate fundamentals with an acute focus on industry-leading retailers in sectors that have a compelling omni-channel platform, a value-oriented business model or a service component.

Our Company has achieved record investment volume through the first 3 quarters while deploying capital into assets that are of the highest quality. We anticipate this distinct focus on quality to not only remain consistent, but become even more stringent. We do not view it as prudent to move up the risk curve in a dynamically changing environment.

Our focus has served to strengthen our best-in-class portfolio and increase exposure to leading e-commerce resistant and omni-channel retailers. Our current investment pipeline consists of a number of such high-quality opportunities that are driven by our holistic approach to retail net lease real estate investment. We are excited about, and look forward to, updating you on these opportunities as they come to fruition.

Turning to our development in Partner Capital Solutions platforms, we are pleased to announce that construction commenced on two new projects during the quarter. The Company's first project with leading Burger King franchisee, TOMS King, is underway in North Ridgeville, Ohio. The project, which is subject to a new 20-year net lease, is on schedule for our first quarter 2018 delivery. Total project costs are anticipated to be approximately $2 million.

Construction activity has also commenced in our third Camping World project in Grand Rapids, Michigan. Anticipated total project costs are approximately $9.6 million. The project is subject to a new 20-year net lease, and we anticipate rent to commence in full by the end of the second quarter of 2018.

During the quarter, construction continued on our three previously announced development in Partner Capital Solutions projects. The Company's first project with Art Van Furniture located on Ford Road in one of the state's dominant retail trade areas in Canton, Michigan, is progressing on schedule. We anticipate full rent to commence when the store opens in the first quarter of next year.

Construction is also ongoing in our two Mister Car Wash projects located in Urbandale, Iowa and Bernalillo, New Mexico. The projects, which represent the Company's first two ground-up developments with Mister Car Wash, are subject to two new 20-year net leases. We anticipate construction completion and rent commencement on both projects by the end of this year.

During the quarter, Orchard Supply Hardware in Boynton Beach, Florida celebrated its grand opening and commenced paying rent. Orchard Supply Hardware previously executed a 15-year net lease that is guaranteed by Lowe's Companies, which carries an A-minus credit rating from S&P. Along with Sunnyvale, California, this is the second Orchard Supply Hardware in our portfolio.

Year-to-date, we have nine development or PCS projects completed or under construction that represent more than $57 million of total committed capital. We are pleased with our performance through the first 9 months of the year and remain excited about the opportunities in our pipeline.

As demonstrated with Wawa, Mister Car Wash, Burger King, Camping World and other leading retailers, our ability to be a full-service net lease real estate solution makes us a compelling partner for growing retailers.

While we've had a record investment year across our three external growth platforms, we've also looked to strengthen and diversify our portfolio through disposition activity. These efforts continued in the third quarter as we sold four properties for gross proceeds of approximately $7.8 million.

Through the first 9 months of the year, we have sold 7 properties for total gross proceeds of approximately $30.4 million. These sales have resulted in an aggregated net gain of more than $10 million.

As a result of our disposition activities and the continued growth of our portfolio, our Walgreens exposure has been reduced to 8.5% at quarter-end, well below our stated goal of sub-10% by year-end. In just the past year, we've decreased our Walgreens exposure by roughly 420 basis points, down from 12.7% at the end of the third quarter of 2016. We are committed to bringing our concentration below 5% by year-end 2018.

Overall, pharmacy exposure fell to 13.2% at quarter-end, down from 17.5%, or roughly a 430-basis point reduction year-over-year.

Moving forward, we'll continue to look for opportunities to advantageously dispose of assets and redeploy capital, as well as divest of lower tier assets that aren't representative of our high-quality portfolio.

In addition to dispositions, our asset management team has been proactively addressing upcoming lease maturities. During the quarter, we executed new leases, extensions or options at approximately 48,000 square feet of gross leasable area.

Year-to-date, we've completed renewals or extensions on 25 pending lease maturities, including 5 leases that were set to expire in 2018, representing approximately 480,000 square feet of gross leasable space.

We have no remaining lease maturities in 2017 and our 2018 maturities currently represent just 1.3% of annualized base rent.

As of September 30, our growing retail portfolio consisted of 425 properties in 43 states. Our tenants are comprised primarily of industry-leading retailers operating in more than 28 distinct retail sectors. With 45% of annualized base rents coming from tenants with an investment-grade credit rating, the portfolio remains effectively fully occupied at 99.7% and has a weighted average remaining lease term of 10.5 years.

Today, our ground lease portfolio represents 8.2% of our portfolio's annualized base rents. 85% of these ground leases are with leading retailers that have investment-grade credit rating. The weighted average remaining lease term of our ground lease portfolio is greater than 12 years and continues to present an extremely stable attractive risk-adjusted return for our shareholders.

Thank you for your patience. And with that, I'll now turn it over to Ken to discuss our financial results for the third quarter. Ken?

Ken Howe:
Thanks, Joey. Good morning, everyone. As a reminder, please note that during this call, we will make certain statements that may be considered forward-looking under federal security law. 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 our earnings release.

As announced in yesterday's press release, total rental revenue, including percentage rents, for the third quarter of 2017 was $27.3 million, an increase of 22.6% over the third quarter of 2016. Year-to-date, total rental revenue has increased 26% over the comparable period in 2016 to $76.7 million.

General and administrative expenses were approximately 8.2% of total revenue, representing a decrease of roughly 20 basis points year-over-year as compared to 8.4% of total revenue in the third quarter of 2016. We anticipate that G&A as a percentage of total revenue will be around 8.5% for the full year.

Funds from operations for the third quarter was $20 million, representing an increase of 23.2% over the comparable period of 2016.

On a per share basis, FFO increased to $0.69 per share, a 1.6% increase as compared to the third quarter of 2016. Funds from operations for the first 9 months of 2017 was $55 million, representing an increase of 29% over the comparable period of 2016. On a per share basis, FFO increased to $2 per share, a 5.7% increase compared to the first 9 months of last year.

Adjusted funds from operations for the third quarter was $19.9 million, representing an increase of 26.2% over the comparable period of 2016. On a per share basis, AFFO increased to $0.69 per share, a 4.1% increase as compared to the third quarter of last year.

Adjusted funds from operations for the first 9 months of 2017 was $54.8 million, representing an increase of 29.8% over the comparable period of 2016. On a per share basis, AFFO increased to $2 per share, a 6.4% increase as compared to the first 9 months of 2016.

Turning to our capital markets activities -- we issued 589,093 shares of common stock through our after-market equity program during the quarter, raising gross proceeds of approximately $29.2 million. These proceeds were used to efficiently [match fund] our investment activities.

On September 20, we completed a private placement of $100 million principal amount of senior unsecured notes. The notes bear interest at a fixed rate of 4.19% and have a 12-year term, maturing on September 20, 2029. The all-in pricing represented 165 basis points above the 12-year interpolated U.S. Treasury curve at the time of pricing.

In addition to the private placement, we also entered into two separate uncommitted $100 million private placement shelf agreements during the quarter. The shelf agreements will allow us to issue additional senior unsecured notes to the investors at terms to be agreed upon at the time of any issuance. At quarter-end, no notes have been issued under the shelf agreement.

Our capital market activities are emblematic of our conservative approach to opportunistically accessing attractively priced capital and managing our balance sheet for continued growth.

As of September 30, 2017, total debt to enterprise value was approximately 25.2%. And our fixed charge coverage ratio, which includes principal amortization, was a healthy 4.1 times.

Furthermore, net debt to recurring EBITDA was approximately 4.7 times, below the low end of our stated leverage range of 5 to 6 times.

The Company paid a dividend of $0.505 per share on October 13 to stockholders of record on September 29, 2017. The quarterly dividend represents a 5.2% increase over the $0.48 per share quarterly dividend declared in the third quarter of 2016.

The Company has paid 94 consecutive cash dividends since its IPO in 1994.

Our quarterly payout ratios for the third quarter of 2017 were 73% of FFO and 74% of AFFO. Both payout ratios are at the low end of the Company's target ranges and reflect a very well covered dividend.

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

Joey Agree
Thank you, Ken. Our balance sheet is in a fantastic position to continue to execute our operating strategy.

At this time, we'll open it up for questions.

QUESTIONS AND ANSWERS

Operator
Thank you. We will now begin the question-and-answer session. (Operator Instructions). Collin Mings of Raymond James.

Collin Mings
To start, Joey, can you just update us on the CFO search and if you expect to have someone in place on a permanent basis by year-end?

Joey Agree
Yes, sure. Look, it's been a great process for us. Dan Ravid, our Chief Administrative Officer, has been really running it and doing a fantastic job. We've interviewed, vetted and scored over 30 candidates, a lot of talented people with frankly a really diverse set of backgrounds.

I tell you, at the same time, this has been -- really it's almost been a blessing in disguise for us in the sense that it's given us an opportunity to see where any potential holes were, but frankly, to showcase our bench strength and the increased size of our team and the growth of individuals here. And I think that's been the most interesting piece for me personally over the past couple of months, watching our team flourish and not skip a beat.

As you can see in the capital market side, we didn't miss a beat with the debt private placement as well as the ATM activity during the quarter. And with all that said, we think we've got a final list of candidates. We're going to bring this process to a head fairly shortly, and we're confident we're going to find the right person that's a cultural fit for this team and can professionally be the right partner to help take us to the next level.

And the last thing, I would be remiss if I didn't thank Ken for stepping in. He's been here since the start of this Company and continues to be an important part. So thank you again, Ken.

Collin Mings
Okay. Thanks for that update, Joey. And then just switching gears as far as the increase to acquisition guidance, can you maybe just expand a little bit more on the pipeline here and going into 4Q? It appears as if even at the low end of the range, there would be a modest acceleration in activity relative to 3Q.

Recognize there could be just some seasonality associated with that, but just talk a little bit more about that pipeline. And in particular, as far as the potential ground lease opportunities again, as you touched on your prepared remarks, picked up a few of those during the quarter -- so just more color on the pipeline would be helpful.

Joey Agree
Yes, so I'll start with the last point about the ground lease. As you can see, our ground lease exposure ticked up during the quarter. We acquired some great assets, the Lowe's, the SuperAmerica, a CVS paying approximately $110,000 a year, $10 a foot on a ground lease.

If you look at the risk-adjusted returns there plus our cost of capital, these are really great investments with -- and creates a very unique portfolio at over 8% of our portfolio currently being ground leased. They're not much better in terms of in net lease in terms of safety, security and residuals when you don't pay for the building and improvements. Our pipeline has a diverse and unique set of opportunities, one-off opportunities, both small and large as well as some portfolios as well.

And so our team here, which I stated in my prepared remarks, at seven people and growing, continues to uncover unique opportunities that we're confident we're going to execute on in the fourth quarter. And again, our focus is going to continue to be on quality.

As I mentioned in the prepared remarks, we don't see this as an opportune time to move up the risk curve. We're looking for best-in-class operators in those sectors, which we're wholly comfortable -- in a dynamically changing environment, we're focused on top-tier assets and top-tier real estate.

Operator
Nick Joseph of Citigroup.

Nick Joseph
Joey, when you look across the retail sectors you have exposure to, which do you think have the most risk from disruption? And then how do you think about preemptively positioning the portfolio for any potential changes?

Joey Agree
Look, it's a great question. I tell you, it's really the inverse of how we think of retail sectors that we're going to target. And so if there are -- if a business model selling hard or soft goods is easily replicable online, doesn't present that value proposition, doesn't provide for an experience for the customer that is compelling enough or convenient enough for them to enter into a brick-and-mortar retail outlet, then that's not typically something that we are overly attracted to.

And in the converse, it's not something we're going to continue to acquire and we'll look to potentially dispose of. General merchants, department stores, those types of operations to us, which don't have a differentiated strategy and frankly, can't differentiate themselves in an omni-channel world, are among the sectors that we're not overly attracted to. At the same time, office supplies is a sector, obviously, books, all those fairly obvious sectors where you see the disruption coming from the seamless integration online.

Nick Joseph
How about your existing sectors, so pharmacy or grocery stores, how do you think about those in the changing landscape?

Joey Agree
Yes, and I'll use it to touch on the Amazon rumors into pharmacy. First, look, while I hate to touch on those rumors, I know that they're top-of-mind for everybody and obviously, topical in terms of the newspapers and the news. Every week, it seems to be something new.

That said, relative to pharmacy, I'll talk about a couple of important points. One, pharmacies inherently represent a last-mile solution for most people. Pharmacies are located a mile to 2 miles from everybody's homes. They have ease of access, immediate parking adjacent to the building and drive-through windows.

I just don't believe that most people in this country need everything delivered to their home, sitting on their front porch. Traversing a mall or a large-format store is one thing; stopping at a pharmacy or a convenience store on your way home and your natural traffic pattern is nothing. So it takes a long time to frankly dismember, unwrap and then break down a box. I think it takes longer frankly than to pop into your local Walgreens or CVS at times.

Second, I think prescriptions have a time element to receipt. I think customers typically need prescriptions fairly quickly. The front end of the stores -- well, the majority of the profitability or EBITDA is tied to convenience items, run in, grab, get your toothpaste, pop in, get your greeting card and go.

And then lastly, while we remain believers in the pharmacy space, I would tell all investors just to look at what we've accomplished to the diversification efforts in our portfolio. Pharmacy overall has been reduced from 30% of ABR to 13.2% in less than 3 years. Walgreens, obviously, our largest tenant, has taken down to 8.5% from 22% in less than 3 years.

So we're very comfortable with our exposures. We're committed to taking Walgreens down to sub-5%, not because we don't believe in the tenant or the business, but we think it's the right thing to do to divest and redeploy on an accretive basis there. And you'll continue to see that trajectory, and we have a Walgreens under contract to sell. Currently, we anticipate closing in Q4.

Nick Joseph
Then just on the balance sheet, you've talked before about net debt to recurring EBITDA. I think the target range has been 5 to 6 times, but this year, you've been sub-5 throughout the year. So just curious if your thoughts have changed on target leverage or if it's more just a reflection of the current attractive equity cost of capital.

Joey Agree
Well, I'll tell you, our thoughts haven't changed. I think, obviously, we reported net debt to recurring EBITDA at quarter-end. In Q2 obviously, we were well north of 5 times before we accessed the equity markets.

This quarter, we opportunistically accessed the ATM markets, in addition to the $100 million [net] private placement, to really match funds on an efficient basis and a really effective basis, our pipeline across all three platforms. And given our increased investment guidance, we think on a risk-adjusted basis, it made sense for us to opportunistically access that capital source and use that tool.

Nick Joseph
Thanks.

Operator
R.J. Milligan of Baird.

Will Harman
This is Will Harman on for R.J. Just was wondering if you could talk about what has changed throughout the course of this year that's prompted you to be more aggressive with your external growth in 2017.

Joey Agree
Well, I'd tell you that we're opportunists at our core. We look at real estate transactions from that bottoms-up approach that I talked about and with that top-down lens. And we will continue to transact on opportunities that we think fit qualitatively and [quantitatively]. And the growing team here continues to uncover fantastic opportunities across all three platforms. Our balance sheet and our liquidity, we're in a position to execute on them and we're going to continue to do so.

Obviously, we raised the acquisition guidance to $300 million to $325 million. That's dependent 100% on the opportunities that our team here uncovers. It's not dependent upon us saying we want to deploy more capital; it's a granular approach. We're strategic, we're sharpshooters. We look at billions of dollars; we transact on millions of dollars.

And so we'll continue to execute on those transactions which frankly fit and it changes weekly. The investment committee here meets two times a week and we see new opportunities therein.

Will Harman
And then with your updated guidance, it implies about $70 million in acquisitions to close in Q4 to hit your midpoint. Just curious if any of that is currently under contract and if these are one-off deals, or are you looking at a larger portfolio of deal that you may close there in Q4?

Joey Agree
So it's no large portfolios in there. It's fair to assume they're under binding agreement and/or we have already closed on those during the quarter. And there are opportunities that frankly represent some fairly

unique opportunities in terms of demographic underlying real estate. And then with a continued emphasis on the sectors that we find favorable in this environment -- tire auto service, home improvement, convenience stores, off-price retail, the leaders within those sectors that continue to create what we think is the highest quality net lease portfolio in the country.

Will Harman
And then just the last question -- Four Corners recently completed a deal with Washington Prime, acquiring a portfolio of the company's restaurant properties. Did you look at that deal and have you see any other -- any of the other mall REITs looking to monetize some of their out-parcel properties?

Joey Agree
No, and my hat's off to Bill. Bill is a friend of mine and I think he's doing a great job at Four Corners. Our focus really isn't on the restaurant space; our focus here is really on those brick-and-mortar retailers in some of the sectors that I named. While we have restaurant exposure, and we continue to create value, most recently with this Tom's King development that we announced, our focus really is outside of the restaurant space, unless we find something value-add through one of the three external growth platforms.

In terms of working with REITs, both mall REITs, shopping center REITs [at a time], given the lease REITs, we work with them on a fairly frequent basis. We've transacted with a number of mall REITs and shopping centers REITs over the past 12, 18 months, and we continue to look at opportunities from our peers in the retail space.

Will Harman
Appreciate the color. Thanks, guys.

Operator
David Corak of FBR.

David Corak
So it looks like a higher percentage of your acquisitions this quarter had rated tenants, so a nice pickup there. But just curious, based on your comments in the past, and on the call today, just focusing on the ground-up underwriting in real estate and sector-leading retailers, just less of an exact focus on IG tenants in general.

Has anything changed there in the past 90 days? Are you more inclined to pay up for rated credit? Are there deals out there that are just more attractive, or are we just kind of reading into that too much? Any color there would be helpful.

Joey Agree
No change there. There's a host of tenants out there that are unrated, some even sub-investment grade that are fantastic operators. You'll see we acquired a Burlington Coat Factory during the quarter. It's really just a focus on quality. Inclusive of the ground lease assets that we acquired, I'd tell you that the investment-grade exposure is circumstantial there.

Obviously, the portfolio ticked up north of 45% investment grade during the quarter. The ground lease opportunities were fairly unique. Again, our focus is discrete; it is highly targeted. We don't think it's a good time and it's frankly not in our DNA to go up the risk curve. Given our cost of capital and our ability to source unique assets, we're confident we're going to continue to uncover some fantastic opportunities.

David Corak
Okay, great. And then kind of a two-part question here. Can you talk a little bit about the cap rate environment? It looks like there was some compression in C-stores and auto specifically, but just wondering what you're seeing in the market? And then can you give us a sense to what the pricing looks

like on these kind of high-quality ground lease assets versus kind of some of the other things you acquired this quarter?

Joey Agree
Yes, generally, we haven't seen movement in cap rates overall, but you're right and we've talked about it. We've seen sectoral movement; obviously, the tire stores, which you mentioned, the home improvement stores. In terms of our acquisitions specifically, I wouldn't read through to the cap rates. They're a small sample set. Often times, there are additional elements to those transactions which we don't publicly disclose. We're working with a tenant; we're doing something unique to the lease.

And so it's probably not a great sample set in terms of the overall cap rate environment, which is fairly stable. There are sectors where we've seen some compression. There are sectors where we've seen some cap rate expansion. Most of that is headline related or the ability for private purchasers to access that.

David Corak
Okay. Thanks. That's all for me.

Operator
Rob Stevenson of Janney.

Rob Stevenson
Joey, just one for me. You talked before about the realistic threat from an Amazon, but given the headlines, does it have any impact on near-term cap rates either achievable on a disposition; or does it weaken them enough that a well located asset might wind up being discounted enough that you'd want to add to your portfolio selectively here, as people sort of worry about this in the market more from a top-line standpoint than from an actual operation standpoint?

Joey Agree
Is your question, Rob, specific to pharmacy or any of the recent Amazon rumors or headlines?

Rob Stevenson
Well, mostly pharmacy. Obviously, some high-net worth individual that's going to -- that might buy a Walgreens might get -- seemingly might get scared off, given the recent headlines. And so wondering to what extent that has negative connotations for disposition cap rates, but also positive implications that a well located Walgreens could trade at 75 or 100 basis points outside where it might have a year ago.

Joey Agree
Yes, honestly, I think [acute] net lease purchasers are frankly conditioned to the Amazon headlines. They come out once or twice a week now of Amazon entering different retail spaces. We haven't seen any movement in cap rates one way or another. It's one thing for Amazon if and when they -- if they do enter the pharmacy space, to enter it and disrupt it; it's another thing for them to operationally affect the Walgreens and CVSs of the world. So we haven't seen those rumors trickle down.

What we have seen is just generally a continued flight to safety and frankly, people have gotten in line between the strategy, which we've been expounding upon since 2011 in terms of e-commerce. And so like I mentioned previously, the health and fitness, tire and auto service, home improvement, convenience stores, off-price retail, auto parts, those sectors were perceived safety is there from the overall internet threat. We've seen, typically driven by brokers, some cap rate compression, but in terms of Amazon potentially entering the pharmacy space, we don’t see -- we haven't seen anything there.

Rob Stevenson
Okay. Thanks, guys.

Operator
Stan (sic) Donlan of Ladenburg Thalmann.

Dan Donlan
Joey, just wanted to talk a little bit about the Camping World development in Grand Rapids. Is that project going to have any type of Gander Outdoor component to it? I know that they've kind of talked about potentially incorporating that into their new stores. So I was just kind of curious how that looks because it looks like the development costs are a little bit higher than the one I think you're building in -- will build either in Kentucky or Tennessee.

Joey Agree
Well, good morning, Stan or Dan. So this was an opportunity again that's pretty close to our backyard in Grand Rapids. So the 60,000-foot existing dealership and retail store -- previously, Camping World operated the retail store, only not the dealership. We'll be adding about 20,000 square feet to the project overall. So it will end up 80,000 square feet. This is a 20-acre site immediately off of the freeway. It's a great location at the interchange, out-positioning a number of competitors.

So it is different from the Georgetown opportunity, which was a ground-up development. This is a PCS project for us, existing dealership, expansion, renovation, Camping World taking over the existing dealer while they've historically operated the retail store.

Dan Donlan
Okay. Is there any Gander Outdoor component to it?

Joey Agree
No, no Gander Outdoor component to this. This will be a traditional Camping World once -- and they've already established they're taking over the retail outlet there.

Dan Donlan
Okay. And then the Camping World CEO has talked about potentially building new Gander Outdoors. Is that something that they've talked to you about? Is that something that you're interested in doing? Just kind of curious, your desire there.

Joey Agree
Yes, we think very highly of the Camping World management team. Marcus and Brent and team there have done obviously a great job. They're all over the Championship Series if you're watching baseball. We talked to them about a number of differentiated the opportunities, inclusive of development; nothing near term on the horizon there. Again, our focus is it typically isn't on new concepts, just on established operators and established brands, and really those leading operators in the sectors that we're targeting.

Dan Donlan
Okay. And then connecting to your next question just given talking about leading operators, I know you touched a little bit on it in another question, but I'm just curious of your thought process behind maybe a Best Buy or even a Barnes & Noble. I know that these are sectors that are not exactly e-commerce resistant, but you only have really one major player now in those verticals.

So I'm curious if that's something that may interest you, and Best Buy is off its all-time highs from a stock price perspective. So is there any thought process there that has Amazon completely picked over the competition in a particular market, that maybe then you start to look at, the only brick–and–mortar guy left?

Joey Agree
No, look, it's a great question and you're 100% right. Best Buy is the last man standing; and Barnes & Noble, outside of some local independents, is obviously the last man standing in the books. We don't red-

line any opportunity. I will tell you, for us to execute on any such opportunity there, it will typically have to be a value-add component to it. They will be above yield or compelling real estate and so on a risk-adjusted basis -- and I think you're right, Best Buy has been effectively derisked; I think Barnes and Noble is in potentially a different place than Best Buy is today.

But the management team over there has done a great job and we have a good relationship, but look, we'll look at any real estate opportunity on a one-off basis. And if we can create outsize value and we think risk-adjusted it makes sense, or we see something long term in the real estate, we wouldn't hesitate to execute.

Dan Donlan
Okay. That's very helpful. And the maybe just on the Burger King transaction with TOMS King, is this a one-off deal, or do you think this could potentially be part of a larger series of developments with that franchisee? It's kind of what you've done with Meridian.

Joey Agree
Yes, so TOMS King, just a little background -- top 10 Burger King franchisee in the country, over 100 locations in the Midwest, Carolina, Pennsylvania and I believe, Virginia. Look, TOMS King is a fantastic operator. We're excited about this opportunity; it really builds upon what we have been doing with Meridian. We wouldn't anticipate it necessarily being a one-off opportunity and we'll continue to look for things with leading franchisees in terms of development in PCS.

Dan Donlan
Okay. And then just an update on kind of Rite Aid, Walgreens; I can't remember the stores that they bought from Rite Aid. That was known at the time of the last conference call. But just kind of curious what you think the impact to the footprint is versus what you thought it was last quarter or the quarter before.

Joey Agree
Yes, we haven't gotten anything definitive from Walgreens and/or Rite Aid. We believe that there are three stores in the geographic territory that Walgreens is effectively acquiring the Rite Aid operations. Those are really in New York and New Jersey. We haven't gotten anything definitive there yet. We're in continued conversations with both of them and as soon as we know, we'll let everybody else know.

Dan Donlan
Okay. And then just curious on volumes -- there's been talk and chatter; it seems to happen like every couple of years that the 1031 exchange rules could go away. Has that influenced, do you think, volumes at all, or could it influence volumes at all as we're talking about tax reform coming into year-end?

Joey Agree
We haven't seen any impact. There continues to be an availability of non-recourse financing. That CMBS market is alive and well. Any rumors of the 1031 displacement has not affected transactional activity, cap rates or anything that we've seen.

What happens in terms of potential tax reform package, if immediate expensing does replace the 1031 rules, current rules, IRS rules, I think it'll be interesting to see if that effectively offsets really the impact there. That's, we think, passive real estate and I believe passive real estate owners want to be passive real estate owners. So I think the tax treatment there could effectively be an offset if those two rule changes came into fruition.

All in all, probably our number one competitor in our acquisition realm is the 1031 buyer and the private buyer. We very rarely, if ever, run into another publicly traded REIT or even a non-traded REIT. It's another purchaser that nobody has ever heard of. So if we can eliminate that purchaser from our competitive set in terms of the granular acquisition activity that we typically execute on, we think that's advantageous.

Dan Donlan
Okay. Thanks, Joey. Appreciate the thoughts.

Operator
George Hoglund of Jefferies.

George Hoglund
Most of my questions have been answered. So I guess, just one last thing -- if you could just provide a little bit of color on the leasing done during the quarter in terms of spreads on new versus renewal leases; and just what kind of capital did you have to put into those leases? And then also just in general, how common is it to basically replace a tenant on a net lease property when you get to the end of the renewal period?

Joey Agree
Yes, so all of our 2017 maturities had now been -- they've been taken care of with minimal, or if any, capital requirements. Our leasing team here, led by Mark Brand, has done a fantastic job in terms of 2017. Typically, these are options -- contractual options that are exercised by the tenants that have fixed bumps; obviously, minimal rollover during the quarter, but you can assume that any rollover has somewhere between 50 and 150 basis points on an annual basis of growth, typically every 5 years.

In terms of our 28 expirations, we're in fantastic shape. As I mentioned, today, we currently sit at 1.3% aggregate expirations, really no sizable expirations in there. And we think there are some opportunities in the portfolio. And our team is well ahead of those expirations and working on them, as I mentioned in the prepared remarks.

George Hoglund
Okay, thanks. And then just one last thing -- just how often is it that you'll actually replace a tenant on a net lease property if someone wants to exit?

Joey Agree
I'd tell you, specific to us, we have had very little turnover. At the same time, we aren't typically holding assets until they're dark and then looking to release them. If we don't like the trends, and we don't like the creditor, the underlying real estate or something doesn't conform any longer to the quality of our portfolio, we'll look to dispose of it. And so frankly, in our portfolio, we have done very little replacement of those tenants.

I think it's one, a function of the credit quality; two, a function of the lease structure; and then three, really the nascency of our portfolio. If not the majority, most of the rollover we have in 2018 is really legacy assets that the Company originally developed. So those are very low-basis leases. A number of them are at $2 a foot, and so we think there's some embedded opportunities [if] those tenants don't exercise their contractual options.

George Hoglund
Okay. Thanks, guys.

Operator
Todd Stender of Wells Fargo.

Todd Stender
Can you talk about -- I just wanted to get into some of the yields you're entering at, particularly for the development projects.

Joey Agree
Yes.

Todd Stender
Can you get more granular, say, on Mister Car Wash, the Art Van deal and then Orchard Supply?

Joey Agree
Yes, so I'd tell you, our development yields have held up really to our historical standards ground-up turnkey development, we have and we'll continue to target yields above at or above 9%. Opportunistically, if we see something, could we go lower? Sure. But if we're going to spend 24 months on a ground-up development, we think there's got to be that value embedded in that opportunity. They're time-consuming and we want to be efficient with our time here.

In terms of PCS yields, our PCS yields typically are approximately around 8%. Again, we're not undertaking true development, entitlement, permitting land acquisition and lease negotiation on most of those opportunities. We look at that really as an inorganic development opportunity where the true value creation was created by our partner, either the retailer who found the site or a private developer.

And then to your last question on Orchard Supply specifically, that's a very unique transaction. That's a re-development, a re-tenanting and expansion of an existing space within the portfolio. Those returns were frankly in the mid-teens, so we're talking about 15%-plus percent incremental returns there, which obviously are outsized and was a fantastic transaction for us.

Todd Stender
Okay, thanks. And then how about on yields or spreads, rather? Let's exclude Orchard Supply; but just say, call it on a Mister Car Wash, what kind of spreads are they to maybe a one-off acquisition?

Joey Agree
Well, Mister Car Wash historically, prior to the launch of our organic development platform, executed sale leaseback transactions with REITs or institutional purchasers on a portfolio basis in the low 7s. In terms of our returns on Mister Car Wash, I don't want to get into them specifically; they conform to our historical standards.

Todd Stender
So spreads are at least 200 basis points, would you say?

Joey Agree
Close, yes.

Todd Stender
Okay. And then on the capital side, your ability to tap the ATM has been pretty impressive. It's a lower cost way to match-fund your investments in small bites. If you're raising $29 million in the quarter, how many investors is that spread over?

Joey Agree
That's a good question. I think there were a couple of larger trades in terms of institutional investors, but then regular way-ATM activity, there's really no way for us to quantify the number of investors that that stock is sold to.

Todd Stender
Okay. And then just finally, the high end of the disposition guidance calls for another $20 million of sales in Q4. How much of a possibility is that and any color on timing of when that could be sold?

Joey Agree
Yes, so we've got a Walgreens -- as I mentioned earlier, we've got a Walgreens currently under contract, we anticipate closing fairly shortly here. We will also look at potentially selling some franchise restaurants

at opportunistic cap rates and we think those transactions will come to fruition as well most likely in the next 30 days.

And so we think, obviously, last quarter, we raised the low end of the disposition guidance. We've now hurdled that. Again, the transaction market can be fickle on the disposition side, especially with the 1031 laws and those regulations, but we think that we're going to be right in that range of the disposition guidance, most likely toward the higher range. And most of those transactions are in the [queue] and we anticipate them to close.

Todd Stender
Great. Thank you.

Operator
(Operator Instructions). Ki Bin Kim of SunTrust.

Ki Bin Kim
At this point when you have to balance raising equity or selling assets like Walgreens at low cap rates, what are the things you're considering when you choose either/or? And what's a more attractive source of equity capital at this point?

Joey Agree
Well, I think there's a number of considerations. With the Walgreens dispositions, I'd tell you on the disposition front, our dispositions are really driven by two things -- one, we want to pare back exposure and redeploy the proceeds on an accretive basis, such as the Walgreens transactions, which we've clearly telegraphed to the market; or two, if something doesn't fit within the context quality-wise of our overall portfolio, we won't be shy to pull the trigger there.

It's challenging necessarily to match-fund disposition proceeds with acquisition with the uses of capital just because of the timing constraints, and as I said in an earlier answer, just the fickleness of those purchasers.

And so dispositions for us is really -- it's a fourth prong to our three external growth platforms. We are active managers of our portfolio; we want to maintain the highest quality portfolio; obviously, sell assets at attractive cap rates; or if we don't like something given the sector, the credit, the yield, the demographics or residuals or store trends, we will cut cords very quickly.

And so in terms of thinking about it in terms of overall proceeds, we thought that $25 million to $50 million was appropriate. We're at just over $30 million in terms of a close to date. We think we'll be up towards the upper end and it's obviously a good source of equity capital for us, balanced with the ATM activity and the previous follow-on.

Ki Bin Kim
And earlier in the call, you made comments about revisiting optimizing some processes or something along those lines.

Joey Agree
Yes.

Ki Bin Kim
Any more color on those?

Joey Agree
Yes, it's -- our team here, which I talked about, just the growing dynamics of our team, we're at 32 people. We anticipate [being] up to 34 team members here by year-end. And so we've taken a very hard look for

the past 12 to 24 months where we really started at all of our internal processes to streamline and make ourselves more efficient. We're talking about a Company that the portfolio and the size has such dynamic change, that one of our core values here is just constantly challenging ourselves to improve.

And so the management team here has undergone professional development training in terms of specific skills and then the operational team has gone through lean training, which has been fantastic for us just to establish total clarity and come to really a metric-driven approach to everything that we do. We like to say here, if you can't put a number to it, you can't manage it.

And we've seen some amazing gains in terms of just putting those processes in place, streamlining, driving efficiencies. You combine that with the systems improvements that we've made, and we feel today that we've gone from a small entrepreneurial company to a fully established middle-market

Ki Bin Kim
Okay. And just last question -- in 2017, approximately what percent of the deals that you've acquired are -- originated under new, brand new, lease terms under Agree's lease form, versus buying something in the open market that was originally like a 12-year lease that you're buying it with 10 years left in the lease duration?

Joey Agree
So most landlords who are dealing with national or super-regional or really established tenants aren't using their lease form, right? That's a misnomer. So retailers had a lease form that's typically customized or modified for a specific landlord if they have a previously negotiated form.

And so the ability of landlords to dictate a lease form only is available, I'd tell you, with small operators who don't have legal departments, established leases in place already. Can you imagine if Walgreens or Wal-Mart, or even a smaller tenant like Mister Car Wash, was negotiating individual leases with every single landlord? So that --

Ki Bin Kim
So anything that literally, the new lease [literally] what I meant is like originated by Agree versus Virginia by somewhere else in the market, that has kind of been a couple of years --

Joey Agree
Right.

Ki Bin Kim
-- into the lease already?

Joey Agree
So I don’t have -- I can't give you an exact answer; I have to get back to you on that. I tell you all of our development and Partner Capital Solutions activity, where we play an integral role in negotiating that lease in that outcome. And then all of the lease modification opportunities that we undertake through amendments typically, we are amending previous documents. I can't give you a specific number off the top of my head though.

Ki Bin Kim
Okay. All right. Thank you.

Operator
This concludes our question-and-answer session. I'd like to turn the conference back over to Joey Agree for any closing remarks.

Joey Agree:
All right. Well, thank you, everybody, for joining us, and we look forward to seeing you in Dallas at NAREIT in the future. Thank you.

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