EDITED TRANSCRIPT

AGREE REALTY CORPORATION

Agree Realty Corporation's
First Quarter 2018 Earnings Conference Call
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PRESENTATION

Operator
Good morning, and welcome to the Agree Realty fourth-quarter and full-year 2017 conference call. (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 - *Agree Realty Corporation - President & CEO*
Thank you, Operator. Good morning everyone and thank you for joining us for Agree Realty's First Quarter 2018 Earnings Call. Joining me this morning is Clay Thelen, our Chief Financial Officer.

We're very pleased to report that we're off to a strong start in 2018. During a busy quarter, we further diversified and strengthened our industry-leading portfolio through disciplined investment activity and proactive asset management and executed on a strategic capital markets transaction that further fortified our balance sheet, positioning us for continued growth.

Capital invested across our three external growth platforms totaled $102.7 million in the first quarter among 39 high-quality retail net lease properties. Of those 39 investments, 30 properties were sourced through our acquisition platform, representing aggregate acquisition volume of approximately $98.6 million for the quarter. The properties were acquired at a weighted-average cap rate of 7.2% and had a weighted-average remaining lease term of 13.6 years.

The acquired properties are located in 15 states and are leased to leading operators operating in 12 different sectors, including off-price, convenience stores, auto parts, tire and auto service, grocery, and crafts and novelties. Notable retailers include AutoZone, Tire Kingdom, O'Reilly Auto Parts, Hobby Lobby, TJ Maxx, HomeGoods, Panera Bread, Starbucks, Firestone and Gerber Collision.

During the quarter, we are also very pleased to have closed on a sale-leaseback with Belle Tire, a leading, regional tire and auto service retailer with a 95-year operating history. The portfolio is comprised of 7 master-leased properties of very strong tire & auto service stores. Belle Tire is a local family-owned company, and the 11th largest tire retailer in the country with approximately 100 stores. They are the clear market leader in Michigan with more than a 33% share. This transaction was Belle's first sale-leaseback and we're excited to partner with a leading retailer in our own backyard that many of us have frequented over the years. We look forward to continuing to build upon our strong relationship with the Belle Tire team as well as the Barnes family.

As our pipeline continues to ramp, we remain intently focused on adhering to our stringent underwriting standards. Given the dynamic nature of the retail landscape and often the binary outcomes associated with second and third tier operators, we continue to emphasize high-quality retail real estate leased to industry-leading operators that have a comprehensive omni-channel strategy, a value-oriented business model or a service-based component. Our disciplined focus has served to strengthen our best-in-class portfolio. Today, our portfolio is stronger and more diverse than it has ever been in our Company's history.

Turning to our development and Partner Capital Solutions platforms, in the first quarter, we had nine development and PCS projects either completed or under construction that represent total committed capital of approximately $51 million. Four of those projects were completed during this past quarter, representing total investment activity of $26.7 million.

The projects completed during the quarter include Art Van Furniture's new flagship store, located across from Ikea in one of the state's dominant retail trades areas in Canton, Michigan. The store celebrated a successful grand opening on February 1st.

Additionally, our first two developments with Mister Car Wash in Urbandale, Iowa and Bernalillo, New Mexico celebrated successful grand openings in the first quarter and rent has commenced at both locations. The projects are subject to new 20-year net leases and had aggregate total costs of approximately $6.3 million.

Lastly, the Company's first project with leading Burger King franchisee TOMS King was completed during the quarter and rent subsequently commenced. The project is subject to a new 20-year net lease.

During the first quarter, we commenced two new development and PCS projects. These projects include the Company's first PCS project with ALDI in Chickasha, Oklahoma and the Company's first development with Burlington Coat Factory in Nampa, Idaho. We continue to find opportunities to leverage our differentiated capabilities to partner with leading retailers to execute their expansion plans.

Construction continued during the quarter on three development and PCS projects. The developments include the Company's third project with Camping World in Grand Rapids, Michigan and our third and fourth projects, respectively, with Mister Car Wash in Orlando and Tavares, Florida. All three projects are subject to new 20-year net leases.

While our investment activity year-to-date has served to improve the quality of our portfolio, we've also looked to solidify and diversify our portfolio through proactive asset management as well as disposition efforts. These efforts continued in the first quarter as we sold five properties for gross proceeds of approximately $16.7 million.

During the quarter, Meijer exercised an option to purchase their store in Plainfield, Indiana. Meijer had previously ground leased the location from the Company for the past 10 years. Following Meijer's exercise of their option to purchase the property for $3.9 million, the Company realized an internal rate of return of 11% on our investment. It's important to note that this was the only purchase option in our portfolio. Meijer's exercise of their option to purchase and our disposition activities in the first quarter have resulted in a net gain of $4.6 million.

Our disposition efforts, portfolio management, and continued growth continue to strengthen the composition of our leading portfolio. Our exposure to our top 3 tenants now stands at 14.4% of rental income, a decrease of 360 basis points year-over-year. Similarly, our top 10 tenant concentrations have been reduced to 32.4% of annualized base rent, a 360-basis point decrease from this point last year.

Our asset management team has also been proactively addressing upcoming lease maturities. As a result of these efforts, we have just six remaining lease maturities in 2018 representing 0.6% of annualized base rent.

Roughly half of the annualized base rent expiring in 2018 is attributable to our two Kmart locations in Mount Pleasant, Michigan and Frankfort, Kentucky. Kmart has failed to exercise options at both locations and we look forward to the opportunities to redevelop both sites and unlock additional value.

I am pleased to announce we have executed a 15-year lease with Hobby Lobby in Mount Pleasant for the construction of a new 50,000 square foot prototype. Entitlements have been fully secured and we anticipate demolition on the former Kmart will begin in the third quarter of this year, with rent commencing in the second half of 2019.

We are also working with a number of leading retailers in Frankfort, Kentucky. As you may recall, both of these former Kmart locations were retained because of the below market rental rates as well as the strong underlying real estate. We look forward to updating you on these redevelopment opportunities later this year.

As of March 31st, our growing retail portfolio consisted of 463 properties located in 43 states. Our tenants are comprised primarily of industry-leading retailers in more than 28 diverse retail sectors, with 46% 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 10.3 years.

On last quarter's call, we highlighted the quality of our ground lease portfolio, which is comprised of leading retailers including Lowe's, Walmart, Wawa, ALDI, AutoZone, Chick-Fil-A, McDonald's and Starbucks. At quarter-end, nearly 90% of our ground lease portfolio derived its rent from retailers that carry an investment-grade credit rating.

To conclude, the first three months of the year marked another very strong quarter for our growing Company. Our high-quality portfolio continues to improve and our fortress-like balance sheet positions us to execute in 2018 and beyond.

With that, I'll turn it over to Clay to discuss our financial results for the first quarter. Clay?

Clay Thelen - *Agree Realty Corporation - CFO*
Thank you, Joey. Good morning, everyone. I'll begin by quickly running through the cautionary language.

As a reminder, 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. 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 first quarter of 2018, was $31.0 million, an increase of 27.8% over the first quarter of 2017.

General and administrative expenses in the first quarter totaled approximately $2.9 million. G&A expenses were 8.3% of total revenue in the first quarter and we anticipate G&A expenses to be roughly 8% of total revenue for the year.

Funds from Operations for the first quarter was $22.0 million, representing an increase of 29.3% over the comparable period of 2017. On a per share basis, FFO increased to $0.71 per share, a 9.3% increase as compared to the first quarter of 2017.

Adjusted Funds from Operations for the first quarter was $21.8 million, a 27.7% increase over the comparable period of 2017. On a per share basis, AFFO was $0.70, a 7.8% increase as compared to the first quarter of 2017.

Now moving to our capital markets activities…during the first quarter we completed a follow-on public offering of 3.5 million shares of common stock in connection with a forward sale agreement. The offering included the full exercise of the underwriters' option to purchase additional shares and is anticipated to raise net proceeds of approximately $163 million after deducting fees and expenses.

To date, the Company has not received any proceeds from the sale of shares of its common stock. Selling common stock through the forward sale agreement enabled us to set the share price while delaying the issuance of such shares and the receipt of the net proceeds by the Company. We have the ability to settle the transaction, in whole or in tranches, at any time between now and March 1st of 2019.

The forward offering provides the Company the capacity to invest an incremental $500 million and stay within our stated leverage range of net debt to recurring EBITDA of 5-to-6 times. We viewed this transaction as a unique way to further bolster our balance sheet in the intermediate term, lock in our cost of capital, and mitigate external risk.

As of March 31st, our net debt to recurring EBITDA was approximately 4.8 times and below our stated range. Furthermore, our total debt to total enterprise value was approximately 27.0% and our fixed charge coverage ratio, which includes principal amortization, remains at its highest level in the Company's history at 4.2 times.

These metrics continue to be amongst the strongest of our peers and demonstrate the ongoing strength of our balance sheet, which is in excellent position for 2018 and beyond with significant capacity and flexibility in regards to capital sources. Our conservative approach to leverage provides us with the ability to be opportunistic when making capital markets decisions.

The Company paid a dividend of $0.520 per share on April 13th to stockholders of record on March 30th, 2018. The quarterly dividend represents a 5.1% increase over the $0.495 per share quarterly dividend declared in the first quarter of 2017. This was the Company's 96th consecutive cash dividend following its IPO in 1994, and it represents a five-year increase of 27% over the Company's first quarter 2013 dividend.

Our quarterly payout ratios for the first quarter of 2018 were a conservative 74% of both FFO and AFFO, respectively. These payout ratios are at the low end of the Company's targeted ranges and reflect a well-covered dividend.

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

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

To wrap it up, I'm very pleased with our performance during the quarter. We are in a fantastic position to execute for the remainder of the year, with a strong portfolio, a talented and growing team, and a fortified balance sheet.

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

QUESTIONS AND ANSWERS

Operator
Thank you. (Operator Instructions) George Hoglund; Jefferies.

George Hoglund *- Jefferies - Analyst*
Just the first question in terms of the asset sales that happened during the quarter, if you could give a little bit more color on that. And then, just also going forward, kind of what type of assets will you be targeting in terms of either retail categories or types of situations that you'd be targeting.

Joey Agree - *Agree Realty Corporation - President & CEO*
Generally, I think our asset sales fall into a couple of distinct buckets. First and foremost, we'll continue to target reduction of our Walgreens exposure. We've pretty well telegraphed what we perceive that exposure to be at year end. And we sold one Walgreens in Grand Rapids, Michigan during the quarter.

And then we'll look both at opportunistic sales, most notably in the franchise restaurant space, and opportunities to improve our portfolio, as we talked about in the prepared remarks. I'd note our restaurant exposure is down 6.8% -- that's the aggregate restaurant exposure -- year over year. Our quick service is down 150 basis points at 5.3%. Casual dining similarly is down 105 basis points to 1.5% this quarter. We really focused in on that casual dining exposure. It's not a space that we're overly comfortable with. And so, you'll continue to see us execute on disposition transactions in those buckets.

George Hoglund *- Jefferies – Analyst*
Okay. And then, is there any change in sort of the tenant watch list, any noticeable deterioration in any of the tenants that you have an eye on?

Joey Agree - *Agree Realty Corporation - President & CEO*
No. In fact, our watch list continues to shrink. The Walgreens acquisition of the two Rite Aid stores, obviously that was significant for us. The pending Kmart lease expirations that we touched on there -- obviously Kmart will be gone from our portfolio fairly shortly here.

As I mentioned in our prepared remarks, our portfolio has never been stronger. It's never been more diversified. The team here is doing a fantastic job sourcing opportunity across all three of our external growth platforms. And I'll add you're only going to see our portfolio continue to improve. We're working on a number of very high-quality transactions, as well as those encore dispositions, with the goal of continuing to strengthen our leading portfolio of retailers there.

George Hoglund *- Jefferies – Analyst*
Thanks, guys.

Operator
Collin Mings; Raymond James.

Collin Mings *– Raymond James - Analyst*
First question from me, just as you think about the flexibility offered by the forward equity offering, how are you thinking about accessing the debt markets over the balance over the year versus utilizing just the

revolver for maybe a little bit more than you had in the past?

Clay Thelen - *Agree Realty Corporation – CEO*

This is Clay. Appreciate the question. Maybe start from a debt perspective, just in terms of sizing, based on our guidance and the way we started the year. I anticipate sizing maybe in terms of a private placement to be more consistent with last year. For reference, last year we executed on a 12-year deal in September. I would say the forward offering provides us some certainty that is really unique, in that having a take-out or a back-stop, if you will, from an equity perspective and having real intermediate cost of capital certainty in the intermediate term.

I would say we'll be a more active user on the line of credit, given that certainty and given the inherent cheaper cost of capital with the line of credit and where we're able to borrow at. And so, we'll continue to use the line of credit and then ultimately replace that with longer-term, fixed-rate, low-leveraged financing throughout the year, or later this year.

Collin Mings *– Raymond James - Analyst*

Okay. So, for, like, modeling purposes if we were thinking about maybe $100 million, $150 million, call it in the back half of '18, that might be fair from your standpoint?

Clay Thelen - *Agree Realty Corporation – CEO*

That's right. That's exactly right.

Collin Mings *– Raymond James - Analyst*

Okay. And then just in terms of maybe how you think about the shift in the pricing environment relative to what you were able to do last year?

Clay Thelen - *Agree Realty Corporation – CEO*

Yes. No, it's a good question. Last year we executed the 12-year deal, as I mentioned or as you know, 160 basis points over the curve. I would say today the balance sheets even further improved. The portfolio is even further diversified. We continue to operate under an investment grade mentality and approach. And I anticipate pricing to be reflective of that. We're very close with our private placement lenders and relationships and that's continued dialog that we have. And so, I anticipate pricing to be reflective of our continued growth and growth done in a meaningful and prudent way.

Collin Mings *– Raymond James - Analyst*

Thanks, Clay. I appreciate the detail there.

Joey, just one big-picture question for you really quick. Just as you think about your theater portfolio, it looks like now 3% of the ABR. Just update us on how you're thinking about your exposure there.

Joey Agree - *Agree Realty Corporation – President & CEO*

Sure. I'll start by saying we have a grand total of five movie theaters now in our portfolio with no near-term plans to add any additional. We have three AMCs with the completion of this transaction in the first quarter, one Cinemark and one Regal. So, the portfolio is fairly diversified.

With that said, we're real estate opportunists at our core. When sentiment goes one way we have no problem taking advantage of any dislocations that we see out there in the market. We think this quarter's transaction was a very good example. The AMC that we acquired does more than two times average revenue per screen and has fantastic coverage. Very strong sales; we've seen them consistently rise year over year. There's no national competitor in the market. You combine that with the 16.5 years of remaining lease term, as well as the increases in the base term as well as the options and we think this fit well into our strategy. We think it is a minority piece of our overall exposure. You'll continue to see it be a minority piece, but we think that it's at its peak right now.

Collin Mings *– Raymond James - Analyst*
Okay. Appreciate the color there, Joey.

Operator
Nicholas Joseph; Citi.

Nicholas Joseph *– Citi - Analyst*
Joey, it was an active acquisitions quarter. Have you seen an impact on the transaction market or cap rates due to the rise in interest rates?

Joey Agree - *Agree Realty Corporation – President & CEO*
We really haven't seen cap rates in the product that we're chasing move by any material way. We've seen some gapping out in secondary or tertiary product that really doesn't fit. Some larger boxes, frankly, we've seen cap rates gap out. It's really a binary world today. There is capital chasing on the high-quality assets. And then, frankly, there's significantly less capital chasing lower quality assets. And so, our sandbox, we haven't seen any material movement in cap rates yet.

What we have seen is we've seen some transactions come back to us that, frankly, sellers were either holding out for higher pricing or went the way of a 1031 purchaser who failed to execute. And so, we've seen what we call flowback. But in terms of material moving cap rates, we haven't seen anything of substance.

Nicholas Joseph *– Citi - Analyst*
Have your underwriting standards or return hurdles changed at all?

Joey Agree - *Agree Realty Corporation – President & CEO*
They haven't. I would tell you, if anything, they have become more stringent. We are acutely and intensely focused here on the highest quality of real estate and the highest quality of operators. I just don't feel -- given the dynamic nature of the environment that we're in, I just don't feel it's the right time to go up the risk curve. And we have the ability to really execute with the best of the best across those three external growth platforms. And you see that across acquisitions, development as well as Partner Capital Solutions. So, it's a highly fragmented market. It's a huge space. Our focus continues to be very tight.

Nicholas Joseph *– Citi - Analyst*
Thanks. Finally, what was the cap rate on the AMC theater this quarter?

Joey Agree - *Agree Realty Corporation – President & CEO*
I can't disclose because of some confidentiality provisions. I can tell you it's in line with our historical acquisitions. We've got some confidentiality provisions in both the purchase agreement as well as the lease. We'd love to give some more details, but we've been advised not to.

Nicholas Joseph *– Citi - Analyst*
Thanks.

Operator
Rob Stevenson; Janney.

Rob Stevenson *- Janney - Analyst*
Joey, what was the rough revenue or annualized base rent that you guys were getting from the two Kmart locations? And what alone is the Hobby Lobby, roughly, going to wind up doing?

Joey Agree - *Agree Realty Corporation – President & CEO*
Yes. So specifically, to Mount Pleasant, that was a gross lease with Kmart, at a $175,000 a year in annual rent, effectively, on a gross lease. So, Kmart on a net basis there was really paying a deminimis amount of rent. You're talking about $40,000, plus or minus, on an annual basis.

The Hobby Lobby transaction will be a reverse build-to-suit. Hobby Lobby will construct their own building, pretty typical for Hobby Lobby. It's a 15-year base term. Obviously, we're getting a significant credit upgrade additional term. 50,000-square-foot prototype store. Our investment there will be approximately $4 million, including the tenant improvement allowance for their reverse build-to-suit. And we're looking at rent in the upper mid-single digits there, with growth every five years.

Rob Stevenson *- Janney - Analyst*
And does the swap between the Hobby Lobby building and the Kmart also leave you with additional space there to develop either there or at the outparcel?

Joey Agree - *Agree Realty Corporation – President & CEO*
Yes. So, we're going to completely demolish the existing Kmart structure. It's 80,000 square feet, approximately. I grew up on that site with driving a bulldozer as an original project that my father developed pre-IPO. So, we're going to scrape that building. Hobby Lobby will build their new turnkey and then we'll have a pad of 20,000 feet adjacent to the Hobby Lobby which we're confident is very marketable there.

Then moving on to Frankfort, Kentucky -- we can come back to Mount Pleasant if you have another question. Moving on to Frankfort, Kmart was paying $2.00 gross in Frankfort, Kentucky, so about $165,000 a year on a net basis. Kmart failed to exercise their option there. We anticipate demolishing that building as well and are working with a number of tenants that we hope to be able to announce, if not next quarter, fairly shortly here.

Rob Stevenson *- Janney - Analyst*
Okay. And then the second question. Can you talk to us about how the Board is thinking about the dividend? I mean, looking at it today and where you guys are versus taxable net earnings -- because you now have by far and away the lowest dividend yield in the triple net space. Your payout ratio is low. You have been increasing the dividend every couple of quarters or so, roughly 3%-ish or something like that. Are you at a point where you're able to keep doing that? Or are you going to be forced to increase the dividend by a more substantial amount, especially if your earnings growth continues to run at this rate?

Joey Agree - *Agree Realty Corporation – President & CEO*
Well, I think -- I'll tell you, from the Board's perspective, and I'll speak on behalf of the entire Board, I think there's a few important principles in terms of the dividend. One is predictability. Two is transparency into our thinking, so I appreciate the question. And then three is sustainability in current sustainability as well as growth sustainability.

The Board generally thinks about the dividend in line with AFFO growth. We've moved effectively to a two-times-a-year dividend raise -- I don't think that's any secret; you can just look at the history -- which gives better visibility for the board in terms of AFFO on an annual basis. And we have a number of different constituencies, as all net lease REITs do, from individual shareholders and retirees that live off the dividend to the other side of dedicated investors who see it as their cheapest form of capital and retained earnings.

So, we like to strike a balance there. Obviously, I'm a significant shareholder. My family is a significant shareholder. We appreciate the dividend. At the same time, we understand that it's our cheapest form of capital. So, I think you'll see us continue to see us strike that balance. Our stated range is 75% to 85% payout ratio of AFFO and FFO maintained. And you're right; we are at the low end at 74% and there's obviously an opportunity to be consistently raising that dividend.

Rob Stevenson *- Janney - Analyst*
Okay. Thanks, guys.

Operator
Ki Bin Kim; SunTrust.

Alexei Siniakov *– SunTrust - Analyst*
This is actually Ki Bin's associate, Alexei. Two quick questions for you. The first one is, how do you think about the deployment of capital? Do you prioritize acquisitions over development? Or do you see development becoming a larger part of the business over time?

Joey Agree - *Agree Realty Corporation – President & CEO*
I would tell you we look at each individual opportunity across all three platforms as they stand on their own. And so obviously they have different return thresholds. They have different parameters. They have different time horizons to execute on a development from an acquisition. A typical development from start to finish takes approximately 18 months. Our acquisition activity from LOI to execution of closing averages 71 days.

And so, we look at every opportunity on its own. I would tell you we don't have distinct buckets that we need to deploy a certain amount of capital across. We have our guidance for acquisitions because of that fragmented space, but development is really a function of relationships as well. Partner Capital Solutions is the same.

Alexei Siniakov *– SunTrust - Analyst*
Okay, thank you. And a second follow-up. What kind of yield are you projecting on these developments?

Joey Agree - *Agree Realty Corporation – President & CEO*
So we really haven't changed any yields of development. We're still targeting, call it, 9% returns on development, or on a variable basis, 250 basis points wide of where we can buy like-kind product on the acquisition market. If we're going to deploy our capital, what I would tell you even more importantly, our human capital, into a project and into a relationship, we have to be able to deploy, one, a material amount of capital, and then, two, bring true value to the table and be value-add to all stakeholders there, including our tenants.

Alexei Siniakov *– SunTrust - Analyst*
Okay, great. Thank you.

Operator
R. J. Milligan; Baird.

R.J. Milligan – *Baird - Analyst*
Most of my questions have been answered, but I was just hoping, Joey, maybe you could give us a little bit more color on Belle Tire, which is now one of your top tenants, maybe just a little bit more background on how you think about underwriting that investment and the attributes that you saw there going forward.

Joey Agree - *Agree Realty Corporation – President & CEO*
Sure. So, we're extremely thrilled to add Belle Tire to our portfolio. We're talking about a company where, frankly, three generations of my family have been getting their tires fixed and changed. My wife was there three weeks ago thanks to our fantastic Michigan roads with potholes all over them.

I'll tell you, Belle is a top-tier customer service organization. Net promoter scores that are on par with Apple and Costco. That's pretty tough to accomplish when most of your customers come in in a p***ed-off mood and you're in the tire and automotive service business.

The portfolio is seven properties that we acquired, first transaction with Belle Tire, first time they've ever executed on a sale/leaseback. The company is a family-owned, effectively all 100 stores. Our master lease, they're very well covered at over 3x. Great real estate, main retail thoroughfares, very attractive brick buildings. And most importantly, a great operator that we are intimately familiar with. Dominant in Southeast Michigan, 33% market share and brand awareness here in Southeast Michigan that's really off the chart. It's a company that, frankly, I've grown up frequenting and seeing their commercials online.

R.J. Milligan – *Baird - Analyst*
That's helpful. Is it something that you see potential further opportunities for more sale/leasebacks with the operator?

Joey Agree- *Agree Realty Corporation – President & CEO*
Potentially. We look forward to working with Belle across our external platforms, our growth platforms. It's a growing company. It's a family-owned company. It's a very prudent and disciplined company. They're opening five to seven stores per year historically. And so, we'd look at any opportunity to work with both Belle Tire and the Barnes family there.

R.J. Milligan – *Baird - Analyst*
That's helpful. Thanks. That's it for me.

Operator
John Massocca; Ladenburg Thalmann.

John Massocca *– Ladenburg Thalmann - Analyst*
Just have a follow-on to R. J.'s question. Was there anything specific that kind of drove the burst of acquisitions in the tire, auto service and auto parts sectors in 1Q '18? Obviously, Belle was a big factor in that, but you seemed to make a number of other acquisitions, similar acquisitions, in the space outside of just that sale/leaseback.

Joey Agree - *Agree Realty Corporation – President & CEO*
No, we -- look, I'll tell you we continue to work with all the top operators in the space -- in the broader space. I'll talk about that. But the Belle Tire transaction was the notable transaction for us in the tire and auto service space during the quarter.

In regard to the auto space and tangential spaces generally, I think what you see is we're working with the best of the best. I mean, we're working with Mister Car Wash in the car wash space, O'Reilly and AutoZone in the auto parts space. Belle Tire today and Bridgestone and TBC in the tire/auto service space historically. And now you see Gerber Collision in the collision space, again, a company that's owned by Boyd Group of Canada, a conservative, disciplined leader in the collision space. And so, we like all of these spaces. They're fantastic operators that we're working with. They're mission-critical brick and mortar assets. Obviously, they have an internet resistance to them. They are fungible boxes. They are smaller-price-point assets. But, again, most importantly, we're picking, we think, the strongest horses in those spaces. I think you'll continue to see us execute on transactions in auto parts, in tire and automotive service and related spaces. And we think it's a core piece of our investment philosophy.

John Massocca – *Ladenburg Thalmann - Analyst*
And there's no kind of cap on the exposure you want to tire and auto service? I mean, it's the second largest retail segment now. Do you think you can go beyond that 7.7%?

Joey Agree - *Agree Realty Corporation – President & CEO*
Oh, definitely I think there's an opportunity to go beyond 7.7%. I don't think you're going to see it get outside of a range that -- frankly, a rational range. But it's a broad space. It's obviously a national space with a lot of fantastic operators. Again, that internet resistance to it, that brick-and-mortar presence being integral. I don't think there's any cap in our minds. We'll continue -- I think the real cap is finding the amount of -- the right transactions with the right operators for us. So, it's up to 7.7%, tire and auto service generally, from 5.6% year over year. We would have no problem growing that exposure going forward with the right transactions and the right operators.

John Massocca – *Ladenburg Thalmann - Analyst*
Understood. And then on the development side, how did you originate the two new developments, the last PCS deals? And is there an opportunity to add more ALDI specifically, given how much growth there is for them in North America?

Joey Agree - *Agree Realty Corporation – President & CEO*
Yes. To take your last question, ALDI is a fantastic operator. Think there are opportunities for us to add potentially additional ALDIs in the portfolio. We look at opportunities all the time. We're a big fan of ALDI. Most of our ALDI assets, frankly, are ground lease where they build their own building on their own expense. And so, we'll continue to look for opportunities to add ALDI to the portfolio. Discount grocery in general is a space that we're very fond of and ALDI we think is a leader in that space.

What was your first question, John? I apologize.

John Massocca – *Ladenburg Thalmann - Analyst*
Just kind of maybe some color on how you originated those two deals.

Joey Agree - *Agree Realty Corporation – President & CEO*
Oh, right. Yes, it's a good question. Very different sources. I'll tell you that the ALDI Chickasaw, Oklahoma is through our PCS platform with a private developer. It's a former Staples box that the developer is converting to an ALDI. And so, we're working hand in hand and we'll obviously own that asset fee simple on the balance sheet upon completion with that developer.

The Burlington Coat, which is our first turnkey Burlington Coat, we acquired the land from a large cap shopping center REIT who had been working on the transaction historically with Burlington. Obviously, they have some other areas of focus. And so, it is a REIT that we've worked with historically, we have a great relationship with. We took the transaction, ran with it, and then obviously broke ground this quarter.

John Massocca – *Ladenburg Thalmann - Analyst*
Understood. And then, kind of shifting gears to the balance sheet, understanding that you probably kind of want to get through the issuance under the forward by March 2019, how does that affect your ability to utilize the ATM if your cost of capital is more attractive maybe than the forward price and would you be able to utilize the ATM if your stock price got above $48 and you thought that maybe you could use more than just the equity you have under the forward deal?

Joey Agree - *Agree Realty Corporation - President & CEO*
Yes. It's a good question. We have no restrictions on our ability to raise equity, whether it's through the ATM or anything. So, it really is just another tool in our tool belt. And the ATM, we could turn the ATM on at any time, obviously subject to customary blackout periods.

And just touching on the forward, I would tell you from our perspective it was a unique transaction. And just building upon what Clay said, this was a transaction that allowed us to lock in our intermediate cost of capital, frankly, to avoid the Twitter battles, the trade wars, the Mueller investigation, the Fed speak and all of the external noise that we have out there that we are -- all of us are subject to on a daily basis. Our number one job is capital preservation. We believe that this transaction accomplishes not only that, but it also provides us complete optionality in regard to the balance sheet. And so, the ATM is still able to be opened at any time or traditional overnight offering is still accessible to us.

I think there's three clear takeaways for investors from the forward transaction. One, we're focused on delivering per-share results for the short, intermediate and long term. We're significant shareholders sitting in this room. We're aligned. I think that shows. Two, we will think strategically and then execute tactically to mitigate those external risks that I spoke of and things that are outside of our control to eliminate or mitigate those to the best of our ability. And then, three, and I think most importantly, is this transaction shows that, frankly, I have complete confidence in our team to be able to source high quality opportunities across our three investment platforms. Because we are not gratuitous capital raisers here.

And so, I think those three things are what we looked at. And the forward solved for those three things. And so, all tools remain in our tool belt. What this does is mitigate external risk, lock in a cost of capital for an intermediate term and, frankly, allow us to focus on what we do best, and that's source high quality real estate transactions and actively manage our portfolio.

John Massocca – *Ladenburg Thalmann - Analyst*
Appreciate the color. That's it for me. Thank you very much.

Operator
Todd Stender; Wells Fargo.

Todd Stender – *SunTrust - Analyst*
Just back to Belle Tire, I think you gave the rent coverage, but how about the lease term and the initial lease yield that you entered at?

Joey Agree - *Agree Realty Corporation - President & CEO*
Yes. So, these are 20-year absolutely net master lease. I can't give you exact cap rates or dollar amounts to it, Todd. But I'd tell you it's in line with historical transactions for us. Seven stores, master lease, annual escalations. So, it's a strong lease, again, 3x coverage, like you said.

Todd Stender *– SunTrust - Analyst*
Okay. Thank you. And then how about the ALDI? It's a build-to-suit project. I think the lease term is 10 years, which seems a little shorter than what we're used to seeing from you guys. Maybe a little color around there?

Joey Agree - *Agree Realty Corporation - President & CEO*
Yes, sure. So it's really a retrofit of a former Staples box that the developer is really driving the bus on. Those retrofits for back-fill second-generation space, ten-year transactions with ALDI are standard. Frankly, they typically don't go beyond 10 years except on their typical build-to-suits which are typically ground lease structures, as I mentioned, which go out to 20 years. So, it's a retrofit of a former Staples box, 10-year base term, obviously ALDI corporate credit, and has a lower basis due to the retrofit nature of the former Staples.

Todd Stender – SunTrust – Analyst
And you already own ALDI's? Did I hear that right?

Joey Agree - *Agree Realty Corporation - President & CEO*
We do. I believe all of them are actually ground leases where ALDI constructed their building. And those were 20-year leases.

Todd Stender – SunTrust – Analyst
So no existing master lease that this would go into?

Joey Agree - *Agree Realty Corporation - President & CEO*
No. No existing master lease and I think it would be fair to bet that ALDI has absolutely no master leases because, frankly, they don't even really like to lease, generally speaking, unless they're backfilling. But they don't typically master lease.

Todd Stender – SunTrust – Analyst
Okay, great. Thank you.

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, thank you, everybody, for joining us. Good luck for the remainder of earnings season. And we look forward to seeing everybody at the upcoming NAREIT conference. Thank you.

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