EDITED TRANSCRIPT

Agree Realty Corporation's
Third Quarter 2021 Earnings Conference Call
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PRESENTATION

Operator:

Good morning, and welcome to the Agree Realty, First Quarter 2021 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 Nicole Witteveen, Executive Vice President and Chief of Staff. Please go ahead, Nicole.

Nicole Witteveen | Agree Realty Corporation | EVP, Chief of Staff

Thank you. Good morning, everyone, and thank you for joining us for Agree Realty's Third Quarter 2021 Earnings Call. Before turning the call over to Joey and Peter to discuss the results for the quarter, let me first run through the cautionary language.

Please note that during this call, we will make certain statements that may be considered forward-looking under federal securities law. Our actual results may differ significantly from the matters discussed in any forward-looking statements for a number of reasons, including uncertainty related to the scope, clarity and duration of the Covid-19 pandemic, the actions taken to contain the pandemic or mitigate its impact, and the direct and indirect economic effects of the pandemic and the containment measures of us and our tenants.

Please see yesterday's earnings release and our SEC filings, including our latest annual report on Form 10-K and subsequent reports, for a discussion of various risks and uncertainties underlying our forward-looking statements.

In addition, we discuss non-GAAP financial measures, including core funds from operations or core FFO, adjusted funds from operations, or AFFO, and net debt to recurring EBITDA. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures can be found in our earnings release, website and SEC filings.

I'll now turn the call over to Joey.

Joey Agree | Agree Realty Corporation | President & CEO

Thank you, Nicole. I'm very pleased to report that we achieved record investment volume of approximately $1.1 billion through the first nine months of 2021, with continued momentum heading into the fourth quarter of the year. While replicating these investment volumes is a testament to the efforts of our talented team, I am most pleased with the exceptional quality of the investments that we have made in a challenging environment.

While our investment activities further strengthened our best-in-class retail portfolio, we have also fortified our robust balance sheet with $1.5 billion of capital markets transactions year-to-date, positioning our Company for dynamic growth in the quarters ahead. Notably, we completed our inaugural preferred equity offering during the third quarter, raising $175 million at a 4.25% coupon. This represents the lowest non-PSA REIT preferred equity coupon in history and provides a new source of perpetual capital for our rapidly growing company.

During the third quarter we invested approximately $343 million in 83 high-quality retail net lease properties across our three external growth platforms. 80 of these properties were sourced through our acquisition platform, representing acquisition volume over $340 million. The 80 properties acquired during the third quarter are leased to 49 tenants operating in 20 distinct retail sectors, including best in class operators in off-price retail, convenience stores, tire and auto service, home improvement, auto parts, grocery and general merchandise. The acquired properties had a weighted-average cap rate of 6.2% and a weighted-average lease term of 10.7 years.

As mentioned, through the first nine months of the year we've invested a record $1.1 billion in 226 retail net lease properties spanning 40 states across the country and 26 retail sectors.

While raising the lower end of our acquisition guidance for the year to $1.3 billion, our thoughtful & disciplined approach is evidenced by the nearly one third of annualized base rent acquired year to date derived from ground lease assets and roughly 70% of annualized base rent acquired derived from leading investment grade retailers.

During this past quarter we executed on several unique transactions including our third Amazon Fresh store in Illinois. We're excited about the opportunity to add yet another Amazon Fresh store to the portfolio, located in a prominent Chicago suburb with median household incomes of $110,000 and a daytime population of roughly 225,000 within a 5-mile radius.

Our acquisition team also continues to uncover compelling ground lease opportunities. During the quarter, we completed the acquisition of a 9-property portfolio of Thorntons convenience stores for approximately $21 million. The stores, which are paying an average annual rent of only $120,000 per year and have a weighted-average lease term close to 20 years, are all well located in the Nashville and Chicago MSAs.

Shortly after executing a letter of intent to purchase this portfolio, BP announced they are taking full ownership of the Thorntons convenience-store chain after two and a half years as part of a joint venture established in 2019. This transaction makes BP, which is an A- rated company by S&P, one of the leading convenience store operators in the Midwest with more than 200 stores across six states.

Other notable ground lease acquisitions during the quarter include a Walmart & Sam's Club in Lansing, Michigan, two Lowe's stores located in Wallingford, Connecticut and Abingdon, Massachusetts, and a CVS in Springfield, Massachusetts.

We've acquired 73 ground leases year-to-date for total investment spend of nearly $350 million representing nearly 31% of acquisition spend for the entire year. This includes 28 ground leases during the third quarter representing investment volume of over $108 million.

As of September 30th, our ground lease exposure reached a record of nearly 14% of annualized base rents. The ground lease portfolio now derives roughly 87% from investment grade tenants and has a weighted-average lease term of 12.1 years with an average rent of less than $10 per square foot. This portfolio continues to represent an extremely attractive risk-adjusted investment for our shareholders.

On recent earnings calls and discussions, there's been considerable dialogue on our ground lease portfolio and its valuation. I would encourage everyone to take a look at the new slide we recently added on page 10 of our investor presentation, which compares our ground lease portfolio to the 10-year Bloomberg BBB index which has been trading between 2 – 3% over the past 12 months. This is a very compelling comparison when thinking about the value of our ground lease portfolio, which has a weighted-average credit rating of BBB+, over two years of additional term in comparison to the Bloomberg BBB index and internal growth of nearly 1%.

As of September 30th, our portfolio's total investment grade exposure was approximately 67%, representing close to a 500 bps year-over-year increase. On a two-year stacked basis, our investment grade exposure has improved by roughly 1,000 basis points.

Moving on to our development and Partner Capital Solutions program, we continue to uncover compelling opportunities with our retail partners. We had seven development and PCS projects either completed or under construction during the first nine months of the year that represent total committed capital of approximately $40 million.

I'm pleased to announce we commenced construction during the quarter on our third development with Gerber Collision in New Port Richey, Florida. Gerber will be subject to a new 15-year net lease upon completion, and we anticipate rent will commence in the second quarter of 2022.

Construction continued during the third quarter on two development and PCS projects with anticipated costs of just over $5 million. The projects consist of our first 7-Eleven development in Saginaw, Michigan and a Gerber Collision in Pooler, Georgia.

We remain focused on leveraging our three external growth platforms and our differentiated asset management capabilities to expand our relationships with best-in-class retailers, providing comprehensive solutions that facilitate their real estate strategies and growth plans.

While we continue to strengthen our best-in-class retail portfolio through record investment activity, we remained active on the disposition front during the third quarter. We continued to reduce exposure to franchise restaurants and non-core tenants through the disposition of three properties for total gross proceeds of approximately $11.8 million with a weighted-average cap rate of 6.3%.

As of 9/30, we've disposed of 13 properties for gross proceeds of just over $48 million and are maintaining our disposition guidance of $50 million to $75 million for the year.

Bolstered by the recent addition of David Darling as our Vice President of Real Estate, the asset management team continues to diligently address upcoming lease maturities. Their efforts have reduced our remaining 2021 maturities to just four leases representing 10 basis points of annualized base rents.

During the third quarter, we executed new leases, extensions or options on approximately 72,000 square feet of gross leasable area. Through the first nine months of the year, we executed new leases, extensions or options on approximately 347,000 square feet of gross leasable space. Our 2022 lease maturities are de minimis with only 19 leases maturing representing less than 1% of annualized base rents expiring over the course of the next year.

As of September 30th, our expanding retail portfolio consisted of 1,338 properties across 47 states, including 162 ground leases, and remains effectively fully occupied at 99.6%.

Notably and as pointed out in our press release, Walgreens and LA Fitness are no longer top tenants for our company. Both now represent less than 1.5% of annualized base rents. For those that have been following our Company over the years, this reduction in Walgreens exposure is a true milestone given our historical exposure which once approached 40% of our portfolio. We have made a concerted effort to approach to tailor our pharmacy exposure given the high per square foot rental rates of many vintage pharmacy leases and the divergent approaches of CVS and Walgreens to a quickly changing landscape.

Before I turn the call over to Peter to discuss our financial results, I'd like to welcome Mike Judlowe to our Board of Directors. Many of you are familiar with Mike as he most recently served as the Chairman of the US Real Estate, Gaming and Lodging Investment Banking practice at Jefferies. Over the course of his career, Mike has raised in excess of $50 billion of capital through numerous transactions. Having had the opportunity to work with Mike for many years, I am extremely excited to leverage his unique perspectives and experiences as our Company continues to dynamically grow and evolve.

With that, I'll hand the call over to Peter to discuss our financial results for the quarter.

Peter Coughenour | Agree Realty Corporation | Interim CFO

Thank you, Joey. Starting with earnings, core funds from operations for the third quarter was $0.92 per share, representing a 13% year-over-year increase. Adjusted funds from operations per share for the quarter increased 11.5% year-over-year to $0.89.

As a reminder, treasury stock is included within our diluted share count prior to settlement, if and when ADC stock trades above the deal price of our outstanding forward equity offerings. The aggregate dilutive impact related to these offerings was roughly $0.005 in the third quarter.

As mentioned on the last 2 calls, we expect to achieve high single-digit earnings growth for full year AFFO per share. Building upon our 6% AFFO per share growth in 2020, this implies 2-year stacked growth in the mid-teens. We view this level of per-share growth as very compelling when combined with the strength of our portfolio and our fortress-like balance sheet. This consistent and reliable earnings growth continues to support our growing and well-covered dividend.

During the third quarter, we declared monthly cash dividends of $0.217 per common share for July, August and September. On an annualized basis, the monthly dividends represent an 8.5% increase over the annualized dividend from the third quarter of last year. While meaningfully increasing the common dividend over the past year, we maintain conservative payout ratios for the third quarter of 71% of core FFO per share and 73% of AFFO per share, respectively.

Subsequent to quarter-end, we again increased the monthly cash dividend by 4.6% to $0.227 per common share for October. The monthly dividend reflects an annualized dividend amount of $2.72 per share or a 9.8% increase over the annualized dividend amount of $2.48 per share from the fourth quarter of 2020. On a 2-year stack basis, this reflects annualized dividend growth of more than 15%.

General and administrative expenses for the third quarter, which were impacted by recent changes to the company's executive officers, totaled $5.7 million. G&A expense was 6.5% of total revenue or 6%, excluding the noncash amortization of above and below market lease intangibles.

While we continue to invest in people and systems to support our dynamic and growing business, we still anticipate that G&A as a percentage of total revenue will be roughly 7% for full year 2021. This excludes the impact of lease intangible amortization on total revenues.

As mentioned last quarter, G&A expense for our acquisitions team fluctuates based on acquisition volume for the year. And our current anticipation for G&A expense reflects acquisition volume within our new guidance range of $1.3 billion to $1.4 billion.

Total income tax expense for the third quarter was approximately $390,000, which was slightly lower than our expectation due to a one-time refund. We continue to anticipate total income tax expense for 2021 to be close to $2.5 million.

Moving on to our capital markets' activities for the quarter, as Joey mentioned, in September, we completed our inaugural preferred equity offering, raising $175 million of gross proceeds at a record low coupon of 4.25%. This attractive offering demonstrates our ability to opportunistically access yet another source of capital to support the continued growth of our company.

During the third quarter, we entered into forward sale agreements in connection with our ATM program to sell an aggregate of approximately 367,000 shares of common stock for anticipated net proceeds of roughly $27 million. During the quarter, we also settled close to 886,000 shares under forward ATM sale agreements and received net proceeds of approximately $56 million.

At quarter-end, we had approximately 3.4 million shares remaining to be settled under existing forward sale agreements, which are anticipated to raise net proceeds of more than $226 million upon settlement.

Inclusive of the settlement of our outstanding forward equity, our fortified balance sheet stood at approximately 3.7x net debt to recurring EBITDA. Excluding the impact of our unsettled forward equity, our net debt to recurring EBITDA was approximately 4.4x. If you include our recent preferred equity offering and net debt, this adds roughly half a turn of leverage to our net debt to recurring EBITDA metrics.

At 9-30, total debt to enterprise value was just under 25%, while our fixed charge coverage increased to a record 5.1x.

With full availability under our revolving credit facility and nearly $830 million in total liquidity, we have tremendous flexibility to execute on our growth plans.

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

Joey Agree | Agree Realty Corporation | President & CEO

Thank you, Peter. At this time, operator, we'll open it up for questions.

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QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. (Operator Instructions). Brad Heffern with RBC Capital Markets.

Brad Heffern | RBC Capital Markets
I was wondering on the acquisition front, if you could talk through the relative attractiveness of the investment-grade versus sub-investment-grade this quarter? I noticed it was a little bit below the normal proportion for the portfolio overall, and it was down quite a bit sequentially.

Joey Agree | Agree Realty Corporation | President & CEO
First off, we're focused on our sandbox of industry-leading retailers, that 25 to 30 retailers across the country, that have generally speaking, have investment-grade credit ratings and/or a ground lease asset where we see residual upside. And so notably this quarter, we acquired a shorter-term out lot portfolio of unrated tenants. We don't impute any scores or rating to those included there are a Chipotle, Chick-Fil-A, a KFC franchise and Outback Steakhouse.

Just for example, the Outback is paying $[950] a foot on the 2-acre site, $63,000 a year. We see tremendous upside if we were able to get that asset back. We acquired a Publix. Obviously, it doesn't have a credit rating; you can impute an investment-grade credit rating to Publix, if you like, in South Carolina.

Lastly, we acquired BJ's in Wallingford, Connecticut, immediately adjacent to the Lowe's we own in Wallingford as well, right on the toll road, a great piece of real estate, high-performing store; low rent and clear visibility into the residual of the real estate there. So you'll see those numbers investment grade and/or term ground lease as well fluctuate from quarter-to-quarter. But I think over the course of the year, it's pretty consistent.

Brad Heffern | RBC Capital Markets
Okay. Got it. And then on ground lease, you all continue to acquire sort of the 30% level every quarter. Is that what we should sort of think of as the long-term goal for ground leases as a percentage of the portfolio? Any color you could put around how big you want it to eventually be?

Joey Agree | Agree Realty Corporation | President & CEO
We see, as I mentioned in our prepared remarks, tremendous opportunity. We think the valuation of that portfolio when you comp it to something like the BBB Index is extremely compelling. In terms of a go-forward basis, we're opportunists at our core. The Outback that I just mentioned is a perfect example there. We'd love to get that asset back and re-lease it for 3x of the current rent.

So we'll see those transactions continue to materialize. There's a number of them in Q4. Visibility into 2022 is still pretty light here at the beginning of November. But we're focused on finding best-in-class opportunities on a risk-adjusted basis.

Brad Heffern | RBC Capital Markets
Okay. Thank you.

Operator
Katy McConnell with Citi.

Katy McConnell | Citigroup
Can you discuss what the acquisition pipeline looks like today? And have you seen any notable changes in the opportunities that are pricing trends that might contribute to some conservatism that you're assuming for 4Q?

Joey Agree | Agree Realty Corporation | President & CEO
Katy, I wouldn't read too much into the upper end of our guidance being raised. There's certainly no deceleration in our pipeline. We have a few hundred million dollars, close to 100 properties in our pipeline today. It's really just a question of timing when those close. So does it close by year-end, does it push into next year? A lot of that is under our control subject to a seller and/or our retailer. And so I can say with confidence here, the pipeline is in place to continue to execute on the granular nature of our traditional transactions, or a much larger transaction if that comes about, or comes to fruition.

So you can combine the team here in conjunction with our ARC system, it's a powerful combination. We'll continue to execute. I wouldn't read into any guidance not being raised at year-end here, or the $1.4 billion not being raised. It's quite possible we will hit it or exceed it subject to timing.

Michael Bilerman | Citigroup
Yes, Joey, it's Michael Bilerman. Just going back to the ground lease portfolio, and you and I discussed this earlier when you started to really accelerate the ground lease assets. If you're not going to get a commensurate decline in your cost of capital -- and I can understand the residual value that could be embedded in some of these, which are quite long duration, so it's not always immediate in terms of getting to that opportunity. I'm sure you're going to tell me examples that you have.

But in aggregate, you're not going to be able to get the residual value as quickly. And I'm not sure the market gives you value, especially if your cost of capital is not declining to the same degree to create the same level of accretive growth. So are you thinking at all about different structures for the ground lease portfolio, or how do you -- help us understand why buying a ground lease, even I understand the risk-adjusted relative to BBB's argument, but that's not how your stock sort of trades. And so I'm just trying to better understand why go after lower-yielding even if they are more secure longer term. How does that really drive your cash flow growth, to which would we get a higher multiple?

Joey Agree | Agree Realty Corporation | President & CEO
No, I appreciate the question. We've obviously made a focus here and an emphasis, put an emphasis on communicating and articulating the value proposition of the ground lease portfolio. First, we're not reaching for yield in terms of chasing cap rates or -- in the ground lease portfolio, generally, the ground lease assets on an individual basis at acquisition are in line with our acquisition cap rates.

What we've done is pivot with our capabilities, with our relationships with retailers and owners, developers, sellers, is really a flight to quality, and so we see tremendous upside. Now these aren't 99-year ground leases, i.e., leasehold interest or something of the like in the safehold, where 99-year ground leases and you're never getting the residual back. The Outback is a good example of that.

I think it's -- there's two ways to go in an environment where you see continued cap rate compression. It's continue to drive toward quality and find asymmetric and unique opportunities, or you can go up the risk curve in terms of credit or term or single-purpose buildings, which you won't see us do. So I think the premise of that question, we're not going to reach for yield in terms of ground lease. They're going to be effectively in the same range as our standard net leases.

Michael Bilerman | Citigroup

And then if we can just transition to the CFO side of the equation, obviously, you and Simon Leopold sort of, I guess, broke up in mid-August. He only had come into the CFO role six or seven months before that, was a Board member for a period of time before that. And look, over the years, this will be CFO, I think, number four or fiveover the last decade. Help us understand what's going on in that role. Why isn't there more -- and I know you're going to -- I know every situation is specific. But it's rare to see the turnover in a company that's growing as fast as yours, and that has performed well and hasn't had the hiccups that you would normally see with a lot of executive turnover. So what is it about that role that's not getting sticky within the company? And how are you thinking about filling the role going forward? And just take us through a little bit of what's happened.

Joey Agree | Agree Realty Corporation | President & CEO

I appreciate the question. Peter, can you plug your ears or leave the room, please? Just kidding.

Well, look, I think Simon and Joey didn't break up, that's first of all. There was no personal animosity; there was no challenge personally or strategic challenge there in terms of the performance of the company on a go-forward basis. That was just a case of operating styles or operating models not syncing. It was obviously -- it was disappointing for us. We quickly pivoted and understood that we needed to separate. And I think both parties -- it's better off for both parties there. So that's what I'll say about Simon. We only wish him the best and continues to be a friend.

In terms of the CFO, look, we've had a -- we will continue to execute on this search. We will do our diligence. Peter is doing a tremendous job -- you can unplug your ears now. Peter is doing a tremendous job here executing on the preferred offering and now earnings. We're going to continue to do our diligence on this search. Look, it's been unique circumstances and set of events with these CFOs. Two left on their own volition for other -- one for a personal reason and one for a professional opportunity that didn't work out for them in another state.

And so it's incumbent upon us to make the right choice for this seat for this company. Most importantly, this is an operating seat and so it's -- we're not out there pontificating or thinking strategically about things that aren't aligned with our operating strategy. Everyone here in the 60-person company rolls up their sleeves and has to execute to really a disciplined operating strategy. So that's most important.

And we've taken the last several months here, a few months, to really evaluate this seat. I've had a number of conversations with not only candidates, but existing REIT CEOs, as well as under industries to think about how the CFO search here should culminate in a permanent successor. David Wolff, our Chief Accounting Officer, is sitting here; we have a fantastic Chief Accounting Officer in David, and accounting team that's really closing the books here in day-to-day accounting.

And so now it's incumbent upon us to figure out what the right role and responsibilities for the CFO here at Agree Realty and a growing company like this are.

Michael Bilerman | Citigroup
Right. I guess is there any introspective that you have on yourself or the Board because it is -- I know every situation has got their reasons or rationale. It just has happened a little bit often. So I'm just wondering if there's a reflection of maybe your own management style, or how you like to work with people, how the Board is involved? It is rare, right?

You obviously knew Simon well; he was a Board member even for a short period of time. These things don't happen that often, Joey, and I feel like it's come up. You've had to explain things away a few too many times. And so I'm just trying to understand if there's a larger thing going on that's not keeping the CFO's butt in their seats.

Joey Agree | Agree Realty Corporation | President & CEO
The succinct answer to that question, the last part of the question, is no, there is no larger thing going on. This isn't a personal dynamic with Joey. This is -- right, this is part of being -- a part of a broader leadership team at a growing, dynamic company. Even comparing the CFO seat today to two years ago, let alone three, four, five years ago here, required just such different skill sets. 5.5 years ago, we moved into the current building that we're in with 14, 15 employees; today, we're at 60 team members here.

And so I think to the first part of your question, yes, 100%, there is an introspective look in the mirror. We'd be ignorant, frankly, not to look in the mirror and say what do we have to do differently, but also -- and what can we do better. But also what is -- how has this role changed in context of the overall growth of this company? We're a $7 billion, approaching $7 billion enterprise, more likely than not, soon to be $10 billion enterprise with a dynamic team here.

And so the introspective piece here is both go -- looking backwards, but also looking forwards. And again, I would emphasize that this is a team that is committed to producing consistent results and also is committed to working both in and on the business. We aren't golfers here; we take this thing seriously. We operate it like it's a private company in the sense that we have an ownership mentality, that's probably our most important core value.

Michael Bilerman | Citigroup
Great. Thanks for the time, Joey.

Operator
Linda Tsai with Jefferies.

Linda Tsai | Jefferies Group, LLC
Looking at Slide 16 of your IR deck, “Sandbox Offers Runway for Growth”. And you show the different retailer categories. Where are you seeing the best opportunities from a risk-adjusted basis as you continue to build the pipeline for 2022?

Joey Agree | Agree Realty Corporation | President & CEO
Linda, I think it's across the full spectrum for us. So we saw the surge in grocery due to the Kroger transaction and the Wegmans transaction in Q2. Now this quarter, we see divergent again. We've emphasized the Amazon Fresh, the third in the portfolio. But it's really across the sectors that we're targeting, but most importantly, across the sandbox of retailers. Obviously, the ground lease opportunities span the full spectrum all the way from a casual dining opportunity like the Outback I highlighted, to a Walmart, Costco, Lowe's or Home Depot. And so it's pretty fragmented this quarter.

The C-store emphasis with the Thorntons transaction, as well as a ground lease to Royal Farms, that we also acquired, were very unique. But the most interesting part about this business is the pipeline changes every day. And again, I emphasize there's no rhyme or reason for that change; it's what the origination team continues to dig up. So I'd tell you, it's extremely divergent.

Linda Tsai | Jefferies Group, LLC
Got it. And then just given the lift that retailers have seen across the board in 2021, has your underwriting changed at all to accommodate for this more positive environment? I know you mostly have material exposure to necessity-based and IG retailers. But even these guys have done a little bit better than usual.

Joey Agree | Agree Realty Corporation | President & CEO
No, I'd tell you it hasn't changed our underwriting. If anything, it's emphasized that we have a firm belief that the strong or the big are getting bigger; the access to capital, their balance sheet, their ability to invest in price, even in a supply-constrained environment and compete, as well as their ability to invest in an omni-channel future. So but we've seen sales surges, pent-up demand across the categories; we've seen some idiosyncrasies in different sectors. Everyone's got a bike or a shotgun or whatever they're buying at Academy Sports today. We've seen some unique changes there, but we think those are cyclical or cyclical, and will normalize here, hopefully sooner rather than later in terms of consumer behavior.

So the environment continues to be what we expect. The big have the access to capital; they have the ability to invest in those two most important pieces of their business today, competitive on price and an omni-channel future, which obviously is paramount.

Linda Tsai | Jefferies Group, LLC
Thanks. Just one last one -- on the past couple of earnings calls, you've verbalized your earnings growth expectations for the year. For 2022, should we expect the same type of communication?

Joey Agree | Agree Realty Corporation | President & CEO
It's a good question. Look, we're looking at all options, including providing all the way from providing formal earnings guidance all the way to the similar strategy we've executed this year. I'll tell you, our expectation is a continued upper-single-digits earnings growth profile in terms of AFFO. We have the ability to do that with an extremely strong balance sheet, investing in the best retailers in the country with superior real estate. And that's what you're going to see us execute and do.

Linda Tsai | Jefferies Group, LLC
Thank you.

Operator
Tayo Okusanya with Credit Suisse.

Tayo Okusanya | Credit Suisse
Joey, you guys are still pretty bullish on your acquisition outlook. A bunch of your peers put out 2022 guidance this morning as well with very strong acquisition outlooks. I guess what I'm curious about is, number one, what's kind of really driving everyone still being so bullish, and being able to kind of match or even be kind of what are record acquisition volumes this year, especially given the backdrop of everyone getting concerned about higher interest rates, higher inflation and things of that sort?

Joey Agree | Agree Realty Corporation | President & CEO

I wouldn't want to answer for our peers. Ours is opportunistic. It's 100 transactions approximately, right, at any given time, moving through our pipeline, average price points of $4 million to $5 million, ranging from $1 million to $80 million. I wouldn't want to speak for our peers. I'll tell you across REIT, when you see favorable cost of capital, you see, generally speaking, companies deploy them in terms of external growth.

And the next question is, what is the quality of the underlying real estate credit residual that people are acquiring? And so I know what our strategy is specifically here. It starts with that omni-channel critical e-commerce-resistant necessity-based approach on a granular basis, open to larger opportunities if they fit within the context of this portfolio and obviously, are accretive. I can't speak for what other REITs or other peers are acquiring. But I think given the favorable cost of capital, you see them continuing to achieve spreads that they think make sense in context of their overall portfolios.

Tayo Okusanya | Credit Suisse

Okay. That's helpful. And then just a quick second question. You guys have relatively low leverage at this point. Why the decision to go down the pref route, rather than just kind of issue straight-up debt that would have lower interest rates?

Joey Agree | Agree Realty Corporation | President & CEO

I'll turn that question over to Peter. I'd tell you, when we heard 4.25%, as Peter mentioned in the prepared remarks, a non-PSA record at 4.25%, it was extremely attractive. Now obviously, that preferred equity is a hybrid security. We think perpetual paper at 4.25% with a callability feature after five years was extremely attractive, and again, non-PSA record.

But I'll turn that over to Peter, he really executed on that deal.

Peter Coughenour | Agree Realty Corporation | Interim CFO

Thanks, Joey. I'd just mention when we've historically looked at the preferred market, to Joey's point, the pricing hasn't always made sense in the context of other capital sources. But this past summer, we saw several REITs print very low coupons relative to what they've been able to achieve historically; and thought it made sense for us to explore that market further. The market dynamics when we were taking a look seemed favorable. There's a lot of demand for high-quality investment-grade paper.

And given that anticipated pricing and strong demand, as well as the fact we really didn't have a need for a $300 million index-eligible bonds, we thought that it made sense to issue our inaugural preferred offering, and really open up another source of capital for the company as we continue to grow.

In terms of the execution of that offering, the demand was stronger than we anticipated. And we were able to upsize the deal from $100 million to $175 million in tighten pricing down to 4.25%, as Joey mentioned, with a really strong order book and strong institutional demand. So it was great execution for the company.

Tayo Okusanya | Credit Suisse

Makes sense. Thank you.

Operator
Wes Golladay with Baird.

Wes Golladay | Robert W. Baird & Company
I just want to stick with the preferred. When I look at the portfolio, it's very high quality. And the company's balance sheet is very strong with low leverage and it is a risk-on environment. So I want to see what your appetite is to get a little bit more leverage to the common via the preferred?

Joey Agree | Agree Realty Corporation | President & CEO
Well, I think the preferred ought to inherently -- if you look at net debt plus preferred to EBITDA, inherently levers us up an additional half a turn. Now again, with no maturity in a callability feature with perpetual paper, our stated range of 4x to 5x is exclusive of that preferred in that half turn that adds to our current leverage profile. So it does provide for us to quote, unquote, "lever up." Obviously, when we look at it both in both directions here, both as an equity substitute, as well as the ability to add incremental leverage without a maturity.

Wes Golladay | Robert W. Baird & Company
So would I guess a half a turn be where you would be comfortable with as you grow the company?

Joey Agree | Agree Realty Corporation | President & CEO
Certainly, again, our stated range of 4x to 5x is exclusive of the preferred, but we're certainly comfortable at 5.5x with the preferred, so inclusive of the preferred, so you can look at it. And we understand investors and sell-side look at it both ways, preferred as well as the rating agencies, we've had continued dialogue with. As Peter mentioned, the ability to raise $175 million at 4.25%, effectively right on our weighted average cost of capital and then invest it with 200-basis point spreads into perpetuity there, we think that was extremely attractive for us.

Wes Golladay | Robert W. Baird & Company
Got it. And then I guess when you talk to existing tenants, I guess what is your appetite for new projects to go into the development in PCS project pipeline for next year?

Joey Agree | Agree Realty Corporation | President & CEO
So it varies across-the-board by tenant and generally by sector. We see a lot of activity, obviously, in the off-price space; we see a lot of activity in the auto and tire service space, and so it truly varies. At the same time, we see the home improvement retailers, most notably Home Depot and Lowe's, not looking for net new stores, but investing in their omni-channel distribution initiatives. And so it varies across retailers.

There are definitely retailers on a freestanding basis that are expanding throughout this country. Our third Amazon Fresh store, obviously, they're expanding and people read the news. And so it really varies by retailer and by sector today. You have guys that are contracting and guys that are growing aggressively.

Wes Golladay | Robert W. Baird & Company
Got it. Thanks for the time.

Operator
This concludes the 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 for joining us, everybody, today. We look forward to catching up virtually at the upcoming NAREIT in about ten days. We'll talk to you soon. Thank you.

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