EDITED TRANSCRIPT

Agree Realty Corporation's
First Quarter 2022 Earnings Conference Call
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PRESENTATION

Operator
Good morning, and welcome to the Agree Realty Corporation's First Quarter 2022 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 Reuben Treatman, Director of Corporate Finance. Please go ahead, Reuben.

Reuben Treatman | Agree Realty Corporation | Director, Corporate Finance
Thank you. Good morning everyone and thank you for joining us for Agree Realty's First Quarter 2022 Earnings Call. Before turning the call over to Joey and Peter to discuss our 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, severity 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 on us and our tenants. Please see yesterday's earnings release and our SEC filings, including our latest Annual Report on Form 10-K, 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
Thanks, Reuben, and thank you all for joining us this morning.

I'm pleased to report that we're off to a very strong start in 2022. The first quarter marked record development and Partner Capital Solutions starts as well as our second highest quarter of acquisition volume in the Company's history. While continuing to execute across our three external growth platforms, we were very pleased that our fortress-like balance sheet and disciplined portfolio construction received an upgrade from Moody's to Baa1.

During the first quarter, we invested approximately $430 million in 124 high-quality retail net lease properties across our three external growth platforms. 106 of these properties were originated through our acquisition platform, representing acquisition volume of just over $407 million.

While investment volume was impressive, we maintained our disciplined focus on best-in-class opportunities with our leading retail partners as demonstrated by more than 74% of first quarter acquisitions being comprised of investment grade retailers.

The 106 properties acquired during the first quarter are leased to 42 tenants operating in 20 distinct sectors, including leading operators in farm and rural supply, dollar stores, home improvement, general merchandise, tire and auto service, and auto parts.

We executed on several notable transactions during the quarter including the 55-property, $180 million portfolio discussed on our last earnings call. The acquired portfolio has a weighted average lease term of nearly ten years and derives approximately 90% of annualized base rent from a diversified set of investment-grade retailers. Top tenants include: Tractor Supply, CVS, Dollar General, Sherwin-Williams, Advance Auto Parts, and O'Reilly Auto Parts.

For the quarter, the total properties acquired had a weighted-average cap rate of 6.0% and had a weighted-average lease term of 9.2 years. Excluding the 55-property portfolio, the properties acquired during the quarter had a weighted-average cap rate of 6.2%.

During the first quarter we also acquired six Sunbelt Rentals stores in North Carolina, New York, Washington, Florida, and Michigan. Several years ago, we identified Sunbelt and their parent Ashtead Group as a compelling and aligned partner, with the only investment grade credit profile in their respective space. Our decision to invest in Sunbelt Rentals was recently reinforced by their upgrade to BBB by Fitch. We continue to look for opportunities to build our relationship with Sunbelt across all three of our external growth platforms.

Given our significant acquisition activity in the first quarter and robust pipeline, we are increasing our full-year 2022 acquisition guidance to a range of $1.4 billion to $1.6 billion, representing a 25% increase at the midpoint. While the midpoint of our increased acquisition guidance would represent record volume for the Company, we have not and will not sacrifice quality or yield. We continue to believe that retail is dynamically evolving and remain intent on investing in those retailers best positioned to succeed in an omni-channel and dynamic world.

Moving on to our development and Partner Capital Solutions platforms, this quarter demonstrates the result of our efforts to provide comprehensive real estate solutions to our retail partners through our programmatic relationships as well as the modifications and additions we have made to our Team to

increase productivity. Lead by our Chief Operating Officer, Craig Erlich, our development and construction team is working around the clock on a host of exciting projects.

During the quarter, we commenced a record 15 new development and PCS projects including 13 geographically diverse Gerber Collision locations, a Sunbelt Rentals in St. Louis, Missouri, as well as a Burlington in Turnersville, New Jersey. We completed our first development with 7-Eleven in Saginaw, Michigan during the quarter, while construction continued on two Gerber Collision projects in Pooler, Georgia and New Port Richey, Florida.

In total, we had 18 projects either completed or under construction during the first quarter, representing $53 million of committed capital. On last quarter's call, I mentioned our expectation to commence between $50 million and $100 million through our development and PCS platforms this year, and we've now surpassed the low-end of that range and our pipeline continues to ramp.

Our value proposition remains unique and distinct. Our three-pronged external growth strategy, combined with our outstanding Asset Management platform, continues to provide a full-service solution for the country's premier retailers.

Moving on to dispositions, we sold one property opportunistically for total gross proceeds of approximately $8 million during the quarter. The property was a recently acquired ground leased convenience store. Notably, we acquired the property during the third quarter of 2021 and received an unsolicited offer shortly thereafter. We sold the asset at just over a 4 cap, approximately 200 basis points below the initial acquisition yield, resulting in a gain of over $2 million in just under 6 months. While this was a one-off transaction, it demonstrates the embedded value in our ground lease portfolio and validates the compelling risk-adjusted returns that we've discussed on prior calls.

During the quarter, we executed new leases, extensions or options on approximately 358,000 square feet of gross leasable area. Notable new leases, extensions or options included a Walmart in Ohio and a Best Buy in Amarillo, Texas. As a result of our Asset Management team's efforts, at quarter end our 2022 lease maturities stood at just .4% of annualized base rents, representing a year-over-year decrease of approximately 80 basis points.

At quarter end, our quickly growing retail portfolio surpassed 1,500 properties, a remarkable achievement in terms of our exponential growth in recent years, and consisted of 1,510 properties across 47 states, including 186 ground leases representing 13.5% of total annualized base rents. Our investment grade exposure stood at nearly 68%, representing a two-year stacked increase of more than 800 basis points.

With that, I'll hand the call over to Peter and then we can open it up for any questions.

Peter Coughenour | Agree Realty Corporation | CFO
Thank you, Joey.

Starting with earnings, Core FFO for the first quarter was $0.97 per share, a 15.5% year-over-year increase. AFFO per share for the quarter was also $0.97, representing an increase of 16.4% year-over-year which is the highest AFFO per share growth achieved in 10 years.

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. However, the aggregate dilutive impact related to these offerings was negligible in the first quarter.

Our consistently strong earnings growth continues to support an increasing and well-covered dividend. During the first quarter, we declared monthly cash dividends of 22.7 cents per share for each of January, February and March. On an annualized basis, the monthly dividends represent a 9.7% increase over the annualized dividend from the first quarter of last year. At 71%, our payout ratio for the first quarter was below the low-end of our targeted range of 75% to 85% of AFFO per share.

Subsequent to quarter end, we declared an increased monthly cash dividend of 23.4 cents per common share for April. The monthly dividend reflects an annualized dividend amount of $2.81 per share, or a 7.8% increase over the annualized dividend amount of $2.60 per share from the second quarter of last year.

General and administrative expenses totaled $7.6 million in the first quarter. G&A expense was 7.2% of total revenue excluding the non-cash amortization of above and below market lease intangibles. While we continue to invest in people and systems, our anticipation is that G&A as a percentage of total revenue will continue to scale, decreasing between 20 to 50 basis points as a percentage of total adjusted revenue compared to last year.

Additionally, we continue to anticipate total income tax expense to be in the range of $2.5 million to $3.5 million.

Moving on to our capital markets activities for the quarter. In March, as Joey mentioned, Moody’s upgraded the Company's issuer rating to Baa1 from Baa2 with a stable outlook. The improved investment grade credit rating is a testament to the strength of our balance sheet and reflects the thoughtful and disciplined manner in which we've grown the Company since achieving our initial rating four years ago. The Baa1 credit rating will further improve our long-term access to capital and enhance our ability to execute in the public bond markets. As mentioned on last quarter’s call, we have $300 million of forward starting swaps in place, effectively fixing the base rate for a contemplated long-term unsecured debt issuance at 1.7%.

Near the end of the quarter, we settled approximately 3.8 million shares of outstanding forward equity, realizing net proceeds of $251 million. At quarter end, we still had approximately 4.1 million shares remaining to be settled under the December 2021 forward offering, which is anticipated to raise net proceeds of $263 million upon settlement.

Inclusive of the anticipated net proceeds from our outstanding forward equity, cash on hand and availability under our $1 billion credit facility, we had almost $970 million of liquidity at quarter end.

As of March 31st, our net debt to recurring EBITDA was approximately 4.3 times, proforma for the settlement of $263 million of outstanding forward equity. Excluding the impact of unsettled forward equity, our net debt to recurring EBITDA was approximately 5.0 times.

Total debt to enterprise value at quarter end was approximately 26.5%, while fixed charge coverage, which includes principal amortization and the preferred dividend, remains at a Company record of 5.2 times.

In summary, we continue to maintain a conservative and well positioned balance sheet that affords us tremendous flexibility with proforma net debt to EBITDA of 4.3 times and roughly $970 million of liquidity to fund our robust investment pipeline.

Our significant liquidity, more than $560 million of hedged capital, and our robust pipeline continues to give us confidence in achieving high-single digit AFFO per share growth in 2022. Combined with our nearly 10% AFFO per share growth last year, this implies two-year stacked growth in the high teens. We view that per share growth to be very attractive when combined with our best-in-class portfolio, our fortress-like balance sheet, and extremely 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, Peter. At this time, operator, we will open it up for questions.
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QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. [Operator Instructions]. Joshua Dennerlein with Bank of America.

Joshua Dennerlein | Bank of America Securities
So you had a pretty sizable portfolio acquisition during the quarter. Just curious how that deal came about and maybe what the bidder pool like in the current environment?

Joey Agree | Agree Realty Corporation | President & CEO
Yes, good morning, Josh. I think we talked about it on the last call. That transaction for the portfolio itself, we started to look at it in 2019. At the time, the swap breakage fees for the seller, which is a private individual in the MidAtlantic, were too heavy for him to burden. And so we were re-approached, I believe, in December of last year, and then within three days, had a transaction that was getting papered. And so there was no bidder pool, it was fully off market, a single individual owner with -- that had aggregated the portfolio over several years.

Joshua Dennerlein | Bank of America Securities
Okay, nice. And then I saw you had a record number of starts across your development and PCS programs. Are there any governors on how big your development pipeline can get?

Joey Agree | Agree Realty Corporation | President & CEO
No, I think -- look, we've always said that we're going to deploy our development capabilities selectively in terms of dedicating our time, energy and capital. Of course, we want those projects to hurdle our internal rates to make sense. So we don't see any governor. We've made significant additions to the team, both on the development and construction side, as I mentioned in the prepared remarks. And so we're going to continue to ramp that pipeline opportunistically. We have several projects we anticipate announcing in Q2.

But we think there's ample opportunity right there, given the disconnect between rates and returns for private developers for us to step in. Then we're having a number of conversations with retailers on both programmatic and individual projects.

Joshua Dennerlein | Bank of America Securities
Great. Thanks, guys.

Operator
Rob Stevenson with Janney.

Rob Stevenson | Janney
Joey, just to follow-up on the last question, on the Gerber stuff, was there anything in particular that sort of drove timing of doing that? That was 13 of the 15 development PCS volumes at this point in time, or is this just part of their expansion plans, etc.?

Joey Agree | Agree Realty Corporation | President & CEO
Generally, part of their expansion plans. We continue to look for opportunities with Gerber across all three external platforms. Gerber continues to grow both from a greenfield perspective and an M&A perspective, acquiring generally independent operators. These projects are, I would tell you, about half what we call retrofits, renovations or expansions, and then half greenfield projects. So Gerber continues to take market share in this country, and we see them as a pretty critical partner and industry that is very favorable.

Rob Stevenson | Janney
Okay. And then you guys sold the LA Fitness you acquired in the portfolio deal pretty quickly. How are you thinking about the other LA Fitness locations in the portfolio and the other gyms in the portfolio in general? Are those near-term disposition candidates? Was there something about this one that caused this one to be sold so quickly versus the others? How are you thinking about gyms and fitness going forward?

Joey Agree | Agree Realty Corporation | President & CEO
Yes, just for clarity purposes, that was not part of -- the LA Fitness was not part of the $180 million portfolio. That was part of a Wal-Mart and Home Depot portfolio that we acquired. We agreed to take the LA Fitness, which was based in Houston, but immediately looked to divest of that even pre-close to divest of that at our cost basis. We're just simply not willing to take on incremental specifically LA Fitness exposure, but generally health and fitness exposure unless it's a really low-cost operator or a piece of real estate that we're really in love with. So as you can see, we reported the LA Fitness at 3/31 at 1.5%. But they're truly down to 1.3% just immediately after or subsequent to quarter close.

We still look at the gym sector or the health and fitness sector with general suspicion. We have some impaired balance sheets. Obviously, we still have Covid out there, but I think just the fragmentation of the space, the private equity in the space and just the sheer number of options available for consumers today, really make that space difficult to underwrite for us.

Rob Stevenson | Janney
Okay. And then last one for me. Peter, if you were doing a note issuance today, where have you gotten indications from your Banks group that you could price 5 or 10-year debt versus where you would've been at the end of 2021?

Peter Coughenour | Agree Realty Corporation | CFO
Yes, Rob, first, as noted in the prepared remarks, we have $300 million of forward-starting swaps in place today that have effectively fixed the base rate at 1.7%, what is contemplated as a 10-year unsecured debt issuance. In terms of the spread on top of that base rate, it depends on when we access the market.

Obviously, the capital markets have been somewhat volatile to start the year. But the good news is we are in an excellent position from a liquidity perspective and can be opportunistic in terms of when we access the market and issue additional unsecured debt.

Rob Stevenson | Janney
Okay. Thanks, guys.

Operator
Nicholas Joseph with Citi.

Nicholas Joseph | Citi
With regards to the development pipeline, what are you seeing in terms of construction costs? And how does that ultimately allocate relative to the yield?

Joey Agree | Agree Realty Corporation | President & CEO
Good morning, Nick. Welcome back to net lease. Construction costs continue to rise across the country and so we are very cognizant of where those costs -- these are generally fixed-return projects. I think most tenants are aware that construction costs and also lead times, things like HVAC units, roofing material, both things are factoring into construction cost, but also efficiencies to deliver, I think. And that's why we see a number of retailers looking to us with the liquidity obviously being publicly traded and having the access to the revolving credit facility, to be able to provide certainty truly of delivery at the end of the day. But construction costs continue to be a challenge for everybody here. We are very cognizant of those and like I said, most of the transactions that we enter into are open book, fixed return, and so that risk isn't going to be on us.

Nicholas Joseph | Citi
Okay. And then as you think about kind of pricing forward deals, do you expect to be able to continue to get the similar returns is what you've been experiencing, or ultimately, is there kind of a price point where maybe that yield has to come down a bit?

Joey Agree | Agree Realty Corporation | President & CEO
On the development side specifically?

Nicholas Joseph | Citi
On development.

Joey Agree | Agree Realty Corporation | President & CEO
Yes, we are very hesitant to go too far out the curve. We are really looking at shovel-ready projects, nothing that's taking too long from an entitlement perspective or permitting perspective. As you can see, the 15 starts we had this quarter, we will have a few starts next quarter as well. In the case where we are going out longer with a longer entitlement period or permitting period, and again, it's going to be a fixed

return, open cost structure, or we know what those costs are. But even in that instance, given the volatility we see out there, we are pretty hesitant to enter into those without significant premium.

Nicholas Joseph | Citi
Thank you.

Operator
Spenser Allaway with Green Street Advisors.

Spenser Allaway | Green Street Advisors
Can you just comment on the broader cap rate environment specifically as it relates to what you are seeing in terms of portfolio deals versus some one-off transactions?

Joey Agree | Agree Realty Corporation | President & CEO
Yes, good morning, Spenser. I think I always compare the net lease space to single family residential. It's the longest lag time in terms of cap rate movement because of the fragmentation of ownership, but also the sheer number of intermediaries in the forms of brokers and agents that are out there trying to get, or promising to get, aggressive pricing for sellers. I'll tell you, we're starting to see some cracks in specific instances of cap rates moving upwards. But I think it's really going to take that 90 to 150 days, which are typically upon expiration of those listing agreements, which again, brokers have promised sellers very aggressive pricing, and then set the tone for the overall market. But we're starting to see some cracks.
In terms of portfolios versus one-off, it's really dependent upon the quality of the portfolio and the type of portfolio. And we're not looking at anything that generally ABS buyers or heavily levered buyers would have played in that pool historically. Those IRRs have gone down significantly because of the availability of debt and obviously, the coupon on debts available today. But I tell you, on both sides of the equation, we're hopefully we see more movement, it takes time. They haven't seen material movement across the board yet, but there are of course, opportunities where we've been able to push cap rates.

Spenser Allaway | Green Street Advisors
Okay. And anything like thematic in regards to the cap rate increases that you're seeing, or is that just kind of -- is it very nuanced? And then perhaps maybe just some color on the general ground lease environment and more pricing in there?

Joey Agree | Agree Realty Corporation | President & CEO
Yes, nothing thematic. It's really one-off sellers generally what we're dealing with, the average price points of $5 million absent the portfolio transactions we've mentioned. Ground leases this quarter were light for us, partly because of the large portfolio transactions, the $180 and then the other $80 million. We've always said we're going to take advantage of ground lease opportunities when we see them. I think we acquired five during the quarter. We obviously disposed of the C-Store ground lease at an extremely aggressive cap rate for the $2 million. That was off-market, just an opportunistic inbound bid by a high-net-worth individual.

There are a number of ground leases in our pipeline today. Don't see any material change on the ground lease versus the turnkey structure, although there is obviously, more focus on ground leases today, given the focus on us, as well as [Safe] and some of the work that you guys and others have done.
Spenser Allaway: All right. Thank you.

Operator
Wes Golladay with Baird.

Wes Golladay | Robert W. Baird & Company
You have a lot of Gerber Collisions added to the portfolio -- or the developer PCS program this quarter. Do you anticipate adding more retailers at a similar scale? And the program also appears to be building momentum throughout this year. Can you comment about how big you think this program can get over the next few years? Could it get $300 million, $400 million, $500 million? What is your ultimate vision here?

Joey Agree | Agree Realty Corporation | President & CEO
With Gerber specifically, Wes?

Wes Golladay | Robert W. Baird & Company
Well, just more so, it's like you clearly have a programmatic program going with Gerber Collision. Will there be more added to a similar scale, and then not the Gerber program, but just the developer PCS program, how big can that get?

Joey Agree | Agree Realty Corporation | President & CEO
Yes, we're very pleased on how it scaled and ramped. As I mentioned, we've always held that capability; it's the core of this company that started as Agree Development in 1971 and then up until the launch of the acquisition platform in 2010. I'll tell you we've had more and more inbounds from retailers to provide that certainty of execution.

We have retailers that are growing in this country, they're facing the pricing pressures, the labor shortages, that their historical developers cannot -- and in a rising interest rate environment and potentially a rising cap rate environment, their historical developers can't perform. And they can't deliver the stores that they're typically being public, have produced or promised, I should say, to Wall Street.

So we're having a number of conversations. I'll be frank, some of them aren't fit for us. They may be credit fits for us, we may like the operator, but the price point is too small. It'd be akin to us launching a single family home construction business across the country and we're not interested in doing that. But I'll tell you, those conversations have significantly ramped up given the environment we're in today.

Specifically to Gerber, I think it's almost akin to what we did with Sunbelt. And we discussed in the prepared remarks in terms of identifying early on, a retailer that we thought was in a tremendous position to access a fragmented space and had the balance sheet capabilities to do so. So with Gerber specifically, owned by the Boyd Group of Canada, publicly traded on the Toronto Stock Exchange, has over 700 stores, very low leverage at just over 3x leverage. It's a conservative company at its core. As you're probably aware, there are the big three collision operators in this country, Gerber, Caliber, Service King. Service King, if you read media reports, is entering into a potentially an out-of-court restructuring given to some of their financial constraints; and if not, could be heading into bankruptcy.

What's interesting about the collision business is it's really a tremendous business today. It used to be that you bumped something with your bumper, you had a little scratch or a little ding, and maybe you got it fixed and maybe you didn't. Now you got three sensors, two cameras, LiDAR, all of this high-tech equipment in there. And so frankly, the days of the local collision shop having the skilled labor and the capability for all of those high-tech repairs are pretty much gone. The vehicles, the accident rate could --

we see going down generally across the board just because of some of those safety features as well. But the cost to repair these, what used to be minimal repairs, is exorbitant.

And so the national vendors, which have relationships and pricing power with the auto insurers, are really thriving. Gerber works hand-in-hand with those insurance companies to direct customers to their collision centers, and as a preferred vendor for them. Very similar to the equipment rental business, we see Gerber really taking the lead on collision and so we're excited to continue to work with them across all three platforms.

Wes Golladay | Robert W. Baird & Company
Great, thanks for all that. And then one for Peter. I guess can you talk about the swaps? Are those 10-year swaps, and for your $200 million of the [potential] issuance, will (inaudible) including the swaps? And then just a follow-up to that, does that Moody's upgrade at all help you from your current debt issuance?

Peter Coughenour | Agree Realty Corporation | CFO
Yes, thanks for the question, Wes. So first, the $300 million of forward-starting swaps contemplate a 10-year unsecured debt issuance. So they're hedging effectively a 10-year issuance, so we could apply them to an issuance with a different tenor. They have effectively fixed the base rate at 1.7%, as I mentioned, and they can be used at any time throughout 2022. So there's no near-term rush to use those swaps.

Certainly, we think that the upgrade from Moody's to Baa1 will help improve pricing and also access to capital in the public markets. And in terms of ultimately where that price is, I think that's dependent on when we access the market. And we're in an excellent position today, as I mentioned, in terms of liquidity and can be opportunistic in terms of when we go to the public debt markets.

Wes Golladay | Robert W. Baird & Company
All right. Thanks for the time, guys.

Operator
Ronald Kamdem with Morgan Stanley.

Ronald Kamdem | Morgan Stanley
Just can I touch on tenant health a little bit? Saw the occupancy was up, sort of very little bankruptcies that we are hearing of. Maybe can you just give us an update how are the tenants feeling? And what are you hearing about sort of inflationary pressures, or even talks of a recession that we have seen mentioned broadly?

Joey Agree | Agree Realty Corporation | President & CEO
Good morning, Ron. I think, look, we are in a very unique position. We have basically zero, I believe, bankruptcies in the portfolio today. And this is a portfolio that is built for with recession resistance in what we call -- used to call e-commerce resistance, but omni-channel critical. And so the largest tenants in our portfolio are non-discretionary led by the Walmarts and Dollar Generals of the world, non-discretionary retailers that are providing core goods and services to customers. They also have the greatest ability to absorb and compete on price and give inflationary pressures and have the greatest distribution logistics networks amongst those retailers in the world.

And so today, for a smaller midsize retailer who is dealing with labor pressures and inflationary pressures and you name it, right, logistical pressures, it is extremely challenging. If you are Walmart, or if you're

Home Depot or TJ Maxx, you have global procurement networks that can quickly pivot and have the ability to absorb price. We have always talked about we want to invest in retailers that have a few distinct characteristics.

Number one, they have the capital and the balance sheet to invest in omni-channel. We know how expensive micro and macro fulfillment can be. Two, they have the ability to try and test out new forms of distribution and delivery to meet customers' needs. And then three, they can compete on price because once you lose customers because of -- due to price today, in a price-transparent world where any customer can see a price of anything on an iPhone in about four seconds, they generally don't come back. And so we are heavily focused on those retailers, that even in the short term, if they have to impact margins, can retain customers and frankly, grow their customer bases.

Ronald Kamdem | Morgan Stanley
Great. And just wanted to sort of go back to the acquisition questions; I think it's been asked a couple of different ways. But look, I think you talked about sort of cap rates maybe having a little bit of a lag before repricing, which is all fair. But just specifically on either the private equity buyer or any other type of buyer, have you started to see any sort of deals being re-traded, just signs of that sort of buyer pool taking a step back at all, or is it sort of too soon to see?

Joey Agree | Agree Realty Corporation | President & CEO
Ron, frankly, we don't have much exposure to the private equity heavily-levered buyer pool. They are just not participants in the types of transactions and the types of opportunities that we are pursuing. We haven't seen on the disposition side, obviously, very negligible. We haven't seen -- I've heard rumblings of re-trades. Obviously, IRRs have gone from upper-teens to lower-teens, if that, for a number of heavily-levered purchasers. But our competitive set is generally the 1031 purchaser, the private individual and so if they do re-trade or if they do back out of a deal, we are generally the first call.

Ronald Kamdem | Morgan Stanley
Great. Thanks so much, appreciate it.

Operator
Linda Tsai with Jefferies.

Linda Tsai | Jefferies Group, LLC
The high-single-digit earnings growth, you hit that last year and you're on track to achieve it this year. What do you see as the key puts and takes in potentially sustaining this growth going forward?

Joey Agree | Agree Realty Corporation | President & CEO
Good morning, Linda. A number of -- one is our ability to source obviously accretive transactions across all three of our platforms. Cost of capital obviously moves into that; cost of equity capital, as well as debt, predominantly equity capital; cap rates, where cap rates move, maintaining spreads. What's amazed me is the team's ability here to consistently and continuously find those opportunities across the country, across all three platforms without sacrificing our investment criteria. Again, this quarter, 74% investment grade, that number now at 68% investment grade.

So we're not going up the risk curve, we're not -- we haven't changed our tune and I think that's most important. And so the investments in the team we've made, the additions to the team we've made, the investments in technology that we've made -- specifically ARC, those types of things continue, frankly, to

surprise me to the upside. I never envisioned, if you would have asked me several years ago, that we'd be deploying at the midpoint of just acquisitions $1.5 billion a year at 70%-plus investment grade, and then putting another $50 million to $100 million in the ground. I would have told you, that's pretty crazy. But what we're operating in is a massive space which is 65% of U.S. retail GOA. It's highly fragmented and the team just continues to do a tremendous job by uncovering those opportunities.

Linda Tsai | Jefferies Group, LLC
Thanks. And then I know you said that the 4% was a bit aggressive for the unsolicited ground lease deal. What sort of cap rate would be reasonable to assign to the rest of your ground lease portfolio that's close to 14% of your ADR?

Joey Agree | Agree Realty Corporation | President & CEO
It's a great question. I'll tell you that that was not a dominant operator, it was not Wawa. It was not QuikTrip or Sheetz; it was a smaller regional operator, I believe, with a couple of 100 stores, unsolicited inbound 4 months from closing, about 200 basis points inside. I don't think I've ever flipped an asset that quickly in my career, but a $2 million gain was something that we just couldn't turn away. I think that is demonstrative of the overall value of the ground lease portfolio here.

This was a C-store, it was a smaller regional operator. This wasn't Walmart or Lowe's or Wegmans. I think it's demonstrative of the overall value of the ground lease portfolio. So I'll leave that to others to decide, but it was an interesting unsolicited offer, someone who was familiar with the credit, with the real estate. And then we were pleasantly surprised to be able to book that gain.

Linda Tsai | Jefferies Group, LLC
Thank you.

Operator
Ki Bin Kim with Truist.

Ki Bin Kim | Truist
So just wanted to tie together a few things that you mentioned about the prospects of potentially higher rates. You also increased your full year acquisition guidance. And I know this isn't like a video game that you can start and stop and turn on and off the acquisition switch, right? It's business and there's a momentum to it and I get that. But as a CEO, how do you balance the prospects of higher rates and maybe better deals ahead versus pushing that throttle up a little bit and buying more today versus -- how do you balance that?

Joey Agree | Agree Realty Corporation | President & CEO
It's a terrific question. If we didn't have our overall hedging policy in place, it would change the answer. And so having forward starting swaps at 1.7%, as Peter mentioned, having $260 million-plus in forward equity already priced, so let's call it nearly $300 million post-settlement of some of the forward before 3/31, gives us that medium-term visibility into a pipeline, and also into effectively outside of just spreads on the debt side, locked in our cost of capital. And so if we were a spot issuer of capital and a spot purchaser given plus or minus 70 days of acquisitions, every single decision becomes much harder. And that's why we have always been emphatic users and we have always said getting visibility into a medium-term cost of capital is critical to us.

If you really think about it, what we're acquiring today was already financed months ago, right? That's the

bottom line. And so we know what those spreads are today and that's a critical component of it. And I said on the last call, in regards to leverage, it's much easier to lever up, right, than to delever. And so maintaining that balance sheet capacity, heading in the intermediate view of your cost of capital in an external growth business, makes that question -- it removes a great preponderance of the answer to that question.

That said, you always have to look out at opportunities and you have to try to project forward in that video game simulation you said of what's going to happen with cap rates. And so we balance what we think is going to happen on a go-forward basis with the opportunity at hand. But again, knowing that you have your cost of capital locked into the medium term makes that a much easier decision because of course, there is no video game and there probably is -- there's no right answer, just a bunch of prognosticators including us.

Ki Bin Kim | Truist
All right. And going back to that client Gerber Collision questions, and I think about the next generation of automobiles coming out, I'm not an automobile expert; I can barely drive one. But if you think about kind of EV, kind of the EV revolution in autos, it's foreseeable to think about a bear case scenario where maybe the Auto Parts, O'Reillys, there's less use for it going forward. And I'm sure this question is like 5 years too early, but any kind of early thoughts on that?

Joey Agree | Agree Realty Corporation | President & CEO
Well, there's definitely less parts, right, moving parts in EVs in the typical combustion engine. The benefit to the collision shops such as Gerber, is that you can't jerry-rig or ignore any longer these minor fender-benders, let alone any larger collision. Again, when you bump into the light pole in the parking lot by accident when you're backing out of your parking space, it used to be a little ding on your bumper. Now it's a camera on a sensor. And so if you don't get that fixed, then your overall vehicle protection system doesn't work.

And so the cost of repairs, it's almost an IT job today; it's not a bump job right? It's not a bump shop anymore. These are IT professionals that almost have to be working on the cars. And so the days of the local collision shop, as I mentioned, are gone. You can't just bump things out or paint things, or all the little fixes anymore because these cars are loaded with high-tech equipment that works on an integrated basis to provide for the overall safety of the driver and so those repairs are much more nuanced.
And that's inuring to the collision operators' benefit, who have the scale, who have the relationships with the retailers, and who can maintain that labor pool, which is also challenging obviously today, to be able to get those people in those -- working at those collisions to fix those repairs. But it's a very different profession today and a very different business than it was just several years ago.

Ki Bin Kim | Truist
But you don't see any kind of longer-term risk to auto parts retailers?

Joey Agree | Agree Realty Corporation | President & CEO
Well, auto parts retailers, they are very different from collision. The collision operators generally are working on the exterior of the cars, right, down to the struts. They are not working on generally on the combustion engine, that's a different operation there, that's the mechanics. The auto parts retailers continue to benefit from two different forms of customers, the do-it-yourself customer, which has been O'Reilly's core business, now working to continue to expand the backdoor customers or the commercial customers; and then O'Reilly, which their core business has historically been more commercial-oriented,

working to expand the do-it-yourself customers or front door business, as they call it.
No, we really don't see much in the way there. If you look at their same-store sales, if you look at the trajectories and their commentaries and their earnings call, those operators continue to gain market share through recessions, through pandemics. The average age of cars on the road continues to go up; you can't even find a car anymore half of the time. And so it's a benefit.

Now, look, there is no doubt the auto industry -- we are sitting here in the Motor City -- is going to continue to change with EVs especially. But those premier operators with the balance sheets and the store network and the distribution networks are going to continue to thrive here.

Ki Bin Kim | Truist
Thanks, Joey.

Operator
Nate Crossett with Berenberg.

Nate Crossett | Berenberg
Maybe some funding questions just on the swaps. When do those expire? And when they do expire, if rates are where they are today or higher, is the swap kind of -- would you continue to, I guess, do swaps regardless of where rates are?

And then also, I just had a question on the preferred equity. You did that deal, I think, last year. Is that funding option still on the table, or is that off the table, given where rates have gone?

Peter Coughenour | Agree Realty Corporation | CFO
Nate, this is Peter. With respect to the swaps, we can use the forward-starting swaps at any point in 2022. And technically, there is an option available to us too, to roll the asset related to those swaps into a swap, and really extend that if we really wanted to. But we have plenty of optionality and flexibility in terms of when we use those swaps this year.

As it relates to the preferred equity, that's still an option for us. We are always evaluating all forms of capital markets and what makes the most sense in the context of market conditions, pricing, and how we want to fund our business. It's today probably not something that we would look at, given where pricing is, but certainly an option longer-term as we evaluate everything available to us.

Nate Crossett | Berenberg
A question on the portfolio that you bought. Is there any -- sorry if I missed it -- but is there any pruning that needs to be done from that portfolio, or is essentially every property a property that you want to have?

Joey Agree | Agree Realty Corporation | President & CEO
You probably saw in the jump in tenant concentration, Tractor Supply was the largest operator in there, the largest concentration in there; Sunbelt, a couple of CVS', a few Dollar Generals. There's a FedEx in there that we'll look to dispose of. We are not in the industrial or distribution business here. We think that will be accretive obviously, to the overall portfolio. It's a small FedEx, I believe, in North Carolina, adjacent to the airport and so we'll dispose of that asset.

Other than that, we're pretty comfortable with all -- with the entire portfolio. Again, it was 90% investment

grade, 100% retail outside of that one FedEx asset with ten years weighted average lease term. We're very cognizant of the CVS' that we acquired; in terms of that pharmacy exposure, we're very comfortable with the store performance there. They're long duration CVSes, they're not on any closure lists. This was a really unique opportunity. Frankly, the only portfolio absent a ground lease portfolio from seven years ago, that truly fit qualitatively within our existing portfolio composition. And that's why it was such a great fit, let alone the unique circumstances here.

And so, we'd love to be able to find more of them. The problem is most of them don't have one asset you've got to dispose of; they have 20% of it is -- it doesn't fit qualitatively to the portfolio. So that was I would tell you, you hit it on the head. That was the real driver here is that there was one asset that's a disposition on an accretive basis that we intend to execute on.

Nate Crossett | Berenberg
Yes. Is there any reason why it wasn't shopped around? Now it's a testament to your relationships, but it would seem like a portfolio of this quality, the seller would want to kind of shop it around to see what pricing they could get?

Joey Agree | Agree Realty Corporation | President & CEO
I'll give you a little background on the seller. The seller was historically the largest post office, private post office contractor in the country. He's in his mid-70s, he works out of a converted house into an office with four women that have been with him for over 20 years. He owns thousands of acres of land in the Beltway that he sold to Pulte and Toll Brothers. He disposed of a number of assets years ago and started acquiring net lease properties. His lawyer/friend/broker, we started the conversation with in 2019. But Jim, our seller on this, wanted to get something done, doesn't like to mess around and would have done a deal on a handshake.

And so it was a very unique situation, a great guy with a great eye for real estate, whether it's agricultural land, whether it's net lease real estate. But he is a unique guy, and he wanted to get something done with someone he could trust and someone he could get something done quickly.

Nate Crossett | Berenberg
Okay. That's helpful. I'll leave it there, thanks.

Operator
[Operator Instructions]. Haendel St. Juste with Mizuho.

Haendel St. Juste | Mizuho
Joey, one follow-up on the back of that portfolio question I guess just tying to seller psychology. It sounds like the gentleman in this scenario was looking to perhaps monetize [his] real estate holdings. But I'm curious if you're seeing a noticeable change in seller psychology from folks looking at the market, looking at the rising rates, and thinking, well, maybe now might be a better time to sell. And so curious if that's resulting in more deals coming across your desk as a result as well?

Joey Agree | Agree Realty Corporation | President & CEO
It's a good question, Haendel. It's really tough, when you do -- when you work on so many transactions, 100 at any given time, it's hard for us to draw any broad strokes here. I think there are sellers out there, given the volatility, that will say I need to sell quick; and then there are sellers out there or owners out there that say, ah, I want to get past this volatility. It's a bell curve, I think it ends up on both sides. What

will be interesting to see as we progress through the year is, obviously, what will happen with cap rates, but the seller psychology is going to drive that.

And I've always said real estate owners have two primary emotions, greed and fear. And so we will see how much of that fear sets in and then that's when we always operate the best, whether it's a pandemic or recession, our balance sheet is always prepared. And we're always ready to pounce when we see an opportunity there. But it'll be interesting to see as this played out, given just the extreme volatility we've seen, obviously, in recent weeks. I don't have a true [answer] for you.

Haendel St. Juste | Mizuho
Fair enough. I just want to get some perspective from you, but did you know –

Joey Agree | Agree Realty Corporation | President & CEO
Haendel, let me qualify one area where we do see weakness. Merchant developers, who have developed projects and signed leases with tenants that now have zero to no margin, and maybe even a loss, because they did not anticipate the price appreciation in building components and labor and that inflationary pressure, need to sell their existing product to try to get to their next project. And that's on the merchant developer side, not the passive owner or longer-term owner. We're seeing more and more of that.

I'll give you the example. The Dollar General developer that was trying to hold out in the mid-low 5s for their Dollar General, and they're developing them at a, let's call it a 7. And all of a sudden, they wrapped up the project and they were pretty close to a return on costs at a 7 net of a brokerage commission or whatever else. It's a breakeven deal and they promise five or ten more projects to Dollar General. They have to recycle that capital, they can't hold out. And so we are seeing pressure there.

That's led to a number of conversations with retailers, where they said, can you provide a more seamless solution for us that will actually give us some predictability in terms of -- certainty in terms of delivery? So that is the one place we're seeing pressure. That pressure though is necessitated by the requirement to recycle that capital and redeploy it.

Haendel St. Juste | Mizuho
Got it, interesting. Is there anything that you perhaps would be willing to do with any scenarios, maybe be a short-term or mezz lender or something that -- to capitalize on that opportunity?

Joey Agree | Agree Realty Corporation | President & CEO
We've never been a lender, I don't see that happening. I wouldn't rule it out. It's not something that's a core competency that we do. The opportunities we've looked at in the discussions we've had with retailers is jumping in and taking over the entire programmatic relationship and/or pipeline. But again, we're not going to do that for million-dollar projects strewn across the country, i.e., for a Dollar Store. That does not make sense for us. We're just too busy to do that.

But as you can see, in opportunities like Gerber Collision, in some of the work we've done with these repeat tenants, the certainty of execution here, there is a premium placed on that from retailers.

Haendel St. Juste | Mizuho
Got it, got it. Did you mention or would you mention, is there anything notable under contract or LOI today, and if that would include any portfolios in there?

Joey Agree | Agree Realty Corporation | President & CEO
The answer is, yes, but that's about as far as I'll take it. I think the increase in guidance speaks for the robust pipeline itself. It includes everything from $2 million transactions to larger transactions that we have been working on. So, we anticipate -- obviously, the pipeline is pretty large and that includes some larger opportunities as well.

Haendel St. Juste | Mizuho
Got it. Thank you for the time. I'll yield the floor.

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 this morning. It will be great to see you in June at NAREIT. And good luck through the rest of earnings season. Appreciate it.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.00