EDITED TRANSCRIPT

Agree Realty Corporation's
First Quarter 2025 Earnings Conference Call
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PRESENTATION

Operator
Good morning and welcome to the Agree Realty Fourth Quarter 2024 Conference Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Note: this event is being recorded.

I'd now like to turn the conference over to Reuben Treatman, Senior Director of Corporate Finance. Please go ahead, Reuben.

Reuben Treatman | Agree Realty Corporation | Senior Director, Corporate Finance
Thank you. Good morning, everyone and thank you for joining us for Agree Realty's First Quarter 2025 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, including statements related to our updated 2025 guidance. Our actual results may differ significantly from the matters discussed in any forward-looking statements for a number of reasons. Please see yesterday's earnings release and our SEC filings, including our latest Annual Report on Form 10-Q, 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 our historical 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.

We are extremely pleased with our performance in the first quarter of 2025, as we invested over $375 million across our three external growth platforms while further strengthening our best-in-class portfolio. This represents the largest quarter of investment volume since the third quarter of 2023 and is characteristic of the accelerating activity that we're seeing across our three platforms.

While the macro-economic environment remains volatile and unpredictable, our Company remains a bastion of stability and poised for growth. Our liquidity, bolstered by our outstanding forward equity and swaps, combined with our preeminent cost of capital, position Agree Realty to again take advantage of market dislocations and disruptions.

Year to date we have added over a dozen team members, initiated several systems improvements and sequenced multiple process improvements to accelerate our investment activities.

This growing investment activity is supported by a fortress balance sheet with $1.9 billion of liquidity and over $1.2 billion of hedged capital. During the quarter we raised another $181 million of forward equity via our ATM program, effectively replenishing amounts settled in the first quarter and maintaining an ample runway to execute our growth strategy. With no material debt maturities until 2028 and proforma net debt to recurring EBITDA of just 3.4 times at quarter end, our fortified balance sheet provides significant flexibility and protection against capital markets volatility.

Our balance sheet is paired with what we view to be the country's leading retail portfolio. We launched the acquisition platform in 2010 with a focus on recession resistant retailers that have adapted to a comprehensive omni-channel strategy. Although we have yet to experience a traditional recession since its inception, our portfolio has proven to be pandemic proof, and we remain confident it will be tariff resistant. We have and will remain focused on the country's biggest and best retailers that sell necessity goods and services. Many of these retailers benefit from the trade-down effect during tougher economic times; and they have the scale and balance sheet strength to mitigate higher input costs and withstand margin pressure. While tariff headlines continue to evolve and dominate the news flow, ultimately, we believe the big will continue to get bigger in this environment, further validating our investment philosophy over the past 15 years.

Given our robust investment pipeline across our three external growth platforms, we increased our investment guidance range from $1.1 to $1.3 billion to $1.3 to $1.5 billion for the year. At the midpoint, this represents a 47% increase over last year's investment volume.

As I mentioned, all three of our investment platforms continue to find compelling opportunities that hurdle both our qualitative and quantitative analysis. While increasing our investment guidance for the year, we will remain disciplined and thoughtful in our approach to asset underwriting and portfolio construction during these volatile times.

In addition, we are raising the low end of our full-year AFFO per share guidance by a penny to a new range of $4.27 to $4.30, representing over 3.5% growth at the midpoint and demonstrating the durability of our cash flows. As a reminder, this number includes realized and potential treasury method dilution due to our significant forward equity position. Peter will provide additional details on our guidance range and the inputs shortly.

Raising our investment and earnings guidance amid the current macroeconomic uncertainty demonstrates that our company is built for all markets. We thrive in periods of uncertainty where we can leverage our speed, relationships, exceptional team, balance sheet flexibility and superior cost of capital.

We launched the acquisition platform on the heels of the GFC in 2010, doubled the size of the Company during the depths of the pandemic, and are always positioned to take on the next challenging economic period.

Turning to our external growth activity, we had an active start to the year, leveraging our unique market positioning and deep relationships with retail partners to uncover opportunities across all three platforms. During the first quarter, we invested over $375 million in 69 properties across all three platforms. This includes $359 million of acquisition across 46 assets. Acquisitions during the quarter included a lender-owned Home Depot in California, a sale-leaseback with a leading national grocer, an Albertson's backed Acme grocery store in Bronxville, New York, an off-market portfolio from a relationship seller, a CarMax ground lease in Colorado as well as approximately 40 one-off transactions.

Our acquisition activity remains focused on industry-leading, necessity-based retailers. The properties acquired in the first quarter are leased to strong operators in sectors including grocery, off-price, auto parts, convenience stores and tire and auto service.

The acquired properties had a weighted-average cap rate of 7.3% and a weighted-average lease term of 13.4 years. Nearly 69% of base rent acquired was derived from investment-grade retailers, and we continued to add to our ground lease portfolio during the quarter.

We continue to see increased activities across our development and DFP platforms, as well. During the first quarter, we commenced four new development or DFP projects with total anticipated costs of approximately $24 million. Construction continued on 14 projects during the quarter, with aggregate anticipated costs of approximately $80 million. We also completed six projects during the quarter, representing a total investment of approximately $27 million. These projects are with several leading retail partners, including TJX Companies, Burlington, 7-Eleven, Boot Barn, Starbucks, Gerber Collision, and Sunbelt Rentals. Our development and DFP pipeline continues to grow with several upcoming starts to be announced in the near future.

Our Asset Management Team continues to proactively address upcoming lease maturities. We executed new leases, extensions or options on over 584,000 square feet of gross leasable area during the first quarter. This included a Walmart Supercenter in Rancho Cordova, a Home Depot in Farmington, New Mexico, and 16 geographically diverse AutoZone leases comprising over 100,000-square feet. We remain well positioned for the remainder of the year with only 30 leases or 90 basis points of annualized based rents maturing.

Quarter over quarter, our pharmacy and dollar store exposure declined 20 and 30 basis points, respectively. We have been clear that our exposure to both of these categories peaked within our portfolio before their challenges became newsworthy.

As of quarter end, our best-in-class portfolio comprised 2,422 properties spanning all 50 states. The portfolio includes 231 ground leases, compromising nearly 11% of annualized base rents. Our investment grade exposure stood at 68.3% and occupancy remains solid at 99.2%. This number represents a temporary dip as we continue to resolve the remaining former Big Lots in our portfolio. Our second former Big Lots in Cedar Park, Texas, was successfully re-leased to ALDI at a net effective rental lift of nearly 50% during the quarter, while an additional store was acquired during the bankruptcy process by Variety Wholesalers. Rent has already commenced on both of these locations. We anticipate further announcements on the next call about remaining Big Lots in our portfolio.

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

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

Starting with the balance sheet, we remained active in the capital markets during the first quarter, raising approximately $181 million of forward equity via our ATM program. We also settled 2.7 million shares of forward equity for net proceeds of approximately $183 million.

Additionally, we established our inaugural $625 million commercial paper program during the quarter. The program allows us to tap into another pool of short-term capital and further diversifies our balance sheet. We anticipate that we will be able to efficiently fund our short-term capital needs on the program at rates that are substantially lower than our revolving credit facility today.

Since the end of last quarter, we have taken further steps to hedge against interest rate volatility by entering into $125 million of forward starting swaps. In total, we now have $325 million of forward starting swaps, effectively fixing the base rate for a contemplated 10-year unsecured debt issuance at roughly 3.9%. Combined with approximately $920 million of outstanding forward equity, we have over $1.2 billion of hedged capital which provides critical visibility into our intermediate cost of capital, particularly during this uncertain period.

At quarter end, we had liquidity of approximately $1.9 billion, including the aforementioned forward equity and availability on our revolving credit facility. Proforma for the settlement of all outstanding forward equity, our net debt to recurring EBITDA was approximately 3.4 times. Excluding the impact of the unsettled forward equity, our net debt to recurring EBITDA was 4.9 times. Our total debt to enterprise value is under 26%, and our fixed charge coverage ratio, which includes the preferred dividend, remains very healthy at 4.3 times.

Our only floating rate exposure was comprised of amounts outstanding on the revolver at quarter end, and as Joey mentioned we continue to have no material debt maturities until 2028. Our balance sheet is extremely well positioned to execute on our accelerating investment activity across all three external growth platforms.

Moving to earnings, Core FFO per share was $1.04 for the first quarter, which represents a 3.1% increase compared to the first quarter of last year. AFFO per share was $1.06 for the quarter, representing a 3% year-over-year increase.

As Joey highlighted, we have updated our full-year 2025 outlook to reflect our strong start to the year. We raised the low end of our full-year AFFO per share guidance to a new range of $4.27 to $4.30, which implies year-over-year growth of more than 3.5% at the midpoint. We provide parameters on several other inputs in our earnings release, including investment and disposition volume, general and administrative expenses, non-reimbursable real estate expenses, as well as income tax and other tax expenses.

In addition to those inputs, our earnings guidance for 2025 includes anticipated treasury stock method dilution related to our outstanding forward equity. As a reminder, if ADC stock trades above the net price of our outstanding forward equity offerings, the dilutive impact of unsettled shares must be included in our share count in accordance with the treasury stock method. Provided that our stock continues to trade near current levels, we anticipate that treasury stock method dilution will have an impact of roughly two pennies on full-year 2025 AFFO per share. That said, the impact could be higher if our stock moves materially above current levels, or if we were to issue additional forward equity.

Our growing and well-covered dividend continues to be supported by our consistent and durable earnings growth. During the first quarter, we declared monthly cash dividends of 25.3 cents per common share for January, February, and March. The monthly dividend equates to an annualized dividend of almost $3.04 per share and represents a 2.4% year-over-year increase. Our dividend is very well covered with a payout ratio of 72% of AFFO per share for the first quarter. We anticipate having almost $120 million in free cash flow after the dividend this year, up approximately 15% from last year. We view this as another source of cost-efficient capital while maintaining a robust and growing dividend.

Subsequent to quarter end, we announced an increased monthly cash dividend of 25.6 cents per common share for April. The monthly dividend equates to an annualized dividend of over $3.07 per share and also represents a 2.4% year-over-year increase.

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

Joey Agree | Agree Realty Corporation **|** President & CEO
Thank you, Peter. Operator, at this time let's open it up for questions.

QUESTIONS AND ANSWERS

Operator
Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the star followed by the one on your touchtone phone. You will hear a prompt that your hand has been raised. Should you wish to decline from the polling process, please press star followed by the two. And if you are using a speakerphone, please lift the handset before pressing any keys.

The first question comes from Ki Bin Kim at Truist. Please go ahead.

Ki Bin Kim | Truist Securities
Thank you. Good morning. Joey, you guys raised investment guidance by $200 million and also mentioned the treasury stock dilution method. Were there other detracting items? Because I would have thought you guys raising that much of your investment guidance that the AFFO guidance would have been more than $0.005. Thank you.

Joey Agree | Agree Realty Corporation **|** President & CEO
Good morning, Ki Bin. No other detractors. Obviously, we've included, as Peter mentioned in the prepared remarks, approximately $0.02 of treasury method, anticipated treasury method dilution that's already hit the P&L but also throughout the year. Obviously, we can't predict the stock price on a daily or for an annual basis here, but we've been conservative, we think, and appropriately included that treasury method dilution as it incurs and what's incurred today. Peter can talk about any other puts and takes in there, but that's really the only offset to the investment increase.

Peter Coughenour | Agree Realty Corporation **|** CFO
Ki Bin, yeah, this is Peter. In terms of other puts and takes, there's, to Joey's point, really no other offset. If you think about the incremental $200 million of investment spend this year, subject to timing of that investment spend and spread, we think that that should translate to about $1 million or so of incremental earnings, or about $0.01. Obviously, at the low end of our guidance range. We took up the range by $0.01. We didn't touch the top end. That's really a reflection of the fact that we do anticipate treasury

stock method dilution will be closer to that $0.02 rather than $0.01 to $0.02 given where we're trading currently and obviously that remains subject to where we trade for the remainder of the year and any other capital markets activity throughout the year as well.

Ki Bin Kim | Truist Securities
And I guess this is a high-class problem that your stock price goes higher and creates treasury stock dilution, but when does the kind of calculus start to work out so that we can start to get to a plus like 4% type of AFFO per share growth rate or more from Agree?

Joey Agree | Agree Realty Corporation | President & CEO
I think in the near term. Obviously, subject to macroeconomic conditions, which are outside of our control, this business is built for that, and so we made a decision to pre-equitize the balance sheet, put hedges in position in terms of the swaps this year in anticipation of increased volatility, but we think that algorithm kicks in there outside of just balance sheet protection and treasury method dilution.

Ki Bin Kim | Truist Securities
Okay. Thank you.

Joey Agree | Agree Realty Corporation | President & CEO
Thanks, Ki Bin.

Operator
Thank you. The next question comes from Smedes Rose at Citi. Please go ahead.

Smedes Rose | Citigroup
Hi. Good morning. I just wanted to ask you a little bit about some of your tenant exposure. It looks like grocery exposure went up by about 90 basis points and within that your named tenants Kroger's was up, and I was just wondering, is that any specific change in your strategy around groceries or is that more just sort of a one-off opportunity that you found during the quarter?

Joey Agree | Agree Realty Corporation | President & CEO
Good morning, Smedes. That was a one-off opportunity predominantly in the quarter. I also mentioned the ACME in Bronxville, New York who we acquired as well. We'll continue to find dominant grocers across the country. There's a number in the pipeline already for the second quarter. We continue to believe that dominated grocers will gain share here, given up in the macro, obviously, but also just the challenges for small grocers to operate in a 2% margin business, ex tariffs and all the other noise out there.

Smedes Rose | Citigroup
Okay. And then just maybe just touching on tariffs, given your tenant exposure, is there anyone that you are particularly maybe concerned about or watching more carefully, particularly given the higher tariffs with China specifically, which I realize is kind of a moving, a very fluid situation, but what's on your radar?

Joey Agree | Agree Realty Corporation | President & CEO
I appreciate you acknowledging the moving and fluid situation. It seems to be day to day. I'll be honest, there really is nobody that we're overly concerned with tariff inputs in the portfolio today. Now all retailers, subject to carve-outs and exclusives, obviously the electronics carve-out, per the Truth Social post or whatever it was last week, alleviated concerns for computers and televisions. Now that could all obviously change.

But we think this portfolio is in tremendous position to continue to benefit from the trade-down effect. As you mentioned, grocery, obviously, with economic conditions where they are, people will stop eating out. Auto parts. You've seen that accelerate in our portfolio. Obviously, new cars will be impacted significantly by tariffs. The average new car in this country is already approximately $45,000. That's pre-tariff. Tire and auto service, another category we highlighted during the prepared remarks. Off-price retail. We're one of

TJX's and Burlington's largest landlord. We continue to think they'll gain from any tariff implications. So, we think this portfolio, as I mentioned in the prepared remarks, was built to be recession resistant. We haven't hit a traditional recession since 2010 upon its inception, but it proved to be pandemic resistant and we're very confident it will be, ultimately, whatever way, shape and form tariffs pan out, will be tariff resistant as well.

Smedes Rose | Citigroup
Okay. Thank you. I appreciate it.

Joey Agree | Agree Realty Corporation | President & CEO
Thanks, Smedes.

Operator
Thank you. The next question comes from RJ Milligan at Raymond James. Please go ahead.

RJ Milligan | Raymond James
Hey. Good morning, guys. Joey, I was wondering, as you are having conversations with your development partners, what's their current appetite for opening new stores? Has there been a pause? Just trying to get a broader market read there.

Joey Agree | Agree Realty Corporation | President & CEO
Good morning, RJ. We have not seen any pause to date, albeit this is a volatile and fast-moving environment. The team was with a number of retailers this week and will be again with two or three in the upcoming couple of days here. We haven't seen a pause. We've actually seen announcements. Sam's Club has announced that they're opening net new stores, Kroger's made announcements in terms of remodels and net new stores in the past two weeks as well, and so we have not seen that pause. We haven't had any deals, frankly, tabled or put on hold either yet. But obviously, again, this is a fluid situation, which is out of our control.

But again, I think when you have a discount-oriented, necessity-based tenant roster, those tenants today I don't think are overly scared by tenant tariffs. I think a lot of them see this as an opportunity. As I mentioned in the prepared remarks, the big are getting bigger and this is what we've effectively built this portfolio constructed around, to invest in price if they have to, to invest in labor and invest in omnichannel fulfillment, and tariffs will require retailers to effectively invest in price unless they're going to pass that entire tariff on to the end consumer.

RJ Milligan | Raymond James
Thanks. That's helpful. And I wanted to move over, ah, from a portfolio standpoint, is there any tenants out there, obviously this is not really tariff related, where you're just keeping a watch on them and saying, you know, ex the tariffs, there might be some fundamental issue?

Joey Agree | Agree Realty Corporation | President & CEO
No new entrants into that. Obviously, our three movie theaters total in the portfolio we continue to watch. We have been proactive in reducing, as I mentioned in the prepared remarks, dollar store and pharmacy exposures in 2023, that was prior to the headlines in 2024, and so there are really no changes to our watchlist here.

RJ Milligan | Raymond James
Just one last follow up. In terms of cap rates, where do you think we end the year in terms of Agree's acquisition cap rates? Is it going to be higher or lower? And sort of how do you think about the inputs there?

Joey Agree | Agree Realty Corporation | President & CEO
RJ, to be frank, I have no idea. The volatility in the 10-year treasury, which has been historically, obviously, the base rate for the world, the fear/greed spectrum continues to vacillate. Obviously, we're on the fear side. We are just starting, effective Monday, building our Q3 pipeline, just given our 66, 67 days letter of intent to close. I think this is going to be a volatile world. I think it's going to change. I think the volatility doesn't effectively move cap rates as a secondary impact. I think the volatility that we were frankly accustomed to, all of us are accustomed to, inclusive of real estate owners, you know, when you have 10%, 15% swings in the 10-year treasury, these used to be aberrations. They seem to happen on a monthly basis now, if not a daily basis, with 3%, 5% swings. And so none of this volatility effectively moves cap rates. Ultimately I believe that owners of real estate, and perhaps those that have secured interest in real estate, ultimately make disposition or investment decisions based upon the fear/greed spectrum. And so the 10-year going sub-4 or the 10-year piercing 5 can move cap rates, but with the 10-year moving between 4.2 and 4.6, I'm just using a band here, I don't think that ultimately moves cap rates in any material way just because of, frankly, people being accustomed to that volatility.

RJ Milligan | Raymond James
Great. That's it for me. Thanks, guys.

Joey Agree | Agree Realty Corporation | President & CEO
Thanks, RJ.

Operator
Thank you. The next question comes from Michael Goldsmith at UBS. Please go ahead.

Michael Goldsmith | UBS
Good morning. Thanks a lot for taking my question. Maybe a similar question that was just asked, but from a different angle. Have you seen any changes in the transaction market post the April 2nd tariff announcement? Maybe not directly from the tariffs but just from the overall uncertainty. You sort of touched on the cap rate environment, but are you seeing any changes in competition or any deals pulled just given the uncertainty?

Joey Agree | Agree Realty Corporation | President & CEO
No deals pulled. Competition remains extremely limited. Obviously, the 1031 buyer has effectively been cut in over half just due to the commercial real estate transactional volume being down by half, the lack of liquidity in investment markets, just frankly, sorry, the lending markets. We see very limited competition. I often make the analogy I did during the fourth quarter of a door versus a window; we see a door here. And our balance sheet, our cost of capital, as I mentioned, as well as our portfolio and the tremendous team here we have is going to take advantage of that opportunity.

And so we took advantage of the opportunity during the GFC, we took advantage of the opportunity during COVID, obviously, when we doubled the size of the company. We see a like-kind opportunity potentially on the horizon, obviously subject to the next Truth Social post here and changes in the macro. But with limited competition across all three investment platforms and with our core strength here, this is a tremendous opportunity for our company to continue to grow this portfolio in an accretive manner and solidify it as the preeminent net lease portfolio in the country.

Michael Goldsmith | UBS
Thanks for that. And as a follow up, on slide 22 of your presentation you highlight what you're investing in and what you're not and you call out the avoidance of private equity sponsorship. So, just given where we are in the cycle and the uncertainty, what's been your experience with private equity sponsorship at this point in the cycle just given some of that uncertainty? Thanks.

Joey Agree | Agree Realty Corporation | President & CEO
Ultimately, and this isn't for this part of the cycle, we seek to work and partner with retailers that have a long-term perspective on the operations of their business. So special dividends, levering up the balance sheet, OpCo, PropCo structures, sale leasebacks to improve liquidity and, frankly, in order to special dividend it out probably, those just aren't things that we believe work in a 21st century omnichannel world which is hypercompetitive. And so we'll continue to focus on our sandbox of the 30, 35 biggest and best retailers in this country, rated or unrated and a few sub-investment-grade-rated retailers that are selling essential goods and services that have long-term sponsorship and ownership. And frankly, private equity doesn't match that duration for us.

Michael Goldsmith | UBS
Thank you very much. Good luck in the second quarter.

Joey Agree | Agree Realty Corporation | President & CEO
Appreciate it.

Operator
Thank you. The next question comes from Linda Tsai at Jefferies. Please go ahead.

Linda Tsai | Jefferies
Hi. The temporary occupancy dip from Big Lots, would that be resolved by year end?

Joey Agree | Agree Realty Corporation | President & CEO
Oh, yeah, I would anticipate that would be resolved much sooner than year end, most likely by the end of the second quarter. And so we've resolved a number of them. The off-price retailer in Manassas, Virginia was the first one where we have a net effective lift, Peter jump in.

Peter Coughenour | Agree Realty Corporation | CFO
Over 150%.

Joey Agree | Agree Realty Corporation | President & CEO
Net effective lift of over 150%. Cedar Park, Texas is re-leased with a net effective rent lift of approximately 50% to a large German-based grocer and then Fuquay-Varina was acquired in the bankruptcy by Variety Wholesalers. And we're working through those others to have optimal solutions here, but we think they will be favorable and not a concern.

Linda Tsai | Jefferies
And then for the 50% to 150% rent uplift, is there CapEx involved?

Joey Agree | Agree Realty Corporation | President & CE
That's a net effective basis, not same-store NOI. So the lease that we purchased in bankruptcy we purchased for a couple of hundred thousand dollars and that was the only truly expense on that. It was an as-is basis. Same with the grocery in Cedar Park, Texas with that approximately 50% net effective rent lift. And then the Variety Wholesalers, they came current, and so that's just the same rent as Big Lots was paying prior. And so we continue to work on leasing a number of these assets and have letters of intent in hand from large national retailers predominantly. That's our focus there, our first order of business, and we hope to further expand upon it on the Q2 call.

Linda Tsai | Jefferies
And then the comment about drug and dollar stores peaking in your portfolio before it became newsworthy, what were you looking at to recognize this trend? Was it shift in traffic or rent coverage?

Joey Agree | Agree Realty Corporation | President & CEO
Different perspectives on each sector. Pharmacy, we've been pretty adamant about our Walgreens exposure. We were pretty adamant about Rite Aid's future. That bankruptcy and liquidation will occur any day most likely now. Obviously, that's been a theme through the past 15 years of our history in terms of Walgreens' depositions going from over 40% to sub-1%. But most importantly, as we've talked about on other calls, 13,000 to 14,000 square foot boxes with approximately 11,000 square feet of front-end space paying $20 to $30 per square foot that really isn't relevant in today's world isn't something that we're overly attracted to. That said, we'll continue to work on unique pharmacy opportunities where we think the rental basis is appropriate or high store sales or barriers to entry. I'd remind everyone our largest two pharmacy exposures in terms of asset size are Greenwich, Connecticut on Greenwich Avenue, the CVS, and the Walgreens on the corner of the Diag, the best piece of real estate and the University of Michigan. And so the pharmacy space, we've obviously made a considered effort to reduce.

Dollar stores, we just saw them being overbuilt, frankly. We took advantage in 2023 of merchant developers that were stressed and took some of those properties out. We've never engaged in a sale leaseback with a dollar store operator. Very different themes running through Dollar General and Dollar Tree/Family Dollar, but we saw the space as overbuilt. But also, we were having challenge of getting our arms around the pricing in conjunction with the residual. And so you'll see, and I mentioned in the prepared remarks, that they fell year over year, quarter over quarter. They peaked in 2023 and we were pretty clear on the Q3 2023 call that that would be the case.

Linda Tsai | Jefferies
Thanks for that helpful context. Just one last one. The dozen team members you added, what departments were they located in and has AI reduced the need to staff up in other areas?

Joey Agree | Agree Realty Corporation | President & CEO
Certainly. So, to roll back the clock, 2024, obviously, started with the do-nothing scenario, effectively a hiring freeze. We are more than caught up now. This is all built into our G&A forecast for the year that we've provided to the street. Those team members are strewn across the entire organization from HR to IT to acquisitions, construction, development, analysts, accounting, asset management, lease administration. We are built and poised for growth. Simultaneously, we have deployed, effective in the last month, a new AI module which is eliminating legal costs significantly for us and we got an update actually yesterday from our general counsel that we're very pleased with the results, continue to make some tweaks there. AI will continue to be deployed throughout this company. We have been utilizing AI for lease abstraction. Again, Peter, correct me...

Peter Coughenour | Agree Realty Corporation | CFO
2022.

Joey Agree | Agree Realty Corporation | President & CEO
Dating back to 2022 when no one was talking about AI. We think there's significant opportunities, both within our underwriting, as we launch the next iteration of ARC in 2026 to deploy AI, but also I would tell you significantly in overall transactional expense.

Linda Tsai | Jefferies
Thank you.

Joey Agree | Agree Realty Corporation | President & CEO
Thanks, Linda.

Operator
Thank you. The next question comes from John Kilichowski at Wells Fargo. Please go ahead.

John Kilichowski | Wells Fargo
Thank you. Good morning. Joey, you touched on this briefly earlier, but how will tariffs, if they stay on, impact your go-forward strategy as it relates to investments? And if so, would you not expect tighter pricing on those assets?

Joey Agree | Agree Realty Corporation | President & CEO
I don't think tariffs impact our go-forward strategy really at all. I don't think tariffs ultimately impact… I think all retailers will be subject to various levels of tariffs if this continues to go down this route and I think, effectively, the biggest retailers in the country that sell necessity-based goods and services will benefit. And so you'll continue to see us invest in the Walmarts and Home Depots and Lowes and O'Reillys AutoZones, the dominant tire and auto service operators, dominant C-stores throughout the country, off-price retail. I think all of these sectors are effectively winners in a large tariff environment. There may be some short-term pain, but long term they have the balance sheets, the market position to continue to thrive.

John Kilichowski | Wells Fargo
Got it. And then in a similar vein, on the bad debt and non-reimbursable side, is it just too early to change your outlook or do you feel very comfortable with the conservatism already built in?

Joey Agree | Agree Realty Corporation | President & CEO
I'll let Peter hit it. I think it's pretty early to change the outlook. Obviously, that outlook incorporated a few Big Lots that we continue to work through, but I think it's, frankly, pretty early here in the middle of April.

Peter Coughenour | Agree Realty Corporation | CFO
John, just to hit specifically on credit loss and our guidance for the year, our 2025 earnings guidance, as I mentioned on the last call, includes an assumption for 50 basis points of credit loss. And that included an allowance for Big Lots, as we've talked about on this call. In Q1 we experienced roughly 30 basis points of credit loss and that compares to the 35 basis points roughly that we experienced in 2024. So, based on what we have line of sight into today, we feel good about the credit loss guide embedded within our earnings guidance and how the portfolio is continuing to perform.

Joey Agree | Agree Realty Corporation | President & CEO
And just to expound upon our 50 basis points of credit loss a little bit, that 50 basis points is a fully-loaded number for any lease expirations where we are carrying a vacancy, taxes, insurance, maintenance of the building, any rejections in bankruptcy, again, where we are carrying any taxes, maintenance, any expenses. That 50 basis points has no carve-outs, has no footnotes, has nothing in there. That's a fully-loaded 50 basis points that we put in there that is akin to our underwriting on the acquisition side, right, to truly understand the full economic impact and it provides the street transparency into that full economic impact.

John Kilichowski | Wells Fargo
Just to confirm, the 40 bits of occupancy loss, would that have been included?

Joey Agree | Agree Realty Corporation | President & CEO
Yep. That was specifically tied to the remaining Big Lots and is included in that number.

John Kilichowski | Wells Fargo
Okay. Perfect. Thank you.

Operator
Thank you. The next question comes from Ronald Kamdem at Morgan Stanley. Please go ahead.

Ronald Kamdem | Morgan Stanley
Hey. Just two quick ones. Just going back to the development and the DFP platform, any sort of early indications of how much construction costs could be going up? And how are you guys thinking about sort of your yield requirements for that channel?

Joey Agree | Agree Realty Corporation | President & CEO
Great question, Ron. We have done a preliminary and had third parties also do studies on tariff implications. Obviously, a moving target. The tariffs would mostly affect, obviously, the hard costs, call it the vertical cost here in terms of construction. We would anticipate a 2% to 5% on the high-end increase in tariffs. Obviously, those assumptions have to be broken out by country. Some of them are indirect in terms of input, right, input costs into finished product here. We don't think there's any material moves in our construction costs for tariffs here. Again, these projects are effectively rectangles and so we have our arms around them.

Your second question, sorry, Ron?

Ronald Kamdem | Morgan Stanley
Yeah, sorry, part two, just I don't think we've hit on sort of the dispositions yet, just any sort of thoughts/indications there would be helpful.

Joey Agree | Agree Realty Corporation | President & CEO
It didn't change the guidance for this quarter. It didn't change our annual guidance. I don't think you'll see us change that annual guidance this year unless there's some sort of change, frankly. I think we have done a tremendous job weaning out assets that we didn't think were core in the portfolio over the last several years. That said, we'll look at opportunistic dispositions. We have inbounds all of the time. We'll continue to look for opportunities to prune the portfolio as we get feedback, either on the ground level or the corporate level or if we just think something is above market and the re-tenantability is limited. So I don't see dispositions being a major contributor in terms of capital this year. We'll continue, obviously, to be active on that front, but I don't think, it's not a priority as it was last year when we were focused on recycling capital.

Ronald Kamdem | Morgan Stanley
Helpful. Thank you.

Joey Agree | Agree Realty Corporation | President & CEO
Thanks, Ron.

Operator
Thank you. The next question comes from Spenser Glimcher at Green Street. Please go ahead.

Spenser Glimcher | Green Street
Thank you. Just one for me. As you started working through your 2Q acquisition pipeline, have you guys observed any cap rate movements or changes to the bid/ask spread in any particular retail segments?

Joey Agree | Agree Realty Corporation | President & CEO
Good morning, Spenser. Q2 is effectively built. Right? Subject to diligence and closing, Q2 is effectively built just using that 65-day plus transaction timeline from letter of intent to execution, we're effectively, to close, we're effectively through Q2. If you look at the volatility in the 10-year treasury during that 65-day, 70-day sourcing period, obviously the 10-year dropped, then it pulled back up. Having this hedged position in terms of both forward equity and the swaps in place allows us to be, frankly, consistent. And so we're not in a situation where we have to constantly be changing our targets in terms of yield hurdles. We'll see how Q3 now plays out. Again, that sourcing effectively starts on Monday or Friday of this week, just given our traditional transaction timeline. And then frankly, I have no idea what the next, again, what

the next move from the administration will be, where the 10-year treasury goes, where our stock price goes, but the good news is we're locked and loaded and we'll come into it with a running start here.

Spenser Glimcher | Green Street
Okay. Understood you have the pricing power, I guess, and you don't have to be volatile, as you mentioned, in terms of your cost of capital, but did you observe anything in terms of tenant ask or where kind of pricing expectations were on the other side of the bidding?

Joey Agree | Agree Realty Corporation | President & CEO
Not really. I think the only thing we noticed is some of the larger institutions would like to play in the space given the dislocation in the debt markets could be out for a little while here as spreads widened out or the 10-year treasury yield spiked. But again, I forewarn everyone that, number one, sale-leaseback is a minority of what we do. We're traditionally a third-party acquirer. We think we create more value there rather than being just a financier of real estate. And then two, drawing parallels or even putting threads through transactions in this massive, fragmented, individually-owned market called net lease is very difficult.

I gave some examples of the transactions that we executed on the acquisition front in Q1. They were wholly disparate from a sale leaseback with a national grocer to a portfolio with a relationship seller, it's our probably seventh or eighth transaction with that seller, to a family office that owned the Bronxville ACME grocery store. And so the seller pool remains extremely disparate. We're seeing more institutions coming to the table to recycle capital and potentially dispose of assets. We're in those types of conversations. We're also in the midst of a conversation with an 80-plus-year-old widow about a transaction who effectively owns a portfolio that her husband acquired. And so, at the end of the day, the aggregation of those transaction comprised the quarter and I always say the most exciting part about this business is you never know where the next one is going to come from.

Spenser Glimcher | Green Street
Great. Thank you.

Joey Agree | Agree Realty Corporation | President & CEO
Thanks, Spenser.

Operator
Thank you. The next question comes from Jana Galan at Bank of America. Please go ahead.

Jana Galan | Bank of America
Thank you. Good morning. Just following up on the commercial paper program, Peter, can you quantify the spread relative to the revolver and if this benefit is included in the updated guidance or did you already plan to launch the program with the initial guide?

Peter Coughenour | Agree Realty Corporation | CFO
Sure. Just in terms of pricing on the commercial paper program, obviously we closed on the program on March 31st. Dependent on the tenor of commercial paper notes that we're issuing as well as conditions in the commercial paper market, which are subject to change, today we think we can issue commercial paper notes 40-plus basis points inside of our borrowing cost on the revolver. The current borrowing cost on the revolver at quarter end was around 5.2% for reference. To date so far in Q2 we have been active in the CP market and use that for short-term borrowings and in our current guidance range we have contemplated the impact of using commercial paper throughout the year as appropriate.

Jana Galan | Bank of America
Thank you. And I know you think of your kind of long-term WACC, but just between this and the swaps that you have in place, I mean I think investment spreads should be kind of at historic highs currently. Can you maybe comment to that?

Joey Agree | Agree Realty Corporation | President & CEO
I would agree absent the depths of the pandemic when the rates were at effectively zero and we were issuing 10-year paper at 2%-plus and perpetual preferred 4.25%. There's no doubt that our investment spreads are wide. We'll be the beneficiary of those investment spreads and our superior cost of capital here, but we are no doubt in an advantageous position.

Jana Galan | Bank of America
Thank you.

Joey Agree | Agree Realty Corporation | President & CEO
Thanks, Jana.

Operator
Thank you. The next question comes from Jim Kammert at Evercore. Please go ahead.

Jim Kammert | Evercore ISI
Good morning. Thank you. Joey, you obviously had the conviction to raise your investment volume for the year. Is that really built, ah, you're just expanding with your existing relationships or have you kind of started to identify additional partners?

Joey Agree | Agree Realty Corporation | President & CEO
All over the board, Jim. It's existing relationships, it's additional partners, it's the breadth and depth of the coverage that this team has across the country. We are the go-to buyer for net lease retail, high-quality net lease retail assets bar none today and so I think our transactional history, the quality of the team, our marketing and e-marketing campaign, they all inure to our benefit here. Our ability to look at real estate with a different lens, our relationships with the retailers, the end users of these properties, is the secret sauce, part of the secret sauce, and so it's all of the above and more.

Jim Kammert | Evercore ISI
Great. And then more a technical question. The ground leases have about a 9.5-year remaining WALT. Remind me, is that through final expiration or is that really just the first potential extension? Because I kind of think about potential organic growth opportunities. Any help there. Thank you.

Joey Agree | Agree Realty Corporation | President & CEO
That's exclusive of options just as WALT is for the remainder of the portfolio.

Jim Kammert | Evercore ISI
Got it. Thank you, guys.

Joey Agree | Agree Realty Corporation | President & CEO
Thanks, Jim.

Operator
Thank you. The next question comes from Upal Rana at KeyBanc Capital Markets. Please go ahead.

Upal Rana | KeyBanc Capital Markets
Great. Thank you. Joey, you mentioned seeing more opportunities in the development and DFP side and you noted the increase in construction costs as well, but just wondering how big do you think the development pipeline could potentially get from here.

Joey Agree | Agree Realty Corporation | President & CEO
So we've set that medium-term target of putting $250 million in the ground per year. We are on track. Again, it's a medium-term target, not for this year. We are on track. Our pipeline and our shadow pipeline are very large. They're obviously subject to diligence and closing conditions, sometimes entitlements as

well. I would tell you very distinctly our development platform and the team has done a tremendous job. We've added team members that have really hit the ground running and Craig Erlich and his team, our chief growth officer, are working with retailers all the time, have a very significant pipeline. And then our developer funding platform continues to benefit from just the lack of liquidity out there as well as unknown exit cap rates through other third-party developers. And so we've used our developer funding platform as a bridge to get projects across the finish line. A lot of them are directed to us by retailers, some sourced by the acquisition team, by our development team here, but both pipelines, they don't get a lot of headlines, but both pipelines, we think, combined with our acquisition and active asset management platform, provide really a full-service value proposition to retailers and it's recognized by all of them today, that we can step into any and all types of situations and, frankly, create value and provide for value in that partnership.

Upal Rana | KeyBanc Capital Markets
Okay. Great. That was helpful. And then just a quick follow up on the commercial paper program. Does this put ADC in a position to push more on investments in the future, especially combined with your increase in team members?

Joey Agree | Agree Realty Corporation | President & CEO
No, I think the commercial paper program, as Peter mentioned, while it's priced inside of the revolving credit facility, we don't use a revolver or short-term cost of capital to impact or even in our calculus for our weighted average cost of capital. These are short-term borrowing needs. The commercial paper program effectively supplants the use of the credit facility at cheaper pricing, but that does not impact how we look at deals or impact our weighted average cost of capital.

Upal Rana | KeyBanc Capital Markets
Okay, great. Thank you.

Operator
Thank you. The next question comes from Rich Hightower at Barclays. Please go ahead.

Rich Hightower | Barclays
Good morning, guys. Thanks for taking the question. I've really just got one, but I want to go all the way back to Ki Bin's line of questioning to start the call just on equity issuance. Now I think we all appreciate the TSM dilution conundrum and things like that, but it is sort of a high-class problem, and so it looks like equity issuance went down quarter over quarter relative to the fourth quarter, stock price has done obviously very well, absolute and relative year to date, so maybe why not lean in a little more to equity issuance in this environment, especially if it seems like the acquisition pipeline is biased to get bigger, not smaller? Thanks.

Joey Agree | Agree Realty Corporation | President & CEO
Well, I think if you look at the amount settled during Q1 of existing forward or formerly existing forward, net of what we issued, we effectively ended up neutral, right, 3.3 times, 3.4 times just over $180 million each. And so the balance sheet, while deploying $370 million approximately, ended up effectively in a neutral position. And so we continue to have nearly $2 billion in hedged capital, we have significant liquidity, $2 billion in liquidity, excuse me, and $1.3 billion of hedged capital approximately, and so we're in a terrific position here from a balance sheet or liquidity and cost of capital perspective to execute on our pipeline. Does that answer your question?

Rich Hightower | Barclays
Yeah, it does. I mean I didn't know if there was any sort of internal back and forth on, you know, if it makes sense to go any bigger in that light, but obviously you guys are in a really great position. No one would dispute that.

And actually, if I may ask a quick follow up, just again on bad debt, I think you guys have articulated pretty clearly how that gets built up, but just to be clear, is that a…? It sounds like from your perspective, given the creditworthiness of the tenant base, it really is kind of a bottoms-up, location-by-location, tenant-by-tenant situation buildup to get to that 50 basis points. Is there any sort of general credit overlay on top of that that gets you to the 50 or is it really sort of highly, highly specific, as it sounds at least from my end?

Peter Coughenour | Agree Realty Corporation | CFO

Thanks, Rich. This is Peter. In terms of the buildup and how we think about that 50 basis points of credit loss, I mentioned in the first quarter we had roughly 30 basis points of credit loss. And so, to answer your question, it is a location-by-location and tenant-by-tenant buildup that we look at as we think about credit loss. Based on what's identified or known today, I think the 30 basis points that we experienced in Q1 we anticipate more or less seen throughout the remainder of the year. And then we have some level of cushion, if you will, built into that 50 basis points that allows for other potential tenants that we're monitoring but there's not a known issue today.

Rich Hightower | Barclays

Okay. Helpful. Thank you, guys.

Operator

Thank you. We have no further questions. I will turn the call back over for closing comments.

Joey Agree | Agree Realty Corporation **|** President & CEO

Well, thank you all for joining us this morning. We look forward to seeing everybody at the upcoming conferences and we appreciate your time. Thank you.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and we ask that you please disconnect your lines.