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Agree Realty Corporation

Third Quarter 2026 Earnings Call

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Brad Heffern

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Alec Feygin

Baird; Analyst

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PRESENTATION:

Operator Good morning and welcome to the Agree Realty Third Quarter 2026 Earnings Call. (Operator Instructions) Please note this event is being recorded. I would now like to turn the conference over to Reuben Treatman, Senior Director of Corporate Finance. Please go ahead, Reuben.

Reuben Treatman Thank you. Good morning everyone. And thank you for joining us for Agree Realty's Third Quarter 2026 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 2026 guidance and outlook for 2027. 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-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, net debt to enterprise value, fixed charge coverage ratio and pro forma 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 Thanks, Reuben. Good morning. And thank you all for joining us today. I'm pleased to report another strong quarter of performance, reflecting our disciplined execution of our operating strategy. We invested in high-quality opportunities across all three external growth platforms, while our best-in-class portfolio remained at a company record 99.8% occupied.

I want to start by directly hitting the elephant in the room, the dynamic and changing macroeconomic environment which has increased our spot cost of capital. I've had the privilege to lead this company through the launch of our acquisition platform on the heels of the great financial crisis as well as through a pandemic in which we doubled in size and reshaped the complexion of our portfolio. I intend to do the same here on our terms and at our price, and we will emerge from this period stronger than before. Disruption is advantageous in a fragmented non-institutionalized market such as ours in many ways. Our relationships, balance sheet, three growth verticals and myriads of capabilities are poised to further validate our leading market position.

Three years ago, we introduced our do-nothing scenario to demonstrate the durability of our earnings algorithm during a period of uncertainty. Our position today is tremendously stronger, while the underlying earnings durability remains unchanged.

Most importantly, we have learned from 2023. We have moved decisively as the macro began to shift this time around. While we've raised \$1.1 billion of attractive capital this year including forward equity at approximately \$75 per share and a recently completed 10-year unsecured bond offering at just under 5.4%, we are in no rush to deploy at yesteryear's pricing. We have deliberately reduced our 2026 investment volume guidance to approximately \$1.6 billion by culling lower yield opportunities and aggressively repricing our pipeline.

Today we sit on a \$2 billion war chest, pro forma net debt to recurring EBITDA of just 3.9x and no material debt maturities until 2028.

Our best-in-class retail portfolio with highly durable cash flows and limited lease rollover in conjunction with our fortress balance sheet, provide for a meaningful competitive advantage.

That foundation positions us to generate the mid-single AFFO growth per share and double-digit operational returns in 2027 that we've consistently delivered over the past few years. We expect to do so without sacrificing our balance sheet strength or investment criteria, prudently deploying capital while driving cap rates higher, preserving our dry powder and leaning further into recycling capital.

We can achieve similar levels of earnings growth with less capital deployment at higher cap rates. We have already begun that shift. Acquisition cap rates expanded by 30 basis points this quarter to 7.3%, and we will expand them materially further in the fourth quarter as we lean into our capabilities and prioritize value creation over volume.

This past quarter, we invested a total of approximately \$360 million in 94 high-quality retail net lease properties including the acquisition of 68 assets for approximately \$310 million. The properties acquired during the quarter are leased to leading operators in sectors including auto parts, tire and auto service, home improvement, grocery and warehouse clubs.

Notable acquisitions during the quarter included a Walmart Supercenter in Virginia, a new BJ's Wholesale in the economic center of Western Massachusetts, a portfolio of Gerber Collisions, two Hobby Lobbies, Five Below's well as ground leases to Lowe's and Home Depot in Connecticut and Minnesota, respectively.

The acquired properties had a weighted average cap rate of 7.3%; as mentioned, this represents a 30-basis point expansion quarter-over-quarter. The weighted average lease term was 14.5 years, and investment-grade retailers accounted for over 52% of the annualized base rents acquired.

During the third quarter, we broke ground on six developments, representing total anticipated cost of \$57 million. This included four new 7-Eleven projects which now total 12 7-Eleven commenced in our development platform. Additionally, working in conjunction with the premier off-price retailer, we acquired a former furniture store located in a dominant power center in Philadelphia for an exciting redevelopment to be completed in early 2027.

Seven projects were completed in the quarter, representing a company record of over \$82 million in total costs. For perspective, this exceeds the total cost of all projects completed in 2024. Completed projects included three 7-Elevens and several Burlington and Ross locations.

Construction continued on eight projects during the quarter with aggregate anticipated costs of \$88 million.

Through September 30, we have commenced projects totaling approximately \$163 million, nearly doubling the level achieved in the prior period. We continue to make progress toward our medium-term objective of \$250 million in annual development and developer funding platform commencements. This progress reflects the strength of our best-in-class team and platforms which provide the country's leading retailers with a one-stop shop to execute on their growth objectives.

In total, we had 26 projects that are either completed or under construction during the first nine months of the year, representing a company record of over \$255 million of committed capital.

Through the first nine months of the year across all three platforms, we've invested approximately \$1.3 billion in 261 retail net lease properties spanning 42 states in the District of Columbia across 29 retail sectors.

Moving on to the disposition front. We sold 11 properties during the quarter for gross proceeds of approximately \$27 million at a weighted average cap rate of 6.5%, 80 basis points inside the cap rate on acquisitions completed during the period. The dispositions consisted primarily of five franchise-operated Taco Bell locations, two Goodyears and two Advance Auto Parts stores. None of the dispositions carried an investment-grade credit rating and the assets had a weighted average remaining lease term of approximately 7.6 years.

For the year, we now anticipate total disposition volume of \$100 million to \$150 million, a material increase from our prior range of \$50 million to \$100 million. We are and we will continue to pursue additional opportunities to recycle capital via strong demand from 1031 and bonus depreciation buyers on an accretive basis.

Our Asset Management Team continues to address upcoming lease maturities.

We executed new leases, extensions or options on over 860,000 square feet of GLA during the third quarter with a recapture rate of approximately 106%, the highest level in six quarters.

Through the first nine months of the year, we executed new leases, extensions or options on 2.5 million square feet of gross leasable area at a recapture rate of more than 105%. Only 11 leases representing 20 basis points of annualized base rent remain scheduled to mature this year.

At quarter end, our best-in-class portfolio is approaching 2,900 properties spanning all 50 states in the District of Columbia. Our investment-grade exposure stood at approximately 65% of annualized base rents. Our portfolio includes 270 ground leases, comprising 10% of annualized base rents which have investment-grade exposure of approximately 85%.

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

Peter Coughenour Thank you, Joey.

Starting with the balance sheet. We had a very active quarter with over \$825 million of debt and equity capital raised or settled, bringing this figure to nearly \$1.5 billion year-to-date.

In September, we completed a \$400 million public bond offering of 5.65% senior unsecured notes due in 2036. The offering priced at a spread of 90 basis points, the tightest level achieved for a 10-year public bond offering in the company's history.

In connection with the offering, we terminated \$300 million of forward starting swap agreements and received more than \$19 million of proceeds. Those proceeds reduced the all-in interest rate on the notes by nearly 50 basis points from the yield to maturity to a rate of 5.36%.

Over the past six years, we have generated more than \$82 million of net proceeds from our hedging program, translating into nearly \$8 million of annual interest savings. We view that as a direct result of our disciplined and proactive hedging policy. Our approach has been to avoid just-in-time financing, which has provided better visibility into our medium-term cost of capital and has created meaningful value for shareholders over time.

During the quarter, we settled approximately 5.7 million shares of existing forward equity for net proceeds of over \$425 million. At period end, we had approximately 8.8 million shares of outstanding forward equity, representing anticipated net proceeds of over \$657 million.

At quarter end, total liquidity stood at approximately \$2 billion including cash on hand, outstanding forward equity and full availability on our revolving credit facility. In addition, we anticipate free cash flow after the dividend to exceed \$140 million this year, a more than 10% year-over-year increase.

Pro forma for the settlement of all outstanding forward equity, net debt to recurring EBITDA was approximately 3.9x, reflecting our conservative and well-positioned balance sheet. Excluding unsettled forward equity, net debt to recurring EBITDA was 4.8x, a decline of 0.4 of a turn from the prior quarter. Net debt to enterprise value was approximately 29%, while our fixed charge coverage ratio, including the preferred dividend, remained very healthy at 4.1x.

We had no short-term or floating rate borrowings at quarter end, and we continue to have no material debt maturities until 2028. Our balance sheet remains exceptionally well positioned, providing ample liquidity and flexibility to strategically allocate capital and remain disciplined in our investment approach. Put simply, we are and can afford to be judicious in how and when we deploy our capital.

Our consistent and reliable earnings growth continues to support a growing and well-covered dividend. During the third quarter, we declared monthly cash dividends of \$0.267 per common share for July, August and September. The monthly dividend equates to an annualized dividend of over \$3.20 per share and represents a 4.3% year-over-year increase. Our dividend is very well covered with a payout ratio of approximately 69% of AFFO per share for the third quarter.

Subsequent to quarter end, we announced a monthly cash dividend of \$0.271 per common share for October. The monthly dividend equates to an annualized dividend of over \$3.25 per share and represents a 3.4% year-over-year increase. Moving on to earnings. Core FFO and AFFO per share were each \$1.15 for the third quarter, representing a 4.9% increase from the same quarter last year.

We have increased our full year 2026 AFFO per share guidance to a range of \$4.58 to \$4.59, implying year-over-year growth of nearly 6% at the midpoint. The increase in our earnings guidance is driven by the continued strong performance of our portfolio and lower-assumed treasury stock method dilution for the year. These benefits are partly offset by a decrease in net investment activity of \$150 million at the midpoint, a steeper SOFR curve for short-term borrowings and elevated debt deal cost in the third quarter as we adjusted to a new pricing paradigm.

Our guidance has been updated to include an assumption of 15 basis points of credit and occupancy loss for the year, down from 25 basis points previously. As a reminder, our definition of credit and occupancy loss is fully loaded, encompassing not only credit events, but downtime due to a tenant vacating at lease maturity unrelated to credit issues and other partial or non-payments for any reason.

It also includes all operating and tax expenses that ADC is responsible for paying while the space is vacant in addition to lost rental revenue. Year-to-date, we've experienced only 9 basis points of fully loaded credit and occupancy loss.

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

Joey Agree Thank you, Peter. Operator, at this time let's open it up for questions.

QUESTION & ANSWER:

Operator (Operator Instructions) Your first question comes from the line of Rich Hightower with Barclays.

Richard Hightower As far as the sort of behavior in the private market for net lease transactions goes nowadays, I mean give us a little more color on what you're seeing from other buyers, other buyer pools, competitors? And then maybe talk about how tax motivations and just kind of general year-end fourth quarter seasonality, how do you expect that to play out broadly even if Agree per se is not participating at the same level that we would have thought even 60 or 90 days ago.

Joey Agree In terms of private buyer pools or other acquirers in the space, I really can't speak to their behavior. As I mentioned in the prepared remarks, we have been decisive. We've learned from 2023 from the volatility here. We understand that our balance sheet and our cost of capital that we have historically raised here is probably our greatest asset. So, I can't speak to other buyers or buyer pools. We're really focused.

In terms of tax motivated behavior, purchasers, we have seen a significant rise since the Big Beautiful Bill was purchased for bonus depreciation purchasers. You'll see us lean into dispositions, as we mentioned, to those types of purchasers. 1031 acquirers still remain fickle. But obviously we've increased our disposition activity and guidance here, and I think they will continue into next year.

Richard Hightower That's helpful. And I guess my second question, just to go to development and DFP.

I think you've got maybe a little over a dozen projects currently expected to deliver through -- towards the end of next year, I guess. Just help us understand, I know you said there's about a \$250 million kind of annual target for that sort of spend. Help us understand the cadence of run rate spend and rent commencement and earnings contribution. How does that sort of flow through the model on a stabilized kind of run rate basis from here?

Joey Agree I'll let Peter get into the details of the numbers. The one thing I'd point out is we have really leaned into our Development and our Developer Funding Platform starting approximately 18 months, call it, six to seven quarters ago and set that target with the two purposes. One, to diversify our external growth sources, right, our uses of capital; and then two, to balance out our relationships with retailers to provide a one-stop really differentiated solution. Those have obviously come to fruition, as I said on the last call subject to entitlements and permitting, we could hit that \$250 million number this year. We're obviously well on the way as you can see through three quarters.

Peter, I'll let you get into the specifics.

Peter Coughenour Sure, Rich. Just to hit on the modeling impacts or how we should think about revenue coming online. We have disclosure in our supplemental on page 35 that lays out our Development and DFP projects and the anticipated quarter of delivery. We announced projects once construction commences. And then looking at that table, we lay out the anticipated quarter of delivery and total project cost for each quarter.

So, I would think about revenue recognition beginning when the project is delivered. And using that table as a guide for future projects coming online for those that have been announced.

Operator Your next question comes from the line of Michael Goldsmith with UBS.

Michael Goldsmith You highlighted a spot WACC of 6.8% in your presentation. Acquisition costs -- or acquisition cap rates moved up 30 basis points to 7.3%. So, a 50-basis point spread, and you expect cap rates to continue to move higher. I think you said materially in the fourth quarter. So, I guess like how far away are you right now from kind of -- I know you use that traffic light analogy, but like where are you right now? And do you think you can be in that green zone kind of heading out into the -- during the fourth quarter and into 2027.

Joey Agree I appreciate the question.

We put our spot cost of capital in there because we always want to be transparent. Again, we're not using unburdened free cash flow. We're not using dispositions. But I think we've got to back up and let's recap for a second to write up the conversation.

We have zero short-term borrowings, again at 0 short-term borrowings. We have a war chest of nearly \$2 billion that we raised at yesteryear's pricing which is in that same slide including a 10-year bond that was effectively 10 basis points wide of where the treasury was due to our proactive hedging policy at 5.37%. We can invest approximately \$2 billion until we're 5x levered, while the majority of our peers are sitting at 5.5x plus. We have no debt maturities until 2028. Yes. We said cap rates will expand in the fourth quarter. Let's assume 25 basis points on top of our Q3 expansion of 30 basis points that we already saw.

I'll add, we'll add another \$200 million that we'll dispose in probably in the nearer term, extending into Q4 into Q1, sub-6 cap, primarily to those bonus depreciation buyers. So we're really deploying really cheap capital that we deployed at yesteryear's pricing at the largest spreads we ever have and driving cap rates higher to make those spreads even larger.

So, our spot cost of capital is if we raise capital today. But, again our balance sheet is sitting at 3.8x levered. If we did nothing which we're not going to do, we've been very clear, there's no do-nothing scenario, we have 3% growth next year. Add it all up and there's really no material change in our earnings algorithm and hence, why I talked about mid-single-digit AFFO growth in 2027, double-digit total shareholder returns. It's pretty it's pretty simple math.

So, the spot cost of capital is to highlight if we raise capital today. But let's not forget we raised almost \$2 billion of capital at yesteryear's pricing which we're going to be disciplined and drive cap rates higher and drive the largest spreads that we've had, frankly, since Covid.

Michael Goldsmith Got it. And Joey, you're right, you talked about still achieving that mid-single-digit AFFO growth per share and double-digit operational returns next year. So how much of that is a function of the environment or maybe you can kind of qualify like how much does the environment need to improve in order to achieve that versus your do-nothing scenario of 3%?

Joey Agree There is no do-nothing scenario for us in 2027. That's a baseline that we're just using that we learned from in 2023 and 2024. When we entered 2024 and we talked about a do-nothing scenario, we were 4.7x levered. So we said we are going to proactively engage and discuss a do-nothing scenario. That is not an option for us. We have a \$2 billion war chest that was raised at yesteryear's pricing. We are going to deploy it disciplined and decisively at cap rates that we are going to continue to push on. We don't need any -- that assumes 0 changes in the short end, the long end of the curve, our stock price, anything, again that capital is raised. It's in the bank. It's priced. The equity was at \$75, the 10-year treasury, our 10-year unsecured debt was at 5.37%.

So, we -- that includes standard credit loss assumptions for 2027. No change in the curve, no change in our stock price. We're not guessing on where the economy is going to go in 2027. That is our earnings algorithm.

So, I think the focus on our spot cost of capital which we want to clearly delineate because we want to be transparent in our deck relative to our historically raised cost of capital which we have in the same page, column are very different things, right?

Again, we're sitting here with a \$2 billion war chest, just \$2 billion in capital to deploy until we broach 5x levered, the upper end of our guidance, with the majority of our peers sitting at 5.5x plus already.

Operator Your next question comes from the line of Nick Joseph with Citigroup.

Nicholas Joseph Joey, you talked about the 30-basis points quarter-over-quarter increase in cap rates in the third quarter. I think you just mentioned an expectation of 25 basis points in the fourth quarter. Does that normalize cap rates relative to movement of rates or would you expect further expansion in the first half of '27, assuming that rates stabilize at current levels?

Joey Agree Nick, I wish I knew. Honestly, we are focused on time and place right now. We reacted very quickly to the meteoric rise in the 10-year. We repriced our pipeline. We called our pipeline very aggressively. Again, and as you mentioned, you'll see that rise in our Q4 cap rates. We haven't even begun sourcing for 2027. We're not assuming in the model which I just talked about, any further extension of cap rates.

We're going to keep pushing. The key here is that we can create value across all three external growth platforms, whether it's working with retailers, we were in Walmart, we were in T.J. Maxx in Framingham, Massachusetts last week, working with our retail partners, creating value across all three platforms. Where cap rates go, what's the next true social post, I have no idea for 2027. All I know is we are going to be disciplined and deploy capital and material spreads to drive that earnings algorithm.

Nicholas Joseph Sounds good. And then you're in over 30 different retail sectors. What areas have you seen cap rate expansion the most? Where are you seeing the stickiness? And then on the go forward, if there's any you'd call out that you could see more expansion in or stability?

Joey Agree I don't think it's truly, I'll call it, sectoral driven. I think it's more price point driven. So obviously negative leverage doesn't help for private purchasers out there or public purchasers today given where the 10-year treasury is. And so, we've seen some stickiness in cap rates and lower price point assets. I think as you climb that price point ladder, obviously it dwindles down to institutional buyers that have the capital and the cost of capital to make those transactions work.

So, we could see some rise in our average transaction size, possibly. I'm not foreshadowing Q4 by any means, but we could see that in 2027, if all else remains equal. And so I think it's really price point driven. Obviously, there are tenants that are distressed that are not trading. And then the converse of that is the Big Beautiful Bill bonus depreciation buyers that are really just tax motivated. So, I can't think of a sector that is recently in the no-go or no-fly territory, but I think there are tenants that obviously have challenges getting moved.

Operator Your next question comes from the line of Jana Galan with Bank of America.

Jana Galan I appreciate the comments on value creation over volume and the cap rates on acquisitions in 4Q trending higher. Just curious, again if you could just provide any expectations on how long it takes cap rates to reset for your more investment-grade tenant base, maybe looking at prior cycles of this type of interest rate volatility.

Joey Agree I would tell you, I think it's, Jana, it's a misnomer that IG takes longer than non-IG to reset. I think these are all just narratives, frankly, that are false. So Q1 investment grade, this is just acquisition activity for us, was at 59%. Q2 was 73% plus. Q3 was down to 52.1%. Q4 will pop back up. I'll tell you that now.

Again, these numbers are solely for acquisitions. They don't include Development or DFP. Add in our Development and DFP activity in Q3 is approximately nearly 60% investment grade. But again, as I've been consistent, I think investment grade alone is the wrong focus. It's an output of what we do. Walgreens was investment grade. Everyone remembers. We called that. Tractor Supply wasn't investment grade. We called that.

Hobby Lobby, Gerber Collision, Publix, Wegmans, Ulta, Aldi, Boot Barn and a whole bunch of other tremendous retailers, preeminent retailers in this country have no rating.

And so we can play the shadow IG game, and we can say run a Moody's RiskCalc and not use some random threshold or score, ADC score and say inclusive of shadow IG, Q3, we would be 65% which you include Five Below and Hobby Lobby and Ulta. Our entire portfolio, we ran through the Moody's RiskCalc is 76% investment grade. But again, I can't emphasize enough. Aldi is probably my favorite grocer in the country today. Hobby Lobby is the preeminent craft and hobby retailer. We did a sale leaseback, obviously, and acquired a number of more of them this quarter. Ulta carries no debt. They are the preeminent retailer in this country.

And then some of the best grocers in the country outside of Ulta, Publix, Wegmans, these retailers don't carry debt and they're not investment grade. That doesn't preclude our investment in them. And frankly, it doesn't even factor into our decision because we know the quality of their business and their balance sheet.

So, the IG, non-IG disparity, shadow IG, I think it's -- let's look at -- let's see through that and look at the quality of the individual retailers, the underlying real estate and then the complexion of the overall portfolio and the diversity within it.

Jana Galan And then maybe just congratulations on the 106% recapture rate. Curious if in this kind of more inflationary environment, you think that, that could trend higher? And maybe if you have a view of how below market your rents are.

Joey Agree That trend is really driven by escalations that are contractually driven in options, right? We have very minimal lease rollover as we highlighted. Those have mark-to-market opportunities. I can't quantify it for you at this time.

But that's really driven by the stability of our portfolio, the contractual options embedded, approximately the 1% internal growth through same-store NOI that we're receiving every single year, and you'll see that number come up and down subject to what options are being exercised in any quarter.

Operator Your next question comes from the line of Ronald Kamdem with Morgan Stanley.

Ronald Kamdem Just going back to the conversation on the sort of the acquisition environment, and I think your comments about sort of a cap rate or cap rate rising from here. I was just curious if you could just dig in a little bit deeper in terms of the competition for deals that you're seeing out there and who's getting stronger, who's getting weaker would be helpful.

Joey Agree Yes, Ron, I think overall, competition is less because capital is more expensive and constrained. Again, we don't compete with institutional purchasers generally. We're competing in a very fragmented space here that is primarily owned by individuals, and we're out there looking for value and creating value and hand-in-hand with our retailers.

So, I would assume that overall bids will go down as cap rates stabilize and try to move up and ultimately hopefully stabilize at some point. But we're not seeing any -- obviously not seeing any increase in competition. That's for sure.

Ronald Kamdem And then just a quick follow-up on the DFP, that \$250 million run rate in this environment. Could that potentially even be more opportunity if other capital sources are strained? Or how should we think about that?

Joey Agree Certainly. But the transactions also, they have the hurdle. They have to make sense. But yes, I think construction financing and ultimate end financing, long-term financing or dispositions could be more problematic for developers. And DFP, we could see a rise in that activity, and we're exploring a number of options there.

Operator Your next question comes from the line of Brad Heffern with RBC Capital Markets.

Brad Heffern On the development front, do higher rates, the higher rate environment, does that change anything in terms of just the relative attractiveness either for you or for the counterparties? I would think from a pricing standpoint, you're able to dictate that more, but I don't know if there's any difference in terms of how counterparties look at the offering in a higher rate environment.

Joey Agree Yes. I think it could possibly give us the ability to push on return on cost in a higher rate environment, but we have -- look, we enter into those transactions with a significant margin and the product type that we're developing ultimately has significant value and terminal value because, one, the Big Beautiful Bill for these gas stations, obviously the bonus depreciation purchasers. But we enter in with a larger margin of, obviously, I'll call it, safety and spread or return on invested capital due to that development platform. But could it give us the opportunity to push those returns even higher? Certainly possible.

Brad Heffern Okay. Got it. And then, Peter, you talked about the debt deal fees. I'm assuming that was a headwind to guidance above the reduction in acquisition volumes. Is there any number you can put around that in terms of what the impact was for the third quarter? And then should we expect to see any more of that in the fourth quarter? Or is that all done at this point, assuming rates stay where they are?

Peter Coughenour Yes. In terms of the impact from elevated debt deal costs in the third quarter, that contributed close to roughly \$0.01 in terms of a decrease in AFFO per share in the third quarter. Debt runs through general and administrative expenses on our income statement. So, you can see that line item was elevated in Q3. I would expect some normalization in G&A and debt deal costs as we move to the fourth quarter.

Operator Your next question comes from the line of Eric Borden with BMO Capital Markets.

Eric Borden Joey, you've been clear that you don't want to move up the risk curve. Just curious how much of the 30-basis point increase in cap rates in this quarter reflects true repricing versus mix? And then when you talk about another potential 25-basis points of cap rate expansion in the fourth quarter, is that on a comparable risk profile?

Joey Agree Yes. simply put, yes. We will not move up the risk curve. We have constructed this portfolio over the last 16 years that we believe is a preeminent retail portfolio in the country, and we will not move up the risk curve. We're not -- we will stay retail focused on the largest retailers in the United States and continue to partner with them on their growth strategies as well as existing stores.

The repricing in the fourth quarter was a function of -- I'll tie it back to the debt deal cost that Peter just discussed. It was -- for us, it was a take it or leave it effectively. We will kill a deal if it didn't hit a certain threshold for us. You saw those debt deal costs run through Q3. You won't see that again in Q4. And then if the seller was willing to move along with the 10-year treasury, and we were -- as well as our stock price, we were willing to transact. But for us, it effectively became a take it or leave it.

Eric Borden Great. And then just on the disposition front, you've given the accretive spread between the dispositions, and the acquisitions yields this quarter. How much room is there to lean further into recycling? Is there a meaningful pool of noncore assets that you could increase the monetization without compromising the quality of the portfolio?

Joey Agree Certainly. And I think the biggest opportunity there is with the bonus depreciation purchasers. And obviously we're very active in the C-store space where that bonus depreciation is applicable. So we will look to recycle at a couple of hundred, 175 to 200 basis point spreads in Q4 and into 2027.

Operator Your next question comes from the line of Alec Feygin with Baird.

Alec Feygin Just on the development side, do you expect that the mix of investments is likely to shift towards development versus regular acquisitions?

Joey Agree No. I don't, the mix in terms of percentage of capital allocation will ultimately depend on -- we have a pretty good visibility into our development pipeline will ultimately depend on ultimate acquisition volumes which we don't have visibility. If acquisition volumes trend down, development could be a larger percentage. But again, with limited foresight into the ultimate denominator including acquisitions for 2027, it's difficult to answer that question.

Operator Your next question comes from the line of Upal Rana with KeyBanc Capital Markets.

Upal Rana Joey, you mentioned you can deploy \$1.9 billion and still get to 5x leverage. Is that sort of the intention to potentially lever up to 5x? Or was that you had a scenario?

Joey Agree Our stated leverage target is four to 5x. We obviously have a \$2 billion war chest and just putting that in the context of the overall balance sheet, right? And so, I think we'll always be looking at capital sources, whether it was a preferred at 4.25 back in the heyday or whether it's common equity through ATM. We will always maintain a fortress balance sheet and liquidity profile. But I think on a -- when you look on a relative basis, our balance sheet has a significant firepower.

Upal Rana Okay. Great. That was helpful. And then the 3Q investment activity had an average WALT of over 14 years versus 10 or 11 years in the quarters prior. Was that a result of just mix? Or were you seeing the ability to ask for higher WALT given the current environment?

Joey Agree No. That was specifically mix. There was the Gerber Collision transactions, brand-new Hobby Lobby's, one in Apple Valley, California, that was 15 years. So just mix, a new BJ's and Hobby Lobby in Springfield, Massachusetts, again just mix.

Operator Your next question comes from the line of Rob Stevenson with Huntington.

Robert Stevenson Joey, given that some of the Development/DFP deals that have yet to break ground might have been put under contract in the past, how quickly are you able to readjust the yield on new deals if you're looking at 50 to 60 basis points of acquisition cap rate expansion in the back half of this year?

Joey Agree Subject to the project and the stage of the project, we're able to adjust pretty quickly. Obviously, there's multiple levers there. There's the underlying land cost. There's rents with the retailer. But we don't really -- given the margin that we're developing at the margin of safety relative to our cost of capital and relative to ultimate terminal values if we disposed as we talked about with the Big Beautiful Bill purchasers, I don't think there's a need to necessarily reprice those transactions.

Robert Stevenson Okay. And then have you -- given the term, have you seen any material difference in the level of cap rate expansion or the availability of the product in ground leases today versus just fee simple assets?

Joey Agree No. you'll see a significant component of ground leases in Q4. Most of the ground lease stuff that we do acquire, either sellers aren't even familiar with the ground leases or they're short term and working hand-in-hand with the retail, there really isn't a threat to pull through ground leases versus turnkey leases. They're really -- it's all a mixed bag.

Operator Your next question comes from the line of Jim Kammert with Evercore ISI.

James Kammert Lots been covered here. Just one quick housekeeping item. Looking at the Q, Peter, there's no hedging in place for the '28 maturities. Is that correct?

Peter Coughenour Correct. As we think about the '28 debt maturities, those are fixed rate offerings. And currently, there are no hedges in place for prospective debt issuances.

Operator Your next question comes from the line of Michael Gorman with BTIG.

Michael Gorman Joey, you mentioned taking a closer look at the retailers and your track record there is certainly very strong. And then you mentioned some of your favorites in the grocery space, Aldi, Publix, Wegmans, obviously makes sense. I'm curious if you have any thoughts on some of the more traditional main line grocers that maybe had some negative headlines around them recently?

And just kind of how you're thinking about the grocery space that somehow seems to be getting even more competitive than it's been in recent years.

Joey Agree Yes. I would refer everyone to the white paper on our website from what, 12, 18 months ago, Peter, about the grocery space. I pushed back pretty vehemently about the narrative of grocery-anchored shopping centers being the general safe haven in retail real estate for years now. The grocery space ultimately is a 2% margin business, and we see those margins contracting while they move to advertising revenue alternative sources. And again, three of the largest grocers in the country or retailers that sell groceries, I should say aren't grocers, right? Walmart, the largest, Amazon and Costco. And so, we have always been very clear that we will only invest in those market leaders. Sometimes they are regional leaders. And I think our white paper lays out that thesis, and we'll continue to execute upon that thesis.

But we have seen -- as you mentioned, we have seen pressures there. There is price transparency in the grocery space, like all retail spaces today. Basket sizes are going down even in the face of gas prices going up. Consumers are being much more discerning about what they acquire. Obviously we have a number of grocers who are going through their overall pricing strategy right now and have been very public about it and saying we have to compete on price.

So our thesis has always been and to invest in differentiated grocers that are the regional leaders, H-E-B, Wegmans, Publix, Market Basket, the national grocers that are price leaders, Walmart Neighborhood Market, Aldi, Kroger, and we will continue to execute in that manner. And we've been very clear. B minus, C grocers are suspect at best in a 2% margin business today. And I think we're going to see continued challenges amongst those lower-tier grocers.

Operator Your next question comes from the line of Jamie Feldman with Wells Fargo.

Connor Siversky You've got Connor on here with Jamie. Maybe from a higher level, can you talk us through any lessons learned from the last significant move in the 10-year like in 2023? And how does that influence your capital allocation strategy over the next 12 to 18 months?

Joey Agree Yes. It's a great question, Connor. We emphasize here always constantly improving. I'll tell you my personal lessons learned from the 2023 rapid rise in the 10-year north of 5% was we did not move quickly and decisively enough.

We continue to acquire and deploy our most precious asset, our balance sheet, utilize that balance sheet capacity at spot pricing instead of waiting. And that I'll call it lack of discipline, and I'll take the full accountability for that. That lack of discipline had our balance sheet then in a position which I did not want to deploy incremental capital without knowing what came next. This time coming in with \$2 billion of liquidity and the balance sheet at 3.8x levered, we moved immediately. And it was aggressive.

I'll be frank. It was an aggressive move. You saw the debt deals run through. I talked about how it was a take-it or leave-it approach. We reduced our investment guide. We focus -- we're again focused on value over volume. I think the volume game in net lease is over which I'm excited about because we are value creators ultimately.

But I think in 2023, really looking back, hope of normalization or stabilization probably encouraged me to stay the course on our existing pipeline. This time around, we said go immediately when we saw that meteoric rise in the 10-year treasury and the correlating stock price depreciation. And so, it was a very different tactic for us.

We are going to preserve our most -- again we're going to preserve our most precious asset. That's our balance sheet liquidity. We're going to deploy it at larger spreads, and we have been decisive about it, as you can see with the rise in cap rates, the rising cap rates in Q4, I talked about for us, and we will be patient and disciplined.

Connor Siversky That's super helpful. And sorry if this has been talked about already, but I think you mentioned last time you were going in a do-nothing scenario was in 2024 around kind of 4.7x leverage. Your investor presentation shows you haven't been above 4.5 since 2018. So, should we maybe think about that 4.5x sort of as a soft maximum for your leverage?

Joey Agree I wouldn't think of it as a maximum. Our stated range is four to 5x. We're obviously nowhere near \$2 billion including free cash flow approximately to get to the do-nothing scenario. That do-nothing scenario once again is 3% growth. We're not going to do-nothing. Look, we will be nimble, flexible. We will be opportunistic, obviously. But the most important thing there is we are not in that position, and we want to emphasize that here.

Operator There are no further questions at this time. I will now turn the call back to Joey Agree for closing remarks.

Joey Agree Well thank you everybody for joining us this morning. And we look forward to seeing you during the upcoming conferences. And best of luck through the remainder of earnings season. Thanks again.

Operator This concludes today's call. Thank you for attending.