AGREE REALTY CORP
Form 10-K
February 21, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10 K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

Commission File Number 1 12928

AGREE REALTY CORPORATION

(Exact name of Registrant as specified in its charter)

Maryland	38 3148187
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

70 E. Long Lake Road, Bloomfield Hills, Michigan 48304

(Address of Principal Executive Offices)

Registrant's telephone number, including area code: (248) 737 4190

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, $.0001 par value	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10 K or any amendment to this Form 10 K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b 2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b 2 of the Exchange Act). Yes No

The aggregate market value of the Registrant's shares of common stock held by non-affiliates was $1,637,625,077 as of June 30, 2018, based on the closing price of $52.77 on the New York Stock Exchange on that date.

At February 19, 2019, there were 37,537,012 shares of common stock, $.0001 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the annual stockholder meeting to be held in 2019 are incorporated by reference into Part III of this Annual Report on Form 10 K as noted herein.

Table of Contents

AGREE REALTY CORPORATION

Index to Form 10 K

Table of Contents

PART I

Cautionary Note Regarding Forward-Looking Statements

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Agree Realty Corporation intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and includes this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words “anticipate,” “estimate,” “should,” “expect,” “believe,” “intend,” “may,” “will,” “seek,” “could similar expressions. Forward-looking statements in this report include information about possible or assumed future events, including, among other things, discussion and analysis of our future financial condition, results of operations, our strategic plans and objectives, occupancy and leasing rates and trends, liquidity and ability to refinance our indebtedness as it matures, anticipated expenditures of capital, and other matters. You should not rely on forward-looking statements since they involve known and unknown risks, uncertainties and other factors, which are, in some cases, beyond our control and which could materially affect actual results, performances or achievements. Factors which may cause actual results to differ materially from current expectations, include, but are not limited to: the global and national economic conditions and changes in general economic, financial and real estate market conditions; changes in our business strategy; the potential need to fund improvements or other capital expenditures out of operating cash flow; financing risks, such as the inability to obtain debt or equity financing on favorable terms or at all; the level and volatility of interest rates; our ability to re-lease space as leases expire; loss or bankruptcy of one or more of our major tenants; our ability to maintain our qualification as a real estate investment trust (“REIT”) for federal income tax purposes and the limitations imposed on our business by our status as a REIT; and legislative or regulatory changes, including changes to laws governing REITs. The factors included in this report, including the documents incorporated by reference, and documents the Company subsequently files or furnishes with the SEC are not exhaustive and additional factors could cause actual results to differ materially from that described in the forward-looking statements. For a discussion of additional risk factors, see the factors included under the caption “Risk Factors” within this report. All forward-looking statements are based on information that was available, and speak only, as of the date on which they were made. Except as required by law, the Company disclaims any obligation to review or update these forward–looking statements to reflect events or circumstances as they occur.

Unless the context otherwise requires, references in this Annual Report on Form 10 K to the terms "registrant,” the "Company," “Agree Realty,” "we,” “our” or "us" refer to Agree Realty Corporation and all of its consolidated subsidiaries, including its majority owned operating partnership, Agree Limited Partnership (the “Operating Partnership”). Agree Realty has elected to treat certain subsidiaries as taxable real estate investment trust subsidiaries which are collectively referred to herein as the “TRS.”

Item 1: Business

General

The Company is a fully integrated REIT primarily focused on the ownership, acquisition, development and management of retail properties net leased to industry leading tenants. The Company was founded in 1971 by its current Executive Chairman, Richard Agree, and its common stock was listed on the New York Stock Exchange (“NYSE”) in 1994. The Company’s assets are held by, and all of its operations are conducted through, directly or indirectly, the Operating Partnership of which the Company is the sole general partner and in which it held a 99.1% interest as of December 31, 2018. Under the partnership agreement of the Operating Partnership, we, as the sole general partner, have exclusive responsibility and discretion in the management and control of the Operating

Agreement. As of December 31, 2018, our portfolio consisted of 645 properties located in 46 states and totaling approximately 11.2 million square feet of gross leasable area ("GLA").

As of December 31, 2018, our portfolio was approximately 99.8% leased and had a weighted average remaining lease term of approximately 10.2 years. A significant majority of our properties are leased to national tenants and approximately 51.4% of our annualized base rent was derived from tenants, or parent entities thereof, with an investment grade credit rating from S&P Global Ratings, Moody's Investors Service, Fitch Ratings or the National Association of Insurance Commissioners. Substantially all of our tenants are subject to net lease agreements. A net lease typically requires the tenant

Table of Contents

to be responsible for minimum monthly rent and property operating expenses including property taxes, insurance and maintenance.

As of December 31, 2018, we had 36 full-time employees, including executive, investment, due diligence, construction, accounting, asset management and administrative personnel.

Our principal executive offices are located at 70 E. Long Lake Road, Bloomfield Hills, MI 48304 and our telephone number is (248) 737 4190. We maintain a website at www.agreerealty.com. Our reports are electronically filed with or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act and can be accessed through this site, free of charge, as soon as reasonably practicable after we electronically file or furnish such reports. These filings are also available on the SEC's website at www.sec.gov. Our website also contains copies of our corporate governance guidelines and code of business conduct and ethics, as well as the charters of our audit, compensation and nominating and governance committees. The information on our website is not part of this report.

Recent Developments

Investments

During 2018, we completed approximately $653.9 million of investments in net leased retail real estate, including acquisition and closing costs. Total investment volume includes the acquisition of 225 properties for an aggregate purchase price of approximately $608.3 million and the completed development of eight properties for an aggregate cost of approximately $45.6 million. These 233 properties are net leased to 59 different tenants operating in 22 sectors and are located in 37 states. These assets are 100% leased for a weighted average lease term of approximately 12.4 years, and the weighted average capitalization rate on our investments was approximately 7.0%.

Dividends

We increased our quarterly dividend per share from $0.520 in March 2018 to $0.540 in June 2018 and further increased our quarterly dividend per share to $0.555 in December 2018.

The fourth quarter dividend per share of $0.555 represents an annualized dividend of $2.22 per share and an annualized dividend yield of approximately 3.8% based on the last reported sales price of our common stock listed on the NYSE of $59.12 on December 31, 2018. We have paid a quarterly cash dividend for 99 consecutive quarters and, although we expect to continue our policy of paying quarterly dividends, we cannot guarantee that we will maintain our current level of dividends, that we will continue our recent pattern of increasing dividends per share, or what our actual dividend yield will be in any future period.

Financing

In March 2018, the Company completed a follow-on public offering of 3,450,000 shares of common stock, which included the underwriters' option to purchase an additional 450,000 shares of common stock, in connection with a forward sale agreement. The offering, which included the full exercise of the underwriters' option to purchase additional shares, was settled in its entirety in September 2018. Upon settlement, the Company issued 3,450,000 shares and received net proceeds of $160.2 million after deducting fees and expenses.

In May 2018, the Company entered into a $250.0 million at-the-market equity program ("ATM program") through which the Company may, from time to time, sell shares of common stock. In addition to selling shares of common stock, the Company may enter into forward sale agreements through its ATM Program. The Company intends to use the proceeds generated from its ATM program for general corporate purposes, including funding our investment activity, the repayment or refinancing of outstanding indebtedness, working capital and other general corporate purposes.

During the year ended December 31, 2018, the Company issued 3,057,263 shares of common stock under our ATM program at an average price of $59.28, realizing gross proceeds of $181.2 million. We had approximately $68.8 million remaining capacity under the ATM program as of December 31, 2018.

In September 2018, the Company and the Operating Partnership entered into two supplements to uncommitted master note facilities previously entered into with institutional purchasers in August 2017. Pursuant to the supplements, the Operating

Table of Contents

Partnership completed a private placement of $125.0 million aggregate principal amount of our 4.32% senior unsecured notes due September 2030 (the “2030 Senior Unsecured Notes”). The senior unsecured notes were sold only to institutional investors and did not involve a public offering in reliance on the exemption from registration in Section 4(a)(2) of the Securities Act.

In September 2018, the Company entered into a follow-on public offering of 3,500,000 shares of common stock in connection with a forward sale agreement. Upon settlement, the offering is anticipated to raise net proceeds of approximately $190.0 million, net of underwriting discounts, fees and commissions and will be subject to certain adjustments as provided in the forward sale agreement. Selling common stock through the forward sale agreement enabled the Company to set the price of such shares upon pricing the offering (subject to certain adjustments) while delaying the issuance of such shares and the receipt of the net proceeds by the Company. As of December 31, 2018, the Company has not settled any shares related to the forward sale agreement which is required to be settled no later than September 3, 2019.

In December 2018, the Company and the Operating Partnership entered into a $100.0 million unsecured term loan facility that matures January 2026 (the “2026 Term Loan”). Borrowings under the 2026 Term Loan are priced at LIBOR plus 145 to 240 basis points, depending on the Company’s credit rating. The Company entered into an interest rate swap to fix LIBOR at 266 basis points until maturity. As of December 31, 2018, $100.0 million was outstanding under the 2026 Term Loan, which was subject to an all-in interest rate of 4.26%.

Dispositions

During 2018, the Company sold real estate properties for net proceeds of $65.8 million and recorded a net gain of $11.2 million.

Leasing

During 2018, excluding properties that were sold, we executed new leases, extensions or options on more than 331,000 square feet of GLA throughout our portfolio. The annual rent associated with these new leases, extensions or options is approximately $3.8 million. Material new leases, extensions or options included a 30,000 square foot TJ Maxx in Logan, Utah, a 21,177 square foot Harbor Freight Tools in Cedar Park, Texas and a 20,269 square foot Old Navy in Grand Chute, Wisconsin.

Business Strategies

Our primary business objective is to generate consistent shareholder returns by primarily investing in and actively managing a diversified portfolio of retail properties net leased to industry leading tenants. The following is a discussion of our investment, financing and asset management strategies:

Investment Strategy

We are primarily focused on the long-term, fee simple ownership of properties net leased to national or large, regional retailers operating in sectors we believe to be more e-commerce and recession resistant. Our leases are typically long-term net leases that require the tenant to pay all property operating expenses, including real estate taxes, insurance and maintenance. We believe that a diversified portfolio of such properties provides for stable and predictable cash flow.

We seek to expand and enhance our portfolio by identifying the best risk-adjusted investment opportunities across our development, Partner Capital Solutions (“PCS”) and acquisitions platforms.

Development: We have been developing retail properties since the formation of our predecessor company in 1971 and our development platform seeks to employ our capabilities to direct all aspects of the development process, including site selection, land acquisition, lease negotiation, due diligence, design and construction. Our developments are typically build-to-suit projects that result in fee simple ownership of the property upon completion.

Partner Capital Solutions: We launched our PCS program in April 2012. Our PCS program allows us to acquire properties or development opportunities by partnering with private developers or retailers on their in-process developments. We offer construction expertise, relationships, access to capital and forward commitments to purchase to facilitate the successful completion of their projects. We typically take fee simple ownership of PCS projects upon their completion.

Table of Contents

Acquisitions: Our acquisitions platform was launched in April 2010 in order to expand our investment capabilities by pursuing opportunities that do not fall within our development platform, but that do meet both our real estate and return on investment criteria.

We believe that development and PCS projects have the potential to generate superior risk-adjusted returns on investment in properties that are substantially similar to those we acquire.

Each platform leverages the Company's real estate acumen to pursue investments in net lease retail real estate. Factors that we consider when evaluating an investment include but are not limited to:

- overall market-specific characteristics, such as demographics, market rents, competition and retail synergy;
- asset-specific characteristics, such as the age, size, location, zoning, use and environmental history, accessibility, physical condition, signage and visibility of the property;
- tenant-specific characteristics, including but not limited to the financial profile, operating history, business plan, size, market positioning, geographic footprint, management team, industry and/or sector-specific trends and other characteristics specific to the tenant and parent thereof;
- unit-level operating characteristics, including store sales performance and profitability, if available;
- lease-specific terms, including term of the lease, rent to be paid by the tenant and other tenancy considerations, and
- transaction considerations, such as purchase price, seller profile and other non-financial terms.

Financing Strategy

We seek to maintain a capital structure that provides us with the flexibility to manage our business and pursue our growth strategies, while allowing us to service our debt requirements and generate appropriate risk-adjusted returns for our shareholders. We believe these objectives are best achieved by a capital structure that consists primarily of common equity and prudent amounts of debt financing. However, we may raise capital in any form and under terms that we deem acceptable and in the best interest of our shareholders.

We have previously utilized common stock equity offerings, secured mortgage borrowings, unsecured bank borrowings, private placements of senior unsecured notes and the sale of properties to meet our capital requirements. We continually evaluate our financing policies on an on-going basis in light of current economic conditions, access to various capital markets, relative costs of equity and debt securities, the market value of our properties and other factors.

As of December 31, 2018, our ratio of total debt to enterprise value, assuming the conversion of limited partnership interests in the Operating Partnership ("OP Units") into shares of common stock, was approximately 24.9%, and our ratio of total debt to total gross assets (before accumulated depreciation) was approximately 31.5%.

As of December 31, 2018, our total debt outstanding before deferred financing costs was $724.0 million, including $61.5 million of secured mortgage debt that had a weighted average fixed interest rate of 4.13% (including the effects of interest rate swap agreements) and a weighted average maturity of 3.1 years, $643.5 million of unsecured borrowings that had a weighted average fixed interest rate of 3.96% (including the effects of interest rate swap agreements) and a weighted average maturity of 8.2 years, and $19.0 million of floating rate borrowings under our revolving credit facility at a weighted average interest rate of approximately 3.38%.

Certain financial agreements to which we are a party contain covenants that limit our ability to incur debt under certain circumstances; however, our organizational documents do not limit the absolute amount or percentage of indebtedness that we may incur. As such, we may modify our borrowing policies at any time without shareholder approval.

Asset Management

We maintain a proactive leasing and capital improvement program that, combined with the quality and locations of our properties, has made our properties attractive to tenants. We intend to continue to hold our properties for long-term investment and, accordingly, place a strong emphasis on the quality of construction and an on-going program of regular and preventative maintenance. Our properties are designed and built to require minimal capital improvements other than

Table of Contents

renovations or alterations, typically paid for by tenants. Personnel from our corporate headquarters conduct regular inspections of each property and maintain regular contact with major tenants.

We have a management information system designed to provide our management with the operating data necessary to make informed business decisions on a timely basis. This system provides us rapid access to lease data, tenants' sales history, cash flow budgets and forecasts. Such a system helps us to maximize cash flow from operations and closely monitor corporate expenses.

Competition

The U.S. commercial real estate investment market is a highly competitive industry. We actively compete with many entities engaged in the acquisition, development and operation of commercial properties. As such, we compete with other investors for a limited supply of properties and financing for these properties. Investors include traded and non-traded public REITs, private equity firms, institutional investment funds, insurance companies and private individuals, many of which have greater financial resources than we do and the ability to accept more risk than we believe we can prudently manage. There can be no assurance that we will be able to compete successfully with such entities in our acquisition, development and leasing activities in the future.