

AGREE REALTY CORP
Form 10-Q
October 23, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Mark One

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2017, or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

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 (I.R.S. Employer Identification No.)
Organization

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

(Address of Principal Executive Offices)

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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).

Yes No

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.

Large Accelerated Filer <input checked="" type="checkbox"/>	Accelerated Filer <input type="checkbox"/>	Non-accelerated Filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>	Emerging growth company <input type="checkbox"/>
		(Do not check if a smaller reporting company)		

If an emerging growth company, indicated 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

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As of October 20, 2017, the Registrant had 29,215,835 shares of common stock, \$0.0001 par value, outstanding.

AGREE REALTY CORPORATION

Index to Form 10-Q

	Page
<u>PART I</u>	<u>Financial Information</u>
<u>Item 1:</u>	<u>Interim Consolidated Financial Statements</u>
	<u>Consolidated Balance Sheets as of September 30, 2017 (Unaudited) and December 31, 2016</u> <u>1</u>
	<u>Consolidated Statements of Income and Comprehensive Income (Unaudited) for the three and nine months ended September 30, 2017 and 2016</u> <u>3</u>
	<u>Consolidated Statement of Stockholders' Equity (Unaudited) for the nine months ended September 30, 2017</u> <u>4</u>
	<u>Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2017 and 2016</u> <u>5</u>
	<u>Notes to Consolidated Financial Statements (Unaudited)</u> <u>6</u>
<u>Item 2:</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> <u>23</u>
<u>Item 3:</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u> <u>30</u>
<u>Item 4:</u>	<u>Controls and Procedures</u> <u>31</u>
<u>PART II</u>	
<u>Item 1:</u>	<u>Legal Proceedings</u> <u>31</u>
<u>Item 1A:</u>	<u>Risk Factors</u> <u>32</u>
<u>Item 2:</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> <u>32</u>

<u>Item 3:</u>	<u>Defaults Upon Senior Securities</u>	<u>32</u>
<u>Item 4:</u>	<u>Mine Safety Disclosures</u>	<u>32</u>
<u>Item 5:</u>	<u>Other Information</u>	<u>32</u>
<u>Item 6:</u>	<u>Exhibits</u>	<u>32</u>
<u>SIGNATURES</u>		<u>33</u>

AGREE REALTY CORPORATION**CONSOLIDATED BALANCE SHEETS****(In thousands, except share and per-share data)****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

	September 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Real Estate Investments		
Land	\$ 371,047	\$ 309,687
Buildings	820,138	703,506
Less accumulated depreciation	(80,356)	(69,696)
	1,110,829	943,497
Property under development	10,197	6,764
Net Real Estate Investments	1,121,026	950,261
Real Estate Held For Sale, net	9,003	-
Cash and Cash Equivalents	25,510	33,395
Cash Held in Escrows	1,779	-
Accounts Receivable - Tenants , net of allowance of \$142 and \$50 for possible losses at September 30, 2017 and December 31, 2016, respectively	15,634	11,535
Unamortized Deferred Expenses		
Credit facility finance costs, net of accumulated amortization of \$332 and \$1,262 at September 30, 2017 and December 31, 2016, respectively	1,275	1,552
Leasing costs, net of accumulated amortization of \$772 and \$677 at September 30, 2017 and December 31, 2016, respectively	1,601	1,227
Lease intangibles, net of accumulated amortization of \$36,875 and \$25,666 at September 30, 2017 and December 31, 2016, respectively	184,920	139,871
Interest Rate Swaps	1,232	1,409

Other Assets	4,993	2,722
Total Assets	\$ 1,366,973	\$ 1,141,972

See accompanying notes to consolidated financial statements.

AGREE REALTY CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per-share data)

	September 30, 2017 (Unaudited)	December 31, 2016
LIABILITIES		
Mortgage Notes Payable, net	\$ 67,458	\$ 69,067
Unsecured Term Loans, net	158,305	158,679
Senior Unsecured Notes, net	259,112	159,176
Unsecured Revolving Credit Facility	-	14,000
Dividends and Distributions Payable	14,930	13,124
Deferred Revenue	1,452	1,823
Accrued Interest Payable	2,759	2,210
Accounts Payable and Accrued Expenses		
Capital expenditures	145	677
Operating	7,381	4,866
Lease intangibles, net of accumulated amortization of \$10,246 and \$7,079 at September 30, 2017 and December 31, 2016, respectively	30,529	30,047
Interest Rate Swaps	1,284	1,994
Deferred Income Taxes	705	705
Tenant Deposits	96	94
Total Liabilities	544,156	456,462
EQUITY		
Common stock, \$.0001 par value, 45,000,000 shares authorized, 29,215,835 and 26,164,977 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	3	3
Preferred Stock, \$.0001 par value per share, 4,000,000 shares authorized		

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Series A junior participating preferred stock, \$.0001 par value, 200,000 authorized, no shares issued and outstanding	-	-
Additional paid-in-capital	849,442	712,069
Dividends in excess of net income	(29,136)	(28,558)
Accumulated other comprehensive loss	(10)	(536)
Total Equity - Agree Realty Corporation	820,299	682,978
Non-controlling interest	2,518	2,532
Total Equity	822,817	685,510
Total Liabilities and Equity	\$ 1,366,973	\$ 1,141,972

See accompanying notes to consolidated financial statements.

AGREE REALTY CORPORATION

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(In thousands, except share and per-share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Revenues				
Minimum rents	\$27,325	\$ 22,279	\$76,500	\$ 60,682
Percentage rents	-	7	212	197
Operating cost reimbursement	2,791	1,845	8,016	5,368
Other income	271	30	299	(18
Total Revenues	30,387	24,161	85,027	66,229
Operating Expenses				
Real estate taxes	2,149	1,473	5,988	4,035
Property operating expenses	931	169	2,641	1,669
Land lease payments	163	163	490	490
General and administrative	2,491	2,020	7,665	6,107
Depreciation and amortization	8,228	6,151	22,956	16,901
Total Operating Expenses	13,962	9,976	39,740	29,202
Income from Operations	16,425	14,185	45,287	37,027
Other (Expense) Income				
Interest expense, net	(4,666) (4,091) (13,213) (11,236
Gain (Loss) on sale of assets, net	524	4,415	10,045	7,133
Loss on debt extinguishment	-	(33) -	(33
Net Income	12,283	14,476	42,119	32,891
Less Net Income Attributable to Non-Controlling Interest	118	213	501	506
Net Income Attributable to Agree Realty Corporation	\$ 12,165	\$ 14,263	\$ 41,618	\$ 32,385
Net Income Per Share Attributable to Agree Realty Corporation				
Basic	\$0.42	\$ 0.61	\$ 1.53	\$ 1.47
Diluted	\$0.42	\$ 0.61	\$ 1.52	\$ 1.46

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Other Comprehensive Income				
Net income	\$ 12,283	\$ 14,476	\$ 42,119	\$ 32,891
Other Comprehensive Income (Loss) - Gain				
(Loss) on Interest Rate Swaps	203	1,378	533	(3,236)
Total Comprehensive Income	12,486	15,854	42,652	29,655
Comprehensive Income Attributable to				
Non-Controlling Interest	(149)	(229)	(509)	(456)
Comprehensive Income Attributable to Agree				
Realty Corporation	\$ 12,337	\$ 15,625	\$ 42,143	\$ 29,199
Weighted Average Number of Common				
Shares Outstanding - Basic:	28,573,022	23,454,083	26,988,589	22,034,389
Weighted Average Number of Common				
Shares Outstanding - Diluted:	28,656,684	23,563,331	27,069,352	22,127,329

See accompanying notes to consolidated financial statements.

AGREE REALTY CORPORATION

CONSOLIDATED STATEMENT OF EQUITY

(In thousands, except share and per-share data)

(Unaudited)

	Common Stock		Additional	Dividends in excess of net	Accumulated Other Comprehensive	Non-Controlling	Total
	Shares	Amount	Paid-In Capital	income	Income (Loss)	Interest	Equity
Balance, December 31, 2016	26,164,977	\$ 3	\$ 712,069	\$ (28,558)	\$ (536)	\$ 2,532	\$685,510
Issuance of common stock, net of issuance costs	3,009,838	-	136,733	-	-	-	136,733
Repurchase of common shares	(23,857)	-	(1,108)	-	-	-	(1,108)
Issuance of restricted stock under the Omnibus Incentive Plan	76,099	-	-	-	-	-	-
Forfeiture of restricted stock	(11,222)	-	-	-	-	-	-
Vesting of restricted stock	-	-	1,748	-	-	-	1,748
Dividends and distributions declared for the period	-	-	-	(42,196)	-	(522)	(42,718)
Other comprehensive income (loss) - change in fair value of interest rate swaps	-	-	-	-	526	7	533
Net income	-	-	-	41,618	-	501	42,119
Balance, September 30, 2017	29,215,835	\$ 3	\$ 849,442	\$ (29,136)	\$ (10)	\$ 2,518	\$822,817

See accompanying notes to consolidated financial statements.

AGREE REALTY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended	
	September 30,	September 30,
	2017	2016
Cash Flows from Operating Activities		
Net income	\$42,119	\$ 32,891
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	14,366	10,958
Amortization	8,590	5,943
Amortization from financing and credit facility costs	730	523
Stock-based compensation	1,748	1,726
(Gain) loss on extinguishment of debt	-	33
(Gain) loss on sale of assets	(10,045)	(7,133)
(Increase) decrease in accounts receivable	(4,192)	(3,204)
(Increase) decrease in other assets	(148)	167
Increase (decrease) in accounts payable	1,837	2,798
Increase (decrease) in deferred revenue	(371)	(541)
Increase (decrease) in accrued interest	549	1,608
Increase (decrease) in tenant deposits	2	65
Net Cash Provided by Operating Activities	55,185	45,834
Cash Flows from Investing Activities		
Acquisition of real estate investments and other assets	(241,132)	(235,855)
Development of real estate investments and other assets (including capitalized interest of \$297 in 2017 and \$28 in 2016)	(27,240)	(20,262)
Payment of leasing costs	(544)	(648)
Cash held in escrows on sale of assets	(1,779)	(12,292)
(Increase) decrease in Net proceeds from sale of assets	29,414	22,098
Net Cash Used In Investing Activities	(241,281)	(246,959)
Cash Flows from Financing Activities		
Proceeds from common stock offerings, net	136,733	124,099
Repurchase of common shares	(1,108)	(712)
Unsecured revolving credit facility borrowings	184,000	227,000
Unsecured revolving credit facility repayments	(198,000)	(198,000)
Payments of mortgage notes payable	(1,794)	(31,059)
Unsecured term loan proceeds	-	60,283
Payments of unsecured term loans	(549)	-

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Senior unsecured notes proceeds	100,000	60,000	
Dividends paid	(40,392)	(30,593)
Distributions to Non-Controlling Interest	(520)	(490)
Payments for financing costs	(159)	(624)
Net Cash Provided by Financing Activities	178,211	209,904	
Net Increase (Decrease) in Cash and Cash Equivalents	(7,885)	8,779	
Cash and Cash Equivalents, beginning of period	33,395	2,712	
Cash and Cash Equivalents, end of period	\$25,510	\$ 11,491	
Supplemental Disclosure of Cash Flow Information			
Cash paid for interest (net of amounts capitalized)	\$12,658	\$ 9,159	
Cash paid (refunded) for income tax	\$3	\$ 8	
Supplemental Disclosure of Non-Cash Investing and Financing Activities			
Shares issued under equity incentive plans (in dollars)	\$3,022	\$ 3,059	
Dividends and limited partners' distributions declared and unpaid	\$14,930	\$ 11,631	

See accompanying notes to consolidated financial statements.

AGREE REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(Unaudited)

Note 1 – Organization

Agree Realty Corporation (the “Company”), a Maryland corporation, is a fully integrated real estate investment trust (“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 our common stock was listed on the New York Stock Exchange (“NYSE”) in 1994.

Our assets are held by, and all of our operations are conducted through, directly or indirectly, Agree Limited Partnership (the “Operating Partnership”), of which Agree Realty Corporation is the sole general partner and in which it held a 98.8% interest as of September 30, 2017. Under the partnership agreement of the Operating Partnership, Agree Realty Corporation, as the sole general partner, has exclusive responsibility and discretion in the management and control of the Operating Partnership.

The terms “Agree Realty,” the “Company,” “Management,” “we,” “our” or “us” refer to Agree Realty Corporation and all of its consolidated subsidiaries, including the Operating Partnership.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting and Principles of Consolidation

The accompanying unaudited consolidated financial statements for the nine months ended September 30, 2017 have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for audited financial statements. The unaudited consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the interim period presented. Operating results for the nine months ended September 30, 2017 may not be indicative of the results that may be expected for the year ending December 31, 2017. Amounts as of December 31, 2016 included in the consolidated financial statements have been derived from the audited consolidated financial statements as of that date. The unaudited consolidated financial statements, included herein, should be read in conjunction with the audited consolidated financial statements and notes thereto, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations, in our Form 10-K for the year ended

December 31, 2016.

The unaudited consolidated financial statements include the accounts of the Company, the Operating Partnership and its wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of (1) assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, and (2) revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain reclassifications of prior period amounts have been made in the consolidated financial statements and footnotes in order to conform to the current presentation. Prepaid rents are presented on the Balance Sheet as Deferred Revenue; in previously filed reports prepaid rents were presented in Accounts Payable - Operating. The classification of below-market lease intangibles are presented net of accumulated amortization as a Liability; in previously filed reports below-market lease intangibles were presented in Unamortized Deferred Expenses: Lease Intangibles, net with in-place and above-market lease intangibles. As of September 30, 2017, all fully amortized deferred financing costs attributable to the credit facility were written off. Cash held in escrows are presented on the Statement of Cash Flows in investing activities; in previously filed reports cash held in escrows were presented in operating activities.

Segment Reporting

The Company is primarily in the business of acquiring, developing and managing retail real estate which is considered to be one reporting segment. The Company has no other reporting segments.

AGREE REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(Unaudited)

Real Estate Investments

The Company records the acquisition of real estate at cost, including acquisition and closing costs. For properties developed by the Company, all direct and indirect costs related to planning, development and construction, including interest, real estate taxes and other miscellaneous costs incurred during the construction period, are capitalized for financial reporting purposes and recorded as property under development until construction has been completed. Properties classified as “held for sale” are recorded at the lower of their carrying value or their fair value, less anticipated selling costs.

Accounting for Acquisitions of Real Estate

The acquisition of property for investment purposes is typically accounted for as an asset acquisition. The Company allocates the purchase price to land, buildings and identified intangible assets and liabilities, based in each case on their relative estimated fair values and without giving rise to goodwill. Intangible assets and liabilities represent the value of in-place leases and above- or below-market leases. In making estimates of fair values, the Company may use a number of sources, including data provided by independent third parties, as well as information obtained by the Company as a result of its due diligence, including expected future cash flows of the property and various characteristics of the markets where the property is located.

In allocating the fair value of the identified intangible assets and liabilities of an acquired property, in-place lease intangibles are valued based on the Company’s estimates of costs related to tenant acquisition and the carrying costs that would be incurred during the time it would take to locate a tenant if the property were vacant, considering current market conditions and costs to execute similar leases at the time of the acquisition. Above- and below-market lease intangibles are recorded based on the present value of the difference between the contractual amounts to be paid pursuant to the leases at the time of acquisition and the Company’s estimate of current market lease rates for the property. The capitalized above- and below-market lease intangibles are amortized over the non-cancelable term of the lease unless the Company believes it is reasonably certain that the tenant will renew the lease for an option term whereby the Company amortizes the value attributable to the renewal over the renewal period.

The fair value of identified intangible assets and liabilities acquired is amortized to depreciation and amortization over the remaining term of the related leases.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents consist of cash and money market accounts. The account balances periodically exceed the Federal Deposit Insurance Corporation ("FDIC") insurance coverage, and as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage. We had \$25.8 million and \$32.4 million in cash as of September 30, 2017 and December 31, 2016, respectively, in excess of the FDIC insured limit.

Accounts Receivable – Tenants

The Company reviews its rent receivables for collectability on a regular basis, taking into consideration changes in factors such as the tenant's payment history, the financial condition of the tenant, business conditions in the industry in which the tenant operates and economic conditions in the area where the property is located. In the event that the collectability of a receivable with respect to any tenant is in doubt, a provision for uncollectible amounts will be established or a direct write-off of the specific rent receivable will be made. For accrued rental revenues related to the straight-line method of reporting rental revenue, the Company performs a periodic review of receivable balances to assess the risk of uncollectible amounts and establish appropriate provisions.

The Company's leases provide for reimbursement from tenants for common area maintenance ("CAM"), insurance, real estate taxes and other operating expenses ("Operating Cost Reimbursement Revenue"). A portion of our Operating Cost Reimbursement Revenue is estimated each period and is recognized as revenue in the period the recoverable costs are incurred and accrued. Receivables from Operating Cost Reimbursement Revenue are included in our Accounts Receivable - Tenants line item in our consolidated balance sheets. The balance of unbilled Operating Cost Reimbursement Receivable at September 30, 2017 and December 31, 2016 was \$1.9 million and \$1.1 million, respectively.

AGREE REALTY CORPORATION**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2017****(Unaudited)**

In addition, many of the Company's leases contain rent escalations for which we recognize revenue on a straight-line basis over the non-cancelable lease term. This method results in rental revenue in the early years of a lease being higher than actual cash received, creating a straight-line rent receivable asset which is included in the Accounts Receivable - Tenants line item in our consolidated balance sheet. The balance of straight-line rent receivables at September 30, 2017 and December 31, 2016 was \$12.0 million and \$9.6 million, respectively. To the extent any of the tenants under these leases become unable to pay their contractual cash rents, the Company may be required to write down the straight-line rent receivable from those tenants, which would reduce operating income.

Sales Tax

The Company collects various taxes from tenants and remits these amounts, on a net basis, to the applicable taxing authorities.

Unamortized Deferred Expenses

Deferred expenses include debt financing costs related to the line of credit, leasing costs and lease intangibles, and are amortized as follows: (i) debt financing costs related to the line of credit on a straight-line basis to interest expense over the term of the related loan, which approximates the effective interest method; (ii) leasing costs on a straight-line basis to depreciation and amortization over the term of the related lease entered into; and (iii) lease intangibles on a straight-line basis to depreciation and amortization over the remaining term of the related lease acquired.

The following schedule summarizes the Company's amortization of deferred expenses for the three and nine months ended September 30, 2017 and 2016 (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Credit Facility Financing Costs	\$ 102	\$ 57	\$ 304	\$ 162

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Leasing Costs	40	38	120	83
Lease Intangibles (Asset)	3,802	2,973	11,209	8,030
Lease Intangibles (Liability)	(1,037)	(825)	(3,167)	(2,170)
Total	\$ 2,907	\$ 2,243	\$ 8,466	\$ 6,105

The following schedule represents estimated future amortization of deferred expenses as of September 30, 2017 (in thousands):

Year Ending December 31,	2017 (remaining)	2018	2019	2020	2021	Thereafter	Total
Credit Facility Financing Costs	\$ 101	\$394	\$379	\$380	\$21	\$-	\$1,275
Leasing Costs	41	181	218	204	188	769	1,601
Lease Intangibles (Asset)	4,538	18,214	17,542	17,073	16,384	111,169	184,920
Lease Intangibles (Liability)	(1,105)	(4,348)	(4,274)	(4,173)	(3,880)	(12,749)	(30,529)
Total	\$ 3,575	\$14,441	\$13,865	\$13,484	\$12,713	\$99,189	\$157,267

Earnings per Share

Earnings per share have been computed by dividing the net income after allocation by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing net income by the weighted average common shares and potentially dilutive common shares outstanding in accordance with the treasury stock method.

The following is a reconciliation of the denominator of the basic net earnings per common share computation to the denominator of the diluted net earnings per common share computation for each of the periods presented:

AGREE REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Weighted average number of common shares outstanding	28,792,158	23,674,133	27,207,725	22,254,439
Less: Unvested restricted stock	(219,136)	(220,050)	(219,136)	(220,050)
Weighted average number of common shares outstanding used in basic earnings per share	28,573,022	23,454,083	26,988,589	22,034,389
Weighted average number of common shares outstanding used in basic earnings per share	28,573,022	23,454,083	26,988,589	22,034,389
Effect of dilutive securities: restricted stock	83,662	109,248	80,763	92,940
Weighted average number of common shares outstanding used in diluted earnings per share	28,656,684	23,563,331	27,069,352	22,127,329

Income Taxes (not presented in thousands)

The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”). As a REIT, the Company generally will not be subject to federal income tax provided it continues to satisfy certain tests concerning the Company’s sources of income, the nature of its assets, the amounts distributed to its stockholders, and the ownership of Company stock. Management believes the Company has qualified and will continue to qualify as a REIT. Notwithstanding the Company’s qualification for taxation as a REIT, the Company is subject to certain state and local taxes on its income and real estate.

The Company has established taxable REIT subsidiaries (“TRS”) pursuant to the provisions of the Internal Revenue Code. The Company’s TRS entities are able to engage in activities resulting in income that would be non-qualifying income for a REIT. As a result, certain activities of the Company which occur within its TRS entities are subject to federal and state income taxes. As of September 30, 2017 and December 31, 2016, the Company had accrued a deferred income tax amount of \$705,000. In addition, the Company recognized income tax expense of \$2,060 and \$0 for the three months ended September 30, 2017 and 2016, respectively, and \$2,894 and \$7,747 for the nine months ended September 30, 2017 and 2016, respectively.

Fair Values of Financial Instruments

The Company's estimates of fair value of financial and non-financial assets and liabilities are based on the framework established in the fair value accounting guidance. The framework specifies a hierarchy of valuation inputs which was established to increase consistency, clarity and comparability in fair value measurements and related disclosures. The guidance describes a fair value hierarchy based upon three levels of inputs that may be used to measure fair value, two of which are considered observable and one that is considered unobservable. The following describes the three levels:

Level 1 Valuation is based upon quoted prices in active markets for identical assets or liabilities.

Level 2 Valuation is based upon inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include option pricing models, discounted cash flow models and similar techniques.

Recent Accounting Pronouncements

In August 2017, the Financial Accounting Standards Board ("FASB") issued ASU No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities" ("ASU 2017-12"). The objective of ASU 2017-12 is to expand hedge accounting for both financial (interest rate) and commodity risks, and create more transparency around how economic results are presented, both on the face of the financial statements and in the footnotes. ASU 2017-12 will be effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods in the year of adoption. Early adoption is permitted for any interim or annual period. The Company is in the process of determining the impact that the implementation of ASU 2017-12 will have on the Company's financial statements.

AGREE REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(Unaudited)

In May 2017, the FASB issued ASU No. 2017-09, “Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting” (“ASU 2017-09”). The objective of ASU 2017-09 is to provide guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. ASU 2017-09 will be effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods in the year of adoption. Early adoption is permitted for any interim or annual period. The Company is in the process of determining the impact that the implementation of ASU 2017-09 will have on the Company’s financial statements.

In January 2017, the FASB issued ASU No. 2017-01, “Business Combinations: Clarifying the Definition of a Business” (“ASU 2017-01”). The objective of ASU 2017-01 is to clarify the definition of a business by adding guidance on how entities should evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. ASU 2017-01 will be effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods in the year of adoption. Early adoption is permitted for any interim or annual period. The Company has early adopted and the guidance has no material impact on the financial statements.

In February 2016, the FASB issued ASU No. 2016-02 “Leases” (“ASU 2016-02”). The new standard creates Topic 842, Leases, in FASB *Accounting Standards Codification* (FASB ASC) and supersedes FASB ASC 840, *Leases*. ASU 2016-02 requires a lessee to recognize the assets and liabilities that arise from leases (operating and finance). However, for leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and lease liabilities. The main difference between the existing guidance on accounting for leases and the new standard is that operating leases will now be recorded in the statement of financial position as assets and liabilities. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases and operating leases. ASU 2016-02 is expected to impact the Company’s consolidated financial statements as the Company has certain operating land lease arrangements for which it is the lessee. GAAP requires only capital (finance) leases to be recognized in the statement of financial position, and amounts related to operating leases largely are reflected in the financial statements as rent expense on the income statement and in disclosures to the financial statements. ASU 2016-02 is effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2018. Early adoption is permitted. The Company has engaged a professional services firm to assist in the implementation of ASU 2016-02. The Company anticipates that its retail leases where it is the lessor will continue to be accounted for as operating leases under the new standard. Therefore, the Company does not currently anticipate significant changes in the accounting for its lease revenues. The Company is also the lessee under various land lease arrangements and it will be required to recognize

right of use assets and related lease liabilities on its consolidated balance sheets upon adoption. The Company will continue to evaluate the impact of adopting the new leases standard on its consolidated statements of income and comprehensive income and consolidated balance sheets.

In May 2014, with subsequent updates issued in August 2015 and March, April and May 2016, the FASB issued ASU No. 2014-09 “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). ASU 2014-09 was developed to enable financial statement users to better understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The update’s core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Companies are to use a five-step contract review model to ensure revenue is recognized, measured and disclosed in accordance with this principle. ASU 2014-09, as updated, is effective for fiscal years and interim periods beginning after December 15, 2017. The Company has engaged a professional services firm to assist in the implementation of ASU 2014-09. The Company is continuing to evaluate the standard; however, we do not expect its adoption to have a significant impact on the consolidated financial statements, as approximately 90% of total revenues consist of rental income from leasing arrangements, which is specifically excluded from the standard. In addition, given the nature of its disposition transactions, there should be no changes in accounting under the new standard.

AGREE REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(Unaudited)

Note 3 – Real Estate Investments

Real Estate Portfolio

As of September 30, 2017, the Company owned 425 properties, with a total gross leasable area of 8.3 million square feet. Net Real Estate Investments totaled \$1.1 billion as of September 30, 2017. As of December 31, 2016, the Company owned 366 properties, with a total gross leasable area of 7.0 million square feet. Net Real Estate Investments totaled \$950.3 million as of December 31, 2016.

Investments

During the three months ended September 30, 2017, the Company acquired 14 retail net lease assets for approximately \$55.1 million, which includes acquisition and closing costs. These properties are located in 12 states and are leased to 12 diverse tenants operating in 9 retail sectors for a weighted average lease term of approximately 11.2 years.

During the nine months ended September 30, 2017, the Company acquired 61 retail net lease assets for approximately \$239.5 million, which includes acquisition and closing costs. These properties are located in 25 states and are leased to 45 diverse tenants operating in 21 retail sectors for a weighted average lease term of approximately 11.9 years.

The aggregate acquisitions for the nine months ended September 30, 2017 were allocated \$58.7 million to land, \$123.4 million to buildings and improvements, and \$57.4 million to lease intangibles and other assets. The acquisitions were all cash purchases and there were no contingent considerations associated with these acquisitions.

None of the Company's acquisitions during the first nine months of 2017 caused any new or existing tenant to comprise 10% or more of its total assets or generate 10% or more of its total annualized base rent at September 30, 2017.

Developments

During the third quarter of 2017, construction continued or commenced on five development and Partner Capital Solutions (“PCS”) projects with anticipated total project costs of approximately \$35.9 million. The projects consist of the Company’s first PCS project with Art Van Furniture in Canton, Michigan; two development projects with Mister Car Wash in Urbandale, Iowa and Bernalillo, New Mexico; one Burger King development in North Ridgeville, Ohio; and the Company’s third project with Camping World in Grand Rapids, Michigan.

During the nine months ended September 30, 2017, the Company had nine development or PCS projects completed or under construction. Anticipated total costs for those projects are approximately \$57.3 million and include the following completed or commenced projects:

AGREE REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(Unaudited)

Tenant	Location	Lease Structure	Lease Term	Actual or Anticipated Rent Commencement	Status
Camping World	Tyler, TX	Build-to-Suit	20 Years	Q1 2017	Completed
Burger King(1)	Heber, UT	Build-to-Suit	20 Years	Q1 2017	Completed
Camping World	Georgetown, KY	Build-to-Suit	20 Years	Q2 2017	Completed
Orchard Supply	Boynton Beach, FL	Build-to-Suit	15 Years	Q3 2017	Completed
Mister Car Wash	Urbandale, IA	Build-to-Suit	20 years	Q4 2017	Under Construction
Mister Car Wash	Bernalillo, NM	Build-to-Suit	20 years	Q4 2017	Under Construction
Art Van Furniture	Canton, MI	Build-to-Suit	20 years	Q1 2018	Under Construction
Burger King(2)	North Ridgeville, OH	Build-to-Suit	20 years	Q1 2018	Under Construction
Camping World	Grand Rapids, MI	Build-to-Suit	20 years	Q2 2018	Under Construction

Notes:

(1) Franchise restaurant operated by Meridian Restaurants Unlimited, L.C.

(2) Franchise restaurant operated by TOMS King, LLC.

Dispositions

During the three months ended September 30, 2017, the Company sold real estate properties for net proceeds of \$7.5 million and a recorded net gain of \$0.5 million (net of any expected losses on real estate held for sale).

During the nine months ended September 30, 2017, the Company sold real estate properties for net proceeds of \$29.4 million and a recorded net gain of \$10.0 million (net of any expected losses on real estate held for sale).

Note 4 – Debt

We account for debt issuance costs under ASU 2015-03 which requires that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the gross carrying amount of that debt liability, consistent with debt discounts. Unamortized debt issuance costs of approximately \$2.8 million and \$3.1 million are included as an offset to the respective debt balances as of September 30, 2017 and December 31, 2016.

As of September 30, 2017, we had total gross indebtedness of \$487.7 million, including (i) \$68.2 million of mortgage notes payable; (ii) \$159.5 million of unsecured term loans; (iii) \$260.0 million of senior unsecured notes; and (iv) \$0 borrowings under our Credit Facility.

Mortgage Notes Payable

As of September 30, 2017, the Company had total gross mortgage indebtedness of \$68.2 million which was collateralized by related real estate with an aggregate net book value of \$89.1 million. Including mortgages that have been swapped to a fixed interest rate, the weighted average interest rate on the Company's mortgage notes payable was 3.90%.

AGREE REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(Unaudited)

Mortgages payable consisted of the following:

	September 30, 2017	December 31, 2016
(not presented in thousands)		
	(in thousands)	
Note payable in monthly installments of interest only at LIBOR plus 160 basis points, swapped to a fixed rate of 2.49% with a balloon payment due April 4, 2018; collateralized by related real estate and tenants' leases	\$ 25,000	\$ 25,000
Note payable in monthly installments of \$153,838, including interest at 6.90% per annum, with the final monthly payment due January 2020; collateralized by related real estate and tenants' leases	3,968	5,114
Note payable in monthly installments of \$23,004, including interest at 6.24% per annum, with a balloon payment of \$2,781,819 due February 2020; collateralized by related real estate and tenant lease	2,986	3,049
Note payable in monthly installments of interest only at 3.60% per annum, with a balloon payment due January 1, 2023; collateralized by related real estate and tenants' leases	23,640	23,640
Note payable in monthly installments of \$35,673, including interest at 5.01% per annum, with a balloon payment of \$4,034,627 due September 2023; collateralized by related real estate and tenant lease	5,173	5,294
Note payable in monthly installments of \$91,675 including interest at 6.27% per annum, with a final monthly payment due July 2026; collateralized by related real estate and tenants' leases	7,447	7,910
Total principal	68,214	70,007
Unamortized debt issuance costs	(756)	(940)
Total	\$ 67,458	\$ 69,067

AGREE REALTY CORPORATION**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2017****(Unaudited)**Senior Unsecured Notes

The following table presents the Senior Unsecured Notes balance net of unamortized debt issuance costs as of September 30, 2017, and December 31, 2016 (in thousands):

	September 30, 2017	December 31, 2016
2025 Senior Unsecured Notes	\$ 50,000	\$ 50,000
2027 Senior Unsecured Notes	50,000	50,000
2028 Senior Unsecured Notes	60,000	60,000
2029 Senior Unsecured Notes	100,000	-
Total Principal	260,000	160,000
Unamortized debt issuance costs	(888)	(824)
Total	\$ 259,112	\$ 159,176

In May 2015, the Company completed a private placement of \$100.0 million principal amount of senior unsecured notes. The senior unsecured notes were sold in two series; \$50.0 million of 4.16% notes due in May 2025 and \$50.0 million of 4.26% notes due in May 2027. The weighted average term of the senior unsecured notes is 11 years and the weighted average interest rate is 4.21%.

In July 2016, the Company completed a private placement of \$60.0 million principal amount of senior unsecured notes. The senior unsecured notes bear a fixed interest rate of 4.42% per annum and mature in July 2028.

In September 2017, the Company completed a private placement of \$100.0 million principal amount of senior unsecured notes. The senior unsecured notes bear a fixed interest rate of 4.19% per annum and mature in September 2029.

Unsecured Term Loan Facilities

The following table presents the Unsecured Term Loans balance net of unamortized debt issuance costs as of September 30, 2017 and December 31, 2016 (in thousands):

	September 30, 2017	December 31, 2016
2019 Term Loan	\$ 19,495	\$ 20,044
2023 Term Loan	40,000	40,000
2024 Term Loans	100,000	100,000
Total Principal	159,495	160,044
Unamortized debt issuance costs	(1,190)	(1,365)
Total	\$ 158,305	\$ 158,679

Debt Maturities

The following table presents scheduled principal payments related to our debt as of September 30, 2017 (in thousands):

	Scheduled Principal	Balloon Payment	Total
Remainder of 2017	\$ 808	\$-	\$808
2018	3,337	25,000	28,337
2019	2,751	18,543	21,294
2020	1,092	2,775	3,867
2021 (1)	998	-	998
Thereafter	4,749	427,656	432,405
Total	\$ 13,735	\$473,974	\$487,709

The balloon payment balance includes the balance outstanding under the Credit Facility as of September 30, 2017. (1)The Credit Facility matures in January 2021, with options to extend the maturity for one year at the Company's election, subject to certain conditions.

AGREE REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(Unaudited)

The amended and restated credit agreement, described below, extended the maturity dates of the \$65.0 million unsecured term loan facility and \$35.0 million unsecured term loan facility (together, the “2024 Term Loan Facilities”) to January 2024. In connection with entering into the amended and restated credit agreement, the prior notes evidencing the existing \$65.0 million unsecured term loan facility and \$35.0 million unsecured term loan facility were canceled and new notes evidencing the 2024 Term Loan Facilities were executed. Borrowings under the unsecured 2024 Term Loan Facilities bear interest at a variable LIBOR plus 1.65% to 2.35%, depending on the Company's leverage ratio. The Company utilized existing interest rate swaps to effectively fix the LIBOR rate (refer to Note 7 – Derivative Instruments and Hedging Activity).

In July 2016, the Company completed a \$40.0 million unsecured term loan facility that matures in July 2023 (the “2023 Term Loan”). Borrowings under the 2023 Term Loan are priced at LIBOR plus 165 to 225 basis points, depending on the Company's leverage. The Company entered into an interest rate swap to fix LIBOR at 1.40% until maturity. As of September 30, 2017, \$40.0 million was outstanding under the 2023 Term Loan, which is subject to an all-in interest rate of 3.05%.

In August 2016, the Company entered into a \$20.3 million unsecured amortizing term loan that matures in May 2019 (the “2019 Term Loan”). Borrowings under the 2019 Term Loan are priced at LIBOR plus 170 basis points. In order to fix LIBOR on the 2019 Term Loan at 1.92% until maturity, the Company had an interest rate swap agreement in place, which was assigned by the lender under the Mortgage Note to the 2019 Term Loan lender. As of September 30, 2017, \$19.5 million was outstanding under the 2019 Term Loan bearing an all-in interest rate of 3.62%.

Senior Unsecured Revolving Credit Facility

In December 2016, the Company amended and restated the credit agreement that governs the Company's senior unsecured revolving credit facility and the Company's unsecured term loan facility to increase the aggregate borrowing capacity to \$350.0 million. The agreement provides for a \$250.0 million unsecured revolving credit facility, a \$65.0 million unsecured term loan facility and a \$35.0 million unsecured term loan facility (Referenced above as 2024 Term Loan Facilities). The unsecured revolving credit facility matures in January 2021 with options to extend the maturity date to January 2022. The 2024 Term Loan Facilities mature in January 2024. The Company has the ability to increase the aggregate borrowing capacity under the credit agreement up to \$500.0 million, subject to lender approval. Borrowings under the revolving credit facility bear interest at LIBOR plus 1.30% to 1.95%,

depending on the Company's leverage ratio. Additionally, the Company is required to pay an unused commitment fee at an annual rate of 0.15% or 0.25% of the unused portion of the revolving credit facility, depending on the amount of borrowings outstanding. The credit agreement contains certain financial covenants, including a maximum leverage ratio, a minimum fixed charge coverage ratio, and a maximum percentage of secured debt to total asset value. As of September 30, 2017 and December 31, 2016, the Company had \$0 and \$14.0 million of outstanding borrowings under the revolving credit facility, respectively, bearing weighted average interest rates of approximately 2.6% and 1.9%, respectively. As of September 30, 2017, \$250.0 million was available for borrowing under the revolving credit facility and the Company was in compliance with the credit agreement covenants.

Concurrent with the amendment and restatement of the Company's senior unsecured revolving credit facility, conforming changes were made to the 2023 Term Loan and 2019 Term Loan.

Note 5 – Common Stock

In April 2017, the Company entered into a new \$200.0 million at-the-market equity program ("ATM program") through which the Company may, from time to time, sell shares of common stock. The Company uses 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 purposes.

During the three months ended September 30, 2017, the Company issued 589,093 shares of common stock under its ATM program at a weighted average price of \$49.58, realizing gross proceeds of approximately \$29.2 million.

AGREE REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(Unaudited)

During the nine months ended September 30, 2017, the Company issued 591,593 shares of common stock under its ATM program at a weighted average price of \$49.57, realizing gross proceeds of approximately \$29.3 million. The Company had approximately \$170.7 million remaining under the ATM program as of September 30, 2017.

In May 2017, the Company filed an automatic shelf registration statement on Form S-3, registering an unspecified amount at an indeterminant aggregate initial offering price of common stock, preferred stock, depositary shares and warrants. The Company may periodically offer one or more of these securities in amounts, prices and on terms to be announced when and if these securities are offered. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of any offering.

In June 2017, the Company completed a follow-on offering of 2,415,000 shares of common stock. The offering, which included the full exercise of the overallotment option by the underwriters, raised net proceeds of approximately \$108.2 million, after deducting the underwriting discount.

Note 6 – Dividends and Distribution Payable

On September 5, 2017, the Company declared a dividend of \$0.505 per share for the quarter ended September 30, 2017. The holders of limited partnership interests in the Operating Partnership (“OP Units”) were entitled to an equal distribution per OP Unit held as of September 30, 2017. The dividends and distributions payable were recorded as liabilities on the Company's consolidated balance sheet at September 30, 2017. The dividend has been reflected as a reduction of stockholders' equity and the distribution has been reflected as a reduction of the limited partners' non-controlling interest. These amounts were paid on October 13, 2017.

Note 7 – Derivative Instruments and Hedging Activity

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risk, including interest rate, liquidity and credit risk

primarily by managing the amount, sources and duration of its debt funding and, to a limited extent, the use of derivative instruments. For additional information regarding the leveling of our derivatives (refer to Note 9 – Fair Value Measurements).

The Company's objective in using interest rate derivatives is to manage its exposure to interest rate movements and add stability to interest expense. To accomplish this objective, the Company uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable rate amounts from a counterparty in exchange for the Company making fixed rate payments over the life of the agreement without exchange of the underlying notional amount.

In April 2012, the Company entered into an amortizing forward-starting interest rate swap agreement to hedge against changes in future cash flows resulting from changes in interest rates on \$22.3 million in variable-rate borrowings. Under the terms of the interest rate swap agreement, the Company receives from the counterparty interest on the notional amount based on 1 month LIBOR and pays to the counterparty a fixed rate of 1.92%. This swap effectively converted \$22.3 million of variable-rate borrowings to fixed-rate borrowings from July 1, 2013 to May 1, 2019. As of September 30, 2017, this interest rate swap was valued as a liability of approximately \$0.1 million.

In December 2012, the Company entered into interest rate swap agreements to hedge against changes in future cash flows resulting from changes in interest rates on \$25.0 million in variable-rate borrowings. Under the terms of the interest rate swap agreement, the Company receives from the counterparty interest on the notional amount based on 1 month LIBOR and pays to the counterparty a fixed rate of 0.89%. This swap effectively converted \$25.0 million of variable-rate borrowings to fixed-rate borrowings from December 6, 2012 to April 4, 2018. As of September 30, 2017, this interest rate swap was valued as an asset of approximately \$0.1 million.

AGREE REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(Unaudited)

In September 2013, the Company entered into an interest rate swap agreement to hedge against changes in future cash flows resulting from changes in interest rates on \$35.0 million in variable-rate borrowings. Under the terms of the interest rate swap agreement, the Company receives from the counterparty interest on the notional amount based on 1 month LIBOR and pays to the counterparty a fixed rate of 2.20%. This swap effectively converted \$35.0 million of variable-rate borrowings to fixed-rate borrowings from October 3, 2013 to September 29, 2020. As of September 30, 2017, this interest rate swap was valued as a liability of approximately \$0.5 million.

In July 2014, the Company entered into interest rate swap agreements to hedge against changes in future cash flows resulting from changes in interest rates on \$65.0 million in variable-rate borrowings. Under the terms of the interest rate swap agreement, the Company receives from the counterparty interest on the notional amount based on 1 month LIBOR and pays to the counterparty a fixed rate of 2.09%. This swap effectively converted \$65.0 million of variable-rate borrowings to fixed-rate borrowings from July 21, 2014 to July 21, 2021. As of September 30, 2017, this interest rate swap was valued as a liability of approximately \$0.7 million.

In September 2016, the Company entered into an interest rate swap agreement to hedge against changes in future cash flows resulting from changes in interest rates on \$40.0 million in variable-rate borrowings. Under the terms of the interest rate swap agreement, the Company receives from the counterparty interest on the notional amount based on 1 month LIBOR and pays to the counterparty a fixed rate of 1.40%. This swap effectively converted \$40.0 million of variable-rate borrowings to fixed-rate borrowings from August 1, 2016 to July 1, 2023. As of September 30, 2017, this interest rate swap was valued as an asset of approximately \$1.2 million.

Companies are required to recognize all derivative instruments as either assets or liabilities at fair value on the balance sheet. The Company has designated these derivative instruments as cash flow hedges. As such, the effective portion of changes in the fair value of the derivatives designated, and that qualify as cash flow hedges, is recorded as a component of other comprehensive income (loss). The ineffective portion of the change in fair value of the derivative instrument is recognized directly in interest expense. For the three and nine months ended September 30, 2017 and 2016, the Company has not recorded any hedge ineffectiveness in earnings. Amounts in Accumulated Other Comprehensive Income (Loss) related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. During the next twelve months, the Company estimates that an additional \$0.7 million will be reclassified as an increase to interest expense.

The Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk (in thousands, except number of instruments):

Interest Rate Derivatives	Number of Instruments		Notional	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Interest Rate Swap	5	5	\$184,495	\$ 185,044

The table below presents the estimated fair value of the Company's derivative financial instruments, as well as their classification in the consolidated balance sheets (in thousands).

AGREE REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(Unaudited)

	Asset Derivatives September 30, 2017		December 31, 2016	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as cash flow hedges:				
Interest Rate Swaps	Other Assets	\$ 1,232	Other Assets	\$ 1,409

	Liability Derivatives September 30, 2017		December 31, 2016	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as cash flow hedges:				
Interest Rate Swaps	Other Liabilities	\$ 1,284	Other Liabilities	\$ 1,994

The table below displays the effect of the Company's derivative financial instruments in the consolidated statements of operations and other comprehensive loss for the three and nine months ended September 30, 2017 and 2016 (in thousands).

	Derivatives in Cash Flow Hedging Relationships	Amount of Income/(Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Income/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Income/(Loss) Reclassified from Accumulated OCI into Expense (Effective Portion)	
		2017	2016		2017	2016
Three months ended September 30						
	Interest rate swaps	\$ 203	\$ 1,378	Interest Expense	\$ (258)	\$ (585)
Nine months ended September 30						
	Interest rate swaps	\$ 533	\$ (3,236)	Interest Expense	\$ (1,085)	\$ (1,643)

Credit-risk-related Contingent Features

The Company has agreements with two of its derivative counterparties that contain a provision where the Company could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the Company's default on the indebtedness.

As of September 30, 2017, the fair value of derivatives in a net liability position related to these agreements, which includes accrued interest but excludes any adjustment for nonperformance risk, was \$1.5 million. As of September 30, 2017, the Company has not posted any collateral related to these net liability positions. If the Company had breached any of these provisions as of September 30, 2017, it could have been required to settle its obligations under the agreements at their termination value of \$1.5 million.

AGREE REALTY CORPORATION**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2017****(Unaudited)**

Although the derivative contracts are subject to master netting arrangements, which serve as credit mitigants to both us and our counterparties under certain situations, we do not net our derivative fair values or any existing rights or obligations to cash collateral on the consolidated balance sheets.

The table below presents a gross presentation of the effects of offsetting and a net presentation of the Company's derivatives as of September 30, 2017 and December 31, 2016. The gross amounts of derivative assets or liabilities can be reconciled to the Tabular Disclosure of Fair Values of Derivative Instruments above, which also provides the location that derivative assets and liabilities are presented on the consolidated balance sheets (in thousands):

Offsetting of Derivative Assets**As of September 30, 2017**

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets presented in the statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		Net Amount
				Financial Instruments	Cash Collateral Received	
Derivatives	\$ 1,232	\$ -	\$ 1,232	\$ (59)	\$ -	\$ 1,173

Offsetting of Derivative Liabilities**As of September 30, 2017**

**Gross Amounts Not Offset in the
Statement of Financial Position**

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities presented in the statement of Financial Position	Financial Instruments	Cash Collateral Received	Net Amount
Derivatives	\$ 1,284	\$ -	\$ 1,284	\$ (59)	\$ -	\$ 1,225

AGREE REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(Unaudited)

Offsetting of Derivative Assets

As of December 31, 2016

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets presented in the statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		Net Amount
				Financial Instruments	Cash Collateral Received	
Derivatives	\$ 1,409	\$ -	\$ 1,409	\$ (50)	\$ -	\$ 1,359

Offsetting of Derivative Liabilities

As of December 31, 2016

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities presented in the statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		Net Amount
				Financial Instruments	Cash Collateral Received	
Derivatives	\$ 1,994	\$ -	\$ 1,994	\$ (50)	\$ -	\$ 1,944

Note 8 – Discontinued Operations

There were no properties classified as discontinued operations for the three and nine months ended September 30, 2017.

Note 9 – Fair Value Measurements

Assets and Liabilities Measured at Fair Value

The Company accounts for fair values in accordance with FASB Accounting Standards Codification Topic 820 *Fair Value Measurements and Disclosure* (ASC 820). ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances.

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls, is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

AGREE REALTY CORPORATION**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2017****(Unaudited)***Derivative Financial Instruments*

Currently, the Company uses interest rate swap agreements to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves.

To comply with the provisions of ASC 820, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of September 30, 2017, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

The table below presents the Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2017 and December 31, 2016 (in thousands):

	Balance Sheet Location	Total Fair Value	Level 2
September 30, 2017			

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Derivative assets - interest rate swaps	Other assets	\$ 1,232	\$ 1,232
Derivative liabilities - interest rate swaps	Other liabilities	\$ 1,284	\$ 1,284

December 31, 2016

Derivative assets - interest rate swaps	Other assets	\$ 1,409	\$ 1,409
Derivative liabilities - interest rate swaps	Other liabilities	\$ 1,994	\$ 1,994

The carrying values of cash and cash equivalents, receivables and accounts payable and accrued liabilities are reasonable estimates of their fair values because of the short maturity of these financial instruments.

The Company estimated the fair value of our debt based on our incremental borrowing rates for similar types of borrowing arrangements with the same remaining maturity and on the discounted estimated future cash payments to be made for other debt. The discount rate used to calculate the fair value of debt approximates current lending rates for loans and assumes the debt is outstanding through maturity. Since such amounts are estimates that are based on limited available market information for similar transactions, there can be no assurance that the disclosed value of any financial instrument could be realized by immediate settlement of the instrument.

Fixed rate debt (including variable rate debt swapped to fixed, excluding the value of the derivatives) with carrying values of \$484.9 million and \$386.9 million as of September 30, 2017 and December 31, 2016, respectively, had fair values of approximately \$499.8 million and \$401.4 million, respectively. Variable rate debt's fair value is estimated to be equal to the carrying values of \$0 and \$14.0 million as of September 30, 2017 and December 31, 2016, respectively.

AGREE REALTY CORPORATION**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2017****(Unaudited)**

Note 10 – Equity Incentive Plan

The Company estimates the fair value of restricted stock grants at the date of grant and amortizes those amounts into expense on a straight line basis or amount vested, if greater, over the appropriate vesting period.

As of September 30, 2017, there was \$6.8 million of total unrecognized compensation costs related to the outstanding restricted stock, which is expected to be recognized over a weighted average period of 3.6 years. The Company used 0% for both the discount factor and forfeiture rate for determining the fair value of restricted stock.

The holder of a restricted stock award is generally entitled at all times on and after the date of issuance of the restricted shares to exercise the rights of a stockholder of the Company, including the right to vote the shares and the right to receive dividends on the shares.

Restricted stock activity is summarized as follows:

	Shares Outstanding	Weighted Average Grant Date Fair Value
Unvested restricted stock at December 31, 2016	227,532	\$ 33.02
Restricted stock granted	76,099	\$ 48.60
Restricted stock vested	(73,273)	\$ 30.48
Restricted stock forfeited	(11,222)	\$ 39.68
Unvested restricted stock at September 30, 2017	219,136	\$ 38.94

Note 11 – Subsequent Events

In connection with the preparation of its financial statements, the Company has evaluated events that occurred subsequent to September 30, 2017 through the date on which these financial statements were available to be issued to determine whether any of these events required disclosure in the financial statements. The Company is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following should be read in conjunction with the Interim Consolidated Financial Statements of Agree Realty Corporation (the "Company"), including the respective notes thereto, which are included in this Quarterly Report on Form 10-Q.

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 "Security Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company 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," "project," or similar. 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; risks that our acquisition and development projects will fail to perform as expected; 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; a failure of our properties to generate additional income to offset increases in operating expenses; 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 quarterly report, including the documents incorporated by reference, and documents the Company subsequently files with the SEC and incorporates by reference, are not exhaustive and additional factors could adversely affect its business and financial performance. For a discussion of additional risk factors, see the factors included under the caption "Risk Factors" in the Company's most recent Annual Report on Form 10-K. 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.

Overview

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, Agree Limited Partnership (the “Operating Partnership”), of which the Company is the sole general partner and in which it held a 98.8% interest as of September 30, 2017.

As of September 30, 2017, the Company’s portfolio consisted of 425 properties located in 43 states and totaling approximately 8.3 million square feet of gross leasable area. As of September 30, 2017, the portfolio was approximately 99.7% leased and had a weighted average remaining lease term of approximately 10.5 years. Substantially all of the Company’s tenants are subject to net lease agreements. A net lease typically requires the tenant to be responsible for minimum monthly rent and property operating expenses including property taxes, insurance and maintenance.

Third Quarter 2017 Highlights

During the three months ended September 30, 2017, the Company acquired 14 retail net lease assets for approximately \$55.1 million, which includes acquisition and closing costs. These properties are located in 12 states and are 100% leased to 12 different tenants operating in 9 diverse retail sectors for a weighted average lease term of approximately 11.2 years. The underwritten weighted average capitalization rate on the Company’s third quarter 2017 acquisitions was approximately 7.4%.

During the three months ended September 30, 2017, the Company sold real estate properties for net proceeds of \$7.5 million and a recorded net gain of \$0.5 million (net of any expected losses on real estate held for sale).

Recent Accounting Pronouncements

Refer to Note 2 to the September 30, 2017 Interim Consolidated Financial Statements.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires the Company’s management to use judgment in the application of accounting policies, including making estimates and assumptions. Management bases estimates on the best information available at the time, its experience, and on various other assumptions believed to be reasonable under the circumstances. These estimates affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. If management’s judgment or interpretation of the facts and circumstances relating to various transactions or other matters had been different, it is possible that different accounting principles would have been applied, resulting in a different presentation of the interim consolidated financial statements. From time to time, the Company may re-evaluate its estimates and assumptions. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current estimates and assumptions about matters that are inherently uncertain. A summary of the Company’s critical accounting policies is included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. The Company has not made any material changes to these policies during the periods covered by this quarterly report.

Results of Operations

Comparison of Three Months Ended September 30, 2017 to Three Months Ended September 30, 2016

Total rental income increased \$5.0 million, or 23%, to \$27.3 million for the three months ended September 30, 2017, compared to \$22.3 million for the three months ended September 30, 2016. The increase was attributable to the acquisition and development of additional net lease properties, which was partially offset by a small reduction in minimum rental income related to properties that were sold and other minimum rental income adjustments.

Percentage rents remained consistent with prior periods.

Operating cost reimbursements increased \$1.0 million, or 51%, to \$2.8 million for the three months ended September 30, 2017, compared to \$1.8 million for the three months ended September 30, 2016. Operating cost reimbursements increased primarily due to higher levels of recoverable property operating expenses, including real estate taxes and increased property count. The portfolio recovery rate decreased to 91% for the three months ended September 30, 2017 compared to 112% for the three months ended September 30, 2016 due to reconciliations of property operating expenses and reimbursements.

Other income increased \$0.3 million for the three months ended September 30, 2017, compared to \$0 for the three months ended September 30, 2016.

Real estate taxes increased \$0.6 million, or 46%, to \$2.1 million for the three months ended September 30, 2017, compared to \$1.5 million for the three months ended September 30, 2016. The increase was due to the ownership of additional properties in the third quarter of 2017 compared to the third quarter of 2016 for which we remit real estate taxes and are reimbursed by tenants.

Property operating expenses increased \$0.7 million, or 451%, to \$0.9 million for the three months ended September 30, 2017, compared to \$0.2 million for the three months ended September 30, 2016. The significant increase over the prior period was due to the timing of property maintenance, utilities and insurance expenses. Our tenants reimburse us for the majority of these expenses.

Land lease expense remained consistent at \$0.2 million for the three months ended September 30, 2017 and 2016.

General and administrative expenses increased \$0.5 million, or 23%, to \$2.5 million for the three months ended September 30, 2017, compared to \$2.0 million for the three months ended September 30, 2016. The increase is primarily the result of increased employee headcount and professional costs, and timing of other expenses. General and administrative expenses as a percentage of total revenue decreased to 8.2% for the three months ended September 30, 2017 from 8.4% for the three months ended September 30, 2016.

Depreciation and amortization increased \$2.0 million, or 34%, to \$8.2 million for the three months ended September 30, 2017, compared to \$6.2 million for the three months ended September 30, 2016. The increase was due to the ownership of additional properties for the three months ended September 30, 2017 compared to the three months ended September 30, 2016.

Interest expense increased \$0.6 million, or 14%, to \$4.7 million for the three months ended September 30, 2017, compared to \$4.1 million for the three months ended September 30, 2016. The comparable period increase in interest expense is primarily due to the full-quarter impact of additional debt issued during the third quarter 2016, including the \$40.0 million unsecured term loan facility entered into in July 2016 and the \$60.0 million senior unsecured notes issued in July 2016. In addition, the \$100.0 million senior unsecured notes issued in September 2017 further increased the third-quarter 2017 interest expense.

Gains on the sale of assets decreased \$3.9 million, to \$0.5 million for the three months ended September 30, 2017, compared to \$4.4 million for the three months ended September 30, 2016.

Net income decreased \$2.2 million, to \$12.3 million for the three months ended September 30, 2017, compared to \$14.5 million for the three months ended September 30, 2016 for the reasons set forth above.

Comparison of Nine Months Ended September 30, 2017 to Nine Months Ended September 30, 2016

Total rental income increased \$15.8 million, or 26%, to \$76.5 million for the nine months ended September 30, 2017, compared to \$60.7 million for the nine months ended September 30, 2016. The increase was attributable to the acquisition and development of additional net lease properties, which was partially offset by a small reduction in minimum rental income related to properties that were sold and other minimum rental income adjustments.

Percentage rents remained consistent at \$0.2 million for the nine months ended September 30, 2017 and 2016.

Operating cost reimbursements increased \$2.6 million, or 49%, to \$8.0 million for the nine months ended September 30, 2017, compared to \$5.4 million for the nine months ended September 30, 2016. Operating cost reimbursements increased primarily due to higher levels of recoverable property operating expenses, including real estate taxes and increased property count. The portfolio recovery rate decreased to 93% for the nine months ended September 30, 2017 compared to 94% for the nine months ended September 30, 2016 due to reconciliations of property operating expenses and reimbursements.

Other income increased \$0.3 million for the nine months ended September 30, 2017, compared to \$0 for the nine months ended September 30, 2016.

Real estate taxes increased \$2.0 million, or 48%, to \$6.0 million for the nine months ended September 30, 2017, compared to \$4.0 million for the nine months ended September 30, 2016. The increase was due to the ownership of additional properties in the first nine months of 2017 compared to the first nine months of 2016 for which we remit real estate taxes and are reimbursed by tenants.

Property operating expenses increased by \$0.9 million, or 58%, to \$2.6 million for the nine months ended September 30, 2017, compared to \$1.7 million for the nine months ended September 30, 2016. The increase was due to the ownership of additional properties in the first nine months of 2017 compared to the first nine months of 2016 as well as the timing of property maintenance, utilities and insurance expenses. Our tenants reimburse us for the majority of these expenses.

Land lease expense remained consistent at \$0.5 million for the nine months ended September 30, 2017 and 2016.

General and administrative expenses increased \$1.6 million, or 26%, to \$7.7 million for the nine months ended September 30, 2017, compared to \$6.1 million for the nine months ended September 30, 2016. The increase is primarily the result of increased employee headcount and professional costs. General and administrative expenses as a percentage of total revenue decreased to 9.0% for the nine months ended September 30, 2017 from 9.2% for the nine months ended September 30, 2016.

Depreciation and amortization increased \$6.1 million, or 36%, to \$23.0 million for the nine months ended September 30, 2017, compared to \$16.9 million for the nine months ended September 30, 2016. The increase was due to the ownership of additional properties for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016.

Interest expense increased \$2.0 million, or 18%, to \$13.2 million for the nine months ended September 30, 2017, compared to \$11.2 million for the nine months ended September 30, 2016. The comparable period increase in interest expense is primarily due to the impact of additional debt issued during the third quarter 2016, including the \$40.0 million unsecured term loan facility entered into in July 2016 and the \$60.0 million senior unsecured notes issued in July 2016. In addition, the \$100.0 million senior unsecured notes issued in September 2017 further increased the comparable period.

Gains on the sale of assets increased \$2.9 million, to \$10.0 million for the nine months ended September 30, 2017, compared to \$7.1 million for the nine months ended September 30, 2016.

Net income increased \$9.2 million, to \$42.1 million for the nine months ended September 30, 2017, compared to \$32.9 million for the nine months ended September 30, 2016 for the reasons set forth above.

Liquidity and Capital Resources

The Company's principal demands for funds include payment of operating expenses, payment of principal and interest on its outstanding indebtedness, distributions to its shareholders and future property acquisitions and development.

We expect to meet our short term liquidity requirements through cash provided from operations and borrowings under our senior unsecured revolving credit facility. As of September 30, 2017, there was a \$0 balance on our senior unsecured revolving credit facility and a full availability of \$250.0 million was available for future borrowings, subject to our compliance with covenants. We anticipate funding our long term capital needs through cash provided from operations, borrowings under our revolving credit facility, the issuance of debt and the issuance of common or preferred equity or other instruments convertible into or exchangeable for common or preferred equity.

On August 3, 2017, the Company entered into an uncommitted and unsecured \$100 million private placement shelf agreement (the "AIG Shelf Agreement") with AIG Asset Management (U.S.), LLC ("AIG") and each AIG Affiliate named therein. The AIG Shelf Agreement allows us to issue senior unsecured notes to AIG at terms to be agreed upon at the time of any issuance during a three year issuance period ending in August 2020. As of September 30, 2017, no notes had been issued under the AIG Shelf Agreement.

On August 3, 2017, the Company entered into an uncommitted and unsecured \$100 million private placement shelf agreement (the "TIAA Shelf Agreement") with Teachers Insurance and Annuity Association of America ("TIAA") and each TIAA Affiliate named therein. The TIAA Shelf Agreement allows us to issue senior unsecured notes to TIAA at terms to be agreed upon at the time of any issuance during a three year issuance period ending in August 2020. As of September 30, 2017, no notes had been issued under the TIAA Shelf Agreement.

We continually evaluate alternative financing and believe that we can obtain financing on reasonable terms. However, there can be no assurance that additional financing or capital will be available, or that the terms will be acceptable or advantageous to us.

Capitalization

As of September 30, 2017, the Company's total market capitalization was approximately \$1.9 billion. Market capitalization consisted of \$1.5 billion of common equity (based on the September 30, 2017 closing price on the NYSE of \$49.08 per common share and assuming the conversion of operating partnership units in the Operating Partnership ("OP units") and \$487.7 million of total gross debt, including (i) \$68.2 million of mortgage notes payable; (ii) \$159.5 million of unsecured term loans; (ii) \$260.0 million of senior unsecured notes; and (iii) \$0 million of borrowings under our revolving credit facility. Our ratio of total debt to total market capitalization was 25.2% at September 30, 2017.

At September 30, 2017, the non-controlling interest in the Operating Partnership represented ownership of 1.2% of the Operating Partnership. The OP Units may, under certain circumstances, be exchanged for shares of common stock on a one-for-one basis. The Company, as sole general partner of the Operating Partnership, has the option to settle exchanged OP Units held by others for cash based on the current trading price of its shares. Assuming the exchange of all OP Units, there would have been 29,563,454 shares of common stock outstanding at September 30, 2017.

Debt

Senior Unsecured Notes

On July 8, 2016, the Company entered into a note purchase agreement with institutional purchasers. Pursuant to the note purchase agreement, the Operating Partnership completed a private placement of \$60.0 million aggregate principal amount of our 4.42% senior unsecured notes due July 28, 2028. The senior unsecured notes were only sold 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.

On August 3, 2017, the Company entered into a note purchase agreement with institutional purchasers. Pursuant to the note purchase agreement, the Operating Partnership completed a private placement of \$100.0 million aggregate principal amount of our 4.19% senior unsecured notes due September 20, 2029. The senior unsecured notes are guaranteed by the Company. The closing of the private placement was consummated on September 20, 2017, and, on that date, the Operating Partnership issued the senior unsecured notes. The senior unsecured notes were only sold 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.

Unsecured Term Loan Facilities

The amended and restated credit agreement described below extended the maturity dates of the \$65.0 million unsecured term loan facility and \$35.0 million unsecured term loan facility (together, the "2024 Term Loan Facilities") to January 2024. In connection with entering into the amended and restated credit agreement, the prior notes

evidencing the existing \$65.0 million unsecured term loan facility and \$35.0 million unsecured term loan facility were canceled and new notes evidencing the 2024 Term Loan Facilities were executed. Borrowings under the unsecured term loan facility bear interest at a variable LIBOR plus 1.65% to 2.35%, depending on our leverage ratio. We utilized existing interest rate swaps to effectively fix the LIBOR rate (refer to Note 7 - Derivative and Hedging Activities).

In July 2016, the Company completed a \$40.0 million unsecured term loan facility that matures in July 2023. Borrowings under the unsecured term loan facility are priced at LIBOR plus 165 to 225 basis points, depending on our leverage. We entered into an interest rate swap to fix LIBOR at 1.40% until maturity. As of September 30, 2017, \$40.0 million was outstanding under the unsecured term loan facility, which is subject to an all-in interest rate of 3.05%.

In August 2016, the Company entered into a \$20.3 million unsecured amortizing term loan that matures in May 2019. Borrowings under the unsecured amortizing term loan are priced at LIBOR plus 170 basis points. In order to fix LIBOR on the unsecured amortizing term loan at 1.92% until maturity, we have an interest rate swap agreement in place, which was assigned by the lender under the prior secured facility to the lender under the unsecured amortizing term loan. As of September 30, 2017, \$19.5 million was outstanding under the unsecured amortizing term loan bearing an all-in interest rate of 3.62%.

Senior Unsecured Revolving Credit Facility

In December 2016, the Company amended and restated the credit agreement that governs our senior unsecured revolving credit facility and unsecured term loan facility to increase the aggregate borrowing capacity to \$350.0 million. The agreement provides for a \$250.0 million unsecured revolving credit facility, a \$65.0 million unsecured term loan facility and a \$35.0 million unsecured term loan facility. The unsecured revolving credit facility matures in January 2021 with options to extend the maturity date to January 2022. The unsecured term loan facilities mature in January 2024. We have the ability to increase the aggregate borrowing capacity under the credit agreement up to \$500.0 million, subject to lender approval. Borrowings under the revolving credit facility bear interest at LIBOR plus 1.30% to 1.95%, depending on our leverage ratio. Additionally, we are required to pay an unused commitment fee at an annual rate of 0.15% or 0.25% of the unused portion of the revolving credit facility, depending on the amount of borrowings outstanding. The credit agreement contains certain financial covenants, including a maximum leverage ratio, a minimum fixed charge coverage ratio and a maximum percentage of secured debt to total asset value.

Mortgage Notes Payable

As of September 30, 2017, the Company had total mortgage indebtedness of \$68.2 million, with a weighted average term to maturity of 3.7 years. Including our mortgages that have been swapped to a fixed interest rate, our weighted average interest rate on mortgage debt was 3.9%.

Mortgage Note Payable	Interest		Principal Amount Outstanding	
	Rate (1)	Maturity	September 30, 2017	December 31, 2016
Secured Term Loan due 2018	2.49 %	April 2018	25,000	25,000
Portfolio Mortgage Loan due 2020	6.90 %	January 2020	3,968	5,114
Single Asset Mortgage Loan due 2020	6.24 %	February 2020	2,986	3,049
CMBS Portfolio Loan due 2023	3.60 %	January 2023	23,640	23,640
Single Asset Mortgage Loan due 2023	5.01 %	September 2023	5,173	5,294
Portfolio CTL due 2026	6.27 %	July 2026	7,447	7,910
Total			\$ 68,214	\$ 70,007

(1) Includes the effects of variable interest rates that have been swapped to fixed interest rates.

We have entered into mortgage loans which are secured by multiple properties and contain cross-default and cross-collateralization provisions. Cross-collateralization provisions allow a lender to foreclose on multiple properties in the event that we default under the loan. Cross-default provisions allow a lender to foreclose on the related property in the event a default is declared under another loan.

Contractual Obligations

The following table summarizes our contractual obligations as of September 30, 2017 (in thousands):

	Total	Remainder of 2017	2018-2019	2020-2021	Thereafter
Mortgage Notes Payable	\$68,214	\$ 618	\$ 30,326	\$ 4,865	\$ 32,405
Revolving Credit Facility	-	-	-	-	-
Unsecured Term Loans	159,495	190	19,305	-	140,000
Senior Unsecured Notes	260,000	-	-	-	260,000
Land Lease Obligations	10,502	160	1,275	1,220	7,847
	158,535	4,931	37,582	35,588	80,434

Estimated Interest Payments on Mortgage Notes
Payable, Unsecured Term Loans and Senior Unsecured
Notes

Total	\$656,746	\$ 5,899	\$ 88,488	\$ 41,673	\$520,686
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Estimated interest payments are based on (i) the stated rates for mortgage notes payable, including the effect of interest rate swaps; (ii) the stated rates for unsecured term loans, including the effect of interest rate swaps and assuming the interest rate in effect for the most recent quarter remains in effect through the respective maturity dates; and (iii) the stated rates for senior unsecured notes.

Dividends

During the quarter ended September 30, 2017, we declared a quarterly dividend of \$0.505 per share. The cash dividend was paid on October 13, 2017 to holders of record on September 30, 2017.

Inflation

The Company's leases typically contain provisions to mitigate the adverse impact of inflation on its results of operations. Tenant leases generally provide for limited increases in rent as a result of fixed increases or increases in the consumer price index. Certain Company's leases contain clauses enabling it to receive percentage rents based on tenants' gross sales, which generally increase as prices rise. During times when inflation is greater than increases in rent, rent increases will not keep up with the rate of inflation.

Substantially all of the Company's properties are leased to tenants under long-term net leases, which require the tenant to pay certain operating expenses for a property, thereby reducing the Company's exposure to operating cost increases resulting from inflation. Inflation may have an adverse impact on the Company's tenants.

Funds from Operations

Funds from Operations ("FFO") is defined by the National Association of Real Estate Investment Trusts, Inc. ("NAREIT") to mean net income computed in accordance with GAAP, excluding gains (or losses) from sales of property, plus real estate related depreciation and amortization and any impairment charges on a depreciable real estate asset, and after adjustments for unconsolidated partnerships and joint ventures. Management uses FFO as a supplemental measure to conduct and evaluate the Company business because there are certain limitations associated with using GAAP net income by itself as the primary measure of the Company's operating performance. Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, management believes that the presentation of operating results for real estate companies that use historical cost accounting is insufficient by itself.

FFO should not be considered an alternative to net income as the primary indicator of the Company's operating performance, or as an alternative to cash flow as a measure of liquidity. Further, while the Company adheres to the NAREIT definition of FFO, its presentation of FFO is not necessarily comparable to similarly titled measures of other REITs due to the fact that all REITs may not use the same definition.

Adjusted Funds from Operations

Adjusted Funds from Operations ("AFFO") is a non-GAAP financial measure of operating performance used by many companies in the REIT industry. AFFO further adjusts FFO for certain non-cash items that reduce or increase net income in accordance with GAAP. Management considers AFFO a useful supplemental measure of the Company's performance, however, AFFO should not be considered an alternative to net income as an indication of the Company's performance, or to cash flow as a measure of liquidity or ability to make distributions. The Company's computation of AFFO may differ from the methodology for calculating AFFO used by other equity REITs, and therefore may not be comparable to such other REITs. Note that, during the year ended December 31, 2015, the Company adjusted its calculation of AFFO to exclude non-recurring capitalized building improvements and to include non-real estate related depreciation and amortization. Management believes that these changes provide a more useful measure of operating performance in the context of AFFO.

The following table provides a reconciliation from net income to FFO for the three and nine months ended September 30, 2017 and 2016 (in thousands):

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Reconciliation from Net Income to Funds from Operations	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Net income	\$12,283	\$ 14,476	\$42,119	\$ 32,891
Depreciation of real estate assets	5,101	3,947	14,286	10,904
Amortization of leasing costs	40	38	120	85
Amortization of lease intangibles	3,059	2,148	8,470	5,860
Gain on sale of assets	(524)	(4,415)	(10,045)	(7,133)
Funds from Operations	\$19,959	\$ 16,194	\$54,950	\$ 42,607
Funds from Operations Per Share - Diluted	\$0.69	\$ 0.68	\$2.00	\$ 1.90
Weighted average shares and OP units outstanding				
Basic	28,920,641	23,801,702	27,336,208	22,382,007
Diluted	29,004,303	23,910,950	27,416,971	22,474,948

The following table provides a reconciliation from net income to AFFO for the three and nine months ended September 30, 2017 and 2016 (in thousands):

Reconciliation from Net Income to Adjusted Funds from Operations	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Net income	\$12,283	\$14,476	\$42,119	\$32,891
Cumulative adjustments to calculate FFO	7,676	1,718	12,831	9,716
Funds from Operations	\$19,959	\$16,194	\$54,950	\$42,607
Straight-line accrued rent	(860)	(857)	(2,545)	(2,162)
Deferred revenue recognition	-	(309)	-	(541)
Stock based compensation expense	622	555	1,898	1,864
Amortization of financing costs	142	122	426	361
Non-real estate depreciation	28	19	80	53
Loss on debt extinguishment	-	33	-	33
Adjusted Funds from Operations	\$19,891	\$15,757	\$54,809	\$42,215
Adjusted Funds from Operations Per Share - Diluted	\$0.69	\$0.66	\$2.00	\$1.88
Additional supplemental disclosure				
Scheduled principal repayments	\$797	\$748	\$2,343	\$2,196
Capitalized interest	\$143	\$14	\$297	\$27
Capitalized building improvements	\$34	\$376	\$76	\$405

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to interest rate risk primarily through borrowing activities. There is inherent roll-over risk for borrowings as they mature and are renewed at current market rates. The extent of this risk is not quantifiable or predictable because of the variability of future interest rates and our future financing requirements.

Our interest rate risk is monitored using a variety of techniques. The table below presents the principal payments and the weighted average interest rates on outstanding debt, by year of expected maturity, to evaluate the expected cash flows and sensitivity to interest rate changes.

(\$ in thousands)

	2017	2018	2019	2020	2021	Thereafter	Total
Mortgage Notes Payable	\$618	\$27,576	\$2,750	\$3,867	\$998	\$32,405	\$68,214
Average Interest Rate	6.59%	2.87 %	6.59 %	6.21 %	6.02%	4.15 %	%

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Unsecured Term Loans	\$190	\$761	\$18,544	\$-	\$-	\$140,000	\$159,495
Average Interest Rate	3.62%	3.62%	3.62%			3.57%	
Senior Unsecured Notes	\$-	\$-	\$-	\$-	\$-	\$260,000	\$260,000
Average Interest Rate						4.25%	

The fair value is estimated at \$73.5 million, \$166.8 million and \$259.5 million for mortgage notes payable, unsecured term loans and senior unsecured notes, respectively, as of September 30, 2017.

The table above incorporates those exposures that exist as of September 30, 2017; it does not consider those exposures or positions which could arise after that date. As a result, our ultimate realized gain or loss with respect to interest rate fluctuations will depend on the exposures that arise during the period and interest rates.

We seek to limit the impact of interest rate changes on earnings and cash flows and to lower the overall borrowing costs by closely monitoring our variable rate debt and converting such debt to fixed rates when we deem such conversion advantageous. From time to time, we may enter into interest rate swap agreements or other interest rate hedging contracts. While these agreements are intended to lessen the impact of rising interest rates, they also expose us to the risks that the other parties to the agreements will not perform. We could incur significant costs associated with the settlement of the agreements, the agreements will be unenforceable and the underlying transactions will fail to qualify as highly-effective cash flow hedges under GAAP guidance.

In April 2012, the Company entered into an amortizing forward-starting interest rate swap agreement to hedge against changes in future cash flows resulting from changes in interest rates on \$22.3 million in variable-rate borrowings. Under the terms of the interest rate swap agreement, the Company receives from the counterparty interest on the notional amount based on 1 month LIBOR and pays to the counterparty a fixed rate of 1.92%. This swap effectively converted \$22.3 million of variable-rate borrowings to fixed-rate borrowings from July 1, 2013 to May 1, 2019. As of September 30, 2017, this interest rate swap was valued as a liability of approximately \$0.1 million.

In December 2012, the Company entered into interest rate swap agreements to hedge against changes in future cash flows resulting from changes in interest rates on \$25.0 million in variable-rate borrowings. Under the terms of the interest rate swap agreement, the Company receives from the counterparty interest on the notional amount based on 1 month LIBOR and pays to the counterparty a fixed rate of 0.89%. This swap effectively converted \$25.0 million of variable-rate borrowings to fixed-rate borrowings from December 6, 2012 to April 4, 2018. As of September 30, 2017, this interest rate swap was valued as an asset of approximately \$0.1 million.

In September 2013, the Company entered into an interest rate swap agreement to hedge against changes in future cash flows resulting from changes in interest rates on \$35.0 million in variable-rate borrowings. Under the terms of the interest rate swap agreement, the Company receives from the counterparty interest on the notional amount based on 1 month LIBOR and pays to the counterparty a fixed rate of 2.20%. This swap effectively converted \$35.0 million of variable-rate borrowings to fixed-rate borrowings from October 3, 2013 to September 29, 2020. As of September 30, 2017, this interest rate swap was valued as a liability of approximately \$0.5 million.

In July 2014, the Company entered into interest rate swap agreements to hedge against changes in future cash flows resulting from changes in interest rates on \$65.0 million in variable-rate borrowings. Under the terms of the interest rate swap agreement, the Company receives from the counterparty interest on the notional amount based on 1 month LIBOR and pays to the counterparty a fixed rate of 2.09%. This swap effectively converted \$65.0 million of variable-rate borrowings to fixed-rate borrowings from July 21, 2014 to July 21, 2021. As of September 30, 2017, this interest rate swap was valued as a liability of approximately \$0.7 million.

In September 2016, the Company entered into an interest rate swap agreement to hedge against changes in future cash flows resulting from changes in interest rates on \$40.0 million in variable-rate borrowings. Under the terms of the interest rate swap agreement, the Company receives from the counterparty interest on the notional amount based on 1 month LIBOR and pays to the counterparty a fixed rate of 1.40%. This swap effectively converted \$40.0 million of variable-rate borrowings to fixed-rate borrowings from August 1, 2016 to July 1, 2023. As of September 30, 2017, this interest rate swap was valued as an asset of approximately \$1.2 million.

We do not use derivative instruments for trading or other speculative purposes and we did not have any other derivative instruments or hedging activities as of September 30, 2017.

ITEM 4.

Controls and Procedures

Disclosure Controls and Procedures

At the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II Other Information

Item 1.

Legal Proceedings

We are not presently involved in any litigation nor, to our knowledge, is any other litigation threatened against us, except for routine litigation arising in the ordinary course of business which is expected to be covered by our liability insurance.

Item 1A. Risk Factors

There have been no material changes from our risk factors set forth under Item 1A of Part 1 of our most recently filed Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

*10.1 Note Purchase Agreement, dated as of August 3, 2017, among Agree Realty Corporation and the purchasers named therein.

Uncommitted Master Note Facility, dated as of August 3, 2017, among Agree Limited Partnership, Agree Realty Corporation and Teachers Insurance and Annuity Associate of America ("TIAA") and each TIAA Affiliate (as defined therein).

*10.2

Uncommitted Master Note Facility, dated as of August 3, 2017, among Agree Limited Partnership, Agree Realty Corporation and Teachers Insurance and AIG Asset Management (U.S.), LLC (“AIG”) and each AIG Affiliate (as defined therein).

*31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, Joel N. Agree, Chief Executive Officer

*31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, Kenneth R. Howe, Interim Chief Financial Officer

*32.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Joel N. Agree, Chief Executive Officer

*32.2 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Kenneth R. Howe, Interim Chief Financial Officer

The following materials from Agree Realty Corporation’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income and Comprehensive Income, (iii) the Consolidated Statement of Stockholders’ Equity, (iv) the Consolidated Statements of Cash Flows, and (v) related notes to these consolidated financial statements.

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Agree Realty Corporation

/s/ JOEL N. AGREE

Joel N. Agree

President and Chief Executive Officer

/s/ KENNETH R. HOWE

Kenneth R. Howe

Interim Chief Financial Officer and Secretary
(Principal Financial and Accounting Officer)

Date: October 23, 2017