AGREE REALTY CORP
Form 10-K
March 07, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K
Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2013

Commission File Number 1-12928

AGREE REALTY CORPORATION
(Exact name of Registrant as specified in its charter)

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

31850 Northwestern Highway, Farmington Hills, Michigan 48334
(Address of Principal Executive Offices)

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

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

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 x 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 x No ¨

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

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨

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

The aggregate market value of the Registrant's shares of common stock held by non-affiliates was approximately $390,768,166 as of June 28, 2013, based on the closing price of $29.52 on the New York Stock Exchange on that date.

At February 28, 2014, there were 14,964,396 shares of common stock, $.0001 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the annual stockholder meeting to be held in 2014 are incorporated by reference into Part III of this Annual Report on Form 10-K as noted herein.

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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, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Securities Exchange Act"). We intend 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 include 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 expressions. For 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 real estate investment trust ("REIT") for federal income tax purposes and the limitations imposed on our business by our status as a REIT; legislative or regulatory changes, including changes to laws governing REITs; and other factors discussed in Item 1A. "Risk Factors" and elsewhere in this report and in subsequent filings with the Securities and Exchange Commission ("SEC"). We caution you that any such statements are based on currently available operational, financial and competitive information, and that you should not place undue reliance on these forward-looking statements, which reflect our management's opinion only as of the date on which they were made. Except as required by law, we disclaim any obligation to review or update these forward looking statements to reflect events or circumstances as they occur.

PART I

Item 1: **Business**

General

Agree Realty Corporation, a Maryland corporation, is a fully-integrated, self-administered and self-managed REIT. The terms "Registrant," "Company," "we," "our" or "us" refer to Agree Realty Corporation and/or its majority owned operati partnership, Agree Limited Partnership ("Operating Partnership"), and/or its majority owned and controlled subsidiaries, including its taxable REIT subsidiaries ("TRSs"), as the context may require. Our assets are held by and all of our operations are conducted through, directly or indirectly, the Operating Partnership, of which we are the sole general partner and in which we held a 97.72% interest as of December 31, 2013. Under the partnership agreement of the Operating Partnership, we, as the sole general partner, have exclusive responsibility and discretion in the management and control of the Operating Partnership.

We are focused primarily on the ownership, development, acquisition and management of retail properties net leased to national tenants. We were incorporated in December 1993 to continue and expand the business founded in 1971 by our current Executive Chairman of the Board, Richard Agree. We specialize in acquiring and developing net leased retail properties for industry leading retail tenants. As of December 31, 2013, approximately 90% of our annualized base rent was derived from national tenants. As of December 31, 2013, approximately 47.8% of our annualized base rent was derived from our top five tenants.

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At December 31, 2013, our portfolio consisted of 130 properties, located in 33 states, containing an aggregate of approximately 3.7 million square feet of gross leasable area ("GLA"). As of December 31, 2013, our portfolio included 122 net leased properties and eight community shopping centers that were 98% leased with a weighted average lease term of approximately 11.7 years remaining. One community shopping center was classified as held for sale as of December 31, 2013, and subsequently sold in January 2014, and is not included in our property information. Substantially all of our net lease property tenants and the majority of our community shopping center tenants have net leases, which require the tenant to be responsible for property operating expenses including property taxes, insurance and maintenance. We believe this strategy provides a generally consistent source of income and cash for distributions. See Item 2. "Properties" for a summary of our developments and acquisitions in 2013, as well as other information regarding our tenants, leases and properties as of December 31, 2013.

We expect to continue to grow our asset base primarily through the development and acquisition of retail properties that are net leased on a long-term basis to industry leading retail tenants. Since our initial public offering in 1994, we have developed 60 of our 130 properties, including 52 of our 122 net lease properties and all eight of our community shopping centers. Since we commenced our acquisition program in 2010, we have acquired 62 assets for an aggregate purchase price of approximately $230,000,000. Going forward, we expect to continue to expand our tenant relationships and diversify our tenant base through both the development and acquisition of net leased properties.

Growth Strategy
Our growth strategy includes the development and acquisition of net leased retail properties.

Development. We believe that our development strategy produces superior risk adjusted returns. Our development process commences with the identification of land parcels that we believe are situated in an attractive retail location. The location must be in a concentrated retail corridor, have high traffic counts, good visibility and demographics compatible with the desires of a targeted retail tenant. After assessing site feasibility we propose long-term net leases that are executed prior to the development of the site.

Upon the execution of the lease, we acquire the land and pursue all necessary approvals to commence development. We direct all aspects of the development process, including land acquisition, due diligence, design, construction, lease negotiation and asset management.
Acquisitions. We strategically acquire net leased retail properties when we have determined that a potential acquisition target meets our return on investment criteria and such acquisition will diversify our rental income either by tenant, geographically or retail sector concentration. Since the commencement of our acquisition program in April 2010, we have acquired 62 net leased retail properties in 28 states and across 17 retail sectors.

Financing Strategy
As of December 31, 2013, our total mortgage debt was approximately $113.9 million with a weighted average maturity of 5.5 years. Including our mortgages that have been swapped to a fixed interest rate, our weighted average interest rate on mortgage debt was 4.4%.

Agree Limited Partnership (the "Operating Partnership") has in place an $85,000,000 unsecured revolving credit facility ("Credit Facility"), which is guaranteed by the Company. Subject to customary conditions, at the Company's option, total commitments under the Credit Facility may be increased up to an aggregate of $135,000,000. The Company intends to use borrowings under the Credit Facility for general corporate purposes, including working capital, development and acquisition activities, capital expenditures, repayment of indebtedness or other corporate activities. The Credit Facility matures on October 26, 2015, and may be extended, at the Company's election, for two one-year terms to October 2017, subject to certain conditions. Borrowings under the Credit Facility bear interest at LIBOR plus a spread of 150 to 215 basis points, or the base rate, depending on the Company's leverage ratio. As of December 31, 2013, $9,500,000 was outstanding under the Credit Facility bearing a weighted average interest rate of 3.75%, and $75,500,000 was available for borrowing (subject to customary conditions to borrowing).

In September 2013, the Operating Partnership entered into a $35,000,000 seven year unsecured term loan ("Unsecured Term Loan"), which is guaranteed by the Company. The Unsecured Term Loan includes an accordion feature providing the opportunity to borrow up to an additional $35,000,000 under the same loan agreement, subject to customary conditions. The Unsecured Term Loan matures on September 29, 2020. Borrowings under the Unsecured Term Loan bear interest at LIBOR plus a spread of 165 to 225 basis points depending on the Company's leverage ratio. In conjunction with the closing of the loan, the Company entered into a seven year interest rate swap agreement resulting in a fixed interest rate of 3.85%, based on the spread then in effect. The Company used the proceeds from the Unsecured Term Loan to pay down amounts outstanding under the Credit Facility.

We intend to maintain a ratio of total indebtedness (including construction and acquisition financing) to total market capitalization of 65% or less. At December 31, 2013, our ratio of indebtedness to total market capitalization assuming the conversion of limited partnership interests in the Operating Partnership ("OP units"), was approximately 26.4%.

We evaluate our borrowing policies on an on-going basis in light of current economic conditions, relative costs of debt and equity capital, market value of properties, growth and acquisition opportunities and other factors. There is no contractual limit or any limit in our organizational documents on our ratio of total indebtedness to total market capitalization, and accordingly, we may modify our borrowing policy and may increase or decrease our ratio of debt to total market capitalization without stockholder approval.

Asset Management

We maintain a proactive leasing and capital improvement program that, combined with the quality and locations of our properties, has made our properties attractive to tenants. We intend to continue to hold our properties for long-term investment and, accordingly, place a strong emphasis on the quality of construction and an on-going program of regular maintenance. Our properties are designed and built to require minimal capital improvements other than renovations or expansions paid for by tenants. At our eight community shopping center properties, we sub contract on site functions such as maintenance, landscaping, snow removal and sweeping. The cost of these functions is generally reimbursed by our tenants. Personnel from our corporate headquarters conduct regular inspections of each property and maintain regular contact with major tenants.

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

Major Tenants

As of December 31, 2013, approximately 42% of our GLA was leased to Walgreen, CVS, Kmart, Wawa and Walmart and approximately 47.8% of our total annualized base rent was attributable to these tenants. At December 31, 2013, Walgreen occupied approximately 13% of our GLA and accounted for approximately 27.4% of our annualized base rent. At December 31, 2013, CVS occupied approximately 2% of our GLA and accounted for approximately 5.5% of our annualized base rent. At December 31, 2013, Kmart occupied approximately 18% of our GLA and accounted for approximately 5.3% of our annualized base rent. At December 31, 2013, Wawa occupied approximately 1% of our GLA and accounted for approximately 5.0% of our annualized base rent. At December 31, 2013, Walmart occupied approximately 8% of our GLA and accounted for approximately 4.6% of our annualized base rent. No other tenant accounted for more than 5% of annualized base rent in 2013. The loss of any of these tenants or a significant number of their stores, or the inability of any of them to pay rent, would have a material adverse effect on our business.

Tax Status

We believe that we have operated, and we intend to continue to operate, in a manner to qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). In order to maintain our qualification as a REIT, we must, among other things, distribute at least 90% of our REIT taxable income and meet certain asset and income tests. Additionally, our charter limits ownership of our Company, directly or constructively, by any single person to 9.8% of the value of our outstanding common stock and preferred stock, subject to certain exceptions. As a REIT, we are not subject to federal income tax with respect to that portion of our income that meets certain criteria and is distributed annually to the stockholders.

We have established TRS entities pursuant to the provisions of the Internal Revenue Code. Our TRS entities are able to engage in activities resulting in income that would be nonqualifying income for a REIT. As a result, certain activities of our Company which occur within our TRS entities are subject to federal and state income taxes.

Competition

The U.S. commercial real estate investment market continues to be a highly competitive industry. We actively compete with many other entities engaged in the development, acquisition and operation of commercial properties. As such, we compete for a limited supply of properties and financing for these properties. Investors include large institutional investors, insurance companies, credit companies, pension funds, private individuals, investment companies and other REITs, many of which have greater financial and other resources than we do. There can be no assurance that we will be able to compete successfully with such entities in our development, acquisition and leasing activities in the future.

Potential Environmental Risks

Investments in real property create a potential for environmental liability on the part of the owner or operator of such real property. If hazardous substances are discovered on or emanating from a property, the owner or operator of the property may be held strictly liable for all costs and liabilities relating to such hazardous substances. We have obtained a Phase I environmental study (which involves inspection without soil sampling or ground water analysis) conducted by independent environmental consultants on each of our properties. Furthermore, we have adopted a policy of conducting a Phase I environmental study on each property we acquire and if necessary conducting additional investigation as warranted.

During 2013, we conducted Phase I environmental studies for the 18 properties that we acquired and one property that we purchased for development. In addition to the Phase I environmental study, we conducted additional investigation, including a Phase II environmental assessment, on one of the properties that we acquired and the property that we purchased for development. This additional investigation indicated no further action was required.

During 2012, we conducted Phase I environmental studies for the 25 properties that we acquired and the six properties that we developed. In addition to the Phase I environmental study, we conducted additional investigation, including a Phase II environmental assessment, on one of the properties that we acquired and two of the properties that we developed. This additional investigation indicated no further action was required.

In addition, we have no knowledge of any hazardous substances existing on any of our properties in violation of any applicable laws; however, no assurance can be given that such substances are not located on any of the properties. We carry no insurance coverage for the types of environmental risks described above.

We believe that we are in compliance, in all material respects, with all federal, state and local ordinances and regulations regarding hazardous or toxic substances. Furthermore, we have not been notified by any governmental authority of any noncompliance, liability or other claim in connection with any of the properties.

Employees

As of December 31, 2013, we employed 14 persons. Employee responsibilities include land acquisition, construction, management, leasing, acquisition sourcing and underwriting, property coordination, accounting and administrative functions for the properties. Our employees are not covered by a collective bargaining agreement, and we consider our employee relations to be satisfactory.

Financial Information About Industry Segments

We are in the business of development, acquisition and management of net leased properties and community shopping centers. We consider our activities to consist of a single industry segment. See the Consolidated Financial Statements and Notes thereto included in this Annual Report on Form 10-K.

Available Information

Our headquarters is located at 31850 Northwestern Highway, Farmington Hills, MI 48334 and our telephone number is (248) 737-4190. Our website address is www.agreerealty.com. Our reports electronically filed with or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act can be accessed through this site, free of charge, as soon as reasonably practicable after we electronically file or furnish such reports. These filings are also available on the SEC's website at www.sec.gov. Our website also contains copies of our corporate governance guidelines and code of business conduct and ethics as well as the charters of our audit, compensation and nominating and corporate governance committees. The information on our website is not part of this report.

Item 1a: <u>Risk Factors</u>

Risks Related to Our Business and Operations

Global economic and financial conditions may have a negative effect on our business and operations.
While economic conditions in many of our markets have improved, any worsening of such conditions, including any disruption in the capital markets, could adversely affect our business and operations. Potential consequences of economic and financial conditions include:

- the financial condition of our tenants may be adversely affected, which may result in tenant defaults under the leases due to bankruptcy, lack of liquidity, operational failures or for other reasons;
- current or potential tenants may delay or postpone entering into long-term net leases with us which could lead to reduced demand for commercial real estate;
- the ability to borrow on terms and conditions that we find acceptable may be limited or unavailable, which could reduce our ability to pursue acquisition and development opportunities and refinance existing debt, reduce our returns from acquisition and development activities, reduce our ability to make cash distributions to our stockholders and increase our future interest expense;
- our ability to access the capital markets may be restricted at a time when we would like, or need, to access those markets, which could have an impact on our flexibility to react to changing economic and business conditions;
- the recognition of impairment charges on or reduced values of our properties, which may adversely affect our results of operations or limit our ability to dispose of assets at attractive prices and may reduce the availability of buyer financing; and
- one or more lenders under the Credit Facility could fail and we may not be able to replace the financing commitment of any such lenders on favorable terms, or at all.

We are also limited in our ability to reduce costs to offset the results of a prolonged or severe economic downturn given certain fixed costs and commitments associated with our operations. Such conditions could make it very difficult to forecast operating results, make business decisions and identify and address material business risks.

Single-tenant leases involve significant risks of tenant default.
We focus our development and investment activities on ownership of real properties that are net leased to a single tenant. Therefore, the financial failure of, or other default in payment by, a single tenant under its lease is likely to cause a significant reduction in our operating cash flows from that property and a significant reduction in the value of the property, and could cause a significant reduction in our revenues and a significant impairment loss. We may also experience difficulty or a significant delay in re-leasing such property.

Failure by any major tenant with leases in multiple locations to make rental payments to us, because of a deterioration of its financial condition or otherwise, would have a material adverse effect on us.
We derive substantially all of our revenue from tenants who lease space from us at our properties. Therefore, our ability to generate cash from operations is dependent on the rents that we are able to charge and collect from our tenants. At any time, our tenants may experience a downturn in their business that may significantly weaken their financial condition, particularly during periods of economic uncertainty. As a result, our tenants may delay lease commencements, decline to extend or renew leases upon expiration, fail to make rental payments when due, close a number of stores or declare bankruptcy. Any of these actions could result in the termination of the tenant’s leases and the loss of rental income attributable to the terminated leases. In addition, lease terminations by a major tenant or a failure by that major tenant to occupy the premises could result in lease terminations or reductions in rent by other tenants in the same shopping centers under the terms of some leases. In that event, we may be unable to re-lease the vacated space at attractive rents or at all. The occurrence of any of the situations described above would have a material adverse effect on our results of operations and our financial condition. See “ We rely significantly on five major tenants, and therefore, are subject to tenant credit concentrations that make us more susceptible to adverse

events with respect to those tenants," below.

We rely significantly on five major tenants, and therefore, are subject to tenant credit concentrations that make us more susceptible to adverse events with respect to those tenants.

As of December 31, 2013, we derived approximately 47.8% of our annualized base rent from five major tenants:

- Approximately 27.4% of our annualized base rent was from Walgreen;
- Approximately 5.5% of our annualized base rent was from CVS; and
- Approximately 5.3% of our annualized base rent was from Kmart; and
- Approximately 5.0% of our annualized base rent was from Wawa; and
- Approximately 4.6% of our annualized base rent was from Walmart Stores, Inc.

In the event of a default by any of these tenants under their leases, we may experience delays in enforcing our rights as lessor and may incur substantial costs in seeking to protect our investment. Any bankruptcy, insolvency or failure to make rental payments by, or any adverse change in the financial condition of, one or more of these tenants, or any other tenant to whom we may have a significant credit concentration now or in the future, would likely result in a material reduction of our cash flows and material losses to our company.

Bankruptcy laws will limit our remedies if a tenant becomes bankrupt and rejects the lease.
If a tenant becomes bankrupt or insolvent, that could diminish the income we receive from that tenant's leases. We may not be able to evict a tenant solely because of its bankruptcy. On the other hand, a bankruptcy court might authorize the tenant to terminate its leasehold with us. If that happens, our claim against the bankrupt tenant for unpaid future rent would be an unsecured prepetition claim subject to statutory limitations, and therefore such amounts received in bankruptcy are likely to be substantially less than the remaining rent we otherwise were owed under the leases. In addition, any claim we have for unpaid past rent could be substantially less than the amount owed.

Certain of our tenants at our community shopping centers have the right to terminate their leases if other tenants cease to occupy a property.
In the event that certain tenants cease to occupy a property, although under most circumstances such a tenant would remain liable for its lease payments, such an action may result in certain other tenants at our community shopping centers having the right to terminate their leases at the affected property, which could adversely affect the future income from that property. As of December 31, 2013, each of our community shopping centers had tenants with those provisions in their leases.

Our portfolio has limited geographic diversification, which makes us more susceptible to adverse events in these areas.
Our properties are located throughout the United States and in particular, the State of Michigan (with 45 properties or 35.9% of our annualized base rent as of December 31, 2013). An economic downturn or other adverse events or conditions such as terrorist attacks or natural disasters in these areas, or any other area where we may have significant concentration now or in the future, could result in a material reduction of our cash flows or material losses to our company.

Risks associated with our development and acquisition activities.
We intend to continue the development of new properties and to consider possible acquisitions of existing properties. We anticipate that our new developments will be financed under the Credit Facility or other forms of construction financing that will result in a risk that permanent financing on newly developed projects might not be available or would be available only on disadvantageous terms. In addition, new project development is subject to a number of risks, including risks of construction delays or cost overruns that may increase anticipated project costs, and new project commencement risks such as receipt of zoning, occupancy and other required governmental permits and authorizations and the incurrence of development costs in connection with projects that are not pursued to completion. If permanent debt or equity financing is not available on acceptable terms to finance new development or acquisitions undertaken without permanent financing, further development activities or acquisitions might be curtailed or cash available for distribution might be adversely affected. Acquisitions entail risks that investments will fail to perform in accordance with expectations, as well as general investment risks associated with any new real estate investment.

Properties that we acquire or develop may be located in new markets where we may face risks associated with investing in an unfamiliar market.
We may acquire or develop properties in markets that are new to us. When we acquire or develop properties located in these markets, we may face risks associated with a lack of market knowledge or understanding of the local economy, forging new business relationships in the area and unfamiliarity with local government and permitting procedures.

We own certain of our properties subject to ground leases that expose us to the loss of such properties upon breach or termination of the ground leases and may limit our ability to sell these properties.

We own certain of our properties through leasehold interests in the land underlying the buildings and we may acquire additional buildings in the future that are subject to similar ground leases. As lessee under a ground lease, we are exposed to the possibility of losing the property upon termination, or an earlier breach by us, of the ground lease, which may have a material adverse effect on our business, financial condition and results of operations, our ability to make distributions to our stockholders and the trading price of our common stock. Our ground leases contain certain provisions that may limit our ability to sell certain of our properties. In order to assign or transfer our rights and obligations under certain of our ground leases, we generally must obtain the consent of the landlord which, in turn, could adversely impact the price realized from any such sale.

Joint venture investments will expose us to certain risks.

We may from time to time enter into joint venture transactions for portions of our existing or future real estate assets. Investing in this manner subjects us to certain risks, among them the following:

- We may not exercise sole decision-making authority regarding the joint venture's business and assets and, thus, we may not be able to take actions that we believe are in our company's best interests.
- We may be required to accept liability for obligations of the joint venture (such as recourse carve-outs on mortgage loans) beyond our economic interest.
- Our returns on joint venture assets may be adversely affected if the assets are not held for the long-term.

The availability and timing of cash distributions is uncertain.

We expect to continue to pay quarterly distributions to our stockholders. However, we bear all expenses incurred by our operations, and our funds generated by operations, after deducting these expenses, may not be sufficient to cover desired levels of distributions to our stockholders. In addition, our board of directors, in its discretion, may retain any portion of such cash for working capital. We cannot assure our stockholders that sufficient funds will be available to pay distributions.

We depend on our key personnel.

Our success depends to a significant degree upon the continued contributions of certain key personnel including, but not limited to, our executive officers, each of whom would be difficult to replace. If any of our key personnel were to cease employment with us, our operating results could suffer. Our ability to retain our executive officers or to attract suitable replacements should any members of the management group leave is dependent on the competitive nature of the employment market. The loss of services from key members of the management group or a limitation in their availability could adversely impact our future development or acquisition operations, our financial condition and cash flows. Further, such a loss could be negatively perceived in the capital markets. We have not obtained and do not expect to obtain key man life insurance on any of our key personnel.

We face significant competition.

We face competition in seeking properties for acquisition and tenants who will lease space in these properties from insurance companies, credit companies, pension or private equity funds, private individuals, investment companies, other REITs and other industry participants, many of which have greater financial and other resources than we do. There can be no assurance that we will be able to successfully compete with such entities in our development, acquisition and leasing activities in the future.

General Real Estate Risk

Our performance and value are subject to general economic conditions and risks associated with our real estate assets.

There are risks associated with owning and leasing real estate. Although many of our leases contain terms that obligate the tenants to bear substantially all of the costs of operating our properties, investing in real estate involves a number of risks. Income from and the value of our properties may be adversely affected by:

- Changes in general or local economic conditions;
- The attractiveness of our properties to potential tenants;
- Changes in supply of or demand for similar or competing properties in an area;
- Bankruptcies, financial difficulties or lease defaults by our tenants;
- Changes in operating costs and expense and our ability to control rents;
- Our ability to lease properties at favorable rental rates;
- Our ability to sell a property when we desire to do so at a favorable price;
-

- Unanticipated changes in costs associated with known adverse environmental conditions or retained liabilities for such conditions;
- Changes in or increased costs of compliance with governmental rules, regulations and fiscal policies, including changes in tax, real estate, environmental and zoning laws, and our potential liability thereunder; and
- Unanticipated expenditures to comply with the Americans with Disabilities Act and other similar regulations.

Economic and financial market conditions have and may continue to exacerbate many of the foregoing risks. If a tenant fails to perform on its lease covenants, that would not excuse us from meeting any mortgage debt obligation secured by the property and could require us to fund reserves in favor of our mortgage lenders, thereby reducing funds available for payment of cash dividends on our shares of common stock.

The fact that real estate investments are relatively illiquid may reduce economic returns to investors.
We may desire to sell a property in the future because of changes in market conditions or poor tenant performance or to avail ourselves of other opportunities. We may also be required to sell a property in the future to meet secured debt obligations or to avoid a secured debt loan default. Real estate properties cannot always be sold quickly, and we cannot assure you that we could always obtain a favorable price. We may be required to invest in the restoration or modification of a property before we can sell it. This lack of liquidity may limit our ability to vary our portfolio promptly in response to changes in economic or other conditions and, as a result, could adversely affect our financial condition, results of operations, cash flows and our ability to pay distributions on our common stock.

Our ability to renew leases or re-lease space on favorable terms as leases expire significantly affects our business.
We are subject to the risks that, upon expiration of leases for space located in our properties, the premises may not be re-let or the terms of re-letting (including the cost of concessions to tenants) may be less favorable than current lease terms. If a tenant does not renew its lease or if a tenant defaults on its lease obligations, there is no assurance we could obtain a substitute tenant on acceptable terms. If we cannot obtain another tenant with comparable structural needs, we may be required to modify the property for a different use, which may involve a significant capital expenditure and a delay in re-leasing the property. Further, if we are unable to re-let promptly all or a substantial portion of our retail space or if the rental rates upon such re-letting were significantly lower than expected rates, our net income and ability to make expected distributions to stockholders would be adversely affected. There can be no assurance that we will be able to retain tenants in any of our properties upon the expiration of their leases.

A property that incurs a vacancy could be difficult to sell or re-lease.
A property may incur a vacancy either by the continued default of a tenant under its lease or the expiration of one of our leases. Certain of our properties may be specifically suited to the particular needs of a tenant. We may have difficulty obtaining a new tenant for any vacant space we have in our properties. If the vacancy continues for a long period of time, we may suffer reduced revenues resulting in less cash available to be distributed to stockholders. In addition, the resale value of a property could be diminished because the market value of a particular property will depend principally upon the value of the leases of such property.

Potential liability for environmental contamination could result in substantial costs.
Under federal, state and local environmental laws, we may be required to investigate and clean up any release of hazardous or toxic substances or petroleum products at our properties, regardless of our knowledge or actual responsibility, simply because of our current or past ownership or operation of the real estate. If unidentified environmental problems arise, we may have to make substantial payments, which could adversely affect our cash flow and our ability to make distributions to our stockholders. This potential liability results from the following:

- As owner we may have to pay for property damage and for investigation and clean-up costs incurred in connection with the contamination.
- The law may impose clean-up responsibility and liability regardless of whether the owner or operator knew of or caused the contamination.
- Even if more than one person is responsible for the contamination, each person who shares legal liability under environmental laws may be held responsible for all of the clean-up costs.
- Governmental entities and third parties may sue the owner or operator of a contaminated site for damages and costs.

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These costs could be substantial and in extreme cases could exceed the value of the contaminated property. The presence of hazardous substances or petroleum products or the failure to properly remediate contamination may adversely affect our ability to borrow against, sell or lease an affected property. In addition, some environmental laws create liens on contaminated sites in favor of the government for damages and costs it incurs in connection with a contamination.

We own and may in the future acquire properties that will be operated as convenience stores and gas station facilities. The operation of convenience stores and gas station facilities at our properties will create additional environmental concerns. We require that the tenants who operate these facilities do so in material compliance with current laws and regulations.

A majority of our leases require our tenants to comply with environmental laws and to indemnify us against environmental liability arising from the operation of the properties. However, we could be subject to strict liability under environmental laws because we own the properties. There is also a risk that tenants may not satisfy their environmental compliance and indemnification obligations under the leases. Any of these events could substantially increase our cost of operations, require us to fund environmental indemnities in favor of our secured lenders and reduce our ability to service our secured debt and pay dividends to stockholders and any debt security interest payments. Environmental problems at any properties could also put us in default under loans secured by those properties, as well as loans secured by unaffected properties.

Uninsured losses relating to real property may adversely affect our returns.
Our leases generally require tenants to carry comprehensive liability and extended coverage insurance on our properties. However, there are certain losses, including losses from environmental liabilities, terrorist acts or catastrophic acts of nature, that are not generally insured against or that are not generally fully insured against because it is not deemed economically feasible or prudent to do so. If there is an uninsured loss or a loss in excess of insurance limits, we could lose both the revenues generated by the affected property and the capital we have invested in the property. In the event of a substantial unreimbursed loss, we would remain obligated to repay any mortgage indebtedness or other obligations related to the property.

Risks Related to Our Debt Financings

Leveraging our portfolio subjects us to increased risk of loss, including loss of properties in the event of a foreclosure.
At December 31, 2013, our ratio of indebtedness to total market capitalization (assuming conversion of OP units) was approximately 26.4%. The use of leverage presents an additional element of risk in the event that (1) the cash flow from lease payments on our properties is insufficient to meet debt obligations, (2) we are unable to refinance our debt obligations as necessary or on as favorable terms or (3) there is an increase in interest rates. If a property is mortgaged to secure payment of indebtedness and we are unable to meet mortgage payments, the property could be foreclosed upon with a consequent loss of income and asset value to us. Under the "cross-default" provisions contained in mortgages encumbering some of our properties, our default under a mortgage with a lender would result in our default under mortgages held by the same lender on other properties resulting in multiple foreclosures.

We intend to maintain a ratio of total indebtedness (including construction or acquisition financing) to total market capitalization of 65% or less. Nevertheless, we may operate with debt levels which are in excess of 65% of total market capitalization for extended periods of time. Our organization documents contain no limitation on the amount or percentage of indebtedness which we may incur. Therefore, our board of directors, without a vote of the stockholders, could alter the general policy on borrowings at any time. If our debt capitalization policy were changed, we could become more highly leveraged, resulting in an increase in debt service that could adversely affect our operating cash flow and our ability to make expected distributions to stockholders, and could result in an increased risk of default on our obligations.

Covenants in our credit agreements could limit our flexibility and adversely affect our financial condition.

The terms of the Credit Facility and other indebtedness require us to comply with a number of customary financial and other covenants**.** These covenants may limit our flexibility in our operations, and breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness even if we have satisfied our payment obligations. The Credit Facility contains certain cross-default provisions which could be triggered in the event that we default on our other indebtedness. These cross-default provisions may require us to repay or restructure the Credit Facility in addition to any mortgage or other debt that is in default. If our properties were foreclosed upon, or if we are unable to refinance our indebtedness at maturity or meet our payment obligations, the amount of our distributable cash flows and our financial condition would be adversely affected.

Credit market developments may reduce availability under our credit agreements.
There is risk that lenders, even those with strong balance sheets and sound lending practices, could fail or refuse to honor their legal commitments and obligations under existing credit commitments, including but not limited to: extending credit up to the maximum permitted by a credit facility, allowing access to additional credit features and/or honoring loan commitments. If our lender(s) fail to honor their legal commitments under our credit facilities, it could be difficult to replace our credit facilities on similar terms. The failure of any of the lenders under the Credit Facility may impact our ability to finance our operating or investing activities.

Our hedging strategies may not be successful in mitigating our risks associated with interest rates and could reduce the overall returns on your investment.
We use various derivative financial instruments to provide a level of protection against interest rate risks, but no hedging strategy can protect us completely. These instruments involve risks, such as the risk that the counterparties may fail to honor their obligations under these arrangements, that these arrangements may not be effective in reducing our exposure to interest rate changes and that a court could rule that such agreements are not legally enforceable. These instruments may also generate income that may not be treated as qualifying REIT income for purposes of the REIT income tests. In addition, the nature and timing of hedging transactions may influence the effectiveness of our hedging strategies. Poorly designed strategies or improperly executed transactions could actually increase our risk and losses. Moreover, hedging strategies involve transaction and other costs. We cannot assure you that our hedging strategy and the derivatives that we use will adequately offset the risk of interest rate volatility or that our hedging transactions will not result in losses that may reduce the overall return on your investment.

Risks Related to Our Corporate Structure

Our charter and Maryland law contain provisions that may delay, defer or prevent a change of control transaction.
Our charter contains a 9.8% ownership limit. Our charter, subject to certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT and to limit any person to actual or constructive ownership of no more than 9.8% of the value of our outstanding shares of common stock and preferred stock, except that the any member of the Agree-Rosenberg Group (as defined in our charter) (the “Agree-Rosenberg Group”) may own up to 24%. Our board of directors, in its sole discretion, may exempt, subject to the satisfaction of certain conditions, any person from the ownership limit. However, our board of directors may not grant an exemption from the ownership limit to any person whose ownership, direct or indirect, in excess of 9.8% of the value of our outstanding shares of common stock and preferred stock could jeopardize our status as a REIT. These restrictions on transferability and ownership will not apply if our board of directors determines that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT. The ownership limit may delay or impede, and we may use the ownership limit deliberately to delay or impede, a transaction or a change of control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

We have a staggered board. Our directors are divided into three classes serving three-year staggered terms. The staggering of our board of directors may discourage offers for our company or make an acquisition more difficult, even when an acquisition is in the best interest of our stockholders.

We have a shareholder rights plan. Under the terms of this plan, we can in effect prevent a person or group from acquiring more than 15% of the outstanding shares of our common stock because, unless we approve of the acquisition, after the person acquires more than 15% of our outstanding common stock, all other stockholders will have the right to purchase securities from us at a price that is less than their then fair market value. This would substantially reduce the value and influence of the stock owned by the acquiring person. Our board of directors can prevent the plan from operating by approving the transaction in advance, which gives us significant power to approve or disapprove of the efforts of a person or group to acquire a large interest in our company.

We could issue stock without stockholder approval. Our board of directors could, without stockholder approval, issue authorized but unissued shares of our common stock or preferred stock. In addition, our board of directors could, without stockholder approval, classify or reclassify any unissued shares of our common stock or preferred stock and set the preferences, rights and other terms of such classified or reclassified shares. Our board of directors could establish a series of stock that could, depending on the terms of such series, delay, defer or prevent a transaction or change of control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

Provisions of Maryland law may limit the ability of a third party to acquire control of our company. Certain provisions of Maryland law may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control under certain circumstances that otherwise could provide the holders of shares of our common stock with the opportunity to realize a premium over the then prevailing market price of such shares, including:

- "Business combination" provisions that, subject to limitations, prohibit certain business combinations between us and an "interested stockholder" (defined generally as any person who beneficially owns 10% or more of the voting power of our shares or an affiliate thereof) for five years after the most recent date on which the stockholder becomes an interested stockholder and thereafter would require the recommendation of our board of directors and impose special appraisal rights and special stockholder voting requirements on these combinations; and

- "Control share" provisions that provide that "control shares" of our company (defined as shares which, when aggregated with other shares controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a "control share acquisition" (defined as the direct or indirect acquisition of ownership or control of "control shares") have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

The business combination statute permits various exemptions from its provisions, including business combinations that are approved or exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Our board of directors has exempted from the business combination provisions of the Maryland General Corporation Law, or MGCL, any business combination with Mr. Richard Agree or any other person acting in concert or as a group with Mr. Richard Agree.

In addition, our bylaws contain a provision exempting from the control share acquisition statute any members of the Agree-Rosenberg Group, our other officers, our employees, any of the associates or affiliates of the foregoing and any other person acting in concert of as a group with any of the foregoing.

Additionally, Title 3, Subtitle 8 of the MGCL, permits our board of directors, without stockholder approval and regardless of what is currently provided in our charter or our bylaws, to implement takeover defenses. These provisions may have the effect of inhibiting a third party from making an acquisition proposal for our company or of delaying, deferring or preventing a change in control of our company under circumstances that otherwise could provide the holders of our common stock with the opportunity to realize a premium over the then-current market price.

Our charter, our bylaws, the limited partnership agreement of our operating partnership and Maryland law also contain other provisions that may delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

Our board of directors can take many actions without stockholder approval.
Our board of directors has overall authority to oversee our operations and determine our major corporate policies. This authority includes significant flexibility. For example, our board of directors can do the following:

- Change our investment and financing policies and our policies with respect to certain other activities, including our growth, debt capitalization, distributions, REIT status and investment and operating policies;
- Within the limits provided in our charter, prevent the ownership, transfer and/or accumulation of shares in order to protect our status as a REIT or for any other reason deemed to be in the best interests of us and our stockholders;
- Issue additional shares without obtaining stockholder approval, which could dilute the ownership of our then-current stockholders;

- Classify or reclassify any unissued shares of our common stock or preferred stock and set the preferences, rights and other terms of such classified or reclassified shares, without obtaining stockholder approval;

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- Employ and compensate affiliates;
- Direct our resources toward investments that do not ultimately appreciate over time;
- Change creditworthiness standards with respect to third-party tenants; and
- Determine that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT.

Any of these actions could increase our operating expenses, impact our ability to make distributions or reduce the value of our assets without giving our stockholders the right to vote.

Future offerings of debt and equity may not be available to us or may adversely affect the market price of our common stock.

We expect to continue to increase our capital resources by making additional offerings of equity and debt securities in the future, which would include classes of preferred stock, common stock and senior or subordinated notes. Our ability to raise additional capital may be adversely impacted by market conditions, and we do not know if market conditions will continue to stabilize or improve. Future market dislocations could cause us to seek sources of potentially less attractive capital. All debt securities and other borrowings, as well as all classes of preferred stock, will be senior to our common stock in a liquidation of our company. Additional equity offerings could dilute our stockholders' equity, and reduce the market price of shares of our common stock. In addition, we may issue preferred stock with a distribution preference that may limit our ability to make distributions on our common stock. Our ability to estimate the amount, timing or nature of additional offerings is limited as these factors will depend upon market conditions and other factors.

The market price of our stock may vary substantially.

The market price of our common stock could be volatile, and investors in our common stock may experience a decrease in the value of their shares, including decreases unrelated to our operating performance or prospects. Among the market conditions that may affect the market price of our common stock are the following:

- Our financial condition and operating performance and the performance of other similar companies;
- Actual or anticipated variations in our quarterly results of operations;
- The extent of investor interest in our company, real estate generally or commercial real estate specifically;
- The reputation of REITs generally and the attractiveness of their equity securities in comparison to other equity securities, including securities issued by other real estate companies, and fixed income securities;
- Changes in expectations of future financial performance or changes in estimates of securities analysts;
- Fluctuations in stock market prices and volumes; and
- Announcements by us or our competitors of acquisitions, investments or strategic alliances.

An officer and director may have interests that conflict with the interests of stockholders.

An officer and member of our board of directors owns OP units in the Operating Partnership. This individual may have personal interests that conflict with the interests of our stockholders with respect to business decisions affecting us and the Operating Partnership, such as interests in the timing and pricing of property sales or refinancings in order to obtain favorable tax treatment. As a result, the effect of certain transactions on this unit holders may influence our decisions affecting these properties.

Federal Income Tax Risks

Complying with REIT requirements may cause us to forego otherwise attractive opportunities.

To qualify as a REIT for federal income tax purposes we must continually satisfy numerous income, asset and other tests, thus having to forego investments we might otherwise make and hindering our investment performance.

Failure to qualify as a REIT could adversely affect our operations and our ability to make distributions.

We will be subject to increased taxation if we fail to qualify as a REIT for federal income tax purposes. Although we believe that we are organized and operate in such a manner so as to qualify as a REIT under the Internal Revenue Code, no assurance can be given that we will remain so qualified. Qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which there are only limited judicial or administrative interpretations. The complexity of these provisions and applicable Treasury Regulations is also increased in the context of a REIT that holds its assets in partnership form. The determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify as a REIT. A REIT generally is not taxed at the corporate level on income it distributes to its stockholders, as long as it distributes annually at least 100% of its taxable income to its stockholders. We have not requested and do not plan to request a ruling from the Internal Revenue Service that we qualify as a REIT.

If we fail to qualify as a REIT, we will face tax consequences that will substantially reduce the funds available for payment of cash dividends:

- We would not be allowed a deduction for dividends paid to stockholders in computing our taxable income and would be subject to federal income tax at regular corporate rates.
- We could be subject to the federal alternative minimum tax and possibly increased state and local taxes.
- Unless we are entitled to relief under statutory provisions, we could not elect to be treated as a REIT for four taxable years following the year in which we failed to qualify.

In addition, if we fail to qualify as a REIT, we will no longer be required to pay dividends (other than any mandatory dividends on any preferred shares we may offer). As a result of these factors, our failure to qualify as a REIT could adversely affect the market price for our common stock.

Changes in tax laws may prevent us from maintaining our qualification as a REIT.
As we have previously described, we intend to maintain our qualification as a REIT for federal income tax purposes. However, this intended qualification is based on the tax laws that are currently in effect. We are unable to predict any future changes in the tax laws that would adversely affect our status as a REIT. If there is a change in the tax laws that prevent us from qualifying as a REIT or that requires REITs generally to pay corporate level income taxes, we may not be able to make the same level of distributions to our stockholders.

An investment in our stock has various tax risks that could affect the value of your investment, including the treatment of distributions in excess of earnings and the inability to apply "passive losses" against distributions.
An investment in our stock has various tax risks. Distributions in excess of current and accumulated earnings and profits, to the extent that they exceed the adjusted basis of an investor's stock, will be treated as long-term capital gain (or short-term capital gain if the shares have been held for less than one year). Any gain or loss realized upon a taxable disposition of shares by a stockholder who is not a dealer in securities will be treated as a long-term capital gain or loss if the shares have been held for more than one year, and otherwise will be treated as short-term capital gain or loss. Distributions that we properly designate as capital gain distributions will be treated as taxable to stockholders as gains (to the extent that they do not exceed our actual net capital gain for the taxable year) from the sale or disposition of a capital asset held for greater than one year. Distributions we make and gain arising from the sale or exchange by a stockholder of shares of our stock will not be treated as passive income, meaning stockholders generally will not be able to apply any "passive losses" against such income or gain.

Excessive non-real estate asset values may jeopardize our REIT status.
In order to qualify as a REIT, at least 75% of the value of our assets must consist of investments in real estate, investments in other REITs, cash and cash equivalents, and government securities. Therefore, the value of any properties we own that are not considered real estate assets for federal income tax purposes must represent in the aggregate less than 25% of our total assets. In addition, under federal income tax law, we may not own securities in any one issuer (other than a REIT, a qualified REIT subsidiary or a TRS) which represent in excess of 10% of the voting securities or 10% of the value of all securities of any one issuer, or which have, in the aggregate, a value in excess of 5% of our total assets, and we may not own securities of one or more TRSs which have, in the aggregate, a value in excess of 25% of our total assets. We may invest in securities of another REIT, and our investment may represent in excess of 10% of the voting securities or 10% of the value of the securities of the other REIT. If the other REIT were to lose its REIT status during a taxable year in which our investment represented in excess of 10% of the voting securities or 10% of the value of the securities of the other REIT as of the close of a calendar quarter, we may lose our REIT status.

Compliance with the asset tests is determined at the end of each calendar quarter. Subject to certain mitigation provisions, if we fail to meet any such test at the end of any calendar quarter, we will cease to qualify as a REIT.

We may have to borrow funds or sell assets to meet our distribution requirements.

Subject to some adjustments that are unique to REITs, a REIT generally must distribute 90% of its taxable income. For the purpose of determining taxable income, we may be required to accrue interest, rent and other items treated as earned for tax purposes but that we have not yet received. In addition, we may be required not to accrue as expenses for tax purposes some items which actually have been paid, including, for example, payments of principal on our debt, or some of our deductions might be disallowed by the Internal Revenue Service. As a result, we could have taxable income in excess of cash available for distribution. If this occurs, we may have to borrow funds or liquidate some of our assets in order to meet the distribution requirement applicable to a REIT.

Future distributions may include a significant portion as a return of capital.

Our distributions may exceed the amount of our income as a REIT. If so, the excess distributions will be treated as a return of capital to the extent of the stockholder's basis in our stock, and the stockholder's basis in our stock will be reduced by such amount. To the extent distributions exceed a stockholder's basis in our stock; the stockholder will recognize capital gain, assuming the stock is held as a capital asset.

Our ownership of and relationship with our TRSs will be limited, and a failure to comply with the limits would jeopardize our REIT status and may result in the application of a 100% excise tax.

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may earn income that would not be qualifying income if earned directly by the parent REIT. Overall, no more than 25% of the value of a REIT's assets may consist of stock or securities of one or more TRSs. A TRS will typically pay federal, state and local income tax at regular corporate rates on any income that it earns. In addition, the TRS rules impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis. Our TRSs will pay federal, state and local income tax on their taxable income, and their after-tax net income will be available for distribution to us but will not be required to be distributed to us. There can be no assurance that we will be able to comply with the 25% limitation discussed above or to avoid application of the 100% excise tax discussed above.

Liquidation of our assets may jeopardize our REIT qualification.

To qualify as a REIT, we must comply with requirements regarding our assets and our sources of income. If we are compelled to liquidate our investments to repay obligations to our lenders, we may be unable to comply with these requirements, ultimately jeopardizing our qualification as a REIT, or we may be subject to a 100% tax on any gain if we sell assets in transactions that are considered to be "prohibited transactions," which are explained in the risk factor below.

We may be subject to other tax liabilities even if we qualify as a REIT.

Even if we qualify as a REIT for federal income tax purposes, we will be required to pay certain federal, state and local taxes on our income and property. For example, we will be subject to income tax to the extent we distribute less than 100% of our REIT taxable income (including capital gains). Additionally, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which dividends paid by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years. Moreover, if we have net income from "prohibited transactions," that income will be subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property held primarily for sale to customers in the ordinary course of business. The determination as to whether a particular sale is a prohibited transaction depends on the facts and circumstances related to that sale. While we will undertake sales of assets if those assets become inconsistent with our long-term strategic or return objectives, we do not believe that those sales should be considered prohibited transactions, but there can be no assurance that the Internal Revenue Service would not contend otherwise. The need to avoid prohibited transactions could cause us to forego or defer sales of properties that might otherwise be in our best interest to sell.

In addition, any net taxable income earned directly by our TRSs, or through entities that are disregarded for federal income tax purposes as entities separate from our TRSs, will be subject to federal and possibly state corporate income tax. To the extent that we and our affiliates are required to pay federal, state and local taxes, we will have less cash available for distributions to our stockholders.

Dividends payable by REITs do not qualify for the reduced tax rates on dividend income from regular corporations.

The maximum tax rate for dividends payable to domestic stockholders that are individuals, trusts and estates is 20%. Dividends payable by REITs, however, are generally not eligible for the reduced rates. The more favorable rates applicable to regular corporate dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our stock.

Our ownership limit contained in our charter may be ineffective to preserve our REIT status.
In order for us to qualify as a REIT for each taxable year, no more than 50% in value of our outstanding capital stock may be owned, directly or indirectly, by five or fewer individuals during the last half of any calendar year (the "5/50 Rule"). Individuals for this purpose include natural persons, private foundations, some employee benefit plans and trusts, and some charitable trusts. In order to preserve our REIT qualification, our charter generally prohibits (i) any member of the Agree-Rosenberg Group from directly or indirectly owning more than 24% of the value of our outstanding stock and (ii) any other person from directly or indirectly owning more than 9.8% of the value of our outstanding common stock and preferred stock, subject to certain exceptions. Because of the way our ownership limit is written, including because the limit on persons other than a member of the Agree-Rosenberg Group is not less than 9.8%, our charter limitation may be ineffective to ensure that we do not violate the 5/50 Rule.

Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities.
The REIT provisions of the Internal Revenue Code substantially limit our ability to hedge our liabilities. Any income from a hedging transaction we enter into to manage risk of interest rate changes, price changes or currency fluctuations with respect to borrowings made or to be made to acquire or carry real estate assets does not constitute qualifying income for purposes of income tests that apply to us as a REIT. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of the income tests. As a result of these rules, we may need to limit our use of advantageous hedging techniques or implement those hedges through a TRS. This could increase the cost of our hedging activities because our TRS would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in our TRSs will generally not provide any tax benefit, except for being carried forward against future taxable income in the TRSs.

Item 1B: <u>Unresolved Staff Comments</u>

There are no unresolved staff comments.

Item 2: <u>Properties</u>

Our properties consist of 122 net leased retail properties and eight community shopping centers that, as of December 31, 2013, were 98% leased, with a weighted average lease term of 11.7 years. One community shopping center was classified as held for sale as of December 31, 2013, and subsequently sold in January 2014, and is not included in our property information. Approximately 90% of our annualized base rent was attributable to national retailers. Among these national retailers are Walgreen, CVS, Kmart, and Walmart, which, at December 31, 2013, collectively represented approximately 42.8% of our annualized base rent. A majority of our properties were built for or are leased to national tenants who require a high quality location with strong retail characteristics. We developed 52 of our 122 net leased retail properties and all eight of our community shopping centers. See Note 5 to the Consolidated Financial Statements included herein for information regarding mortgage debt and other debt related to our properties.

A substantial portion of our income consists of base rent received under net leases. These leases require the payment of fixed base rentals monthly in advance and for the payment by tenants of a pro rata share of the real estate taxes, insurance, utilities and common area maintenance of the property or shopping center, as well as payment to us of a percentage of the tenant's sales. In addition, some of our leases require us to make capital repairs, as needed.

Development and Acquisition Summary

During 2013 and 2012, we completed the following developments and redevelopments:

Tenant(s)	Sector	Location	Cost (1)			Cost Per Square Foot	
2013							
Walgreen	Pharmacy	Rancho Cordova, California	$	7.1	million	$	490
Wawa	Gas & Convenience Store	Kissimmee, Florida	$	2.4	million	$	430
Wawa	Gas & Convenience Store	Pinellas Park, Florida	$	3.5	million	$	621
Wawa	Gas & Convenience Store	Casselberry, Florida	$	2.6	million	$	424
Walgreen	Pharmacy	Ann Arbor, Michigan	$	7.6	million	$	428
Hobby Lobby (2)	Specialty Retail	Grand Forks, North Dakota	$	3.8	million	$	102
HomeGoods	Specialty Retail	Monroeville, Pennsylvania	$	1.4	million	$	49

Tenant(s)	Sector	Location	Cost (1)			Cost Per Square Foot	
2012							
McDonald's	Quick Service Restaurant	Southfield, Michigan	$	1.2	million		(3)
Miner's Super One Foods	Grocery	Ironwood, Michigan	$	1.2	million	$	188
Chase	Financial Institutions	Venice, Florida	$	1.3	million		(3)

(1) All costs related to planning, development and construction of buildings prior to the date they become operational, including interest and real estate taxes during the construction period, are capitalized for financial reporting purposes. Leasing costs associated with the lease up of development properties are not included in development costs. See Note 2 to our Consolidated Financial Statements.

(2) Costs of approximately $1,800,000 had not yet been incurred related to this project as of December 31, 2013, but are included in the cost per square foot.

(3) Represents land cost. Tenant built the improvements under the terms of the ground lease.

During 2013 and 2012, we completed the following acquisitions:

Tenant(s)	Sector	Location	Cost		
2013					
Dick's Sporting Goods	Sporting Goods	St Joseph, Missouri	$	6.7	million
PetSmart	Specialty Retail	St Joseph, Missouri		1.9	million
Dollar General Market	Grocery	Statham, Georgia		4.1	million
AutoZone	Auto Parts	North Las Vegas, Nevada		1.0	million
Family Dollar	Dollar Stores	Memphis, Tennessee		1.4	million
Starbucks	Quick Service Restaurant	Manchester, Connecticut		1.4	million
PetSmart	Specialty Retail	Rapid City, North Dakota		4.0	million
AutoZone	Auto Parts	Chicago, Illinois		1.0	million
Sam's Club	Big Box/Discount	Brooklyn, Ohio		21.5	million
Tractor Supply	Specialty Retail	Madisonville, Texas		1.2	million
Mattress Firm	Specialty Retail	Baton Rouge, Louisiana		1.6	million
Tractor Supply (1)	Specialty Retail	Forest, Mississippi		1.1	million
AutoZone	Auto Parts	Sun Valley, Nevada		2.0	million
LA Fitness	Health and Fitness	Rochester, New York		10.3	million
BJ's Wholesale	Big Box/Discount	Allentown, Pennsylvania		10.5	million
Waffle House	Casual Dining	Allentown, Pennsylvania		0.4	million
Just Tires	Auto Service	Berwyn, Illinois		1.2	million
Mattress Firm	Specialty Retail	Joplin, Missouri		2.5	million
2012					
National Tire & Battery	Auto Service	Madison, Alabama	$	2.3	million
Chase	Financial Institutions	Macomb, Michigan		2.3	million
Advance Auto Parts	Auto Parts	Walker, Michigan		1.4	million
Lowe's Home Improvement	Home Improvement	Portland, Oregon		14.1	million
Jared, The Galleria of Jewelry (1)	Specialty Retail	Baton Rouge, Louisiana		1.8	million
Dollar General Market	Grocery	Cochran, Georgia		3.1	million
Walgreen	Pharmacy	Ann Arbor, Michigan		2.9	million
Wawa Portfolio	Gas & Convenience Store	Newark, Delaware		14.2	million
		Clifton Heights, Pennsylvania			
		Vineland, New Jersey			
Goodyear	Auto Service	Fort Mill, South Carolina		2.4	million
Family Dollar	Dollar Stores	Spartanburg, South Carolina		1.2	million
AutoZone	Auto Parts	Springfield, Illinois		0.9	million

USAA/US Cellular	Financial Institutions	Jacksonville, North Carolina	3.1	million
Mattress Firm	Specialty Retail	Morrow, Georgia	1.9	million
Harris Teeter	Grocery	Charlotte, North Carolina	2.9	million
Dollar General Market	Grocery	Lyons, Georgia	2.2	million
Big Lots	Big Box/Discount	Fuquay-Varina, North Carolina	3.1	million
AutoZone	Auto Parts	Minneapolis, Minnesota	1.8	million
LA Fitness	Health & Fitness	Lake Zurich, Illinois	9.8	million
Advance Auto Parts	Auto Parts	Lebanon, Virginia	1.0	million
Applebee's Portfolio (4 properties)	Casual Dining	Harlingen, Texas	9.1	million
		Wichita Falls, Texas Pensacola, Florida (two properties)		

(1) Property subject to a long-term ground lease where a third party owns the underlying land and has leased the property to us.

The weighted average capitalization rate for the 2013 acquisitions was 8.0%. The weighted average capitalization rate for these net leased properties was calculated by dividing the annual property net operating income by the purchase price. Property net operating income is defined as the straight-line rent for the base term of the lease from each property less any property level expense (if any) that is not recoverable from the tenant.

The weighted average capitalization rate for the 2012 acquisitions was 8.6%. The weighted average capitalization rate for these net leased properties was calculated by dividing the annual property net operating income by the purchase price. Property net operating income is defined as the straight-line rent for the base term of the lease less any property level expense (if any) that is not recoverable from the tenant.

During 2013 and 2012, we completed the following dispositions:

Tenant(s)	Sector	Location	Sales Price		
2013					
Walgreen	Pharmacy	Ypsilanti, Michigan	$	5.5	million
2012					
Former Borders	Office	Ann Arbor, Michigan	$	0.6	million
Former Borders	Book Store	Omaha, Nebraska		2.7	million
Former Borders	Book Store	Columbus, Ohio		1.7	million
Charlevoix Commons	Shopping Center	Charlevoix, Michigan		3.4	million
Plymouth Commons	Shopping Center	Plymouth, Wisconsin		3.7	million
Shawano Plaza	Shopping Center	Shawano, Wisconsin		3.8	million

Major Tenants

The following table sets forth certain information with respect to our major tenants:

Tenant	Number of Leases	Annualized Base Rent as of December 31, 2013		Percent of Total Annualized Base Rent as of December 31, 2013	
Walgreen	32	$	12,362,304	27.4	%
CVS Caremark	6		2,463,490	5.5	%
Kmart	8		2,386,344	5.3	%
Wawa, Inc.	7		2,250,182	5.0	%
Walmart Stores, Inc.	2		2,093,931	4.6	%
Total	55	$	21,556,251	47.8	%

Walgreen is a leader of the U.S. chain drugstore industry and trades on the New York Stock Exchange (“NYSE”) under the symbol “WAG”. Walgreen operated 8,582 locations in 50 states, the District of Columbia, Puerto Rico and Guam. For its fiscal year ended August 31, 2013, Walgreen had total assets of approximately $35.5 billion, annual net sales of $72.2 billion, annual net income of $2.5 billion, and stockholders’ equity of $19.5 billion.

CVS is a leading pharmacy provider in the United States and trades on the NYSE under the symbol “CVS”. As of December 31, 2013, CVS operated over 7,717 retail stores in 46 states, the District of Columbia and Puerto Rico. For its fiscal year ended December 31, 2013, CVS had net revenues of $126.8 billion, its annual net income was $4.6 billion and it had shareholders’ equity of $37.9 billion.

Kmart is a wholly-owned subsidiary of Sears, which trades on the Nasdaq stock market under the symbol “SHLD”. Kmart is a mass merchandising company that offers customers quality products through a portfolio of brands and labels. As of November 2, 2013, Kmart operated approximately 1,183 stores across 49 states, Guam, Puerto Rico and the U.S. Virgin Islands. As of November 2, 2013, Sears had total assets of $20.2 billion, total liabilities of $17.9 billion and stockholders’ equity of $2.3 billion. All of our Kmart properties are in the traditional Kmart format and these Kmart properties average 85,000 square feet per property.

Wawa, Inc. is a chain of over 630 convenience stores located in Pennsylvania, New Jersey, Delaware, Maryland, Virginia and Florida. Wawa, Inc. is privately held and all stores are company owned and operated.

Wal-Mart Stores, Inc. is a leader in retail operating more than 10,900 retail units through numerous names and banners and trades on the NYSE under the symbol “WMT”. For its fiscal year ended January 31, 2014, Walmart had net revenues of $473.1 billion, its annual net income was $16 billion and it had equity of $81.3 billion.

The financial information set forth above with respect to Walgreen, CVS, Kmart, Wawa and Walmart was derived from the annual reports on Form 10-K filed by Walgreen and CVS with the SEC with respect to their 2013 fiscal year, the quarterly report on Form 10-Q filed by Sears Holdings Corporation with the SEC with respect to the third quarter of 2013, and Form 8-K filed by Wal-Mart Stores, Inc. on February 20, 2014. Additional information regarding Walgreen, CVS, Kmart or Walmart may be found in their respective public filings. These filings can be accessed at www.sec.gov. We are unable to confirm, and make no representations with respect to, the accuracy of these reports and therefore you should not place undue reliance on such information as it pertains to our operations.

Location of Properties in the Portfolio

The following table presents information about our properties as of December 31, 2013.

State	Number of Properties	Total GLA (Sq. Feet)	Percent of GLA Leased on December 31, 2013	
Alabama	1	6,000	100	%
Arizona	1	6,228	100	%
California	2	30,341	100	%
Connecticut	2	11,687	100	%
Delaware	1	5,599	100	%
Florida	15	442,446	100	%
Georgia	6	93,580	100	%
Illinois	9	129,915	97	%
Indiana	2	15,844	100	%
Kansas	4	72,049	100	%
Kentucky	1	116,212	100	%
Louisiana	2	11,588	100	%
Maryland	1	4,800	100	%
Michigan	45	1,432,391	97	%
Minnesota	1	5,400	100	%
Mississippi	1	24,708	100	%
Missouri	3	63,342	100	%
Nebraska	1	6,500	100	%
Nevada	2	12,826	100	%
New Jersey	2	15,721	100	%
New York	3	72,626	100	%
North Carolina	5	230,630	100	%
North Dakota	1	55,000	100	%
Ohio	2	160,996	100	%
Oregon	1	133,850	100	%
Pennsylvania	5	154,014	100	%
South Carolina	2	15,880	100	%
South Dakota	1	20,535	100	%
Tenessee	1	8,320	100	%
Texas	4	38,406	100	%
Utah	1	88,926	100	%
Virginia	1	7,000	100	%
Wisconsin	1	168,311	92	%
Total	130	3,661,671	98	%

Lease Expirations
The following table shows lease expirations for our community shopping centers and net leased retail properties, assuming that none of the tenants exercise renewal options.

Expiration Year	Number of Leases Expiring	December 31, 2013 Gross Leasable Area Square Footage	Percent of Total		Annualized Base Rent Amount	Percent of Total		Average Per Square Foot
2014	12	269,017	7.6	%	$ 1,271,287	2.8	%	$ 4.73
2015	20	408,548	11.5	%	2,115,763	4.7	%	5.18
2016	15	105,941	3.0	%	1,019,523	2.3	%	9.62
2017	11	90,499	2.5	%	1,681,348	3.7	%	18.58
2018	15	310,792	8.7	%	2,197,837	4.9	%	7.07
2019	13	258,741	7.3	%	3,515,770	7.8	%	13.59
2020	7	140,371	3.9	%	1,326,108	2.9	%	9.45
2021	10	154,386	4.3	%	3,268,729	7.3	%	21.17
2022	9	203,409	5.7	%	1,839,417	4.1	%	9.04
2023	12	181,622	5.1	%	2,020,346	4.5	%	11.12
Thereafter	72	1,439,464	40.4	%	24,813,146	55.0	%	17.24
Total	196	3,562,790	100.0	%	$ 45,069,274	100.0	%	$ 12.65

We have made preliminary contact with the 12 tenants whose leases expire in 2014. Of those tenants, two tenants have extended their lease term, five tenants' leases will terminate, and five tenants have leases expiring in 2014. We expect those five tenants to extend their leases or enter into lease extensions at rates similar to the expiring leases.

During the year ended December 31, 2013, we leased or re-leased, including option exercises, 268,128 square feet of space, for a total annualized base rent of approximately $1.1 million. During that period, total tenant improvements for such leases were $1,488,000 and total leasing commissions were $18,000. Annualized base rent under such leases were $3.98 per square foot, or 11.1% higher than under leases expiring in 2013.

Annualized Base Rent of our Properties
The following table sets forth annualized base rent as of December 31, 2013 for each type of retail tenant:

Type of Tenant	Annualized Base Rent as of December 31, 2013	Percent of Total Annualized Base Rent as of December 31, 2013	
National (1)	$ 40,605,319	90	%
Regional (2)	3,241,848	7	%
Local	1,222,107	3	%
Total	$ 45,069,274	100	%

(1) Includes national tenants such as: Advance Auto, Applebee's, AT&T, AutoZone, Best Buy, BJ's Wholesale, CVS, Dick's Sporting Goods, Dollar General Market, Dollar Tree, Family Dollar, GNC Group, Goodyear, Jo Ann Fabrics, JP Morgan Chase, Kmart, Kohl's, LA Fitness, Lowe's, Mattress Firm, McDonalds, Payless Shoes, PetSmart, PNC Bank, Rite Aid, Staples, Starbucks, Sterling Jewelers, TGI Friday's, Tractor Supply, Walgreen, and

Walmart.

(2) Includes regional tenants such as: Beall's Department Stores, Dunham's Sports, Harris Teeter, Meijer, and Wawa.

The following table sets forth annualized base rent as of December 31, 2013 for our top ten tenants:

Tenant	Annualized Base Rent		Percent of Total Base Rent	
Walgreen	$	12,362,304	27.4	%
CVS		2,463,490	5.5	%
Kmart		2,386,344	5.3	%
Wawa		2,250,182	5.0	%
Wal-Mart		2,093,931	4.6	%
Rite Aid		1,962,135	4.4	%
Lowe's		1,846,476	4.1	%
LA Fitness		1,692,841	3.8	%
Kohl's		1,179,650	2.6	%
Dick's Sporting Goods		1,087,982	2.4	%
Total	$	29,325,335	65.1	%

Net Lease Properties

Our net lease properties provided $38,640,000, or approximately 86%, of our annualized base rent as of December 31, 2013. These properties contain, in the aggregate, 2,480,420 square feet of GLA or approximately 68% of our total GLA as of December 31, 2013. Of our 122 operating net lease properties, 52 were developed by us. Our net lease properties had a weighted average remaining lease term of 13.0 years as of December 31, 2013.

The following table sets forth more information about our net lease properties as of December 31, 2013.

Tenant	City	Year Completed/	Lease Expiration (1)