

# Agree Realty Corporation

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(ADC:NYSE)

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## Company Comment

### Rating Change

Old: Market Perform 3      New: **Outperform 2**

### Current and Target Price

Current Price (4/29/2010)	\$25.10
Target Price:	\$28.00
52-Week Range	\$25.56 - \$15.55
Suitability	High Risk

REITs: Retail/Net Lease

## ADC: Value in the Froth; Upgrading to Outperform

- ◆ We are upgrading shares of ADC to an **Outperform** rating from Market Perform. We are encouraged Borders was able to address its near-term liquidity concerns and given the additional clarity, are more comfortable with Agree's exposure in the short term. We are still concerned about the long-term prospects of Borders, but believe the story has a long time to unfold. We are also encouraged Agree management has started to reduce its exposure to Borders. Our newly established price target of \$28.00 is based on shares of ADC trading at a 5% premium to our conservative NAV estimate of \$26.58 versus the shopping center REITs that trade at an average 22.5% premium to consensus NAV. Additionally, a \$28 price would equate to an 11.4x 2011 AFFO multiple, which compares to the shopping center and net lease retail REITs that currently trade at 18.0x and 16.0x 2011 AFFO, respectively. While we do not expect shares of ADC to trade in-line with the retail shopping centers, we do expect the valuation gap to close over time as investors become more comfortable with the underlying value of the company's real estate, despite the large tenant exposure to Borders.
- ◆ Thursday morning, Agree Realty reported 1Q10 FFO per share of \$0.71, in-line with our estimate and the Street's consensus. Relative to our model, development fee income was greater than expected, offset by higher G&A. Property NOI was in-line. Occupancy was flat sequentially at 98.1%, though incorporating the recently announced Dick's Sporting Goods lease at the company's Boynton Beach, Florida property, Agree's occupancy would be 99% – among the highest occupancies of all publicly traded REITs.
- ◆ On March 31, 2010, Borders (Agree's second-largest tenant; 27% of total rents) announced that it had entered into an amended and restated revolving credit agreement. The new, \$700 million senior secured asset-based credit facility matures in March 2014 and replaces the company's existing revolving credit agreement, which would have matured in July 2011. This should help ease *short-term* concerns over the survivability of Borders.
- ◆ We are revising our 2010 and 2011 FFO per share estimates to \$2.52 and \$2.49, respectively, from \$2.83 and \$2.90 previously. The reduction in our estimates is due to dilution from the company's equity offering in April, and we have assumed that the company reinvests the \$9.8 million in proceeds from the Santa Barbara asset sale into other real estate investments. We have modeled \$14 million of development/redevelopment deliveries late in 2010 and \$6 million in 2011, as well as additional development fee income associated with the company's Oakland, California development project in 2Q10.

### Market Data

Shares Out. (mil.)	10.1
Market Cap. (mil.)	\$254
Avg. Daily Vol. (10 day)	76,640
Dividend/Yield	\$2.04/8.1%
Book Value (03/10)	\$16.91
LT Debt (mil.)/% Cap.	\$104/33%
NAV	\$26.58
Fixed Charge Coverage	5.7X

### Earnings & Valuation Metrics

	2009A	2010E	2011E
P/FFO per Share	8.9x	10.0x	10.1x

### Company Description

Agree Realty Corporation, headquartered in Farmington Hills, Michigan, is a self-managed, self-administered REIT specializing in the ownership, management, and development of community shopping centers and freestanding retail facilities. The company owns a portfolio of 72 properties in 16 states with 3.5 million square feet of gross leasable area as of March 31, 2010.

FFO /Share	Q1 Mar	Q2 Jun	Q3 Sep	Q4 Dec	Full Year	AFFO	Revenues (mil.)
2009A	\$0.67	\$0.70	\$0.72	\$0.71	\$2.81	\$2.78	\$37
Old 2010E	0.71	0.70	0.70	0.71	2.83	2.80	38
<b>New 2010E</b>	<b>0.71A</b>	<b>0.61</b>	<b>0.60</b>	<b>0.61</b>	<b>2.52</b>	<b>2.50</b>	<b>38</b>
Old 2011E	UR	UR	UR	UR	2.90	2.88	39
<b>New 2011E</b>	<b>UR</b>	<b>UR</b>	<b>UR</b>	<b>UR</b>	<b>2.49</b>	<b>2.46</b>	<b>39</b>

Rows may not add due to rounding. UR: Under Review.

Please read domestic and foreign disclosure/risk information beginning on page 8 and Analyst Certification on page 8.

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### Recent Developments

- *Borders* - On March 31, 2010, Borders announced that it had entered into an amended and restated revolving credit agreement. The new, \$700 million senior secured asset-based credit facility matures in March 2014 and replaces the company's existing revolving credit agreement, which would have matured in July 2011. Borders also closed on a \$90 million term loan credit facility, which matures in March 2014 with the exception of \$10 million of that facility, which Borders will amortize over four months beginning in September and concluding in December 2010. The new financing removes almost all concerns over Border's liquidity through 2014 and allowed the company to meet its obligation to Pershing Square Capital Management, L.P. for payment of a \$42.5 million senior secured term loan due April 1.

While the refinancing should help ease liquidity concerns for Borders, as the past two years have shown us, in this "new" retail environment the need for two big names in a specific retail segment has disappeared (Linens 'N Things, Circuit City, etc.) and we are especially concerned when it comes to the book retailing business given the increased popularity of e-books. While we believe the short-term risk of bankruptcy has diminished, we are skeptical that Borders' current business model will be sustainable over the long term.

- *Santa Barbara Sale* - On April 1, 2010, the company announced the sale of its 38,000 square foot Borders Books superstore located in Santa Barbara, California for \$9.8 million, representing a sales price of \$258/square foot. The property sold for 75% above the company's cost basis. We estimate the cap rate to be in the 7.2-7.3% range (projected Borders rents were reduced by \$717,000 from 4Q09 to 1Q10). The transaction was the first step in the company's plan to reduce exposure to Borders – and we believe future Borders sales are likely. We also expect the company to reinvest the proceeds from the Santa Barbara sale (as well as future Borders sales) in order to defer capital gains taxes (via a 1031 exchange). This should minimize the dilution from any asset sales.
- *Stock Sale/Balance Sheet* - On April 13, Agree announced the pricing of a public offering of 1.3 million common shares (upsized from 1.0 million) at \$22.00 per share. An additional 195,000 shares were sold to cover over-allotments, bringing total net proceeds to \$31.1 million. Agree expects to use the proceeds to pay down the outstanding balance on its credit facility, to fund development activity and for other general corporate purposes. Raymond James was the sole manager for the offering. At quarter-end (prior to the equity offering), Agree had \$104 million of total debt, implying a 33% debt to market cap ratio. Interest coverage remains strong, with 2010 coverage estimated at 5.9x. Agree has no significant debt maturities until November 2011 when its credit facility is scheduled to mature.
- *Boynton Festive Center* - On April 8, 2010, Agree announced the execution of a lease with Dick's Sporting Goods, Inc. to occupy its former Circuit City space in Boynton Beach, Florida. The company will expand the existing 33,000 square foot space by approximately 11,000 square feet to accommodate Dick's. With the execution of this lease, the occupancy level of Agree's portfolio increased to 99%. The company expects to begin collecting rent on the property in December 2010.
- *Two lease extensions with J.C. Penney* - Agree announced on March 29, 2010, that it had extended two leases with J.C. Penney Company for five years, totaling 74,000 square feet. The stores are located in Central Michigan Commons in Mt. Pleasant, Michigan and Shawano Plaza in Shawano, Wisconsin.

### Valuation – Updated NAV

Our revised NAV estimate uses our forward twelve-month NOI estimate (excluding Borders) broken down by a 7.75% cap rate on Walgreen, 10.25% on the community shopping centers (the majority of which are Kmart-anchored centers), 9.0% on the Rite-Aids, and 7.0% on the ground leases (which include a Sam's Club, a Rite-Aid, a Meijer, several bank pads, and a Fajita Factory restaurant). We had previously used a 16% cap rate on the Borders assets; however, we believe the liquidation value of the portfolio (see following page) is greater than the Borders portfolio at 16% cap rate (\$57.6 million) and therefore we are now using an estimated liquidation value as a floor to value the Borders assets.

In our liquidation analysis, we are discounting Agree's stores to 70% of book value, which we believe is a conservative estimate – the company's Santa Barbara asset was sold for a 75% *premium* to book. We are then valuing the Borders headquarters building in Ann

Arbor, Michigan at \$35/square foot, giving us a total value for the Borders portfolio of \$62.9 million or \$6.23/share (which implies a ~14.7% cap rate on our estimated Borders NOI of \$9.222 billion). Using these conservative assumptions, we arrive at an NAV estimate for Agree of \$26.58.

#### Agree's Borders Properties - Liquidation Value

Location	Year Completed/ Expanded	Total GLA	Lease Expiration (Option expiration)	Gross Carrying Cost
Aventura, FL	1,996	30,000	Jan 31, 2016 (2036)	3,173
Columbus, OH	1,996	21,000	Jan 23, 2016 (2036)	3,163
Monroeville, PA	1,996	28,604	Nov 8, 2016 (2036)	8,582
Norman, OK	1,996	24,641	Sep 20, 2016 (2036)	2,506
Omaha, NE	1,995	30,000	Nov 3, 2015 (2035)	3,761
Wichita, KS	1,995	25,000	Nov 10, 2015 (2035)	2,755
Lawrence, KS	1,997	20,000	Oct 16, 2022 (2042)	4,330
Tulsa, OK	1,998	25,000	Sep 30, 2018 (2038)	3,495
Oklahoma City, OK	2,002	24,641	Jan 31, 2018 (2038)	3,972
Omaha, NE	2,002	25,000	Jan 31, 2018 (2038)	3,768
Indianapolis, IN	2,002	15,844	Dec 31, 2017 (2038)	1,298
Columbia, MD	1,999	28,000	Jan 31, 2018 (2038)	3,926
Germantown, MD	2,000	25,000	Jan 31, 2018 (2038)	3,734
Tulsa, OK	1,996	25,000	Sep 30, 2018 (2038)	4,741
Boynton Beach, FL	1,996	20,745	July 20, 2024 (2044)	3,578
Ann Arbor, MI	1,996	110,000	Jan 31, 2025 (2045)	10,159
		<b>478,475</b>		<b>\$66,939</b>
<b>Discount to Book</b>			<b>30%</b>	<b>\$46,857</b>
				<i>@ \$35/ft.</i>
Ann Arbor, MI - HQ	1996/1998	458,729	Jan 29, 2023 (2043)	<b>\$16,056</b>
<b>Total</b>				<b>\$62,913</b>
<b>Total Value Per Share</b>				<b>\$6.23</b>

Source: RJ&A research and ADC 10-K

#### NAV Analysis

	NOI (est.)	Cap Rate	Value
Walgreens	\$10,246	7.75%	\$132,206
Shopping Centers <sup>1</sup>	8,465	10.25%	\$82,584
Rite-Aids	2,657	9.00%	\$29,528
Ground Leases	1,580	7.00%	\$22,571
<b>Total</b>			<b>\$266,890</b>

<sup>1</sup>Includes all 12 community shopping centers

-All dollar values in 000s, except per share data

#### NAV Analysis

Total Portfolio Value (ex BGP)	\$266,890
Borders Portfolio	62,913
Development	5,201
Net Current Assets	6,549
Debt	<b>(73,268)</b>
<b>Total Equity Value</b>	<b>268,285</b>
Shares	10,095
NAV per share	<b>\$26.58</b>

As shown in the calculation below, valuing Borders at \$0, we get an NAV of \$20.34.

#### NAV Analysis

Total Portfolio Value (ex BGP)	\$266,890
Borders Portfolio	0
Development	5,201
Net Current Assets	6,549
Debt	<b>(73,268)</b>
<b>Total Equity Value</b>	<b>205,372</b>
Shares	10,095
NAV per share	<b>\$20.34</b>

In the analysis that follows, we assume a Borders chapter 11 scenario in which Agree retains 50% of its Borders NOI (either through affirmation of leases or rent re-negotiation). We cap the affirmed NOI at a lower 10.0% cap rate and assign \$0 value to the assets with rejected leases. In this scenario, which is admittedly highly speculative, we still get an NAV of \$24.91 per share.

## NAV Analysis - Chapter 11

	NOI (est.)	Cap Rate	Value
Walgreens	\$10,246	7.75%	\$132,206
Shopping Centers <sup>1</sup>	8,465	10.25%	\$82,584
Borders (50% of rent affirmed)	4,611	10.00%	\$46,108
Rite-Aids	2,657	9.00%	\$29,528
Ground Leases	1,580	7.00%	\$22,571
<b>Total</b>			<b>\$312,998</b>

<sup>1</sup>Includes all 12 community shopping centers

-All dollar values in 000s, except per share data

## NAV Analysis

Total Portfolio Value (ex BGP)	\$312,998
Borders Portfolio (rejected)	\$0
Development	5,201
Net Current Assets	6,549
Debt	<u>(73,268)</u>
<b>Total Equity Value</b>	<b>251,480</b>
Shares	<u>10,095</u>
NAV per share	<b>\$24.91</b>

While we highlight several worst-case scenarios for Agree's Borders exposure, we think the portfolio could be worth considerably more than our NAV estimate; however, we think these scenarios set a pretty solid floor for the stock at \$25-27. Trading at a 5% discount to our conservative NAV estimate, ADC shares present an attractive value compared to the shopping centers REITs that trade at an average 22.5% premium. Additionally, at 10.2x 2011 AFFO, shares of ADC also appear attractive versus the 18.0x 2011 AFFO multiple for the shopping center REITs and the average 16.0x 2011 AFFO multiple for net lease REITs Realty Income and National Retail Properties.

## Net Lease and Shopping Center REIT Comparable Company Analysis

Comparable Company Analysis (as of 04/29/2010)

(Amounts in millions, except per share information)

Ticker	Company Name	Price 04/29/10	Market Value	AFFO		AFFO Multiple (1)		NAV (1)	Premium/ (Discount) to NAV (1)
				2010E	2011E	2010E	2011E		
<b>Shopping Centers</b>									
AKR	Acadia Realty Trust	19.79	\$ 769	\$ 0.92	\$ 0.98	21.5x	20.2x	\$16.05	23.3%
CDR	Cedar Shopping Centers, Inc.	8.29	\$ 502	\$ 0.48	\$ 0.50	17.3x	16.6x	\$5.72	44.9%
DDR	Developers Diversified Realty Corporation	12.69	\$ 3,040	\$ 0.84	\$ 0.86	15.1x	14.8x	\$11.95	6.2%
EQY	Equity One, Inc.	19.78	\$ 1,768	\$ 0.92	\$ 0.98	21.5x	20.2x	\$15.47	27.9%
EXL	Excel Trust, Inc.	12.96	\$ 207	NA	NA	NA	NA	NA	NA
FRT	Federal Realty Investment Trust	78.80	\$ 4,700	\$ 3.29	\$ 3.39	24.0x	23.2x	\$61.23	28.7%
IRC	Inland Real Estate Corporation	9.75	\$ 800	\$ 0.72	\$ 0.68	13.5x	14.3x	\$7.52	29.7%
KIM	Kimco Realty Corporation	16.29	\$ 6,307	\$ 0.87	\$ 0.87	18.7x	18.7x	\$12.47	30.6%
KRG	Kite Realty Group Trust	5.79	\$ 385	\$ 0.33	\$ 0.35	17.5x	16.5x	\$4.15	39.5%
RPT	Ramco-Gershenson Properties Trust	12.96	\$ 418	\$ 0.90	\$ 0.93	14.4x	13.9x	\$11.59	11.8%
REG	Regency Centers Corporation	41.95	\$ 3,243	\$ 1.74	\$ 1.80	24.1x	23.3x	\$34.43	21.8%
BFS	Saul Centers, Inc.	41.10	\$ 947	\$ 2.01	\$ 1.96	20.4x	21.0x	\$38.91	5.6%
SKT	Tanger Factory Outlet Centers, Inc.	43.20	\$ 1,949	\$ 2.35	\$ 2.49	18.4x	17.3x	\$37.25	16.0%
UBA	Urstadt Biddle Properties Inc.	17.38	\$ 437	\$ 0.88	\$ 1.17	19.8x	14.9x	\$16.66	4.3%
WRI	Weingarten Realty Investors	23.81	\$ 2,788	\$ 1.31	\$ 1.36	18.2x	17.5x	\$19.20	24.0%
<b>Mean</b>		<b>\$</b>	<b>1,884</b>			<b>18.9x</b>	<b>18.0x</b>		<b>22.5%</b>
<b>Median</b>		<b>\$</b>	<b>947</b>			<b>18.6x</b>	<b>17.4x</b>		<b>23.7%</b>
<b>Free Standing Retail</b>									
NNN	National Retail Properties, Inc.	24.36	\$ 1,962	\$ 1.64	\$ 1.70	14.9x	14.3x	\$18.58	31.1%
O	Realty Income Corporation	34.38	\$ 3,463	\$ 1.87	\$ 1.94	18.4x	17.7x	\$19.80	73.6%
<b>Mean</b>		<b>\$</b>	<b>2,712</b>			<b>16.6x</b>	<b>16.0x</b>		<b>52.4%</b>
<b>Median</b>		<b>\$</b>	<b>2,712</b>			<b>16.6x</b>	<b>16.0x</b>		<b>52.4%</b>
<b>ADC</b>	<b>Agree Realty Corporation</b>	25.10	\$ 244	\$2.50	\$2.46	10.1x	10.2x	\$26.58	(5.6%)

(1) AFFO and NAV for the peer groups are consensus Street estimates per SNL Financial as of 04/29/2010, unless otherwise noted

### Dividend

Short-term, we view ADC's 8.1% dividend yield as attractive (with our REIT coverage list trading at an average 3.0% yield). However, we caution investors that a dividend cut (or at least a suspension) is almost certain should Borders go into bankruptcy and reject leases or re-negotiate rents. In a worst-case scenario for Borders (Agree gets all of the properties back and has to cover the expenses), we estimate the company would earn AFFO of ~\$1.45/share and still be able to pay a dividend of \$1.30/share – which would equate to a 90% payout ratio and implies a yield of 5.2% at today's price.

### Estimates and Recommendation

We are revising our 2010 and 2011 FFO per share estimates to \$2.52 and \$2.49, respectively, from \$2.83 and \$2.90 previously. The reduction in our estimates is due to dilution from the company's equity offering in April, and we have assumed the company reinvests the \$9.8 million in proceeds from the Santa Barbara asset sale into other real estate investments. We have modeled \$14 million of development/redevelopment deliveries late in 2010 and \$6 million in 2011, as well as additional development fee income associated with the company's Oakland, California development project in 2Q10.

We are upgrading shares of ADC to an **Outperform** rating from Market Perform. We are encouraged Borders was able to address its near-term liquidity concerns and, given the additional clarity, are more comfortable with Agree's exposure in the short-term. We are still concerned about the long-term prospects of Borders, but believe the story has a long time to unfold. We are also encouraged Agree management has started to reduce its exposure to Borders. Our newly established price target of \$28.00 is based on shares of ADC trading at a 5% premium to our conservative NAV estimate of \$26.58 versus the shopping center REITs that trade at an average 22.5% premium to consensus NAV. Additionally, a \$28 price would equate to an 11.4x 2011 AFFO multiple, which compares to the shopping center and net lease retail REITs that currently trade at 18.0x and 16.0x 2011 AFFO, respectively. While we do not expect shares of ADC to trade in-line with the retail shopping centers, we do expect the valuation gap to close over time

as investors become more comfortable with the underlying value of the company's real estate, despite the large tenant exposure to Borders.

Agree Realty (ADC)							
EARNINGS MODEL							
(\$ in thousands unless indicated)							
	2009A	1Q10A	2Q10E	3Q10E	4Q10E	2010E	2011E
<b>Total Revenues</b>	<b>37,261</b>	<b>9,522</b>	<b>9,289</b>	<b>9,355</b>	<b>9,629</b>	<b>37,796</b>	<b>39,191</b>
<b>Key Metrics:</b>							
NOI	32,455	7,996	8,082	8,258	8,530	32,866	34,691
G&A	4,558	1,252	1,113	1,114	1,189	4,669	4,844
Interest Expense	4,635	1,270	1,211	1,196	1,234	4,912	5,082
<b>Funds from Operations (FFO)</b>	<b>23,634</b>	<b>6,057</b>	<b>5,917</b>	<b>5,957</b>	<b>6,116</b>	<b>24,047</b>	<b>24,795</b>
Cap Ex	209	52	52	53	54	210	220
<b>Adjusted Funds from Operations (AFFO)</b>	<b>23,425</b>	<b>6,005</b>	<b>5,865</b>	<b>5,904</b>	<b>6,062</b>	<b>23,837</b>	<b>24,575</b>
Average Common Shares Outstanding (Diluted)	8,417	8,478	9,759	9,973	9,973	9,546	9,973
<b>FFO/share (fully diluted)</b>	<b>\$ 2.81</b>	<b>\$0.71</b>	<b>\$ 0.61</b>	<b>\$ 0.60</b>	<b>\$ 0.61</b>	<b>\$ 2.52</b>	<b>\$ 2.49</b>
<b>AFFO/share (fully diluted)</b>	<b>\$ 2.78</b>	<b>\$0.71</b>	<b>\$ 0.60</b>	<b>\$ 0.59</b>	<b>\$ 0.61</b>	<b>\$ 2.50</b>	<b>\$ 2.46</b>

## Public companies mentioned in this Document.

Company Name	Ticker	Exchange	Recent Closing Price	RJ Rating (if Applicable)	RJ Rating Organization
Acadia Realty Trust	AKR	NYSE	19.79		
Borders Group Inc.	BGP	NYSE	2.67		
Cedar Shopping Centers, Inc.	CDR	NYSE	8.29	3	RJ & Associates
Developers Diversified Realty Corp.	DDR	NYSE	12.69		
Dick's Sporting Goods Inc.	DKS	NYSE	30.14	3	RJ & Associates
Equity One, Inc.	EQY	NYSE	19.78	2	RJ & Associates
Excel Trust, Inc.	EXL	NYSE	12.96		RJ & Associates
Federal Realty Investment Trust	FRT	NYSE	78.80	2	RJ & Associates
Inland Real Estate Corporation	IRC	NYSE	9.75	3	RJ & Associates
J C Penney Corporation Inc.	JCP	NYSE	31.11		
Kimco Realty Corporation	KIM	NYSE	16.29	3	RJ & Associates
Kite Realty Group Trust	KRG	NYSE	5.79	3	RJ & Associates
National Retail Properties, Inc.	NNN	NYSE	24.36	2	RJ & Associates
Ramco-Gershenson Properties Trust	RPT	NYSE	12.96		
Realty Income	O	NYSE	34.38	3	RJ & Associates
Regency Centers Corp.	REG	NYSE	41.95	4	RJ & Associates
Rite Aid Corporation	RAD	NYSE	1.48	3	RJ & Associates
Saul Centers, Inc.	BFS	NYSE	41.10	2	RJ & Associates
Sprint Nextel Corp.	S	NYSE	4.39	3	RJ & Associates
Tanger Factory Outlet Centers, Inc.	SKT	NYSE	43.20		
Urstadt Biddle Properties Inc.	UBA	NYSE	17.38		
Wal-Mart Stores Inc.	WMT	NYSE	53.70	1	RJ & Associates
Walgreen Co.	WAG	NYSE	35.87	2	RJ & Associates
Weingarten Realty Investors	WRI	NYSE	23.81		

Notes: Prices are as of the most recent close on the indicated exchange and may not be in US\$. See Disclosure section for rating definitions. Stocks that do not trade on a U.S. national exchange may not be approved for sale in all U.S. states.

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### Ratings and Definitions

#### Raymond James & Associates (U.S.) definitions

**Strong Buy (SB1)** Expected to appreciate and produce a total return of at least 15% and outperform the S&P 500 over the next six months. For higher yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months.

**Outperform (MO2)** Expected to appreciate and outperform the S&P 500 over the next 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12 months.

**Market Perform (MP3)** Expected to perform generally in line with the S&P 500 over the next 12 months and is potentially a source of funds for more highly rated securities.

**Underperform (MU4)** Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold.

**Raymond James Ltd. (Canada) definitions**

**Strong Buy (SB1)** The stock is expected to appreciate and produce a total return of at least 15% and outperform the S&P/TSX Composite Index over the next six months.

**Outperform (MO2)** The stock is expected to appreciate and outperform the S&P/TSX Composite Index over the next twelve months.

**Market Perform (MP3)** The stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities.

**Underperform (MU4)** The stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

**Raymond James Latin American rating definitions**

**Strong Buy (SB1)** Expected to appreciate and produce a total return of at least 25.0% over the next twelve months.

**Outperform (MO2)** Expected to appreciate and produce a total return of between 15.0% and 25.0% over the next twelve months.

**Market Perform (MP3)** Expected to perform in line with the underlying country index.

**Underperform (MU4)** Expected to underperform the underlying country index.

**Raymond James European Equities rating definitions**

**Strong Buy (1)** Absolute return expected to be at least 10% over the next 12 months and perceived best performer in the sector universe.

**Buy (2)** Absolute return expected to be at least 10% over the next 12 months.

**Fair Value (3)** Stock currently trades around its fair price and should perform in the range of -10% to +10% over the next 12 months.

**Sell (4)** Expected absolute drop in the share price of more than 10% in next 12 months.

**Rating Distributions**

Out of approximately 791 rated stocks in the Raymond James coverage universe, 51% have Strong Buy or Outperform ratings (Buy), 43% are rated Market Perform (Hold) and 7% are rated Underperform (Sell). Within those rating categories, 24% of the Strong Buy- or Outperform (Buy) rated companies either currently are or have been Raymond James Investment Banking clients within the past three years; 13% of the Market Perform (Hold) rated companies are or have been clients and 10% of the Underperform (Sell) rated companies are or have been clients.

**Suitability Categories (SR)**

For stocks rated by Raymond James & Associates only, the following Suitability Categories provide an assessment of potential risk factors for investors. Suitability ratings are not assigned to stocks rated Underperform (Sell). Projected 12-month price targets are assigned only to stocks rated Strong Buy or Outperform.

**Total Return (TR)** Lower risk equities possessing dividend yields above that of the S&P 500 and greater stability of principal.

**Growth (G)** Low to average risk equities with sound financials, more consistent earnings growth, possibly a small dividend, and the potential for long-term price appreciation.

**Aggressive Growth (AG)** Medium or higher risk equities of companies in fast growing and competitive industries, with less predictable earnings and acceptable, but possibly more leveraged balance sheets.

**High Risk (HR)** Companies with less predictable earnings (or losses), rapidly changing market dynamics, financial and competitive issues, higher price volatility (beta), and risk of principal.

**Venture Risk (VR)** Companies with a short or unprofitable operating history, limited or less predictable revenues, very high risk associated with success, and a substantial risk of principal.

**Raymond James Relationship Disclosures**

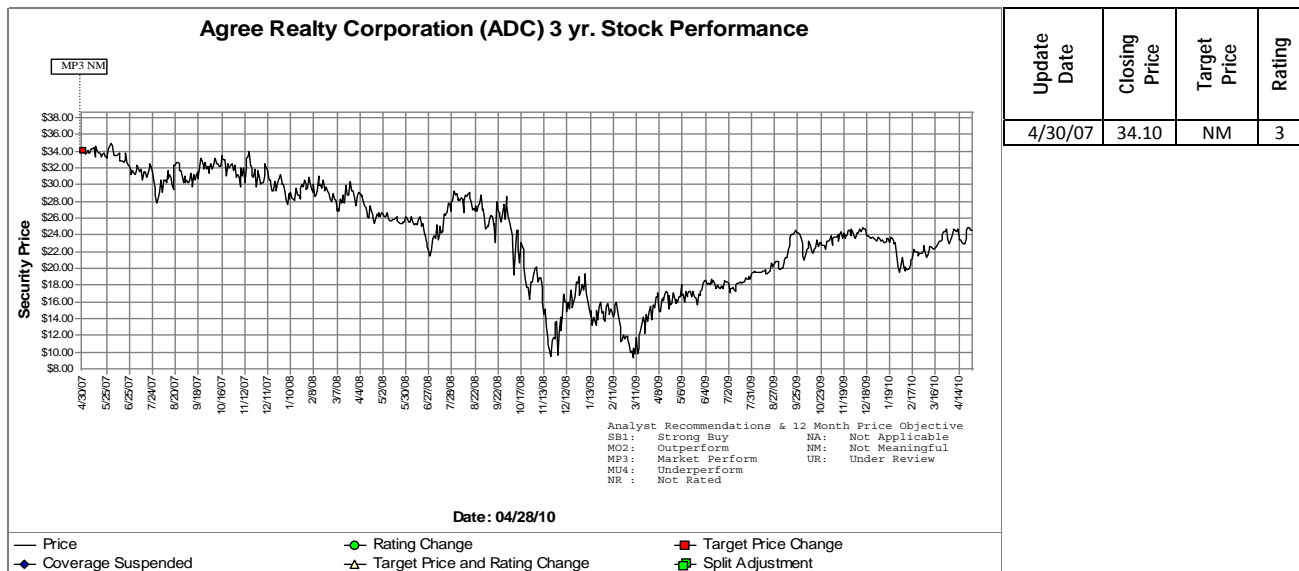
Raymond James expects to receive or intends to seek compensation for investment banking services from the subject companies in the next three months.

Company Name	Disclosure
Agree Realty Corporation	Raymond James & Associates sole managed a follow-on offering of 1.3 million ADC shares at \$22.00 per share in April 2010.
Cedar Shopping Centers, Inc.	Raymond James & Associates received non-investment banking securities-related compensation from CDR within the past 12 months. Raymond James & Associates received non-securities-related compensation from CDR within the past 12 months. Raymond James & Associates lead-managed a follow-on offering of 7.2 million CDR shares at \$6.60 per share in February 2010.

Equity One, Inc.	Raymond James & Associates received non-investment banking securities-related compensation from EQY within the past 12 months. Raymond James & Associates received non-securities-related compensation from EQY within the past 12 months. Raymond James & Associates lead-managed a follow-on offering of EQY shares in April 2009. Raymond James & Associates co-managed a public debt offering for Equity One, Inc. in December 2009.
Excel Trust, Inc.	Raymond James & Associates co-managed an initial public offering of 17.6 million EXL shares at \$14.00 per share in April 2010.
Federal Realty Investment Trust	Raymond James & Associates co-managed a follow-on offering of 1.7 million FRT shares at \$57.50 per share in August 2009.
Kimco Realty Corporation	Raymond James & Associates co-managed an offering of preferred shares for Kimco Realty Corporation in October 2007. Raymond James & Associates lead-managed a follow-on offering of KIM shares in September 2008.
Kite Realty Group Trust	Raymond James & Associates received non-investment banking securities-related compensation from KRG within the past 12 months. Raymond James & Associates received non-securities-related compensation from KRG within the past 12 months. Raymond James & Associates lead-managed a follow-on offering of Kite Realty Group Trust shares in October 2008, and a follow-on offering of 28.8 million Kite Realty Group Trust shares at \$3.20 per share in May 2009.
National Retail Properties, Inc.	Raymond James & Associates co-managed follow-on offerings of NNN shares in October 2007 and September 2008.
Realty Income	Raymond James & Associates lead-managed a follow-on offering of O shares in September 2008.
Saul Centers, Inc.	Raymond James & Associates lead-managed an offering of preferred shares for Saul Centers, Inc. in March 2008. Raymond James & Associates managed a block trade of BFS shares in June 2008.
Sprint Nextel Corp.	Raymond James & Associates received non-investment banking securities-related compensation from S within the past 12 months.

## Stock Charts, Target Prices, and Valuation Methodologies

**Target Prices:** The information below indicates our target price and rating changes for ADC stock over the past three years.



**Valuation Methodology:** The Raymond James methodology for assigning ratings and target prices includes a number of qualitative and quantitative factors including an assessment of industry size, structure, business trends and overall attractiveness; management effectiveness; competition; visibility; financial condition, and expected total return, among other factors. These factors are subject to change depending on overall economic conditions or industry- or company-specific occurrences. Our valuation methodology for Agree Realty Corporation includes a peer group multiple comparison and we also consider the stock's valuation as it compares to our estimate of net asset value (NAV).

## Risk Factors

**General Risk Factors:** Following are some general risk factors that pertain to the projected target prices included on Raymond James research: (1) Industry fundamentals with respect to customer demand or product / service pricing could change and adversely impact expected revenues and earnings; (2) Issues relating to major competitors or market shares or new product expectations could change investor attitudes toward the sector or this stock; (3) Unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation; or (4) External factors that affect the U.S. economy, interest rates, the U.S. dollar or major segments of the economy could alter investor confidence and investment prospects. International investments involve additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability.

### Specific Investment Risks Related to the Industry or Issuer

#### REITs Industry Risk Factors

##### Investment Risks

An investment in any REIT involves certain risks particular to the company and to the real estate industry in general. Prospective investors should carefully consider the appropriateness of the stock and carefully consider the following risk factors and critical variables before making an investment.

##### Economic Risk

An extended downturn in the national economy could negatively affect consumers' disposable income and spending patterns, job growth, travel expenditures, interest rates, and subsequently, the stock price of REITs in any sector. In addition, fluctuations in certain local or regional markets throughout the country could impact key properties in a REIT's portfolio, which could be located anywhere in the nation geographically. In a depressed economic environment, access to equity capital may also be restricted or costly, to the point of becoming impractical. It is important to note that the performance of the real estate industry in general typically trails that of the national economy.

##### Interest Rate Risk

The REIT industry has historically been negatively correlated with changes in interest rates. In addition, many REITs are exposed to variable interest rates, which could lead to increased interest expense during times of rising interest rates and could ultimately impair net income. Certain parts of a REIT's business may be dependent upon achieving a spread between its cost of financing and the yield achieved on acquisitions. In an environment with high or rising interest rates, a REIT's ability to attain this spread may be diminished.

##### Capital Markets Risk

Access to the capital markets is crucial to the growth prospects of any company and REITs are no exception. If the ability to execute deals involving the issuance of debt or equity securities becomes impaired, the end result could be minimal or no growth for the companies. The loss of capital market access could be caused by a level of financial leverage through mortgage financing of properties that is too high, an increased tenant credit risk, or any other factor that might be seen to significantly impede REIT operations.

##### Regulatory Risk

The real estate industry is subject to extensive and complex regulations. Although most REITs have fairly limited exposure to Medicaid and Medicare reimbursement, a material change in reimbursement rates from Medicaid or Medicare could adversely affect the operators/lessees of healthcare-related REITs and perhaps their ability to pay lease obligations to the REIT. In addition, the industry is subject to the extensive and changing federal, state, and local regulations governing the protection of the environment. There is a risk that unforeseen future regulations may adversely affect a company's development schedule, net income, or competitive position. REITs also enjoy the benefit of tax

exemption at the corporate level on certain parts of income; any regulatory change to this status may make REIT shares relatively less attractive and impact demand for shares.

#### Tenant Concentration

Any REIT may have significant tenant concentration risk, sometimes deriving material amounts of revenue from a particular tenant. Any negative change to a high contributor tenant may negatively affect a REIT's revenue, profits, and subsequently, the stock price.

#### Retail/Net Lease REITs Industry Risks

##### Exposure to Retail Sales Trends

Shopping center REITs are exposed to retail sales trends; therefore, if the economic growth remains sluggish or turns negative, this could negatively affect consumers' disposable income and spending patterns and, in turn, the stock price of retail REITs. A prolonged unfavorable economic environment could put pressure on the company's ability to renew or re-lease space and the ability of tenants to fulfill their lease commitments. This could also impact shopping center REITs in that a depressed economic environment will further restrict access to capital or increase the company's cost of capital.

#### Company-Specific Risks for Agree Realty Corporation

##### Tenant Credit Risk

The company is disproportionately exposed to two tenants, Borders and Kmart, which comprise roughly 40% of Agree's annualized base rent. This tenant concentration elevates Agree's risk profile, as both companies have experienced weakening fundamental trends and financial performance. In the event one or both of these tenants close stores in Agree's portfolio, Agree's earnings stream may be significantly impacted, potentially putting the company's dividend at risk.

##### Geographic Concentration Risk

A large portion of the company's gross leasable area (GLA) is located in the Midwest, especially the state of Michigan. If there is an extended downturn in the state economy, substantial unexpected increases in the cost of doing business, an act of God or natural disaster, a terrorist act, or a regulatory issue that impacts retailers negatively, Agree may be impacted as well, putting net operating income and FFO growth at risk.

**Additional Risk and Disclosure information, as well as more information on the Raymond James rating system and suitability categories, is available at [rjcapitalmarkets.com/SearchForDisclosures\\_main.asp](http://rjcapitalmarkets.com/SearchForDisclosures_main.asp). Copies of research or Raymond James' summary policies relating to research analyst independence can be obtained by contacting any Raymond James & Associates or Raymond James Financial Services office (please see [raymondjames.com](http://raymondjames.com) for office locations) or by calling 727-567-1000, toll free 800-237-5643 or sending a written request to the Equity Research Library, Raymond James & Associates, Inc., Tower 3, 6<sup>th</sup> Floor, 880 Carillon Parkway, St. Petersburg, FL 33716.**

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