

**REITs**

**Agree Realty Corporation  
(ADC) - BUY**

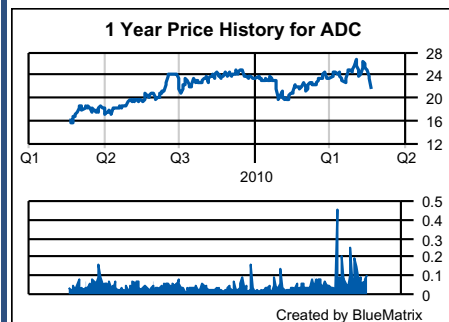
**Price: \$21.73**

Fair Value Estimate:	\$27.00
52-Week Range:	\$28.15-\$15.64
Equity Market Cap (M):	215.1
30-day Avg Daily Vol:	96,375
Dividend:	\$2.04
Yield:	9.4%
reNAV/Sh:	\$30.75
Premium/(Disc) to reNav/Sh:	(29.3)%
Debt/Total Market Cap:	32.7%
Debt/Gross Assets:	33.6%

FYE: Dec	2009A	2010E	2011E
FFO:	\$2.81	\$2.50	\$2.42
P/FFO:	7.7x	8.7x	9.0x

Quarterly FFO:

Q1	\$0.67	\$0.71A	--
Q2	\$0.70	\$0.60	--
Q3	\$0.72	\$0.58	--
Q4	\$0.71	\$0.61	--



**Crossing the Border(s) and Upgrading to BUY**

**INVESTMENT CONCLUSION:**

Agree's portfolio performed steadily through the Great Recession as occupancy remained above 98%, allowing ADC to maintain its dividend. However, the overarching concern has been the future of Borders (BGP-\$2.23; Not Rated); the book retailer currently makes up 27% of Agree's rental base. In light of Border's ability to term out its financing and ADC's efforts toward diversifying its tenant base, we are more comfortable with the future of the REIT and are upgrading shares to BUY from neutral. Our \$27 fair value would place the company at a discount to reNAV and represents a 2011 FFO/sh multiple of 11.6x, below its peers and well within its historical trading range (see p. 2).

**KEY POINTS:**

- **Upgrade to BUY on increased comfort with Borders**—Our neutral rating had been predicated on Agree's reliance on Borders for 27% of its revenues, and our discomfort with the book retailer's chance of filing for bankruptcy. We believe Borders is on more solid financial footing, having successfully extended the maturity dates of its debt and with the overall economy stabilizing. We use a 9% cap rate to value NOI from Borders.
- **Diversifying away from Borders; financial flexibility to speed the process through acquisitions**—Agree sold one Borders location in 1Q and has worked to develop new facilities for other tenants, lessening its dependence. The REIT is currently developing three Walgreen's locations and has recently built several Chase bank branches. Though typically a developer, ADC's fully-available \$55M line of credit provides it with flexibility to diversify through acquisitions as well.
- **9.4% yield covered by cash flow**—Including the recent share offering and principal amortization on debt, we estimate ADC's dividend/CAD ratio to be 96%, indicating the dividend is covered by recurring cash flows. As ADC grows its portfolio, we would expect the cushion to increase.
- **Updating estimates**—We are adjusting our 2010E and 2011E to \$2.50 and \$2.42, respectively, from \$2.83 and \$2.83. Our adjustments reflect primarily the sale of a Border's store and a share count update following the company's recent equity issuance; ex- these events, our numbers would be unchanged.
- **Increasing reNAV/sh, \$27 FV**—We use an average cap rate of 8.7% to value ADC's portfolio, which may be overly-conservative. Our cap rate is a weighted average of ADC's tenants and is depicted on p. 4. Our \$27 fair value assumes ADC should trade at 11.6x 2011 FFO and a 10% discount to reNAV. We believe such a discount is appropriate given the REIT's lack of tenant diversity and generally limited trading volume.
- **Valuation summary**—On a 2011 FFO/sh multiple basis, ADC trades at a 30% discount to the average of its retail REIT peers, and at a 37% discount to the REIT industry (see p. 2). At the asset level, ADC trades at a 30% discount to our reNAV/sh estimate of \$31, a 3,030bps discount to its peers and a 3,890bps discount to the REIT industry. Our \$27 FV would put ADC in line with its historical average FFO and AFFO multiples (p. 2).

**Table #1: Comparable Company Analysis for ADC**

Ticker	Share Price	Current Yield	2009E FFO				Equity Mkt Cap (\$M)	Debt to Total Mkt Cap	Price/FFO			Prem. (Disc.) to reNAV	
			Payout	2009E	2010E	2011E			2009E	2010E	2011E		
BFS	Saul Centers Inc.	\$35.65	4.0%	58.1%	-10.4%	3.3%	0.8%	\$839	37.6%	14.9 x	14.4 x	14.3 x	-10.7%
CDR	Cedar Shopping Ctrs	\$6.59	5.5%	55.4%	-58.2%	27.5%	-1.5%	\$420	63.5%	12.9 x	10.1 x	10.3 x	15.2%
NNN	National Retail Properties *	\$21.07	7.1%	104.2%	-12.6%	-13.3%	9.0%	\$1,755	34.0%	12.7 x	14.6 x	13.4 x	5.4%
OLP	One Liberty Pptys	\$14.58	8.2%	NA	NA	NA	NA	\$162	52.7%	6.8 x	NA	NA	NA
RPT	Ramco-Gershenson	\$10.30	6.3%	58.8%	-18.6%	-38.3%	2.7%	\$350	66.4%	5.7 x	9.3 x	9.0 x	-15.6%
<i>Comp. Set Wtd. Average<sup>^</sup></i>			6.1%	81.9%	-18.4%	-6.6%	5.0%		42.0%	12.5 x	13.5 x	12.8 x	0.4%
<i>All REITs Wtd. Average<sup>^</sup></i>			4.2%	59.1%	-14.1%	4.1%	8.1%		41.2%	15.6 x	15.3 x	14.1 x	9.0%
<b>ADC</b>	<b>Agree Realty Corp.*</b>	<b>\$21.73</b>	<b>9.4%</b>	<b>81.6%</b>	<b>8.9%</b>	<b>-11.0%</b>	<b>-3.2%</b>	<b>\$215</b>	<b>32.5%</b>	<b>7.7 x</b>	<b>8.7 x</b>	<b>9.0 x</b>	<b>(29.9%)</b>
<i>Prem./(Disc.) to Comp Set. average</i>			332	(26)	2,731	(439)	(820) bps	(947)	-38.3%	-35.4%	-29.8%	(3,029)	
<i>Prem./(Disc.) to REITs average</i>			517	2,253	2,306	(1,510)	(1,132) bps	(875)	-50.5%	-43.2%	-36.5%	(3,889)	

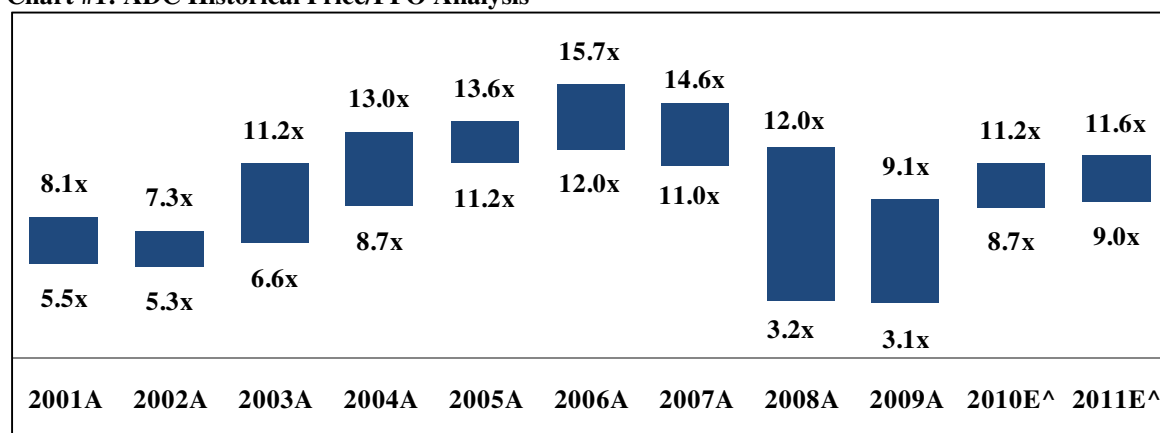
Source: Publicly available documents, SNL Financial, Thomson One, and JMS' estimates (for covered companies).

Note: FFO multiples for those companies not under JMS coverage are calculated using Thomson First Call FFO estimates.

\*Indicates the company is part of JMS' coverage universe.

<sup>^</sup>Wtd. Average based on the companies' equity market capitalizations.

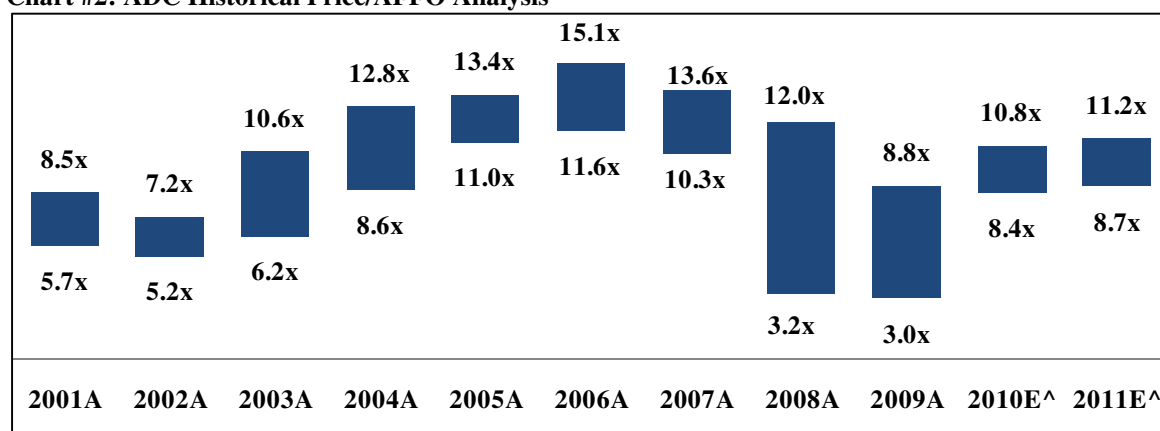
**Chart #1: ADC Historical Price/FFO Analysis**



Source: Company documents and JMS estimates

<sup>^</sup>Multiple ranges are based on ADC's current price (low end) and our 12-month fair value of \$27 (high end)

**Chart #2: ADC Historical Price/AFFO Analysis**



Source: Company documents and JMS estimates

<sup>^</sup>Multiple ranges are based on ADC's current price (low end) and our 12-month fair value of \$27 (high end)

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**Risks.** We believe the primary risk associated with owning ADC is tenant diversification risk. Agree derives the majority of its rents from three national retailers: 30.5% from Walgreens, 27.4% from Borders, and 11.4% from Kmart. Additional risks include, but are not limited to, uncertainty surrounding the timing and volume of acquisitions or dispositions and the potential rotation of funds out of REIT shares and into stocks perceived to offer higher returns.

**COMPANY DESCRIPTION:** *Public since December 1993 and based in Farmington Hills, MI, Agree Realty Corp. is an equity REIT that owns, manages, and develops single-tenant retail properties and community shopping centers primarily in the Midwestern U.S. Agree employs triple-net leases with national retail chains such as Walgreens (30.5% of rents), Borders (27.4% of rents), and Kmart (11.4% of rents). As of March 31, 2010, Agree's portfolio was 98.1% leased and included an aggregate of 72 properties with 3.5M square feet located mostly in 16 Midwestern and Eastern states.*

**Agree Realty Corporation (ADC)**  
**Net Asset Value Calculation: Real Estate**

<i>(in thousands, except per share amounts)</i>	Capitalization Rate			Implied Cap
	Low	Average	High	
<b>ASSUMPTIONS:</b>				
Caprate (by tenant)	<b>% NOI</b>			
Borders	27%	8.75%	9.00%	9.25%
Walgreens	30%	8.25%	8.50%	8.75%
Kmart	11%	8.75%	9.00%	9.25%
Other	31%	8.25%	8.50%	8.75%
Real estate cap rate on cash NOI		8.44%	8.69%	8.94%
				<b>11.44 %</b>
<b>COMPONENTS OF NAV:</b>				
NOI from property		\$7,996	\$7,996	\$7,996
+ Adjustment to stabilized occupancy		\$0	\$0	\$0
+ NOI from acquisitions since 1Q'10		0	0	0
- Property management fee		NA	NA	NA
Total GAAP NOI for the quarter		7,996	7,996	7,996
Annualized NOI, assuming no same-store growth		32,143	32,143	32,143
- Straight-lined rent adjustment		NA	NA	NA
Estimated annual adjusted / cash NOI		32,143	32,143	32,143
- Total capital expenditures		NA	NA	NA
Estimated cash flow		32,143	32,143	32,143
<b>Implied value of properties on cash NOI</b>		<b>380,653</b>	<b>369,707</b>	<b>359,374</b>
Plus: <sup>a</sup>				
Cash and cash equivalents		10,337	10,337	10,337
April 2010 offering proceeds (net)		26,884	26,884	26,884
Construction in process		5,201	5,201	5,201
Land held for development		NA	NA	NA
Real estate held for sale, net		0	0	0
Other assets		3,544	3,544	3,544
Estimated value of advisory subsidiary		NA	NA	NA
<b>Estimated market value of assets</b>		<b>426,619</b>	<b>415,673</b>	<b>405,340</b>
Less: <sup>a</sup>				
Consolidated indebtedness		104,368	104,368	104,368
Debt from acquisitions since 1Q'10		0	0	0
Pro rata share of JV debt		NA	NA	NA
Preferred stock at liquidation		0	0	0
Other liabilities		7,332	7,332	7,332
<b>Net asset value</b>		<b>\$314,919</b>	<b>\$303,973</b>	<b>\$293,640</b>
Shares & units outstanding (incl April 2010 offering)		9,900	9,900	9,900
NAV per share		\$31.81	\$30.71	\$29.66
<b>NAV per share, rounded</b>		<b>\$32.00</b>	<b>\$30.75</b>	<b>\$29.75</b>
<b>Closing price on May 20, 2010</b>		<b>\$21.73</b>	<b>\$21.73</b>	<b>\$21.73</b>
Premium (discount) of stock price to NAV		-32.1%	-29.3%	-27.0%

a. As of March 31, 2010

## Agree Realty Corporation (ADC) FFO Growth Model

<i>(in thousands, except per share amounts)</i>	2008 E	1Q09 A	2Q09 A	3Q09 A	4Q09 A	2009 A	1Q10 A	2Q10 E	3Q10 E	4Q10 E	2010 E	2011 E
<b>Revenues</b>												
Minimum rents	\$32,851	\$8,511	\$8,431	\$8,596	\$8,619	\$34,157	\$8,437	\$8,437	\$8,552	\$8,718	\$34,143	\$35,304
% rents	15	7	1	0	7	15	0	(0)	0	0	0	1
Operating cost reimbursements	2,784	719	682	598	648	2,647	670	670	680	694	2,714	2,812
Total revenues	35,650	9,237	9,114	9,194	9,274	36,819	9,107	9,107	9,231	9,412	36,857	38,117
- Real estate taxes	1,867	479	489	472	498	1,938	489	489	496	505	1,978	2,044
- Property operating expenses	1,813	459	332	410	365	1,566	396	396	402	411	1,606	1,670
- Land lease payments	767	215	215	215	215	859	226	226	226	226	904	740
Net operating income (NOI)	31,203	8,084	8,078	8,097	8,196	32,456	7,996	7,996	8,108	8,269	32,369	33,663
Management fees and other	4	4	9	8	11	31	18	18	18	18	8	8
Development fee income	0	0	0	158	252	410	397	200	0	0	597	0
Equity in income of unconsolidated entities	0	0	0	0	0	0	0	0	0	0	0	0
Total operating income	31,207	8,088	8,087	8,263	8,459	32,897	8,411	8,214	8,126	8,287	33,038	33,670
<b>Corporate Expenses</b>												
General and administrative expense	4,361	1,251	998	1,083	1,226	4,559	1,252	1,252	1,252	1,252	4,600	5,058
G&A as % of rental revenues	12.2%	13.5%	11.0%	11.8%	13.2%	12.4%	13.7%	13.7%	13.6%	13.3%	12.5%	13.3%
Real estate related depreciation	5,385	1,394	1,420	1,428	1,467	5,709	1,432	1,410	1,451	1,457	5,751	5,924
Interest expense	5,179	1,126	1,161	1,145	1,203	4,635	1,270	1,138	1,146	1,040	4,593	4,735
Early Extinguishment of Debt	0	0	0	0	0	0	0	0	0	0	0	0
Subtotal Corporate Expenses	14,925	3,771	3,579	3,656	3,896	14,903	3,954	3,800	3,849	3,749	15,352	15,717
Income from continuing operations	16,282	4,317	4,508	4,607	4,563	17,994	4,457	4,414	4,276	4,539	17,686	17,953
- Minority interests	(1,265)	(306)	(268)	(189)	0	0	(402)	(155)	(150)	(159)	(867)	(630)
Income before discontinued operations	15,017	4,011	4,240	4,418	4,563	17,994	4,055	4,259	4,126	4,379	16,819	17,323
+ Income from discontinued operations	0	0	0	0	0	0	179	0	0	0	179	0
+ Gain on sale of investment properties	0	0	0	0	0	0	5,332	0	0	0	5,332	0
Net income	15,017	4,011	4,240	4,418	4,563	17,994	9,566	4,259	4,126	4,379	22,330	17,323
- Preferred stock dividends	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Net income available to common, basic	15,017	4,011	4,240	4,418	4,563	17,994	9,566	4,259	4,126	4,379	22,330	17,323
+ Minority interests, net	1,265	0	0	0	0	0	0	0	0	0	0	0
Net income available to common, diluted	\$16,282	\$4,011	\$4,240	\$4,418	\$4,563	\$17,994	\$9,566	\$4,259	\$4,126	\$4,379	\$22,330	\$17,323
<b>EPS, diluted</b>	\$1.95	\$0.51	\$0.54	\$0.55	\$0.54	\$2.14	\$1.18	\$0.46	\$0.43	\$0.46	\$2.45	\$1.81
<b>% increase</b>	-2.8%	9.8%	9.6%	9.5%	9.9%	9.6%	129.8%	-15.1%	-21.2%	-15.3%	14.6%	-26.1%
<b>FUNDS FROM OPERATION (FFO)</b>												
Net income available to common	\$15,017	\$4,011	\$4,240	\$4,418	\$4,563	\$17,994	\$9,566	\$4,259	\$4,126	\$4,379	\$22,330	\$17,323
+ Minority interests, net	1,265	306	268	189	0	0	402	155	150	159	867	630
+ Real estate related depreciation	5,257	1,361	1,386	1,393	1,433	5,574	1,401	1,410	1,451	1,457	5,720	5,924
+ Real estate related depreciation of discontinued op	0	0	0	0	0	0	0	0	0	0	0	0
+ Amort'n of leasing costs	59	16	16	17	17	66	20	20	20	20	80	80
+/- (Gain) loss on sale of investment properties	0	0	0	0	0	0	(5,332)	0	0	0	(5,332)	0
Funds From Operations (FFO)	\$21,598	\$5,694	\$5,910	\$6,017	\$6,013	\$23,634	\$6,057	\$5,844	\$5,748	\$6,016	\$23,665	\$23,957
<b>FFO/Share, diluted</b>	\$2.58	\$0.67	\$0.70	\$0.72	\$0.71	\$2.81	\$0.71	\$0.60	\$0.58	\$0.61	\$2.50	\$2.42
<b>% increase</b>	4.3%	9.1%	8.5%	8.2%	8.0%	8.9%	5.8%	-14.3%	-18.9%	-14.8%	-11.0%	-3.3%

## Agree Realty Corporation (ADC) FFO Growth Model

<i>(in thousands, except per share amounts)</i>	2008 E	1Q09 A	2Q09 A	3Q09 A	4Q09 A	2009 A	1Q10 A	2Q10 E	3Q10 E	4Q10 E	2010 E	2011 E
<b>ADJUSTED FUNDS FROM OPERATION (AFFO)</b>												
Funds From Operations (FFO)	\$21,598	\$5,694	\$5,910	\$6,017	\$6,013	\$23,634	\$6,057	\$5,844	\$5,748	\$6,016	\$23,665	\$23,957
- Total CapEx	(1,189)	(75)	(279)	(141)	(157)	(652)	(121)	(126)	(127)	(128)	(502)	(537)
- Effect of Straight Line Rents	0	0	0	0	0	0	0	0	0	0	0	0
+ Other amortization costs	178	36	104	68	80	288	32	32	32	32	128	128
+ Amort'n of stock compensation	1,130	294	294	294	294	1,176	294	294	294	294	1,176	1,176
± Non-cash items and cash gains (losses) on sale	0	0	0	0	0	0	0	0	0	0	0	0
Adjusted Funds from Operation (AFFO)	\$21,717	\$5,949	\$6,029	\$6,238	\$6,229	\$24,445	\$6,262	\$6,044	\$5,947	\$6,213	\$24,466	\$24,724
AFFO/Share, diluted	\$2.59	\$0.71	\$0.72	\$0.74	\$0.74	\$2.90	\$0.74	\$0.62	\$0.60	\$0.63	\$2.58	\$2.49
% increase	-1.7%	36.2%	4.4%	6.0%	6.6%	12.0%	4.7%	-13.1%	-19.0%	-15.1%	-11.0%	-3.5%
<b>CASH AVAILABLE FOR DISTRIBUTION (CAD)</b>												
Adjusted Funds from Operation	\$21,717	\$5,949	\$6,029	\$6,238	\$6,229	\$24,445	\$6,262	\$6,044	\$5,947	\$6,213	\$24,466	\$24,724
- Capitalized interest expense	(556)	(76)	(45)	(69)	(50)	(241)	(50)	(50)	(50)	(50)	(200)	(200)
- Amortization of principal on secured debt	(2,750)	(734)	(734)	(734)	(734)	(2,937)	(784)	(750)	(750)	(750)	(3,034)	(3,351)
Cash Available for Distribution (CAD)	\$18,412	\$5,138	\$5,250	\$5,434	\$5,445	\$21,267	\$5,428	\$5,244	\$5,147	\$5,413	\$21,232	\$21,172
CAD/Share, diluted	\$2.20	\$0.61	\$0.62	\$0.65	\$0.65	\$2.53	\$0.64	\$0.54	\$0.52	\$0.55	\$2.24	\$2.14
% increase	-3.2%	44.8%	6.2%	6.9%	9.6%	14.9%	5.1%	-13.4%	-19.6%	-15.4%	-11.2%	-4.8%
Weighted average shares, diluted	7,719	7,831	7,932	8,064	8,088	7,966	8,130	9,340	9,557	9,560	9,119	9,567
Weighted average shares & units, diluted	8,376	8,436	8,401	8,411	8,436	8,417	8,478	9,688	9,905	9,908	9,467	9,914
Dividend	\$2.00	\$0.50	\$0.50	\$0.50	\$0.51	\$2.01	\$0.51	\$0.51	\$0.51	\$0.52	\$2.05	\$2.08
FFO Payout Ratio	77.6%	74.1%	71.1%	69.9%	71.6%	71.6%	71.4%	84.5%	87.9%	84.8%	81.8%	85.9%
AFFO Payout Ratio	77.1%	70.9%	69.7%	67.4%	69.1%	69.2%	69.0%	81.7%	84.9%	82.1%	79.1%	83.2%
CAD Payout Ratio	91.0%	82.1%	80.0%	77.4%	79.0%	79.5%	79.7%	94.2%	98.2%	94.3%	91.2%	97.2%
<b>OTHER CALCULATIONS</b>												
<b>EBITDA</b>												
Total operating income	\$31,208	\$8,088	\$8,087	\$8,263	\$8,459	\$32,897	\$8,411	\$8,214	\$8,126	\$8,287	\$33,038	\$33,670
Less: Total G&A	(4,362)	(1,251)	(998)	(1,083)	(1,226)	(4,558)	(1,252)	(1,252)	(1,252)	(1,252)	(5,008)	(5,058)
EBITDA	\$26,846	\$6,837	\$7,089	\$7,180	\$7,233	\$28,339	\$7,159	\$6,962	\$6,874	\$7,035	\$28,030	\$28,612
EBITDA/Share, diluted	\$3.21	\$0.81	\$0.84	\$0.85	\$0.86	\$3.37	\$0.84	\$0.72	\$0.69	\$0.71	\$2.96	\$2.89
Total Fixed Charges <sup>a</sup>	\$8,307	\$1,901	\$1,836	\$1,881	\$1,907	\$7,525	\$2,072	\$1,906	\$1,914	\$1,808	\$7,699	\$8,159
EBITDA/Total Fixed Charges Ratio	3.2 x	3.6 x	3.9 x	3.8 x	3.8 x	3.8 x	3.5 x	3.7 x	3.6 x	3.9 x	3.6 x	3.5 x

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## **IMPORTANT DISCLOSURES**

### **Research Analyst Certification**

I, Andrew DiZio and Daniel P. Donlan, the Primarily Responsible Analyst for this research report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views I expressed in this research report.

### **Janney Montgomery Scott LLC ("JMS") Equity Research Disclosure Legend**

Janney Montgomery Scott is a market maker in the securities of ADC, and may at any time hold a long or short position in this security.

Janney Montgomery Scott may seek compensation for investment banking services from the subject company (ies) ADC security in the next 3 months.

The research analyst is compensated based on, in part, Janney Montgomery Scott's profitability, which includes its investment banking revenues.

### **Definition of Ratings**

**BUY:** Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

**NEUTRAL:** Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

**SELL:** Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

### **Price Charts**



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## **Janney Montgomery Scott Ratings Distribution as of 03/31/2010**

<b>Rating</b>	<b>IB Serv./Past 12 Mos.</b>			
	<b>Count</b>	<b>Percent</b>	<b>Count</b>	<b>Percent</b>
<b>BUY [B]</b>	165	51.00	18	11.00
<b>NEUTRAL [N]</b>	144	46.00	4	3.00
<b>SELL [S]</b>	10	3.00	1	10.00

**\*Percentages of each rating category where Janney has performed Investment Banking services over the past 12 months.**

### **Other Disclosures**

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