FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2001-08-03** | Period of Report: **2001-06-30**
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FILER

AGREE REALTY CORP

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Type: **10-Q** | Act: **34** | File No.: **001-12928** | Film No.: **1696918**
SIC: **6798** Real estate investment trusts

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2001

OR

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

For the transition period from __________ to __________

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)	(Zip Code)

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

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

Yes |X| No | |

4,416,869 Shares of Common Stock, $.0001 par value, were outstanding as of August 2, 2001

AGREE REALTY CORPORATION

FORM 10-Q

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AGREE REALTY CORPORATION

PART I: FINANCIAL INFORMATION

ITEM 1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AGREE REALTY CORPORATION

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

<TABLE>
<CAPTION>

	JUNE 30, 2001	December 31, 2000

<S> <C> <C>

ASSETS		
REAL ESTATE INVESTMENTS		
Land	$ 46,723,679	$ 45,028,679
Buildings	145,663,234	143,474,205
Property under development	1,839,634	2,545,018
	194,226,547	191,047,902
Less accumulated depreciation	(31,759,824)	(29,907,682)
NET REAL ESTATE INVESTMENTS	162,466,723	161,140,220
CASH AND CASH EQUIVALENTS	152,621	1,119,072
ACCOUNTS RECEIVABLE - TENANTS	347,566	741,565
INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED ENTITIES	260,828	266,449
UNAMORTIZED DEFERRED EXPENSES		
Financing	1,288,100	1,476,100
Leasing costs	322,340	310,424
OTHER ASSETS	752,311	998,260
	$ 165,590,489	$ 166,052,090

</TABLE>

See accompanying notes to consolidated financial statements.

AGREE REALTY CORPORATION

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

<TABLE>
<CAPTION>

	JUNE 30, 2001	December 31, 2000
<S>	<C>	<C>
LIABILITIES AND STOCKHOLDERS' EQUITY		
MORTGAGE PAYABLE	$ 51,426,663	$ 52,119,770
CONSTRUCTION LOANS	16,587,102	16,614,002
NOTES PAYABLE	36,158,232	35,358,232
DIVIDENDS AND DISTRIBUTIONS PAYABLE	2,341,591	2,331,379
ACCRUED INTEREST PAYABLE	258,627	314,607
ACCOUNTS PAYABLE		
Operating	665,980	1,017,493
Capital expenditures	1,077,427	1,110,673
TENANT DEPOSITS	50,020	51,240
TOTAL LIABILITIES	108,565,642	108,917,396
MINORITY INTEREST	5,675,284	5,707,608
STOCKHOLDERS' EQUITY		
Common stock, $.0001 par value; 20,000,000 shares authorized, 4,416,869 and 4,394,669 shares issued and outstanding	442	440
Additional paid-in capital	63,937,682	63,632,433

Deficit	(11,874,970)	(11,663,446)
	52,063,154	51,969,427
Less: unearned compensation - restricted stock	(713,591)	(542,341)
TOTAL STOCKHOLDERS' EQUITY	51,349,563	51,427,086
	$ 165,590,489	$ 166,052,090

</TABLE>

See accompanying notes to consolidated financial statements.

AGREE REALTY CORPORATION

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

<TABLE>
<CAPTION>

	SIX MONTHS ENDED JUNE 30, 2001	Six Months Ended June 30, 2000
<S>	<C>	<C>
REVENUES		
Minimum rents	$ 10,838,855	$ 10,284,320
Percentage rents	131,360	103,031
Operating cost reimbursements	1,308,977	1,207,209
Management fees and other	21,835	22,492
TOTAL REVENUES	12,301,027	11,617,052
OPERATING EXPENSES		
Real estate taxes	863,827	873,330
Property operating expenses	750,594	645,778
Land lease payments	369,480	315,613
General and administrative	859,225	811,591
Depreciation and amortization	1,906,982	1,836,984
TOTAL OPERATING EXPENSES	4,750,108	4,483,296
INCOME FROM OPERATIONS	7,550,919	7,133,756
OTHER INCOME (EXPENSE)		
Interest expense, net	(3,597,288)	(3,416,779)
Equity in net income of unconsolidated entities	347,160	175,179
Gain on sale of assets	138,543	-
TOTAL OTHER EXPENSE	(3,111,585)	(3,241,600)
INCOME BEFORE MINORITY INTEREST	4,439,334	3,892,156
MINORITY INTEREST	(587,340)	(516,893)
NET INCOME	$ 3,851,994	$ 3,375,263
EARNINGS PER SHARE	$ .87	$ .77
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	4,416,869	4,396,955

</TABLE>

See accompanying notes to consolidated financial statements.

AGREE REALTY CORPORATION

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED JUNE 30, 2001	Three Months Ended June 30, 2000
REVENUES		
<S>	<C>	<C>
Minimum rents	$ 5,458,858	$ 5,223,220
Percentage rents	6,831	11,749
Operating cost reimbursements	642,749	558,685
Management fees and other	10,422	10,510
TOTAL REVENUES	6,118,860	5,804,164
OPERATING EXPENSES		
Real estate taxes	432,231	427,710
Property operating expenses	313,791	235,365
Land lease payments	184,740	174,948
General and administrative	477,170	419,696
Depreciation and amortization	954,807	937,342
TOTAL OPERATING EXPENSES	2,362,739	2,195,061
INCOME FROM OPERATIONS	3,756,121	3,609,103
OTHER INCOME (EXPENSE)		
Interest expense, net	(1,747,326)	(1,758,259)
Equity in net income of unconsolidated entities	173,580	173,579
Gain on sale of assets	138,543	-
TOTAL OTHER EXPENSE	(1,435,203)	(1,584,680)
INCOME BEFORE MINORITY INTEREST	2,320,918	2,024,423
MINORITY INTEREST	(307,066)	(268,851)
NET INCOME	$ 2,013,852	$ 1,755,572
EARNINGS PER SHARE	$ .46	$ .40
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	4,416,869	4,395,240

</TABLE>

See accompanying notes to consolidated financial statements.

AGREE REALTY CORPORATION

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

<TABLE>
<CAPTION>

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Deficit	Unearned Compensation - Restricted Stock
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE, January 1, 2001	4,394,669	$ 440	$ 63,632,433	$ (11,663,446)	$ (542,341)
Issuance of shares under Stock Incentive Plan	27,291	2	375,249	-	(305,250)
Shares redeemed under the stock Incentive Plan	(5,091)	-	(70,000)	-	-
Vesting of restricted stock	-	-	-	-	134,000
Dividends declared for the period January 1, 2001 to June 30, 2001	-	-	-	(4,063,518)	-
Net income for the period January 1, 2001 to June 30, 2001	-	-	-	3,851,994	-
BALANCE, June 30, 2001	4,416,869	$ 442	$ 63,937,682	$ (11,874,970)	$ (713,591)

</TABLE>

See accompanying notes to consolidated financial statements.

AGREE REALTY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

<TABLE>
<CAPTION>

	SIX MONTHS ENDED JUNE 30, 2001	Six Months Ended June 30, 2000
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,851,994	$ 3,375,263
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	1,869,190	1,795,337
Amortization	226,290	217,647
Stock based-compensation	134,000	118,000
Gain on sale of assets	(138,543)	-
Equity in net income of unconsolidated entities	(347,160)	(175,179)
Minority interests	587,340	516,893
Decrease in accounts receivable	393,999	374,798
Decrease (increase) in other assets	168,545	(153,876)
Decrease in accounts payable	(351,513)	(349,511)
Increase (decrease) in accrued interest	(55,980)	11,941
Increase (decrease) in tenant deposits	(1,220)	1,453
NET CASH PROVIDED BY OPERATING ACTIVITIES	6,336,942	5,732,766
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of real estate investments (including capitalized interest of $100,000 in 2001 and $119,400 in 2000)	(2,101,217)	(4,649,632)
Distributions from unconsolidated entities	347,160	347,158
Proceeds from sale of assets	200,000	-
NET CASH USED IN INVESTING ACTIVITIES	(1,554,057)	(4,302,474)

CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends and limited partners' distributions paid	(4,672,970)	(4,650,889)
Repayment of capital expenditure payables	(1,040,673)	(1,112,044)
Line-of-credit net borrowings	800,000	3,200,000
Payments of mortgages payable	(693,107)	(647,095)
Redemption of restricted stock	(70,000)	(56,000)
Payment of leasing costs	(45,186)	(38,111)
Payments on construction loan	(26,900)	-
Payment for financing costs	(500)	-
Construction loan proceeds	-	994,284
NET CASH USED IN FINANCING ACTIVITIES	(5,749,336)	(2,309,855)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(966,451)	(879,563)
CASH AND CASH EQUIVALENTS, beginning of period	1,119,072	1,064,241
CASH AND CASH EQUIVALENTS, end of period	$ 152,621	$ 184,678
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest (net of amounts capitalized)	$ 3,468,845	$ 3,236,548
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS		
Dividends and limited partners' distributions declared and unpaid	$ 2,341,591	$ 2,331,379
Real estate investments financed with accounts payable	$ 1,077,427	$ 480,280
Shares issued under Stock Incentive Plan	$ 375,251	$ 471,202

</TABLE>

See accompanying notes to consolidated financial statements.

AGREE REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited 2001 consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The consolidated balance sheet at December 31, 2000 has been derived from the audited consolidated financial statements at that date. Operating results for the six months ended June 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001, or for any other interim period. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report for the year ended December 31, 2000.

2. EARNINGS PER SHARE

Earnings per share has been computed by dividing the income by the weighted average number of common shares outstanding. The per share amounts reflected in the consolidated statements of income are presented in accordance with Statement of Financial Accounting Standards (SFAS) No. 128 "Earnings per Share"; the amounts of the Company's "basic" and "diluted" earnings per share (as defined in SFAS No. 128) are the same.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The Company was established to continue to operate and expand the retail property business of its Predecessors. The Company commenced its operations on April 22, 1994. The assets of the Company are held by, and all operations are conducted through, Agree Limited Partnership (the "Operating Partnership"), of which the Company is the sole general partner and held an 86.77% interest as of June 30, 2001. The Company is operating so as to qualify as a real estate investment trust ("REIT") for federal income tax purposes.

The following should be read in conjunction with the Consolidated Financial Statements of Agree Realty Corporation, including the respective notes thereto, which are included in this Form 10-Q.

COMPARISON OF SIX MONTHS ENDED JUNE 30, 2001 TO SIX MONTHS ENDED JUNE 30, 2000

Minimum rental income increased $555,000, or 5%, to $10,839,000 in 2001, compared to $10,284,000 in 2000. The increase was the result of the development of three properties in 2000 and one property in 2001.

Percentage rental income increased $28,000, or 27%, to $131,000 in 2001, compared to $103,000 in 2000. The increase was the result of increased tenant sales.

Operating cost reimbursements, which represent additional rent required by substantially all of the Company's leases to cover the tenants' proportionate share of real estate taxes and property operating expenses, increased $102,000, or 8%, to $1,309,000 in 2001, compared to $1,207,000 in 2000. Operating cost reimbursements increased due to the net increase in real estate taxes and property operating expenses.

Management fees and other income remained constant at $22,000 in 2001 and 2000.

Real estate taxes decreased $9,000, or 1%, to $864,000 in 2001 compared to $873,000 in 2000. The decrease is the result of general assessment changes.

Property operating expenses (shopping center maintenance, insurance and utilities) increased $105,000, or 16%, to $751,000 in 2001 compared to $646,000 in 2000. The increase was the result of increased snow removal costs of $40,000; an increase in shopping center maintenance costs of $50,000; an increase in insurance costs of $3,000 and an increase in utilities of $12,000 in 2001 versus 2000.

Land lease payments increased $53,000, or 17%, to $369,000 in 2001 compared to $316,000 in 2000. The increase is the result of the Company leasing land for its Petoskey, Michigan development completed in 2000.

General and administrative expenses increased $47,000, or 6%, to $859,000 in

2001 compared to $812,000 in 2000. General and administrative expenses as a percentage of rental income remained constant at 7.8% for 2001 and 2000.

Depreciation and amortization increased $70,000, or 4%, to $1,907,000 in 2001 compared to $1,837,000 in 2000. The increase was the result of the development of three properties in 2000 and one property in 2001.

Interest expense increased $180,000, or 5%, to $3,597,000 in 2001, from $3,417,000 in 2000. The increase in interest expense was the result of the Company's additional borrowing to finance its development of properties and increased rates on variable rate notes payable.

Equity in net income of unconsolidated entities increased $172,000 to $347,000 in 2001 compared to $175,000 in 2000 as a result of depreciation expense no longer being allocated to the Company pursuant to the agreements relating to the Joint ventures in which the Company holds interests ranging from 8% to 20%.

The Company recognized a gain on the sale of an asset of $139,000 in 2001. There was no such gain in 2000.

The Company's income before minority interest increased $547,000 as a result of the foregoing factors.

COMPARISON OF THREE MONTHS ENDED JUNE 30, 2001 TO THREE MONTHS ENDED JUNE 30, 2000

Rental income increased $236,000, or 5%, to $5,459,000 in 2001, compared to $5,223,000 in 2000. The increase was the result of the development of two properties in 2000 and one property in 2001.

Percentage rental income decreased $5,000, or 42%, to $7,000 in 2001, compared to $12,000 in 2000. The decrease was the result of decreased tenant sales.

Operating cost reimbursements increased $84,000, or 15%, to $643,000 in 2001, compared to $559,000 in 2000. Operating cost reimbursements increased due to the increase in real estate taxes and property operating expenses.

Management fees and other income remained relatively constant at $10,000 in 2001 compared to $11,000 in 2000.

Real estate taxes increased $4,000, or 1%, to $432,000 in 2001 compared to $428,000 in 2000. The increase is the result of general assessment increases.

Property operating expenses (shopping center maintenance, insurance and utilities) increased $79,000, or 33%, to $314,000 in 2001 compared $235,000 in 2000. The increase was the result of decreased snow removal costs of ($7,000); an increase in shopping center maintenance of $82,000; an increase in utility costs of $2,000 and an increase in insurance cost of $2,000.

Land lease payments increased $10,000, or 6%, to $185,000 in 2001 compared to $175,000 in 2000. The increase is the result of the Company leasing land for its Petoskey, Michigan development completed in 2000.

General and administrative expenses increased $57,000, or 14%, to $477,000 in 2001 compared to $420,000 in 2000. The increase was primarily the result of an increase in compensation-related expenses. General and administrative expenses as a percentage of rental income increased from 8.0% for 2000 to 8.7% in 2001.

Depreciation and amortization increased $18,000, or 2%, to $955,000 in 2001 compared to $937,000 in 2000. The increase was the result of the development and acquisition of two properties in 2000 and one property in 2001.

Interest expense decreased $11,000, or 1%, to $1,747,000 in 2001, from $1,758,000 in 2000. The decrease in interest expense was the result of decreased rates on variable rate notes payable.

Equity in net income of unconsolidated entities remained constant at $174,000 in 2001 and 2000.

The Company recognized a gain on the sale of an asset of $139,000 in 2001. There was no such gain in 2000.

The Company's income before minority interest increased $296,000 as a result of the foregoing factors.

FUNDS FROM OPERATIONS

Management considers Funds from Operations ("FFO") to be a supplemental measure of the Company's operating performance. FFO is defined by the National Association of Real Estate Investments Trusts, Inc. ("NAREIT") to mean net income computed in accordance with generally accepted accounting principles ("GAAP"), excluding gains (or losses) from debt restructuring and sales of property, plus real estate related depreciation and amortization, and after adjustments for unconsolidated entities in which the REIT holds an interest. FFO does not represent cash generated from operating activities in accordance with GAAP and is not necessarily indicative of cash available to fund cash needs. FFO should not be considered as an alternative to net income as the primary indicator of the Company's operating performance or as an alternative to cash flow as a measure of liquidity.

The following tables illustrate the calculation of FFO for the six months and three months ended June 30, 2001 and 2000:

<TABLE>
<CAPTION>

Six Months Ended June 30,	2001	2000
<S>	<C>	<C>
Net income before minority interest	$ 4,439,334	$ 3,892,156
Depreciation of real estate assets	1,862,285	1,788,924
Amortization of leasing costs	33,270	35,085
Amortization of stock awards	134,000	118,000
Gain on sale of assets	(138,543)	-
Depreciation of real estate assets held in unconsolidated entities	-	171,980
FUNDS FROM OPERATIONS	$ 6,330,346	$ 6,006,145
WEIGHTED AVERAGE SHARES AND OP UNITS OUTSTANDING	5,090,416	5,070,502

Three Months Ended June 30,	2001	2000
Net income before minority interest	$ 2,320,918	$ 2,024,423
Depreciation of real estate assets	931,229	912,650
Amortization of leasing costs	17,839	17,992
Gain of sale of assets	(138,543)	-
Amortization of stock awards	67,000	59,000
FUNDS FROM OPERATIONS	$ 3,198,443	$ 3,014,065
WEIGHTED AVERAGE SHARES AND OP UNITS OUTSTANDING	5,090,416	5,068,787

== ================ ===================
</TABLE>

FORWARD-LOOKING STATEMENTS

Management has included herein certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended. When used, statements which are not historical in nature including the words "anticipate," "estimate," "should," "expect," "believe," "intend" and similar expressions are intended to identify forward-looking statements. Such statements are, by their nature, subject to certain risks and uncertainties. Risks and other factors that might cause such a difference include, but are not limited to, the effect of economic and market conditions; risks that the Company's acquisition and development projects will fail to perform as expected; financing risks, such as the inability to obtain debt or equity financing on favorable terms; the level and volatility of interest rates; loss or bankruptcy of one or more of the Company's major retail tenants; and failure of the Company's properties to generate additional income to offset increases in operating expenses.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal demands for liquidity are distributions to its stockholders, debt repayment, development of new properties and future property acquisitions.

During the quarter ended June 30, 2001, the Company declared a quarterly dividend of $.46 per share. The dividend was paid on July 12, 2001, to holders of record on June 29, 2001.

As of June 30, 2001, the Company had total mortgage indebtedness of $51,426,663 with a weighted average interest rate of 6.95%. Future scheduled annual maturities of mortgages payable for the years ending June 30 are as follows: 2002 - $1,438,474; 2003 - $1,561,984; 2004 - $1,673,060; 2005 - $1,792,040; and 2006 - $2,419,486. This mortgage debt is all fixed rate debt.

In addition, the Operating Partnership has in place a $50 million line of Credit Facility (the "Credit Facility") which is guaranteed by the Company. The loan matures in August 2003 and can be extended by the Company for an additional three years. Advances under the Credit Facility bear interest within a range of one-month to six-month LIBOR plus 150 basis points to 213 basis points or the bank's prime rate, at the option of the Company, based on certain factors such as debt to property value and debt service coverage. The Credit Facility is used to fund property acquisitions and development activities and is secured by most of the Company's Properties which are not otherwise encumbered and properties to be acquired or developed. As of June 30, 2001, $35,158,232 was outstanding under the Credit Facility.

The Company also has in place a $5 million line of credit (the "Line of Credit"), which matures on February 19, 2002, and which the Company expects to renew for an additional 12-month period. The Line of Credit bears interest at the bank's prime rate less 50 basis points or 175 basis points in excess of the one-month LIBOR rate, at the option of the Company. The purpose of the Line of

Credit is to provide working capital to the Company and fund land options and start-up costs associated with new projects. As of June 30, 2001, $1,000,000 was outstanding borrowings under the Line of Credit.

The Company's wholly owned subsidiaries have obtained construction financing of approximately $16,100,000 to fund the development of four retail properties. The notes require quarterly interest payments, based on a weighted average interest rate based on LIBOR, computed by the lender. The notes mature on October 16, 2002 and are secured by the underlying land and buildings. As of June 30, 2001, $14,896,962 was outstanding under these notes.

The Company has received funding from an unaffiliated third party for the construction of certain of its Properties. Advances under this agreement bear no interest and are secured by the specific land and buildings being developed. As of June 30, 2001, $1,690,140 was outstanding under this arrangement.

The Company has one development project under construction that will add an additional 14,490 square feet of retail space to the Company's portfolio. The project is expected to be completed during the third quarter of 2001. Additional Company funding required for this project is estimated to be $525,000 and will come from the Credit Facility. Management expects the development of this project to have a positive effect on cash generated by operating activities and Funds from Operations.

The Company intends to meet its short-term liquidity requirements, including capital expenditures related to the leasing and improvement of the Properties, through its cash flow provided by operations and the Line of Credit. Management believes that adequate cash flow will be available to fund the Company's operations and pay dividends in accordance with REIT requirements. The Company may obtain additional funds for future development or acquisitions through other borrowings or the issuance of additional shares of capital stock. The Company intends to incur additional debt in a manner consistent with its policy of maintaining a ratio of total debt (including construction and acquisition financing) to total market capitalization of 65% or less.

The Company plans to begin construction of additional pre-leased developments and may acquire additional properties, which will initially be financed by the Credit Facility and Line of Credit. Management intends to periodically refinance short-term construction and acquisition financing with long-term debt and/or equity. Upon completion of refinancing, the Company intends to lower the ratio of total debt to market capitalization to 50% or less. Nevertheless, the Company may operate with debt levels or ratios which are in excess of 50% for extended periods of time prior to such refinancing.

INFLATION

The Company's leases generally contain provisions designed to mitigate the adverse impact of inflation on net income. These provisions include clauses enabling the Company to pass through to tenants certain operating costs, including real estate taxes, common area maintenance, utilities and insurance, thereby reducing the Company's exposure to increases in costs and operating expenses resulting from inflation. Certain of the Company's leases contain clauses enabling the Company to receive percentage rents based on tenants' gross sales, which generally increase as prices rise, and, in certain cases, escalation clauses, which generally increase rental rates during the terms of the leases. In addition, expiring tenant leases permit the Company to seek increased rents upon re-lease at market rates if rents are below the then existing market rates.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to interest rate risk primarily through its borrowing activities. There is inherent rollover risk for borrowings as they mature and are renewed at current market rates. The extent of this risk is not quantifiable or predictable because of the variability of future interest rates and the Company's future financing requirements.

Mortgages payable - As of June 30, 2001 the Company had four mortgages outstanding. The first mortgage in the amount of $32,094,546 bears interest at 7.00%. The mortgage matures on November 15, 2005. The second mortgage in the amount of $7,203,524 bears interest at 7.00%. The mortgage matures on April 1, 2013 and is subject to a rate review after the 7th year (April 1, 2006). The third mortgage in the amount of $11,628,593 bears interest at 6.63%. The mortgage matures on February 5, 2017. The fourth mortgage in the amount of $500,000 bears interest at 10.00%. The mortgage matures October 5, 2005.

Construction loans - As of June 30, 2001 the Company had Construction loans outstanding of $16,587,102. Under the terms of the construction loans the Company bears no interest rate risk.

Notes Payable - As of June 30, 2001 the Company had $36,158,232 outstanding on its Lines-of-Credit which were subject to interest at a variable interest rate based on LIBOR.

The Company does not enter into financial instrument transactions for trading or other speculative purposes or to manage interest rate exposure.

A 10% adverse change in interest rates on the portion of the Company's debt bearing interest at variable rates would result in an annual increase in interest expense of approximately $192,000.

OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

On May 7, 2001, the Company held its Annual Meeting of Stockholders. The following were the results of the meeting:

The stockholders elected Ellis Wachs as a Director until the annual meeting of stockholders in 2004 or until a successor is elected and qualified.

The vote was as follows:

Ellis Wachs

Votes cast for	4,129,555
Votes withheld	78,943
Not voting	208,371

AGREE REALTY CORPORATION

PART II

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

3.1 Articles of Incorporation and Articles of Amendment of the Company (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-11 (Registration Statement No. 33-73858, as amended ("Agree S-11"))

3.2 Bylaws of the Company (incorporated by reference to Exhibit 3.3 to Agree S-11)

(b) Reports on Form 8-K

None

AGREE REALTY CORPORATION

SIGNATURES

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

AGREE REALTY CORPORATION

/s/ RICHARD AGREE

Richard Agree
President and Chief Executive Officer

/s/ KENNETH R. HOWE

Kenneth R. Howe
Vice-President - Finance and Secretary
(Principal Financial Officer)

Date: August 2, 2001
