**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# FORM 10–K

(Mark One)

☑ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the Fiscal Year Ended December 31, 2018**

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: **001-37949**

## Innovative Industrial Properties, Inc.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Maryland** | **81-2963381** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **11440 West Bernardo Court, Suite 220, San Diego, CA 92127** | **(858) 997-3332** |
| (Address of principal executive offices) | (Registrant's telephone number) |

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock, par value $0.001 per share | New York Stock Exchange |
| Series A Preferred Stock, par value $0.001 per share | 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 ☑

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. YES ☐ NO ☑

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☑ NO ☐

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). YES ☑ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the 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, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer ☐ | Accelerated filer ☑ |
| Non-accelerated filer ☐ | Smaller reporting company ☑ |
| | Emerging growth company ☑ |

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☑

The aggregate market value of the common stock held by non-affiliates of the Registrant was approximately $233.1 million, based upon the last reported sale price of $36.62 per share on the New York Stock Exchange on June 29, 2018, the last business day of the Registrant's most recently completed second quarter.

As of March 14, 2019, there were 9,806,194 shares of common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of Innovative Industrial Properties, Inc.'s Proxy Statement with respect to its 2019 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the registrant's fiscal year are incorporated by reference into Part III hereof.

**INNOVATIVE INDUSTRIAL PROPERTIES, INC.**

**FORM 10-K – ANNUAL REPORT**
**DECEMBER 31, 2018**
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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

We make statements in this report that are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (set forth in Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act")). In particular, our statements regarding anticipated growth in our funds from operations and anticipated market and regulatory conditions, our strategic direction, demographics, results of operations, plans and objectives are forward-looking statements. Forward-looking statements involve numerous risks and uncertainties, and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data or methods which may be incorrect or imprecise, and we may not be able to realize them. We do not guarantee that the transactions and events described will happen as described (or that they will happen at all). You can identify forward-looking statements by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," "seeks," "approximately," "intends," "plans," "estimates" or "anticipates" or the negative of these words and phrases or similar words or phrases, as well as by discussions of strategy, plans or intentions. The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- unanticipated changes in our business and investment strategy;
- actions and initiatives of the U.S. or state governments and changes to government policies and the execution and impact of these actions, initiatives and policies, including the fact that cannabis remains illegal under federal law;
- availability of suitable investment opportunities in the medical-use cannabis industry;
- concentration of our portfolio of assets and limited number of tenants;
- our understanding of our competition and our potential tenants' alternative financing sources;
- the estimated growth in and evolving market dynamics of the medical-use cannabis market;
- the demand for medical-use cannabis cultivation and processing facilities;
- the expected medical-use or adult-use cannabis legalization in certain states;
- shifts in public opinion regarding medical-use cannabis;
- the additional risks that may be associated with certain of our tenants cultivating adult-use cannabis in our cultivation facilities;
- the state of the U.S. economy generally or in specific geographic areas;
- economic trends and economic recoveries;
- our ability to access equity or debt capital;
- financing rates for our target assets;
- our expected leverage;
- changes in the values of our assets;
- our expected portfolio of assets;
- our expected investments;
- interest rate mismatches between our assets and our borrowings used to fund such investments;
- changes in interest rates and the market value of our assets;
- changes in the rates of default on leases for our assets;
- the degree to which any interest rate or other hedging strategies may or may not protect us from interest rate volatility;
- impact of and changes in governmental regulations, tax law and rates, accounting guidance and similar matters;
- our ability to maintain our qualification as a real estate investment trust ("REIT") for U.S. federal income tax purposes;
- our ability to maintain our exemption from registration under the Investment Company Act of 1940 (the "Investment Company Act");
- availability of qualified personnel; and
- market trends in our industry, interest rates, real estate values, the securities markets or the general economy.

While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. We disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. For a further discussion of these and other factors that could impact our future results, performance or transactions, see Item 1A, "Risk Factors."

Market data and industry forecasts and projections used in this Annual Report on Form 10-K have been obtained from independent industry sources. Forecasts, projections and other forward-looking information obtained from such sources are subject to similar qualifications and uncertainties as other forward-looking statements in this report.

## PART I

### ITEM 1. *BUSINESS*

**General**

As used herein, the terms "we", "us", "our" or the "Company" refer to Innovative Industrial Properties, Inc., a Maryland corporation, and any of our subsidiaries, including IIP Operating Partnership, LP, a Delaware limited partnership, or our Operating Partnership.

We are an internally-managed real estate investment trust ("REIT") focused on the acquisition, ownership and management of specialized industrial properties leased to experienced, state-licensed operators for their regulated state-licensed cannabis facilities. We have acquired and intend to continue to acquire our properties through sale-leaseback transactions and third-party purchases. We have leased and expect to continue to lease our properties on a triple-net lease basis, where the tenant is responsible for all aspects of and costs related to the property and its operation during the lease term, including structural repairs, maintenance, taxes and insurance.

We were incorporated in Maryland on June 15, 2016.We conduct our business through a traditional umbrella partnership real estate investment trust, or UPREIT structure, in which our properties are owned by our Operating Partnership, directly or through subsidiaries. We are the sole general partner of our Operating Partnership and own, directly or through a subsidiary, 100% of the limited partnership interests in our Operating Partnership. As of December 31, 2018, we had six full-time employees.

Our corporate office is located at 11440 West Bernardo Court, Suite 220, San Diego, California 92127. Our telephone number is (858) 997-3332.

**2018 Highlights**

*Properties*

During 2018, we acquired six additional properties in five new states, comprising approximately 391,000 additional rentable square feet. As of December 31, 2018, we owned eleven properties that were 100% leased to state-licensed medical-use cannabis operators and comprising an aggregate of approximately 1,027,000 rentable square feet in Arizona, Colorado, Illinois, Maryland, Massachusetts, Michigan, Minnesota, New York and Pennsylvania, with a weighted-average remaining lease term of approximately 14.7 years. As of December 31, 2018, we had invested an aggregate of $147.9 million (consisting of purchase price and development and tenant reimbursement commitments funded, if any, but excluding transaction costs) and had committed an additional $19.5 million to reimburse certain tenants and sellers for completion of construction and tenant improvements at our properties.

*Dividends*

We commenced quarterly dividends to our common stockholders in the second quarter 2017, which was our second full quarter after we completed our initial public offering and commenced real estate operations with the acquisition of our first property in December 2016. During 2018, we declared dividends to our common stockholders totaling $1.20 per share.

*Capital Raising*

In January 2018, we issued 3,220,000 shares of our common stock in a follow-on public offering, including the exercise in full of the underwriters' option to purchase an additional 420,000 shares, resulting in net proceeds of approximately $79.3 million, after deducting the underwriters' discounts and commissions and offering expenses.

In October 2018, we issued 2,990,000 shares of common stock, including the exercise in full of the underwriters' option to purchase an additional 390,000 shares, resulting in in net proceeds of approximately $113.9 million, after deducting the underwriters' discounts and commissions and offering expenses.

Subsequent to December 31, 2018, in February 2019, our Operating Partnership issued $143.75 million aggregate principal amount of 3.75% exchangeable senior notes due 2024 (the "Exchangeable Senior Notes"), including the exercise in full of the initial purchasers' option to purchase additional Exchangeable Senior Notes.

**Our Properties**

***Generally***

We have acquired and intend to continue to acquire specialized industrial real estate assets operated by state-licensed medical-use cannabis growers through sale-leaseback transactions and third-party purchases. In sale-leaseback transactions, concurrently upon closing of the acquisition, we lease the properties back to the sellers under long-term, triple-net lease agreements. We target properties owned by growers that have been among the top candidates in the state licensing process and have been granted one or more licenses to operate multiple facilities. Based on our properties and ongoing review of potential acquisitions, indoor cultivation facilities generally appear to have similar shells as standard light industrial buildings or greenhouses. However, based on our diligence, the medical-use cannabis cultivation process typically requires a finely tuned environment to achieve consistent high quality and specificity in cannabinoid levels and to maximize yields, which translates into certain capital improvements in the building's infrastructure. These improvements can include enhanced HVAC systems for climate and humidity control, high capacity electrical and plumbing systems, specialized lighting systems, and sophisticated building management, cultivation monitoring and security systems. Through this sale-leaseback strategy, we serve as a source of capital to these licensed medical-use cannabis growers, allowing them to redeploy their sale proceeds back into their core operations to grow their business and achieve higher returns. In a third-party purchase of a property, we may also fund the necessary tenant improvements through a long-term lease with an identified tenant, which also serves to free up capital for the tenant to reinvest into their business.

As of December 31, 2018, the tenant at each of our properties is responsible for paying all structural repairs, maintenance expenses, insurance and taxes related to the property during the term of the applicable lease.

A summary of each of our properties is provided below as of December 31, 2018, and organized by state:

***Arizona***

***Pharm AZ Property***

On December 15, 2017, we completed the acquisition of a property in Arizona (the "Pharm AZ Property") comprising approximately 358,000 square feet of greenhouse and industrial space, which we purchased from a subsidiary of The Pharm, LLC ("The Pharm") for $15.0 million (excluding approximately $27,000 in transaction costs) in a sale-leaseback transaction. Concurrent with the closing of the acquisition, we entered into a triple-net lease with another subsidiary of The Pharm, as tenant for continued use as a medical cannabis cultivation and processing facility. The lease also provides that we would fund up to $3.0 million as reimbursement for future tenant improvements at the Pharm AZ Property, which was fully funded as of December 31, 2018. As of December 31, 2018, the monthly base rent under the lease was $216,825, and subject to annual increases of 3.25% during the lease term.

***Colorado***

***The Green Solution CO Property***

On October 30, 2018, we completed the acquisition of a 58,000 square foot industrial property located in Colorado for approximately $11.3 million (excluding approximately $27,000 in transaction costs) and entered into a long-term, triple-net lease with The Green Solution, LLC for continued operation of a cannabis cultivation facility.

***Illinois***

***Ascend IL Property***

On December 21, 2018, we completed the acquisition of a 75,000 square foot industrial property located in Illinois for $19.0 million (excluding approximately $20,000 in transaction costs). Concurrent with the closing of the purchase, we entered into a long-term, triple-net lease agreement with a wholly owned subsidiary of Ascend Wellness Holdings, LLC (“Ascend”), which intends to operate the property as a medical-use cannabis cultivation and processing facility. Ascend is expected to complete additional tenant improvements for the building, for which we have agreed to provide reimbursement of up to $6.0 million, none of which was incurred or funded as of December 31, 2018. Assuming full reimbursement for the tenant improvements, our total investment in the property will be $25.0 million.

***Maryland***

***Holistic MD Property***

On May 26, 2017, we acquired a 72,000 square foot industrial property located in Maryland (the “Holistic MD Property”), which was under development at the time of our acquisition. The initial purchase price was $8.0 million (excluding approximately $185,000 in transaction costs), with an additional $3.0 million payable to the seller upon completion of certain development milestones. Concurrent with the closing of the purchase of the Holistic MD Property, we entered into a triple-net lease agreement with Holistic Industries LLC (“Holistic MD”) for use as a medical cannabis cultivation and processing facility. The initial term of the lease is 16 years, with three options to extend the term of the lease for three additional five-year periods. Holistic MD has an option to purchase the property upon a qualifying termination event or at the end of the initial lease term and subject to certain conditions, at the option purchase price that is the greater of fair market value or a 7.5% capitalization rate derived from market rental rates for industrial properties in the relevant competitive market.

On August 1, 2017, we paid the additional $3.0 million to the seller upon the seller’s completion of the development milestones at the Holistic MD Property. On September 25, 2017, we amended our lease with Holistic MD to, among other things, rescind the $1.9 million rent reserve that we originally established for Holistic under the lease, and to reimburse up to $1.9 million of additional tenant improvements for Holistic MD, such that a total of $5.9 million is reimbursable by us to Holistic for tenant improvements. On September 28, 2017, we approved and accrued for Holistic MD's draw request for reimbursement of the full $5.9 million of tenant improvements and funded that amount on October 2, 2017. As a result, our total investment in the Holistic MD Property was approximately $16.9 million (excluding transaction costs). As of December 31, 2018 Holistic's monthly base rent was approximately $219,853, of which $193,594 is subject to annual escalations of 3.25% during the initial lease term. We also receive a property management fee under the lease equal to 1.5% of the then-current base rent throughout the initial term.

### *Massachusetts*

#### *PharmaCann MA Property*

On May 31, 2018, we acquired a property in Massachusetts and entered into a long-term lease and development agreement with a subsidiary of PharmaCann for an approximately 26,000 square foot industrial facility and an approximately 32,000 square foot greenhouse facility on the property. The purchase price for the property was $3.0 million (excluding approximately $30,000 in transaction costs). The PharmaCann subsidiary is expected to construct the two buildings at the property, for which we have agreed to provide reimbursement of up to $15.5 million (the "Construction Funding"), of which approximately $9.7 million was incurred and approximately $9.5 million was funded as of December 31, 2018. Assuming full reimbursement for the Construction Funding, our total investment in the property will be $18.5 million. Concurrent with the closing of the purchase of the property, we entered into a long-term, triple-net lease agreement with the PharmaCann subsidiary, which intends to operate the property upon completion of development as a cannabis cultivation and processing facility.

#### *Holistic MA Property*

On July 12, 2018, we completed the acquisition of a 55,000 square foot industrial property located in Massachusetts for $12.75 million (excluding approximately $27,000 in transaction costs) in a sale-leaseback transaction. Upon the closing, we entered into a long-term, triple-net lease for the entire property with Holistic Industries, Inc. to operate a cannabis cultivation and processing facility.

### *Michigan*

#### *Green Peak MI Property*

On August 2, 2018, we completed the acquisition of a 56,000 square foot industrial property located in Michigan for approximately $5.5 million (excluding approximately $29,000 in transaction costs). Upon the closing, we entered into a long-term, triple-net lease for the entire property with Green Peak Industries, LLC ("Green Peak") for use as a medical cannabis cultivation and processing facility upon completion of development. We reimbursed the seller of the property approximately $5.3 million (the "Additional Purchase Price") a s of December 31, 2018 for completing certain required development milestones for the building. Green Peak is also expected complete certain tenant improvements, for which we have agreed to provide reimbursement of up to $2.2 million (the "TI Allowance"), of which approximately $1.5 million was incurred and approximately $1.1 million was funded as of December 31, 2018. Green Peak also has a one-time right to request an additional tenant improvement allowance of up to $8.0 million (the "Additional TI Allowance") for additional improvements to the property, subject to satisfaction of conditions set forth in the lease. If we make available the Additional TI Allowance, the base rent shall be adjusted to reflect our total investment in the property. In addition, the term of the lease shall be automatically extended to the date that is 15 years from the date that the Additional TI Allowance is made available. If we fund the full amount of the Additional Purchase Price, the TI Allowance and the Additional TI Allowance, our total investment in the property is expected to be $21.0 million. If we do not make the Additional TI Allowance available to Green Peak, Green Peak shall have the right to purchase the property, subject to satisfaction of conditions set forth in the lease, at a price equal to the greater of (a) the appraised value of the property and (b) the value determined by dividing the then-current base rent by ten percent.

***Minnesota***

***Vireo MN Property***

On November 8, 2017, we completed the acquisition of an industrial property located in Minnesota (the "Vireo MN Property"), which we purchased from a subsidiary of Vireo Health, Inc. ("Vireo Minnesota") for approximately $3.0 million (excluding approximately $58,000 in transaction costs) in a sale-leaseback transaction. Concurrent with the closing of the acquisition, we entered into a long-term, triple-net lease with Vireo Minnesota, as tenant for use as a medical cannabis cultivation and processing facility. In December 2018, we amended our lease with Vireo Minnesota to increase our reimbursement for future tenant improvements at the Vireo MN Property from approximately $1.0 million to a total of approximately $3.0 million, which also resulted in a corresponding increase to the base rent. As of December 31, 2018, we had incurred approximately $1.6 million and funded approximately $788,000 as reimbursement for tenant improvements at this property. In connection with these tenant improvements, we increased the footprint of the Vireo MN Property to approximately 39,000 square feet.

***New York***

***PharmaCann NY Property***

On December 19, 2016, we acquired a 127,000 square foot industrial property located in New York (the "PharmaCann NY Property"), which we purchased from PharmaCann LLC ("PharmaCann") for approximately $30.0 million (excluding approximately $75,000 in transaction costs) in a sale-leaseback transaction. Concurrent with the closing of the acquisition, we entered into a triple-net lease with PharmaCann, as tenant for use as a medical cannabis cultivation and processing facility. The lease term is 15 years, with two options to extend the term of the lease for two additional five-year periods. At December 31, 2018, the base rent of the PharmaCann lease was approximately $345,658 per month, subject to annual increases at a rate based on the higher of (i) 4% or (ii) 75% of the consumer price index. The lease also provides that we receive a property management fee equal to 1.5% of the then-current base rent throughout the term, and supplemental base rent for the first five years of the term of the lease at a rate of $105,477 per month.

***Vireo NY Property***

On October 23, 2017, we completed the acquisition of a 40,000 square foot industrial property located in New York (the "Vireo NY Property"), which we purchased from a subsidiary of Vireo Health, Inc. ("Vireo New York") for approximately $3.4 million (excluding approximately $60,000 in transaction costs) in a sale-leaseback transaction. Concurrent with the closing of the acquisition, we entered into a long-term, triple-net lease with Vireo New York, as tenant for use as a medical cannabis cultivation and processing facility. In December 2018, we amended our lease with Vireo New York to increase our reimbursement for future tenant improvements at the Vireo NY Property from $1.0 million to a total of $3.0 million, which also resulted in a corresponding increase to the base rent. As of December 31, 2018, we had incurred approximately $875,000 as reimbursement for tenant improvements at this property, of which no amount was funded.

***Pennsylvania***

***Vireo PA Property***

On April 6, 2018, we completed the acquisition of an 89,000 square foot industrial property located in Pennsylvania (the "Vireo PA Property") for approximately $5.8 million (excluding approximately $115,000 in transaction costs) in a sale-leaseback transaction. Upon the closing, we entered into a long-term, triple-net lease for the entire property with a subsidiary of Vireo Health, Inc. ("Vireo Pennsylvania"), for use as a medical cannabis cultivation and processing facility. In December 2018, we amended our lease with Vireo Pennsylvania to increase our reimbursement for future tenant improvements at the Vireo PA Property from approximately $2.8 million to a total of approximately $3.8 million, which also resulted in a corresponding increase to the base rent. As of December 31, 2018, we had incurred approximately $2.9 million and funded approximately $2.6 million as reimbursement for tenant improvements at this property.

***Acquisitions of Properties Completed Subsequent to December 31, 2018:***

Subsequent to December 31, 2018, we acquired the following two properties:

On February 8, 2019, we completed the acquisition of a 43,000 square foot industrial property located in California for approximately $6.7 million (excluding transaction costs). Concurrent with the closing of the purchase, we entered into a long-term, triple-net lease agreement with an experienced operator, which intends to operate the property as a cannabis cultivation facility in accordance with California cannabis regulations upon completion of redevelopment. The seller of the property is expected to complete redevelopment of the building, for which we have agreed to provide reimbursement of up to approximately $4.8 million. Assuming full reimbursement for the redevelopment, our total investment in the property will be approximately $11.5 million.

On March 13, 2019, we acquired a property in Ohio and entered into a long-term lease and development agreement with a subsidiary of PharmaCann for an approximately 26,000 square foot industrial facility and an approximately 32,000 square foot greenhouse facility on the property. The purchase price for the property was $700,000 (excluding transaction costs). The PharmaCann subsidiary is expected to construct the two buildings at the property, for which we have agreed to provide reimbursement of up to $19.3 million. Assuming full reimbursement for the construction, our total investment in the property will be $20.0 million.

**Our Competitive Strengths**

We believe that we have the following competitive strengths:

- ***Experienced and Committed Management Team.*** Alan Gold, our executive chairman, and other members of our senior management team have substantial experience in all aspects of the real estate industry, including acquisitions, dispositions, construction, development, management, finance and capital markets. In particular, in August 2004, Mr. Gold and Gary Kreitzer, vice chairman of our board of directors, founded BioMed Realty Trust, Inc. (formerly NYSE: BMR), or BioMed Realty, an internally-managed REIT focused on acquiring, developing, owning, leasing and managing laboratory and office space for the life science industry, an industry they believed to be underserved by commercial property investors and lenders and poised for significant growth. Mr. Gold served as chairman of the board of directors and chief executive officer and Mr. Kreitzer served as executive vice president and a member of the board of directors from the founding of BioMed Realty in 2004 through the acquisition of BioMed Realty by an affiliate of The Blackstone Group, L.P. in 2016.
- ***Recurring Revenue with Contractual Escalations.*** As of December 31, 2018, we had acquired eleven properties that were 100% leased on long-term, triple-net leasing arrangements with licensed medical-use cannabis cultivators, and which are subject to contractual rental rate increases. Along with our existing portfolio, we expect to continue to enter into additional similar transactions structured to provide recurring revenue with contractual escalations.
- ***Focus on Underserved Industry with Less Competition.*** Our focus on specialized industrial real estate assets leased to tenants in the regulated medical-use cannabis industry may result in significantly less competition from existing REITs and institutional buyers due to the unique nature of the real estate and its tenants. Moreover, we believe the banking industry's general reluctance to finance owners of state-licensed cannabis facilities, coupled with the licensed operators' need for capital to fund the growth of their operations, will continue to provide significant opportunities for us to acquire specialized industrial properties and execute long-term leases that are structured to generate stable and increasing rental revenue, along with the potential for long-term appreciation in value.
- ***Demonstrated Investment Acumen.*** We utilize rigorous underwriting standards for evaluating acquisitions and potential tenants to ensure that they meet our strategic and financial criteria. Our extensive experience and relationships in the real estate and medical-use cannabis industry enable us to identify, negotiate and close on acquisitions and leases with growers who have been among the top candidates in the rigorous state licensing process.
- ***Positive Regulated Cannabis Industry Trends.*** Based on the tremendous historical and projected growth for the regulated cannabis industry, we expect to see significant spending by state-licensed cannabis cultivators on their existing and new state-licensed cannabis facilities, presenting an opportunity for us to be a key capital provider in their expansion initiatives.

## Our Business Objectives and Growth Strategies

Our principal business objective is to maximize stockholder returns through a combination of (1) distributions to our stockholders, (2) sustainable long-term growth in cash flows from increased rents, which we hope to pass on to stockholders in the form of increased distributions, and (3) potential long-term appreciation in the value of our properties from capital gains upon future sale. Our primary strategy to achieve our business objective is to acquire and own a portfolio of specialized industrial properties, including medical-use cannabis facilities leased to tenants holding the requisite state licenses to operate in the regulated medical-use cannabis industry. This strategy includes the following components:

- ***Owning Specialized Industrial Properties and Related Real Estate Assets for Income.*** We primarily acquire medical-use cannabis facilities from licensed growers who will continue their cultivation operations after our acquisition of the property. We expect to hold acquired properties for investment and to generate stable and increasing rental income from leasing these properties to licensed growers.
- ***Owning Specialized Industrial Properties and Related Real Estate Assets for Appreciation.*** We primarily lease our acquired properties under long-term, triple-net leases. However, from time to time, we may elect to sell one or more properties if we believe it to be in the best interests of our stockholders. Accordingly, we will seek to acquire properties that we believe also have potential for long-term appreciation in value.
- ***Expanding as Additional States Permit Medical-Use Cannabis Cultivation and Production.*** We acquire properties in the United States, with a focus on states that permit cannabis cultivation for medical use. As of December 31, 2018, we owned properties in nine states, and we expect that our acquisition opportunities will continue to expand as additional states legalize medical-use cannabis and license new cultivators.
- ***Preserving Financial Flexibility on our Balance Sheet.*** We are focused on maintaining a conservative capital structure, in order to provide us flexibility in financing our growth initiatives.

## Our Target Markets

Our target markets include states that permit cannabis cultivation for medical use. As of December 31, 2018, we owned eleven properties located in Arizona, Colorado, Illinois, Maryland, Massachusetts, Michigan, Minnesota, New York and Pennsylvania. According to the National Conference of State Legislatures, as of December 31, 2018, 33 states and the District of Columbia have legalized cannabis for medical use.

Although these states have approved the medical use of cannabis, the applicable state and local laws and regulations vary widely. For example, most states' laws allow commercial production and sales through dispensaries and set forth rigorous licensing requirements; in other states the licensing rules are unclear. In some states, dispensaries are mandated to operate on a not-for-profit basis. Some states permit home cultivation activities. The states also differ on the form in which cannabis can be sold. For example, some states do not permit cannabis-infused products such as concentrates, edibles and topicals, while other states ban smoking cannabis.

In addition, we expect other factors will be important in the development and growth of the medical-use cannabis industry in the United States, including the timeframes for developing regulations and issuing licenses in states that recently passed laws allowing for medical-use cannabis, and continued legislative authorization of medical-use cannabis at the state level. Progress in the regulated medical-use cannabis industry, while encouraging, is not assured and any number of factors could slow or halt progress in this area.

## Market Opportunity

### *The Industrial Real Estate Sub-Market*

The industrial real estate sub-market continues to perform well in this real estate cycle. According to CBRE Group, Inc., the U.S. industrial property vacancy rate declined to 4.3% in the fourth quarter of 2018, reflecting the 35$^{th}$ consecutive quarter of positive net absorption. Nearly 30.0 million square feet of industrial real estate were absorbed in 2018, which resulted in the highest net asking rents since CBRE Group, Inc. began tracking this metric in 1989.

We believe this supply/demand dynamic creates significant opportunity for owners of industrial facilities, particularly those focused on niche categories, as options are limited for tenants requiring specialized buildings. We intend to capitalize on this opportunity by purchasing specialized industrial real estate assets that are critical to the medical-use cannabis industry.

***The Regulated Medical-Use Cannabis Industry***

Overview

We believe that a convergence of changing public attitudes and increased legalization momentum in various states toward regulated medical-use cannabis creates an attractive opportunity to invest in the industrial real estate sector with a focus on regulated medical-use cannabis facilities. We also believe that the increased sophistication of the regulated medical-use cannabis industry and the development of strong business, operational and compliance practices have made the sector more attractive for investment. Increasingly, state-licensed, medical-use cannabis cultivation and processing facilities are becoming sophisticated business enterprises that use state-of-the-art technologies and well-honed business and operational processes to maximize product yield and revenues. Additionally, medical-use cannabis growers and dispensers have developed a growing portfolio of products into which they are able to incorporate legal medical-use cannabis in a safe and appealing manner.

In the United States, the development and growth of the regulated medical-use cannabis industry has generally been driven by state law and regulation, and accordingly, the market varies on a state-by-state basis. State laws that legalize and regulate medical-use cannabis allow patients to consume cannabis for medicinal reasons with a doctor's recommendation, subject to various requirements and limitations. States have authorized numerous medical conditions as qualifying conditions for treatment with medical-use cannabis, which vary significantly from state to state and may include, among others, treatment for cancer, glaucoma, HIV/AIDs, wasting syndrome, pain, nausea, seizures, muscle spasms, multiple sclerosis, post-traumatic stress disorder (PTSD), migraines, arthritis, Parkinson's disease, Alzheimer's, lupus, residual limb pain, spinal cord injuries, inflammatory bowel disease and terminal illness. As of December 31, 2018, 33 states, plus the District of Columbia, have passed laws allowing their citizens to use medical cannabis.

We believe that the following conditions, which are described in more detail below, create an attractive opportunity to invest in industrial real estate assets that support the regulated medical-use cannabis industry:

- significant industry growth in recent years and expected continued growth;
- a shift in public opinion and increasing momentum toward the legalization of medical-use cannabis under state law; and
- limited access to capital by industry participants in light of risk perceived by financial institutions of violating federal laws and regulatory guidelines for offering banking services to cannabis-related businesses.

Industry Growth and Trends

According to Arcview Market Research, sales of state-legal cannabis in the United States grew to $8.6 billion in 2017, including $5.9 billion of medical-use cannabis sales, and are expected to reach $22.2 billion by 2022.

According to ProCon.org, a non-profit organization, as of May 2018, over 2.1 million people used or were registered to use state-legalized medical cannabis in the United States, taking data available from the 26 states and Washington, D.C. that had implemented their medical cannabis programs as of that date. As the industry continues to evolve, new ways to consume medical-use cannabis are being developed in order for patients to have the treatment needed for their condition in a safe and appealing manner. In addition to smoking and vaporizing of dried leaves, cannabis can be incorporated into a variety of edibles, pills, spray products, transdermal patches and topicals, including salves, ointments, lotions and sprays with low or high levels of delta-9-tetrahydrocannabinol (“THC”), the principal psychoactive constituent of the cannabis plant.

As with any nascent but growing industry, operational and business practices evolve and become more sophisticated over time. We believe that the quality and experience of industry participants and the development of sound business, operational and compliance practices have strengthened significantly over time, increasing the attractiveness for investment in the regulated medical-use cannabis industry.

Shifting Public Attitudes and State Law and Legislative Activity

We believe that the growth of the regulated medical-use cannabis industry has been fueled, in part, by the rapidly changing public attitudes in the United States. A 2018 poll by Quinnipiac University found that 93% of Americans support patient access to medical-use cannabis, if recommended by a doctor.

As of December 31, 2018, 33 states, plus the District of Columbia, have passed laws allowing their citizens to use medical cannabis. The first state to permit the use of cannabis for medicinal purposes was California in 1996, upon adoption of the Compassionate Care Act. The law allowed doctors to recommend cannabis for serious medical conditions and patients were permitted to use, possess and grow cannabis themselves. Several other states adopted medical-use cannabis laws in 1998 and 1999, and the remaining medical-use cannabis states adopted their laws on various dates through 2018.

Following the approval of medical-use cannabis, state programs must be developed and businesses must be licensed before commencing cannabis sales. Some states have developed the necessary procedures and licensing requirements quickly, while other states have taken years to develop their programs for production and sales of cannabis. Even where regulatory frameworks for medical-use cannabis production and sales are in place, states tend to revise these rules over time. These revisions often impact sales, making it difficult to predict the potential of new markets. States may restrict the number of medical-use cannabis businesses permitted, restrict the method by which medical cannabis can be consumed, limit the medical conditions that are eligible for cannabis treatment or require registration of doctors and/or patients, each of which can limit growth of the medical-use cannabis industry in those states. Alternatively, states may relax their initial regulations relating to medical-use cannabis production and sales, which would likely accelerate growth of the medical-use cannabis industry in such states.

Access to Capital

To date, the status of state-licensed cannabis under federal law has significantly limited the ability of state-licensed industry participants to fully access the U.S. banking system and traditional financing sources. These limitations, when combined with the high costs of maintaining licensed and stringently regulated medical-use cannabis facilities (including meeting extensive zoning requirements), substantially increase the cost of production. While future changes in federal and state laws may ultimately open up financing options that have not been available to date in this industry, we believe that such changes, if they do occur, will take time, thereby creating an opportunity over the next few years to provide our sale-leaseback and other real estate solutions to state-licensed industry participants that have limited access to traditional financing sources.

Market Opportunity and Associated Risks

We focus on purchasing specialized industrial real estate assets for the regulated medical-use cannabis industry, with emphasis on properties that we believe also have potential for long-term appreciation in value. We believe that our sale-leaseback and other real estate solutions offer an attractive alternative to state-licensed medical-cannabis cultivators who have limited access to traditional financing alternatives. We have acquired and intend to continue to acquire medical-use cannabis facilities in states that permit medical-use cannabis cultivation.

Notwithstanding the foregoing market opportunity and trends, and despite legalization at the state level, we continue to believe that the current state of federal law creates significant uncertainty and potential risks associated with investing in medical-use cannabis facilities, including but not limited to potentially heightened risks related to the use of such facilities for adult-use cannabis operations, if a state passes such laws. For a more complete description of these risks, see the sections "Risks Related to Regulation" and "Business — Governmental Regulation" under Item 1A, "Risk Factors."

**Tenant Concentration**

As of December 31, 2018, all of our revenues were derived from eleven properties. PharmaCann leases two properties from us in New York and Massachusetts, which comprised approximately 39% and 82% of rental revenues for the years ended December 31, 2018 and 2017, respectively. In addition, our tenant Holistic MD comprised approximately 18% and 14% of rental revenues for the years ended December 31, 2018 and 2017, respectively. Furthermore, our tenant The Pharm comprised approximately 16% of rental revenues for the year ended December 31, 2018. Our tenants are generally start-up businesses with limited histories of operations, and have not yet been profitable, or have been profitable only for a short period of time. For some or all of 2019, we expect that many of our tenants will continue to incur losses as their expenses increase in connection with the expansion of their operations, and that they have made and will continue to make rent payments to us from proceeds from the sale of the applicable property or cash on hand, and not funds from operations. Furthermore, each of our leases does not prohibit the tenant from conducting adult-use cannabis operations at the applicable property, provided such operations are in compliance with applicable state and local laws. As such, our tenant may conduct adult-use cannabis operations at the property it leases from us, which in turn could expose that tenant, us and our property to different and greater risks, including heightened risks of enforcement of federal laws. For example, the voters of the Commonwealth of Massachusetts passed an initiative to legalize cannabis for adult-use in 2016, having previously voted to legalize medical-use cannabis in 2012. Massachusetts began issuing licenses to operators for the sale of adult-use cannabis in July 2018. Our existing leases at our Massachusetts properties do not prohibit our tenants from conducting adult-use cannabis cultivation, processing or dispensing that is permissible under state and local laws. Similarly, the states of California and Colorado permits licensed adult-use cannabis cultivation, processing and dispensing, and our leases with tenants in those states allow for adult-use cannabis operations to be conducted at the properties in compliance with state and local laws. In addition, Michigan voters passed an initiative in November 2018 to legalize cannabis for adult-use.

See each of the discussions under Item 1A, "Risk Factors," under the captions "Many of our existing tenants are, and we expect that most of our future tenants will be, start-up businesses and may be unable to pay rent with funds from operations or at all, which could adversely affect our cash available to make distributions to our stockholders or otherwise impair the value of our common stock," and "Our current real estate portfolio consists of only 13 properties and will likely continue to be concentrated in a limited number of properties in the future, which subjects us to an increased risk of significant loss if any property declines in value or if we are unable to lease a property."

**Geographic Concentration**

As of December 31, 2018, all of our revenues were derived from our eleven properties located in Arizona, Colorado, Illinois, Maryland, Massachusetts, Michigan, Minnesota, New York and Pennsylvania. See each of the discussions under Item 1A, "Risk Factors," under the caption "Our properties are, and are expected to continue to be, geographically concentrated in states that permit medical-use cannabis cultivation, and we will be subject to social, political and economic risks of doing business in these states and any other state in which we may own property." The medical-use cannabis market is in its early stages, and is subject to strict regulations providing for, among other things, limited medical conditions for treatment with medical-use cannabis, limitations on the form in which medical cannabis can be consumed and enhanced registration requirements for patients and physicians, which may result in the market not growing and developing in the way that we or our tenants projected.

**Our Financing Strategy**

We intend to meet our long-term liquidity needs through cash flow from operations and the issuance of equity and debt securities, including common stock, preferred stock and long-term notes. Where possible, we also may issue limited partnership interests in our Operating Partnership to acquire properties from existing owners seeking a tax-deferred transaction. We expect to issue equity and debt securities at times when we believe that our stock price is at a level that allows for the reinvestment of offering proceeds in accretive property acquisitions. We may also issue common stock to permanently finance properties that were previously financed by debt securities. However, we cannot assure you that we will have access to the capital markets at times and on terms that are acceptable to us. Our ability to access the capital markets and to obtain other financing arrangements is also significantly limited by our focus on serving the medical-use cannabis industry. Our investment guidelines initially provide that our aggregate borrowings (secured and unsecured) will not exceed 50% of the cost of our tangible assets at the time of any new borrowing, subject to our board of directors' discretion.

We have filed a shelf registration statement, which was subsequently declared effective by the SEC, which may permit us, from time to time, to offer and sell common stock, preferred stock, warrants and other securities to the extent necessary or advisable to meet our liquidity needs.

**Risk Management**

As of December 31, 2018, we owned eleven properties located in Arizona, Colorado, Illinois, Maryland, Massachusetts, Michigan, Minnesota, New York and Pennsylvania. We will continue to attempt to diversify the investment size and location of our portfolio of properties in order to manage our portfolio-level risk. Over the long term, we intend that no single property will exceed 25% of our total assets and that no single tenant will exceed 30% of our total assets.

We expect that single tenants will continue to occupy our properties pursuant to triple-net lease arrangements in general and, therefore, the success of our investments will be materially dependent on the financial stability of these tenants. Our existing tenants generally are, and we expect that most of our tenants will be in the future, start-up businesses that have little or no revenue and, at least initially, will make rent payments to us from the sale proceeds of a sale-leaseback transaction with us or cash on hand. We also expect the success of our tenants, and their ability to make rent payments to us, to significantly depend on the projected growth and development of the applicable state market; as many of these state markets have a very limited history, and other state markets are still forming their regulations, issuing licenses and otherwise establishing the market framework, significant uncertainty exists as to whether these markets will develop in the way that we or our tenants project.

We evaluate the credit quality of our tenants and any guarantors on an ongoing basis by reviewing, where available, the publicly filed financial reports, press releases and other publicly available industry information regarding our tenants and any guarantors. In addition, we monitor the payment history data for all of our tenants and, in some instances, we monitor our tenants by periodically conducting site visits and meeting with the tenants to discuss their operations. In many instances, we will generally not be entitled to financial results or other credit-related data from our tenants. See the section "Risks Related to Our Business" under Item 1A, "Risk Factors."

**Competition**

The current market for properties that meet our investment objectives is limited. In addition, we believe finding properties that are appropriate for the specific use of allowing medical-use cannabis growers may be limited as more competitors enter the market, and as medical-use cannabis growers obtain greater access to alternative financing sources, including but not limited to equity and debt financing sources. We face significant competition from a diverse mix of market participants, including but not limited to, other companies with similar business models, independent investors, hedge funds and other real estate investors, hard money lenders, and cannabis operators themselves, all of whom may compete with us in our efforts to acquire real estate zoned for medical-use cannabis facilities. In some instances, we will be competing to acquire real estate with persons who have no interest in the cannabis industry, but have identified value in a piece of real estate that we may be interested in acquiring.

These competitors may prevent us from acquiring desirable properties or may cause an increase in the price we must pay for properties. Our competitors may have greater financial and operational resources than we do and may be willing to pay more for certain assets or may be willing to accept more risk than we believe can be prudently managed. In particular, larger companies may enjoy significant competitive advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. Our competitors may also adopt transaction structures similar to ours, which would decrease our competitive advantage in offering flexible transaction terms. In addition, due to a number of factors, including but not limited to potential greater clarity of the laws and regulations governing medical-use cannabis by state and federal governments, the number of entities and the amount of funds competing for suitable investment properties may increase substantially, resulting in increased demand and increased prices paid for these properties. If we pay higher prices for properties, our profitability may decrease, and you may experience a lower return on our common stock. Increased competition for properties may also preclude us from acquiring those properties that would generate attractive returns to us.

**Governmental Regulation**

***Federal Laws Applicable to the Medical-Use Cannabis Industry***

Cannabis is classified as a Schedule I controlled substance by the Drug Enforcement Agency ("DEA") and the U.S. Department of Justice ("DOJ") with no medical use, and therefore it is illegal to grow, possess and consume cannabis under federal law. The Controlled Substances Act of 1910 ("CSA") bans cannabis-related businesses; the possession, cultivation and production of cannabis-infused products; and the distribution of cannabis and products derived from it. Moreover, on two separate occasions the U.S. Supreme Court ruled that the CSA trumps state law. That means that the federal government has the option of enforcing U.S. drug laws, creating a climate of legal uncertainty regarding the production and sale of medical-use cannabis.

Under the Obama administration, the DOJ previously issued memoranda, including the so-called “Cole Memo” on August 29, 2013, providing internal guidance to federal prosecutors concerning enforcement of federal cannabis prohibitions under the CSA. This guidance essentially characterized use of federal law enforcement resources to prosecute those complying with state laws allowing the use, manufacture and distribution of cannabis as an inefficient use of such federal resources when state laws and enforcement efforts are effective with respect to specific federal enforcement priorities under the CSA.

On January 4, 2018, U.S. Attorney General Jeff Sessions issued a written memorandum rescinding the Cole Memo and related internal guidance issued by the DOJ regarding federal law enforcement priorities involving cannabis (the “Sessions Memo”). The Sessions Memo instructs federal prosecutors that when determining which cannabis-related activities to prosecute under federal law with the DOJ’s finite resources, prosecutors should follow the well-established principles set forth in the U.S. Attorneys’ Manual governing all federal prosecutions. The Sessions Memo states that “these principles require federal prosecutors deciding which cases to prosecute to weigh all relevant considerations, including federal law enforcement priorities set by the Attorney General, the seriousness of the crime, the deterrent effect of criminal prosecution, and the cumulative impact of particular crimes on the community.” The Sessions Memo went on to state that given the DOJ’s well-established general principles, “previous nationwide guidance specific to marijuana is unnecessary and is rescinded, effective immediately.” It is unclear what impact the Sessions Memo will have on the medical-use cannabis industry, if any.

In addition, pursuant to the current omnibus spending bill previously approved by Congress, the DOJ is prohibited from using funds appropriated by Congress to prevent states from implementing their medical-use cannabis laws. A similar provision was also included in each prior Congressional omnibus spending bill since 2014. This provision, however, is currently set to expire on September 30, 2019, and there is no assurance that Congress will approve inclusion of a similar prohibition on DOJ spending in the appropriations bills for future years. In *USA vs. McIntosh* , the United States Circuit Court of Appeals for the Ninth Circuit held that this provision prohibits the DOJ from spending funds from relevant appropriations acts to prosecute individuals who engage in conduct permitted by state medical-use cannabis laws and who strictly comply with such laws. However, the Ninth Circuit's opinion, which only applies in the states of Alaska, Arizona, California, Hawaii and Idaho, also held that persons who do not strictly comply with all state laws and regulations regarding the distribution, possession and cultivation of medical-use cannabis have engaged in conduct that is unauthorized, and in such instances the DOJ may prosecute those individuals.

Furthermore, while we target the acquisition of medical-use cannabis facilities, our leases do not prohibit cannabis cultivation for adult-use that is permissible under the state and local laws where our facilities are located. Consequently, certain of our tenants cultivate adult-use cannabis now (or may in the future) in our medical-use cannabis facilities that are permitted by such state and local laws, which may in turn subject the tenant, us and our properties to greater and/or different federal legal and other risks than exclusively medical-use cannabis facilities, including not providing protection under the above Congressional spending provision.

Federal prosecutors have significant discretion and no assurance can be given that the federal prosecutor in each judicial district where we purchase a property will not choose to strictly enforce the federal laws governing cannabis production or distribution. Any change in the federal government's enforcement posture with respect to state-licensed cultivation of medical-use cannabis, including the enforcement postures of individual federal prosecutors in judicial districts where we purchase properties, would result in our inability to execute our business plan, and we would likely suffer significant losses with respect to our investment in medical-use cannabis facilities in the United States, which would adversely affect the trading price of our securities. Furthermore, following any such change in the federal government's enforcement position, we could be subject to criminal prosecution, which could lead to imprisonment and/or the imposition of penalties, fines, or forfeiture. See "Risk Factors – Risks Relating to Regulation."

***State Laws Applicable to the Medical-Use Cannabis Industry***

In most states that have legalized medical-use cannabis in some form, the growing and/or dispensing of cannabis generally requires that the operator obtain one or more licenses in accordance with applicable state requirements. In addition, many states regulate various aspects of the growing and/or dispensing of medical-use cannabis. For example, New York limits the types of treatable medical conditions, requires registration of both patients and recommending physicians, limits the types of strains that can be grown, sets prices through the State Program Commissioner, requires that a registered pharmacist be on the premises of all dispensaries during hours of operation, and prohibits cannabis in flower form. Local governments in some cases also impose rules and regulations on the manner of operating cannabis businesses. As a result, applicable state and local laws and regulations vary widely. As a result of licensing requirements, if our tenants default under their leases, we may not be able to find new tenants that have the requisite license to engage in the cultivation of medical cannabis on the properties.

***Laws Applicable to Banking for Cannabis Industry***

All banks are subject to federal law, whether the bank is a national bank or state-chartered bank. At a minimum, all banks maintain federal deposit insurance which requires adherence to federal law. Violation of federal law could subject a bank to loss of its charter. Financial transactions involving proceeds generated by cannabis-related conduct can form the basis for prosecution under the federal money laundering statutes, unlicensed money transmitter statutes and the Bank Secrecy Act. For example, under the Bank Secrecy Act, banks must report to the federal government any suspected illegal activity, which would include any transaction associated with a cannabis-related business. These reports must be filed even though the business is operating in compliance with applicable state and local laws. Therefore, financial institutions that conduct transactions with money generated by cannabis-related conduct could face criminal liability under the Bank Secrecy Act for, among other things, failing to identify or report financial transactions that involve the proceeds of cannabis-related violations of the CSA.

The Financial Crimes Enforcement Network ("FinCen") issued guidance in February 2014 which clarifies how financial institutions can provide services to cannabis-related businesses consistent with their obligations under the Bank Secrecy Act. Concurrently with the FinCen guidance, the DOJ issued supplemental guidance directing federal prosecutors to consider the federal enforcement priorities enumerated in the Cole Memo with respect to federal money laundering, unlicensed money transmitter and Bank Secrecy Act offenses based on cannabis-related violations of the CSA. The FinCen guidance sets forth extensive requirements for financial institutions to meet if they want to offer bank accounts to cannabis-related businesses, including close monitoring of businesses to determine that they meet all of the requirements established by the DOJ, including those enumerated in the Cole Memo. This is a level of scrutiny that is far beyond what is expected of any normal banking relationship.

As a result, many banks are hesitant to offer any banking services to cannabis-related businesses, including opening bank accounts. While we currently have a bank account, our inability to maintain that account or the lack of access to bank accounts or other banking services in the future, would make it difficult for us to operate our business, increase our operating costs, and pose additional operational, logistical and security challenges. Similarly, if our proposed tenants are unable to access banking services, they will not be able to enter into triple-net leasing arrangements with us, as our leases will require rent payments to be made by check or wire transfer.

Furthermore, it is unclear what impact the rescission of the Cole Memo will have, but federal prosecutors may increase enforcement activities against institutions or individuals that are conducting financial transactions related to cannabis activities. The increased uncertainty surrounding financial transactions related to cannabis activities may also result in financial institutions discontinuing services to the cannabis industry. See “Risk Factors – Risks Relating to Regulation.”

***Agricultural Regulation***

The medical-use cannabis properties that we acquire are used primarily for cultivation and production of medical-use cannabis and are subject to the laws, ordinances and regulations of state, local and federal governments, including laws, ordinances and regulations involving land use and usage, water rights, treatment methods, disturbance, the environment, and eminent domain.

Each governmental jurisdiction has its own distinct laws, ordinances and regulations governing the use of agricultural lands. Many such laws, ordinances and regulations seek to regulate water usage and water runoff because water can be in limited supply, as is the case in certain locations where our properties are located. In addition, runoff from rain or from irrigation is governed by laws, ordinances and regulations from state, local and federal governments. Additionally, if any of the water used on or running off from our properties flows to any rivers, streams, ponds, the ocean or other waters, there may be specific laws, ordinances and regulations governing the amount of pollutants, including sediments, nutrients and pesticides, that such water may contain.

We believe that our existing properties have, and other properties that we acquire in the future will have, sources of water, including wells and/or surface water that provide sufficient amounts of water necessary for the current operations at each location. However, should the need arise for additional water from wells and/or surface water sources, we may be required to obtain additional permits or approvals or to make other required notices prior to developing or using such water sources. Permits for drilling water wells or withdrawing surface water may be required by federal, state and local governmental entities pursuant to laws, ordinances, regulations or other requirements, and such permits may be difficult to obtain due to drought, the limited supply of available water within the districts of the states in which our properties are located or other reasons.

In addition to the regulation of water usage and water runoff, state, local and federal governments also seek to regulate the type, quantity and method of use of chemicals and materials for growing crops, including fertilizers, pesticides and nutrient rich materials. Such regulations could include restricting or preventing the use of such chemicals and materials near residential housing or near water sources. Further, some regulations have strictly forbidden or significantly limited the use of certain chemicals and materials. Licenses, permits and approvals must be obtained from governmental authorities requiring such licenses, permits and approvals before chemicals and materials can be used at grow facilities. Reports on the usage of such chemicals and materials must be submitted pursuant to applicable laws, ordinances, and regulations and the terms of the specific licenses, permits and approvals. Failure to comply with laws, ordinances and regulations, to obtain required licenses, permits and approvals or to comply with the terms of such licenses, permits and approvals could result in fines, penalties and/or imprisonment.

The use of land for agricultural purposes in certain jurisdictions is also subject to regulations governing the protection of endangered species. When agricultural lands border, or are in close proximity to, national parks, protected natural habitats or wetlands, the agricultural operations on such properties must comply with laws, ordinances and regulations related to the use of chemicals and materials and avoid disturbance of habitats, wetlands or other protected areas.

Because properties we own may be used for growing medical-use cannabis, there may be other additional land use and zoning regulations at the state or local level that affect our properties that may not apply to other types of agricultural uses. For example, certain states in which our properties are located require stringent security systems in place at grow facilities, and require stringent procedures for disposal of waste materials.

As an owner of agricultural lands, we may be liable or responsible for the actions or inactions of our tenants with respect to these laws, regulations and ordinances.

***Environmental Matters***

Our properties and the operations thereon are subject to federal, state and local environmental laws, ordinances and regulations, including laws relating to water, air, solid wastes and hazardous substances. Our properties and the operations thereon are also subject to federal, state and local laws, ordinances, regulations and requirements related to the federal Occupational Safety and Health Act, as well as comparable state statutes relating to the health and safety of our employees and others working on our properties. Although we believe that we and our tenants are in material compliance with these requirements, there can be no assurance that we will not incur significant costs, civil and criminal penalties and liabilities, including those relating to claims for damages to persons, property or the environment resulting from operations at our properties.

***Real Estate Industry Regulation***

Generally, the ownership and operation of real properties are subject to various laws, ordinances and regulations, including regulations relating to zoning, land use, water rights, wastewater, storm water runoff and lien sale rights and procedures. These laws, ordinances or regulations, such as the Comprehensive Environmental Response and Compensation Liability Act and its state analogs, or any changes to any such laws, ordinances or regulations, could result in or increase the potential liability for environmental conditions or circumstances existing, or created by tenants or others, on our properties. Laws related to upkeep, safety and taxation requirements may result in significant unanticipated expenditures, loss of our properties or other impairments to operations, any of which would adversely affect our cash flows from operating activities.

Our property management activities, to the extent we are required to engage in them due to lease defaults by tenants or vacancies on certain properties, will likely be subject to state real estate brokerage laws and regulations as determined by the particular real estate commission for each state.

**Seasonality**

Our business has not been, and we do not expect it to become subject to, material seasonal fluctuations.

**Available Information**

We make available to the public free of charge through our internet website our Definitive Proxy Statement, Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange as soon as reasonably practicable after we electronically file such reports with, or furnish such reports to, the SEC. Our internet website address is www.innovativeindustrialproperties.com. The SEC also maintains electronic versions of the Company's reports on its website at www.sec.gov. You can also access on our website our Code of Business Conduct and Ethics, Corporate Governance Guidelines, Audit Committee Charter, Compensation Committee Charter, and Nominating and Corporate Governance Committee Charter. The content of our website is not incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC, and any references to our website are intended to be inactive textual references only.

## ITEM IA. *RISK FACTORS*

*Certain factors may have a material adverse effect on our business, financial condition, and results of operations. You should consider carefully the risks and uncertainties described below, in addition to other information contained in this Annual Report on Form 10-K, including our consolidated financial statements and related notes. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. If any of the following risks actually occurs, our business, financial condition, results of operations, and future prospects could be materially and adversely affected. In that event, the trading price of our common stock could decline, and you could lose part or all of your investment.*

**Risks Related to Our Business**

***We have a limited operating history, and may not be able to operate our business successfully or generate sufficient cash flow to sustain distributions to our stockholders.***

We completed our initial public offering and commenced real estate operations with the acquisition of our first property in December 2016, and have a limited operating history. We currently own only 13 properties. We are subject to many of the business risks and uncertainties associated with any new business enterprise. We cannot assure you that we will be able to operate our business successfully or profitably or find additional suitable investments. Our ability to provide attractive risk-adjusted returns to our stockholders over the long term is dependent on our ability both to generate sufficient cash flow to pay an attractive dividend and to achieve capital appreciation, and we cannot assure you we will do either. There can be no assurance that we will be able to continue to generate sufficient revenue from operations to pay our operating expenses and make distributions to stockholders. The results of our operations and the execution on our business plan depend on several factors, including the availability of additional opportunities for investment, the performance of our existing properties and tenants, the availability of adequate equity and debt financing, the federal and state regulatory environment relating to the medical-use cannabis industry, conditions in the financial markets and economic conditions.

***Our current real estate portfolio consists of only 13 properties and will likely continue to be concentrated in a limited number of properties in the future, which subjects us to an increased risk of significant loss if any property declines in value or if we are unable to lease a property.***

We currently own only 13 properties. Three of our tenants, PharmaCann (at two of our properties located in New York and Massachusetts), Holistic MD (at our Maryland property) and The Pharm (at our Arizona property), represented approximately 39%, 18% and 16%, respectively, of our rental revenues for the year ended December 31, 2018. Lease payment defaults by any of our tenants or a significant decline in the value of any single property would materially adversely affect our business, financial position and results of operations, including our ability to make distributions to our stockholders. Our lack of diversification also increases the potential that a single underperforming investment could have a material adverse effect on our cash flows and the price we could realize from the sale of our properties. Any adverse change in the financial condition of any of our tenants, including but not limited to the state medical-use cannabis markets not developing and growing in ways that we or our tenants projected, or any adverse change in the political climate regarding medical-use cannabis where our properties are located, would subject us to a significant risk of loss.

In addition, failure by any our tenants to comply with the terms of its lease agreement with us could require us to find another lessee for the applicable property. We may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment and re-leasing that property. Furthermore, we cannot assure you that we will be able to re-lease that property for the rent we currently receive, or at all, or that a lease termination would not result in our having to sell the property at a loss. The result of any of the foregoing risks could materially and adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

***Competition for the acquisition of properties suitable for the cultivation and production of medical-use cannabis may impede our ability to make acquisitions or increase the cost of these acquisitions, which could adversely affect our operating results and financial condition.***

We compete for the acquisition of properties suitable for the cultivation and production of medical-use cannabis with other entities engaged in agricultural and real estate investment activities, including corporate agriculture companies, cultivators and producers of medical-use cannabis, private equity investors, and other real estate investors (including public and private REITs). We also compete as a provider of capital to medical-use cannabis operators with alternative financing sources to these companies, including both equity and debt financing alternatives. These competitors may prevent us from acquiring desirable properties, may cause an increase in the price we must pay for properties or may result in us having to lease our properties on less favorable terms than we expect. Our competitors may have greater financial and operational resources than we do and may be willing to pay more for certain assets or may be willing to accept more risk than we believe can be prudently managed. In particular, larger companies may enjoy significant competitive advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. Our competitors may also adopt transaction structures similar to ours, which would decrease our competitive advantage in offering flexible transaction terms. In addition, due to a number of factors, including but not limited to potential greater clarity of the laws and regulations governing medical-use cannabis by state and federal governments, the number of entities and the amount of funds competing for suitable investment properties may increase, resulting in increased demand and increased prices paid for these properties. If we pay higher prices for properties or enter into leases for such properties on less favorable terms than we expect, our profitability and ability to generate cash flow and make distributions to our stockholders may decrease. Increased competition for properties may also preclude us from acquiring those properties that would generate attractive returns to us.

***Our growth will depend upon future acquisitions of medical-use cannabis facilities, and we may be unable to consummate acquisitions on advantageous terms.***

Our growth strategy is focused on the acquisition of specialized industrial real estate assets on favorable terms as opportunities arise. Our ability to acquire these real estate assets on favorable terms is subject to the following risks:

- competition from other potential acquirers or increased availability of alternative debt and equity financing sources for tenants may significantly increase the purchase price of a desired property;
- we may not successfully purchase and lease our properties to meet our expectations;
- we may be unable to obtain the necessary equity or debt financing to consummate an acquisition on satisfactory terms or at all;
- agreements for the acquisition of properties are typically subject to closing conditions, including satisfactory completion of due diligence investigations, and we may spend significant time and money and divert management attention on potential acquisitions that we do not consummate; and
- we may acquire properties without any recourse, or with only limited recourse, for liabilities, whether known or unknown, against the former owners of the properties.

Our failure to consummate acquisition on advantageous terms without substantial expense or delay would impede our growth and negatively affect our results of operations and our ability to generate cash flow and make distributions to our stockholders.

***There may only be a limited number of medical-use cannabis facilities operated by suitable tenants available for us to acquire, which could adversely affect the return on our common stock.***

We target medical-use cannabis facilities for acquisition and leasing to licensed growers under triple-net lease agreements. We also target properties owned by growers that have been among the top candidates in the rigorous state licensing process and have been granted one or more licenses to operate multiple facilities. In light of the current regulatory landscape regarding medical-use cannabis, including but not limited to, the rigorous state licensing processes, limits on the number of licenses granted in certain states and in counties within such states, zoning regulations related to medical-use cannabis facilities, the inability of potential tenants to open bank accounts necessary to pay rent and other expenses and the ever-changing federal and state regulatory landscape, we may have only a limited number of medical-use cannabis facilities available to purchase that are operated by licensees that we believe would be suitable tenants. These tenants may also have increased access to alternative equity and debt financing sources over time, which may limit our ability to negotiate leasing arrangements that meet our investment criteria. Our inability to locate suitable investment properties and tenants would have a material adverse effect on our ability to generate cash flow and make distributions to our stockholders.

***Many of our existing tenants are, and we expect that most of our future tenants will be, start-up businesses and may be unable to pay rent with funds from operations or at all, which could adversely affect our cash available to make distributions to our stockholders or otherwise impair the value of our common stock.***

Single tenants currently occupy our properties, and we expect that single tenants will occupy our properties that we acquire in the future. Therefore, the success of our investments will be materially dependent on the financial stability of these tenants. We rely on our management team to perform due diligence investigations of our potential tenants, related guarantors and their properties, operations and prospects, of which there is generally little or no publicly available operating and financial information. We may not learn all of the material information we need to know regarding these businesses through our investigations. As a result it is possible that we could enter into a sale-leaseback arrangement with tenants or otherwise lease properties to tenants that ultimately are unable to pay rent to us, which could adversely impact our cash available for distributions.

Many of our existing tenants are, and we expect that most of our future tenants will be, start-up businesses that have little or no revenue when they enter triple-net leasing arrangements with us and therefore, may be unable to pay rent with funds from operations. Many of our current tenants are not profitable and have experienced losses since inception, or have been profitable for only a short period of time. As a result, many of our current tenants have made, and we expect that most our future tenants will make, initial rent payments to us from proceeds from the sale of the property, in the case of sale-leaseback transactions, or other cash on hand.

In addition, in general, as start-up businesses, our tenants are more vulnerable to adverse conditions resulting from federal and state regulations affecting their businesses or industries and have limited access to traditional forms of financing. The success of our tenants will heavily depend on the growth and development of the state markets in which the tenants operate, many of which have a very limited history or are still in the stages of establishing the regulatory framework. For example, New York’s medical-use cannabis market is in its early stages, and is subject to strict regulations providing for, among other things, limited medical conditions for treatment with medical-use cannabis, limitations on the form in which medical cannabis can be consumed and enhanced registration requirements for patients and physicians, which may result in the New York market not growing and developing in the way that we or our tenants projected. In Maryland, the medical-use cannabis market is also in its very early stages, with commercial operations commencing upon the issuance of the first round of final licenses in late 2017, after significant delays in the development of the state's regulatory framework and litigation surrounding the application process.

In our evaluation of our existing leases with tenants at our properties, we determined to record associated revenue on a cash basis due to the uncertainty of collectability of lease payments from tenants due to their limited operating history and the U.S. federal regulatory uncertainty surrounding the medical-use cannabis industry (see the section entitled "Critical Accounting Policies — Revenue Recognition and Accounts Receivable" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" for more information).

Some of our tenants may also be subject to significant debt obligations. Tenants that are subject to significant debt obligations may be unable to make their rent payments if there are adverse changes in their business plans or prospects, the regulatory environment in which they operate or in general economic conditions. In addition, the payment of rent and debt service may reduce the working capital available to tenants for the start-up phase of their business. Furthermore, we may be unable to monitor and evaluate tenant credit quality on an on-going basis.

In addition, many states issue licenses for medical-use cannabis operations for a limited time period, which must be renewed periodically. If one or more of our tenants is unable to renew or otherwise maintain its license, or if it is unable to renew or otherwise maintain other requisite authorizations on state and local levels for business operations, that tenant will not be able to operate its business, and may default on its lease payments to us.

Any lease payment defaults by a tenant could adversely affect our cash flows and cause us to reduce the amount of distributions to stockholders. In the event of a default by a tenant, we may also experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment and re-leasing our property as operators of medical-use cannabis cultivation and production facilities are generally subject to extensive state licensing requirements. Furthermore, we will not operate any of the facilities that we purchase.

***We acquired our properties, and may acquire other properties, "as-is," which increases the risk of an investment that requires us to remedy defects or costs without recourse to the prior owner.***

We acquired our properties, and may acquire other real estate properties, "as is" with only limited representations and warranties from the property seller regarding matters affecting the condition, use and ownership of the property. There may also be environmental conditions associated with properties we acquire of which we are unaware despite our diligence efforts. In particular, medical-use cannabis facilities may present environmental concerns of which we are not currently aware. If environmental contamination exists on properties we acquire or develops after acquisition, we could become subject to liability for the contamination. As a result, if defects in the property (including any building on the property) or other matters adversely affecting the property are discovered, including but not limited to environmental matters, we may not be able to pursue a claim for any or all damages against the property seller. Such a situation could harm our business, financial condition, liquidity and results of operations.

***Our properties are, and are expected to continue to be, geographically concentrated in states that permit medical-use cannabis cultivation, and we will be subject to social, political and economic risks of doing business in these states and any other state in which we may own property.***

Our current properties are located in Arizona, California, Colorado, Illinois, Maryland, Massachusetts, Michigan, Minnesota, New York and Pennsylvania, and we expect that the properties that we acquire will be geographically concentrated in these states and other states that permit medical-use cannabis cultivation. Circumstances and developments related to operations in these markets that could negatively affect our business, financial condition, liquidity and results of operations include, but are not limited to, the following factors:

- the responsibility of complying with multiple and, in some respects, conflicting state and federal laws in the United States, including with respect to cultivation and distribution of medical-use cannabis, licensing, banking and insurance;
- difficulties and costs of staffing and managing operations;
- unexpected changes in regulatory requirements and other laws;
- potentially adverse tax consequences;
- the state medical-use cannabis market fails to develop and grow in ways that we or our tenants projected;
- the impact of national, regional or state specific business cycles and economic instability; and
- access to capital may be more restricted, or unavailable on favorable terms or at all in certain locations.

***Because our real estate investments consist of primarily industrial and greenhouse properties suitable for cultivation and production of medical-use cannabis, our rental revenues are significantly influenced by demand for these facilities generally, and a decrease in such demand would likely have a greater adverse effect on our rental revenues than if we owned a more diversified real estate portfolio.***

Because our portfolio of properties consists of industrial and greenhouse properties used in the regulated medical-use cannabis industry, we are subject to risks inherent in investments in a single industry. A decrease in the demand for medical-use cannabis cultivation facilities would have a greater adverse effect on our rental revenues than if we owned a more diversified real estate portfolio. Demand for medical-use cannabis cultivation facilities has been and could be adversely affected by changes in current favorable state or local laws relating to cultivation and production of medical-use cannabis or any change in the federal government's current enforcement posture with respect to state-licensed cultivation of medical-use cannabis, among others. To the extent that any of these conditions occur, they are likely to affect demand and market rents for medical-use cannabis cultivation facilities, which could cause a decrease in our rental revenue. Any such decrease could impair our ability to make distributions to you. We do not currently and do not expect in the future to invest in other real estate or businesses to hedge against the risk that industry trends might decrease the profitability of our medical-use cannabis cultivation facilities.

***We face significant risks associated with the development and redevelopment of properties that we acquire.***

We may, from time to time, engage in development or redevelopment of properties that we acquire. Development and redevelopment activities entail risks that could adversely impact our financial condition and results of operations, including:

- construction costs, which may exceed our original estimates due to increases in materials, labor or other costs, which could make the project less profitable;
- permitting or construction delays, which may result in increased project costs, as well as deferred revenue;
- unavailability of raw materials when needed, which may result in project delays, stoppages or interruptions, which could make the project less profitable;
- claims for warranty, product liability and construction defects after a property has been built;
- health and safety incidents and site accidents;
- poor performance or nonperformance by, or disputes with, any of our contractors, subcontractors or other third parties on whom we rely;
- unforeseen engineering, environmental or geological problems, which may result in delays or increased costs;
- labor stoppages, slowdowns or interruptions;
- liabilities, expenses or project delays, stoppages or interruptions as a result of challenges by third parties in legal proceedings; and
- weather-related and geological interference, including landslides, earthquakes, floods, drought, wildfires and other events, which may result in delays or increased costs.

On May 31, 2018, we executed a development agreement with a subsidiary of PharmaCann for the ground-up construction of a medical-use cannabis cultivation facility at one of our Massachusetts properties, for which we have agreed to provide funding for construction of up to $15.5 million, of which approximately $9.7 million was incurred and approximately $9.5 million was funded as of December 31, 2018.

On August 2, 2018, we acquired a property in Michigan in mid-construction, for which we have agreed to provide reimbursement to the seller for completion of certain development milestones for the building and a tenant improvement allowance to the tenant totaling approximately $7.5 million, of which approximately $6.8 million was incurred and approximately $6.4 million was funded as of December 31, 2018.

In addition, as of December 31, 2018, we had remaining commitments of approximately $12.4 million to reimburse certain tenants for future tenant improvements at our properties.

Subsequent to the end of the year, on March 13, 2019, we executed a development agreement with a subsidiary of PharmaCann for the ground-up construction of a medical-use cannabis cultivation facility at our Ohio property, for which we have agreed to provide funding for construction of up to $19.3 million.

Failure to complete development or redevelopment activities on budget or on schedule may adversely affect our financial condition and results of operations and the ability of our tenants at such properties to make payments under their leases with us.

***If our properties' access to adequate water and power supplies is interrupted, it could harm our ability to lease the properties for medical-use cannabis cultivation and production, thereby adversely affecting our ability to generate returns on our properties.***

In order to lease the properties that we acquire, these properties require access to sufficient water and power to make them suitable for the cultivation and production of medical-use cannabis. Although we expect to acquire properties with sufficient access to water, should the need arise for additional wells from which to obtain water, we would be required to obtain permits prior to drilling such wells. Permits for drilling water wells are required by state and county regulations, and such permits may be difficult to obtain due to the limited supply of water in areas where we acquire properties. Similarly, our properties may be subject to governmental regulations relating to the quality and disposition of rainwater runoff or other water to be used for irrigation. In such case, we could incur costs necessary in order to retain this water. If we are unable to obtain or maintain sufficient water supply for our properties, our ability to lease them for the cultivation and production of medical-use cannabis would be seriously impaired, which would have a material adverse impact on the value of our assets and our results of operations.

Historically, states that have legalized medical-use cannabis cultivation have typically required that such cultivation take place indoors. Indoor cultivation of medical-use cannabis requires significant power for growing lights and ventilation and air conditioning to remove the hot air generated by the growing lights. While outdoor cultivation is gaining acceptance in many states with favorable climates for such growth, we expect that a significant number of our properties will continue to utilize indoor cultivation methods. Any extended interruption of the power supply to our properties, particularly those using indoor cultivation methods, would likely harm our tenants' crops, which could result in their inability to make lease payments to us for our properties. Any lease payment defaults by a tenant could adversely affect our cash flows and cause us to reduce the amount of distributions to stockholders.

***Some of our tenants could be susceptible to bankruptcy, which would affect our ability to generate rents from them and therefore negatively affect our results of operations.***

In addition to the risk of tenants being unable to make regular rent payments, certain of our tenants may depend on debt, which could make them especially susceptible to bankruptcy in the event that their cash flows are insufficient to satisfy their debt. Any bankruptcy, if allowed, of one of our tenants would result in a loss of lease payments to us, as well as an increase in our costs to carry the property.

Additionally, under bankruptcy law generally, a tenant who is the subject of bankruptcy proceedings generally has the option of continuing ("assuming") or giving up ("rejecting") any unexpired lease of non-residential real property. If a bankrupt tenant decides to give up (reject) a lease with us, any claim we might have for breach of the lease, excluding a claim against (1) collateral securing the lease, or (2) a guarantor guaranteeing lease obligations, would be treated as a general unsecured claim in the tenant's bankruptcy case. The laws governing bankruptcy cases would impact the treatment of our general unsecured claim. Our claim would likely be capped at the amount the tenant owed us for unpaid rent prior to the bankruptcy unrelated to the termination, plus the greater of one year of lease payments or 15% of the lease payments payable under the remaining term of the lease, but in no case more than three years of lease payments. In addition to the cap on our damages for breach of the lease, even if our claim is timely submitted to the bankruptcy court, there is no guaranty that the tenant's bankruptcy estate would have sufficient funds to satisfy the claims of general unsecured creditors. Finally, a bankruptcy court could re-characterize a net lease transaction as a disguised secured lending transaction. If that were to occur, we would not be treated as the owner of the property, but might have additional rights as a secured creditor. This would mean our claim in bankruptcy court could be limited to the amount we paid for the property, which could adversely impact our financial condition.

Furthermore, U.S. bankruptcy courts have generally refused to grant bankruptcy protections to cannabis businesses. The inability of our tenants to seek bankruptcy protection may impact their ability to secure financing for their operations and prevents our tenants from utilizing the benefits of reorganization of their businesses under bankruptcy protection to operate in a financially sustainable way, thereby reducing the probability that such a tenant would be able to honor its lease obligations with us.

***Our real estate investments consist of primarily industrial and greenhouse properties suitable for cultivation and production of medical-use cannabis, which may be difficult to sell or re-lease upon tenant defaults or early lease terminations, either of which would adversely affect returns to stockholders.***

While our business objectives consist of principally acquiring and deriving rental income from industrial and greenhouse properties used in the regulated medical-use cannabis industry, we expect that at times we will deem it appropriate or desirable to sell or otherwise dispose of certain properties we own. These types of properties are relatively illiquid compared to other types of real estate and financial assets. This illiquidity could limit our ability to quickly dispose of properties in response to changes in regulatory, economic or other conditions. Therefore, our ability at any time to sell assets may be restricted and this lack of liquidity may limit our ability to make changes to our portfolio promptly, which could materially and adversely affect our financial performance. We cannot predict the various market conditions affecting the properties that we expect to acquire that will exist in the future. Due to the uncertainty of regulatory and market conditions which may affect the future disposition of the real estate assets we expect to acquire, we cannot assure you that we will be able to sell these assets at a profit in the future. Accordingly, the extent to which we will realize potential appreciation on the real estate investments we expect to acquire will depend upon regulatory and other market conditions. In addition, in order to maintain our REIT status, we may not be able to sell properties when we would otherwise choose to do so, due to market conditions or changes in our strategic plan.

Furthermore, we may be required to make expenditures to correct defects or to make improvements before a property can be sold and we cannot assure you that we will have funds available to correct such defects or to make such improvements. With these kinds of properties, if the current lease is terminated or not renewed, we may be required to make expenditures and rent concessions in order to lease the property to another tenant. In addition, in the event we are forced to sell or re-lease the property, we may have difficulty finding qualified purchasers who are willing to buy the property or tenants who are willing to lease the property on terms that we expect, or at all. These and other limitations may affect our ability to sell or re-lease properties, which may adversely affect returns to our stockholders.

***Liability for uninsured losses could adversely affect our financial condition.***

While the terms of our leases with our tenants generally require property and casualty insurance, losses from disaster-type occurrences, such as earthquakes, floods and weather-related disasters, and other types of insurance, such as landlord's rental loss insurance, may be either uninsurable or not insurable on economically viable terms. Should an uninsured loss occur, we could lose our capital investment or anticipated profits and cash flows from one or more properties.

***Contingent or unknown liabilities could materially and adversely affect our business, financial condition, liquidity and results of operations.***

We acquired our properties and may in the future acquire properties, subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities. As a result, if a claim were asserted against us based on ownership of any of these properties, we may have to pay substantial amounts to defend or settle the claim. If the magnitude of such unknown liabilities is high, individually or in the aggregate, our business, financial condition, liquidity and results of operations would be materially and adversely affected.

***The assets we acquire may be subject to impairment charges.***

We periodically evaluate the real estate investments we acquire and other assets for impairment indicators. The judgment regarding the existence of impairment indicators is based upon factors such as market conditions, tenant performance and legal structure. For example, the termination of a lease by a tenant may lead to an impairment charge. If we determine that an impairment has occurred, we would be required to make an adjustment to the net carrying value of the asset which could have an adverse effect on our results of operations in the period in which the impairment charge is recorded.

***Due to our involvement in the regulated medical-use cannabis industry, we may have a difficult time obtaining the various insurance policies that are desired to operate our business, which may expose us to additional risks and financial liabilities.***

Insurance that is otherwise readily available, such as workers' compensation, general liability, and directors' and officers' insurance, is more difficult for us to find and more expensive, because we lease our properties to companies in the regulated medical-use cannabis industry. There are no guarantees that we will be able to find such insurance in the future, or that the cost will be affordable to us. If we are forced to go without such insurance, it may prevent us from entering into certain business sectors, may inhibit our growth, and may expose us to additional risk and financial liabilities.

***We may purchase properties subject to ground leases that expose us to the loss of such properties upon breach or termination of the ground leases.***

A ground lease agreement permits a tenant to develop and/or operate a land parcel (property) during the lease period, after which the land parcel and all improvements revert back to the property owner. Under a ground lease, property improvements are owned by the property owner unless an exception is created and all relevant taxes incurred during the lease period are paid for by the tenant. Ground leases typically have a long duration generally ranging from 50 to 99 years with additional extension options. As a lessee under a ground lease, we would be exposed to the possibility of losing the property upon termination, or an earlier breach by us, of the ground lease, which could 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.

***The occurrence of cyber incidents or cyber attacks could disrupt our operations, result in the loss of confidential information and/or damage our business relationships and reputation.***

We rely on technology to run our business, and as such we are subject to risk from cyber incidents, including cyber attacks attempting to gain unauthorized access to our systems to disrupt operations, corrupt data or steal confidential information, and other electronic security breaches. While we have implemented measures to help mitigate these threats, such measures cannot guarantee that we will be successful in preventing a cyber incident. The occurrence of a cyber incident or cyber attack could disrupt our operations, compromise the confidential information of our employees or tenants, and/or damage our business relationships and reputation.

***We cannot predict every event and circumstance that may affect our business, and therefore, the risks and uncertainties discussed herein may not be the only ones you should consider.***

We are not aware of any other publicly-traded REIT that focuses on the acquisition, ownership and management of medical-use cannabis facilities. Therefore, we may encounter risks of which we are not aware at this time, which could have a material adverse impact on our business.

**Risks Related to Regulation**

***Cannabis remains illegal under federal law, and therefore, strict enforcement of federal laws regarding cannabis would likely result in our inability and the inability of our tenants to execute our respective business plans.***

Cannabis is a Schedule I controlled substance under the CSA. Even in those jurisdictions in which the manufacture and use of cannabis has been legalized at the state level, the possession, use and cultivation all remain violations of federal law that are punishable by imprisonment, substantial fines and forfeiture. Moreover, individuals and entities may violate federal law if they intentionally aid and abet another in violating these federal controlled substance laws, or conspire with another to violate them. The U.S. Supreme Court has ruled in *United States v. Oakland Cannabis Buyers' Coop.* and *Gonzales v. Raich* that it is the federal government that has the right to regulate and criminalize the sale, possession and use of cannabis, even for medical purposes. We would likely be unable to execute our business plan if the federal government were to strictly enforce federal law regarding cannabis.

In January 2018, the DOJ rescinded certain memoranda, including the so-called “Cole Memo” issued on August 29, 2013 under the Obama Administration, which had characterized enforcement of federal cannabis prohibitions under the CSA to prosecute those complying with state regulatory systems allowing the use, manufacture and distribution of medical cannabis as an inefficient use of federal investigative and prosecutorial resources when state regulatory and enforcement efforts are effective with respect to enumerated federal enforcement priorities under the CSA. The impact of the DOJ's recent rescission of the Cole Memo and related memoranda is unclear, but may result in the DOJ increasing its enforcement actions against the regulated cannabis industry generally, including our tenants and us.

Congress previously enacted an omnibus spending bill that includes a provision prohibiting the DOJ (which includes the DEA) from using funds appropriated by that bill to prevent states from implementing their medical-use cannabis laws. This provision, however, expires on September 30, 2019, and must be renewed by Congress. In *USA vs. McIntosh*, the U.S. Court of Appeals for the Ninth Circuit held that this provision prohibits the DOJ from spending funds from relevant appropriations acts to prosecute individuals who engage in conduct permitted by state medical-use cannabis laws and who strictly comply with such laws. However, the Ninth Circuit's opinion, which only applies to the states of Alaska, Arizona, California, Hawaii, and Idaho, also held that persons who do not strictly comply with all state laws and regulations regarding the distribution, possession and cultivation of medical-use cannabis have engaged in conduct that is unauthorized, and in such instances the DOJ may prosecute those individuals. Furthermore, while we target the acquisition of medical-use cannabis facilities, our leases do not prohibit cannabis cultivation for adult-use that is permissible under the state and local laws where our facilities are located, such as in California, Colorado, Massachusetts and Michigan. Consequently, certain of our tenants currently (and additional tenants may in the future) cultivate adult-use cannabis in our medical-use cannabis facilities, as permitted by such state and local laws now or in the future, which may in turn subject the tenant, us and our properties to greater and/or different federal legal and other risks as compared to facilities where cannabis is cultivated exclusively for medical use, including not providing protection under the Congressional spending bill provision described above.

Additionally, financial transactions involving proceeds generated by cannabis-related conduct can form the basis for prosecution under the federal money laundering statutes, unlicensed money transmitter statutes and the Bank Secrecy Act. The penalties for violation of these laws include imprisonment, substantial fines and forfeiture. Prior to the DOJ's rescission of the Cole Memo, supplemental guidance from the DOJ issued under the Obama administration directed federal prosecutors to consider the federal enforcement priorities enumerated in the Cole Memo when determining whether to charge institutions or individuals with any of the financial crimes described above based upon cannabis-related activity. With the rescission of the Cole Memo, there is increased uncertainty and added risk that federal law enforcement authorities could seek to pursue money laundering charges against entities or individuals engaged in supporting the cannabis industry.

Federal prosecutors have significant discretion and no assurance can be given that the federal prosecutor in each judicial district where we purchase a property will not choose to strictly enforce the federal laws governing cannabis production or distribution. Any change in the federal government's enforcement posture with respect to state-licensed cultivation of cannabis, including the enforcement postures of individual federal prosecutors in judicial districts where we purchase properties, would result in our inability to execute our business plan, and we would likely suffer significant losses with respect to our investment in cannabis facilities in the United States, which would adversely affect the trading price of our securities. Furthermore, following any such change in the federal government's enforcement position, we could be subject to criminal prosecution, which could lead to imprisonment and/or the imposition of penalties, fines, or forfeiture.

***Certain of our tenants engage in operations for the adult-use cannabis industry in addition to or in lieu of operations for the medical-use cannabis industry, and such tenants, we and our properties may be subject to additional risks associated with such adult-use cannabis operations.***

Our existing leases at our properties do not, and we expect that leases that we enter into with future tenants at other properties we acquire will not, prohibit cannabis cultivation for adult-use that is permissible under state and local laws where our facilities are located and certain of our tenants are currently engaged in operations for the adult-use cannabis industry, which may subject our tenants, us and our properties to different and greater risks, including greater prosecution risk for aiding and abetting violation of the CSA and federal laws governing money laundering. For example, the prohibition in the current omnibus spending bill that prohibits the DOJ from using funds appropriated by Congress to prevent states from implementing their medical-use cannabis laws does not extend to adult-use cannabis laws. In addition, while we may purchase properties in states that only permit medical-use cannabis at the time of acquisition, such states may in the future authorize by state legislation or popular vote the legalization of adult-use cannabis, thus permitting our tenants to engage in adult-use cannabis operations at our properties. For example, the voters of the Commonwealth of Massachusetts passed an initiative to legalize cannabis for adult-use in 2016, having previously voted to legalize medical-use cannabis in 2012. Massachusetts began issuing licenses to operators for the sale of adult-use cannabis in July 2018. Our existing leases at our Massachusetts properties do not prohibit our tenants from conducting adult-use cannabis cultivation, processing or dispensing that is permissible under state and local laws. Similarly, the states of California and Colorado permit licensed adult-use cannabis cultivation, processing and dispensing, and our leases with tenants in California and Colorado allow for adult-use cannabis operations to be conducted at the properties in compliance with state and local laws. In addition, Michigan voters passed an initiative in November 2018 to legalize cannabis for adult-use.

***New laws that are adverse to the business of our tenants may be enacted, and current favorable national, state or local laws or enforcement guidelines relating to cultivation and production of cannabis may be modified or eliminated in the future.***

We have acquired and are targeting for acquisition properties that are owned by state-licensed cultivators and producers of cannabis. Relevant state or local laws may be amended or repealed, or new laws may be enacted in the future to eliminate existing laws permitting cultivation and production of cannabis. If our tenants were forced to close their operations, we would need to replace those tenants with tenants who are not engaged in the cannabis industry, who may pay significantly lower rents. Moreover, any changes in state or local laws that reduce or eliminate the ability to cultivate and produce cannabis would likely result in a high vacancy rate for the kinds of properties that we seek to acquire, which would depress our lease rates and property values. In addition, we would realize an economic loss on any and all improvements made to properties that were specific to the cannabis industry.

***Our ability to grow our business depends on state laws pertaining to the cannabis industry.***

Continued development of the medical-use cannabis industry depends upon continued legislative authorization of cannabis at the state level. The status quo of, or progress in, the regulated medical-use cannabis industry is not assured and any number of factors could slow or halt further progress in this area. While there may be ample public support for legislative action permitting the manufacture and use of cannabis, numerous factors impact the legislative process. For example, many states that voted to legalize medical and/or adult-use cannabis have seen significant delays in the drafting and implementation of industry regulations and issuance of licenses. In addition, burdensome regulation at the state level could slow or stop further development of the medical-use cannabis industry, such as limiting the medical conditions for which medical cannabis can be recommended by physicians for treatment, restricting the form in which medical cannabis can be consumed, imposing significant registration requirements on physicians and patients or imposing significant taxes on the growth, processing and/or retail sales of cannabis, which could have the impact of dampening growth of the cannabis industry and making it difficult for cannabis businesses, including our tenants, to operate profitably in those states. Any one of these factors could slow or halt additional legislative authorization of medical-use cannabis, which could harm our business prospects.

***FDA regulation of medical-use cannabis and the possible registration of facilities where medical-use cannabis is grown could negatively affect the medical-use cannabis industry, which would directly affect our financial condition.***

Should the federal government legalize cannabis for medical-use, it is possible that the U.S. Food and Drug Administration ("FDA") would seek to regulate it under the Food, Drug and Cosmetics Act of 1938. Additionally, the FDA may issue rules and regulations including certified good manufacturing practices, or cGMPs, related to the growth, cultivation, harvesting and processing of medical cannabis. Clinical trials may be needed to verify efficacy and safety. It is also possible that the FDA would require that facilities where medical-use cannabis is grown register with the FDA and comply with certain federally prescribed regulations. In the event that some or all of these regulations are imposed, we do not know what the impact would be on the medical-use cannabis industry, including what costs, requirements and possible prohibitions may be enforced. If we or our tenants are unable to comply with the regulations or registration as prescribed by the FDA, we and or our tenants may be unable to continue to operate their and our business in its current form or at all.

***We and our tenants may have difficulty accessing the service of banks, which may make it difficult to contract for real estate needs.***

Financial transactions involving proceeds generated by cannabis-related conduct can form the basis for prosecution under the federal money laundering statutes, unlicensed money transmitter statute and the Bank Secrecy Act. Previous guidance issued by the FinCen, a division of the U.S. Department of the Treasury, clarifies how financial institutions can provide services to cannabis-related businesses consistent with their obligations under the Bank Secrecy Act. Prior to the DOJ’s announcement in January 2018 of the rescission of the Cole Memo and related memoranda, supplemental guidance from the DOJ directed federal prosecutors to consider the federal enforcement priorities enumerated in the Cole Memo when determining whether to charge institutions or individuals with any of the financial crimes described above based upon cannabis-related activity. It is unclear what impact the rescission of the Cole Memo will have, but federal prosecutors may increase enforcement activities against institutions or individuals that are conducting financial transactions related to cannabis activities. The increased uncertainty surrounding financial transactions related to cannabis activities may also result in financial institutions discontinuing services to the cannabis industry.

Consequently, those businesses involved in the regulated medical-use cannabis industry continue to encounter difficulty establishing banking relationships, which may increase over time. Our inability to maintain our current bank accounts would make it difficult for us to operate our business, increase our operating costs, and pose additional operational, logistical and security challenges and could result in our inability to implement our business plan.

The terms of our leases require that our tenants make rental payments via check or wire transfer. The inability of our current and potential tenants to open accounts and continue using the services of banks will limit their ability to enter into triple-net lease arrangements with us or may result in their default under our lease agreements, either of which could materially harm our business and the trading price of our securities.

***Owners of properties located in close proximity to our properties may assert claims against us regarding the use of the property as a medical cannabis cultivation and processing facility, which if successful, could materially and adversely affect our business.***

Owners of properties located in close proximity to our properties may assert claims against us regarding the use of our properties for medical cannabis cultivation and processing, including assertions that the use of the property constitutes a nuisance that diminishes the market value of such owner's nearby property. Such property owners may also attempt to assert such a claim in federal court as a civil matter under the Racketeer Influenced and Corrupt Organizations Act. If a property owner were to assert such a claim against us, we may be required to devote significant resources and costs to defending ourselves against such a claim, and if a property owner were to be successful on such a claim, our tenants may be unable to continue to operate their business in its current form at the property, which could materially adversely impact the tenant's business and the value of our property, our business and financial results and the trading price of our securities.

***Laws and regulations affecting the regulated cannabis industry are constantly changing, which could materially adversely affect our proposed operations, and we cannot predict the impact that future regulations may have on us.***

Local, state and federal cannabis laws and regulations are broad in scope and subject to evolving interpretations, which could require us to incur substantial costs associated with compliance or alter our business plan. In addition, violations of these laws, or allegations of such violations, could disrupt our business and result in a material adverse effect on our operations. It is also possible that regulations may be enacted in the future that will be directly applicable to our proposed business. We cannot predict the nature of any future laws, regulations, interpretations or applications, nor can we determine what effect additional governmental regulations or administrative policies and procedures, when and if promulgated, could have on our business.

***Applicable state laws may prevent us from maximizing our potential income.***

Depending on the laws of each particular state, we may not be able to fully realize our potential to generate profit. For example, some states have residency requirements for those directly involved in the medical-use cannabis industry, which may impede our ability to contract with cannabis businesses in those states. Furthermore, cities and counties are being given broad discretion to ban certain cannabis activities. Even if these activities are legal under state law, specific cities and counties may ban them.

***Assets leased to cannabis businesses may be forfeited to the federal government.***

Any assets used in conjunction with the violation of federal law are potentially subject to federal forfeiture, even in states where cannabis is legal. In July 2017, the U.S. Department of Justice issued a new policy directive regarding asset forfeiture, referred to as the "equitable sharing program." Under this new policy directive, federal authorities may adopt state and local forfeiture cases and prosecute them at the federal level, allowing for state and local agencies to keep up to 80% of any forfeiture revenue. This policy directive represents a reversal of the DOJ's policy under the Obama administration, and allows for forfeitures to proceed that are not in accord with the limitations imposed by state-specific forfeiture laws. This new policy directive may lead to increased use of asset forfeitures by local, state and federal enforcement agencies. If the federal government decides to initiate forfeiture proceedings against cannabis businesses, such as the medical-use cannabis facilities that we have acquired and intend to acquire, our investment in those properties may be lost.

***We may have difficulty accessing bankruptcy courts.***

As discussed above, the cannabis is illegal under federal law. Therefore, there is a compelling argument that the federal bankruptcy courts cannot provide relief for parties who engage in the cannabis or cannabis related businesses. Recent bankruptcy rulings have denied bankruptcies for dispensaries upon the justification that businesses cannot violate federal law and then claim the benefits of federal bankruptcy for the same activity and upon the justification that courts cannot ask a bankruptcy trustee to take possession of, and distribute cannabis assets as such action would violate the CSA. Therefore, we may not be able to seek the protection of the bankruptcy courts and this could materially affect our business or our ability to obtain credit.

***The properties that we acquire are subject to extensive regulations, which may result in significant costs and materially and adversely affect our business, financial condition, liquidity and results of operations.***

Our properties are and other properties that we expect to acquire will be subject to various local laws and regulatory requirements. Local property regulations, including restrictive covenants of record, may restrict the use of properties we acquire and may require us to obtain approval from local authorities with respect to the properties that we expect to acquire, including prior to acquiring a property or when developing or undertaking renovations. Among other things, these restrictions may relate to cultivation of medical-use cannabis, the use of water and the discharge of waste water, fire and safety, seismic conditions, asbestos-cleanup or hazardous material abatement requirements. We cannot assure you that existing regulatory policies will not materially and adversely affect us or the timing or cost of any future acquisitions, developments or renovations, or that additional regulations will not be adopted that would increase such delays or result in additional costs. Our failure to obtain such regulatory approvals could have a material adverse effect on our business, financial condition, liquidity and results of operations.

***Compliance with environmental laws could materially increase our operating expenses.***

There may be environmental conditions associated with properties we acquire of which we are unaware. If environmental contamination exists on properties we acquire, we could become subject to liability for the contamination. The presence of hazardous substances on a property may materially and adversely affect our ability to sell the property and we may incur substantial remediation costs. In addition, although we may require in our leases that tenants operate in compliance with all applicable laws and indemnify us against any environmental liabilities arising from a tenant's activities on the property, we could nonetheless be subject to liability by virtue of our ownership interest and we cannot be sure that our tenants would satisfy their indemnification obligations to us. Such environmental liability exposure associated with properties we acquire could harm our business, financial condition, liquidity and results of operations.

**Risks Related to Financing Our Business**

***Our growth depends on external sources of capital, which may not be available on favorable terms or at all. In addition, banks and other financial institutions may be reluctant to enter into lending transactions with us, including secured lending, because we acquire properties used in the cultivation and production of medical-use cannabis. If this source of funding is unavailable to us, our growth may be limited and our levered return on the properties we purchase may be lower.***

We expect to acquire additional real estate assets, which we intend to finance primarily through newly issued equity or debt. We may not be in a position to take advantage of attractive investment opportunities for growth if we are unable, due to global or regional economic uncertainty, changes in the state or federal regulatory environment relating to the medical-use cannabis industry, our own operating or financial performance or otherwise, to access capital markets on a timely basis and on favorable terms or at all. In addition, U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gain and that it pay U.S. federal income tax at regular corporate rates to the extent that it annually distributes less than 100% of its taxable income. Because we intend to grow our business, this limitation may require us to raise additional equity or incur debt at a time when it may be disadvantageous to do so.

Our access to capital will depend upon a number of factors over which we have little or no control, including general market conditions and the market's perception of our current and potential future earnings. If general economic instability or downturn leads to an inability to borrow at attractive rates or at all, our ability to obtain capital to finance the purchase of real estate assets could be negatively impacted. In addition, banks and other financial institutions may be reluctant to enter into lending transactions with us, particularly secured lending, because we intend to acquire properties used in the cultivation and production of medical-use cannabis. If this source of funding is unavailable to us, our growth may be limited and our levered return on the properties we purchase may be lower.

If we are unable to obtain capital on terms and conditions that we find acceptable, we likely will have to reduce the number of properties we can purchase. In addition, our ability to refinance all or any debt we may incur in the future, on acceptable terms or at all, is subject to all of the above factors, and will also be affected by our future financial position, results of operations and cash flows, which additional factors are also subject to significant uncertainties, and therefore we may be unable to refinance any debt we may incur in the future, as it matures, on acceptable terms or at all. All of these events would have a material adverse effect on our business, financial condition, liquidity and results of operations.

***Our Exchangeable Senior Notes and any future indebtedness reduces our cash available for distribution and may expose us to the risk of default.***

Subsequent to December 31, 2018, in February 2019, we issued $143.75 million aggregate principal amount of Exchangeable Senior Notes. Payments of principal and interest on our Exchangeable Senior Notes and borrowings that we may incur in the future may leave us with insufficient cash resources to operate the properties that we expect to acquire or to pay the distributions currently contemplated or necessary to satisfy the requirements for REIT qualification. Our level of debt and the limitations imposed on us by these debt agreements could have significant material and adverse consequences, including the following:

- our cash flow may be insufficient to meet our required principal and interest payments;
- we may be unable to borrow additional funds as needed or on favorable terms, or at all;
- we may be unable to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;
- to the extent we borrow debt that bears interest at variable rates, increases in interest rates could materially increase our interest expense;
- we may be forced to dispose of one or more of the properties that we expect to acquire, possibly on disadvantageous terms;
- we may default on our obligations or violate restrictive covenants, in which case the lenders may accelerate these debt obligations; and
- our default under any loan with cross default provisions could result in a default on other indebtedness.

If any one of these events were to occur, our financial condition, results of operations, cash flow, and our ability to make distributions to our stockholders could be materially and adversely affected.

**Risks Related to Our Organization and Structure**

***We are dependent on our key personnel for our success.***

We depend upon the efforts, experience, diligence, skill and network of business contacts of our senior management team, and our success will depend on their continued service. The departure of any of our executive officers or key personnel could have a material adverse effect on our business. If any of our key personnel were to cease their employment, our operating results could suffer. Further, we do not intend to maintain key person life insurance that would provide us with proceeds in the event of death or disability of any of our key personnel.

We believe our future success depends upon our senior management team's ability to hire and retain highly skilled managerial, operational and marketing personnel. Competition for such personnel is intense, and we cannot assure you that we will be successful in attracting and retaining such skilled personnel. If we lose or are unable to obtain the services of key personnel, our ability to implement our investment strategies could be delayed or hindered, and the value of our common stock may decline.

Furthermore, we may retain independent contractors to provide various services for us, including administrative services, transfer agent services and professional services. Such contractors have no fiduciary duty to us and may not perform as expected or desired.

***Our senior management team manages our portfolio subject to very broad investment guidelines.***

Our senior management team has broad discretion over our investments, and our stockholders will have no opportunity to evaluate the terms of transactions or other economic or financial data concerning our investments that are not described in periodic filings with the SEC. We rely on the senior management team's ability to execute acquisitions and dispositions of medical-use cannabis facilities, subject to the oversight and approval of our board of directors. Our senior management team is authorized to pursue acquisitions and dispositions of real estate investments in accordance with very broad investment guidelines, subject to approval of our board of directors.

***Our board of directors may change our investment objectives and strategies without stockholder consent.***

Our board of directors determines our major policies, including with regard to financing, growth, debt capitalization, REIT qualification and distributions. Our board of directors may amend or revise these and other policies without a vote of the stockholders. Under our charter and Maryland General Corporation Law (the "MGCL"), our stockholders generally have a right to vote only on the following matters:

- the election or removal of directors;
- the amendment of our charter, except that our board of directors may amend our charter without stockholder approval to:
  - change our name;
  - change the name or other designation or the par value of any class or series of stock and the aggregate par value of our stock;
  - increase or decrease the aggregate number of shares of stock that we have the authority to issue;
  - increase or decrease the number of our shares of any class or series of stock that we have the authority to issue; and
  - effect certain reverse stock splits;
- our liquidation and dissolution; and
- our being a party to a merger, consolidation, sale or other disposition of all or substantially all of our assets or statutory share exchange.

All other matters are subject to the discretion of our board of directors.

***Certain provisions of Maryland law could inhibit changes in control.***

Under the MGCL, "business combinations" (including a merger, consolidation, statutory share exchange or, in certain circumstances, an asset transfer or issuance or reclassification of equity securities) between a Maryland corporation and an "interested stockholder" or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. An interested stockholder is defined as: (a) any person who beneficially owns 10% or more of the voting power of the then-outstanding voting stock of the corporation; or (b) an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then-outstanding stock of the corporation.

A person is not an interested stockholder under the statute if the board of directors approved in advance the transaction by which the person otherwise would have become an interested stockholder. A Maryland corporation's board of directors may provide that its approval is subject to compliance with any terms and conditions determined by the board of directors prior to the time that the interested stockholder becomes an interested stockholder.

Thereafter, any such business combination must generally be recommended by the board of directors of such corporation and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of outstanding voting stock of the corporation; and
- two-thirds of the votes entitled to be cast by holders of voting stock of the corporation, other than shares held by the interested stockholder with whom (or with whose affiliate) the business combination is to be effected, or held by an affiliate or associate of the interested stockholder unless, among other conditions, the corporation's common stockholders receive a minimum price (as defined in the MGCL) for their shares and the consideration is received in cash or in the same form as previously paid by the interested stockholder for its shares.

A Maryland corporation's board of directors may provide that its approval is subject to compliance with any terms and conditions determined by it. These provisions of the MGCL do not apply, however, to business combinations that are approved or exempted by a Maryland corporation's board of directors prior to the time that the interested stockholder becomes an interested stockholder.

The "control share" provisions of the MGCL provide that, subject to certain exceptions, a holder of "control shares" of a Maryland corporation (defined as shares which, if aggregated with all other shares of stock owned by the acquirer or in respect of which the acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), 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 issued and outstanding "control shares") has no voting rights with respect to such shares 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 votes entitled to be cast by the acquirer of control shares, our officers and our personnel who are also our directors. Our bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions by any person of shares of our stock. Our bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions by any person of shares of our stock. There can be no assurance that such provision will not be amended or eliminated at any time in the future by our board of directors.

The "unsolicited takeover" provisions of Title 3, Subtitle 8 of the MGCL, or Subtitle 8, permit our board of directors, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to implement certain takeover defenses, some of which (for example, a classified board) we do not yet have. Our charter provides that vacancies on our board may be filled only by the remaining directors and for the remainder of the full term of the directorship in which the vacancy occurred. Through provisions in our charter and bylaws unrelated to Subtitle 8, we already (i) require the affirmative vote of stockholders entitled to cast not less than two-thirds of all of the votes entitled to be cast generally in the election of directors for the removal of any director from the board, only with cause, (ii) vest in the board of directors the exclusive power to fix the number of directorships and (iii) require, unless called by our chairman of the board, our chief executive officer or our board of directors, the written request of stockholders entitled to cast not less than a majority of all votes entitled to be cast at such a meeting to call a special meeting of our stockholders.

These provisions may have the effect of inhibiting a third party from making an acquisition proposal for us or of delaying, deferring or preventing a change in control of us under the circumstances that otherwise could provide the holders of shares of common stock with the opportunity to realize a premium over the then current market price.

***Our authorized but unissued shares of common and preferred stock may prevent a change in our control.***

Our charter permits our board of directors to authorize us to issue additional shares of our authorized but unissued common or preferred stock. In addition, our board of directors may, without stockholder approval, amend our charter to increase the aggregate number of our shares of stock or the number of shares of stock of any class or series that we have the authority to issue and classify or reclassify any unissued shares of common or preferred stock and set the terms of the classified or reclassified shares. As a result, our board of directors may establish a class or series of shares of common or preferred stock that could delay or prevent a transaction or a change in control that might involve a premium price for shares of our common stock or otherwise be in the best interest of our stockholders.

***Severance agreements with our executive officers could be costly and prevent a change in our control.***

The severance agreements that we entered into with our executive officers provide that, if their employment with us terminates under certain circumstances (including upon a change in our control), we may be required to pay them significant amounts of severance compensation, including accelerated vesting of equity awards, thereby making it costly to terminate their employment. Furthermore, these provisions could delay or prevent a transaction or a change in our control that might involve a premium paid for our common stock or otherwise be in the best interests of our stockholders.

***Because of our holding company structure, we depend on our Operating Partnership and its subsidiaries for cash flow and we will be structurally subordinated in right of payment to the obligations of such operating subsidiary and its subsidiaries.***

We are a holding company with no business operations of our own. Our only significant asset is and will be the general and limited partnership interests in our Operating Partnership. We conduct, and intend to conduct, all of our business operations through our Operating Partnership. Accordingly, our only source of cash to pay our obligations is distributions from our Operating Partnership and its subsidiaries of their net earnings and cash flows. We cannot assure our stockholders that our Operating Partnership or its subsidiaries will be able to, or be permitted to, make distributions to us that will enable us to make distributions to our stockholders from cash flows from operations. Each of our Operating Partnership's subsidiaries is or will be a distinct legal entity and, under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from such entities. In addition, because we are a holding company, your claims as stockholders will be structurally subordinated to all existing and future liabilities and obligations of our Operating Partnership and its subsidiaries. Therefore, in the event of our bankruptcy, liquidation or reorganization, our assets and those of our Operating Partnership and its subsidiaries will be able to satisfy your claims as stockholders only after all of our and our Operating Partnership's and its subsidiaries' liabilities and obligations have been paid in full. Furthermore, U.S. bankruptcy courts have generally refused to grant bankruptcy protections to cannabis businesses.

***Our Operating Partnership may issue additional limited partnership interests to third parties without the consent of our stockholders, which would reduce our ownership percentage in our Operating Partnership and would have a dilutive effect on the amount of distributions made to us by our Operating Partnership and, therefore, the amount of distributions we can make to our stockholders.***

We are the sole general partner of our Operating Partnership and own, directly or through a subsidiary, 100% of the outstanding partnership interests in our Operating Partnership. We may, in connection with our acquisition of properties or otherwise, cause our Operating Partnership to issue additional limited partnership interests to third parties. Such issuances would reduce our ownership percentage in our Operating Partnership and affect the amount of distributions made to us by our Operating Partnership and, therefore, the amount of distributions we can make to our stockholders. Because our stockholders will not directly own any interest in our Operating Partnership, our stockholders will not have any voting rights with respect to any such issuances or other partnership level activities of our Operating Partnership.

***If we issue limited partnership interests in our Operating Partnership in exchange for property, the value placed on such partnership interests may not accurately reflect their market value, which may dilute your interest in us.***

If we issue limited partnership interests in our Operating Partnership in exchange for property, the per unit value attributable to such interests will be determined based on negotiations with the property seller and, therefore, may not reflect the fair market value of such limited partnership interests if a public market for such limited partnership interests existed. If the value of such limited partnership interests is greater than the value of the related property, your interest in us may be diluted.

***Our rights and the rights of our stockholders to take action against our directors and officers are limited, which could limit your recourse in the event of actions not in your best interests.***

We have entered into indemnification agreements with each of our executive directors and officers that provide for indemnification to the maximum extent permitted by Maryland law. Maryland law permits us to include in our charter a provision eliminating the liability of our directors and officers and our stockholders for money damages except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- active and deliberate dishonesty that was established by a final judgment and was material to the cause of action.

Our charter authorizes us to obligate ourselves and our bylaws obligate us, to the fullest extent permitted by Maryland law in effect from time to time, to indemnify and, without requiring a preliminary determination of the ultimate entitlement to indemnification, pay or reimburse reasonable expenses in advance of final disposition of a proceeding to:

- any present or former director or officer who is made or threatened to be made a party to or witness in the proceeding by reason of his or her service in that capacity; or
- any individual who, while a director or officer of our company and at our request, serves or has served as a director, officer, partner, manager, member or trustee of another corporation, REIT, partnership, limited liability company, joint venture, trust, employee benefit plan or any other enterprise and who is made or threatened to be made a party to or witness in the proceeding by reason of his or her service in that capacity.

***Our charter contains provisions that make removal of our directors difficult, which could make it difficult for our stockholders to effect changes to our management.***

Our charter provides that, subject to the rights of holders of any series of preferred stock, a director may be removed only with cause upon the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast generally in the election of directors. Vacancies may be filled only by a vote of the majority of the remaining directors in office, even if less than a quorum. These requirements make it more difficult to change our management by removing and replacing directors and may prevent a change in control of our company that is in the best interests of our stockholders.

***Ownership limitations may restrict change in control or business combination opportunities in which our stockholders might receive a premium for their shares.***

In order for us to qualify as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"), shares of our stock must be owned by 100 or more persons during at least 335 days of a taxable year of 12 months (other than the first year for which an election to be a REIT has been made) or during a proportionate part of a shorter taxable year. Also, not more than 50% of the value of the outstanding shares of our stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) during the last half of a taxable year (other than the first year for which an election to be a REIT has been made). In order for us to qualify as a REIT under the Code, the relevant sections of our charter provide that, subject to certain exceptions, no person or entity may own, or be deemed to own, by virtue of the applicable constructive ownership provisions of the Code, more than 9.8% (in value or number of shares, whichever is more restrictive) of the aggregate of our outstanding shares of stock or more than 9.8% (in value or number of shares, whichever is more restrictive) of our outstanding common stock or any class or series of our outstanding preferred stock, including our 9.00% Series A Cumulative Redeemable Preferred Stock (the “Series A Preferred Stock”). These ownership limits and other restrictions could have the effect of discouraging a takeover or other transaction in which holders of our common stock might receive a premium for their shares over the then prevailing market price or which holders might believe to be otherwise in their best interests.

***The requirements of being a public company impose costs and demands upon our management, which could make it difficult to manage our business, particularly after we are no longer an "emerging growth company."***

Complying with the reporting and other regulatory requirements of the Exchange Act and the requirements of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") is time-consuming and costly. The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act requires that we maintain effective disclosure controls and procedures and internal controls over financial reporting. To maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, we have committed additional resources and provided additional management oversight. We expect these resources and management oversight requirements to continue. These activities may divert management's attention from other business concerns, which could have a material adverse effect on our business, financial condition and results of operations.

As an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"), we benefit from certain temporary exemptions from various reporting requirements, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act and reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements. In addition, we have elected under the JOBS Act to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. When these exemptions cease to apply, we expect to incur additional expenses and devote increased management effort toward ensuring compliance with them. We cannot predict or estimate the amount of additional costs we may incur as these exemptions cease to apply.

***We plan to continue to operate our business so that we are not required to register as an investment company under the Investment Company Act.***

We engage primarily in the business of investing in real estate and we have not and do not intend to register as an investment company under the Investment Company Act. If our primary business were to change in a manner that would require us register as an investment company under the Investment Company Act, we would have to comply with substantial regulation under the Investment Company Act which could restrict the manner in which we operate and finance our business and could materially and adversely affect our business operations and results.

**Risks Related to Our Securities**

***The market prices and trading volumes of our common stock and Series A Preferred Stock have been and may continue to be volatile.***

The market prices for our common stock and Series A Preferred Stock have been, and may continue to be, volatile. In addition, the trading volume in our common stock and Series A Preferred Stock has fluctuated and may continue to fluctuate, resulting in significant price variations.

Some of the factors that could negatively affect the share price or result in fluctuations in the price or trading volume of our common stock and preferred stock include:

- our actual or projected operating results, financial condition, cash flows and liquidity or changes in business strategy or prospects;
- changes in government policies, regulations or laws;
- our ability to make acquisitions on preferable terms or at all;
- the performance of our current properties and additional properties that we acquire;
- equity issuances by us, or share resales by our stockholders, or the perception that such issuances or resales may occur;
- actual or anticipated accounting problems;
- publication of research reports about us, the real estate industry or the cannabis industry;
- changes in market valuations of similar companies;
- adverse market reaction to any increased indebtedness we may incur in the future;
- interest rate changes;
- additions to or departures of our senior management team;
- speculation in the press or investment community or negative press in general;

- our failure to meet, or the lowering of, our earnings estimates or those of any securities analysts;
- failure to maintain our qualification as a REIT;
- refusal of securities clearing firms to accept deposits of our securities;
- a delisting of our common stock or preferred stock from the New York Stock Exchange ("NYSE");
- the realization of any of the other risk factors presented in this report;
- actions by institutional stockholders;
- price and volume fluctuations in the stock market generally; and
- market and economic conditions generally, including the current state of the credit and capital markets and the market and economic conditions.

Market factors unrelated to our performance could also negatively impact the market price of our common stock and preferred stock. One of the factors that investors may consider in deciding whether to buy or sell our common stock or Series A Preferred Stock is our distribution rate as a percentage of our stock price relative to market interest rates. If market interest rates increase, prospective investors may demand a higher distribution rate or seek alternative investments paying higher dividends or interest. As a result, interest rate fluctuations and conditions in capital markets can affect the market value of our common stock or Series A Preferred Stock.

***Common stock and preferred stock eligible for future sale may have material and adverse effects on our share price.***

Subject to applicable law, our board of directors, without stockholder approval, may authorize us to issue additional shares of our common stock or to raise capital through the issuance of preferred stock (including equity or debt securities convertible into preferred stock), options, warrants and other rights, on terms and for consideration as our board of directors in its sole discretion may determine. Any such issuance could result in dilution of the equity of our stockholders. Sales of substantial amounts of shares of our common stock in the public market, or the perception that such sales might occur, could adversely affect the market price of our common stock.

Our charter also authorizes our board of directors, without stockholder approval, to designate and issue one or more classes or series of preferred stock (including equity or debt securities convertible into preferred stock) and to set or change the voting, conversion or other rights, preferences, restrictions, limitations as to dividends or other distributions and qualifications or terms or conditions of redemption of each class of shares so issued. If any preferred stock is publicly offered, the terms and conditions of such preferred stock (including any equity or debt securities convertible into preferred stock) will be set forth in a registration statement registering the issuance of such preferred stock or equity or debt securities convertible into preferred stock. Because our board of directors has the power to establish the preferences and rights of each class or series of preferred stock, it may afford the holders of any series or class of preferred stock preferences, powers, and rights senior to the rights of holders of common stock or other preferred stock. If we ever create and issue additional preferred stock or equity or debt securities convertible into preferred stock with a distribution preference over common stock or preferred stock, payment of any distribution preferences of new outstanding preferred stock would reduce the amount of funds available for the payment of distributions on the common stock and junior preferred stock. Further, holders of preferred stock are normally entitled to receive a preference payment if we liquidate, dissolve, or wind up before any payment is made to the common stockholders, likely reducing the amount common stockholders would otherwise receive upon such an occurrence. In addition, under certain circumstances, the issuance of additional preferred stock may delay, prevent, render more difficult or tend to discourage a merger, tender offer, or proxy contest, the assumption of control by a holder of a large block of our securities, or the removal of incumbent management.

Furthermore, we filed a shelf registration statement, which was subsequently declared effective by the SEC, which may permit us, from time to time, to offer and sell common stock, preferred stock, warrants and other securities to the extent necessary or advisable to meet our liquidity needs.

Additionally, from time to time we also may issue shares of our common stock or operating partnership units of our Operating Partnership in connection with property acquisitions. We may grant additional demand or piggyback registration rights in connection with these issuances. Sales of substantial amounts of our common stock or operating partnership units of our Operating Partnership, or the perception that these sales could occur, may adversely affect the prevailing market price of our common stock or may adversely affect the terms upon which we may be able to obtain additional capital through the sale of equity securities.

As of March 13, 2019, 9,806,194 shares of our common stock were issued and outstanding, and we had reserved an additional 753,806 shares of common stock for future issuance under our 2016 Omnibus Incentive Plan and 2,066,116 shares potentially issuable upon exchange of our Exchangeable Senior Notes (based on the exchange rate as of March 13, 2019). The existence of operating partnership units Exchangeable Senior Notes, shares of Series A Preferred Stock and shares of our common stock reserved for issuance under our 2016 Omnibus Incentive Plan may adversely affect the terms upon which we may be able to obtain additional capital through the sale of equity securities.

***We cannot assure you of our ability to make distributions in the future. We may be unable to pay or maintain cash dividends, and may borrow money, sell assets or use offering proceeds to make distributions to our stockholders, if we are unable to make distributions from cash flows from operations.***

U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gain (which does not equal net income as calculated in accordance with U.S. generally accepted accounting principles ("GAAP")), and that it pay U.S. federal income tax at regular corporate rates to the extent that it annually distributes less than 100% of its taxable income. We may not continue our current level of distributions to stockholders. Our board of directors will determine future distributions based on a number of factors, including cash available for distribution, economic conditions, operating results, our financial condition, especially in relation to our anticipated future capital needs, then current expansion plans, the distribution requirements for REITs, and other factors our board deems relevant. In addition, we may borrow money, sell assets or use offering proceeds to make distributions to our stockholders, if we are unable to make distributions from cash flows from operations.

***Our charter permits us to pay distributions from any source and, as a result, the amount of distributions paid at any time may not reflect the performance of our properties or as cash flow from operations.***

Our organizational documents permit us to make distributions from any source. To the extent that our cash available for distribution is insufficient to cover our distributions, we expect to use our cash on hand, the proceeds from the issuance of securities in the future, the proceeds from borrowings or other sources to pay distributions. It is possible that any distributions declared will be paid from our cash on hand or future issuances of shares of our common stock or preferred stock, which would constitute a return of capital to our stockholders. If we fund distributions from borrowings, sales of properties, future issuances of securities or cash on hand, we will have fewer funds available for the acquisition of additional properties resulting in potentially fewer investments, less diversification of our portfolio and a reduced overall return to our stockholders. In addition, the value of our shares of common stock and preferred stock may be diluted because funds that would otherwise be available to make investments would be diverted to fund distributions.

***The market price of our common stock and Series A Preferred Stock could be materially and adversely affected by our level of cash distributions.***

The market value of our common stock and Series A Preferred Stock is based primarily upon the market's perception of our growth potential and our current and potential future cash distributions, whether from operations, sales or re-financings, and is secondarily based upon the real estate market value of our underlying assets. For that reason, our stock may trade at prices that are higher or lower than our net asset value per share. To the extent we retain operating cash flow for investment purposes, working capital reserves or other purposes, these retained funds, while increasing the value of our underlying assets, may not correspondingly increase the market price of our stock. Our failure to meet the market's expectations with regard to future earnings and cash distributions likely would materially and adversely affect the market price of our common stock and Series A Preferred Stock.

***Our Exchangeable Senior Notes and future offerings of debt or preferred equity securities, which may rank senior to our common stock and existing preferred stock, may materially and adversely affect the market price of our common stock.***

Our Exchangeable Senior Notes rank senior to our common stock and existing preferred stock. If we decide to issue additional debt securities in the future, which would rank senior to our common stock and existing preferred stock, it is likely that they will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, any preferred equity securities or convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock and/or existing preferred stock and may result in dilution to owners of our common stock and existing preferred stock. We and, indirectly, our stockholders will bear the cost of issuing and servicing such securities. Because our decision to issue debt or preferred equity securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, holders of our common stock and existing preferred stock will bear the risk of our future offerings reducing the market price of our common stock and existing preferred stock and diluting the value of their stock holdings in us.

***We are an "emerging growth company" and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.***

We are an "emerging growth company," and we benefit from certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies" including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, which may increase the risk that weaknesses or deficiencies in our internal control over financial reporting go undetected, and reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, which may make it more difficult for investors and securities analysts to evaluate our company. In addition, we have elected under the JOBS Act to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. As a result of this election, our financial statements may not be comparable to companies that comply with public company effective dates. If some investors find our common stock and existing preferred stock less attractive as a result, there may be a less active trading market for our common stock and existing preferred stock, and corresponding stock prices may be more volatile. We may take advantage of these reporting exemptions until we are no longer an "emerging growth company," which in certain circumstances could be up to five years.

**Risks Related to Our Taxation as a REIT**

***Our failure to qualify or remain qualified as a REIT would subject us to U.S. federal income tax and applicable state and local taxes, which would reduce the amount of cash available for distribution to our stockholders and have significant adverse consequences on the market price of our common stock and existing preferred stock.***

We have been organized and we intend to operate in a manner that will enable us to qualify as a REIT for U.S. federal income tax purposes commencing with our taxable year ended December 31, 2017. We have not requested and do not intend to request a ruling from the Internal Revenue Service (the "Service") that we qualify as a REIT, and the statements in this report are not binding on the Service or any court. Qualification as a REIT involves the application of highly technical and complex Code provisions and regulations promulgated by the U.S. Treasury Department thereunder ("Treasury Regulations") for which there are limited judicial and administrative interpretations. Accordingly, we cannot provide assurance that we will qualify or remain qualified as a REIT.

To qualify as a REIT, we must meet, on an ongoing basis, various tests regarding the nature and diversification of our assets and our income, the ownership of our outstanding stock, and the amount of our distributions to stockholders. Our ability to satisfy these asset tests depends upon the characterization and fair market values of our assets, some of which are not susceptible to a precise determination, and for which we will not obtain independent appraisals. Our compliance with the REIT income and quarterly asset requirements also depends upon our ability to manage successfully the composition of our income and assets on an ongoing basis. Moreover, new legislation, court decisions or administrative guidance, in each case possibly with retroactive effect, may make it more difficult or impossible for us to qualify as a REIT. Thus, while we intend to operate in a manner to qualify as a REIT, in view of the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, and the possibility of future changes in our circumstances, we cannot provide assurance that we will so qualify for any particular year. These considerations also might restrict the types of income we can realize, or assets that we can acquire in the future.

If we fail to qualify as a REIT in any taxable year, and we do not qualify for certain statutory relief provisions, we would be required to pay U.S. federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates. We will not be able to deduct distributions to our stockholders in any year in which we fail to qualify, nor will we be required to make distributions to our stockholders. In such a case, we might need to borrow money, sell assets, or reduce or even cease making distributions in order to pay our taxes. Our payment of income tax would reduce significantly the amount of cash available for distribution to our stockholders. If we fail to qualify as a REIT, all distributions to stockholders, to the extent of current and accumulated earnings and profits, will be taxable to the stockholders as dividend income (which may be subject to tax at preferential rates) and corporate distributions may be eligible for the dividends received deduction if they satisfy the relevant provisions of the Code. Furthermore, if we fail to qualify as a REIT, we no longer would be required to distribute substantially all of our net taxable income to our stockholders. In addition, unless we were eligible for certain statutory relief provisions, we could not re-elect to qualify as a REIT until the fifth calendar year following the year in which we failed to qualify. We might not be entitled to the statutory relief described in this paragraph in all circumstances.

***The REIT distribution requirements could adversely affect our ability to execute our business plan, require us to borrow funds during unfavorable market conditions or subject us to tax, which would reduce the cash available for distribution to our stockholders.***

To qualify as a REIT, we must distribute to our stockholders, on an annual basis, at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gain. In addition, we will be subject to U.S. federal income tax at regular corporate rates to the extent that we distribute less than 100% of our net taxable income (including net capital gain) and will be subject to a 4% nondeductible excise tax on the amount by which our distributions in any calendar year are less than a minimum amount specified under U.S. federal income tax laws. We intend to distribute our net income to our stockholders in a manner intended to satisfy the REIT 90% distribution requirement and to avoid U.S. federal income tax and the 4% nondeductible excise tax. However, we can provide no assurances that we will have sufficient cash or other liquid assets to meet these requirements. Difficulties in meeting the distribution requirements might arise due to competing demands for available funds or timing differences between tax reporting and cash receipts. In addition, if the Service were to disallow certain of our deductions, such as employee salaries, depreciation or interest expense, by alleging that we, through our rental agreements with our state-licensed medical cannabis tenants, are primarily or vicariously liable for "trafficking" a Schedule 1 substance (cannabis) under Section 280E of the Code or otherwise, we would be unable to meet the distribution requirements and would fail to qualify as a REIT. Likewise, if any governmental entity were to impose fines on us for our business involvement in state-licensed medical-use cannabis, such fines would not be deductible and the inability to deduct such fines could also cause us to be unable to satisfy the distribution requirement.

We may also generate less cash flow than taxable income in a particular year. In such event, we may be required to use cash reserves, incur debt or liquidate assets at rates or times that we regard as unfavorable or, to the extent possible, make a taxable distribution of our stock in order to satisfy the REIT 90% distribution requirement and to avoid U.S. federal income tax and the 4% nondeductible excise tax in that year. Under certain circumstances, we may be able to rectify a failure to meet the distribution requirement for a year by paying "deficiency dividends" to stockholders in a later year, which may be included in our deduction for dividends paid for the earlier year. Thus, we may be able to avoid being taxed on amounts distributed as deficiency dividends; however, we will be required to pay penalties and interest based upon the amount of any deduction taken for deficiency dividends. If we do not have sufficient cash to distribute, we may incur U.S. federal income tax, U.S. federal excise tax and/or our REIT status may be jeopardized.

***If we are deemed to be subject to Section 280E of the Code because of the business activities of our tenants, the resulting disallowance of tax deductions could cause us to incur U.S. federal income tax and jeopardize our REIT status.***

Section 280E of the Code provides that, with respect to any taxpayer, no deduction or credit is allowed for expenses incurred during a taxable year "in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of Schedule I and II of the CSA) which is prohibited by federal law or the law of any State in which such trade or business is conducted." Because cannabis is a Schedule I controlled substance under the CSA, Section 280E by its terms applies to the purchase and sale of medical-use cannabis products. Although we will not be engaged in the purchase, sale, growth, cultivation, harvesting, or processing of medical-use cannabis products, we will lease our properties to tenants who will engage in such activities, and therefore our tenants will likely be subject to Section 280E. If the Service were to take the position that, through our rental agreements with our state-licensed medical-use cannabis tenants, we are primarily or vicariously liable under federal law for "trafficking" a Schedule 1 substance (cannabis) under section 280E of the Code or for any other violations of the CSA, the Service may seek to apply the provisions of Section 280E to our company and disallow certain tax deductions, including for employee salaries, depreciation or interest expense. If such tax deductions are disallowed, we would be unable to meet the distribution requirements applicable to REITs under the Code, which could cause us to incur U.S. federal income tax and fail to qualify as a REIT. Because we are not engaged in the purchase and/or sale of a controlled substance, we do not believe that we will be subject to the disallowance provisions of Section 280E, and neither we nor our tax advisors are aware of any tax court cases or guidance from the Service in which a taxpayer not engaged in the purchase or sale of a controlled substance was disallowed deductions under Section 280E. However, there is no assurance that the Service will not take such a position either currently or in the future.

***Complying with REIT requirements may cause us to forego otherwise attractive business opportunities or liquidate otherwise attractive investments.***

To qualify as a REIT, we must ensure that we meet the REIT gross income tests annually. In addition, we must ensure that, at the end of each calendar quarter, at least 75% of the value of our total assets consists of cash, cash items, government securities and qualified REIT real estate assets, including certain mortgage loans, certain kinds of mortgage-backed securities and certain securities issued by other REITs. The remainder of our investment in securities (other than government securities, securities of corporations that are treated as TRSs, and qualified REIT real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, no more than 25% (20% for taxable years beginning after December 31, 2017) of the value of our total securities can be represented by securities of one or more TRSs, and, the aggregate value of debt instruments issued by public REITs held by us that are not otherwise secured by real property may not exceed 25% of the value of our total assets. If we fail to comply with these asset requirements at the end of any calendar quarter, we generally must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences.

To meet these tests, we may be required to take or forgo taking actions that we would otherwise consider advantageous. For instance, in order to satisfy the gross income or asset tests applicable to REITs under the Code, we may be required to forego investments that we otherwise would make. Furthermore, we may be required to liquidate from our portfolio otherwise attractive investments. In addition, we may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders. Thus, compliance with the REIT requirements may hinder our investment performance.

***The tax on prohibited transactions could limit our ability to engage in certain transactions or subject us to a 100% penalty tax.***

We are subject to a 100% tax on any income from a prohibited transaction. "Prohibited transactions" generally include sales or other dispositions of property (other than property treated as foreclosure property under the Code) that is held as inventory or primarily for sale to customers in the ordinary course of a trade or business by a REIT, either directly or indirectly through certain pass-through subsidiaries. Although we do not intend to hold a significant amount of assets as inventory or primarily for sale to customers in the ordinary course of our business, the characterization of an asset sale as a prohibited transaction depends on the particular facts and circumstances. The Code provides a safe harbor that, if met, allows a REIT to avoid being treated as engaged in a prohibited transaction. It is likely that we may sell certain properties that have not met all of the requirements of such safe harbor if we believe the transaction would not be a prohibited transaction based on a facts and circumstances analysis. If the Service were to successfully argue that such a sale was in fact a prohibited transaction, we would be subject to a 100% penalty tax with respect to such sale.

***If we were considered to actually or constructively pay a "preferential dividend" to certain of our stockholders, our status as a REIT could be adversely affected.***

In order to qualify as a REIT, we must annually distribute to our stockholders at least 90% of our REIT taxable income (which does not equal net income, as calculated in accordance with GAAP), determined without regard to the deduction for dividends paid and excluding net capital gain. In order for distributions to be counted as satisfying the annual distribution requirements for REITs, and to provide us with a REIT-level tax deduction, the distributions must not be "preferential dividends." A dividend is not a preferential dividend if the distribution is pro rata among all outstanding shares of stock within a particular class, and in accordance with the preferences among different classes of stock as set forth in our organizational documents. Currently, there is uncertainty as to the Service's position regarding whether certain arrangements that REITs have with their stockholders could give rise to the inadvertent payment of a preferential dividend (e.g., the pricing methodology for stock purchased under a distribution reinvestment program inadvertently causing a greater than 5% discount on the price of such stock purchased). There is no de minimis exception with respect to preferential dividends; therefore, if the Service were to take the position that we inadvertently paid a preferential dividend, we may be deemed to have failed the 90% distribution test, and our status as a REIT could be terminated for the year in which such determination is made if we were unable to cure such failure. While we believe that our operations will be structured in such a manner that we will not be treated as inadvertently paying preferential dividends, we can provide no assurance to this effect.

The "preferential dividend" prohibition described above does not apply to a "publicly offered REIT," which generally is a REIT that is required to make regular filings with the SEC under the Exchange Act. While we intend to qualify as a "publicly offered REIT" and therefore expect that the preferential dividend prohibition will not apply to us, we cannot provide you with assurance that we will so qualify and, accordingly, we may be subject to the prohibition.

***The ability of our board of directors to revoke our REIT election without stockholder approval may cause adverse consequences to our stockholders.***

Our charter provides that the board of directors may revoke or otherwise terminate our REIT election, without the approval of our stockholders, if the board of directors determines that it is no longer in our best interest to attempt to, or continue to, qualify as a REIT. If we cease to qualify as a REIT, we would become subject to U.S. federal income tax on our net taxable income and we generally would no longer be required to distribute any of our net taxable income to our stockholders, which may have adverse consequences on our total return to our stockholders.

***Dividends payable by REITs do not qualify for the reduced tax rates on dividend income from regular corporations, which could adversely affect the value of our common stock.***

The maximum U.S. federal income tax rate for certain qualified dividends payable to U.S. stockholders that are individuals, trusts and estates is 20%. Dividends (other than capital gain dividends) payable by REITs, however, generally are not eligible for the reduced rates. Although the reduced U.S. federal income tax rate applicable to dividend income from regular corporate dividends does not adversely affect the taxation of REITs or dividends paid by REITs, 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 shares of our common stock.

***Complying with REIT requirements may limit our ability to hedge our liabilities effectively and may cause us to incur tax liabilities.***

The REIT provisions of the Code may 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, if properly identified under applicable Treasury Regulations, does not constitute "gross income" for purposes of the 75% or 95% gross income tests. To the extent that we enter into other types of hedging transactions, the income from those transactions will likely be treated as non-qualifying income for purposes of both of the gross 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 TRSs 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 a TRS generally will not provide any tax benefit, except for being carried forward against future taxable income of such TRS.

***Non-U.S. stockholders will generally be subject to withholding tax with respect to our ordinary dividends.***

Non-U.S. stockholders generally will be subject to U.S. federal withholding tax on ordinary dividends received from us at a 30% rate, subject to reduction under an applicable treaty or a statutory exemption under the Code.

***Legislative, regulatory or administrative changes could adversely affect us or our stockholders.***

At any time, the U.S. federal income tax laws or Treasury Regulations governing REITs or the administrative interpretations of those laws or regulations may be changed, possibly with retroactive effect, and may adversely affect us and our stockholders. We cannot predict if or when any new U.S. federal income tax law, regulation or administrative interpretation, or any amendment to any existing U.S. federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective or whether any such law, regulation or interpretation may take effect retroactively.

It is unclear at this time what impact the rescission of the Cole Memo may have on our ability to qualify as a REIT. If rescission of the Cole Memo is followed by strict enforcement of federal prohibitions regarding cannabis, the Service could seek to apply the provisions of Section 280E of the Code to our company. Section 280E of the Code provides that, with respect to any taxpayer, no deduction or credit is allowed for expenses incurred during a taxable year “in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of Schedule I and II of the CSA) which is prohibited by federal law or the law of any State in which such trade or business is conducted.” Because cannabis is a Schedule I controlled substance under the CSA, Section 280E of the Code by its terms applies to the purchase and sale of medical-use cannabis products. If the Service were to take the position that, through our rental agreements with our state-licensed medical-use cannabis tenants, we are primarily or vicariously liable under federal law for “trafficking” a Schedule 1 substance (cannabis) under Section 280E of the Code or for any other violations of the CSA, the Service may apply the provisions of Section 280E of the Code to our company and disallow certain tax deductions, including for employee salaries, depreciation or interest expense. If such tax deductions are disallowed, we would be unable to meet the distribution requirements applicable to REITs under the Code, which could cause us to incur U.S. federal income tax and fail to qualify as a REIT.

In addition, tax legislation originally introduced as the Tax Cuts and Jobs Act and signed into law in December 2017 (the “TCJA”) makes numerous changes to the tax rules that do not affect the REIT qualification rules directly, but may otherwise affect us or our stockholders. Among the changes made by the TCJA are permanently reducing the generally applicable corporate tax rate, generally reducing the tax rate applicable to individuals and other non-corporate taxpayers for tax years beginning after December 31, 2017 and before January 1, 2026, eliminating or modifying certain previously allowed deductions (including substantially limiting interest deductibility and, for individuals, the deduction for non-business state and local taxes), and, for taxable years beginning after December 31, 2017 and before January 1, 2026, providing for preferential rates of taxation through a deduction of up to 20% (subject to certain limitations) on most ordinary REIT dividends and certain trade or business income of non-corporate taxpayers. The TCJA also imposes new limitations on the deduction of net operating losses, which may result in us having to make additional taxable distributions to our stockholders in order to comply with REIT distribution requirements or avoid taxes on retained income and gains. The effect of the significant changes made by the TCJA is highly uncertain, and administrative guidance will be required in order to fully evaluate the effect of many provisions. The effect of any technical corrections with respect to the TCJA could have an adverse effect on us or our stockholders.

**ITEM 1B.** ***UNRESOLVED STAFF COMMENTS***

Not applicable.

**ITEM 2.** ***PROPERTIES***

As of December 31, 2018, we owned the following eleven properties, which were 100% leased with a weighted-average remaining lease term of approximately 14.7 years:

| Property | Market | Closing Date | Rentable Square Feet (1) | Investment (2) |
|---|---|---|---|---|
| | | | | *(In thousands)* |
| Pharm AZ | Arizona | December 15, 2017 | 358,000 | $ 18,000(3) |
| The Green Solution CO | Colorado | October 30, 2018 | 58,000 | 11,250 |
| Ascend IL | Illinois | December 21, 2018 | 75,000 | 19,000(4) |
| Holistic MD | Maryland | May 26, 2017 | 72,000 | 16,900(5) |
| PharmaCann MA | Massachusetts | May 31, 2018 | 58,000 | 12,500(6) |
| Holistic MA | Massachusetts | July 12, 2018 | 55,000 | 12,750 |
| Green Peak MI | Michigan | August 2, 2018 | 56,000 | 11,900(7) |
| Vireo MN | Minnesota | November 8, 2017 | 39,000 | 3,800(8) |
| PharmaCann NY | New York | December 19, 2016 | 127,000 | 30,000 |
| Vireo NY | New York | October 23, 2017 | 40,000 | 3,400(9) |
| Vireo PA | Pennsylvania | April 6, 2018 | 89,000 | 8,400(10) |
| Total | | | 1,027,000 | $ 147,900 |

(1) Includes estimated rentable square feet at completion of construction.
(2) Includes purchase price and development and tenant reimbursement commitments funded, if any. Excludes transaction costs.
(3) Includes tenant improvement allowance funded of $3.0 million.
(4) Excludes tenant improvement allowance available of $6.0 million which has not been funded.
(5) Includes tenant improvement allowance funded of $5.9 million.
(6) Includes construction funding of approximately $9.5 million and excludes remaining construction funding available of approximately $6.0 million.
(7) Includes additional purchase price and tenant improvement allowance funded of $6.4 million and excludes remaining tenant improvement allowance available of $1.1 million.
(8) Includes tenant improvement allowance funded of approximately $788,000 and excludes remaining tenant improvement allowance available of approximately $2.2 million.
(9) Excludes tenant improvement allowance available of $3.0 million which has not been funded.
(10) Includes tenant improvement allowance funded of approximately $2.6 million and excludes remaining tenant improvement allowance available of approximately $1.2 million.

See Item 1. "Business — Our Properties" for more information about our properties.

**ITEM 3** . ***LEGAL PROCEEDINGS***

We may, from time to time, be a party to legal proceedings, which arise in the ordinary course of our business. We are not aware of any pending or threatened litigation that, if resolved against us, would have a material adverse effect on our consolidated financial position, results of operations or cash flows.

**ITEM 4** . ***MINE SAFETY DISCLOSURES***

Not applicable.

## PART II

**ITEM 5** . ***MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES***

Our common stock is traded on the NYSE under the symbol "IIPR." As of March 13, 2019, there were ten holders of record of our common shares. This number excludes our common shares owned by stockholders holding under nominee security position listings.

We have elected to be treated as a REIT for U.S. federal income tax purposes. U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gain (which does not equal net income as calculated in accordance with GAAP), and that it pay U.S. federal income tax at regular corporate rates to the extent that it annually distributes less than 100% of its taxable income.

To satisfy the requirements to qualify as a REIT and generally not be subject to U.S. federal income tax, we intend to make quarterly distributions of all or substantially all of our taxable income to holders of our common stock out of assets legally available therefor. However, we cannot assure you that distributions will be made or sustained. Any distributions we make will be at the direction of our board of directors and will depend upon a number of factors, including our actual results of operations, economic conditions, maintenance of REIT qualification and the applicable provisions of the MGCL and such other factors as our board may determine in its sole discretion.

Our organizational documents permit us to make distributions from any source. If our cash available for distribution is insufficient to cover our distributions, we expect to use the proceeds from the issuance of securities, the proceeds from borrowings or other sources to pay distributions. During our initial years of operation, we expect that a portion of our distributions declared may be paid from offering proceeds, which would constitute a return of capital to our stockholders.

We anticipate that our distributions generally will be taxable as ordinary income to our stockholders, although a portion of the distributions may be designated by us as qualified dividend income or capital gain or may constitute a return of capital. We will furnish annually to each of our stockholders a statement setting forth distributions paid during the preceding year and their characterization as ordinary income, return of capital, qualified dividend income or capital gain.

**ITEM 6.** ***SELECTED FINANCIAL DATA***

Not applicable.

**ITEM 7** . ***MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

*The following discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this report. We make statements in this section that are forward-looking statements within the meaning of the federal securities laws. For a complete discussion of forward-looking statements, see the section above entitled "Cautionary Statement Regarding Forward-Looking Statements." Certain risk factors may cause our actual results, performance or achievements to differ materially from those expressed or implied by the following discussion. For a discussion of such risk factors, see Item 1A, "Risk Factors."*

**Overview**

We are an internally-managed REIT focused on the acquisition, ownership and management of specialized industrial properties leased to experienced, state-licensed operators for their regulated medical-use cannabis facilities. We have leased and expect to continue to lease our properties on a triple-net lease basis, where the tenant is responsible for all aspects of and costs related to the property and its operation during the lease term, including structural repairs, maintenance, taxes and insurance.

We were incorporated in Maryland on June 15, 2016. We conduct our business through a traditional umbrella partnership real estate investment trust, or UPREIT structure, in which our properties are owned by our Operating Partnership, directly or through subsidiaries. We are the sole general partner of our Operating Partnership and own, directly or through a subsidiary, 100% of the limited partnership interests in our Operating Partnership. As of December 31, 2018, we had six full-time employees. As of December 31, 2018, we owned eleven properties that were 100% leased to state-licensed medical-use cannabis operators and comprising an aggregate of approximately 1,027,000 rentable square feet in Arizona, Colorado, Illinois, Maryland, Massachusetts, Michigan, Minnesota, New York and Pennsylvania, with a weighted-average remaining lease term of approximately 14.7 years. As of December 31, 2018, we had invested an aggregate of $147.9 million (consisting of purchase price and development and tenant reimbursement commitments funded, if any, but excluding transaction costs) and had committed an additional $19.5 million to reimburse certain tenants and sellers for completion of construction and tenant improvements at our properties.

***Emerging Growth Company***

We have elected to be an emerging growth company, as defined in the JOBS Act. An emerging growth company may take advantage of specified reduced reporting requirements and is relieved of certain other significant requirements that are otherwise generally applicable to public companies. As an emerging growth company, among other things:

- we are exempt from the requirement to obtain an attestation and report from our auditors on the assessment of our internal control over financial reporting pursuant to the Sarbanes-Oxley Act;
- we are permitted to provide less extensive disclosure about our executive compensation arrangements;
- we are not required to give our stockholders non-binding advisory votes on executive compensation or golden parachute arrangements; and
- we have elected to use an extended transition period for complying with new or revised accounting standards.

We may take advantage of the other provisions for up to five years or such earlier time that we are no longer an emerging growth company. We will cease to be an emerging growth company upon the earliest to occur of: (i) the last day of the first fiscal year in which our annual gross revenues exceed $1.07 billion, (ii) the date that we become a "large accelerated filer" as defined in Rule 12b-2 under the Exchange Act, which would occur if the market value of our common stock that is held by non-affiliates exceeds $700 million as of the last business day of our most recently completed second fiscal quarter, or (iii) the date on which we have issued more than $1 billion in non-convertible debt during the preceding three-year period.

**Factors Impacting Our Operating Results**

Our results of operations are affected by a number of factors and depend on the rental revenue we receive from the properties that we acquire, the timing of lease expirations, general market conditions, the regulatory environment in the medical-use cannabis industry, and the competitive environment for real estate assets that support the regulated medical-use cannabis industry.

***Rental Revenues***

We receive income primarily from rental revenue generated by the properties that we acquire. The amount of rental revenue depends upon a number of factors, including:

- our ability to enter into leases with increasing or market value rents for the properties that we acquire; and

- rent collection, which primarily relates to each of our current and future tenant's financial condition and ability to make rent payments to us on time.

The properties that we acquire consist of real estate assets that support the regulated medical-use cannabis industry. Changes in current favorable state or local laws in the cannabis industry may impair our ability to renew or re-lease properties and the ability of our tenants to fulfill their lease obligations and could materially and adversely affect our ability to maintain or increase rental rates for our properties.

***Conditions in Our Markets***

Positive or negative changes in regulatory, economic or other conditions, and natural disasters in the markets where we acquire properties may affect our overall financial performance.

***Competitive Environment***

We face competition from a diverse mix of market participants, including but not limited to, other companies with similar business models, independent investors, hedge funds and other real estate investors, hard money lenders, as well as would be clients, cannabis operators themselves, all of whom may compete with us in our efforts to acquire real estate zoned for cannabis cultivation and production operations. Competition from others may diminish our opportunities to acquire a desired property on favorable terms or at all. In addition, this competition may put pressure on us to reduce the rental rates below those that we expect to charge for the properties that we acquire, which would adversely affect our financial results.

***Operating Expenses***

Our operating expenses include general and administrative expenses, including personnel costs, legal, accounting, and other expenses related to corporate governance, public reporting and compliance with the various provisions of U.S. securities laws. We generally expect to structure our leases so that the tenant is responsible for taxes, maintenance, insurance, and structural repairs with respect to the premises throughout the lease term. Increases or decreases in such operating expenses will impact our overall financial performance.

***Our Qualification as a REIT***

We have been organized and operate our business so as to qualify, to be taxed as a REIT for U.S. federal income tax purposes. Shares of our common stock and Series A Preferred Stock are subject to restrictions on ownership and transfer that are intended, among other purposes, to assist us in qualifying and maintaining our qualification as a REIT. In order for us to qualify as a REIT under the Code, the relevant sections of our charter provide that, subject to certain exceptions, no person or entity may own, or be deemed to own, by virtue of the applicable constructive ownership provisions of the Code, more than 9.8% (in value or number of shares, whichever is more restrictive) of the aggregate of our outstanding shares of stock or Series A Preferred Stock or more than 9.8% (in value or number of shares, whichever is more restrictive) of our outstanding common stock or any class or series of our outstanding preferred stock.

**Results of Operations**

During the year ended December 31, 2018, we acquired the following properties:

| Property | Market | Closing Date | Rentable Square Feet (1) | Investment (2) |
|---|---|---|---|---|
| | | | | *(In thousands)* |
| Vireo PA | Pennsylvania | April 6, 2018 | 89,000 | $ 8,400(3) |
| PharmaCann MA | Massachusetts | May 31, 2018 | 58,000 | 12,500(4) |
| Holistic MA | Massachusetts | July 12, 2018 | 55,000 | 12,750 |
| Green Peak MI | Michigan | August 2, 2018 | 56,000 | 11,900(5) |
| The Green Solution CO | Colorado | October 30, 2018 | 58,000 | 11,250 |
| Ascend IL | Illinois | December 21, 2018 | 75,000 | 19,000(6) |
| Total | | | 391,000 | $ 75,800 |

(1) Includes estimated rentable square feet at completion of construction.
(2) Includes purchase price and development funding and tenant reimbursement commitments, if any. Excludes transaction costs.
(3) Includes tenant improvement allowance funded of approximately \$2.6 million and excludes remaining tenant improvement allowance available of approximately \$1.2 million.
(4) Includes construction funding of approximately \$9.5 million and excludes remaining construction funding available of approximately \$6.0 million.
(5) Includes additional purchase price and tenant improvement allowance funded of \$6.4 million and excludes remaining tenant improvement allowance available of \$1.1 million.
(6) Excludes tenant improvement allowance available of \$6.0 million which has not been funded.

***Comparison of the Years Ended December 31, 2018 and 2017***

The following table sets forth the results of our operations (in thousands):

| | Year Ended December 31, 2018 | Year Ended December 31, 2017 |
|---|---|---|
| **Revenues:** | | |
| Rental | $ 14,342 | $ 6,302 |
| Tenant reimbursements | 445 | 118 |
| Total revenues | 14,787 | 6,420 |
| | | |
| **Expenses:** | | |
| Property expenses | 445 | 118 |
| General and administrative expense | 6,375 | 5,497 |
| Severance | — | 113 |
| Depreciation expense | 2,629 | 915 |
| Total expenses | 9,449 | 6,643 |
| Income / (loss) from operations | 5,338 | (223) |
| Interest and other income | 1,647 | 151 |
| Net income / (loss) | 6,985 | (72) |
| Preferred stock dividend | 1,352 | 323 |
| Net income / (loss) attributable to common stockholders | $ 5,633 | $ (395) |

***Revenues*** .

*Rental* . Rental revenues for the year ended December 31, 2018 increased by approximately \$8.0 million, or 128%, to approximately \$14.3 million, compared to approximately \$6.3 million for the year ended December 31, 2017. The increase in rental revenue was related to rent and property management fees generated from leases for properties we acquired in 2017 and 2018, as well as annual escalations of base rent on five of our leases.

*Tenant Reimbursements* . Tenant reimbursements related to reimbursements by tenants for property insurance premiums paid at certain properties. The increase in tenant reimbursements primarily related to properties that we acquired in 2018.

***Expenses*** .

*Property Expenses* . Property expenses related to property insurance premiums at certain of our properties, which were reimbursed by the tenants. The increase in property expenses primarily related to properties that we acquired in 2018.

*General and Administrative Expense* . General and administrative expense for the year ended December 31, 2018 increased by approximately $878,000, or 16%, to approximately $6.4 million, compared to $5.5 million for the year ended December 31, 2017. The increase in general and administrative expense was primarily due to higher cash compensation to employees and higher public company costs, travel and occupancy costs, partially offset by a decrease in non-cash stock-based compensation. Compensation expense for the year ended December 31, 2018 and 2017 included approximately $1.5 million and $1.7 million, respectively, of non-cash stock-based compensation.

*Severance* . During the year ended December 31, 2017, we incurred $113,000 in severance expense related to the cessation of employment of one of our executive officers in June 2017.

*Depreciation Expense.* The increase in depreciation expense was related to depreciation on properties that we acquired in 2017 and 2018, the placement into service of our property in Michigan that was previously under construction, and the placement into service of tenant improvements at certain of our properties.

*Interest and Other Income* . Interest and other income primarily related to interest earned on our short-term investments and cash and cash equivalents. The increase in interest and other income was due to amortization of discounts on short-term investments and higher interest bearing investments and cash balances, as a result of the net proceeds received from our Series A Preferred Stock in 2017 and common stock offerings completed in 2017 and 2018.

*Preferred Stock Dividend* . Preferred stock dividend relates to dividends for our Series A Preferred Stock, which we issued in October 2017.

**Liquidity and Capital Resources**

Liquidity is a measure of our ability to meet potential cash requirements. We expect to use significant cash to acquire our target properties, pay dividends to our stockholders, fund our operations, service our Exchangeable Senior Notes and meet other general business needs.

*Sources and Uses of Cash*

We derive all of our revenues from the leasing of our properties, collecting rental income and operating expense reimbursements based on contractual arrangements with our tenants. This source of revenue represents our primary source of liquidity to fund our dividends, general and administrative expenses, property operating expenses and other expenses incurred related to managing our existing portfolio and investing in additional properties. To the extent additional resources are needed, we expect to fund our investment activity generally through equity or debt issuances either in the public or private markets. Where possible, we also may issue limited partnership interests in our Operating Partnership to acquire properties from existing owners seeking a tax-deferred transaction.

In January 2018, we issued 3,220,000 shares of common stock in a public offering, including the exercise in full of the underwriters' option to purchase an additional 420,000 shares, resulting in net proceeds of approximately $79.3 million, after deducting the underwriters' discounts and commissions and offering expenses.

In October 2018, we issued 2,990,000 shares of common stock, including the exercise in full of the underwriters’ option to purchase an additional 390,000 shares, resulting in net proceeds of approximately $113.9 million, after deducting the underwriters' discounts and commissions and offering expenses.

Subsequent to December 31, 2018, in February 2019, our Operating Partnership issued $143.75 million aggregate principal amount of Exchangeable Senior Notes, including the exercise in full of the initial purchasers' option to purchase additional Exchangeable Senior Notes, results in net proceeds of approximately $138.4 million, after deducting the initial purchasers' discounts and estimated offering expenses.

We have filed an effective shelf registration statement, which may permit us, from time to time, to offer and sell common stock, preferred stock, warrants and other securities to the extent necessary or advisable to meet our liquidity needs.

We expect to meet our liquidity needs through cash on hand, cash flows from operations and cash flows from sources discussed above. We believe that our liquidity and sources of capital are adequate to satisfy our cash requirements. We cannot, however, be certain that these sources of funds will be available at a time and upon terms acceptable to the Company in sufficient amounts to meet its liquidity needs. Our investment guidelines also provide that our aggregate borrowings (secured and unsecured) will not exceed 50% of the cost of our tangible assets at the time of any new borrowing, subject to our board of directors' discretion.

*Operating Activities*

Cash flows provided by operating activities for the year ended December 31, 2018 and 2017 were approximately $15.7 million and $5.0 million, respectively. Cash flows provided by operating activities were generally provided by contractual rent and security deposits from our properties, partially offset by general and administrative expenses, including higher cash compensation to employees, public company costs, travel and occupancy costs.

*Investing Activities*

Cash flows used in investing activities for the year ended December 31, 2018 were approximately $199.3 million, related to the purchases of properties and funding of a portion of the tenant improvement allowances, construction funding and net purchases and maturities of short-term investments.

Cash flows used in investing activities for the year ended December 31, 2017 were approximately $38.6 million, relating to the purchases of four properties in 2017 and the subsequent funding of certain tenant improvements at one of those properties.

*Financing Activities*

Cash flows provided by financing activities for the year ended December 31, 2018 were approximately $184.9 million, primarily related to approximately $193.2 million in net proceeds from our common stock offerings completed in January and October 2018, partially offset by approximately $7.9 million in dividend payments to holders of our common stock and Series A Preferred Stock and approximately $390,000 in withholding taxes paid by us related to net share settlement of restricted stock awards that vested for certain employees.

Cash flows provided by financing activities for the year ended December 31, 2017 were approximately $12.4 million, primarily related to approximately $14.0 million in net proceeds from our Series A Preferred Stock offering completed in October 2017, partially offset by approximately $1.1 million in dividend payments to holders of our common stock, approximately $276,000 in costs incurred relating to our initial public offering and approximately $298,000 in withholding taxes paid by us related to net share settlement of restricted stock awards that vested for certain employees.

*Dividends*

The Company is required to pay dividends to its stockholders at least equal to 90% of its taxable income in order to qualify and maintain its qualification as a REIT. As a result of this distribution requirement, our Operating Partnership cannot rely on retained earnings to fund its ongoing operations to the same extent that other companies whose parent companies are not REITs can. During 2018, we declared cash dividends on our common stock totaling $1.20 per share, and cash dividends on our Series A Preferred Stock totaling $2.25 per share. Our ability to continue to pay dividends is dependent upon our ability to continue to generate cash flows, service any debt obligations we have, including our Exchangeable Senior Notes, and make accretive new investments.

**Non-GAAP Financial Information and Other Metrics**

***FFO and AFFO***

In addition to the required GAAP presentations, we use certain non-GAAP performance measures as we believe these measures improve the understanding of our operational results. We continually evaluate the usefulness, relevance, limitations, and calculation of our reported non-GAAP performance measures to determine how best to provide relevant information to the public and thus such reported measures could change.

Funds from operations (“FFO”) and FFO per share are operating performance measures adopted by the National Association of Real Estate Investment Trusts, Inc. (“NAREIT”). NAREIT defines FFO as the most commonly accepted and reported measure of a REIT’s operating performance equal to “net income (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus depreciation, amortization and impairment related to real estate properties, and after adjustments for unconsolidated partnerships and joint ventures.”

Management believes that net income (loss), as defined by GAAP, is the most appropriate earnings measurement. However, management believes FFO and FFO per share to be supplemental measures of a REIT’s performance because they provide an understanding of the operating performance of our properties without giving effect to certain significant non-cash items, primarily depreciation expense. Historical cost accounting for real estate assets in accordance with GAAP assumes that the value of real estate assets diminishes predictably over time. However, real estate values instead have historically risen or fallen with market conditions. We believe that by excluding the effect of depreciation, FFO and FFO per share can facilitate comparisons of operating performance between periods. We report FFO and FFO per share because these measures are observed by management to also be the predominant measures used by the REIT industry and by industry analysts to evaluate REITs and because FFO per share is consistently reported, discussed, and compared by research analysts in their notes and publications about REITs. For these reasons, management has deemed it appropriate to disclose and discuss FFO and FFO per share.

Management believes that adjusted funds from operations (“AFFO”) and AFFO per share are also appropriate supplemental measures of a REIT’s operating performance. We calculate AFFO by adding to FFO certain non-cash expenses, consisting of non-cash stock-based compensation expense and severance expense.

Our computation of FFO and AFFO may differ from the methodology for calculating FFO and AFFO utilized by other equity REITs and, accordingly, may not be comparable to such REITs. Further, FFO and AFFO do not represent cash flow available for management's discretionary use. FFO and AFFO should not be considered as an alternative to net income (loss) (computed in accordance with GAAP) as an indicator of our financial performance or to cash flow from operating activities (computed in accordance with GAAP) as an indicator of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends or make distributions. FFO and AFFO should be considered only as supplements to net income computed in accordance with GAAP as measures of operations.

The table below is a reconciliation of net income (loss) attributable to common stockholders to FFO and AFFO for the years ended December 31, 2018 and 2017 (in thousands, except share and per share amounts):

| | Year Ended December 31, 2018 | Year Ended December 31, 2017 |
|---|---|---|
| Net income / (loss) attributable to common stockholders | $ 5,633 | $ (395) |
| Real estate depreciation | 2,629 | 915 |
| FFO available to common stockholders | $ 8,262 | $ 520 |
| Stock-based compensation | 1,465 | 1,719 |
| Severance | — | 113 |
| AFFO available to common stockholders | $ 9,727 | $ 2,352 |
| FFO per common share – basic | $ 1.16 | $ 0.15 |
| FFO per common share – diluted | $ 1.13 | $ 0.15 |
| AFFO per common share – basic | $ 1.36 | $ 0.70 |
| AFFO per common share – diluted | $ 1.34 | $ 0.67 |
| Weighted-average common shares outstanding – basic | 7,138,952 | 3,375,284 |
| Weighted-average common shares outstanding – diluted | 7,285,801 | 3,507,145 |

*Average Current Yield on Invested Capital*

In addition, we have provided our calculation of our average current yield on invested capital, which is a measure of financial performance used by management to evaluate its current investment returns on capital invested or committed to invest in our properties. Average current yield on invested capital is not a substitute for financial results as reported in accordance with GAAP, and should not be utilized in place of such GAAP results. We believe that average current yield on invested capital is a meaningful measure because it quantifies our effectiveness in generating returns relative to the capital we have invested or have committed to invest in our properties. Our computation of average current yield on invested capital may also differ from the methodology for calculating average current yield on invested capital by other real estate companies, and, accordingly, may not be comparable to such real estate companies.

As of December 31, 2018, our average current yield on invested capital was approximately 15.3% for the eleven properties that we owned, calculated as the sum of the initial base rents, supplemental rent (with respect to the lease with PharmaCann at one of our New York properties) and property management fees (after the expiration of applicable base rent abatement periods) of approximately $25.7 million, divided by our aggregate investment in these properties of approximately $167.4 million (excluding transaction costs and including the aggregate potential tenant reimbursements of $19.5 million).

**Critical Accounting Policies**

Our consolidated financial statements have been prepared in accordance with GAAP, which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ materially from those estimates and assumptions. Set forth below is a summary of our accounting policies that we believe are critical to the preparation of our consolidated financial statements. Our accounting policies are more fully discussed in Note 2 to the consolidated financial statements.

*Acquisition of Rental Property, Depreciation and Impairment*

We depreciate each of our buildings and improvements over its estimated remaining useful life, not to exceed 35 years. We depreciate tenant improvements at our buildings over the shorter of the estimated useful lives or the terms of the related leases.

Upon acquisition of property, we allocate the purchase price based upon the relative fair values of all assets acquired and liabilities assumed. For transactions that are an asset acquisition, acquisition costs are capitalized as incurred. All of our acquisitions to date have been recorded as asset acquisitions.

On a quarterly basis, we review current activities and changes in the business conditions of all of our properties prior to and subsequent to the end of each quarter to determine the existence of any triggering events or impairment indicators requiring an impairment analysis. If triggering events or impairment indicators are identified, we review an estimate of the future undiscounted cash flows for the properties, including, if necessary, a probability-weighted approach if multiple outcomes are under consideration.

Long-lived assets to be held and used are individually evaluated for impairment when conditions exist that may indicate that the carrying amount of a long-lived asset may not be recoverable. The carrying amount of a long-lived asset to be held and used is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Impairment indicators or triggering events for long-lived assets to be held and used are assessed by project and include significant fluctuations in estimated net operating income, occupancy changes, significant near-term lease expirations, current and historical operating and/or cash flow losses, construction costs, estimated completion dates, rental rates, and other market factors. We assess the expected undiscounted cash flows based upon numerous factors, including, but not limited to, construction costs, available market information, current and historical operating results, known trends, current market/economic conditions that may affect the property, and our assumptions about the use of the asset, including, if necessary, a probability-weighted approach if multiple outcomes are under consideration. Upon determination that an impairment has occurred, a write-down is recognized to reduce the carrying amount to its estimated fair value. If an impairment loss is not required to be recognized, the recognition of depreciation is adjusted prospectively, as necessary, to reduce the carrying amount of the real estate to its estimated disposition value over the remaining period that the real estate is expected to be held and used. We may adjust depreciation of properties that are expected to be disposed of or redeveloped prior to the end of their useful lives.

*Revenue Recognition*

Our existing tenant leases and future tenant leases are generally expected to be triple-net leases, an arrangement under which the tenant maintains the property while paying us rent and property management fees. We account for our leases as operating leases. Under this method, leases that have fixed and determinable rent increases are recognized on a straight-line basis over the lease term, unless the collectability of minimum lease payments is not reasonably predictable. Rental increases based upon changes in the CPI are recognized only after the changes in the indexes have occurred and are then applied according to the lease agreements. Contractually obligated reimbursements from tenants for recoverable real estate taxes and operating expenses will be included in tenant reimbursements in the period when such costs are incurred. Contractually obligated real estate taxes that are paid directly by the tenant to the tax authorities are not reflected in our consolidated financial statements.

We record revenue for each of our properties on a cash basis due to the uncertainty of collectability of lease payments from each tenant due to its limited operating history and the uncertain regulatory environment in the United States relating to the medical-use cannabis industry.

***Stock-Based Compensation***

Stock-based compensation for equity awards is based on the grant date fair value of the equity instrument and is recognized over the requisite service period. If awards are forfeited prior to vesting, we reverse any previously recognized expense related to such awards in the period during which the forfeiture occurs and reclassify any non-forfeitable dividends previously paid on these awards from retained earnings to compensation expense.

***Income Taxes***

We have been organized to operate our business so as to qualify to be taxed as a REIT, for U.S. federal income tax purposes, commencing with our taxable year ended December 31, 2017. Under the REIT operating structure, we are permitted to deduct dividends paid to our stockholders in determining our taxable income for U.S. federal income tax purposes. As long as our dividends equal or exceed our taxable net income, we generally will not be required to pay U.S. federal income tax on such income.

The Tax Cuts and Jobs Act was enacted in December 2017 and is generally effective for tax years beginning in 2018. See also Item 1A, "Risk Factors," under the caption "Legislative, regulatory or administrative changes could adversely affect us or our stockholders."

***Adoption of New or Revised Accounting Standards***

As an "emerging growth company" under the JOBS Act, we can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an "emerging growth company" can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. An "emerging growth company" may opt out of the extended transition period for complying with new or revised accounting standards. A decision to opt out, however, is irrevocable. We have elected not to opt out of such extended transition period, which means that when a standard is issued or revised and it has different application dates for public or private companies, we can adopt the standard for the private company. This may make comparison of our financial statements with a public company that either is not an "emerging growth company" or is an "emerging growth company" that has opted out of using the extended transition period difficult or impossible as different or revised accounting standards may be used.

**Impact of Real Estate and Credit Markets**

In the commercial real estate market, property prices generally continue to fluctuate. Likewise, during certain periods, the U.S. credit markets have experienced significant price volatility, dislocations, and liquidity disruptions, which may impact our access to and cost of capital. We continually monitor the commercial real estate and U.S. credit markets carefully and, if required, will make decisions to adjust our business strategy accordingly.

**Off-Balance Sheet Arrangements**

We have no unconsolidated investments or any other off-balance sheet arrangements.

**Interest Rate Risk**

As of December 31, 2018, we had not issued any debt and had no debt outstanding, and were not exposed to interest rate changes.

Subsequent to December 31, 2018, in February 2019, our Operating Partnership issued $143.75 million aggregate principal amount of the Exchangeable Senior Notes, which bear interest at a fixed rate of 3.75% per annum until maturity. The Exchangeable Senior Notes were the only debt we have outstanding as of March 14, 2019. At this time, we have no plans to issue additional debt instruments. It is possible that a property we acquire in the future would be subject to a mortgage, which we may assume.

## Impact of Inflation

We intend to enter into leases that generally provide for limited increases in rent as a result of increases in the CPI (typically subject to ceilings) or fixed increases. We expect these lease provisions to result in rent increases over time. During times when inflation is greater than increases in rent, as provided for in the leases, rent increases may not keep up with the rate of inflation.

## Seasonality

We do not expect our business to be subject to material seasonal fluctuations.

## ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

Not applicable.

## ITEM 8. *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

The information required by this Item 8 is incorporated by reference to our Financial Statements beginning on page F-1 of this report.

## ITEM 9. *CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE*

Not applicable.

## ITEM 9A. *CONTROLS AND PROCEDURES*

### *Evaluation of Disclosure Controls and Procedures*

Our management, under the supervision and with the participation of our principal executive and principal financial officers, has evaluated the effectiveness of our disclosure controls and procedures in ensuring that the information required to be disclosed in our filings under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, including ensuring that such information is accumulated and communicated to our company's management, as appropriate, to allow timely decisions regarding required disclosure. Based on such evaluation, our principal executive and principal financial officers have concluded that such disclosure controls and procedures were effective as of December 31, 2018 (the end of the period covered by this Annual Report).

### *Management's Report on Internal Control Over Financial Reporting*

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)). Our management, including our principal executive officer and principal financial officer, evaluated, as of December 31, 2018, the effectiveness of our internal control over financial reporting using the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, our principal executive officer and financial officer concluded that our internal controls, as of December 31, 2018, were effective.

### *Changes in Internal Control Over Financial Reporting*

There were no changes during the quarter ended December 31, 2018 in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### *Limitations on Controls*

Our system of internal control over financial reporting was designed to provide reasonable assurance regarding the preparation and fair presentation of published financial statements in accordance with accounting principles generally accepted in the United States. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**ITEM 9B.** ***OTHER INFORMATION***

None.

## PART III

**ITEM 10.** ***DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE***

The information concerning our directors, executive officers and corporate governance required by Item 10 will be included in the Proxy Statement to be filed relating to our 2019 Annual Meeting of Stockholders and is incorporated herein by reference. Pursuant to instruction G(3) to Form 10-K, information concerning audit committee financial expert disclosure set forth under the heading "Information Regarding the Board — Committees of the Board — Audit Committee" will be included in the Proxy Statement to be filed relating to Innovative Industrial Properties, Inc.'s 2019 Annual Meeting of Stockholders and is incorporated herein by reference.

Pursuant to instruction G(3) to Form 10-K, information concerning compliance with Section 16(a) of the Exchange Act concerning our directors and executive officers set forth under the heading entitled "General — Section 16(a) Beneficial Ownership Reporting Compliance" will be included in the Proxy Statement to be filed relating to Innovative Industrial Properties, Inc.'s 2019 Annual Meeting of Stockholders and is incorporated herein by reference.

**ITEM 11.** ***EXECUTIVE COMPENSATION***

The information concerning our executive compensation required by Item 11 will be included in the Proxy Statement to be filed relating to our 2019 Annual Meeting of Stockholders and is incorporated herein by reference.

**ITEM 12.** ***SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS***

The information concerning the security ownership of certain beneficial owners and management and related stockholder matters required by Item 12 will be included in the Proxy Statement to be filed relating to our 2019 Annual Meeting of Stockholders and is incorporated herein by reference.

**ITEM 13.** ***CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE***

The information concerning certain relationships and related transactions and director independence required by Item 13 will be included in the Proxy Statement to be filed relating to our 2019 Annual Meeting of Stockholders and is incorporated herein by reference.

**ITEM 14.** ***PRINCIPAL ACCOUNTANT FEES AND SERVICES***

The information concerning our principal accountant fees and services required by Item 14 will be included in the Proxy Statement to be filed relating to our 2019 Annual Meeting of Stockholders and is incorporated herein by reference.

## PART IV

### ITEM 15. *EXHIBITS AND FINANCIAL STATEMENT SCHEDULES*

**(a)(1) and (2) Financial Statements and Schedules:**

Please refer to the Index to Consolidated Financial Statements included under Part II, Item 8, Financial Statements and Supplementary Data.

**(3) Exhibits**

| Exhibit Number | Description of Exhibit |
|---|---|
| 3.1 | Second Articles of Amendment and Restatement of Innovative Industrial Properties, Inc. (including Articles Supplementary Classifying Innovative Industrial Properties, Inc.'s 9.00% Series A Cumulative Redeemable Preferred Stock).(1) |
| 3.2 | Amended and Restated Bylaws of Innovative Industrial Properties, Inc.(2) |
| 4.1 | Form of Certificate for Common Stock.(3) |
| 4.2 | Indenture, dated as of February 21, 2019, among IIP Operating Partnership, LP, as issuer, Innovative Industrial Properties, Inc. and the subsidiaries of IIP Operating Partnership, LP, as guarantors, and GLAS Trust Company LLC, as trustee, including the Form of Note representing IIP Operating Partnership, LP's 3.75% Exchangeable Senior Notes due 2024.(4) |
| 10.1 | Agreement of Limited Partnership of IIP Operating Partnership, LP.(2) |
| 10.2+ | 2016 Omnibus Incentive Plan.(2) |
| 10.3+ | Form of Restricted Stock Award Agreement for Officers.(5) |
| 10.4+ | Form of Restricted Stock Award Agreement for Directors.(5) |
| 10.5+ | Form of Indemnification Agreement between Innovative Industrial Properties, Inc. and each of its Directors and Officers.(2) |
| 10.6+ | Form of Restricted Stock Purchase Agreement dated June 15, 2016 between Innovative Industrial Properties, Inc. and the purchaser named therein.(2) |
| 10.7+ | Severance and Change of Control Agreement dated as of January 18, 2017 among Innovative Industrial Properties, Inc., IIP Operating Partnership, LP and Alan Gold.(6) |
| 10.8+ | Severance and Change of Control Agreement dated as of January 18, 2017 among Innovative Industrial Properties, Inc., IIP Operating Partnership, LP and Paul Smithers.(6) |
| 10.9+ | Severance and Change of Control Agreement dated as of January 18, 2017 among Innovative Industrial Properties, Inc., IIP Operating Partnership, LP and Brian Wolfe.(6) |
| 10.10+ | Severance and Change of Control Agreement dated as of June 7, 2017 among Innovative Industrial Properties, Inc., IIP Operating Partnership, LP and Catherine Hastings.(7) |
| 10.11+ | Director Compensation Policy.(8) |
| 10.12 | Purchase Agreement dated as of August 22, 2016 between IIP Operating Partnership, LP and PharmaCann LLC.(2) |
| 10.13 | Amendment No. 1 dated September 16, 2016 to Purchase Agreement dated as of August 22, 2016 between IIP Operating Partnership, LP and PharmaCann LLC.(2) |
| 10.14 | Amendment No. 2 dated November 23, 2016 to Purchase Agreement dated as of August 22, 2016, as amended, between IIP Operating Partnership, LP and PharmaCann LLC.(9) |
| 10.15 | Lease Agreement, dated as of December 19, 2016, between IIP-NY 1 LLC and PharmaCann LLC.(10) |
| 10.16 | Purchase and Sale Agreement and Joint Escrow Instructions dated as of May 1, 2017 between IIP Operating Partnership, LP and PGHI LLC.(11) |
| 10.17 | Lease Agreement, dated as of May 26, 2017, between IIP-MD 1 LLC and Holistic Industries LLC.(12) |
| 10.18 | First Amendment dated September 25, 2017 to Lease Agreement, dated as of May 26, 2017, between IIP-MD 1 LLC and Holistic Industries LLC.(13) |
| 10.19 | Purchase and Sale Agreement and Joint Escrow Instructions dated as of November 21, 2017 between IIP Operating Partnership, LP and Flying Dutchman Real Estate Holdings, LLC.(14) |
| 10.20 | Lease Agreement, dated as of December 15, 2017, between IIP-AZ 1 LLC and Sun Grown Solutions, LLC.(15) |

| | |
|---|---|
| 10.21 | Lease Agreement, dated as of May 31, 2018, between IIP-MA 1 LLC and PharmaCannis Massachusetts Inc.(16) |
| 10.22* | First Amendment dated November 13, 2018 to Lease Agreement, dated as of May 31, 2018, between IIP-MA 1 LLC and PharmaCannis Massachusetts Inc. |
| 10.23 | Development Agreement, dated as of May 31, 2018, between PharmaCannis Massachusetts Inc., IIP-MA 1 LLC and IIP Operating Partnership, LP.(16) |
| 10.24 | Lease Agreement, dated as of August 2, 2018, between IIP-MI 1 LLC and Green Peak Industries, LLC.(17) |
| 10.25 | Lease Agreement, dated as of March 13, 2019, between IIP-OH 1 LLC and PharmaCann Ohio LLC(18) |
| 10.26 | Development Agreement, dated as of March 13, 2019, between PharmaCann Ohio LLC, IIP-OH 1 LLC and IIP Operating Partnership, LP.(18) |
| 21.1* | List of Subsidiaries of Innovative Industrial Properties, Inc. |
| 23.1* | Consent of BDO USA, LLP. |
| 31.1* | Certifications of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certifications of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1* | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS* | XBRL Instance Document. |
| 101.SCH* | XBRL Taxonomy Extension Schema Document. |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document. |

* Filed herewith.

+ Indicates management contract or compensatory plan.

(1) Incorporated herein by reference to Innovative Industrial Properties, Inc.'s Quarterly Report on Form 10-Q filed with the SEC on November 9, 2017.

(2) Incorporated herein by reference to Innovative Industrial Properties, Inc.’s Registration Statement on Form S-11, as amended (File No. 333-214148), filed with the SEC on October 17, 2016.

(3) Incorporated by reference to Innovative Industrial Properties, Inc.’s Registration Statement on Form S-11, as amended (File No. 333-214148), filed with the SEC on November 17, 2016.

(4) Incorporated herein by reference to Innovative Industrial Properties, Inc.'s Current Report on Form 8-K filed with the SEC on February 21, 2019.

(5) Incorporated by reference to Innovative Industrial Properties, Inc.'s Registration Statement on Form S-8 (File No. 333-214919), filed with the SEC on December 6, 2016.

(6) Incorporated herein by reference to Innovative Industrial Properties, Inc.'s Current Report on Form 8-K filed with the SEC on January 24, 2017.

(7) Incorporated herein by reference to Innovative Industrial Properties, Inc.’s Current Report on Form 8-K filed with the SEC on June 8, 2017.

(8) Incorporated herein by reference to Innovative Industrial Properties, Inc.’s Current Report on Form 8-K filed with the SEC on January 9, 2018.

(9) Incorporated by reference to Innovative Industrial Properties, Inc.’s Registration Statement on Form S-11, as amended (File No. 333-214148), filed with the SEC on November 25, 2016.

(10) Incorporated herein by reference to Innovative Industrial Properties, Inc.'s Current Report on Form 8-K filed with the SEC on December 21, 2016.

(11) Incorporated herein by reference to Innovative Industrial Properties, Inc.’s Current Report on Form 8-K filed with the SEC on May 4, 2017.

(12) Incorporated herein by reference to Innovative Industrial Properties, Inc.'s Current Report on Form 8-K filed with the SEC on May 30, 2017.
(13) Incorporated herein by reference to Innovative Industrial Properties, Inc.'s Current Report on Form 8-K filed with the SEC on September 25, 2017.
(14) Incorporated herein by reference to Innovative Industrial Properties, Inc.'s Current Report on Form 8-K filed with the SEC on November 28, 2017.
(15) Incorporated herein by reference to Innovative Industrial Properties, Inc.'s Current Report on Form 8-K filed with the SEC on December 18, 2017.
(16) Incorporated herein by reference to Innovative Industrial Properties, Inc.'s Current Report on Form 8-K filed with the SEC on May 31, 2018.
(17) Incorporated herein by reference to Innovative Industrial Properties, Inc.'s Current Report on Form 8-K filed with the SEC on August 2, 2018.
(18) Incorporated herein by reference to Innovative Industrial Properties, Inc.'s Current Report on Form 8-K filed with the SEC on March 13, 2019.

**ITEM 16. *FORM 10-K SUMMARY***

None.

## SIGNATURES

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

INNOVATIVE INDUSTRIAL PROPERTIES, INC.

By: /s/ Paul Smithers
Paul Smithers
President, Chief Executive Officer and Director
(Principal Executive Officer)

By: /s/ Catherine Hastings
Catherine Hastings
Chief Financial Officer, Chief Accounting Officer and Treasurer
(Principal Financial Officer and Principal Accounting Officer)

Dated March 14, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities and on the dates indicated.

| **Name** | **Capacity** | **Date** |
|---|---|---|
| /s/ Alan Gold<br>Alan Gold | Executive Chairman | March 14, 2019 |
| /s/ Gary Kreitzer<br>Gary Kreitzer | Vice Chairman | March 14, 2019 |
| /s/ Paul Smithers<br>Paul Smithers | President, Chief Executive Officer and Director | March 14, 2019 |
| /s/ Scott Shoemaker<br>Scott Shoemaker | Director | March 14, 2019 |
| /s/ David Stecher<br>David Stecher | Director | March 14, 2019 |

## INDEX TO FINANCIAL STATEMENTS

**Innovative Industrial Properties, Inc.**

**Innovative Industrial Properties, Inc.**

**Report of Independent Registered Public Accounting Firm**

Stockholders and Board of Directors
Innovative Industrial Properties, Inc.
San Diego, California

**Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of Innovative Industrial Properties, Inc. (the “Company”) and subsidiaries as of December 31, 2018 and 2017, the related consolidated statements of operations, stockholders’ equity, and cash flows for each of the two years in the period ended December 31, 2018, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2016.

San Diego, California
March 14, 2019

**Innovative Industrial Properties, Inc.**

**Consolidated Balance Sheets**

*(In thousands, except share and per share amounts)*

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| **Assets** | | |
| Real estate, at cost: | | |
| Land | $ 20,475 | $ 11,514 |
| Buildings and improvements | 109,425 | 51,315 |
| Tenant improvements | 14,732 | 5,901 |
| Construction in progress | 6,298 | — |
| Total real estate, at cost | 150,930 | 68,730 |
| Less accumulated depreciation | (3,571) | (942) |
| Net real estate held for investment | 147,359 | 67,788 |
| Cash and cash equivalents | 13,050 | 11,758 |
| Short-term investments | 120,443 | — |
| Other assets, net | 614 | 482 |
| Total assets | $ 281,466 | $ 80,028 |
| | | |
| **Liabilities and stockholders' equity** | | |
| Tenant improvements and construction funding payable | $ 2,433 | $ 20 |
| Accounts payable and accrued expenses | 1,968 | 1,062 |
| Dividends payable | 3,759 | 1,198 |
| Offering cost liability | — | 41 |
| Rent received in advance and tenant security deposits | 9,014 | 4,158 |
| Total liabilities | 17,174 | 6,479 |
| | | |
| Commitments and contingencies (Notes 7 and 10) | | |
| | | |
| Stockholders' equity | | |
| Preferred stock (par value $0.001 per share, 50,000,000 shares authorized: 9.00% Series A cumulative redeemable preferred stock, $15,000 liquidation preference ($25.00 per share), 600,000 shares issued and outstanding at December 31, 2018 and 2017 | 14,009 | 14,009 |
| Common stock, par value $0.001 per share, 50,000,000 shares authorized: 9,775,800 and 3,501,147 shares issued and outstanding at December 31, 2018 and 2017, respectively | 10 | 4 |
| Additional paid-in-capital | 250,273 | 64,000 |
| Accumulated deficit | — | (4,464) |
| Total stockholders' equity | 264,292 | 73,549 |
| Total liabilities and stockholders' equity | $ 281,466 | $ 80,028 |

*See the accompanying notes to the consolidated financial statements.*

**Innovative Industrial Properties, Inc.**

**Consolidated Statements of Operations**

*(In thousands, except share and per share amounts)*

| | Year Ended December 31, 2018 | Year Ended December 31, 2017 |
|---|---|---|
| **Revenues:** | | |
| Rental | $ 14,342 | $ 6,302 |
| Tenant reimbursements | 445 | 118 |
| Total revenues | 14,787 | 6,420 |
| | | |
| **Expenses:** | | |
| Property expenses | 445 | 118 |
| General and administrative expense | 6,375 | 5,497 |
| Severance | — | 113 |
| Depreciation expense | 2,629 | 915 |
| Total expenses | 9,449 | 6,643 |
| Income / (loss) from operations | 5,338 | (223) |
| Interest and other income | 1,647 | 151 |
| Net income / (loss) | 6,985 | (72) |
| Preferred stock dividend | 1,352 | 323 |
| Net income / (loss) attributable to common stockholders | $ 5,633 | $ (395) |
| Net income / (loss) attributable to common stockholders per share (Note 6): | | |
| Basic | $ 0.76 | $ (0.13) |
| Diluted | $ 0.75 | $ (0.13) |
| Weighted average shares outstanding: | | |
| Basic | 7,138,952 | 3,375,284 |
| Diluted | 7,285,801 | 3,375,284 |

*See accompanying notes to the consolidated financial statements.*

**Innovative Industrial Properties, Inc.**

**Consolidated Statements of Stockholders' Equity**

*(In thousands, except share and per share amounts)*

| | Series A Preferred Stock | Shares of Common Stock | Common Stock | Additional Paid-In-Capital | Accumulated Deficit | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| Balance, December 31, 2016 | $ — | 3,416,508 | $ 3 | $ 64,828 | $ (4,392) | $ 60,439 |
| Net loss | — | — | — | — | (72) | (72) |
| Reclassification of Class A and Class B common stock to common stock | — | * | * | — | — | — |
| Net proceeds from sale of preferred stock | 14,009 | — | — | — | — | 14,009 |
| Preferred stock dividend | — | — | — | (323) | — | (323) |
| Common stock dividend | — | — | — | (1,925) | — | (1,925) |
| Net issuance of unvested restricted stock | — | 84,639 | — | (298) | — | (298) |
| Stock based compensation | — | — | 1 | 1,718 | — | 1,719 |
| Balance, December 31, 2017 | 14,009 | 3,501,147 | 4 | 64,000 | (4,464) | 73,549 |
| Net income | — | — | — | — | 6,985 | 6,985 |
| Net proceeds from sale of common stock | — | 6,210,000 | 6 | 193,217 | — | 193,223 |
| Preferred stock dividend | — | — | — | (1,014) | (338) | (1,352) |
| Common stock dividend | — | — | — | (7,005) | (2,183) | (9,188) |
| Stock based compensation | — | — | — | 1,465 | — | 1,465 |
| Net issuance of unvested restricted stock | — | 64,653 | — | (390) | — | (390) |
| Balance, December 31, 2018 | $ 14,009 | 9,775,800 | $ 10 | $ 250,273 | $ — | $ 264,292 |

* Effective as of January 26, 2017, each share of the Company's outstanding Class A common stock and Class B common stock was reclassified as, and became one share of, a new single class of common stock named "common stock". There were no shares of Class B common stock outstanding as of January 26, 2017, as all such shares were redeemed by the Company for $0.001 per share (par value) immediately prior to the Company's initial public offering in December 2016.

*See accompanying notes to the consolidated financial statements.*

**Innovative Industrial Properties, Inc.**

**Consolidated Statements of Cash Flows**

*(In thousands)*

| | Year Ended December 31, 2018 | Year Ended December 31, 2017 |
|---|---|---|
| Cash flows from operating activities | | |
| Net income / (loss) | $ 6,985 | $ (72) |
| Adjustments to reconcile net income/ (loss) to net cash provided by operating activities | | |
| Depreciation | 2,629 | 915 |
| Stock-based compensation | 1,465 | 1,719 |
| Amortization of discounts on short-term investments | (955) | — |
| Changes in assets and liabilities | | |
| Other assets, net | (173) | (155) |
| Accounts payable and accrued expenses | 886 | 992 |
| Rent received in advance and tenant security deposits | 4,856 | 1,616 |
| Net cash provided by operating activities | 15,693 | 5,015 |
| Cash flows from investing activities | | |
| Purchases of investments in real estate | (57,474) | (32,734) |
| Reimbursements of tenant improvements and construction funding | (22,293) | (5,911) |
| Purchases of short-term investments | (184,988) | — |
| Maturities of short-term investments | 65,500 | — |
| Net cash used in investing activities | (199,255) | (38,645) |
| Cash flows from financing activities | | |
| Proceeds from sale of common stock, net of offering costs | 193,223 | — |
| Payment of Class A common stock offering costs | — | (276) |
| Dividends paid to common stockholders | (6,642) | (1,050) |
| Dividends paid to preferred stockholders | (1,337) | — |
| Issuance of Series A Preferred Stock, net of offering costs | — | 14,009 |
| Taxes paid related to net share settlement of equity awards | (390) | (298) |
| Net cash provided by financing activities | 184,854 | 12,385 |
| Net increase / (decrease) in cash and cash equivalents | 1,292 | (21,245) |
| Cash and cash equivalents, beginning of year | 11,758 | 33,003 |
| Cash and cash equivalents, end of year | $ 13,050 | $ 11,758 |
| Supplemental disclosure of cash flow information: | | |
| Supplemental disclosure of non-cash investing and financing activities: | | |
| | | |
| Accrual for common and preferred stock dividends declared | $ 3,759 | $ 1,198 |
| Accrual for reimbursements of tenant improvements and construction funding | 2,433 | 20 |
| Invoices accrued for offering costs | — | 41 |

*See accompanying notes to the consolidated financial statements.*

**Innovative Industrial Properties, Inc.**

**Notes to Consolidated Financial Statements**

## 1. Organization

As used herein, the terms "we", "us", "our" or the "Company" refer to Innovative Industrial Properties, Inc., a Maryland corporation, and any of our subsidiaries, including IIP Operating Partnership, LP, a Delaware limited partnership (our "Operating Partnership").

We are an internally-managed real estate investment trust ("REIT") focused on the acquisition, ownership and management of specialized industrial properties leased to experienced, state-licensed operators for their regulated medical-use cannabis facilities. We have acquired and intend to continue to acquire our properties through sale-leaseback transactions and third-party purchases. We have leased and expect to continue to lease our properties on a triple-net lease basis, where the tenant is responsible for all aspects of and costs related to the property and its operation during the lease term, including structural repairs, maintenance, taxes and insurance.

We were incorporated in Maryland on June 15, 2016. We conduct our business through a traditional umbrella partnership real estate investment trust, or UPREIT structure, in which our properties are owned by our Operating Partnership, directly or through subsidiaries. We are the sole general partner of our Operating Partnership and own, directly or through a subsidiary, 100% of the limited partnership interests in our Operating Partnership.

Information with respect to rentable square footage is unaudited.

## 2. Summary of Significant Accounting Policies and Procedures and Recent Accounting Pronouncements

**Basis of Presentation.** The consolidated financial statements include all of the accounts of the Company, the Operating Partnership and all of our wholly owned subsidiaries, presented in accordance with U.S. generally accepted accounting principles.

**Federal Income Taxes.** We believe that we have operated our business so as to qualify to be taxed as a REIT for U.S. federal income tax purposes. Under the REIT operating structure, we are permitted to deduct dividends paid to our stockholders in determining our taxable income. Assuming our dividends equal or exceed our taxable net income, we generally will not be required to pay federal corporate income taxes on such income. The income taxes recorded on our consolidated statement of operations represent amounts paid for city and state income and franchise taxes and are included in general and administrative expenses in the accompanying condensed consolidated statements of operations.

**Use of Estimates.** The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make a number of estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements. Actual results may differ materially from these estimates and assumptions.

**Acquisition of Real Estate Properties.** Our investment in real estate is recorded at historical cost, less accumulated depreciation. Upon acquisition of a property, the tangible and intangible assets acquired and liabilities assumed are initially measured based upon their relative fair values. We estimate the fair value of land by reviewing comparable sales within the same submarket or/or region and the fair value of buildings on an as-if vacant basis. Acquisition costs are capitalized as incurred. All of our acquisitions to date were recorded as asset acquisitions.

**Depreciation.** We consider the period of future benefit of the assets to determine the appropriate estimated useful lives. Depreciation of our assets is charged to expense on a straight-line basis over the estimated useful lives. We depreciate each of our buildings and improvements over its estimated remaining useful life, not to exceed 35 years. We depreciate tenant improvements at our buildings over the shorter of the estimated useful lives or the terms of the related leases.

We depreciate office equipment and furniture and fixtures over estimated useful lives ranging from three to six years.

**Provision for Impairment.** On a quarterly basis, we review current activities and changes in the business conditions of all of our properties prior to and subsequent to the end of each quarter to determine the existence of any triggering events or impairment indicators requiring an impairment analysis. If triggering events or impairment indicators are identified, we review an estimate of the future undiscounted cash flows for the properties, including, if necessary, a probability-weighted approach if multiple outcomes are under consideration.

Long-lived assets to be held and used are individually evaluated for impairment when conditions exist that may indicate that the carrying amount of a long-lived asset may not be recoverable. The carrying amount of a long-lived asset to be held and used is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Impairment indicators or triggering events for long-lived assets to be held and used are assessed by project and include significant fluctuations in estimated net operating income, occupancy changes, significant near-term lease expirations, current and historical operating and/or cash flow losses, construction costs, estimated completion dates, rental rates, and other market factors. We assess the expected undiscounted cash flows based upon numerous factors, including, but not limited to, construction costs, available market information, current and historical operating results, known trends, current market/economic conditions that may affect the property, and our assumptions about the use of the asset, including, if necessary, a probability-weighted approach if multiple outcomes are under consideration. Upon determination that an impairment has occurred, a write-down is recognized to reduce the carrying amount to its estimated fair value. If an impairment loss is not required to be recognized, the recognition of depreciation is adjusted prospectively, as necessary, to reduce the carrying amount of the real estate to its estimated disposition value over the remaining period that the real estate is expected to be held and used. We may adjust depreciation of properties that are expected to be disposed of or redeveloped prior to the end of their useful lives. As of December 31, 2018, no impairment losses were recognized.

**Revenue Recognition.** Our leases and future tenant leases are expected to be triple-net leases, an arrangement under which the tenant maintains the property while paying us rent and property management fee. We anticipate that all leases will be accounted for as operating leases. Under this method, leases that have fixed and determinable rent increases are recognized on a straight-line basis over the lease term, unless the collectability of minimum lease payments is not reasonably predictable. Rental increases based upon changes in the consumer price index are recognized only after the changes in the indexes have occurred and are then applied according to the lease agreements. Contractually obligated reimbursements from tenants for recoverable real estate taxes and operating expenses are included in tenant reimbursements in the period when such costs are incurred. Contractually obligated real estate taxes that are paid directly by the tenant to the tax authorities are not reflected in our consolidated financial statements.

We record revenue for each of our properties on a cash basis due to the uncertainty of collectability of lease payments from each tenant due to its limited operating history and the uncertain regulatory environment in the United States relating to the medical-use cannabis industry.

**Cash and Cash Equivalents** . We consider all highly-liquid investments with original maturities of three months or less to be cash equivalents. As of December 31, 2018 and 2017, $7.7 million and $8.9 million, respectively, were invested in short-term money market funds and certificates of deposit.

**Short-Term Investments** . Short-term investments consist of obligations of the U.S. government with an original maturity at the time of purchase of greater than three months. Investments are classified as held-to-maturity and stated at amortized cost.

**Stock-Based Compensation.** Stock-based compensation for equity awards is based on the grant date fair value of the equity investment and is recognized over the requisite service period. If awards are forfeited prior to vesting, we reverse any previously recognized expense related to such awards in the period during which the forfeiture occurs and reclassify any non-forfeitable dividends previously paid on these awards from retained earnings to compensation expense.

**Recent Accounting Pronouncements.**

In March 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-09, Compensation — Stock Compensation; Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). The FASB issued ASU 2016-09 to simplify several aspects of the accounting for share-based payment transactions, including classification of awards as either equity or liabilities, estimation of forfeitures, and classification on the statement of cash flows. The Company’s adoption of ASU 2016-09 beginning on January 1, 2018 did not have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). ASU 2014-09 outlines a comprehensive model for companies to use in accounting for revenue arising from contracts with customers, and will apply to transactions such as the sale of real estate. ASU 2014-09 is effective for years beginning after December 15, 2018 as a result of the Company's election as an emerging growth company. The majority of our revenues related to rental income from leasing arrangements, which is excluded from ASU 2014-09. The Company does not expect the adoption of ASU 2014-09 to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases; in July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases and ASU 2018-11, Leases - Targeted Improvements; and in December 2018, the FASB issued ASU 2018-20, Narrow-Scope Improvements for Lessors. This group of ASUs is collectively referred to as Topic 842 and is effective for the Company beginning January 1, 2020 as a result of the Company's election as an emerging growth company. Topic 842 supersedes the existing standards for lease accounting (Topic 840, Leases).

The Company expects to elect the practical expedients provided by Topic 842, including: the package of practical expedients that allows an entity not to reassess upon adoption (i) whether an expired or existing contract contains a lease, (ii) whether a lease classification related to expired or existing lease arrangements, and (iii) whether costs incurred on expired or existing leases qualify as initial direct costs, and as a lessor, the practical expedient not to separate certain non-lease components, such as common area maintenance, from the lease component if (i) the timing and pattern of transfer are the same for the non-lease component and associated lease component, and (ii) the lease component would be classified as an operating lease if accounted for separately.

Topic 842 requires lessees to record most leases on their balance sheet through a right-of-use ("ROU") model, in which a lessee records a ROU asset and a lease liability on their balance sheet. Leases that are less than 12 months do not need to be accounted for under the ROU model. Lessees will account for leases as financing or operating leases, with the classification affecting the timing and pattern of expense recognition in the income statement. Lease expense will be recognized based on the effective interest method for leases accounted for as finance leases and on a straight-line basis over the term of the lease for leases accounted for as operating leases. At December 31, 2018, the Company is the lessee under one office lease that would require accounting under the ROU model. Upon adoption of Topic 842 in January 2020, the ROU asset and lease liability to be recognized on the balance sheet relating to this lease is not expected to have a material impact on our consolidated financial statements.

The accounting by a lessor under Topic 842 is largely unchanged from that of Topic 840. Under Topic 842, lessors will continue to account for leases as a sales-type, direct-financing, or operating. A lease will be treated as a sale if it is considered to transfer control of the underlying asset to the lessee. A lease will be classified as direct-financing if risks and rewards are conveyed without the transfer of control. Otherwise, the lease is treated as an operating lease. Topic 842 requires accounting for a transaction as a financing in a sale leaseback in certain circumstances, including when the seller-lessee is provided an option to purchase the property from the landlord at the tenant's option. The Company expects that this provision could change the accounting for these types of leases in the future. Topic 842 also includes the concept of separating lease and non-lease components. Under Topic 842, non-lease components, such as common area maintenance, would be accounted for under Topic 606 and separated from the lease payments. However, the Company will elect the lessor practical expedient allowing the Company to not separate these components when certain conditions are met. Upon adoption of Topic 842, the Company expects to combine tenant reimbursements with rental revenues on its Consolidated Statements of Operations. Further, the Company has historically capitalized allocated payroll cost incurred as part of the leasing process which will no longer qualify for classification as initial direct costs under Topic 842. The Company will elect the lessor practical expedient allowing the Company to continue to amortize previously capitalized initial direct cost incurred prior to the adoption and Topic 842 and does not expect a material impact to its consolidated financial statements related to the capitalization of leasing costs. Also, the Narrow-Scope Improvements for Lessors under ASU 2018-20 allows the Company to continue to exclude from revenue, costs paid by our tenants on our behalf directly to third parties, such as property taxes.

Topic 842 provides two transition alternatives. The Company expects to apply this standard based on the prospective optional transition method, in which comparative periods will continue to be reported in accordance with Topic 840. The Company also anticipates expanded disclosures upon adoption, as the new standard requires more extensive quantitative and qualitative disclosures as compared to Topic 840 for both lessees and lessors.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments — Credit Losses, which changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, companies will be required to use a new forward-looking "expected loss" model that generally will result in the earlier recognition of allowances for losses. In November 2018, the FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments — Credit Losses, which among other updates, clarifies that receivables arising from operating leases are not within the scope of this guidance and should be evaluated in accordance with Topic 842. For available-for-sale debt securities with unrealized losses, companies will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than as reductions in the amortized cost of the securities. Companies will have to disclose significantly more information, including information they use to track credit quality by year of origination for most financing receivables. Companies will apply the standard’s provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. This standard is effective for years beginning after December 15, 2020 as a result of the Company’s election as an emerging growth company with early adoption permitted. We do not expect this amendment to have an effect on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments, which clarifies or provides guidance relating to eight specific cash flow classification issues. The standard should be applied retrospectively for each period presented, as appropriate. This new standard is effective for years beginning after December 15, 2018 as a result of the Company’s election as an emerging growth company. The impact of this new guidance will depend on future transactions, though the impact will only be related to the classification of those items on the statement of cash flows and will not impact the Company’s cash flows or its consolidated results of operations.

In February 2017, the FASB has issued ASU 2017-05, Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets ("Subtopic 610-20"). A contract may involve the transfer of both nonfinancial assets and financial assets (e.g., cash and receivables). The amendments clarify that a financial asset is within the scope of Subtopic 610-20 if it meets the definition of an in substance nonfinancial asset. The amendments also define the term in substance nonfinancial asset. The amendments clarify that nonfinancial assets within the scope of Subtopic 610-20 may include nonfinancial assets transferred within a legal entity to a counterparty. For example, a parent may transfer control of nonfinancial assets by transferring ownership interests in a consolidated subsidiary. A contract that includes the transfer of ownership interests in one or more consolidated subsidiaries is within the scope of Subtopic 610-20 if substantially all of the fair value of the assets that are promised to the counterparty in a contract is concentrated in nonfinancial assets. The amendments clarify that an entity should identify each distinct nonfinancial asset or in substance nonfinancial asset promised to a counterparty and derecognize each asset when a counterparty obtains control of it. The amendments are effective at the same time Topic 606, Revenue from Contracts with Customers, is effective. This new standard is effective for years beginning after December 15, 2018 as a result of the Company’s election as an emerging growth company. We do not expect this amendment to have an effect on our consolidated financial statements.

**Concentration of Credit Risk** . As of December 31, 2018, we owned eleven properties located in Arizona, Colorado, Illinois, Maryland, Massachusetts, Michigan, Minnesota, New York and Pennsylvania. The ability of any of our tenants to honor the terms of its lease is dependent upon the economic, regulatory, competition, natural and social factors affecting the community in which that tenant operates. PharmaCann, LLC leases two properties from us, one in New York and one in Massachusetts, which comprised approximately 39% and 82% of rental revenues for the years ended December 31, 2018 and 2017, respectively. In addition, our tenant Holistic MD (as defined below) comprised approximately 18% and14% of rental revenues for the years ended December 31, 2018 and 2017, respectively. Furthermore, our tenant The Pharm (as defined below) comprised approximately 16% of rental revenues for the year ended December 31, 2018. At December 31, 2018, one of our properties in New York accounted for 20% of our net real estate held for investment. At December 31, 2017, one of our properties in New York, our property in Maryland and our property in Arizona accounted for 43%, 25% and 22%, respectively, of our net real estate held for investment.

We have deposited cash with a financial institution that is insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. As of December 31, 2018, we had cash accounts in excess of FDIC insured limits. We have not experienced any losses in such accounts.

**Reclassifications** . Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

**3. Common Stock**

As of December 31, 2018, the Company was authorized to issue up to 50,000,000 shares of common stock, par value $0.001 per share, and there were 9,775,800 shares of common stock issued and outstanding.

On January 22, 2018, the Company issued 3,220,000 shares of common stock, including the exercise in full of the underwriters’ option to purchase an additional 420,000 shares, resulting in net proceeds of approximately $79.3 million, after deducting the underwriters’ discounts and commissions and offering expenses.

On October 9, 2018, we issued 2,990,000 shares of common stock, including the exercise in full of the underwriters’ option to purchase an additional 390,000 shares, resulting in in net proceeds of approximately $113.9 million, after deducting the underwriters' discounts and commissions and offering expenses.

**4. Preferred Stock**

The Company is authorized to issue up to 50,000,000 shares of preferred stock, par value $0.001 per share. On October 19, 2017, the Company completed an underwritten public offering of 600,000 shares of 9.00% Series A Cumulative Redeemable Preferred Stock, $0.001 par value per share (the “Series A Preferred Stock”), at a price to the public of $25.00 per share, resulting in net proceeds of approximately $14.0 million, after deducting the underwriters' discounts and commissions and offering expenses. Dividends on the Series A Preferred Stock are payable quarterly in arrears on or about the 15th day of January, April, July and October of each year, with the first dividend paid on January 16, 2018. The Series A Preferred Stock ranks senior to the Company’s common stock with respect to dividend rights and rights upon our liquidation, dissolution or winding up. The Series A Preferred Stock has no stated maturity date and is not subject to mandatory redemption or any sinking fund.

Generally, the Company is not permitted to redeem the Series A Preferred Stock prior to October 19, 2022, except in limited circumstances relating to the Company’s ability to qualify as a REIT and in certain other circumstances related to a change of control/delisting (as defined in the articles supplementary for the Series A Preferred Stock). On or after October 19, 2022, the Company may, at its option, redeem the Series A Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price of $25.00 per share, plus all accrued and unpaid dividends on such Series A Preferred Stock up to, but excluding the redemption date. Holders of the Series A Preferred Stock generally have no voting rights except for limited voting rights if the Company fails to pay dividends for six or more quarterly periods (whether or not consecutive) and in certain other circumstances.

## 5. Dividends

The following table describes the dividends declared by the Company during the year ended December 31, 2018 and 2017:

| Declaration Date | Security Class | Amount Per Share | Period Covered | Dividend Payable Date | Dividend Amount (In thousands) |
|---|---|---|---|---|---|
| May 30, 2017 | Common stock | $ 0.15 | April 1, 2017 to June 30, 2017 | July 14, 2017 | $ 525 |
| September 15, 2017 | Common stock | $ 0.15 | July 1, 2017 to September 30, 2017 | October 13, 2017 | $ 525 |
| December 15, 2017 | Common stock | $ 0.25 | October 1, 2017 to December 31, 2017 | January 16, 2018 | $ 875 |
| December 15, 2017 | Series A preferred stock | $ 0.5375 | October 19, 2017 to January 14, 2018 | January 16, 2018 | $ 323 |
| March 15, 2018 | Common stock | $ 0.25 | January 1, 2018 to March 31, 2018 | April 16, 2018 | $ 1,696 |
| March 15, 2018 | Series A preferred stock | $ 0.5625 | January 15, 2018 to April 14, 2018 | April 16, 2018 | $ 338 |
| June 15, 2018 | Common stock | $ 0.25 | April 1, 2018 to June 30, 2018 | July 16, 2018 | $ 1,696 |
| June 15, 2018 | Series A preferred stock | $ 0.5625 | April 15, 2018 to July 14, 2018 | July 16, 2018 | $ 338 |
| September 14, 2018 | Common stock | $ 0.35 | July 1, 2018 to September 30, 2018 | October 15, 2018 | $ 2,375 |
| September 14, 2018 | Series A preferred stock | $ 0.5625 | July 15, 2018 to October 14, 2018 | October 15, 2018 | $ 338 |
| December 14, 2018 | Common stock | $ 0.35 | October 1, 2018 to December 31, 2018 | January 15, 2019 | $ 3,421 |
| December 14, 2018 | Series A preferred stock | $ 0.5625 | October 15, 2018 to January 14, 2019 | January 15, 2019 | $ 338 |

## 6. Net Income (Loss) Per Share

Grants of restricted stock of the Company in share-based payment transactions are considered participating securities prior to vesting and, therefore, are considered in computing basic earnings per share under the two-class method. The two-class method is an earnings allocation method for calculating earnings per share when a company's capital structure includes either two or more classes of common stock or common stock and participating securities. Earnings per basic share under the two-class method is calculated based on dividends declared on common shares and other participating securities ("distributed earnings") and the rights of participating securities in any undistributed earnings, which represents net income remaining after deduction of dividends accruing during the period. The undistributed earnings are allocated to all outstanding common shares and participating securities based on the relative percentage of each security to the total number of outstanding participating securities. Earnings per basic share represents the summation of the distributed and undistributed earnings per share class divided by the total number of shares.

Through December 31, 2018, all of the Company's participating securities received dividends at an equal dividend rate per share. As a result, distributions to participating securities have been included in net income / (loss) attributable to common stockholders to calculate net income / (loss) per basic and diluted share. For the year ended December 31, 2017, the Company incurred a net loss and therefore had distributions in excess of earnings. As such, 106,839 of unvested restricted shares outstanding at December 31, 2017 have been excluded from the calculation of net loss per diluted share for the year ended December 31, 2017 as the impacts were anti-dilutive. Computations of net income / (loss) per basic and diluted share (in thousands, except share data) were as follows:

| | Year Ended December 31, 2018 | Year Ended December 31, 2017 |
|---|---|---|
| Net income / (loss) | $ 6,985 | $ (72) |
| Preferred stock dividend | (1,352) | (323) |
| Distributions to participating securities | (178) | (59) |
| Net income / (loss) attributable to common stockholders used to compute net income / (loss) per share | $ 5,455 | $ (454) |
| Weighted average common shares outstanding: | | |
| Basic | 7,138,952 | 3,375,284 |
| Diluted | 7,285,801 | 3,375,284 |
| Net income / (loss) per share attributable to common stockholders: | | |
| Basic | $ 0.76 | $ (0.13) |
| Diluted | $ 0.75 | $ (0.13) |

## 7. Properties

A summary of each of our properties is provided below as of December 31, 2018, and organized by state:

***Arizona***

Pharm AZ Property

On December 15, 2017, we completed the acquisition of a property in Arizona (the "Pharm AZ Property") comprising approximately 358,000 square feet of greenhouse and industrial space, which we purchased from a subsidiary of The Pharm, LLC ("The Pharm") for $15.0 million (excluding approximately $27,000 in transaction costs) in a sale-leaseback transaction. Concurrent with the closing of the acquisition, we entered into a triple-net lease with another subsidiary of The Pharm, as tenant for continued use as a medical cannabis cultivation and processing facility. The lease also provides that we would fund up to $3.0 million as reimbursement for future tenant improvements at the Pharm AZ Property, which was fully funded as of December 31, 2018. As of December 31, 2018, the monthly base rent under the lease was $216,825, and subject to annual increases of 3.25% during the lease term.

***Colorado***

The Green Solution CO Property

On October 30, 2018, we completed the acquisition of a 58,000 square foot industrial property located in Colorado for approximately $11.3 million (excluding approximately $27,000 in transaction costs) and entered into a long-term, triple-net lease with The Green Solution, LLC for continued operation of a cannabis cultivation facility.

***Illinois***

Ascend IL Property

On December 21, 2018, we completed the acquisition of a 75,000 square foot industrial property located in Illinois for $19.0 million (excluding approximately $20,000 in transaction costs). Concurrent with the closing of the purchase, we entered into a long-term, triple-net lease agreement with a wholly owned subsidiary of Ascend Wellness Holdings, LLC (“Ascend”), which intends to operate the property as a medical-use cannabis cultivation and processing facility. Ascend is expected to complete additional tenant improvements for the building, for which we have agreed to provide reimbursement of up to $6.0 million, none of which was incurred or funded as of December 31, 2018. Assuming full reimbursement for the tenant improvements, our total investment in the property will be $25.0 million.

***Maryland***

Holistic MD Property

On May 26, 2017, we acquired a 72,000 square foot industrial property located in Maryland (the “Holistic MD Property”), which was under development at the time of our acquisition. The initial purchase price was $8.0 million (excluding approximately $185,000 in transaction costs), with an additional $3.0 million payable to the seller upon completion of certain development milestones. Concurrent with the closing of the purchase of the Holistic MD Property, we entered into a triple-net lease agreement with Holistic Industries LLC (“Holistic MD”) for use as a medical cannabis cultivation and processing facility. The initial term of the lease is 16 years, with three options to extend the term of the lease for three additional five-year periods. Holistic MD has an option to purchase the property upon a qualifying termination event or at the end of the initial lease term and subject to certain conditions, at the option purchase price that is the greater of fair market value or a 7.5% capitalization rate derived from market rental rates for industrial properties in the relevant competitive market.

On August 1, 2017, we paid the additional $3.0 million to the seller upon the seller’s completion of the development milestones at the Holistic MD Property. On September 25, 2017, we amended our lease with Holistic MD to, among other things, rescind the $1.9 million rent reserve that we originally established for Holistic under the lease, and to reimburse up to $1.9 million of additional tenant improvements for Holistic MD, such that a total of $5.9 million is reimbursable by us to Holistic for tenant improvements. On September 28, 2017, we approved and accrued for Holistic MD's draw request for reimbursement of the full $5.9 million of tenant improvements and funded that amount on October 2, 2017. As a result, our total investment in the Holistic MD Property was approximately $16.9 million (excluding transaction costs). As of December 31, 2018 Holistic's monthly base rent was approximately $219,853, of which $193,594 is subject to annual escalations of 3.25% during the initial lease term. We also receive a property management fee under the lease equal to 1.5% of the then-current base rent throughout the initial term.

***Massachusetts***

PharmaCann MA Property

On May 31, 2018, we acquired a property in Massachusetts and entered into a long-term lease and development agreement with a subsidiary of PharmaCann for an approximately 26,000 square foot industrial facility and an approximately 32,000 square foot greenhouse facility on the property. The purchase price for the property was $3.0 million (excluding approximately $30,000 in transaction costs). The PharmaCann subsidiary is expected to construct the two buildings at the property, for which we have agreed to provide reimbursement of up to $15.5 million (the "Construction Funding"), of which approximately $9.7 million was incurred and approximately $9.5 million was funded as of December 31, 2018. Assuming full reimbursement for the Construction Funding, our total investment in the property will be $18.5 million. Concurrent with the closing of the purchase of the property, we entered into a long-term, triple-net lease agreement with the PharmaCann subsidiary, which intends to operate the property upon completion of development as a cannabis cultivation and processing facility.

Holistic MA Property

On July 12, 2018, we completed the acquisition of a 55,000 square foot industrial property located in Massachusetts for $12.75 million (excluding approximately $27,000 in transaction costs) in a sale-leaseback transaction. Upon the closing, we entered into a long-term, triple-net lease for the entire property with Holistic Industries, Inc. to operate a cannabis cultivation and processing facility.

***Michigan***

Green Peak MI Property

On August 2, 2018, we completed the acquisition of a 56,000 square foot industrial property located in Michigan for approximately $5.5 million (excluding approximately $29,000 in transaction costs). Upon the closing, we entered into a long-term, triple-net lease for the entire property with Green Peak Industries, LLC ("Green Peak") for use as a medical cannabis cultivation and processing facility upon completion of development. We reimbursed the seller of the property approximately $5.3 million (the "Additional Purchase Price") a s of December 31, 2018 for completing certain required development milestones for the building. Green Peak is also expected complete certain tenant improvements, for which we have agreed to provide reimbursement of up to $2.2 million (the "TI Allowance"), of which approximately $1.5 million was incurred and approximately $1.1 million was funded as of December 31, 2018. Green Peak also has a one-time right to request an additional tenant improvement allowance of up to $8.0 million (the "Additional TI Allowance") for additional improvements to the property, subject to satisfaction of conditions set forth in the lease. If we make available the Additional TI Allowance, the base rent shall be adjusted to reflect our total investment in the property. In addition, the term of the lease shall be automatically extended to the date that is 15 years from the date that the Additional TI Allowance is made available. If we fund the full amount of the Additional Purchase Price, the TI Allowance and the Additional TI Allowance, our total investment in the property is expected to be $21.0 million. If we do not make the Additional TI Allowance available to Green Peak, Green Peak shall have the right to purchase the property, subject to satisfaction of conditions set forth in the lease, at a price equal to the greater of (a) the appraised value of the property and (b) the value determined by dividing the then-current base rent by ten percent.

***Minnesota***

Vireo MN Property

On November 8, 2017, we completed the acquisition of an industrial property located in Minnesota (the "Vireo MN Property"), which we purchased from a subsidiary of Vireo Health, Inc. ("Vireo Minnesota") for approximately $3.0 million (excluding approximately $58,000 in transaction costs) in a sale-leaseback transaction. Concurrent with the closing of the acquisition, we entered into a long-term, triple-net lease with Vireo Minnesota, as tenant for use as a medical cannabis cultivation and processing facility. In December 2018, we amended our lease with Vireo Minnesota to increase our reimbursement for future tenant improvements at the Vireo MN Property from approximately $1.0 million to a total of approximately $3.0 million, which also resulted in a corresponding increase to the base rent. As of December 31, 2018, we had incurred approximately $1.6 million and funded approximately $788,000 as reimbursement for tenant improvements at this property. In connection with these tenant improvements, we increased the footprint of the Vireo MN Property to approximately 39,000 square feet.

***New York***

PharmaCann NY Property

On December 19, 2016, we acquired a 127,000 square foot industrial property located in New York (the “PharmaCann NY Property”), which we purchased from PharmaCann LLC (“PharmaCann”) for approximately $30.0 million (excluding approximately $75,000 in transaction costs) in a sale-leaseback transaction. Concurrent with the closing of the acquisition, we entered into a triple-net lease with PharmaCann, as tenant for use as a medical cannabis cultivation and processing facility. The lease term is 15 years, with two options to extend the term of the lease for two additional five-year periods. At December 31, 2018, the base rent of the PharmaCann lease was approximately $345,658 per month, subject to annual increases at a rate based on the higher of (i) 4% or (ii) 75% of the consumer price index. The lease also provides that we receive a property management fee equal to 1.5% of the then-current base rent throughout the term, and supplemental base rent for the first five years of the term of the lease at a rate of $105,477 per month.

Vireo NY Property

On October 23, 2017, we completed the acquisition of a 40,000 square foot industrial property located in New York (the “Vireo NY Property”), which we purchased from a subsidiary of Vireo Health, Inc. (“Vireo New York”) for approximately $3.4 million (excluding approximately $60,000 in transaction costs) in a sale-leaseback transaction. Concurrent with the closing of the acquisition, we entered into a long-term, triple-net lease with Vireo New York, as tenant for use as a medical cannabis cultivation and processing facility. In December 2018, we amended our lease with Vireo New York to increase our reimbursement for future tenant improvements at the Vireo NY Property from $1.0 million to a total of $3.0 million, which also resulted in a corresponding increase to the base rent. As of December 31, 2018, we had incurred approximately $875,000 as reimbursement for tenant improvements at this property, of which no amount was funded.

***Pennsylvania***

Vireo PA Property

On April 6, 2018, we completed the acquisition of an 89,000 square foot industrial property located in Pennsylvania (the "Vireo PA Property") for approximately $5.8 million (excluding approximately $115,000 in transaction costs) in a sale-leaseback transaction. Upon the closing, we entered into a long-term, triple-net lease for the entire property with a subsidiary of Vireo Health, Inc. ("Vireo Pennsylvania"), for use as a medical cannabis cultivation and processing facility. In December 2018, we amended our lease with Vireo Pennsylvania to increase our reimbursement for future tenant improvements at the Vireo PA Property from approximately $2.8 million to a total of approximately $3.8 million, which also resulted in a corresponding increase to the base rent. As of December 31, 2018, we had incurred approximately $2.9 million and funded approximately $2.6 million as reimbursement for tenant improvements at this property.

Future contractual minimum rent (including base rent, supplemental base rent (for the PharmaCann NY Property) and property management fees) under the operating leases as of December 31, 2018 for future periods is summarized as follows (in thousands):

| Year | Contractual Minimum Rent |
|---|---|
| 2019 | $ 25,802 |
| 2020 | 26,697 |
| 2021 | 27,503 |
| 2022 | 27,160 |
| 2023 | 28,070 |
| Thereafter | 328,333 |
| **Total** | $ 463,565 |

## 8. Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Accounting guidance also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1—Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2—Includes other inputs that are directly or indirectly observable in the marketplace.

Level 3—Unobservable inputs that are supported by little or no market activities, therefore requiring an entity to develop its own assumptions.

At December 31, 2018 and 2017, cash equivalent instruments consisted of $7.7 million and $5.0 million in short-term money market funds that were measured using the net asset value per share that have not been classified using the fair value hierarchy. The fund invests primarily in short-term U.S. Treasury and government securities.

The carrying amounts of financial instruments such as cash equivalents invested in certificates of deposit, short-term investments, receivables, accounts payable, accrued expenses and other liabilities approximate their fair values due to the short-term maturities and market rates of interest of these instruments. At December 31, 2018, short-term investments of $120.4 million consisting of obligations of the U.S. government with an original maturity at the time of purchase of greater than three months are classified as held-to-maturity and valued using Level 1 inputs.

## 9. Common Stock Incentive Plan

Our board of directors adopted our 2016 Omnibus Incentive Plan (the "2016 Plan"), to enable us to motivate, attract and retain the services of directors, employees and consultants considered essential to our long-term success. The 2016 Plan offers our directors, employees and consultants an opportunity to own our stock or rights that will reflect our growth, development and financial success. Under the terms of the 2016 Plan, the aggregate number of shares of our common stock subject to options, restricted stock, stock appreciation rights, restricted stock units and other awards, will be no more than 1,000,000 shares. The 2016 Plan has a term of ten years until December 5, 2026.

A summary of the activity under the 2016 Plan and related information for year ended December 31, 2018 and 2017 is included in the table below.

| | Restricted Shares | | Weighted-Average Date Fair Value |
|---|---|---|---|
| Balance at December 31, 2016 | 66,508 | $ | 17.47 |
| Granted | 115,011 | $ | 18.63 |
| Vested | (44,308) | $ | 18.47 |
| Forfeited (1) | (30,372) | $ | 18.49 |
| Balance at December 31, 2017 | 106,839 | $ | 18.01 |
| Granted | 76,732 | $ | 29.72 |
| Vested | (24,133) | $ | 18.45 |
| Forfeited (2) | (12,079) | $ | 18.67 |
| Balance at December 31, 2018 | 147,359 | $ | 23.98 |

(1) Includes 16,792 shares that were forfeited to cover the employees' tax withholding obligation upon vesting.
(2) All of these shares were forfeited to cover the employees' tax withholding obligation upon vesting.

The remaining unrecognized compensation cost of $2.2 million will be recognized over a weighted-average amortization period of approximately 1.7 years as of December 31, 2018.

**10. Commitments and Contingencies**

**Office and Equipment Leases** . As of December 31, 2018, we had approximately $165,000 outstanding in commitments related to our office and equipment leases, with approximately $90,000 to be paid in 2019 and approximately $75,000 to be paid in 2020.

**Construction Funding and Tenant Improvement Allowances** . See Note 7.

**Environmental Matters** . We follow the policy of monitoring our properties, both targeted acquisition and existing properties, for the presence of hazardous or toxic substances. While there can be no assurance that a material environmental liability does not exist, we are not currently aware of any environmental liabilities that would have a material adverse effect on our financial condition, results of operations and cash flow, or that we believe would require disclosure or the recording of a loss contingency.

**Litigation** . We may, from time to time, be a party to legal proceedings, which arise in the ordinary course of our business. We are not aware of any pending or threatened litigation that, if resolved against us, would have a material adverse effect on our consolidated financial position, results of operations or cash flows.

**11. Related Party Transactions**

**Private Airplane Reimbursement** . Alan Gold, our executive chairman, utilizes a private airplane from time to time exclusively for company business travel purposes, which airplane is owned by an entity controlled by Mr. Gold. We reimburse Mr. Gold for the company-related use of the airplane by Mr. Gold and our other executives, including out-of-pocket operating costs, on terms we believe are comparable to those we could secure from an independent third party. As approved by our audit committee, for the year ended December 31, 2018 and 2017, we paid approximately $202,000 and $30,000, respectively, to Mr. Gold on account of such expenses.

**12. Subsequent Events**

On February 8, 2019, we completed the acquisition of a 43,000 square foot industrial property located in California for approximately $6.7 million (excluding transaction costs). Concurrent with the closing of the purchase, we entered into a long-term, triple-net lease agreement with an experienced operator, which intends to operate the property as a cannabis cultivation facility in accordance with California cannabis regulations upon completion of redevelopment. The seller of the property is expected to complete redevelopment of the building, for which we have agreed to provide reimbursement of up to approximately $4.8 million. Assuming full reimbursement for the redevelopment, our total investment in the property will be approximately $11.5 million.

In February 2019, our Operating Partnership issued $143.75 million of 3.75% Exchangeable Senior Notes due 2024 (the "Notes") in a private offering, including the exercise in full of the initial purchasers' option to purchase additional Notes. The Notes are senior unsecured obligations of our Operating Partnership, are fully and unconditionally guaranteed by us and our Operating Partnership's subsidiaries and are exchangeable for cash, shares of our common stock, or a combination of cash and shares of our common stock, at our Operating Partnership's option, at any time prior to the close of business on the second scheduled trading day immediately preceding the stated maturity date. The initial exchange rate for the Notes is 14.37298 shares of our common stock per $1,000 principal amount of Notes and the initial exchange price is approximately $69.575 per share of our common stock. The initial exchange rate and initial exchange price are subject to adjustment in certain circumstances. The Notes will pay interest semiannually at a rate of 3.75% per annum and will mature on February 21, 2024, unless earlier exchanged or repurchased in accordance with their terms. Our Operating Partnership will not have the right to redeem the Notes prior to maturity, but may be required to repurchase the Notes from holders under certain circumstances.

On March 12, 2019, our board of directors declared a dividend of $0.45 per share of common stock and a dividend of $0.5625 per share of Series A Preferred Stock, which are payable on April 15, 2019 to all stockholders of record as of March 29, 2019.

On March 13, 2019, we acquired a property in Ohio and entered into a long-term lease and development agreement with a subsidiary of PharmaCann for an approximately 26,000 square foot industrial facility and an approximately 32,000 square foot greenhouse facility on the property. The purchase price for the property was $700,000 (excluding transaction costs). The PharmaCann subsidiary is expected to construct the two buildings at the property, for which we have agreed to provide reimbursement of up to $19.3 million. Assuming full reimbursement for the construction, our total investment in the property will be $20.0 million.

**Exhibit 10.22**

FIRST AMENDMENT TO LEASE AGREEMENT

This First Amendment to the Lease Agreement ("Amendment") is made and entered into effective as of November 13, 2018, by and between IIP-MA 1 LLC ("Landlord") and Pharmacannis Massachusetts Inc. ("Tenant"), together the ("Parties").

RECITALS

A. Landlord and Tenant entered into a Lease Agreement (the "Lease") dated May 31, 2018 concerning the lease of certain premises located at Lot 1, Hopping Brook Road, Holliston, MA, 01746, as further defined in the Lease.

B. Landlord and Tenant desire to amend the Lease as set forth herein to correct certain drafting errors.

AGREEMENT

1. Paragraph A of the Lease Recitals is hereby amended and replaced in its entirety to read as follows:

"WHEREAS, concurrent with the execution of this Agreement, Landlord acquired certain real property located at 465 Hopping Brook Road, Holliston, Massachusetts, 01746, as more particularly described on Exhibit A attached hereto and incorporated herein by reference (the " Land ")"

2. The Lease signature page is hereby amended and replaced in its entirety by the signature page attached to this Amendment as "Exhibit A."

3. All other provisions of the Lease, including those incorporated by prior amendment or agreement, shall remain in full force and are hereby ratified and affirmed. In the event of any conflict between the terms and provisions contained in this Amendment and those contained in the Lease or any prior amendment or agreement, the terms and provisions contained herein will supercede and control any obligations and liabilities of the Parties.

4. This Amendment may be executed in any number of counterparts with the same effect as if all signing parties had signed the same document. All counterparts will be construed together and constitute the same document. Signature pages may be detached from the counterparts and attached to a single copy to physically form one document.

LEASE AMENDMENT SIGNATURE PAGE

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date first written above.

LANDLORD:
IIP-MA 1 LLC

/s/ Catherine Hastings
By: Catherine Hastings
Chief Financial Officer, Chief Accounting Officer, Treasurer

Date: November 13, 2018

TENANT:
PHARMACANNIS MASSACHUSETTS, INC.

/s/ Teddy Scott
By: Teddy Scott
President

Date: November 12, 2018

**Exhibit A**

***[Amended signature page to Lease to follow]***

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first above written.

LANDLORD:

IIP-MA1 LLC, a Delaware limited liability company

By: ________________________________________
Name: Catherine Hastings
Title: Chief Financial Officer, Chief Accounting Officer and Treasurer

TENANT:

PHARMACANNIS MASSACHUSETTS INC., a Massachusetts corporation

By: ________________________________________
Name: Teddy Scott
Title: President

The undersigned hereby executes this agreement to guaranty the payment obligation of the Landlord under this Agreement.

PARENT COMPANY:

IIP OPERATING PARTNERSHIP, LP

By: ________________________________________
Name: Catherine Hastings
Title: Chief Financial Officer, Chief Accounting Officer and Treasurer

***[Signature Page to Development Agreement]***

Exhibit 21.1

**Subsidiaries of the Registrant**

| Subsidiary | State of Incorporation / Formation |
|---|---|
| Innovative Industrial Properties, Inc. | Maryland |
| IIP Operating Partnership, LP | Delaware |
| Innovative Industrial Properties, LLC | Delaware |
| IIPR, Inc. | Maryland |
| IIP-AZ 1 LLC | Delaware |
| IIP-CA 1 LLC | Delaware |
| IIP-CO 1 LLC | Delaware |
| IIP-IL 1 LLC | Delaware |
| IIP-MA 1 LLC | Delaware |
| IIP-MA 2 LLC | Delaware |
| IIP-MD 1 LLC | Delaware |
| IIP-MI 1 LLC | Delaware |
| IIP-MN 1 LLC | Delaware |
| IIP-NY 1 LLC | Delaware |
| IIP-NY 2 LLC | Delaware |
| IIP-OH 1 LLC | Delaware |
| IIP-PA 1 LLC | Delaware |

**Exhibit 23.1**

Consent of Independent Registered Public Accounting Firm

Innovative Industrial Properties, Inc.
San Diego, California

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-221881 and 333-225702) and Form S-8 (No. 333-214919) of Innovative Industrial Properties, Inc. of our report dated March 14, 2019, relating to the consolidated financial statements, which appears in this Form 10-K.

/s/ BDO USA, LLP

San Diego, California
March 14, 2019

**Exhibit 31.1**

**Innovative Industrial Properties, Inc.**
**Annual Certification**
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Paul Smithers, certify that:

1) I have reviewed this Annual Report on Form 10-K of Innovative Industrial Properties, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report, any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2019

/s/ Paul Smithers
Paul Smithers
Chief Executive Officer, President and Director

**Exhibit 31.2**

**Innovative Industrial Properties, Inc.**
**Annual Certification**
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Catherine Hastings, certify that:

1) I have reviewed this Annual Report on Form 10-K of Innovative Industrial Properties, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report, any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2019

/s/ Catherine Hastings
Catherine Hastings
Chief Financial Officer, Chief Accounting Officer and
Treasurer

**Exhibit 32.1**

**Innovative Industrial Properties, Inc.**
**Certification Pursuant to**
**18 U.S.C. Section 1350,**
**as Adopted Pursuant to**
**Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of Innovative Industrial Properties, Inc. (the "Company") for the year ended December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Paul Smithers, Chief Executive Officer, President and Director of the Company, and I, Catherine Hastings, Chief Financial Officer, Chief Accounting Officer and Treasurer of the Company, each certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 14, 2019

/s/ Paul Smithers
Paul Smithers
Chief Executive Officer, President and Director

/s/ Catherine Hastings
Catherine Hastings
Chief Financial Officer, Chief Accounting Officer and Treasurer