

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

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2019

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

(State or other jurisdiction of incorporation or organization)

81-2963381

(I.R.S. Employer Identification No.)

**11440 West Bernardo Court, Suite 220
San Diego, CA 92127**

(Address of principal executive offices)

(858) 997-3332

(Registrant's telephone number)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Title of each class	Trading Symbols (s)	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	IIPR	New York Stock Exchange
Series A Preferred Stock, par value \$0.001 per share	IIPR-PA	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ 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 (§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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an 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 ☒

As of November 7, 2019 there were 11,853,788 shares of common stock outstanding.

INNOVATIVE INDUSTRIAL PROPERTIES, INC.

FORM 10-Q – QUARTERLY REPORT

SEPTEMBER 30, 2019

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PART I

ITEM 1. FINANCIAL STATEMENTS

Innovative Industrial Properties, Inc.

Condensed Consolidated Balance Sheets (Unaudited)

(In thousands, except share and per share amounts)

	September 30, 2019	December 31, 2018
Assets		
Real estate, at cost:		
Land	\$ 37,959	\$ 20,475
Buildings and improvements	231,252	109,425
Tenant improvements	43,397	14,732
Construction in progress	—	6,298
Total real estate, at cost	312,608	150,930
Less accumulated depreciation	(8,625)	(3,571)
Net real estate held for investment	303,983	147,359
Cash and cash equivalents	99,917	13,050
Restricted cash	9,354	—
Short-term investments, net	208,828	120,443
Other assets, net	1,068	614
Total assets	<u>\$ 623,150</u>	<u>\$ 281,466</u>
Liabilities and stockholders' equity		
Exchangeable senior notes, net	\$ 134,158	\$ —
Tenant improvements and construction funding payable	12,700	2,433
Accounts payable and accrued expenses	1,044	1,968
Dividends payable	9,204	3,759
Offering cost liability	62	—
Rent received in advance and tenant security deposits	16,199	9,014
Total liabilities	173,367	17,174
Commitments and contingencies (Notes 6 and 11)		
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 September 30, 2019 and December 31, 2018	14,009	14,009
Common stock, par value \$0.001 per share, 50,000,000 shares authorized: 11,367,828 and 9,775,800 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively	11	10
Additional paid-in capital	452,634	260,540
Dividends in excess of earnings	(16,871)	(10,267)
Total stockholders' equity	449,783	264,292
Total liabilities and stockholders' equity	<u>\$ 623,150</u>	<u>\$ 281,466</u>

See the accompanying notes to the condensed consolidated financial statements.

Innovative Industrial Properties, Inc.

**Condensed Consolidated Statements of Income
(Unaudited)**

(In thousands, except share and per share amounts)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues:				
Rental	\$ 11,198	\$ 3,716	\$ 26,054	\$ 9,639
Tenant reimbursements	357	210	941	365
Total revenues	11,555	3,926	26,995	10,004
Expenses:				
Property expenses	357	210	941	365
General and administrative expense	2,156	1,442	6,667	4,393
Depreciation expense	2,221	703	5,054	1,715
Total expenses	4,734	2,355	12,662	6,473
Income from operations	6,821	1,571	14,333	3,531
Interest and other income	1,537	261	3,702	788
Interest expense	(1,838)	—	(4,462)	—
Net income	6,520	1,832	13,573	4,319
Preferred stock dividend	(338)	(338)	(1,014)	(1,014)
Net income attributable to common stockholders	\$ 6,182	\$ 1,494	\$ 12,559	\$ 3,305
Net income attributable to common stockholders per share (Note 8):				
Basic	\$ 0.56	\$ 0.22	\$ 1.22	\$ 0.50
Diluted	\$ 0.55	\$ 0.21	\$ 1.20	\$ 0.49
Weighted average shares outstanding:				
Basic	10,918,477	6,636,638	10,088,036	6,388,058
Diluted	11,057,697	6,785,800	10,225,574	6,534,300

See accompanying notes to the condensed consolidated financial statements.

Innovative Industrial Properties, Inc.

**Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)**

(In thousands, except share amounts)

	Three Months Ended September 30, 2019						Three Months Ended September 30, 2018					
	Series A Preferred Stock	Shares of Common Stock	Common Stock	Additional Paid-In- Capital	Dividends in Excess of Earnings	Total Stockholders' Equity	Series A Preferred Stock	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Dividends in Excess of Earnings	Total Stockholders' Equity
Balances at beginning of period	\$ 14,009	9,809,171	\$ 10	\$ 266,356	\$ (14,187)	\$ 266,188	\$ 14,009	6,785,800	\$ 7	\$ 145,862	\$ (8,293)	\$ 151,585
Net income	—	—	—	—	6,520	6,520	—	—	—	—	1,832	1,832
Net proceeds from sale of common stock	—	1,558,000	1	185,623	—	185,624	—	—	—	—	—	—
Net issuance of unvested restricted stock	—	657	—	—	—	—	—	—	—	—	—	—
Preferred stock dividend	—	—	—	—	(338)	(338)	—	—	—	—	(338)	(338)
Common stock dividend	—	—	—	—	(8,866)	(8,866)	—	—	—	—	(2,375)	(2,375)
Stock-based compensation	—	—	—	655	—	655	—	—	—	386	—	386
Balances at end of period	\$ 14,009	11,367,828	\$ 11	\$ 452,634	\$ (16,871)	\$ 449,783	\$ 14,009	6,785,800	\$ 7	\$ 146,248	\$ (9,174)	\$ 151,090

	Nine Months Ended September 30, 2019						Nine Months Ended September 30, 2018					
	Series A Preferred Stock	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Dividends in Excess of Earnings	Total Stockholders' Equity	Series A Preferred Stock	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Dividends in Excess of Earnings	Total Stockholders' Equity
Balances at beginning of period	\$ 14,009	9,775,800	\$ 10	\$ 260,540	\$ (10,267)	\$ 264,292	\$ 14,009	3,501,147	\$ 4	\$ 66,248	\$ (6,712)	\$ 73,549
Net income	—	—	—	—	13,573	13,573	—	—	—	—	4,319	4,319
Equity component of exchangeable senior notes	—	—	—	5,569	—	5,569	—	—	—	—	—	—
Net proceeds from sale of common stock	—	1,558,000	1	185,623	—	185,624	—	3,220,000	3	79,311	—	79,314
Net issuance of unvested restricted stock	—	34,028	—	(939)	—	(939)	—	64,653	—	(390)	—	(390)
Preferred stock dividend	—	—	—	—	(1,014)	(1,014)	—	—	—	—	(1,014)	(1,014)
Common stock dividend	—	—	—	—	(19,163)	(19,163)	—	—	—	—	(5,767)	(5,767)
Stock-based compensation	—	—	—	1,841	—	1,841	—	—	—	1,079	—	1,079
Balances at end of period	\$ 14,009	11,367,828	\$ 11	\$ 452,634	\$ (16,871)	\$ 449,783	\$ 14,009	6,785,800	\$ 7	\$ 146,248	\$ (9,174)	\$ 151,090

See accompanying notes to the condensed consolidated financial statements.

Innovative Industrial Properties, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	For the Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities		
Net income	\$ 13,573	\$ 4,319
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	5,054	1,715
Stock-based compensation	1,841	1,079
Amortization of discounts on short-term investments	(2,870)	(332)
Amortization of debt discounts and issuance costs	1,181	—
Changes in assets and liabilities		
Other assets, net	46	(37)
Accounts payable and accrued expenses	(924)	97
Rent received in advance and tenant security deposits	7,185	2,710
Net cash provided by operating activities	<u>25,086</u>	<u>9,551</u>
Cash flows from investing activities		
Acquisitions of real estate	(107,644)	(27,177)
Reimbursements of tenant improvements and construction funding	(43,767)	(11,120)
Deposits in escrow for acquisitions	(500)	—
Purchases of short-term investments	(249,015)	(65,151)
Maturities of short-term investments	163,500	61,500
Net cash used in investing activities	<u>(237,426)</u>	<u>(41,948)</u>
Cash flows from financing activities		
Issuance of common stock, net of offering costs	185,687	79,314
Net proceeds from issuance of exchangeable senior notes	138,545	—
Dividends paid to common stockholders	(13,718)	(4,267)
Dividends paid to preferred stockholders	(1,014)	(999)
Taxes paid related to net share settlement of equity awards	(939)	(390)
Net cash provided by financing activities	<u>308,561</u>	<u>73,658</u>
Net increase in cash, cash equivalents and restricted cash	<u>96,221</u>	<u>41,261</u>
Cash, cash equivalents and restricted cash, beginning of period	13,050	11,758
Cash, cash equivalents and restricted cash, end of period	<u>\$ 109,271</u>	<u>\$ 53,019</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 3,056	\$ —
Supplemental disclosure of non-cash investing and financing activities:		
Accrual for reimbursements of tenant improvements and construction funding	\$ 12,700	\$ 4,341
Accrual for common and preferred stock dividends declared	9,204	2,713
Accrual for stock issuance costs	62	21

See accompanying notes to the condensed consolidated financial statements.

Innovative Industrial Properties, Inc.
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

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 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 subsidiaries, 100% of the limited partnership interests in our Operating Partnership.

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

Basis of Presentation. The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. They do not include all of the information and footnotes required by GAAP for complete financial statements.

This interim financial information should be read in conjunction with the audited consolidated financial statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018. Any references to square footage or occupancy percentage, and any amounts derived from these values in these notes to consolidated financial statements, are outside the scope of our independent registered public accounting firm’s review.

Management believes that all adjustments of a normal, recurring nature considered necessary for a fair presentation have been included. This interim financial information does not necessarily represent or indicate what the operating results will be for the year ending December 31, 2019.

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 income 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 income.

Use of Estimates. The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the condensed consolidated financial statements and reported amounts of revenues and expenses during the reporting period. 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 and/or region, the fair value of buildings on an as-if vacant basis and may engage third-party valuation specialists. Acquisition costs are capitalized as incurred. All of our acquisitions to date were recorded as asset acquisitions.

Depreciation. We are required to make subjective assessments as to the estimated useful lives of our depreciable assets. 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, generally 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 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. We may adjust depreciation of properties that are expected to be disposed of or redeveloped prior to the end of their useful lives. No impairment losses were recognized during the three and nine months ended September 30, 2019 and 2018.

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. We account for our current leases as operating leases and anticipate that future 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.

Future contractual minimum rent (including base rent, supplemental base rent (for one of our properties in New York) and property management fees) under the operating leases as of September 30, 2019 for future periods is summarized as follows (in thousands):

Year	Contractual Minimum Rent
2019 (three months ending December 31)	\$ 13,940
2020	58,971
2021	60,815
2022	61,528
2023	63,526
Thereafter	940,786
Total	\$ 1,199,566

Cash and Cash Equivalents. We consider all highly-liquid investments with original maturities of three months or less to be cash equivalents. As of September 30, 2019, approximately \$85.9 million were invested in short-term obligations of the U.S. government and money market funds. As of December 31, 2018, approximately \$7.7 million were invested in short-term money market funds and certificates of deposit.

Restricted Cash. Restricted cash relates to cash held in an escrow account for the reimbursement of tenant improvements for a tenant in accordance with the lease agreement at one of our properties.

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.

Exchangeable Notes. The “Debt with Conversion and Other Options” Topic of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification requires the liability and equity components of exchangeable debt instruments that may be settled in cash upon exchange, including partial cash settlement, to be separately accounted for in a manner that reflects the issuer’s nonexchangeable debt borrowing rate. The initial proceeds from the sale of exchangeable notes are allocated between a liability component and an equity component in a manner that reflects interest expense at the rate of similar nonexchangeable debt that could have been issued at such time. The equity component represents the excess initial proceeds received over the fair value of the liability component of the notes as of the date of issuance. We measured the estimated fair value of the debt component of our Exchangeable Senior Notes (as defined below) as of the respective issuance dates based on our nonexchangeable debt borrowing rate with the assistance of a third party valuation specialist. The equity component of our Exchangeable Senior Notes is reflected within additional paid-in capital on our condensed consolidated balance sheets, and the resulting debt discount is amortized over the period during which the Exchangeable Senior Notes are expected to be outstanding (through the maturity date) as additional non-cash interest expense. The additional non-cash interest expense attributable to our Exchangeable Senior Notes will increase in subsequent periods through the maturity date as the Exchangeable Senior Notes accrete to the par value over the same period.

Deferred Financing Costs. The deferred financing costs that are included as a reduction in the net book value of the related liability on our condensed consolidated balance sheets reflect issuance and other costs related to our Exchangeable Senior Notes. These costs are amortized as non-cash interest expense using the effective interest method over the life of the Exchangeable Senior Notes.

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 nonforfeitable dividends previously paid on these awards from retained earnings to compensation expense.

Recent Accounting Pronouncements.

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. The Company’s adoption of ASU 2014-09 beginning on January 1, 2019 did not 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 expected to be effective for the Company for its Annual Report on Form 10-K for the year ending December 31, 2019, as a result of the Company’s expectation that it will cease being an emerging growth company on December 31, 2019. 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 the timing and pattern of transfer are the same for the non-lease component and associated lease component, and 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 an 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 September 30, 2019, the Company is the lessee under one office lease that would require accounting under the ROU model.

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 income. 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 leasing costs 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 allow 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. We are continuing to evaluate this guidance and the impact to us, as both lessor and lessee, on our consolidated financial statements.

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 expected to be effective for the Company on January 1, 2020, as a result of the Company’s expectation that it will cease being an emerging growth company on December 31, 2019, with early adoption permitted. We do not expect this amendment to have a material impact 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 (“ASU 2016-15”), 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. The Company’s adoption of ASU 2016-15 beginning on January 1, 2019 did not have a material impact on our consolidated financial statements.

In February 2017, the FASB 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 Company’s adoption of ASU 2017-05 beginning on January 1, 2019 did not have a material impact on our consolidated financial statements.

Concentration of Credit Risk. As of September 30, 2019, we owned 31 properties located in Arizona, California, Colorado, Illinois, Maryland, Massachusetts, Michigan, Minnesota, New York, Nevada, Ohio 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. During the three months and nine months ended September 30, 2019, PharmaCann LLC’s (“PharmaCann”) leases at certain of our properties located in New York, Massachusetts, Ohio and Pennsylvania accounted for approximately 25% and 28%, respectively, of our rental revenues. During the three and nine months ended September 30, 2018, PharmaCann’s leases at certain of our properties located in New York and Massachusetts accounted for approximately 36% and 41%, respectively, of our rental revenues. In addition, during the three months and nine months ended September 30, 2019, Ascend Wellness Holdings, LLC’s (“AWH”) leases at certain of our properties located in Illinois and Michigan accounted for approximately 14% and 12%, respectively, of our rental revenue. The tenant at our property in Maryland accounted for approximately 6% and 18% of our rental revenues for the three months ended September 30, 2019 and 2018, respectively, and approximately 8% and 20% of our rental revenues for the nine months ended September 30, 2019 and 2018, respectively. At September 30, 2019 and December 31, 2018, one of our properties in New York accounted for approximately 9% and 20%, 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 September 30, 2019, we had cash accounts in excess of FDIC insured limits. We have not experienced any losses in such accounts.

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

3. Common Stock

As of September 30, 2019, the Company was authorized to issue up to 50,000,000 shares of common stock, par value \$0.001 per share, and there were 11,367,828 shares of common stock issued and outstanding.

In July 2019, we issued 1,495,000 shares of common stock, including the exercise in full of the underwriters’ option to purchase an additional 195,000 shares, resulting in net proceeds of approximately \$180.1 million.

In September 2019, we entered into equity distribution agreements with three sales agents, pursuant to which we may offer and sell from time to time through an “at-the-market” offering program, or ATM Program, up to \$250.0 million in shares of our common stock. In September 2019, we sold 63,000 shares of our common stock for net proceeds of approximately \$5.6 million under the ATM Program, and paid approximately \$118,000 to one sales agent as commission for such sales.

4. Preferred Stock

As of September 30, 2019, the Company was authorized to issue up to 50,000,000 shares of preferred stock, par value \$0.001 per share, and there were issued and outstanding 600,000 shares of 9.00% Series A Cumulative Redeemable Preferred Stock, \$0.001 par value per share (the “Series A Preferred Stock”). 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 nine months ended September 30, 2019:

Declaration Date	Security Class	Amount Per Share	Period Covered	Dividend Paid Date	Dividend Amount <i>(In thousands)</i>
March 12, 2019	Common Stock	\$ 0.45	January 1, 2019 to March 31, 2019	April 15, 2019	\$ 4,412
March 12, 2019	Series A preferred stock	\$ 0.5625	January 15, 2019 to April 14, 2019	April 15, 2019	\$ 338
June 14, 2019	Common Stock	\$ 0.60	April 1, 2019 to June 30, 2019	July 15, 2019	\$ 5,885
June 14, 2019	Series A preferred stock	\$ 0.5625	April 15, 2019 to July 14, 2019	July 15, 2019	\$ 338
September 13, 2019	Common Stock	\$ 0.78	July 1, 2019 to September 30, 2019	October 15, 2019	\$ 8,866
September 13, 2019	Series A preferred stock	\$ 0.5625	July 15, 2019 to October 14, 2019	October 15, 2019	\$ 338

6. Investments in Real Estate

The Company acquired the following properties during the nine months ended September 30, 2019 (dollars in thousands):

Property	Market	Closing Date	Rentable Square Feet (1)	Initial Purchase Price	Transaction Costs	Total
Sacramento CA	California	February 8, 2019	43,000	\$ 6,664	\$ 35	\$ 6,699(2)
PharmaCann OH	Ohio	March 13, 2019	58,000	700	11	711(3)
Southern CA Portfolio	California	April 16, 2019	102,000	27,097	51	27,148
Maitri PA	Pennsylvania	April 24, 2019	51,000	6,250	234	6,484(4)
Vireo OH	Ohio	May 14, 2019	11,000	1,018	18	1,036(5)
Green Leaf PA	Pennsylvania	May 20, 2019	266,000	13,000	207	13,207
Emerald Growth MI	Michigan	June 7, 2019	45,000	6,860	18	6,878(6)
Ascend MI	Michigan	July 2, 2019	145,000	4,750	18	4,768(7)
MJardin NV	Nevada	July 12, 2019	43,000	3,830	26	3,856(8)
DYME CA	California	July 23, 2019	35,000	13,000	19	13,019(9)
Trulieve MA	Massachusetts	July 26, 2019	150,000	3,500	25	3,525(10)
PharmaCann PA	Pennsylvania	August 9, 2019	54,000	942	12	954(11)
Vertical CA Portfolio	California	Various	79,000	17,300	32	17,332(12)
The Pharm AZ - Retail	Arizona	September 19, 2019	2,000	2,000	27	2,027(13)
Total			1,084,000	\$ 106,911	\$ 733	\$ 107,644

- (1) Includes expected rentable square feet at completion of construction of certain properties.
- (2) The seller of the property is expected to complete redevelopment of the property, for which we have agreed to provide reimbursement of up to approximately \$4.8 million as additional purchase price. As of September 30, 2019, we incurred and funded approximately \$4.7 million of the additional purchase price.
- (3) Concurrent with the closing, we entered into a long-term lease and development agreement with a subsidiary of PharmaCann, which is expected to construct two buildings at the property, for which we have agreed to provide reimbursement of up to \$19.3 million. As of September 30, 2019, we incurred approximately \$13.2 million of the development costs, of which we funded approximately \$11.9 million.
- (4) The tenant is expected to complete redevelopment of the property for which we have agreed to provide reimbursement of up to \$10.0 million. As of September 30, 2019, we incurred approximately \$1.7 million of the redevelopment costs, of which we funded approximately \$694,000.
- (5) The tenant is expected to complete redevelopment of the property for which we have agreed to provide reimbursement of up to approximately \$2.6 million. As of September 30, 2019, we incurred approximately \$2.4 million of the redevelopment costs, of which we funded approximately \$2.2 million.
- (6) The tenant is expected to complete redevelopment of the property for which we have agreed to provide reimbursement of up to approximately \$3.1 million. As of September 30, 2019, we incurred approximately \$2.6 million of the redevelopment costs, of which we funded approximately \$2.4 million.

- (7) The tenant is expected to complete redevelopment of the property for which we have agreed to provide reimbursement of up to \$15.0 million. As of September 30, 2019, we incurred approximately \$261,000, of which no amount was funded.
- (8) The tenant is expected to complete redevelopment of the property for which we have agreed to provide reimbursement of up to approximately \$5.8 million. As of September 30, 2019, we incurred approximately \$2.8 million of the redevelopment costs, of which we funded approximately \$2.4 million.
- (9) The tenant is expected to complete redevelopment of the property for which we have agreed to provide reimbursement of up to \$2.0 million. As of September 30, 2019, no amount has been incurred.
- (10) The tenant is expected to complete redevelopment of the property for which we have agreed to provide reimbursement of up to \$40.0 million, which funding is subject to reduction at the tenant's option within the first six months of the lease term. As of September 30, 2019, the tenant has not submitted any request for reimbursement.
- (11) Concurrent with the closing, we entered into a long-term lease and development agreement with a subsidiary of PharmaCann, which is expected to construct two buildings at the property, for which we have agreed to provide reimbursement of up to \$25.1 million. The construction funding may be increased by up to an additional \$4.0 million at PharmaCann's election within the first nine months of the lease term, subject to the satisfaction of certain conditions. As of September 30, 2019, we incurred approximately \$706,000 of the development costs, of which no amount was funded.
- (12) Portfolio consists of four properties, with three properties closing on August 29, 2019 and the remaining property closing on September 11, 2019.
- (13) The tenant is expected to complete development of the property for which we have agreed to provide reimbursement of up to \$500,000. As of September 30, 2019, we incurred approximately \$310,000 of the development costs, of which no amount was funded.

In addition, in June 2019, we entered into an amendment to our lease with Green Peak Industries, LLC ("GPI") at one of our Michigan properties, making available an additional \$18.0 million in funding for further expansion of cannabis cultivation and processing facilities at the property. Assuming full payment of the additional funding, our total tenant improvement allowance will be approximately \$25.5 million and our total investment in the property will be \$31.0 million. As of September 30, 2019, we incurred approximately \$9.8 million of the redevelopment costs, of which \$9.5 million was funded.

In September 2019, we entered into an amendment to our lease with a wholly owned subsidiary of AWH at one of our Illinois properties, making available an additional \$8.0 million in funding for further expansion of cannabis cultivation and processing facilities at the property. Assuming full payment of the additional funding, our total tenant improvement allowance will be \$14.0 million and our total investment in the property will be \$33.0 million. As of September 30, 2019, we incurred approximately \$10.7 million of the redevelopment costs, of which \$4.5 million was funded.

In September 2019, we entered into an amendment to our lease with Holistic Industries, Inc. ("Holistic") at one of our Massachusetts properties, making available up to \$2.0 million in reimbursement for tenant improvements at the property, which is subject to reduction at the tenant's option before March 31, 2020. Assuming full payment of the additional funding, our total investment in the property will be approximately \$14.8 million. As of September 30, 2019, no amounts have been incurred.

In September 2019, we entered into amendments to our lease and development agreement with a subsidiary of PharmaCann at one of our Massachusetts properties, making available an additional \$8.0 million in construction funding for further expansion of cannabis cultivation and processing facilities at the property. Assuming full payment of the additional funding, our total construction funding will be \$23.5 million and our total investment in the property will be \$26.5 million. As of September 30, 2019, we incurred approximately \$17.3 million of the redevelopment costs, of which \$16.5 million was funded.

In September 2019, we entered into an amendment to our lease with a subsidiary of Vireo Health, Inc. at our Minnesota property, making available an additional \$2.6 million in reimbursement for tenant improvements at the property. Assuming full payment of the additional funding, our total tenant improvements will be approximately \$5.6 million and our total investment in the property will be \$8.6 million. As of September 30, 2019, we incurred approximately \$3.8 million of the redevelopment costs, of which \$3.5 million was funded.

Including all of our properties, during the nine months ended September 30, 2019, we capitalized costs of approximately \$54.0 million relating to tenant improvements and construction activities at our properties.

7. Exchangeable Senior Notes

In February 2019, our Operating Partnership issued \$143.75 million of 3.75% Exchangeable Senior Notes due 2024 (the “Exchangeable Senior Notes”) in a private offering, including the exercise in full of the initial purchasers’ option to purchase additional Notes. The Exchangeable Senior 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 exchange rate for the Exchangeable Senior Notes at September 30, 2019 was 14.37298 shares of our common stock per \$1,000 principal amount of Notes and the exchange price at September 30, 2019 was approximately \$69.575 per share of our common stock. The exchange rate and exchange price are subject to adjustment in certain circumstances. The Exchangeable Senior 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 Exchangeable Senior Notes prior to maturity, but may be required to repurchase the Exchangeable Senior Notes from holders under certain circumstances. As of September 30, 2019, we have the intent and ability to settle the Exchangeable Senior Notes in cash.

Upon our issuance of the Exchangeable Senior Notes, we recorded an approximately \$5.8 million discount based on the implied value of the exchange option and an assumed effective interest rate of 4.65%, as well as approximately \$5.2 million of initial issuance costs, of which approximately \$5.0 million and \$200,000 were allocated to the liability and equity components, respectively, based on their relative fair values. Issuance costs allocated to the liability component are being amortized using the effective interest method and recognized as non-cash interest expense over the expected term of the Exchangeable Senior Notes.

The following table details our interest expense related to the Exchangeable Senior Notes (in thousands):

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Cash coupon	\$ 1,349	\$ 3,281
Amortization of debt discount	262	632
Amortization of issuance costs	227	549
Total interest expense	<u>\$ 1,838</u>	<u>\$ 4,462</u>

The following table details the carrying value of our Exchangeable Senior Notes on our condensed consolidated balance sheets (in thousands):

	September 30, 2019
Principal amount	\$ 143,750
Unamortized discount	(5,144)
Unamortized issuance costs	(4,448)
Carrying value	<u>\$ 134,158</u>

Accrued interest payable for the Exchangeable Senior Notes was approximately \$225,000 as of September 30, 2019.

8. Net Income 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 September 30, 2019, all of the Company's participating securities received dividends at an equal dividend rate per share. As a result, distributions to participating securities for the three and nine months ended September 30, 2019 and 2018 have been included in net income attributable to common stockholders to calculate net income per basic and diluted share. As the Company has the intent and ability to settle the debt component of the Exchangeable Senior Notes in cash and the excess exchange premium in shares, the Company only includes the effect of the excess exchange premium in the calculation of diluted shares. For the three and nine months ended September 30, 2019, the effect of the excess exchange premium was anti-dilutive and therefore, excluded from the calculation of diluted shares. Computations of net income per basic and diluted share (in thousands, except share data) were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	\$ 6,520	\$ 1,832	\$ 13,573	\$ 4,319
Preferred stock dividend	(338)	(338)	(1,014)	(1,014)
Distribution to participating securities	(109)	(52)	(256)	(127)
Net income attributable to common stockholders used to compute net income per share	<u>\$ 6,073</u>	<u>\$ 1,442</u>	<u>\$ 12,303</u>	<u>\$ 3,178</u>
Weighted average common share outstanding:				
Basic	10,918,477	6,636,638	10,088,036	6,388,058
Diluted	11,057,697	6,785,800	10,225,574	6,534,300
Net income attributable to common stockholders per share:				
Basic	<u>\$ 0.56</u>	<u>\$ 0.22</u>	<u>\$ 1.22</u>	<u>\$ 0.50</u>
Diluted	<u>\$ 0.55</u>	<u>\$ 0.21</u>	<u>\$ 1.20</u>	<u>\$ 0.49</u>

9. 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.

The following table presents the carrying value in the condensed consolidated financial statements and approximate fair value of financial instruments at September 30, 2019 and December 31, 2018:

	September 30, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Short-term investments ⁽¹⁾	\$ 208,828	\$ 208,828	\$ 120,443	\$ 120,443
Exchangeable Senior Notes ⁽²⁾	\$ 134,158	\$ 207,000	\$ —	\$ —

(1) Short-term investments 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.

(2) The fair value is determined based upon Level 2 inputs as the Exchangeable Senior Notes were trading in the private market as of September 30, 2019.

At September 30, 2019, cash equivalent instruments consisted of \$27.0 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. Short-term investments consisting of certificate of deposits and obligations of the U.S. government are stated at amortized cost, which approximates their relative fair values due to the short-term maturities and market rates of interest of these instruments.

The carrying amounts of financial instruments such as cash equivalents invested in certificates of deposit, accounts payable, accrued expenses and other liabilities approximate their relative fair values due to the short-term maturities and market rates of interest of these instruments.

10. 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 from the date it was adopted by our board of directors.

A summary of the activity under the 2016 Plan and related information is included in the table below.

	Unvested Restricted Shares	Weighted-Average Grant Date Fair Value
Balance at December 31, 2018	147,359	\$ 23.98
Granted	54,745	\$ 55.19
Vested	(41,753)	\$ 26.21
Forfeited (1)	(20,717)	\$ 18.98
Balance at September 30, 2019	139,634	\$ 36.29

(1) Shares that were forfeited to cover the employees’ tax withholding obligation upon vesting.

The remaining unrecognized compensation cost of \$3.4 million will be recognized over a weighted-average amortization period of approximately 1.8 years as of September 30, 2019.

11. Commitments and Contingencies

Tenant Improvement Allowances. As of September 30, 2019, we had approximately \$49.0 million of commitments related to tenant improvement allowances, which generally may be requested by the tenants at any time up until a date that is near the expiration of the initial term of the applicable lease.

Construction Funding. As of September 30, 2019, we had approximately \$6.2 million, \$6.0 million and \$24.4 million of commitments relating to construction funding for the development of certain properties in Massachusetts, Ohio and Pennsylvania, which the tenant has agreed to use commercially reasonable efforts to complete by March 31, 2020, June 13, 2020 and February 9, 2021, respectively.

Additional Purchase Price. As of September 30, 2019, we had approximately \$57,000 of commitments relating to certain development milestones for a property in California, which the seller is required to complete by December 31, 2019.

Office and Equipment Leases. As of September 30, 2019, we had approximately \$98,000 outstanding in commitments related to our office and equipment leases, with approximately \$23,000 to be paid in the remainder of 2019 and approximately \$75,000 to be paid in 2020.

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.

12. Subsequent Events

In October 2019, we sold 485,300 shares of our common stock for net proceeds of approximately \$41.3 million under our ATM Program.

In October 2019, we executed a lease amendment for our principal executive offices with our current landlord, pursuant to which we agreed to lease a larger space comprising approximately 6,000 rentable square feet for a term of five years and four months, with one option to extend the term of the lease for an additional five years. Subject to a base rent abatement, the initial annual base rent is approximately \$228,000, subject to an annual adjustment of three percent during the initial term.

Subsequent to September 30, 2019, the Company acquired the following properties, including commitments to fund tenant improvements and construction (dollars in thousands):

Property	Market	Closing Date	Rentable Square Feet (1)	Purchase Price	Tenant Improvement and Construction Commitments	Total (2)
LivWell MI	Michigan	October 9, 2019	156,000	\$ 19,000	\$ 23,000	\$ 42,000
Cresco IL Portfolio	Illinois	October 22, 2019	90,000	\$ 32,800	\$ 13,750	\$ 46,550(3)
Trulieve FL	Florida	October 23, 2019	120,000	\$ 17,000	\$ —	\$ 17,000
GPI MI - Retail Portfolio	Michigan	Various	27,000	\$ 7,775	\$ 1,245	\$ 9,020(4)
PharmaCann IL	Illinois	October 30, 2019	66,000	\$ 18,000	\$ 7,000	\$ 25,000(5)
Grassroots IL	Illinois	October 30, 2019	120,000	\$ 10,500	\$ —	\$ 10,500(6)
Total			579,000	\$ 105,075	\$ 44,995	\$ 150,070

(1) Includes expected rentable square feet at completion of construction of certain properties.

(2) Excludes transaction costs.

(3) Includes two properties comprising approximately 39,000 and 51,000 rentable square feet.

(4) Portfolio consists of four properties, with one property closing on October 25, 2019 and the remaining three properties closing on November 4, 2019.

(5) Tenant improvements include funding for the construction of an approximately 18,000 square foot expansion.

(6) Tenant improvements exclude funding for the construction of an approximately 50,000 square foot expansion of approximately \$10.7 million and \$7.0 million, which are subject to reduction at the tenant's option before April 30, 2020 and July 30, 2020, respectively.

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

The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto appearing elsewhere in this report. We make statements in this report that are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. In particular, statements pertaining to our capital resources, portfolio performance and results of operations contain forward-looking statements. Likewise, 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. You can also identify forward-looking statements 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: our business and investment strategy; our projected operating results; 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 and processing adult-use cannabis in our 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 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; 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 REIT for U.S. federal income tax purposes; our ability to maintain our exemption from registration under the Investment Company Act of 1940; availability of qualified personnel; and market trends in our industry, interest rates, real estate values, the securities markets or the general economy.

The risks included here are not exhaustive, and additional factors could adversely affect our business and financial performance, including factors and risks included in other sections of this report. In addition, we discussed a number of material risks in our Annual Report on Form 10-K for the year ended December 31, 2018, in Part II, Item 1A of our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2019 and June 30, 2019 and in Part II, Item 1A below. Those risks continue to be relevant to our performance and financial condition. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on our Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Any forward-looking statement made by us speaks only of the date on which we make it. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by law. Stockholders and investors are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in the Company's filings and reports.

The purpose of this Management's Discussion and Analysis ("MD&A") is to provide an understanding of the Company's consolidated financial condition, results of operations and cash. MD&A is provided as a supplement to, and should be read in conjunction with, the Company's condensed consolidated financial statements and accompanying notes.

Overview

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 (the “Operating Partnership”).

We are an internally-managed REIT focused on the acquisition, ownership and management of specialized 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 subsidiaries, 100% of the limited partnership interests in our Operating Partnership. As of September 30, 2019, we had eleven full-time employees.

As of September 30, 2019, we owned 31 properties located in Arizona, California, Colorado, Illinois, Maryland, Massachusetts, Michigan, Minnesota, Nevada, New York, Ohio and Pennsylvania, totaling approximately 2.2 million rentable square feet (including approximately 687,000 rentable square feet under development/redevelopment), which were 100% leased with a weighted-average remaining lease term of approximately 16.0 years. As of September 30, 2019, we had invested an aggregate of \$298.7 million (consisting of purchase price, and development and tenant reimbursement commitments funded, if any, but excluding transaction costs) and had committed an additional \$100.4 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 Jumpstart Our Business Startups Act of 2012 (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 of 2002 (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 until the last day of the fiscal year following the fifth anniversary of the completion of our initial public offering 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 Securities Exchange Act of 1934, as amended (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. Based on the market value of our common stock held by non-affiliates as of June 30, 2019, we expect to cease to be an emerging growth company effective as of December 31, 2019.

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 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 federal law and 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, drought, 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, hard money lenders and other real estate investors, as well as potential tenants (cannabis operators themselves), all of whom may compete with us in our efforts to acquire real estate zoned for cannabis 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, stock-based compensation, and legal, accounting, and other expenses related to corporate governance, public reporting and compliance with the various provisions of U.S. securities laws. We generally 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

We acquired the following properties during the nine months ended September 30, 2019 (dollars in thousands):

Property	Market	Closing Date	Rentable Square Feet (1)	Initial Purchase Price	Transaction Costs	Total
Sacramento CA	California	February 8, 2019	43,000	\$ 6,664	\$ 35	\$ 6,699(2)
PharmaCann OH	Ohio	March 13, 2019	58,000	700	11	711(3)
Southern CA Portfolio	California	April 16, 2019	102,000	27,097	51	27,148
Maitri PA	Pennsylvania	April 24, 2019	51,000	6,250	234	6,484(4)
Vireo OH	Ohio	May 14, 2019	11,000	1,018	18	1,036(5)
Green Leaf PA	Pennsylvania	May 20, 2019	266,000	13,000	207	13,207
Emerald Growth MI	Michigan	June 7, 2019	45,000	6,860	18	6,878(6)
Ascend MI	Michigan	July 2, 2019	145,000	4,750	18	4,768(7)
MJardin NV	Nevada	July 12, 2019	43,000	3,830	26	3,856(8)
DYME CA	California	July 23, 2019	35,000	13,000	19	13,019(9)
Trulieve MA	Massachusetts	July 26, 2019	150,000	3,500	25	3,525(10)
PharmaCann PA	Pennsylvania	August 9, 2019	54,000	942	12	954(11)
Vertical CA Portfolio	California	Various	79,000	17,300	32	17,332(12)
The Pharm AZ – Retail	Arizona	September 19, 2019	2,000	2,000	27	2,027(13)
Total			1,084,000	\$ 106,911	\$ 733	\$ 107,644

- (1) Includes expected rentable square feet at completion of construction of certain properties.
- (2) The seller of the property is expected to complete redevelopment of the property, for which we have agreed to provide reimbursement of up to approximately \$4.8 million as additional purchase price. As of September 30, 2019, we incurred and funded approximately \$4.7 million of the additional purchase price.
- (3) Concurrent with the closing, we entered into a long-term lease and development agreement with a subsidiary of PharmaCann, which is expected to construct two buildings at the property, for which we have agreed to provide reimbursement of up to \$19.3 million. As of September 30, 2019, we incurred approximately \$13.2 million of the development costs, of which we funded approximately \$11.9 million.
- (4) The tenant is expected to complete redevelopment of the property for which we have agreed to provide reimbursement of up to \$10.0 million. As of September 30, 2019, we incurred approximately \$1.7 million of the redevelopment costs, of which we funded approximately \$694,000.
- (5) The tenant is expected to complete redevelopment of the property for which we have agreed to provide reimbursement of up to approximately \$2.6 million. As of September 30, 2019, we incurred approximately \$2.4 million of the redevelopment costs, of which we funded approximately \$2.2 million.
- (6) The tenant is expected to complete redevelopment of the property for which we have agreed to provide reimbursement of up to approximately \$3.1 million. As of September 30, 2019, we incurred approximately \$2.6 million of the redevelopment costs, of which we funded approximately \$2.4 million.
- (7) The tenant is expected to complete redevelopment of the property for which we have agreed to provide reimbursement of up to \$15.0 million. As of September 30, 2019, we incurred approximately \$261,000, of which no amount was funded.
- (8) The tenant is expected to complete redevelopment of the property for which we have agreed to provide reimbursement of up to approximately \$5.8 million. As of September 30, 2019, we incurred approximately \$2.8 million of the redevelopment costs, of which we funded approximately \$2.4 million.
- (9) The tenant is expected to complete redevelopment of the property for which we have agreed to provide reimbursement of up to \$2.0 million. As of September 30, 2019, no amount has been incurred.
- (10) The tenant is expected to complete redevelopment of the property for which we have agreed to provide reimbursement of up to \$40.0 million, which funding is subject to reduction at the tenant's option within the first six months of the lease term. As of September 30, 2019, the tenant has not submitted any request for reimbursement.

- (11) Concurrent with the closing, we entered into a long-term lease and development agreement with a subsidiary of PharmaCann, which is expected to construct two buildings at the property, for which we have agreed to provide reimbursement of up to \$25.1 million. The construction funding may be increased by up to an additional \$4.0 million at PharmaCann's election within the first nine months of the lease term, subject to the satisfaction of certain conditions. As of September 30, 2019, we incurred approximately \$706,000 of the development costs, of which no amount was funded.
- (12) Portfolio consists of four properties, with three properties closing on August 29, 2019 and the remaining property closing on September 11, 2019.
- (13) The tenant is expected to complete development of the property for which we have agreed to provide reimbursement of up to \$500,000. As of September 30, 2019, we incurred approximately \$310,000 of the development costs, of which no amount was funded.

In addition, in June 2019, we entered into an amendment to our lease with GPI at one of our Michigan properties, making available an additional \$18.0 million in funding for further expansion of cannabis cultivation and processing facilities at the property. Assuming full payment of the additional funding, our total tenant improvement allowance will be approximately \$25.5 million and our total investment in the property will be \$31.0 million. As of September 30, 2019, we incurred approximately \$9.8 million of the redevelopment costs, of which \$9.5 million was funded.

In September 2019, we entered into an amendment to our lease with a wholly owned subsidiary of AWH at one of our Illinois properties, making available an additional \$8.0 million in funding for further expansion of cannabis cultivation and processing facilities at the property. Assuming full payment of the additional funding, our total tenant improvement allowance will be \$14.0 million and our total investment in the property will be \$33.0 million. As of September 30, 2019, we incurred approximately \$10.7 million of the redevelopment costs, of which \$4.5 million was funded.

In September 2019, we entered into an amendment to our lease with Holistic at one of our Massachusetts properties, making available up to \$2.0 million in reimbursement for tenant improvements at the property, which is subject to reduction at the tenant's option before March 31, 2020. Assuming full payment of the additional funding, our total investment in the property will be approximately \$14.8 million. As of September 30, 2019, no amounts have been incurred.

In September 2019, we entered into amendments to our lease and development agreement with a subsidiary of PharmaCann at one of our Massachusetts properties, making available an additional \$8.0 million in construction funding for further expansion of cannabis cultivation and processing facilities at the property. Assuming full payment of the additional funding, our total construction funding will be \$23.5 million and our total investment in the property will be \$26.5 million. As of September 30, 2019, we incurred approximately \$17.3 million of the redevelopment costs, of which \$16.5 million was funded.

In September 2019, we entered into an amendment to our lease with a subsidiary of Vireo Health, Inc. at our Minnesota property, making available an additional \$2.6 million in reimbursement for tenant improvements at the property. Assuming full payment of the additional funding, our total tenant improvements will be approximately \$5.6 million and our total investment in the property will be \$8.6 million. As of September 30, 2019, we incurred approximately \$3.8 million of the redevelopment costs, of which \$3.5 million was funded.

Comparison of the Three and Nine Months Ended September 30, 2019 and 2018

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues:				
Rental	\$ 11,198	\$ 3,716	\$ 26,054	\$ 9,639
Tenant reimbursements	357	210	941	365
Total revenues	11,555	3,926	26,995	10,004
Expenses:				
Property expenses	357	210	941	365
General and administrative expense	2,156	1,442	6,667	4,393
Depreciation expense	2,221	703	5,054	1,715
Total expenses	4,734	2,355	12,662	6,473
Income from operations	6,821	1,571	14,333	3,531
Interest and other income	1,537	261	3,702	788
Interest expense	(1,838)	—	(4,462)	—
Net income	6,520	1,832	13,573	4,319
Preferred stock dividend	(338)	(338)	(1,014)	(1,014)
Net income attributable to common stockholders	\$ 6,182	\$ 1,494	\$ 12,559	\$ 3,305

Revenues.

Rental. Rental revenues for the three months ended September 30, 2019 increased by approximately \$7.5 million, or 201%, to approximately \$11.2 million, compared to approximately \$3.7 million for the three months ended September 30, 2018. Rental revenues for the nine months ended September 30, 2019 increased by approximately \$16.4 million, or 170%, to approximately \$26.1 million, compared to approximately \$9.6 million for the nine months ended September 30, 2018. The increase in rental revenues for both periods was related to rent and property management fees generated from leases for properties we acquired in 2018 and 2019, as well as annual escalations of base rent on certain leases and amendments to certain leases to increase tenant improvement allowances at the properties, which resulted in corresponding increases to base rent.

Tenant Reimbursements. Tenant reimbursements related to reimbursements by tenants for property insurance premiums and property tax paid at certain properties.

Expenses.

Property Expense. Property expense related to property insurance premiums and property tax paid at certain of our properties, which were reimbursed by the tenants.

General and Administrative Expense. General and administrative expense for the three months ended September 30, 2019 increased by approximately \$714,000 to approximately \$2.2 million, compared to \$1.4 million for the three months ended September 30, 2018. General and administrative expense for the nine months ended September 30, 2019 increased by approximately \$2.3 million to approximately \$6.7 million, compared to \$4.4 million for the nine months ended September 30, 2018. The increase in general and administrative expense was primarily due to higher compensation to employees, the hiring of additional employees and higher public company costs, travel and occupancy costs. Compensation expense for the three and nine months ended September 30, 2019 included approximately \$655,000 and \$1.8 million, respectively, of non-cash stock-based compensation. Compensation expense for the three and nine months ended September 30, 2018 included approximately \$386,000 and \$1.1 million, respectively, of non-cash stock-based compensation.

Depreciation Expense. The increase in depreciation expense was related to depreciation on properties that we acquired and the placement into service of construction and tenant improvements at certain of our properties.

Interest and Other Income. The increase in interest and other income is primarily due to higher interest bearing investments resulting from proceeds from our common stock offerings and issuance of our Exchangeable Senior Notes.

Interest Expense. Interest expense related to our Exchangeable Senior Notes issued in February 2019.

Cash Flows

Comparison of the Nine Months Ended September 30, 2019 and 2018

	Nine Months Ended September 30,		Change
	2019	2018	
Net cash provided by operating activities	\$ 25,086	\$ 9,551	\$ 15,535
Net cash used in investing activities	(237,426)	(41,948)	(195,478)
Net cash provided by financing activities	308,561	73,658	234,903
Ending cash, cash equivalents and restricted cash balance	109,271	53,019	56,252

Operating Activities

Cash flows provided by operating activities for the nine months ended September 30, 2019 and 2018 were approximately \$25.1 million and \$9.6 million, respectively. Cash flows provided by operating activities were generally from contractual rent and security deposits from our properties, partially offset by our general and administrative expense.

Investing Activities

Cash flows used in investing activities for the nine months ended September 30, 2019 were approximately \$237.4 million, of which approximately \$151.4 million related to the purchases of investments in real estate and funding of a portion of the tenant improvement allowances and construction funding at our properties, approximately \$500,000 related to deposits to escrow for acquisitions, and approximately \$85.5 million related to net purchases and maturities of short-term investments. Cash flows used in investing activities for the nine months ended September 30, 2018 were approximately \$42.0 million, of which approximately \$38.3 million primarily related to the purchase of investment in real estate and funding of a portion of the tenant improvement allowances and construction funding at our properties, and the remaining approximately \$3.7 million related to the net purchases and maturities of short-term investments.

Financing Activities

Net cash provided by financing activities of approximately \$308.6 million during the nine months ended September 30, 2019 was the result of approximately \$138.5 million in net proceeds from the issuance of our Exchangeable Senior Notes, \$180.1 million in net proceeds from the follow-on issuance of shares of our common stock in July, and \$5.6 million in net proceeds from the issuance of shares of our common stock pursuant to our ATM Program in September, partially offset by dividend payments of approximately \$14.7 million to common and preferred stockholders and approximately \$939,000 related to net share settlement of equity awards to pay the required withholding taxes upon vesting of restricted stock for certain employees.

Net cash provided by financing activities of approximately \$73.7 million during the nine months ended September 30, 2018 was the result of approximately \$79.3 million in net proceeds from the sale of 3,220,000 shares of common stock, offset by dividend payments of approximately \$5.3 million to common and preferred stockholders and approximately \$390,000 related to net share settlement of equity awards to satisfy withholding taxes upon vesting of restricted stock for certain employees.

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, make interest payments on our Exchangeable Senior Notes, fund our operations, 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, service our Exchangeable Senior Notes and invest 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 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, resulting in net proceeds of approximately \$138.5 million, after deducting the initial purchasers' discounts and offering expenses.

In July 2019, we issued 1,495,000 shares of common stock, including the exercise in full of the underwriters' option to purchase an additional 195,000 shares, resulting in net proceeds of approximately \$180.1 million.

In September 2019, we entered into equity distribution agreements with three sales agents, pursuant to which we may offer and sell from time to time through an "at-the-market" offering program, or ATM Program, up to \$250.0 million in shares of our common stock. In September, we sold 63,000 shares of our common stock for net proceeds of approximately \$5.6 million under the ATM Program. In October, we sold 485,300 shares of our common stock for net proceeds of approximately \$41.3 million under the ATM Program. As of November 7, 2019, we had approximately \$201.9 million in shares of common stock available for future issuance under the ATM Program.

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.

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. 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.

Contractual Obligations

As of September 30, 2019, we had approximately \$49.0 million outstanding in commitments related to tenant improvement allowances, which generally may be requested by the tenants at any time up until a date that is near the expiration of the initial term of the applicable lease, approximately \$6.2 million, \$6.0 million and \$24.4 million of commitments relating to construction funding for the development of the properties in Massachusetts, Ohio and Pennsylvania, which the tenant has agreed to use commercially reasonable efforts to complete by March 31, 2020, June 13, 2020 and February 9, 2021, respectively, and approximately \$57,000 of commitments relating to certain development milestones for the property in California, which the seller is required to complete by December 31, 2019. Additionally, we had approximately \$98,000 outstanding in commitments related to our office and equipment leases, with approximately \$23,000 to be paid in the remainder of 2019 and approximately \$75,000 to be paid in 2020.

In October 2019, we executed a lease amendment for our principal executive offices with our current landlord, pursuant to which we agreed to lease a larger space comprising approximately 6,000 rentable square feet for a term of five years and four months, with one option to extend the term of the lease for an additional five years. Subject to a base rent abatement, the initial annual base rent is approximately \$228,000, subject to an annual adjustment of three percent during the initial term.

Subsequent to September 30, 2019, we acquired ten properties for purchase prices totaling approximately \$105.1 million and committed to providing additional reimbursements for tenant improvements and construction funding totaling approximately \$45.0 million, which excludes approximately \$17.7 million that is subject to reduction at the tenant's option. See Note 12 in the accompanying notes to the condensed consolidated financial statements for more information.

Our Exchangeable Senior Notes require interest payments semiannually at a rate of 3.75% per annum and will mature on February 21, 2024.

Non-GAAP Financial Information and Other Metrics

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 and Adjusted Funds from Operations

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 accounting principles generally accepted in the United States (“GAAP”), excluding gains (or losses) from sales of property, plus depreciation and amortization related to real estate properties, and after adjustments for unconsolidated partnerships and joint ventures.”

Management believes that net income, 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 or infrequent or unpredictable expenses which may impact comparability, consisting of non-cash stock-based compensation expense and non-cash interest 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 (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 to FFO and AFFO for the three and nine months ended September 30, 2019 and 2018 (in thousands, except share and per share amounts):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income attributable to common stockholders	\$ 6,182	\$ 1,494	\$ 12,559	\$ 3,305
Real estate depreciation	2,221	703	5,054	1,715
FFO available to common stockholders	8,403	2,197	17,613	5,020
Stock-based compensation	655	386	1,841	1,079
Non-cash interest expense	489	—	1,181	—
AFFO available to common stockholders	\$ 9,547	\$ 2,583	\$ 20,635	\$ 6,099
FFO per share — basic	\$ 0.77	\$ 0.33	\$ 1.75	\$ 0.79
FFO per share — diluted	\$ 0.76	\$ 0.32	\$ 1.72	\$ 0.77
AFFO per share — basic	\$ 0.87	\$ 0.39	\$ 2.05	\$ 0.95
AFFO per share — diluted	\$ 0.86	\$ 0.38	\$ 2.02	\$ 0.93
Weighted average shares outstanding — basic	10,918,477	6,636,638	10,088,036	6,388,058
Weighted average shares outstanding — diluted	11,057,697	6,785,800	10,225,574	6,534,300

As the Company has the intent and ability to settle the debt component of the Exchangeable Senior Notes in cash and the excess exchange premium in shares, the Company only includes the effect of the excess exchange premium in the calculation of diluted shares. For the three and nine months ended September 30, 2019, the effect of the excess exchange premium was anti-dilutive and therefore, excluded from the calculation of diluted shares.

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 September 30, 2019, our average current yield on invested capital was approximately 14.5% for the 31 properties that we own, calculated as the sum of the current base rents (after the expiration of applicable base rent abatement or deferral periods), supplemental rent (with respect to the lease with PharmaCann at one of our New York properties) and property management fees of approximately \$57.7 million, divided by our aggregate investment in these properties of approximately \$399.1 million (excluding transaction costs and including the aggregate potential reimbursements to tenants and sellers for tenant improvements and development of \$100.4 million). These statistics do not include up to \$40.0 million that may be funded in the future pursuant to our lease with Trulieve Cannabis Corp. at one of our Massachusetts properties, the additional \$4.0 million which may be requested by PharmaCann at one of our Pennsylvania properties or \$2.0 million that may be funded in the future pursuant to our lease with Holistic at one of our Massachusetts properties, as the tenants at those properties may not elect to have us disburse those funds to them and pay us the corresponding base rent on those funds.

Critical Accounting Policies

Our condensed 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 condensed 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 condensed 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. We may adjust depreciation of properties that are expected to be disposed of or redeveloped prior to the end of their useful lives.

Exchangeable Senior Notes

The initial proceeds from the sale of our exchangeable senior notes are allocated between a liability component and an equity component in a manner that reflects interest expense at the rate of similar nonexchangeable debt that could have been issued at such time. The equity component represents the excess initial proceeds received over the fair value of the liability component of the notes as of the date of issuance. We measured the estimated fair value of the debt component of our exchangeable senior notes as of the respective issuance dates based on our nonexchangeable debt borrowing rate with the assistance of a third party valuation specialist. The equity component of our exchangeable senior notes is reflected within additional paid-in capital on our condensed consolidated balance sheets, and the resulting debt discount is amortized over the period during which the exchangeable senior notes are expected to be outstanding (through the maturity date) as additional non-cash interest expense.

Revenue Recognition and Accounts Receivable

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 are currently 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.

Federal 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. 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. As we intend to maintain dividends at a level sufficient to meet the REIT distribution requirements, we will continue to evaluate whether the current levels of distribution are sufficient to do so throughout 2019.

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 of 1933, as amended, 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. We will cease being an emerging growth company on December 31, 2019, and, as a result, we will no longer be eligible to delay adoption of such new or revised accounting pronouncements applicable to public companies.

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 September 30, 2019, we had approximately \$143.75 million of Exchangeable Senior Notes outstanding at a fixed interest rate, and therefore, if interest rates decline, our required payments may exceed those based on current market rates. 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 enter into leases that generally provide for limited increases in rent as a result of increases in the U.S. Consumer Price Index (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

Our business has not been, and we do not expect our business in the future to be, subject to material seasonal fluctuations.

ITEM 3. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our principal executive and 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 financial officers have concluded that such disclosure controls and procedures were effective as of September 30, 2019 (the end of the period covered by this Quarterly Report).

Changes in Internal Control Over Financial Reporting

There have been no changes in our system of internal control over financial reporting during the quarter ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. 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 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018, and in Part II, "Item 1A. Risk Factors" in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2019 and June 30, 2019, which could materially affect our business, financial condition and/or results of operations. Except to the extent updated below or to the extent additional factual information disclosed elsewhere in these Quarterly Reports on Form 10-Q relates to such risk factors, there have been no material changes to the risk factors described in the "Risk Factors" section in our Annual Report on Form 10-K for year ended December 31, 2018. The risks as updated below and as described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or results of operations.

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 of 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, including cash received from debt financings.

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, in California, the state licensing program is in its early stages, with significant delays in its rollout, and the illicit market for cannabis in California remains a much larger portion of overall sales in the state.

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 (for more information, 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” of our Annual Report on Form 10-K for the year ended December 31, 2018 incorporated by reference herein).

Some of our tenants may be subject to significant debt obligations and may rely on debt financing to make rent payments to us. 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. On October 29, 2019, a court appointed a receiver over all property and assets of the tenant at our Los Angeles, California property. As a result, that tenant may default on its lease payments to us.

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 and our tenants may have difficulty accessing the service of banks and other financial institutions, 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. Only a small percentage of financial institutions in the United States currently provide banking services to licensed cannabis operators. 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.

In addition, for our tenants that are publicly traded companies, securities clearing firms may refuse to accept deposits of securities of those tenants, which may negatively impact the trading and valuations of such tenants and have a material adverse impact on our tenants' ability to finance their operations and growth through the capital markets.

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.

For example, in connection with the Centers for Disease Control and Prevention identifying cases of vaping-related lung injuries, certain state and local governments have instituted bans, including the Commonwealth of Massachusetts, which initiated a temporary four-month ban on the sale of vaping products. In addition to litigation and reputational risks surrounding vaping-related lung injuries, this ban and other such bans or heightened regulations, especially if they become permanent, could have a material adverse impact on our tenants' operations in those states and localities where such a ban or other restrictive regulation has been implemented.

ITEM 2. *UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS*

None.

ITEM 3. *DEFAULTS UPON SENIOR SECURITIES*

None.

ITEM 4. *MINE SAFETY DISCLOSURES*

Not applicable.

ITEM 5. *OTHER INFORMATION*

None.

ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit
<u>1.1</u>	<u>Form of Equity Distribution Agreement, dated as of September 20, 2019, between Innovative Industrial Properties, Inc., IIP Operating Partnership, LP and each sales agent.(1)</u>
<u>10.1</u>	<u>Lease Agreement, dated as of August 9, 2019, between IIP-PA 4 LLC and PharmaCann Penn Plant LLC.(2)</u>
<u>10.2</u>	<u>Development Agreement, dated as of August 9, 2019, between PharmaCann Penn Plant LLC, IIP-PA 4 LLC and IIP Operating Partnership, LP.(2)</u>
<u>10.3</u>	<u>Multi-Party PA Agreement, dated as of August 9, 2019, between IIP-PA 4 LLC, PharmaCann Penn Plant LLC, MedMen Enterprises, Inc.(2)</u>
<u>10.4</u>	<u>Second Amendment dated September 24, 2019 to Lease Agreement dated May 31, 2018 between IIP-MA 1 LLC and PharmaCann Massachusetts Inc.(3)</u>
<u>10.5</u>	<u>First Amendment dated July 26, 2019 to Development Agreement dated May 31, 2018 between IIP-MA 1 LLC, IIP Operating Partnership, LP and PharmaCann Massachusetts Inc.(3)</u>
<u>10.6</u>	<u>Second Amendment dated September 24, 2019 to Development Agreement dated May 31, 2018 between IIP-MA 1 LLC, IIP Operating Partnership, LP and PharmaCann Massachusetts Inc.(3)</u>
<u>10.7</u>	<u>Lease Agreement, dated as of October 30, 2019, between IIP-IL3 LLC and PharmaCann LLC.(4)</u>
<u>10.8</u>	<u>Development Agreement, dated as of October 30, 2019, between PharmaCann LLC, IIP-IL3 LLC and IIP Operating Partnership, LP.(4)</u>
<u>31.1*</u>	<u>Certifications of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>31.2*</u>	<u>Certifications of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.1*</u>	<u>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.</u>
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 by reference to Innovative Industrial Properties, Inc.'s Current Report on Form 8-K filed with the SEC on September 20, 2019.
- (2) Incorporated by reference to Innovative Industrial Properties, Inc.'s Current Report on Form 8-K filed with the SEC on August 12, 2019.
- (3) Incorporated by reference to Innovative Industrial Properties, Inc.'s Current Report on Form 8-K filed with the SEC on September 25, 2019.
- (4) Incorporated by reference to Innovative Industrial Properties, Inc.'s Current Report on Form 8-K filed with the SEC on November 5, 2019.

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 November 7, 2019

Innovative Industrial Properties, Inc.
Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Paul Smithers, certify that:

- 1) I have reviewed this Quarterly Report on Form 10-Q 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: November 7, 2019

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

Innovative Industrial Properties, Inc.
Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Catherine Hastings, certify that:

- 1) I have reviewed this Quarterly Report on Form 10-Q 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: November 7, 2019

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

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 Quarterly Report on Form 10-Q of Innovative Industrial Properties, Inc. (the "Company") for the period ended September 30, 2019, 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.

November 7, 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
