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, 2020**

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _________ TO _________**

Commission file number: 001-37949

Innovative Industrial Properties, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Maryland	**81-2963381**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1389 Center Drive, Suite 200 **Park City, UT 84098**	**(858) 997-3332**
(Address of principal executive offices)	(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 5, 2020 there were 22,174,428 shares of common stock outstanding.

INNOVATIVE INDUSTRIAL PROPERTIES, INC.

FORM 10-Q – QUARTERLY REPORT
SEPTEMBER 30, 2020
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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, 2020	December 31, 2019
Assets		
Real estate, at cost:		
Land	$ 68,033	$ 48,652
Buildings and improvements	575,529	382,035
Tenant improvements	272,934	87,344
Total real estate, at cost	916,496	518,031
Less accumulated depreciation	(31,469)	(12,170)
Net real estate held for investment	885,027	505,861
Cash and cash equivalents	161,074	82,244
Restricted cash	—	35,072
Short-term investments, net	451,178	119,595
Right of use office lease asset	1,035	1,202
Other assets, net	1,536	1,883
Total assets	$ 1,499,850	$ 745,857
Liabilities and stockholders' equity		
Exchangeable senior notes, net	$ 136,174	$ 134,654
Tenant improvements and construction funding payable	30,583	24,968
Accounts payable and accrued expenses	1,336	3,417
Dividends payable	26,325	12,975
Office lease liability	1,113	1,202
Rent received in advance and tenant security deposits	34,323	20,631
Total liabilities	229,854	197,847
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, 2020 and December 31, 2019	14,009	14,009
Common stock, par value $0.001 per share, 50,000,000 shares authorized: 22,174,428 and 12,637,043 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively	22	13
Additional paid-in capital	1,295,352	553,932
Dividends in excess of earnings	(39,387)	(19,944)
Total stockholders' equity	1,269,996	548,010
Total liabilities and stockholders' equity	$ 1,499,850	$ 745,857

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,	
	2020	2019	2020	2019
Revenues:				
Rental (including tenant reimbursements)	$ 34,327	$ 11,555	$ 79,803	$ 26,995
Total revenues	34,327	11,555	79,803	26,995
Expenses:				
Property expenses	2,919	357	3,933	941
General and administrative expense	3,339	2,156	9,695	6,667
Depreciation expense	7,646	2,221	19,299	5,054
Total expenses	13,904	4,734	32,927	12,662
Income from operations	20,423	6,821	46,876	14,333
Interest and other income	653	1,537	3,086	3,702
Interest expense	(1,861)	(1,838)	(5,565)	(4,462)
Net income	19,215	6,520	44,397	13,573
Preferred stock dividend	(338)	(338)	(1,014)	(1,014)
Net income attributable to common stockholders	$ 18,877	$ 6,182	$ 43,383	$ 12,559
Net income attributable to common stockholders per share (Note 8):				
Basic	$ 0.87	$ 0.56	$ 2.35	$ 1.22
Diluted	$ 0.86	$ 0.55	$ 2.33	$ 1.20
Weighted average shares outstanding:				
Basic	21,594,637	10,918,477	18,315,231	10,088,036
Diluted	21,708,725	11,057,697	18,429,228	10,225,574

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, 2020						Three Months Ended September 30, 2019					
	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	18,614,561	$ 19	$ 988,220	$ (32,277)	$ 969,971	$ 14,009	9,809,171	$ 10	$ 266,356	$ (14,187)	$ 266,188
Net income	—	—	—	—	19,215	19,215	—	—	—	—	6,520	6,520
Net proceeds from sale of common stock	—	3,559,867	3	306,291	—	306,294	—	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	—	—	—	—	(25,987)	(25,987)	—	—	—	—	(8,866)	(8,866)
Stock-based compensation	—	—	—	841	—	841	—	—	—	655	—	655
Balances at end of period	$ 14,009	22,174,428	$ 22	$ 1,295,352	$ (39,387)	$ 1,269,996	$ 14,009	11,367,828	$ 11	$ 452,634	$ (16,871)	$ 449,783

	Nine Months Ended September 30, 2020						Nine Months Ended September 30, 2019					
	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	12,637,043	$ 13	$ 553,932	$ (19,944)	$ 548,010	$ 14,009	9,775,800	$ 10	$ 260,540	$ (10,267)	$ 264,292
Net income	—	—	—	—	44,397	44,397	—	—	—	—	13,573	13,573
Equity component of exchangeable senior notes	—	—	—	—	—	—	—	—	—	5,569	—	5,569
Issuance of exchangeable senior notes	—	14	—	1	—	1	—	—	—	—	—	—
Net proceeds from sale of common stock	—	9,548,866	9	741,097	—	741,106	—	1,558,000	1	185,623	—	185,624
Net issuance of unvested restricted stock	—	(11,495)	—	(2,166)	—	(2,166)	—	34,028	—	(939)	—	(939)
Preferred stock dividend	—	—	—	—	(1,014)	(1,014)	—	—	—	—	(1,014)	(1,014)
Common stock dividend	—	—	—	—	(62,826)	(62,826)	—	—	—	—	(19,163)	(19,163)
Stock-based compensation	—	—	—	2,488	—	2,488	—	—	—	1,841	—	1,841
Balances at end of period	$ 14,009	22,174,428	$ 22	$ 1,295,352	$ (39,387)	$ 1,269,996	$ 14,009	11,367,828	$ 11	$ 452,634	$ (16,871)	$ 449,783

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,	
	2020	2019
Cash flows from operating activities		
Net income	$ 44,397	$ 13,573
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	19,299	5,054
Other non-cash adjustments	139	—
Stock-based compensation	2,488	1,841
Amortization of discounts on short-term investments	(2,499)	(2,870)
Amortization of debt discounts and issuance costs	1,521	1,181
Changes in assets and liabilities		
Other assets, net	(364)	46
Accounts payable and accrued expenses	(2,095)	(924)
Rent received in advance and tenant security deposits	13,692	7,185
Net cash provided by operating activities	76,578	25,086
Cash flows from investing activities		
Purchases of investments in real estate	(182,086)	(107,644)
Reimbursements of tenant improvements and construction funding	(210,114)	(43,767)
Deposits in escrow for acquisitions	—	(500)
Purchases of short-term investments	(668,576)	(249,015)
Maturities of short-term investments	339,492	163,500
Net cash used in investing activities	(721,284)	(237,426)
Cash flows from financing activities		
Issuance of common stock, net of offering costs	741,120	185,687
Net proceeds from issuance of exchangeable senior notes	—	138,545
Dividends paid to common stockholders	(49,476)	(13,718)
Dividends paid to preferred stockholders	(1,014)	(1,014)
Taxes paid related to net share settlement of equity awards	(2,166)	(939)
Net cash provided by financing activities	688,464	308,561
Net increase in cash, cash equivalents and restricted cash	43,758	96,221
Cash, cash equivalents and restricted cash, beginning of period	117,316	13,050
Cash, cash equivalents and restricted cash, end of period	$ 161,074	109,271
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 5,391	$ 3,056
Supplemental disclosure of non-cash investing and financing activities:		
Accrual for reimbursements of tenant improvements and construction funding	$ 30,583	$ 12,700
Deposits applied for acquisitions	650	—
Accrual for common and preferred stock dividends declared	26,325	9,204
Accrual for stock issuance costs	14	62
Exchange of exchangeable senior notes	1	—

See accompanying notes to the condensed consolidated financial statements.

Innovative Industrial Properties, Inc.

Notes to the Condensed Consolidated Financial Statements
September 30, 2020
(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 state-licensed cannabis facilities. We have acquired and intend to continue to acquire our properties through sale-leaseback transactions and third-party purchases. We have leased and expect to continue to lease our properties on a triple-net lease basis, where the tenant is responsible for all aspects of and costs related to the property and its operation during the lease term, including structural repairs, maintenance, taxes and insurance.

We were incorporated in Maryland on June 15, 2016. We conduct our business through a traditional umbrella partnership real estate investment trust, or UPREIT structure, in which our properties are owned by our Operating Partnership, directly or through subsidiaries. We are the sole general partner of our Operating Partnership and own, directly or through 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, 2019. Any references to square footage or occupancy percentage, and any amounts derived from these values in these notes to the condensed consolidated financial statements, are outside the scope of our independent registered public accounting firm’s review.

The Company considered the impact of COVID-19 on its assumptions and estimates used and determined that there were no material adverse impacts on the Company's results of operations and financial position at September 30, 2020. A prolonged outbreak could have a material adverse impact on the financial results and business operations of the Company. See Note 6 for further discussion.

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, 2020.

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 condensed consolidated statements 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.

Reportable Segment. We are engaged in the business of providing real estate for the regulated cannabis industry. Our properties are similar in that they are leased to the state-licensed operators on a long-term triple-net basis, consist of improvements that are reusable and have similar economic characteristics. Our chief operating decision maker reviews financial information for our entire consolidated operations when making decisions related to assessing our operating performance. We have aggregated the properties into one reportable segment as the properties share similar long-term economic characteristics and have other similarities, including the fact that they are operated using consistent business strategies. The financial information disclosed herein represents all of the financial information related to our one reportable segment.

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 40 years. We depreciate tenant improvements at our buildings where we are considered the owner over the estimated useful lives of the improvements, which may not be limited by the terms of the related leases.

We depreciate office equipment and furniture and fixtures over estimated useful lives ranging from three to six years. We depreciate the leasehold improvements at our corporate office over the shorter of the estimated useful lives or the initial lease term.

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 nine months ended September 30, 2020 and 2019.

Revenue Recognition. Our leases are 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 record revenue for each of our properties on a cash basis due to the uncertain regulatory environment in the United States relating to the regulated cannabis industry and the uncertainty of collectability of lease payments from each tenant due to its limited operating history. Contractually obligated reimbursements from tenants for recoverable real estate taxes and operating expenses are included in rental revenue in the period when such costs are reimbursed by the tenants. Contractually obligated real estate taxes that are paid directly by the tenant to the tax authorities are not reflected in our condensed consolidated financial statements.

Cash and Cash Equivalents and Restricted Cash. We consider all highly-liquid investments with original maturities of three months or less to be cash equivalents. As of September 30, 2020 and December 31, 2019, $93.5 million and $60.1 million, respectively, were invested in short-term money market funds, obligations of the U.S. government and certificates of deposit with an original maturity at the time of purchase of less than or equal to three months.

Restricted cash relates to cash held in escrow for the reimbursement of tenant improvements in accordance with various lease agreements. As of September 30, 2020, all of the cash held was released from restriction.

Investments. Investments consist of obligations of the U.S. government and certificates of deposit 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 our Exchangeable Senior Notes (as defined below) were 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 Exchangeable Senior 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 date of issuance based on our estimated nonexchangeable debt borrowing rate with the assistance of a third-party valuation specialist as we do not have a history of borrowing arrangements and there is limited empirical data available related to the Company's industry due to the regulatory uncertainty of the cannabis market in which the Company's tenants operate. 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 awards 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 and dividend equivalents previously paid on these awards from retained earnings to compensation expense. Forfeitures are recognized as incurred.

Lease Accounting. As lessor for each of our real estate transactions involving the leaseback of the related property to the seller or affiliates of the seller, we determine whether these transactions qualify as sale and leaseback transactions under the accounting guidance. For these transactions, we consider various inputs and assumptions including, but not necessarily limited to, lease terms, renewal options, discount rates, and other rights and provisions in the purchase and sale agreement, lease and other documentation to determine whether control has been transferred to the Company or remains with the lessee. A transaction involving a sale leaseback will be treated as a purchase of a real estate property if it is considered to transfer control of the underlying asset from 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. These criteria also include estimates and assumptions regarding the fair value of the leased facilities, minimum lease payments, the economic useful life of the facilities, the existence of a purchase option, and certain other terms in the lease agreements. The lease accounting guidance requires accounting for a transaction as a financing in a sale leaseback when the seller-lessee is provided an option to purchase the property from the landlord at the tenant's option. All of our leases are classified as operating leases. Our tenant reimbursable revenue and property expenses are presented on a gross basis as rental revenue and as property expenses, respectively, on our condensed consolidated statements of income.

In April 2020, in response to the coronavirus pandemic and associated severe economic disruption, we amended leases at certain of our properties to provide for temporary base rent and property management fee deferrals through June 30, 2020. The FASB has issued additional guidance for companies to account for any coronavirus related rent concessions in the form of FASB staff and board members' remarks at the April 8, 2020 public meeting and the FASB staff question-and-answer document issued on April 10, 2020. We have elected the practical expedient which allows us to not have to evaluate whether concessions provided in response to coronavirus pandemic are lease modifications. This relief is subject to certain conditions being met, including ensuring the total remaining lease payments are substantially the same or less as compared to the original lease payments prior to the concession being granted.

Lease amendments that are not associated with the coronavirus pandemic are evaluated to determine if the modification grants the lessee an additional right-of-use not included in the original lease and if the lease payments increase commensurate with the standalone price of the additional right-of-use, adjusted for the circumstances of the particular contract. If both conditions are present, the lease amendment is accounted for as a new lease that is separate from the original lease.

One of our leases that was entered into prior to 2019 provides the lessee with a purchase option to purchase the leased property at the end of the initial lease term in September 2034, subject to the satisfaction of certain conditions. The purchase option provision allows the lessee to purchase the leased property at the greatest of (a) the fair value; (b) the value determined by dividing the then-current base rent by 8%; and (c) an amount equal to our gross investment in the property (including the purchase price at acquisition and any additional investment in the property made by us during the term of the lease), indexed to inflation. At September 30, 2020, our gross investment in the property with the purchase option was approximately $30.5 million. At September 30, 2020, the purchase option was not exercisable.

Our leases generally contain options to extend the lease terms at the prevailing market rate or at the expiring rental rate at the time of expiration. Certain of our leases provide the lessee with a right of first refusal or right of first offer in the event we market the leased property for sale.

Recent Accounting Pronouncements. 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, Leases. 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. These standards were effective for the Company on January 1, 2020 and did not have a material impact on our condensed consolidated financial statements.

Concentration of Credit Risk. As of September 30, 2020, we owned 63 properties located in Arizona, California, Colorado, Florida, Illinois, Maryland, Massachusetts, Michigan, Minnesota, Nevada, New Jersey, New York, North Dakota, Ohio, Pennsylvania and Virginia. The ability of any of our tenants to honor the terms of their leases is dependent upon the economic, regulatory, competition, natural and social factors affecting the community in which that tenant operates.

The following table sets forth the tenants in our portfolio that represented the largest percentage of our total rental revenue for each period presented, including tenant reimbursements:

	For the Three Months Ended September 30, 2020		For the Nine Months Ended September 30, 2020	
	Number of Leases	**Percentage of Rental Revenue**	**Number of Leases**	**Percentage of Rental Revenue**
PharmaCann Inc.[(1)]	5	16 %	5	19 %
Cresco Labs Inc.[(1)]	5	12 %	5	10 %
Ascend Wellness Holdings, LLC[(1)]	3	10 %	3	10 %
Holistic Industries Inc.[(1)]	4	6 %	4	6 %
Curaleaf Holdings, Inc.[(1)(2)]	4	6 %	4	6 %
Green Thumb Industries Inc.[(1)]	3	6 %	3	5 %
SH Parent, Inc. (Parallel) [(1)]	2	6 %	2	5 %

	For the Three Months Ended September 30, 2019		For the Nine Months Ended September 30, 2019	
	Number of Leases	**Percentage of Rental Revenue**	**Number of Leases**	**Percentage of Rental Revenue**
PharmaCann Inc.[(1)]	4	24 %	4	27 %
Ascend Wellness Holdings, LLC[(1)]	2	14 %	2	12 %
Vireo Health, Inc.[(1)]	4	9 %	4	10 %
Kings Garden Inc.[(1)]	5	8 %	5	6 %
Holistic Industries Inc.	1	7 %	1	8 %
Green Peak Industries, LLC	1	7 %	1	7 %
The Pharm, LLC[(1)]	2	6 %	2	8 %

(1) Includes leases with affiliates of the entity, for which the entity has provided a corporate guaranty.

(2) Curaleaf Holdings, Inc. acquired GR Companies, Inc. ("Grassroots") and executed corporate guaranties for our leases with Grassroots in August 2020.

At September 30, 2020, one of our properties in Michigan accounted for approximately 5% of our net real estate held for investment. At December 31, 2019, one of our properties in New York accounted for approximately 6% 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, 2020, we had cash accounts in excess of FDIC insured limits. We have not experienced any losses in such accounts.

3. Common Stock

As of September 30, 2020, the Company was authorized to issue up to 50,000,000 shares of common stock, par value $0.001 per share, and there were 22,174,428 shares of common stock issued and outstanding.

In January 2020, we issued 3,412,969 shares of common stock, including the exercise in full of the underwriters' option to purchase an additional 445,170 shares, resulting in net proceeds of approximately $239.6 million.

In May 2020, we issued 1,550,648 shares of common stock, including the exercise in full of the underwriter's option to purchase an additional 202,259 shares, resulting in net proceeds of approximately $114.9 million.

In July 2020, we issued 3,085,867 shares of common stock, including the exercise in full of the underwriters' option to purchase an additional 402,504 shares, resulting in net proceeds of approximately $248.2 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. During the three months ended September 30, 2020, we sold 474,000 shares of our common stock for net proceeds of approximately $58.1 million under the ATM Program, which includes the payment of approximately $1.2 million to one sales agent as commission for such sales. During the nine months ended September 30, 2020, we sold 1,499,382 shares of our common stock for net proceeds of approximately $138.4 million under the ATM Program, which includes the payment of approximately $2.8 million to one sales agent as commission for such sales.

4. Preferred Stock

As of September 30, 2020, 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, 2020:

Declaration Date	Security Class	Amount Per Share	Period Covered	Dividend Paid Date	Dividend Amount *(In thousands)*
March 13, 2020	Common Stock	$ 1.00	January 1, 2020 to March 31, 2020	April 15, 2020	$ 17,070
March 13, 2020	Series A preferred stock	$ 0.5625	January 15, 2020 to April 14, 2020	April 15, 2020	$ 338
June 15, 2020	Common Stock	$ 1.06	April 1, 2020 to June 30, 2020	July 15, 2020	$ 19,770
June 15, 2020	Series A preferred stock	$ 0.5625	April 15, 2020 to July 14, 2020	July 15, 2020	$ 338
September 15, 2020	Common Stock	$ 1.17	July 1, 2020 to September 30, 2020	October 15, 2020	$ 25,987
September 15, 2020	Series A preferred stock	$ 0.5625	July 15, 2020 to October 14, 2020	October 15, 2020	$ 338

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6. Investments in Real Estate

Acquisitions

The Company acquired the following properties during the nine months ended September 30, 2020 (dollars in thousands):

Property	Market	Closing Date	Rentable Square Feet[1]	Purchase Price	Transaction Costs	Total
Green Leaf VA	Virginia	January 15, 2020	82,000	$ 11,740	$ 73	$ 11,813 [2]
Cresco OH	Ohio	January 24, 2020	50,000	10,600	12	10,612 [3]
GTI OH	Ohio	January 31, 2020	21,000	2,900	27	2,927 [4]
LivWell CO - Retail Portfolio	Colorado	Various	8,000	3,300	27	3,327 [5]
GTI IL	Illinois	March 6, 2020	231,000	9,000	23	9,023 [6]
Parallel FL	Florida	March 11, 2020	373,000	35,300	26	35,326 [7]
Ascend MA	Massachusetts	April 2, 2020	199,000	26,750	20	26,770 [8]
Cresco MI	Michigan	April 22, 2020	115,000	5,000	16	5,016 [9]
Kings Garden CA	California	May 12, 2020	70,000	17,500	9	17,509
Holistic PA	Pennsylvania	June 10, 2020	108,000	8,870	12	8,882 [10]
Cresco MA	Massachusetts	June 30, 2020	118,000	7,750	14	7,764 [11]
Curaleaf NJ	New Jersey	July 13, 2020	111,000	5,500	59	5,559 [12]
Columbia Care NJ Cultivation	New Jersey	July 16, 2020	50,000	10,220	48	10,268 [13]
Columbia Care NJ Dispensary	New Jersey	July 16, 2020	4,000	2,165	7	2,172
Holistic MI	Michigan	September 1, 2020	63,000	6,200	11	6,211 [14]
Parallel FL Lakeland	Florida	September 18, 2020	220,000	19,550	7	19,557 [15]
Total			**1,823,000**	**$ 182,345**	**$ 391**	**$ 182,736** [16]

(1) Includes expected rentable square feet at completion of construction of certain properties.
(2) We agreed to provide reimbursement to the tenant for development at the property of up to approximately $8.0 million, all of which we incurred and funded as of September 30, 2020.
(3) The tenant is expected to complete redevelopment of the property for which we agreed to provide reimbursement of up to approximately $1.9 million. In June, we amended the lease, which increased the tenant improvement allowance by $1.0 million to a total of approximately $2.9 million. Assuming full payment of the tenant improvement allowance, our total investment in the property will be approximately $13.5 million. As of September 30, 2020, we incurred approximately $148,000 of the redevelopment costs, of which none was funded.
(4) The tenant is expected to complete redevelopment of the property for which we agreed to provide reimbursement of up to $4.3 million. Subsequent to September 30, 2020, on October 1, 2020, we amended this lease to increase the tenant improvement allowance by $25.0 million to a total of $29.3 million. As of September 30, 2020, we incurred approximately $4.4 million of the redevelopment costs, of which we funded approximately $4.3 million.
(5) The portfolio consists of two retail properties, with one property closing on February 19, 2020 and one property closing on February 21, 2020. The tenant is expected to complete tenant improvements at one of the properties, for which we agreed to provide reimbursement of up to $850,000. As of September 30, 2020, we incurred and funded approximately $49,000 of the redevelopment costs.
(6) The tenant is expected to complete redevelopment of the property for which we agreed to provide reimbursement of up to $41.0 million. As of September 30, 2020, we incurred approximately $19.6 million of the redevelopment costs, of which we funded approximately $18.5 million.
(7) The tenant is expected to complete redevelopment of the property for which we agreed to provide reimbursement of up to $8.2 million. As of September 30, 2020, we incurred approximately $3.0 million of the redevelopment costs, of which we funded approximately $2.1 million.
(8) The tenant is expected to complete redevelopment of the property for which we agreed to provide reimbursement of up to approximately $22.3 million. As of September 30, 2020, we incurred approximately $4.4 million of the redevelopment costs, of which we funded approximately $3.0 million.
(9) The tenant is expected to complete redevelopment of the property for which we agreed to provide reimbursement of up to $11.0 million. In June, we amended the lease, which increased the tenant improvement allowance by $16.0 million to a total of $27.0 million. As of September 30, 2020, we incurred approximately $596,000 of the redevelopment costs, of which no amount was funded.
(10) The tenant is expected to complete redevelopment of the property for which we agreed to provide reimbursement of up to approximately $6.4 million. As of September 30, 2020, we incurred approximately $4.0 million of the redevelopment costs, of which we funded approximately $2.7 million.

(11) The tenant is expected to complete redevelopment of the property for which we agreed to provide reimbursement of up to $21.0 million. As of September 30, 2020, we incurred approximately $59,000 of the redevelopment costs, of which no amount was funded.
(12) The tenant is expected to complete redevelopment of the property for which we agreed to provide reimbursement of up to $29.5 million. As of September 30, 2020, we incurred approximately $8.7 million of the redevelopment costs, of which we funded approximately $5.4 million.
(13) The tenant is expected to complete redevelopment of the property for which we agreed to provide reimbursement of up to $1.6 million. As of September 30, 2020, we incurred approximately $648,000 of the redevelopment costs, of which no amount was funded.
(14) The tenant is expected to complete redevelopment of the property for which we agreed to provide reimbursement of up to $18.8 million. As of September 30, 2020, we incurred approximately $628,000 of the redevelopment costs, of which no amount was funded.
(15) The tenant is expected to complete redevelopment of the property for which we agreed to provide reimbursement of up to approximately $36.9 million. As of September 30, 2020, we incurred approximately $57,000 of the redevelopment costs, of which no amount was funded.
(16) Approximately $19.4 million was allocated to land and approximately $163.3 million was allocated to buildings and improvements.

The properties acquired during the three and nine months ended September 30, 2020 generated approximately $778,000 and $15.2 million of rental revenue (including tenant reimbursements), respectively, and approximately $303,000 and $11.0 million of net operating income, respectively, after deducting property and depreciation expenses. The properties acquired during the three and nine months ended September 30, 2019 generated approximately $1.7 million and $6.6 million of rental revenue (including tenant reimbursements), respectively, and approximately $1.4 and $5.1 million of net operating income, respectively, after deducting property and depreciation expenses.

Lease Amendments

In January 2020, we amended our lease with Green Peak Industries, LLC (“GPI”) which, among other things, canceled the remaining tenant improvement allowance of approximately $15.2 million and adjusted the corresponding base rent. As of September 30, 2020, our total investment in the property was approximately $15.8 million.

In January 2020, we amended our lease with a subsidiary of Vireo Health, Inc. ("Vireo") at one of our Pennsylvania properties, making available an additional $4.5 million in funding for tenant improvements at the property. In April 2020, we amended the lease to decrease the funding for tenant improvements at the property by $300,000. In August 2020, Vireo transferred its ownership interest in the subsidiary tenant at the property to Jushi Holdings Inc. ("Jushi"), and we amended the lease to increase the funding for tenant improvements at the property by $2.0 million. As a result, the total tenant improvement allowance for the property is approximately $10.0 million, and assuming full payment of the allowance, our total investment in the property will be $15.8 million. As of September 30, 2020, we incurred approximately $7.6 million of the redevelopment costs, of which we funded approximately $7.4 million.

In January 2020, we amended our lease with a subsidiary of The Pharm, LLC at one of our Arizona properties, making available an additional $2.0 million in funding for tenant improvements at the property, and making the total tenant improvement allowance $5.0 million. As of September 30, 2020, we incurred and funded the full amount of the redevelopment costs, making our total investment in the property $20.0 million.

In January 2020, we amended our lease with the tenant of our Sacramento, California property, making available an additional approximately $1.3 million in funding for tenant improvements at the property, and making the total tenant improvement allowance approximately $6.0 million. As of September 30, 2020, we funded the full amount of the redevelopment costs, and our total investment in the property was approximately $12.7 million.

In February 2020, we amended our lease with a subsidiary of Maitri Medicinals, LLC ("Maitri") at one of our Pennsylvania properties, making available an additional $6.0 million in funding for tenant improvements at the property, and making the total tenant improvement allowance $16.0 million. As of September 30, 2020, we incurred approximately $14.3 million of the redevelopment costs, of which we funded approximately $13.6 million.

In February 2020, we amended our lease and development agreement with a subsidiary of PharmaCann Inc. ("PharmaCann") at one of our Massachusetts properties, making available an additional $4.0 million in construction funding at the property, with the total construction funding being $27.5 million. We also canceled the optional commitment to provide construction funding of $4.0 million for PharmaCann at one of our Pennsylvania properties. As of September 30, 2020, we funded the full amount of the construction funding, and our total investment in the Massachusetts property was $30.5 million.

In March 2020, we amended our lease with a subsidiary of Holistic Industries Inc. at our Maryland property, making available a $5.5 million tenant improvement allowance at the property. Assuming full payment of the funding, our total investment in the property will be $22.4 million. As of September 30, 2020, we incurred approximately $5.2 million of the redevelopment costs, of which we funded approximately $4.4 million.

In April 2020, we amended our leases with two subsidiaries of Vireo for one of our properties in New York and our property in Minnesota, making available an additional approximately $1.4 million in funding for tenant improvements at the properties in the aggregate, and making the total tenant improvement allowances approximately $10.1 million in the aggregate. Assuming full payment of the funding, our total investment in the property in New York will be approximately $6.8 million and our total investment in the property in Minnesota will be approximately $9.7 million. As of September 30, 2020, we incurred approximately $10.1 million of the tenant improvement allowance, of which we funded approximately $10.0 million.

In response to the coronavirus pandemic and associated severe economic disruption, in April 2020, we amended leases at certain of our properties to provide for temporary base rent and property management fee deferrals through June 30, 2020. Each of the tenants remained responsible for the payment of all other costs under the applicable lease during the deferral period.

- We amended each of our leases with GPI in Michigan to apply a part of GPI's security deposit at each property for payment of the April 2020 base rent and property management fee, defer the base rent and property management fee for May and June 2020, and amortize the replenishment of the security deposit and payment of the base rent and property management fee deferral over an 18 month period commencing on July 1, 2020.

- We amended our lease with Maitri in Pennsylvania to apply a part of Maitri's security deposit for payment of the April 2020 base rent and property management fee, defer the base rent and property management fee for May and June 2020, and amortize the replenishment of the security deposit and the base rent and property management fee deferral over an 18 month period commencing on July 1, 2020.

- We amended each of our leases with affiliates of Medical Investor Holdings LLC ("Vertical") in southern California to apply a part of Vertical's security deposit at each property for a partial payment of the March 2020 base rent and property management fee and payment in full of the April 2020 base rent and property management fee, defer the base rent and property management fee for May and June 2020, and amortize the replenishment of the security deposit and payment of the base rent and property management fee deferral over an 18 month period commencing on July 1, 2020.

Pursuant to these amendments, (1) a total of approximately $940,000 of security deposits were applied to the payment of base rent, property management fees and associated lease penalties for March and April 2020, including approximately $185,000 related to the partial payment of base rent and property management fees by Vertical for March 2020; (2) a total of approximately $743,000 in base rent and property management fees were deferred for May 2020; (3) a total of approximately $781,000 in base rent and property management fees were deferred for June 2020; and (4) a total of approximately $52,000 per month in replenishment of security deposits and approximately $85,000 per month in repayments of base rent and property management fee deferrals are required to be paid each month over an 18 month period commencing on July 1, 2020.

In June 2020, we amended our lease and development agreement with a subsidiary of PharmaCann at one of our Illinois properties, making available an additional $3.0 million in construction funding at the property, and making the total available construction funding $10.0 million. As of September 30, 2020, we incurred approximately $8.8 million of the redevelopment costs, of which we funded approximately $8.5 million.

In June 2020, we amended our lease with a subsidiary of Green Leaf Medical, LLC at one of our Pennsylvania properties, making available $30.0 million in funding for tenant improvements at the property. Assuming full payment of the tenant improvement allowance, our total investment in the property will be $43.0 million. As of September 30, 2020, we incurred approximately $592,000 of the tenant improvement allowances, of which none was funded.

In August 2020, we amended our lease with a subsidiary of GR Companies, Inc. (“Grassroots”) at one of our Pennsylvania properties, making available an additional approximately $1.5 million in funding for tenant improvements at the property, and making the total tenant improvement allowance approximately $12.4 million. Assuming full payment of the tenant improvement allowance, our total investment in the property will be approximately $26.6 million. As of September 30, 2020, we incurred approximately $10.7 million of the tenant improvement allowances, of which we funded approximately $10.6 million.

In August 2020, we amended our lease with a subsidiary of Grassroots at one of our Illinois properties, making available an additional $844,000 in funding for tenant improvements at the property, and making the total tenant improvement allowance at the property approximately $18.6 million. Assuming full payment of the tenant improvement allowance, our total investment in the property will be approximately $29.1 million. As of September 30, 2020, we incurred approximately $11.7 million of the tenant improvement allowance, of which we funded approximately $11.2 million.

In August 2020, we amended our lease with a subsidiary of Ascend Wellness Holdings, LLC at one of our Illinois properties, making available an additional $18.0 million in funding for tenant improvements at the property, and making the total tenant improvement allowance at the property $32.0 million. Assuming full payment of the additional funding, our total investment in the property will be $51.0 million. As of September 30, 2020, we incurred approximately $18.7 million of the tenant improvement allowance, of which we funded approximately $14.0 million.

Including all of our properties, during the nine months ended September 30, 2020, we capitalized costs of approximately $215.7 million and funded approximately $210.1 million relating to tenant improvements and construction activities at our properties.

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, 2020 for future periods is summarized as follows (in thousands):

Year	Contractual Minimum Rent
2020 (three months ending December 31)	$ 35,417
2021	156,817
2022	159,888
2023	164,653
2024	169,567
Thereafter	2,497,606
Total	$ 3,183,948

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, 2020 was 14.94423 shares of our common stock per $1,000 principal amount of Notes and the exchange price at September 30, 2020 was approximately $66.916 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.

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):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
Cash coupon	$ 1,348	$ 1,349	$ 4,042	$ 3,281
Amortization of debt discount	275	262	816	632
Amortization of issuance cost	238	227	707	549
Total interest expense	$ 1,861	$ 1,838	$ 5,565	$ 4,462

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

	September 30, 2020	December 31, 2019
Principal amount	$ 143,749	$ 143,750
Unamortized discount	(4,063)	(4,878)
Unamortized issuance costs	(3,512)	(4,218)
Carrying value	$ 136,174	$ 134,654

Accrued interest payable for the Exchangeable Senior Notes was approximately $225,000 as of September 30, 2020 and December 31, 2019, and is included in accounts payable and accrued expenses on our condensed consolidated balance sheets.

In March 2020, we issued 14 shares of our common stock upon exchange by holders of $1,000 of outstanding principal amount of our Exchangeable Senior Notes.

8. Net Income Per Share

Grants of restricted stock of the Company and restricted stock units 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, 2020, all of the Company's participating securities received dividends or dividend equivalents at an equal dividend rate per share or unit. As a result, distributions to participating securities for the three and nine months ended September 30, 2020 and 2019 have been included in net income attributable to common stockholders to calculate net income per basic and diluted share. We have considered the dilutive effect of the shares necessary to settle the Exchangeable Senior Notes on the if-exchanged method basis for the three and nine months ended September 30, 2020 and 2019, and as this effect was anti-dilutive for both periods, these shares necessary to settle the Exchangeable Senior Notes were excluded from diluted earnings per share.

Computations of net income per basic and diluted share (in thousands, except share data) were as follows:

	For the Three Months Ended September 30, 2020	For the Three Months Ended September 30, 2019	For the Nine Months Ended September 30, 2020	For the Nine Months Ended September 30, 2019
Net income	$ 19,215	$ 6,520	$ 44,397	$ 13,573
Preferred stock dividend	(338)	(338)	(1,014)	(1,014)
Distribution to participating securities	(133)	(109)	(369)	(256)
Net income attributable to common stockholders used to compute net income per share	$ 18,744	$ 6,073	$ 43,014	$ 12,303
Weighted average common share outstanding:				
Basic	21,594,637	10,918,477	18,315,231	10,088,036
Diluted	21,708,725	11,057,697	18,429,228	10,225,574
Net income attributable to common stockholders per share:				
Basic	$ 0.87	$ 0.56	$ 2.35	$ 1.22
Diluted	$ 0.86	$ 0.55	$ 2.33	$ 1.20

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, 2020 and December 31, 2019:

	September 30, 2020		December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Short-term investments(1)	$ 451,178	$ 451,369	$ 119,595	$ 119,673
Exchangeable Senior Notes (2)	$ 136,174	$ 277,891	$ 134,654	$ 185,558

(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.

At September 30, 2020, cash equivalent instruments consisted of $93.5 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, obligations of the U.S. government with an original maturity at the time of purchase of less than or equal to three months, accounts payable, accrued expenses and other liabilities approximate their fair values due to the short-term maturities and market rates of interest of these instruments.

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.

The following table summarizes our restricted stock activity under the 2016 Plan:

	Unvested Restricted Shares		Weighted-Average Date Fair Value
Balance at December 31, 2019	139,546	$	37.03
Granted	15,918	$	75.11
Vested	(45,975)	$	37.01
Forfeited [(1)]	(28,552)	$	19.72
Balance at March 31, 2020	80,937	$	50.64
Granted	1,139	$	87.82
Vested	(4,675)	$	62.08
Balance at June 30, 2020 and September 30, 2020	77,401	$	50.49

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

As of September 30, 2020, the remaining unrecognized compensation cost of $2.4 million relating to restricted stock awards will be recognized over a weighted-average amortization period of approximately 1.6 years.

The following table summarizes our restricted stock unit activity. Restricted stock units have the same economic rights as shares of restricted stock under the 2016 Plan:

	Unvested Restricted Stock Units		Weighted- Average Date Fair Value
Balance at December 31, 2019	—	$	—
Granted	33,954	$	75.11
Balance at March 31, 2020	33,954	$	75.11
Granted	2,733	$	87.82
Balance at June 30, 2020 and September 30, 2020	36,687	$	76.06

As of September 30, 2020, the remaining unrecognized compensation cost of $2.1 million relating to restricted stock units will be recognized over an amortization period of approximately 2.2 years.

11. Commitments and Contingencies

Office Lease. The future contractual lease payments for our office lease and the reconciliation to the office lease liability reflected in our condensed consolidated balance sheets as of September 30, 2020 is presented in the table below (in thousands):

Year	Amount
2020 (three months ending December 31)	$ 57
2021	235
2022	242
2023	249
2024	256
Thereafter	88
Total future contractual lease payments	1,127
Effect of discounting	(14)
Office lease liability	$ 1,113

Tenant Improvement Allowances. As of September 30, 2020, we had approximately $232.6 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. This amount does not include approximately $10.0 million which may be canceled by one tenant at its option.

Construction Funding. As of September 30, 2020, we had approximately $6.9 million of commitments relating to construction funding for the development of one of our properties in Pennsylvania, and for which the tenant has agreed to use commercially reasonable efforts to complete by February 9, 2021.

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

Lease Amendments Providing for Additional Tenant Improvement Allowances

In October 2020, we amended our lease with a subsidiary of Green Thumb Industries Inc. at one of our Ohio properties, making available an additional $25.0 million in funding for tenant improvements at the property, and making the total tenant improvement allowance $29.3 million. Assuming full payment of the tenant improvement allowance, our total investment in the property will be $32.2 million. As of November 5, 2020, we had funded approximately $4.4 million of this tenant improvement allowance.

In October 2020, we amended our lease with GPI at one of our Michigan properties, making available an additional $525,000 in funding for tenant improvements at the property, and making the total tenant improvement allowance approximately $1.8 million. Assuming full payment of the tenant improvement allowance, our total investment in the property will be approximately $3.4 million. As of November 5, 2020, we had funded approximately $1.7 million of this tenant improvement allowance.

In November 2020, we amended our lease and development with PharmaCann at one of our Pennsylvania properties, making available an additional $2.0 million in construction funding at the property, and making the total construction funding approximately $27.1 million. Assuming full payment of the construction funding, our total investment in the property will be approximately $28.0 million. As of November 5, 2020, we had funded approximately $18.2 million of this construction funding.

Los Angeles, California Property Update (as of November 5, 2020)

Holistic has entered into a definitive agreement to acquire the retail, distribution, cultivation and manufacturing licenses for cannabis operations from the tenant at our Los Angeles, California property, which is in receivership, and we have negotiated for a long-term, triple-net lease with Holistic for the entire property upon the closing of Holistic's acquisition of the licenses. The transaction is subject to final government approvals for the transfer of the licenses and customary closing conditions, and we can provide no assurance that the transaction, including the lease, will be completed on the terms described here, or at all.

Rent Collections Update (as of November 5, 2020)

We collected 100% of contractual rent due for each of the months of July, August, September and October 2020 across our total portfolio (other than the tenant at our Los Angeles, California property that is in receivership), and had not executed rent deferrals for any additional tenants, other than the three tenants described in Note 6.

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: the potential adverse effect of the ongoing public health crisis of the COVID-19 pandemic, or any future pandemic, epidemic or outbreak of infectious disease, on our and our tenants' financial condition, results of operations, cash flows and performance, the real estate market and the global economy and financial markets, including our access to capital markets; economic trends and economic recoveries; 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; rates of default on leases for our assets; 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; 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; 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, 2019, in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020. 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, 2020, we had 14 full-time employees.

As of September 30, 2020, we owned 63 properties that were 99.3% (based on square footage) leased to state-licensed cannabis operators and comprising an aggregate of approximately 5.0 million rentable square feet (including approximately 1.9 million rentable square feet under development/redevelopment) in 16 states, with a weighted-average remaining lease term of approximately 16.2 years. As of September 30, 2020, we had invested approximately $884.5 million in the aggregate (excluding transaction costs) and had committed an additional approximately $267.0 million (including tenant improvements and construction costs accrued but not yet funded as of September 30, 2020) to reimburse certain tenants and sellers for completion of construction and tenant improvements at our properties. These statistics do not include approximately $10.0 million that may be funded in the future pursuant to our lease with a tenant at one of our Massachusetts properties, as the tenant at the property may not elect to have us disburse those funds to them and pay us the corresponding base rent on those funds. These statistics also treat our Los Angeles, California property as not leased, due to the tenant being in receivership and its ongoing default in its obligation to pay rent at that location.

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.

The current outbreak of the novel coronavirus, or COVID-19, or the future outbreak of any other highly infectious or contagious diseases, could materially and adversely impact or cause disruption to our tenants and their operations, and in turn our performance, financial condition, results of operations and cash flows. The extent to which COVID-19 impacts our operations and those of our tenants will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the scope, severity and duration of the outbreak, the actions taken to contain the outbreak or mitigate its impact, and the direct and indirect economic effects of the outbreak and containment measures, among others.

Our tenants' ability to pay their rent obligations to us depends, in part, on whether our tenants can continue their regulated cannabis operations and the ability and willingness of consumers to visit dispensary businesses. In the large majority of states that have legalized cannabis, state governmental authorities have recognized both medical-use and adult-use cannabis operations, including supply chain activities such as cultivation, processing, distribution and dispensary activities, as "essential businesses", allowing them to remain open and operational. While laws and practices vary from state to state, state and local governmental authorities and regulated cannabis businesses have taken additional measures to ensure the safety and well-being of employees, patients and consumers, including but not limited to restrictions associated with social distancing requirements and additional levels of protection for medical cannabis patients with more vulnerability to health complications from COVID-19. Despite these measures, cannabis dispensaries may experience declines in customer traffic or may be required to close in response to new government regulatory orders, which could have a significant adverse financial impact on certain of our tenants.

We have undertaken in-depth discussions with each of our tenants as they navigate the COVID-19 pandemic and associated severe economic disruption. In light of those discussions, as of September 30, 2020, we had granted temporary base rent and property management fee deferrals to three affected tenants. In connection with these deferrals, we entered into lease amendments with the three affected tenants to apply a portion of the security deposits that we hold under the leases to pay a portion of the March rent (for one tenant), pay April rent in full, defer rent for May and June in full, and provide for the pro rata repayment of the security deposit and deferred rent over an 18 month time period starting July 1, 2020. Pursuant to these amendments, a total of approximately $940,000 of security deposits were applied to the payment of base rent, property management fees and associated lease penalties for March and April 2020, including approximately $185,000 related to the partial payment of the March 2020 base rent and property management fees for one of the tenants; and a total of approximately $1.5 million in rent was deferred for May and June. See Note 6 in the notes to the condensed consolidated financial statements for further information regarding these base rent and property management deferrals.

Significant Tenants and Concentrations of Risk

As of September 30, 2020, we owned 63 properties located in 16 states. Many of our tenants are tenants at multiple properties. We seek to manage our portfolio-level risk through geographic diversification and by minimizing dependence on any single property or tenant. At September 30, 2020, one of our properties in Michigan accounted for approximately 5% of our net real estate held for investment. See Note 2 in the notes to the condensed consolidated financial statements for further information regarding the tenants in our portfolio that represented the largest percentage of our total rental revenue for the three and nine months ended September 30, 2020.

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

Investments in Real Estate

See Note 6 in the notes to the condensed consolidated financial statements for information regarding our investments in real estate activity and property portfolio activity during the nine months ended September 30, 2020.

Comparison of the Three and Nine Months Ended September 30, 2020 and 2019

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,	
	2020	2019	2020	2019
Revenues:				
Rental (excluding tenant reimbursements)	$ 31,527	$ 11,198	$ 76,108	$ 26,054
Tenant reimbursements	2,800	357	3,695	941
Total revenues	34,327	11,555	79,803	26,995
Expenses:				
Property expenses	2,919	357	3,933	941
General and administrative expense	3,339	2,156	9,695	6,667
Depreciation expense	7,646	2,221	19,299	5,054
Total expenses	13,904	4,734	32,927	12,662
Income from operations	20,423	6,821	46,876	14,333
Interest and other income	653	1,537	3,086	3,702
Interest expense	(1,861)	(1,838)	(5,565)	(4,462)
Net income	19,215	6,520	44,397	13,573
Preferred stock dividend	(338)	(338)	(1,014)	(1,014)
Net income attributable to common stockholders	$ 18,877	$ 6,182	$ 43,383	$ 12,559

Revenues.

Rental. Rental revenues for the three months ended September 30, 2020 increased by approximately $20.3 million, or 182%, to approximately $31.5 million, compared to approximately $11.2 million for the three months ended September 30, 2019. Approximately $670,000 of the increase in rental revenue was generated by the properties acquired during the three months ended September 30, 2020. The remaining approximately $19.6 million increase in rental revenue was generated by properties we acquired in prior periods, including annual escalations and related rents on amendments which increased the tenant improvement allowances on certain of the leases, and partial repayments of deferrals of rent from three of our tenants in accordance with the rent deferral programs described in Note 6 in the notes to the condensed consolidated financial statements.

Rental revenues for the nine months ended September 30, 2020 increased by approximately $50.1 million, or 192%, to approximately $76.1 million, compared to approximately $26.1 million for the nine months ended September 30, 2019. Approximately $14.4 million of the increase in rental revenue was generated by the properties acquired during the nine months ended September 30, 2020. The remaining approximately $35.7 million increase in rental revenue was generated by properties we acquired in prior periods, including annual escalations and related rents on amendments which increased the tenant improvement allowances on certain of the leases, partially offset by the deferrals of rent from three of our tenants in accordance with the rent deferral programs described in Note 6 in the notes to the condensed consolidated financial statements.

Rental revenues for the nine months ended September 30, 2020 included approximately $379,000 of rent and associated lease penalties received through the drawdown of the security deposit at our Los Angeles, California property where the tenant is in receivership and defaulted on its lease obligations, in addition to the drawdown of part of the security deposits totaling approximately $940,000 at certain properties leased to three tenants to pay part of the rent and associated lease penalties in accordance with the rent deferral programs described in Note 6 in the notes to the condensed consolidated financial statements.

Tenant Reimbursements. Tenant reimbursements related to reimbursements by tenants for property insurance premiums and property tax paid at certain properties. Tenant reimbursements for the nine months ended September 30, 2020 included approximately $43,000 of reimbursements received through the drawdown of the remaining security deposit at our Los Angeles, California property. The increase in tenant reimbursements for both the three and nine months ended September 30, 2020 primarily related to insurance premiums reimbursed to us by tenants relating to our placement of a portfolio-wide insurance policy in July 2020.

Expenses.

Property Expense. Property expense related to property insurance premiums and property taxes paid at certain of our properties, which were reimbursed by the tenants. The increase in property expenses for both the three and nine months ended September 30, 2020 primarily related to insurance costs related to our placement of a portfolio-wide insurance policy in July 2020.

General and Administrative Expense. General and administrative expense for the three months ended September 30, 2020 increased by approximately $1.2 million to approximately $3.3 million, compared to approximately $2.1 million for the three months ended September 30, 2019. General and administrative expense for the nine months ended September 30, 2020 increased by approximately $3.0 million to approximately $9.7 million, compared to $6.7 million for the nine months ended September 30, 2019. The increase in general and administrative expense for both periods 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, 2020 included approximately $841,000 and $2.5 million, respectively, of non-cash stock-based compensation. 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.

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. Interest and other income for the three months ended September 30, 2020 decreased by approximately $884,000 compared to the three months ended September 30, 2019. Interest and other income for the nine months ended September 30, 2020 decreased by approximately $616,000 compared to the nine months ended September 30, 2019. The decreases in both periods were due to lower interest rates on our interest-bearing investments, partially offset by higher balances of interest bearing investments, resulting from proceeds from our common stock offerings.

Interest Expense. Interest expense related to our Exchangeable Senior Notes issued in February 2019. Interest expense for the three months ended September 30, 2020 and 2019 included approximately $513,000 and $489,000, respectively, of non-cash interest expense; and interest expense for the nine months ended September 30, 2020 and 2019 included approximately $1.5 million and $1.2 million, respectively, of non-cash interest expense.

Cash Flows

Comparison of the Nine Months Ended September 30, 2020 and 2019

	Nine Months Ended September 30,		
	2020	2019	Change
Net cash provided by operating activities	$ 76,578	$ 25,086	$ 51,492
Net cash used in investing activities	(721,284)	(237,426)	(483,858)
Net cash provided by financing activities	688,464	308,561	379,903
Ending cash, cash equivalents and restricted cash balance	161,074	109,271	51,803

Operating Activities

Cash flows provided by operating activities for the nine months ended September 30, 2020 and 2019 were approximately $76.6 million and $25.1 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, 2020 were approximately $721.3 million, of which approximately $392.2 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, and approximately $329.1 million related to net purchases and maturities of short-term investments. 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 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, approximately $500,000 related to deposits to escrow for acquisitions, and the remaining approximately $85.5 million related to the net purchases and maturities of short-term investments.

Financing Activities

Net cash provided by financing activities of approximately $688.5 million during the nine months ended September 30, 2020 was the result of approximately $741.1 million in net proceeds from the follow-on issuances of shares of our common stock, partially offset by dividend payments of approximately $50.5 million to common and preferred stockholders and approximately $2.2 million 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 $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, and $185.7 million in net proceeds from the follow-on issuance of shares of our common stock, 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.

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, fund tenant improvement allowances and construction funding at our 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, which includes 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 development and redevelopment activities, property operating expenses and other expenses incurred related to managing our existing portfolio and investing in additional properties. To the extent additional resources are needed, we expect to fund our investment activity generally through equity or debt issuances either in the public or private markets. Where possible, we also may issue limited partnership interests in our Operating Partnership to acquire properties from existing owners seeking a tax-deferred transaction.

In January 2020, we issued 3,412,969 shares of common stock, including the exercise in full of the underwriters' option to purchase an additional 445,170 shares, resulting in net proceeds of approximately $239.6 million.

In May 2020, we issued 1,550,648 shares of common stock, including the exercise in full of the underwriter's option to purchase an additional 202,259 shares, resulting in net proceeds of approximately $114.9 million.

In July 2020, we issued 3,085,867 shares of common stock, including the exercise in full of the underwriters' option to purchase an additional 402,504 shares, resulting in net proceeds of approximately $248.2 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. During the three months ended September 30, 2020, we sold 474,000 shares of our common stock for net proceeds of approximately $58.1 million under the ATM Program, which includes the payment of approximately $1.2 million to one sales agent as commission for such sales. During the nine months ended September 30, 2020, we sold 1,499,382 shares of our common stock at a weighted average sales price of $94.23 per share for net proceeds of approximately $138.4 million under the ATM Program, which includes the payment of approximately $2.8 million to one sales agent as commission for such sales. As of September 30, 2020, we had approximately $15,000 of our common stock available for future issuance under the ATM Program.

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

We expect to meet our liquidity needs, including for our commitments related to tenant improvement allowances and construction funding described below, through cash on hand, cash flows from operations after payment of dividends and proceeds from sale of equity of the issuance of new debt. 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.

The following table describes the dividends declared by the Company during the nine months ended September, 2020:

Declaration Date	Security Class	Amount Per Share	Period Covered	Dividend Paid Date	Dividend Amount (In thousands)
March 13, 2020	Common Stock	$ 1.00	January 1, 2020 to March 31, 2020	April 15, 2020	$ 17,070
March 13, 2020	Series A preferred stock	$ 0.5625	January 15, 2020 to April 14, 2020	April 15, 2020	$ 338
June 15, 2020	Common Stock	$ 1.06	April 1, 2020 to June 30, 2020	July 15, 2020	$ 19,770
June 15, 2020	Series A preferred stock	$ 0.5625	April 15, 2020 to July 14, 2020	July 15, 2020	$ 338
September 15, 2020	Common Stock	$ 1.17	July 1, 2020 to September 30, 2020	October 15, 2020	$ 25,987
September 15, 2020	Series A preferred stock	$ 0.5625	July 15, 2020 to October 14, 2020	October 15, 2020	$ 338

Contractual Obligations

The following table summarizes our contractual obligations as of September 30, 2020 (in thousands):

Payments Due by Year	Exchangeable Senior Notes	Interest	Office Rent	Total
2020 (three months ending December 31)	$ —	$ 1,347	$ 57	$ 1,404
2021	—	5,391	235	5,626
2022	—	5,391	242	5,633
2023	—	5,391	249	5,640
2024	143,749	764	256	144,769
Thereafter	—	—	88	88
Total	$ 143,749	$ 18,284	$ 1,127	$ 163,160

Additionally, as of September 30, 2020, we had approximately $232.6 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 and approximately $6.9 million of commitments relating to construction funding for the development of a property in Pennsylvania, which the tenant has agreed to use commercially reasonable efforts to complete by February 9, 2021. These amounts do not include up to approximately $10.0 million that a tenant at one of our Massachusetts properties may elect to be reimbursed in the future and pay the corresponding base rent. As of September 30, 2020, these amounts had not been requested by the tenants. The commitments discussed in this paragraph are excluded from the table of contractual obligations above, as tenant improvement allowances 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, and tenants also can exercise discretion regarding the timing for requesting reimbursement for construction funding.

Non-GAAP Financial Information

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 GAAP), excluding gains (or losses) from sales of property, plus depreciation and amortization and impairment 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. FFO and FFO per share are used by management to evaluate the REIT's operating performance and these measures are the measures used by the REIT industry and industry analysts to evaluate 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 attributable to common stockholders to FFO and AFFO for the three and nine months ended September 30, 2020 and 2019 (in thousands, except share and per share amounts):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income attributable to common stockholders	$ 18,877	$ 6,182	$ 43,383	$ 12,559
Real estate depreciation	7,646	2,221	19,299	5,054
FFO attributable to common stockholders	26,523	8,403	62,682	17,613
Stock-based compensation	841	655	2,488	1,841
Non-cash interest expense	513	489	1,521	1,181
AFFO attributable to common stockholders	$ 27,877	$ 9,547	$ 66,691	$ 20,635
FFO per share – basic	$ 1.23	$ 0.77	$ 3.42	$ 1.75
FFO per share – diluted	$ 1.22	$ 0.76	$ 3.40	$ 1.72
AFFO per share – basic	$ 1.29	$ 0.87	$ 3.64	$ 2.05
AFFO per share – diluted	$ 1.28	$ 0.86	$ 3.62	$ 2.02
Weighted average shares outstanding – basic	21,594,637	10,918,477	18,315,231	10,088,036
Weighted average shares outstanding – diluted	21,708,725	11,057,697	18,429,228	10,225,574

Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with GAAP, which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ materially from those estimates and assumptions. Set forth below is a summary of our accounting policies that we believe are critical to the preparation of our condensed consolidated financial statements. Our accounting policies are more fully discussed in Note 2 to the 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 40 years. We depreciate tenant improvements at our buildings where we are considered the owner over the estimated useful lives of the improvements, which may not be limited by 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.

We review current activities and changes in the business conditions of all of our properties 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.

Revenue Recognition and Accounts Receivable

Our leases are 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 record revenue for each of our properties on a cash basis due to the uncertain regulatory environment in the United States relating to the regulated cannabis industry and the uncertainty of collectability of lease payments from each tenant due to its limited operating history. Contractually obligated reimbursements from tenants for recoverable real estate taxes and operating expenses are included in rental revenue in the period when such costs are reimbursed by the tenants. Contractually obligated real estate taxes that are paid directly by the tenant to the tax authorities are not reflected in our condensed consolidated financial statements.

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 our Exchangeable Senior Notes were 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 our Exchangeable Senior 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 date of issuance based on our estimated nonexchangeable debt borrowing rate with the assistance of a third-party valuation specialist as we do not have a history of borrowing arrangements and there is limited empirical data available related to the Company's industry due to the regulatory uncertainty of the cannabis market in which the Company's tenants operate. 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.

Lease Accounting

As lessor for each of our real estate transactions involving the leaseback of the related property to the seller or affiliates of the seller, we determine whether these transactions qualify as sale and leaseback transactions under the accounting guidance. For these transactions, we consider various inputs and assumptions including, but not necessarily limited to, lease terms, renewal options, discount rates, and other rights and provisions in the purchase and sale agreement, lease and other documentation to determine whether control has been transferred to the Company or remains with the lessee. A transaction involving a sale leaseback will be treated as a purchase of a real estate property if it is considered to transfer control of the underlying asset from 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. These criteria also include estimates and assumptions regarding the fair value of the leased facilities, minimum lease payments, the economic useful life of the facilities, the existence of a purchase option, and certain other terms in the lease agreements. The lease accounting guidance requires accounting for a transaction as a financing in a sale leaseback when the seller-lessee is provided an option to purchase the property from the landlord at the tenant's option. All of our leases are classified as operating leases. Our tenant reimbursable revenue and property expenses are presented on a gross basis as rental revenue and as property expenses, respectively, on our condensed consolidated statements of income.

One of our leases that was entered into prior to 2019 provides the lessee with a purchase option to purchase the leased property at the end of the initial lease term in September 2034. The purchase option provision allows the lessee to purchase the leased property at the greatest of (a) the fair value; (b) the value determined by dividing the then-current base rent by 8%; and (c) an amount equal to our gross investment in the property (including the purchase price at acquisition and any additional investment in the property made by us during the term of the lease), indexed to inflation. At September 30, 2020, our gross investment in the property with the purchase option was approximately $30.5 million. At September 30, 2020, the purchase option was not exercisable.

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. Forfeitures are recognized as incurred.

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 2020.

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, 2020, 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 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*

Our Exchangeable Senior Notes bear interest at a fixed rate of 3.75% per annum until maturity and are the only debt we have outstanding.

Our investments in short-term money market funds, certificates of deposit and short-term investments in obligations of the U.S. government with an original maturity at the time of purchase of greater than three months are less sensitive to market fluctuations than a portfolio of long-term securities. Accordingly, we believe that a significant change in interest rates would not have a material effect on consolidated financial statements.

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 Securities Exchange Act of 1934, as amended, 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, 2020 (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, 2020 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, 2019, and in Part II, “Item 1A. Risk Factors” in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, which could materially affect our business, financial condition and/or results of operations. Except 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” sections in our Annual Report on Form 10-K for year ended December 31, 2019 and Quarterly Report on Form 10-Q for the quarter ended March 31, 2020. The risks as described in our Annual Report on Form 10-K and subsequent Quarterly Reports on Form 10-Q 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.

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
10.1*	First Amendment dated November 1, 2020 to Lease Agreement dated August 9, 2019 between IIP-PA 4 LLC and PharmaCann Penn Plant, LLC.
10.2*	First Amendment dated November 1, 2020 to Development Agreement dated August 9, 2019 between IIP-PA 4 LLC, IIP Operating Partnership, LP and PharmaCann Penn Plant, LLC.
31.1*	Certifications of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certifications of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101INS*	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104*	Cover Page Interactive Date File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed herewith.

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 5, 2020

Exhibit 10.1

FIRST AMENDMENT TO LEASE AGREEMENT

THIS FIRST AMENDMENT TO LEASE AGREEMENT (this "Amendment") is entered into to be effective as of the 1st day of November, 2020 ("Amendment Effective Date"), by and between IIP-PA 4 LLC, a Delaware limited liability company ("Landlord"), and PHARMACANN PENN PLANT LLC, a Pennsylvania limited liability company ("Tenant").

RECITALS

A. WHEREAS, Landlord and Tenant are parties to that certain Lease Agreement dated as of August 9, 2019 (the "Existing Lease"), whereby Tenant leases the premises from Landlord located at Lot No. 4, Scott Technology Park, Scott Township, Pennsylvania;

B. WHEREAS, concurrently with the execution of this Amendment, Tenant and Landlord shall execute an amendment to the Development Agreement; and

C. WHEREAS, Landlord and Tenant desire to modify and amend the Existing Lease only in the respects and on the conditions hereinafter stated.

AGREEMENT

NOW, THEREFORE, Landlord and Tenant, in consideration of the mutual promises contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound, agree as follows:

1. Definitions. For purposes of this Amendment, capitalized terms shall have the meanings ascribed to them in the Existing Lease unless otherwise defined herein. The Existing Lease, as amended by this Amendment, is referred to collectively herein as the "Lease." From and after the date hereof, the term "Lease," as used in the Existing Lease, shall mean the Existing Lease, as amended by this Amendment.

2. Term. Section 3.1 of the Existing Lease is hereby amended and restated in its entirety as follows:

> "3.1. Term. The actual term of this Lease (as the same may be extended or earlier terminated in accordance with this Lease, the "**Term**") commenced on August 9, 2019 (the "**Commencement Date**") and shall end on October 31, 2035, subject to extension or earlier termination of this Lease as provided herein."

3. Base Rent; Base Rent Adjustments. Landlord has agreed to increase the Construction Contribution Amount (as defined in the Development Agreement) under the Development Agreement by Two Million Dollars ($2,000,000.00) (the "Additional Construction Contribution Amount"). In consideration for providing the Additional Construction Contribution Amount, the monthly Base Rent payable under the Existing Lease in the amount of Two Hundred Sixty-Six Thousand Five Hundred Dollars ($266,500.00) (the "Existing Base Rent") shall be increased by Twenty-Two Thousand Five Hundred Dollars ($22,500.00) (the "Additional Base Rent"), subject to adjustment as set forth in this Section 3. Accordingly, notwithstanding any provision of the Existing Lease to the contrary (including, without limitation, Sections 2.1 and 5.2 of the Existing Lease), effective as of the Amendment Effective Date, the aggregate monthly Base Rent shall equal Two Hundred Eighty-Nine Thousand Dollars ($289,000.00), subject to adjustment as set forth in this Section 3. In addition, Section 5.2.2 of the Existing Lease is hereby amended to provide that: (a) the Existing Base Rent shall continue to be subject to an annual upward adjustment of two and one-half percent (2.5%) of the then-current Existing Base Rent with such adjustments to become effective on every successive annual anniversary of the Commencement Date for so long as this Lease continues in effect; and (b) the Additional Base Rent shall be subject to an annual upward adjustment of three percent (3.0%) of the then-current Additional Base Rent with the first such adjustment to become effective on the first anniversary of the Amendment Effective Date, and subsequent adjustments to become effective on every successive annual anniversary of the Amendment Effective Date for so long as this Lease continues in effect. Furthermore, in the event that: (m) Base Rent is required to be adjusted pursuant to Section 5.2.3 of the Existing

Lease, and (n) the Required Arbitration Construction Payments funded by Tenant relate to Construction Payments (as defined in the Development Agreement) for any portion of the Additional Construction Contribution Amount, then in lieu of the calculation provided in Section 5.2.3(a) of the Existing Lease, the reduction in the Monthly Base Rent Amount shall be calculated as follows: (x) the product of 13.5% multiplied by the portion of the Required Arbitration Construction Payments actually funded by Tenant that constitutes a part of the Additional Construction Contribution Amount to be paid by Landlord (i.e. the last $2,000,000 of the Construction Contribution Amount), plus (y) the product of 12% multiplied by the portion of the Required Arbitration Construction Payments actually funded by Tenant that does not constitute a part of the Additional Construction Contribution Amount to be paid by Landlord (i.e. the first $25,058,000 of the Construction Contribution Amount), which is then (z) divided by twelve (12). For example, if Tenant funds Required Arbitration Construction Payments equal to $200,000, only $100,000 of which relates to the Additional Construction Contribution Amount, then the Monthly Base Rent Amount shall be reduced by $2,125 ($12,000 (100,000 x .12) + $13,500 ($100,000 x .135) = $25,500 ÷ 12 = $2,125). The provisions of Sections 2.1 and 5.2 of the Existing Lease shall be deemed modified in accordance with this Section 3.

4. Security Deposit. The Security Deposit under the Lease shall be increased from Seven Hundred Eighty Thousand Dollars ($780,000.00) to Eight Hundred Forty-Seven Thousand Five Hundred Dollars ($847,500.00). Accordingly, Section 2.2 of the Existing Lease is hereby amended and restated in its entirety as follows:

> "2.2. "**Security Deposit**": Eight Hundred Forty-Seven Thousand Five Hundred Dollars ($847,500.00), which shall be funded as follows: (a) Twenty-Eight Thousand Two Hundred Sixty Dollars ($28,260.00) to be paid upon execution of this Agreement and (b) the remaining portion to be paid by Tenant (using its own funds) in installments in accordance with this Section 2.2. Within two (2) Business Days following the date that Landlord makes any Construction Payment (as defined in the Development Agreement) to Tenant, Tenant shall deliver to Landlord a proportionate amount of the remaining balance of the Security Deposit as determined based upon the percentage derived from dividing (a) the amount of the Construction Payment by (b) the maximum amount of the Construction Contribution Amount (as defined in the Development Agreement), until such time as the Security Deposit has been fully funded. As an example, if the maximum Construction Contribution Amount is $27,058,000, and the amount of the Construction Payment made to Tenant under the Development Agreement is equal to $5,411,600 (i.e. 20% of $27,058,000), then Tenant shall be required to pay an amount equal to $163,748 (i.e. $847,500 - $28,260 = $819,240 *x* 20% = $163,848) within such two (2) Business Day time period, which amount shall be retained by Landlord as part of the Security Deposit. Notwithstanding the foregoing (and regardless of the amount of Construction Payments then requested to be funded by Tenant), the full Security Deposit shall be funded by Tenant no later than the date that is eighteen (18) months following the Execution Date."

5. Broker. Each of Tenant and Landlord represents and warrants that it has not dealt with any broker or agent in the negotiation for or the obtaining of this Amendment and agrees to reimburse, indemnify, save, defend (at the other party's option and with counsel reasonably acceptable to other party, at the indemnifying party's sole cost and expense) and hold harmless the indemnifying party for, from and against any and all cost or liability for compensation claimed by any such broker or agent employed or engaged by it or claiming to have been employed or engaged by it.

6. No Default. Each of Tenant and Landlord represents, warrants and covenants that, to the best of its knowledge, Landlord and Tenant are not in default of any of their respective obligations under the Existing Lease and no event has occurred that, with the passage of time or the giving of notice (or both) would constitute a default by either Landlord or Tenant thereunder.

7. Effect of Amendment. Except as modified by this Amendment, the Existing Lease and all the covenants, agreements, terms, provisions and conditions thereof shall remain in full force and effect and are hereby ratified and affirmed. In the event of any conflict between the terms contained in this Amendment and the Existing Lease, the terms herein contained shall supersede and control the obligations and liabilities of the parties.

8. Successors and Assigns. Each of the covenants, conditions and agreements contained in this Amendment shall inure to the benefit of and shall apply to and be binding upon the parties hereto and their respective heirs, legatees, devisees, executors, administrators and permitted successors and assigns and sublessees. Nothing in this section shall in any way alter the provisions of the Lease restricting assignment or subletting.

9. Miscellaneous. This Amendment becomes effective only upon execution and delivery hereof by Landlord and Tenant. The captions of the paragraphs and subparagraphs in this Amendment are inserted and included solely for convenience and shall not be considered or given any effect in construing the provisions hereof. All exhibits hereto are incorporated herein by reference. Submission of this instrument for examination or signature by Tenant does not constitute a reservation of or option for a lease, and shall not be effective as a lease, lease amendment or otherwise until execution by and delivery to both Landlord and Tenant.

10. Authority. Tenant guarantees, warrants and represents that the individual or individuals signing this Amendment have the power, authority and legal capacity to sign this Amendment on behalf of and to bind all entities, corporations, partnerships, limited liability companies, joint venturers or other organizations and entities on whose behalf such individual or individuals have signed.

11. Counterparts; Facsimile and PDF Signatures. This Amendment may be executed in one or more counterparts, each of which, when taken together, shall constitute one and the same document. A facsimile or portable document format (PDF) signature on this Amendment shall be equivalent to, and have the same force and effect as, an original signature.

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IN WITNESS WHEREOF, Landlord and Tenant have executed this Amendment as of the date and year first above written.

LANDLORD:

IIP-PA 4 LLC,
a Delaware limited liability company

By: /s/ Brian Wolfe
Name: Brian Wolfe
Title: Vice President, General Counsel and Secretary

TENANT:

PHARMACANN PENN PLANT LLC,
a Pennsylvania limited liability company

By: /s/ Brett Novey
Name: Brett Novey
Title: CEO

Exhibit 10.2

FIRST AMENDMENT TO DEVELOPMENT AGREEMENT

THIS FIRST AMENDMENT TO DEVELOPMENT AGREEMENT (this "Amendment") is entered into effective as of the 1st day of November, 2020, by and between IIP-PA 4 LLC, a Delaware limited liability company ("Landlord"), PHARMACANN PENN PLANT LLC, a Pennsylvania limited liability company ("Tenant"), and IIP Operating Partnership, LP, a Delaware limited partnership ("Parent Company").

RECITALS

A. WHEREAS, Landlord, Tenant and Parent Company are parties to that certain Development Agreement dated August 9, 2019 (the "Existing Development Agreement"), providing for Tenant's construction and development of certain Improvements on the Land and for Landlord's payment or reimbursement to Tenant for the costs of completing the Improvements up to the Construction Contribution Amount, subject to and in accordance with the terms of the Existing Development Agreement and the Lease, for the property located at Lot No. 4 in Scott Technology Park, Scott Township, Pennsylvania;

B. WHEREAS, concurrently with the execution of this Amendment, Tenant and Landlord shall execute an amendment to the Lease; and

C. WHEREAS, Landlord, Tenant and Parent Company desire to modify and amend the Existing Development Agreement only in the respects and on the conditions hereinafter stated.

AGREEMENT

NOW, THEREFORE, Landlord, Tenant and Parent Company, in consideration of the mutual promises contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound, agree as follows:

1. Definitions. For purposes of this Amendment, capitalized terms shall have the meanings ascribed to them in the Existing Development Agreement unless otherwise defined herein. The Existing Development Agreement, as amended by this Amendment, is referred to collectively herein as the "Development Agreement." From and after the date hereof, the term "Agreement," as used in the Existing Development Agreement, and the term "Development Agreement," as used in the Lease, shall mean the Existing Development Agreement, as amended by this Amendment.

2. Increased Construction Contribution Amount. The Parties have agreed to increase the Construction Contribution Amount by Two Million Dollars ($2,000,000.00). Accordingly, the following defined terms set forth in Section 1 of the Existing Development Agreement are hereby amended:

The definition of the "Construction Contribution Amount" is hereby amended and restated in its entirety as follows:

> "Construction Contribution Amount" shall mean an amount not to exceed Twenty-Seven Million Fifty-Eight Thousand Dollars ($27,058,000.00).

In addition, the definition of the "Budgeted Development Costs" is hereby amended and restated in its entirety as follows:

> "Budgeted Development Costs" shall mean all Development Costs which are authorized pursuant to the Development Plan and Budget, which shall include, without limitation, (a) a fee to Landlord equal to Twenty-Six Thousand Nine Hundred Ninety-Five Dollars ($26,995.00) to cover Landlord's overhead and expenses for plan review, engineering review, coordination, scheduling and supervision of the Development and (b) reimbursement for Landlord's third-party costs actually incurred in connection with the Development, including

Landlord's engagement of a construction consultant to oversee the Development, provided that any such costs shall be reasonable and shall be reasonably consistent with market rates paid for similar services.

3. Budget/Development Plan. Any changes to the current Development Plan and Budget as a result of the increase to the Construction Contribution Amount shall be prepared and submitted by Tenant to Landlord pursuant to Section 5.2 of the Existing Development Agreement.

4. No Default. Each of Tenant and Landlord represents, warrants and covenants that, to the best of its knowledge, Landlord and Tenant are not in default of any of their respective obligations under the Existing Development Agreement and no event has occurred that, with the passage of time or the giving of notice (or both) would constitute a default by either Landlord or Tenant thereunder.

5. Effect of Amendment. Except as modified by this Amendment, the Existing Development Agreement and all the covenants, agreements, terms, provisions and conditions thereof shall remain in full force and effect and are hereby ratified and affirmed. In the event of any conflict between the terms contained in this Amendment and the Existing Development Agreement, the terms herein contained shall supersede and control the obligations and liabilities of the parties.

6. Successors and Assigns. Each of the covenants, conditions and agreements contained in this Amendment shall inure to the benefit of and shall apply to and be binding upon the parties hereto and their respective heirs, legatees, devisees, executors, administrators and permitted successors and assigns and sublessees. Nothing in this section shall in any way alter the provisions of the Development Agreement restricting assignment or subletting.

7. Miscellaneous. This Amendment becomes effective only upon execution and delivery hereof by Landlord and Tenant. The captions of the paragraphs and subparagraphs in this Amendment are inserted and included solely for convenience and shall not be considered or given any effect in construing the provisions hereof.

8. Authority. Tenant guarantees, warrants and represents that the individual or individuals signing this Amendment have the power, authority and legal capacity to sign this Amendment on behalf of and to bind all entities, corporations, partnerships, limited liability companies, joint venturers or other organizations and entities on whose behalf such individual or individuals have signed.

9. Counterparts; Facsimile and PDF Signatures. This Amendment may be executed in one or more counterparts, each of which, when taken together, shall constitute one and the same document. A facsimile or portable document format (PDF) signature on this Amendment shall be equivalent to, and have the same force and effect as, an original signature.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, Landlord, Tenant and Parent Company have executed this Amendment as of the date and year first above written.

LANDLORD:

IIP-PA 4 LLC,
a Delaware limited liability company

By: /s/ Brian Wolfe
Name: Brian Wolfe
Title: Vice President, General Counsel and Secretary

TENANT:

PHARMACANN PENN PLANT LLC,
a Pennsylvania limited liability company

By: /s/ Brett Novey
Name: Brett Novey
Title: CEO

PARENT COMPANY:

IIP OPERATING PARTNERSHIP, LP,
a Delaware limited partnership

By: /s/ Brian Wolfe
Name: Brian Wolfe
Title: Vice President, General Counsel and Secretary

Exhibit 31.1

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 5, 2020

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

Exhibit 31.2

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 5, 2020

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

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of Innovative Industrial Properties, Inc. (the "Company") for the period ended September 30, 2020, 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 5, 2020

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

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