

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

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended December 31, 2023

OR

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

For the Transition Period From _____ to _____

Commission File Number: 001-37949

Innovative Industrial Properties, Inc.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation or organization)

81-2963381

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

1389 Center Drive, Suite 200, Park City, UT 84098

(Address of principal executive offices)

(858) 997-3332

(Registrant's telephone number)

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

<u>Title of Each Class</u>
Common Stock, par value \$0.001 per share
Series A Preferred Stock, par value \$0.001 per share

<u>Name of Each Exchange on Which Registered</u>
New York Stock Exchange
New York Stock Exchange

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

None.

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☒ NO ☐

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

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

Indicate by check mark whether the Registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of the common stock held by non-affiliates of the Registrant was approximately \$2.0 billion, based upon the last reported sale price of \$73.01 per share on the New York Stock Exchange on June 30, 2023, the last business day of the Registrant's most recently completed second quarter.

As of February 27, 2024, there were 28,205,423 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Innovative Industrial Properties, Inc.'s Proxy Statement with respect to its 2024 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the registrant's fiscal year are incorporated by reference into Part III hereof.

INNOVATIVE INDUSTRIAL PROPERTIES, INC.

FORM 10-K – ANNUAL REPORT

DECEMBER 31, 2023

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

- rates of default on leases for our assets;
- concentration of our portfolio of assets and limited number of tenants;
- the estimated growth in and evolving market dynamics of the regulated cannabis market;
- the demand for regulated cannabis facilities;
- inflation dynamics;
- the impact of pandemics on us, our business, our tenants, or the economy generally;
- war and other hostilities, including the conflicts in Ukraine and Israel;
- our business and investment strategy;
- our projected operating results;
- actions and initiatives of the U.S. or state governments and changes to government policies and the execution and impact of these actions, initiatives and policies, including the fact that cannabis remains illegal under federal law;
- availability of suitable investment opportunities in the regulated cannabis industry;
- our understanding of our competition and our potential tenants’ alternative financing sources;
- the expected medical-use or adult-use cannabis legalization in certain states;
- shifts in public opinion regarding regulated cannabis;
- the potential impact on us from litigation matters, including rising liability and insurance costs;
- the additional risks that may be associated with certain of our tenants cultivating, processing and/or dispensing adult-use cannabis in our facilities;
- the state of the U.S. economy generally or in specific geographic areas;

- economic trends and economic recoveries;
- our ability to access equity or debt capital;
- financing rates for our target assets;
- our level of indebtedness, which could reduce funds available for other business purposes and reduce our operational flexibility;
- covenants in our debt instruments, which may limit our flexibility and adversely affect our financial condition;
- our ability to maintain our investment grade credit rating;
- 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;
- the impact of and changes in governmental regulations, tax law and rates, accounting guidance and similar matters;
- our ability to maintain our qualification as a real estate investment trust (“REIT”) for U.S. federal income tax purposes;
- our ability to maintain our exemption from registration under the Investment Company Act of 1940 (the “Investment Company Act”);
- availability of qualified personnel; and
- market trends in our industry, interest rates, real estate values, the securities markets or the general economy.

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

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

PART I

ITEM 1. BUSINESS

General

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

We are an internally-managed REIT focused on the acquisition, ownership and management of specialized industrial properties leased to experienced, state-licensed operators for their regulated 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, real estate 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 December 31, 2023, we had 21 full-time employees.

Our corporate office is located at 1389 Center Drive, Suite 200, Park City, Utah 84098. Our telephone number is (858) 997-3332.

2023 Business Update

Investments

During 2023, we acquired two new properties and made additional investments into existing properties under development or redevelopment. As of December 31, 2023, we owned 108 properties comprising an aggregate of approximately 8.9 million rentable square feet (including approximately 1.4 million rentable square feet under development/redevelopment) in 19 states. As of December 31, 2023, we had invested an aggregate of approximately \$2.4 billion across our property portfolio (consisting of purchase price and funding of draws for improvements submitted by tenants, if any, but excluding transaction costs) and had committed an additional approximately \$40.1 million to fund draws to certain tenants and vendors for improvements at our properties. Of the approximately \$40.1 million committed to fund draws to certain tenants and vendors for improvements at our properties, approximately \$9.6 million was incurred but not funded as of December 31, 2023. These statistics do not include a \$23.0 million loan commitment from us to a developer for construction of a regulated cannabis cultivation and processing facility in California, of which we have funded approximately \$22.0 million as of December 31, 2023.

Of these 108 properties, we include 103 properties in our operating portfolio, which were 95.8% leased as of December 31, 2023, with a weighted-average remaining lease term of approximately 14.6 years.

We do not include in our operating portfolio the following properties (all of which were under development/redevelopment as of December 31, 2023, and together are expected to comprise approximately 715,000 rentable square feet upon completion of development/redevelopment):

- Inland Center Drive in San Bernardino, California;
- Perez Road in Cathedral City, California (pre-leased);
- 63795 19th Avenue in Palm Springs, California;
- Leah Avenue in San Marcos, Texas; and
- Davis Highway in Dimondale, Michigan (pre-leased).

For more information regarding our properties and tenants, see the sections entitled “— Tenant Concentration” and “— Geographic Concentration” below.

Property Sale

In March 2023, we sold the portfolio of four properties in California previously leased to affiliates of Medical Investor Holdings, LLC (“Vertical”) for \$16.2 million (excluding transaction costs) with a secured loan for \$16.1 million with the buyer of the properties. The transaction did not qualify for recognition as a completed sale since not all of the criteria were met. Accordingly, we have not derecognized the assets transferred. All consideration received, as well as any future payments, from the buyer is recognized as a deposit liability and is included in other liabilities on our consolidated balance sheet until such time the criteria for recognition as a sale have been met. In addition, as we have not met all of the held-for-sale criteria, land and building and improvements with gross carrying values of approximately \$3.4 million and approximately \$13.9 million, respectively, and accumulated depreciation of approximately \$1.6 million as of December 31, 2023, remain on the consolidated balance sheet, and the buildings and improvements continue to be depreciated. During the year ended December 31, 2023, we received cash interest payments of approximately \$1.3 million, which have been recorded as a liability as of December 31, 2023.

Financial Results

	Years Ended December 31,		Percentage
	2023	2022	Increase
	<i>(dollars in thousands, except per share data)</i>		
Rental revenues (including tenant reimbursements).....	\$ 307,349	\$ 274,377	12 %
Net income attributable to common stockholders.....	\$ 164,236	\$ 153,034	7 %
Net income attributable to common stockholders per share – diluted.....	\$ 5.77	\$ 5.52	5 %
AFFO ⁽¹⁾	\$ 256,497	\$ 233,637	10 %
AFFO per share – diluted ⁽¹⁾	\$ 9.08	\$ 8.45	7 %
Dividends per share of common stock declared	\$ 7.22	\$ 7.10	2 %

(1) For a definition and discussion of adjusted funds from operations (“AFFO”) and a reconciliation of AFFO to net income attributable to common stockholders, see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Capital Activities

In January 2023, we terminated the previously existing “at-the-market” offering program and entered into new equity distribution agreements with four sales agents, pursuant to which we may offer and sell from time to time through an “at-the-market” offering program (the “ATM Program”) up to \$500.0 million in shares of our common stock. During the year ended December 31, 2023, we sold 101,061 shares of our common stock under the ATM Program for net proceeds of approximately \$9.6 million.

In October 2023, our Operating Partnership entered into a loan and security agreement (the “Loan Agreement”) with a federally regulated commercial bank, as lender and as agent for lenders that become party thereto from time to time. The Loan Agreement matures on October 23, 2026, and provides \$30.0 million in aggregate commitments for secured revolving loans (the “Revolving Credit Facility”). The Loan Agreement also allows the Operating Partnership, subject to the satisfaction of certain conditions, to request additional revolving loan commitments up to a specified amount. The Loan Agreement is subject to certain liquidity and operating covenants and includes customary representations and warranties, affirmative and negative covenants and events of default. There were no amounts outstanding under the Loan Agreement as of December 31, 2023.

During the year ended December 31, 2023, we issued 32,200 shares of our common stock upon exchange by holders of \$2.0 million of outstanding principal amount of our 3.75% Exchangeable Senior Notes due 2024 (the “Exchangeable Senior Notes”). Subsequent to year-end, we issued 28,408 shares of our common stock and paid approximately \$4.3 million in cash upon exchange by holders of the remaining approximately \$4.3 million principal amount of Exchangeable Senior Notes and paid off the remaining \$100,000 principal amount at maturity, in accordance with the terms of the indenture for the Exchangeable Senior Notes.

Our Properties

Generally

We have acquired and intend to continue to acquire specialized industrial real estate assets operated by state-licensed cannabis operators through sale-leaseback transactions and third-party purchases. In sale-leaseback transactions, concurrently upon closing of the acquisition, we lease the properties back to the sellers under long-term, triple-net lease agreements. Based on our properties and ongoing review of potential acquisitions, indoor cultivation facilities generally have similar shells as standard light industrial buildings or greenhouses. However, based on our diligence, the regulated cannabis cultivation process typically requires a finely tuned environment to achieve consistent high quality and specificity in cannabinoid levels and to maximize yields, which translates into certain capital improvements in the building’s infrastructure. These improvements can include enhanced HVAC systems for climate and humidity control, high capacity electrical and plumbing systems, specialized lighting systems, and sophisticated building management, cultivation monitoring and security systems. Through our sale-leaseback strategy, we serve as a source of capital to these licensed regulated cannabis operators, allowing them to redeploy their sale proceeds into their core operations to grow their business and achieve higher returns. We may also purchase properties from third parties and fund the necessary improvements through a long-term lease with an identified tenant, which provides those tenants with increased cash flow to deploy in their operating businesses.

The following table sets forth certain information regarding our property portfolio by property type for the year ended and as of December 31, 2023 (dollars in thousands):

Property Type	Number of Properties	Rentable Square Feet		Contractual Rent Collected for the Year Ended December 31, 2023 ⁽¹⁾	Percentage of Total
		Operating	Under Development or Redevelopment		
Industrial ⁽²⁾⁽³⁾	66	6,901,000	1,315,000	\$ 261,845	92 %
Retail	33	150,000	—	6,963	2
Industrial/Retail ⁽³⁾	9	458,000	63,000	17,298	6
Total	108	7,509,000	1,378,000	\$ 286,106	100 %

(1) Contractual rent collected includes base rent and property management fees, including amounts collected for one property and portions of two properties that did not satisfy the requirements for sale-leaseback accounting and therefore are primarily recognized as other revenue on our consolidated statements of income. Contractual rent collected excludes tenant reimbursements.

(2) Number of properties and rentable square feet include one property acquired in January 2022 which did not satisfy the requirements for sale-leaseback accounting and therefore, the investment is recognized as a note receivable and is included in other assets, net on our consolidated balance sheet.

(3) “Industrial” reflects facilities utilized or expected to be utilized for regulated cannabis cultivation, processing and/or distribution activities, which can consist of industrial and/or greenhouse space. Also includes three properties (one located in San Bernardino, California and two located in Palm Springs, California), where we are evaluating alternative non-cannabis uses for the properties, due in part to changes in the zoning that no longer allow for regulated cannabis cultivation and processing.

As of December 31, 2023, the tenants at our leased properties are generally responsible for paying (or reimbursing us) for all structural repairs, maintenance expenses, insurance and real estate taxes related to the property during the term of the applicable lease.

Our Competitive Strengths

We believe that we have the following competitive strengths:

- ***Experienced Management Team.*** Alan Gold, our executive chairman, and other members of our senior management team have substantial experience in all aspects of the real estate industry, including acquisitions, dispositions, construction, development, management, finance and capital markets. In particular, in August 2004, Mr. Gold and Gary Kreitzer, vice chairman of our board of directors, founded BioMed Realty Trust, Inc. (formerly NYSE: BMR) (“BioMed Realty”), an internally-managed REIT focused on acquiring, developing, owning, leasing and managing laboratory and office space for the life science industry, an industry they believed to be underserved by commercial property investors and lenders and poised for significant growth. Mr. Gold served as chairman of the board of directors and chief executive officer and Mr. Kreitzer served as executive vice president and a member of the board of directors from the founding of BioMed Realty in 2004 through the acquisition of BioMed Realty by an affiliate of The Blackstone Group, L.P. in 2016.
- ***Recurring Revenue with Contractual Escalations.*** As of December 31, 2023, we owned 108 properties. Of these 108 properties, we include 103 properties in our operating portfolio, which were 95.8% leased as of December 31, 2023, with a weighted-average remaining lease term of approximately 14.6 years, and which are subject to contractual rental rate increases. Along with our existing portfolio, we expect to continue to enter into additional similar transactions structured to provide recurring revenue with contractual escalations.
- ***Demonstrated Investment Acumen.*** We utilize rigorous underwriting standards for evaluating acquisitions and potential tenants to ensure that they meet our strategic and financial criteria. Our extensive experience and relationships in the real estate and regulated cannabis industry enable us to identify, negotiate and close on acquisitions and leases with established operators and other operators which meet our criteria.
- ***Regulated Cannabis Industry Growth Trends.*** Based on the strong historical and projected growth for the regulated cannabis industry, we expect to see significant spending by state-licensed cannabis operators on their existing and new state-licensed cannabis facilities, presenting an opportunity for us to be a key capital provider in their expansion initiatives.

Our Business Objectives and Growth Strategies

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

- ***Owning Specialized Industrial Properties and Related Real Estate Assets for Income.*** We primarily acquire regulated cannabis facilities from licensed operators who will continue their cultivation, processing and/or dispensing operations after our acquisition of the property. We expect to hold acquired properties for investment, with the goal of generating stable and increasing rental income from leasing these properties to licensed operators.
- ***Expanding as Additional States Enact Regulated Cannabis Programs.*** We acquire properties in the United States, with a focus on states that have established regulated cannabis programs. As of December 31, 2023, we owned properties in 19 states, and we expect that our acquisition opportunities will continue to expand as additional states establish regulated cannabis programs and license new operators.
- ***Providing Expansion Capital to Existing Tenants as an Additional Source of Income.*** We have provided expansion capital for many of our existing tenant operators as they expand operations in additional states and

locations within a state, as well as capital for continued enhancements of production capacity at existing facilities that these operators lease from us, which correspond to adjustments in rent under the applicable leases and other provisions in certain cases. We expect to continue to focus on executing on these expansion initiatives with our tenant operators.

- ***Preserving Financial Flexibility on our Balance Sheet.*** We are focused on maintaining a flexible capital structure for financing our growth initiatives. As of December 31, 2023, we had debt comprised of approximately \$4.4 million principal amount of Exchangeable Senior Notes and \$300.0 million principal amount of our 5.50% Senior Notes due 2026 (the “Notes due 2026”), representing a total quarterly fixed cash interest obligation of approximately \$4.1 million and approximately 12% of our total gross assets of approximately \$2.6 billion, with no debt maturing until May 2026 (holders exchanged the remaining principal amount of the Exchangeable Senior Notes for a combination of shares of common stock and cash subsequent to year-end).

Our Target Markets

Our target markets include states that have established regulated cannabis programs. As of December 31, 2023, we owned 108 properties located in 19 states. According to the Marijuana Business Daily, as of November 13, 2023, 40 states and the District of Columbia have legalized cannabis for medical use, and 24 states and the District of Columbia have legalized cannabis for adult-use.

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

In addition, we expect other factors will be important in the development and growth of the regulated cannabis industry in the United States, including the timeframes for developing regulations and issuing licenses in states that recently passed laws allowing for regulated cannabis; continued legislative authorization of cannabis at the state level; support from local municipalities within a state; federal, state and local taxation of regulated cannabis products; and the level of enforcement against illicit, non-licensed cannabis activities in a state. Progress in the regulated cannabis industry is not assured and any number of factors could slow or halt progress in this area.

Market Opportunity

The Regulated Cannabis Industry

Overview

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

Industry Trends

According to BDSA, state-legal cannabis sales in the United States are projected to grow from \$26.4 billion in 2022 to \$43.4 billion by 2027, representing a compound annual growth rate of approximately 10.5%.

As the industry continues to evolve, new ways to consume regulated cannabis products are being developed in order for patients to have the treatment needed for their condition and provide consumers safe, consistent and appealing options. In addition to smoking and vaporizing of dried leaves, cannabis can be incorporated into a variety of edibles, pills, spray products, transdermal patches and topicals, including salves, ointments, lotions and sprays with low or high levels of delta-9-tetrahydrocannabinol (“THC”), the principal psychoactive constituent of the cannabis plant.

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

Shifting Public Attitudes and State Law and Legislative Activity

We believe that the growth of the regulated cannabis industry has been fueled, in part, by the rapidly changing public attitudes in the United States. In a Gallup poll released in November 2023, a record 70% of U.S. adults supported federal legalization of cannabis, with majority support found across demographic and political subgroups.

As of November 13, 2023, 40 states, plus the District of Columbia, have passed laws allowing their citizens to use medical cannabis. The first state to permit the use of cannabis for medicinal purposes was California in 1996, upon adoption of the Compassionate Care Act. The law allowed doctors to recommend cannabis for serious medical conditions and patients were permitted to use, possess and grow cannabis themselves. Several other states adopted medical-use cannabis laws in 1998 and 1999, and the remaining medical-use cannabis states adopted their laws on various dates through 2023. In addition, as of November 13, 2023, 24 states, plus the District of Columbia, have legalized cannabis for adult-use.

Following the approval of state-regulated cannabis, state programs must be developed and businesses must be licensed before commencing cannabis sales. Some states have developed the necessary procedures and licensing requirements quickly, while other states have taken years to develop their programs for production and sales of cannabis. Even where regulatory frameworks for regulated cannabis production and sales are in place, states tend to revise these rules over time. These revisions often impact sales, making it difficult to predict the potential of new markets. States may restrict the number of regulated cannabis businesses permitted; impose significant taxes on regulated cannabis products, in addition to taxes imposed by local municipalities; take limited enforcement actions against non-licensed cannabis operators; restrict the method by which cannabis can be consumed; restrict the ability of alternative health care providers to recommend medical cannabis for treatment; limit the medical conditions that are eligible for cannabis treatment; or require registration of doctors and/or patients, each of which can limit growth of the regulated cannabis industry in those states. Alternatively, states may relax their initial regulations relating to regulated cannabis production and sales and take other actions to support the growth of the regulated cannabis program, which would likely accelerate growth of the regulated cannabis industry in such states.

Access to Capital

To date, the status of state-licensed cannabis under federal law has limited the ability of state-licensed industry participants to fully access the U.S. banking system and traditional financing sources. These limitations, when combined with the high costs of maintaining licensed and stringently regulated cannabis facilities, substantially increase the cost of production. While future changes in federal and state laws may ultimately open up financing options that have not been widely available to date in this industry, we believe that our sale-leaseback and other real estate solutions to state-licensed industry participants will continue to be attractive capital options for regulated operators.

Market Opportunity and Associated Risks

We focus on purchasing specialized industrial real estate assets for the regulated cannabis industry. We believe that our sale-leaseback and other real estate solutions offer an attractive alternative to state-licensed cannabis operators who may have limited access to traditional financing alternatives. We have acquired and intend to continue to acquire regulated cannabis facilities in states that permit regulated cannabis operations.

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

Market Dynamics in Regulated Cannabis State Programs

States vary significantly in their market dynamics, driven by many factors, including, but not limited to, regulatory frameworks, enforcement policies with respect to illicit, unlicensed cannabis operations, taxation and licensing structures.

Unit Pricing for Regulated Cannabis Products

Many states continue to experience significant declines in unit pricing for regulated cannabis products, with that decline more pronounced in certain states than in others, which compresses operating margins for operators. As a result, certain regulated cannabis operators have recently announced that they are consolidating operations or shuttering certain operations to reduce costs, which if prolonged, could have a material negative impact on operators’ demand for regulated cannabis facilities, including our existing tenants.

Inflation and Supply Chain Constraints

The U.S. economy has experienced a sustained increase in inflation rates in recent years, which we believe is negatively impacting our tenants. This inflation has impacted costs for labor and production inputs for regulated cannabis operators, in addition to increasing costs of construction for development and redevelopment projects. Labor shortages and global supply chain issues also continue to adversely impact costs and timing for completion of these development and redevelopment projects, which are resulting in cost overruns and delays in commencing operations on certain of our tenants’ projects.

Reduced Capital Availability for Tenants

Recently, financial markets have been volatile, reflecting heightened geopolitical risks and material tightening of financial conditions since the U.S. Federal Reserve began increasing interest rates in spring of 2022 and continued uncertainty regarding monetary policy.

Driven in part by overall macroeconomic conditions, capital availability has significantly declined for regulated cannabis operators. According to Viridian Capital Advisors (“Viridian”), worldwide cannabis capital raises in 2023 constituted a multi-year low, with less than \$2 billion in total capital raises, versus over \$4.3 billion in 2022 and over \$12 billion in 2021. Total equity and debt capital raising for public and private cannabis cultivation and retail companies in the United States decreased 74% from 2022 and were lower than any previous year since before 2018, with debt accounting for over 80% of all capital raised for cannabis cultivation operations. According to Viridian, as of December 31, 2023, cannabis stock prices (as measured by the MSOS ETF) had declined more than 87% since their February 2021 peak.

Also according to Viridian, mergers and acquisitions activity in the North American regulated cannabis industry declined significantly in 2023 to \$1.75 billion, down from \$4.95 billion in 2022.

Tenant Concentration

As of December 31, 2023, all of our revenues were derived from 108 properties. The following table sets forth certain information regarding the top ten tenants in our property portfolio that represented the largest total invested and committed capital as of and for the year ended December 31, 2023 (dollars in thousands):

Tenant ⁽¹⁾	Number of Properties	Total Invested and Committed Capital ⁽²⁾	Contractual Rent Collected for the Year Ended December 31, 2023 ⁽³⁾	Percentage of Total
PharmaCann Inc. ("PharmaCann")	11	\$ 321,172	\$ 44,347	16 %
Ascend Wellness Holdings, Inc. ("Ascend")	4	214,050	29,094	10
Green Thumb Industries, Inc. ("Green Thumb")	3	176,800	21,293	7
Curaleaf Holdings, Inc. ("Curaleaf")	8	175,047	19,750	7
The Cannabist Company (f/k/a Columbia Care Inc.)	21	147,834	17,155	6
Trulieve Cannabis Corp. ("Trulieve")	6	146,503	18,568	6
Holistic Industries Inc. ("Holistic")	5	121,900	17,115	6
Cresco Labs Inc. ("Cresco")	5	120,845	16,026	6
4Front Ventures Corp. ("4Front") ⁽⁴⁾	4	119,150	15,095	5
SH Parent, Inc. ("Parallel") ⁽⁵⁾	2	107,900	19,513	7
Total	69	\$ 1,651,201	\$ 217,956	76 %

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

(2) Total invested and committed capital includes development and improvements allowance not funded as of December 31, 2023.

(3) Contractual rent collected includes base rent and property management fees, including amounts collected for one property and a portion of one property that did not satisfy the requirements for sale-leaseback accounting and therefore are primarily recognized as other revenue on our consolidated statements of income. Contractual rent collected excludes tenant reimbursements.

(4) Number of properties and total invested and committed capital include one property acquired in January 2022 which did not satisfy the requirements for sale-leaseback accounting and therefore, the investment is recognized as a note receivable and is included in other assets, net on our consolidated balance sheet.

(5) Includes contractual rent collected from two properties previously leased to Parallel in Texas and Pennsylvania. Parallel defaulted on its obligations to pay rent at the two properties, and we regained possession of the Texas property in March 2023 and the Pennsylvania property in October 2023. See Note 11 "Commitments and Contingencies — Litigation" to our consolidated financial statements for more information.

Many of our tenants have limited histories of operations, and have not yet been profitable, or have been profitable only for a short period of time. For some or all of 2024, we expect that many of our tenants will continue to incur losses as their expenses increase in connection with the expansion of their operations and the current operating environment, and that they have made and will continue to make rent payments to us from proceeds from the sale of the applicable property or cash on hand, and not funds from operations. Furthermore, each of our leases does not prohibit the tenant from conducting adult-use cannabis operations at the applicable property, provided such operations are in compliance with applicable state and local laws. As such, our tenant may conduct adult-use cannabis operations at the property it leases from us, which in turn could expose that tenant, us and our property to different and greater risks, including heightened risks of enforcement of federal laws. For example, Arizona, California, Colorado, Illinois, Maryland, Massachusetts, Michigan, Missouri, Nevada, New Jersey, New York, Virginia and Washington permit licensed adult-use cannabis operations, and our leases with tenants in those states allow for adult-use cannabis operations to be conducted at the properties in compliance with state and local laws.

In July 2022, Kings Garden, Inc. ("Kings Garden") defaulted on its obligations to pay rent at all of the properties it leases with us, and pursuant to a confidential, conditional settlement agreement executed on September 11, 2022 between us and Kings Garden, we terminated the leases for two properties that were in development or redevelopment as of December 31, 2023 and regained possession of those properties. In September 2023, we regained possession of the four remaining properties that Kings Garden had occupied, where Kings Garden paid stipulated rent during its period of occupancy until September 20, 2023.

In November 2022, Parallel defaulted on its obligations to pay rent at one of our properties in Pennsylvania, and we regained possession of that property in October 2023. In February 2023, Parallel also defaulted on its obligations to pay rent at one of our properties in Texas, and we regained possession of that property in March 2023.

In November 2022, Green Peak Industries, Inc. (“Green Peak”) defaulted on its obligations to pay rent at one of our properties in Michigan. In March 2023, a receiver was appointed over substantially all of Green Peak’s assets, and we subsequently regained possession of one property that was under redevelopment as a regulated cannabis cultivation and processing facility and three retail properties in Michigan. We also expect to regain possession of the remaining regulated cannabis cultivation and processing facility still occupied by the receiver on March 1, 2024.

See Note 11 “Commitments and Contingencies — Litigation” to our consolidated financial statements included in this report for more information regarding Kings Garden, Parallel and Green Peak.

In 2023, as previously reported in our periodic filings, we also executed limited rent deferrals for Holistic (at two properties in California and Michigan), Calyx Peak, Inc. (one property in Missouri), Temescal Wellness of Massachusetts, LLC (one property in Massachusetts) and 4Front (one property in Illinois) (see Note 6 “Investments in Real Estate” to our consolidated financial statements included in this report for more information). In January 2024, we further amended the 4Front Illinois lease to provide a temporary rent reduction (see Note 12 “Subsequent Events” to our consolidated financial statements included in this report for more information).

See each of the discussions under Item 1A, “Risk Factors,” under the captions “Many of our existing tenants are, and we expect that many of our future tenants will be, companies with limited histories of operations and may be unable to pay rent with funds from operations or at all, which could adversely affect our cash available to make distributions to our stockholders or otherwise impair the value of our common stock,” and “Because we lease our properties to a limited number of tenants, and to the extent we depend on a limited number of tenants in the future, the inability of any single tenant to make its lease payments could adversely affect our business and our ability to make distributions to our stockholders.”

Geographic Concentration

The following table sets forth certain state-by-state information regarding our property portfolio for the year ended and as of December 31, 2023 (dollars in thousands):

State	Number of Properties	Rentable Sq. Ft. ⁽¹⁾	Total Invested and Committed Capital ⁽²⁾	Contractual Rent Collected for the Year Ended December 31, 2023 ⁽³⁾	Percentage of Total
Arizona.....	3	377,000	\$ 27,737	\$ 4,214	1 %
California.....	9	849,000	206,448	17,929	6
Colorado.....	27	233,000	83,340	7,405	3
Florida.....	4	1,008,000	166,550	23,330	8
Illinois.....	7	965,000	305,700	40,405	14
Maryland.....	3	271,000	88,265	8,229	3
Massachusetts ⁽⁴⁾	10	989,000	306,200	41,579	14
Michigan.....	14	946,000	293,979	31,184	11
Minnesota.....	1	89,000	9,710	1,756	1
Missouri.....	1	83,000	28,250	3,748	1
Nevada.....	1	43,000	9,600	1,537	1
New Jersey.....	4	291,000	103,985	12,748	4
New York.....	2	622,000	204,866	26,056	9
North Dakota.....	3	42,000	15,849	1,975	1
Ohio.....	5	374,000	111,295	12,992	5
Pennsylvania.....	10	1,361,000	385,430	42,369	15
Texas.....	2	148,000	30,231	3,076	1
Virginia.....	1	82,000	19,750	2,838	1
Washington.....	1	114,000	17,500	2,736	1
Total.....	108	8,887,000	\$ 2,414,685	\$ 286,106	100 %

(1) Includes approximately 1.4 million square feet under development/redevelopment.

(2) Total invested and committed capital includes development and improvements allowances not funded as of December 31, 2023.

(3) Contractual rent collected includes base rent and property management fees, including amounts collected for one property and portions of two properties that did not satisfy the requirements for sale-leaseback accounting and therefore are primarily recognized as other revenue on our consolidated statements of income. Contractual rent collected excludes tenant reimbursements.

(4) Number of properties and rentable square feet include one property acquired in January 2022 which did not satisfy the requirements for sale-leaseback accounting and therefore, the investment is recognized as a note receivable and is included in other assets, net on our consolidated balance sheet.

See discussion under Item 1A, “Risk Factors,” under the caption “Our properties are, and are expected to continue to be, geographically concentrated in states that permit licensed cannabis operations, and we will be subject to social, political and economic risks of doing business in these states and any other state in which we may own property.” The regulated cannabis market is in its early stages; is generally subject to strict regulations providing for, among other things, comprehensive product testing and tracking systems, limited medical conditions for treatment with medical-use cannabis, limitations on the form in which medical cannabis can be consumed and enhanced registration requirements for patients and physicians; is subject in many instances to significant taxation burdens at the federal, state and local levels; competes in many instances with non-licensed cannabis operators due in part to limited enforcement by state and local authorities; and may face opposition from local municipalities within a state, any of which may contribute to a particular market not growing and developing in the way that we or our tenants projected.

Our Financing Strategy

We intend to meet our long-term liquidity needs through cash flow from operations and the issuance of equity and debt securities, including common stock, preferred stock and notes, and draws from our Revolving Credit Facility. Where possible, we also may issue limited partnership interests in our Operating Partnership to acquire properties from existing owners seeking a tax-deferred transaction. We expect to issue equity and debt securities at times when we believe that we can reinvest the proceeds of such an offering in accretive property acquisitions. We may also issue

common stock to permanently finance properties that were previously financed by debt securities or draws from our Revolving Credit Facility. However, we cannot assure you that we will have access to the capital markets at times and on terms that are acceptable to us. Our ability to access the capital markets and to obtain other financing arrangements is also significantly limited by our focus on serving the regulated cannabis industry. Our investment guidelines provide that our aggregate borrowings (secured and unsecured) will not exceed 50% of the cost of our tangible assets at the time of any new borrowing, subject to our board of directors' discretion.

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

Capital raising activities by U.S. REITs continued to be subdued in 2023, after experiencing a significant decline in the latter part of 2022. According to the National Association of Real Estate Investment Trusts, Inc. ("NAREIT"), U.S. REIT 2023 capital raising was modestly higher than 2022, though 2022 represented the lowest level since 2009.

Financial markets for REITs and the cannabis industry have been volatile in general for an extended period of time, which has also significantly reduced our access to capital. This has contributed to a significant decrease in our investments in new properties in 2022 and 2023. If sustained, this would have a material adverse effect on our business, financial condition and results of operations, including our ability to continue to make acquisitions of new properties and fund investments for improvements at existing properties.

Risk Management

As of December 31, 2023, we owned 108 properties located in 19 states. Many of our tenants are tenants at multiple properties. We will continue to attempt to diversify the investment size and location of our portfolio of properties in order to manage our portfolio-level risk. Over the long term, we expect that no single property will exceed 20% of our total assets and that properties leased to a single tenant (individually or together with its affiliates) will not exceed 20% of our total assets. Notwithstanding the foregoing, the industry continues to experience significant consolidation among regulated cannabis operators, and certain of our tenant operators may combine, increasing the concentration of our tenant portfolio with those consolidated operators.

We expect that single tenants will continue to occupy our properties pursuant to triple-net lease arrangements in general and, therefore, the success of our investments will be materially dependent on the financial stability of these tenants. Many of our existing tenants have limited histories of operations, and have not yet been profitable, or have been profitable only for a short period of time. As such, we expect that many of our current and future tenants will continue to incur losses as their expenses increase in connection with the expansion of their operations, and that they have made and will make rent payments to us from proceeds from the sale of the applicable property or cash on hand, and not funds from operations. We also expect the success of our tenants, and their ability to make rent payments to us, to significantly depend on the projected growth and development of the applicable state market; as many of these state markets have a very limited history, and other state markets are still forming their regulations, issuing licenses and otherwise establishing the market framework, significant uncertainty exists as to whether these markets will develop in the way that we or our tenants project.

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

Competition

The current market for properties that meet our investment objectives is limited. In addition, we believe finding properties that are appropriate for the specific use of allowing regulated cannabis operators may be limited as more

competitors enter the market, and as regulated cannabis operators obtain greater access to alternative financing sources, including but not limited to equity and debt financing sources.

We face significant competition from a diverse mix of market participants, including but not limited to, other companies with similar business models, independent investors, hedge funds and other real estate investors, hard money lenders, and cannabis operators themselves, all of whom may compete with us in our efforts to acquire real estate zoned for regulated cannabis facilities. In some instances, we will be competing to acquire real estate with persons who have no interest in the cannabis industry, but have identified value in a piece of real estate that we may be interested in acquiring.

These competitors may prevent us from acquiring desirable properties or may cause an increase in the price we must pay for properties. Our competitors may have greater financial and operational resources than we do and may be willing to pay more for certain assets or may be willing to accept more risk than we believe can be prudently managed. In particular, larger companies may enjoy significant competitive advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. Our competitors may also adopt transaction structures similar to ours, which would decrease our competitive advantage in offering flexible transaction terms.

In addition, due to a number of factors, including but not limited to potential greater clarity of the laws and regulations governing regulated cannabis by state and federal governments, the number of entities and the amount of funds competing for suitable investment properties may increase substantially, resulting in increased demand and increased prices paid for these properties. Furthermore, changes in federal regulations pertaining to cannabis could also lead to increased access to U.S. capital markets for our competitors and for regulated cannabis operators (including but not limited to access to the Nasdaq Stock Market and/or the New York Stock Exchange). We compete for the acquisition of properties primarily based on purchase price and the lease terms (including rental rates, lease duration and improvement allowances, among others) in our sale leaseback and other real estate capital transactions. If we pay higher prices for properties or offer lease terms that are less attractive for us, our profitability may decrease, and you may experience a lower return on our common stock. Increased competition for properties may also preclude us from acquiring those properties that would generate attractive returns to us.

Governmental Regulation

Federal Laws Applicable to the Regulated Cannabis Industry

Cannabis (with the exception of hemp containing no more than 0.3% THC by dry weight) is illegal under U.S. federal law. The U.S. federal government regulates drugs through the Controlled Substances Act of 1970 (the “CSA”). The CSA classifies marijuana (cannabis) as a Schedule I controlled substance, and as such, the manufacture, distribution and dispensing of marijuana is illegal under U.S. federal law. Moreover, on two separate occasions the U.S. Supreme Court ruled that the CSA trumps state law. That means that the federal government may enforce U.S. drug laws against companies operating in accordance with state cannabis laws, creating a climate of legal uncertainty regarding the production and sale of cannabis. Unless and until Congress amends the CSA with respect to cannabis (and the President approves such amendment), there is a risk that the federal law enforcement authorities responsible for enforcing the CSA, including the U.S. Department of Justice (“DOJ”) and the Drug Enforcement Agency (“DEA”), may enforce current federal law.

Under the Obama administration, the DOJ previously issued memoranda, including the so-called “Cole Memo” on August 29, 2013, providing internal guidance to federal prosecutors concerning enforcement of federal cannabis prohibitions under the CSA. This guidance essentially characterized as inefficient the use of federal law enforcement resources to prosecute those complying with state laws allowing the use, manufacture and distribution of cannabis where states have enacted laws legalizing cannabis in some form and have also implemented strong and effective regulatory and enforcement systems to control the cultivation, processing, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations was not a priority for the DOJ. Instead, the Cole Memo directed U.S. Attorney’s Offices discretion not to investigate or prosecute state law compliant participants in the medical cannabis industry who did not implicate one or more specifically identified federal government priorities, including preventing interstate diversion or distribution of cannabis to minors.

On January 4, 2018, then-U.S. Attorney General Jeff Sessions issued a written memorandum rescinding the Cole Memo and related internal guidance issued by the DOJ regarding federal law enforcement priorities involving cannabis (the “Sessions Memo”). The Sessions Memo instructed federal prosecutors to enforce the laws enacted by Congress and to follow well-established principles that govern all federal prosecutors when deciding whether to pursue prosecutions related to cannabis activities. As a result, federal prosecutors could, and still can, use their prosecutorial discretion to decide to prosecute actors compliant with their state laws. The Sessions Memo states that “these principles require federal prosecutors deciding which cases to prosecute to weigh all relevant considerations, including federal law enforcement priorities set by the Attorney General, the seriousness of the crime, the deterrent effect of criminal prosecution, and the cumulative impact of particular crimes on the community.” The Sessions Memo went on to state that given the DOJ’s well-established general principles, “previous nationwide guidance specific to marijuana is unnecessary and is rescinded, effective immediately.” Although there have not been any identified prosecutions of state law compliant cannabis entities, there can be no assurance that the federal government will not enforce federal laws relating to cannabis in the future and it remains unclear what impact the Sessions Memo will have on the regulated cannabis industry, if any.

Jeff Sessions resigned as U.S. Attorney General on November 7, 2018.

On February 14, 2019, William Barr was confirmed as U.S. Attorney General. However, in a written response to questions from U.S. Senator Cory Booker made as a nominee, Attorney General Barr stated “I do not intend to go after parties who have complied with state law in reliance on the Cole Memo.” The DOJ under Mr. Barr did not take a formal position on federal enforcement of laws relating to cannabis.

Attorney General Merrick Garland, who was confirmed as U.S. Attorney General on March 10, 2021, has not provided a clear policy directive for the United States as it pertains to state-legal cannabis-related activities, and there can be no assurances that DOJ or other law enforcement authorities will not seek to vigorously enforce current U.S. federal laws.

In August 2023, the U.S. Department of Health and Human Services (“HHS”) recommended to the DEA that cannabis be reclassified from a Schedule I drug to a Schedule III drug under the CSA. HHS based this recommendation on a Food and Drug Administration (“FDA”) review of cannabis’ classification pursuant to President Biden’s executive order in October 2022. The process for reclassification will require DEA approval and likely complex administrative rulemaking proceedings, and it remains unclear how long this process will take and the scope of any final decisions or rules.

One legislative safeguard for the medical cannabis industry, appended to federal appropriations legislation, remains in place. Commonly referred to as the “Rohrabacher-Blumenauer Amendment”, this so-called “rider” provision has been appended to the Consolidated Appropriations Acts since 2015. Under the terms of the Rohrabacher-Blumenauer rider, the federal government is prohibited from using congressionally appropriated funds to enforce federal cannabis laws against regulated medical cannabis actors operating in compliance with state and local law. In January 2024, a stopgap spending bill passed, extending the application of the Rohrabacher-Blumenauer Amendment until March 8, 2024. There is no assurance that Congress will approve inclusion of a similar prohibition on DOJ spending in the appropriations bills for future years. In *USA vs. McIntosh*, the United States Circuit Court of Appeals for the Ninth Circuit held that this provision prohibits the DOJ from spending funds from relevant appropriations acts to prosecute individuals who engage in conduct permitted by state medical-use cannabis laws and who strictly comply with such laws. However, the Ninth Circuit’s opinion, which only applies in the states of Alaska, Arizona, California, Hawaii and Idaho, also held that persons who do not strictly comply with all state laws and regulations regarding the distribution, possession and cultivation of medical-use cannabis have engaged in conduct that is unauthorized, and in such instances the DOJ may prosecute those individuals.

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

Federal prosecutors have significant discretion and no assurance can be given that the federal prosecutor in each judicial district where we purchase a property will not choose to strictly enforce the federal laws governing cannabis production, processing or distribution. Any change in the federal government's enforcement posture with respect to state-licensed cultivation of cannabis, including the enforcement postures of individual federal prosecutors in judicial districts where we purchase properties, would result in our inability to execute our business plan, and we would likely suffer significant losses with respect to our investment in regulated cannabis facilities in the United States, which would adversely affect the trading price of our securities. Furthermore, following any such change in the federal government's enforcement position, we could be subject to criminal prosecution, which could lead to imprisonment and/or the imposition of penalties, fines, or forfeiture. See Item 1A, "Risk Factors – Risks Relating to Regulation."

State Laws Applicable to the Regulated Cannabis Industry

In most states that have legalized cannabis in some form, the growing, processing and/or dispensing of cannabis generally requires that the operator obtain one or more licenses in accordance with applicable state requirements. In addition, many states regulate various aspects of the growing, processing and/or dispensing of cannabis. Local governments in some cases also impose rules and regulations on the manner of operating cannabis businesses. As a result, applicable state and local laws and regulations vary widely, including, but not limited to, regulations governing the medical cannabis program (such as the type of cannabis products permitted under the program, qualifications and registration of health professionals that may recommend treatment with medical cannabis, and the types of medical conditions that qualify for medical cannabis), product testing, the level of enforcement by state and local authorities on non-licensed cannabis operators, state and local taxation of regulated cannabis products, local municipality bans on operations and operator licensing processes and renewals. As a result of these and other factors, if our tenants default under their leases, we may not be able to find new tenants that can successfully engage in the cultivation, processing or dispensing of regulated cannabis on the properties.

There is no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed, amended or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. Unless and until the United States Congress amends or repeals the CSA with respect to medical and/or adult-use cannabis (and as to the timing or scope of any such potential amendment or repeal there can be no assurance), there is a significant risk that federal authorities may enforce current federal law. If the federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing applicable state laws are repealed or curtailed, our business, results of operations, financial condition and prospects would be materially adversely affected.

Laws Applicable to Financial Services for the Regulated Cannabis Industry

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

Despite these laws, the U.S. Department of the Treasury's Financial Crimes Enforcement Network ("FinCEN") issued a memorandum on February 14, 2014 (the "FinCEN Memorandum") outlining the pathways for financial institutions to bank state-sanctioned cannabis businesses in compliance with federal enforcement priorities. Concurrently with the FinCEN Memorandum, the DOJ issued supplemental guidance directing federal prosecutors to consider the federal enforcement priorities enumerated in the Cole Memo with respect to federal anti-money laundering, unlicensed money transmitter and Bank Secrecy Act offenses based on cannabis-related violations of the CSA. The FinCEN Memorandum sets forth extensive requirements for financial institutions to meet if they want to offer bank accounts to

cannabis-related businesses and echoed the enforcement priorities of the Cole Memo. Under these guidelines, financial institutions must submit a Suspicious Activity Report (“SAR”) in connection with all cannabis-related banking activities by any client of such financial institution, in accordance with federal anti-money laundering laws. These cannabis-related SARs are divided into three categories – cannabis limited, cannabis priority, and cannabis terminated – based on the financial institution’s belief that the business in question follows state law, is operating outside of compliance with state law, or where the banking relationship has been terminated, respectively. This is a level of scrutiny that is far beyond what is expected of any normal banking relationship.

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

The rescission of the Cole Memo has not yet affected the status of the FinCEN Memorandum, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself. Although the FinCEN Memorandum remains intact, it is unclear whether the current administration will continue to follow the guidelines of the FinCEN Memorandum. The DOJ continues to have the right and power to prosecute crimes committed by banks and financial institutions, such as money laundering and violations of the Bank Secrecy Act, that occur in any state including states that have in some form legalized the sale of cannabis. Further, the conduct of the DOJ’s enforcement priorities could change for any number of reasons. A change in the DOJ’s priorities could result in the DOJ’s prosecuting banks and financial institutions for crimes that were not previously prosecuted.

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

The increased uncertainty surrounding financial transactions related to cannabis activities may also result in financial institutions discontinuing services to the cannabis industry. See Item 1A, “Risk Factors – Risks Relating to Regulation.”

Agricultural Regulation

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

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

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

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

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

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

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

Environmental Matters

Our properties and the operations thereon are subject to federal, state and local environmental laws, ordinances and regulations, including laws relating to water, air, solid wastes and hazardous substances. Our properties and the operations thereon are also subject to federal, state and local laws, ordinances, regulations and requirements related to the federal Occupational Safety and Health Act, as well as comparable state statutes relating to the health and safety of our employees and others working on our properties. Although we believe that we and our tenants are in material compliance with these requirements, there can be no assurance that we will not incur significant costs, civil and criminal penalties and liabilities, including those relating to claims for damages to persons, property or the environment resulting from operations at our properties. Furthermore, many of our properties have been repurposed for regulated cannabis operations, and historically were utilized for other purposes, including heavy industrial uses, which expose us to additional risks associated with historical releases of substances at the properties.

Real Estate Industry Regulation

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

Changes to zoning, land use and other laws, ordinances and regulations may also prevent us from leasing a property for regulated cannabis cultivation, processing and/or dispensing in the future. For three of our properties (one located in San Bernardino, California and two located in Palm Springs, California), as of December 31, 2023, we were evaluating alternative non-cannabis uses for the properties, due in part to changes in the zoning of the property that no longer allow for regulated cannabis cultivation and processing.

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

Americans with Disabilities Act (“ADA”) and Other Building Regulations

All of our properties are required to comply with the Americans with Disabilities Act (“ADA”), which generally requires that buildings be made accessible to people with disabilities. Compliance with ADA requirements may require removal of access barriers, and noncompliance may result in imposition of fines by the U.S. government or an award of damages to private litigants, or both. The tenants to whom we lease space in our properties are generally obligated by law to comply with the ADA provisions, and typically under tenant leases are obligated to cover costs associated with compliance. We are required to operate the properties in compliance with fire and safety regulations, building codes and other land use regulations, as they may be adopted by governmental entities and become applicable to the properties.

Seasonality

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

Available Information

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

Human Capital

Our employees are our most valuable asset, and we believe we have an inclusive and engaging work environment, where each person is an integrated member of the team and is critical to our company’s continued success. We meet regularly as a full team, including throughout the COVID-19 pandemic, where each member is encouraged to actively participate in a wide range of topics relating to our company’s execution.

We are also committed to the health and safety of our employees. During the COVID-19 pandemic, we implemented a number of safety protocols to protect our employees, including protocols regarding social distancing and working remotely.

We believe that attracting, developing, engaging and retaining our team is an absolute priority. To that end, we believe we offer a highly competitive compensation (including salary, bonuses and equity) and benefits package for each member of our team, which include the following:

- Comprehensive health insurance, including medical, dental and vision, to each employee and every member of his or her immediate family at no cost to the employee, with the same benefits to every employee, regardless of title;
- Four weeks of paid time off each year for each employee (increasing to five weeks after five years of service and to six weeks after ten years of service), which are in addition to Company holidays;

- A severance plan applicable to all non-executive employees that assists with each employee's financial security in the event his or her employment is terminated without cause or he or she resigns for good reason;
- A 401(k) plan with matching contributions from the Company;
- Disability insurance;
- Company sponsorship of continuing education courses related to our Company's business, including commercial real estate, cannabis, property management, legal and accounting courses;
- Company reimbursement of up to \$200 per year for each employee's health and wellness activities, materials, equipment and/or classes; and
- Matching contribution by the Company, dollar-for-dollar, up to \$2,500 per year per employee for donations to qualifying educational institutions.

We also coordinate periodic team and individual community giving activities (both in terms of hands-on volunteering and continued financial contributions), soliciting input from our employees regarding charitable organizations and community activities that they would like to support.

We are also proud to be an equal opportunity workplace and employer. We are committed to the principle of equal employment opportunity for all employees and to providing employees with an inclusive work environment free of discrimination and harassment. All employment decisions are based on qualifications, merit and business needs, without regard to race, color, creed, gender, religion, sex, national origin, ancestry, pregnancy, age, marital status, registered domestic partner status, sexual orientation, gender identity, protected medical condition, genetic information, physical or mental disability, veteran status, or any other status protected by the laws or regulations in the locations where we operate.

ITEM 1A. RISK FACTORS

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

Risk Factors Summary

The following is a summary of the principal risks and uncertainties that could adversely affect our business, cash flows, financial condition and/or results of operations, and these adverse impacts may be material. This summary is qualified in its entirety by reference to the more detailed descriptions of the risks and uncertainties included in this Item 1A below and you should read this summary together with those more detailed descriptions. These principal risk and uncertainties relate to, among other things:

Risks Related to Our Business

- Many of our tenants are, and we expect that many of our future tenants will be, companies with limited histories of operations and may be unable to pay rent with funds from operations or at all.
- The inability of any single tenant to make its lease payments could adversely affect our business.
- We are focused on properties leased to licensed cannabis operators, and a decrease in demand for these types of facilities would have a greater impact on us than if we had a more diversified property portfolio.

- Our real estate investments consist of primarily properties suitable for cultivation and production of cannabis, which may be difficult to sell or re-lease upon tenant defaults or lease terminations.
- We have a limited operating history and may not be able to continue to operate our business successfully.
- The assets we acquire may be subject to impairment charges.
- We face significant risks associated with the development and redevelopment of properties that we acquire.
- We are currently subject to securities lawsuits and we may be subject to litigation in the future, which may divert management's attention and have a material adverse effect on us.
- Inflation may adversely affect our business and our tenants' financial condition and results of operations.
- Competition for the acquisition of properties suitable for regulated cannabis operations and alternative financing sources for licensed operators may make new acquisitions difficult or less economically attractive.
- Our growth will depend upon future acquisitions of regulated cannabis facilities.
- There may only be a limited number of cannabis facilities operated by suitable tenants available for acquisition.
- Our and our tenants' businesses may be materially and adversely affected by global pandemics.
- Our tenants may be unable to renew or otherwise maintain their licenses for their cannabis operations.
- We acquire our properties "as-is," which increases the risk of costs to remedy defects without recourse.
- Our property portfolio is and will be geographically concentrated in certain states.
- Some of our tenants could be susceptible to bankruptcy.
- Our tenants may be subject to Section 280E of the Internal Revenue Code of 1986, as amended (the "Code").
- We have acquired and may continue to acquire and lease cannabis retail stores and dispensaries, which present additional risks in comparison to properties for the cultivation and production of regulated cannabis.
- We are exposed to the potential impacts of future climate change.
- Liability for uninsured losses could adversely affect our financial condition.
- Our properties' access to adequate water and power supplies could be interrupted.
- We may have a difficult time obtaining the insurance policies with our focus on the regulated cannabis industry.
- Construction loans involve an increased risk of loss and other risks that are different from owning properties.
- We may purchase properties subject to ground leases or engage in other transactions involving ground leases.

Risks Related to Regulation

- Cannabis remains illegal under federal law, and therefore, strict enforcement of federal laws regarding cannabis would likely result in our inability and the inability of our tenants to execute our respective business plans.
- Certain of our tenants engage in operations for the adult-use cannabis industry, which may subject us and our properties to additional risks associated with such adult-use cannabis operations.
- New laws adverse to the business of our tenants may be enacted, and current favorable national, state or local laws or enforcement guidelines relating to cannabis operations may be modified or eliminated in the future.
- Our ability to grow our business depends on state laws pertaining to the cannabis industry.
- FDA regulation of cannabis facilities could negatively affect the regulated cannabis industry.
- We and our tenants may have difficulty accessing the service of banks and other financial institutions.
- Property owners located in close proximity to our properties may assert claims against our cannabis facilities.
- Laws and regulations affecting the regulated cannabis industry are constantly changing, which could materially adversely affect our operations, and we cannot predict the impact that future regulations may have on us.
- Assets leased to cannabis businesses may be forfeited to the federal government.
- We may have difficulty accessing bankruptcy courts.
- The properties that we acquire are subject to extensive regulations, which may result in significant costs.
- Compliance with environmental laws could materially increase our operating expenses.

Risks Related to Financing Our Business

- Our growth depends on external sources of capital, which may not be available on favorable terms or at all.
- Our existing and future indebtedness could reduce our distributable cash and expose us to default risk.
- A downgrade in our investment grade credit rating could adversely affect our business and financial condition.
- Our Notes due 2026 include restrictive covenants that limit our operational flexibility.

Risks Related to Our Organization and Structure

- Our senior management team manages our portfolio subject to very broad investment guidelines.
- Our board of directors may change our investment objectives and strategies without stockholder consent.
- Certain provisions of Maryland law could inhibit changes in control.
- Our authorized but unissued shares of common and preferred stock may prevent a change in our control.
- Severance agreements with our executive officers could be costly and prevent a change in our control.
- We depend on our Operating Partnership for cash flow and are structurally subordinated in right of payment.
- Our Operating Partnership may issue additional limited partnership interests to third parties without the consent of our stockholders, which would reduce the distributions we can make to our stockholders.
- If we issue limited partnership interests in our Operating Partnership in exchange for property, the value placed on such partnership interests may not accurately reflect their market value, which may dilute your interest in us.
- Our rights and the rights of our stockholders to take action against our directors and officers are limited.
- Our charter provisions make it difficult to remove directors, and to effect changes in management as a result.
- Ownership limitations may restrict change in control or business combination opportunities in which our stockholders might receive a premium for their shares.
- We plan to continue to operate our business so as not to require registration under the Investment Company Act.

Risks Related to Our Securities

- The market prices and trading volumes of our capital stock have been and may continue to be volatile.
- Capital stock eligible for future sale may have material and adverse effects on our share price.
- We cannot assure you of our ability to make distributions in the future.
- Our charter permits us to pay distributions from any source and, as a result, the amount of distributions paid at any time may not reflect the performance of our properties or as cash flow from operations.
- The market price of our capital stock could be materially, adversely affected by our level of cash distributions.

Risks Related to Our Taxation as a REIT

- Our failure to qualify as a REIT would reduce our distributable cash and negatively impact us.
- The REIT distribution requirements could adversely affect our ability to execute our business plan, and require us to make unfavorable borrowing decisions or subject us to tax.
- If Section 280E of the Code applies to us, tax deductions may be disallowed, resulting in federal income tax and potentially jeopardizing our REIT status.
- Complying with REIT requirements may cause us to forego attractive business opportunities or asset sales.
- The tax on prohibited transactions could limit what transactions we make or subject us to a 100% penalty tax.
- Our board of directors has the ability to revoke our REIT election without stockholder approval.
- Dividends payable by REITs do not qualify for the reduced tax rates on dividends from regular corporations.
- REIT requirements may limit our ability to hedge our liabilities effectively and result in tax liabilities.
- Re-characterization of sale-leaseback transactions may cause us to lose our REIT status.
- Non-U.S. stockholders will generally be subject to withholding tax with respect to our ordinary dividends.
- Legislative, regulatory or administrative changes could adversely affect us or our stockholders.

General Risk Factors

- We are dependent on our key personnel for our success.
- The occurrence of cyber incidents or cyberattacks could disrupt our operations and damage our business.
- Contingent or unknown liabilities could materially and adversely affect our business.

Risks Related to Our Business

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

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

Many of our existing tenants are, and we expect that many of our future tenants will be, companies with limited histories of operations that are not profitable when they enter triple-net leasing arrangements with us and therefore, may be unable to pay rent with funds from operations. Many of our current tenants are not profitable and have experienced losses since inception, or have been profitable for only a short period of time. As a result, many of our current tenants have made, and we expect that many of our future tenants will make, initial rent payments to us from proceeds from the sale of the property, in the case of sale-leaseback transactions, or other cash on hand, including cash received from debt financings.

In addition, in general, our tenants are more vulnerable to adverse conditions resulting from federal and state regulations affecting their businesses or industries or other changes in the marketplace for their products, and have limited access to traditional forms of financing. For example, during the COVID-19 pandemic, our tenants were generally not able to access federal assistance programs that were available to companies in other industries, due to cannabis being a Schedule I controlled substance under the CSA. The success of our tenants will also heavily depend on the growth and development of the state markets in which the tenants operate, many of which have a very limited history or are still in the stages of establishing the regulatory framework. For example, in California, the illicit market for cannabis remains a much larger portion of overall sales in the state according to Global Go Analytics, and state and local authorities have assessed significant taxes on regulated cannabis products, both of which have had the impact of significantly limiting the growth and profitability for operators in the state's regulated cannabis market. In recent months, pricing for regulated cannabis products has dropped significantly, driven in part by the lack of effective enforcement on the illicit market, while input costs, including labor, supplies and construction materials, have increased significantly as a result of the broader higher inflationary environment.

In our evaluation of our existing leases with tenants at our properties, we record associated revenue on a cash basis due to the uncertainty of collectability of lease payments from tenants due to the U.S. federal regulatory uncertainty surrounding the regulated cannabis industry and our tenants' limited operating history (for more information, see Note 2 "Summary of Significant Accounting Policies and Procedures and Recent Accounting Pronouncements – Revenue Recognition" in our consolidated financial statements included in this report).

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

According to Viridian, worldwide cannabis capital raises in 2023 constituted a multi-year low, with less than \$2 billion in total capital raises, versus over \$4.3 billion in 2022 and over \$12 billion in 2021. Total equity and debt capital raising for public and private cannabis cultivation and retail companies in the United States decreased 74% from 2022 and were lower than any previously year since before 2018, with debt accounting for over 80% of all capital raised for cannabis cultivation operations.

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

In July 2022, Kings Garden defaulted on its obligations to pay rent at all of the properties it leases with us, and pursuant to a confidential, conditional settlement agreement executed on September 11, 2022 between us and Kings Garden, we terminated the leases for two properties that were in development or redevelopment as of December 31, 2023 and regained possession of those properties. In September 2023, we regained possession of the four remaining properties that Kings Garden had occupied, where Kings Garden paid stipulated rent during its period of occupancy until September 20, 2023.

In November 2022, Parallel defaulted on its obligations to pay rent at one of our properties in Pennsylvania, and we regained possession of that property in October 2023. In February 2023, Parallel also defaulted on its obligations to pay rent at one of our properties in Texas, and we regained possession of that property in March 2023.

In November 2022, Green Peak defaulted on its obligations to pay rent at one of our properties in Michigan. In March 2023, a receiver was appointed over substantially all of Green Peak's assets, and we subsequently regained possession of one property that was under redevelopment as a regulated cannabis cultivation and processing facility and three retail properties in Michigan. We also expect to regain possession of the remaining regulated cannabis cultivation and processing facility still occupied by the receiver on March 1, 2024.

See Note 11 "Commitments and Contingencies — Litigation" to our consolidated financial statements included in this report for more information regarding Kings Garden, Parallel and Green Peak.

Because we lease our properties to a limited number of tenants, and to the extent we depend on a limited number of tenants in the future, the inability of any single tenant to make its lease payments could adversely affect our business and our ability to make distributions to our stockholders.

As of December 31, 2023, we owned 108 properties. Five of our tenants, PharmaCann (at eleven of our properties), Ascend (at four of our properties), Green Thumb (at three of our properties), Parallel (at four of our properties, two of which we regained possession in 2023 as a result of Parallel's defaults under those leases) and Curaleaf (at eight of our properties), represented approximately 15%, 10%, 8%, 7% and 7%, respectively, of our rental revenues (including tenant reimbursements) for the twelve months ended December 31, 2023. Lease payment defaults by any of our tenants or a significant decline in the value of any single property would materially adversely affect our business, financial position and results of operations, including our ability to make distributions to our stockholders. Our lack of diversification also increases the potential that a single underperforming investment or tenant could have a material adverse effect on our cash flows and the price we could realize from the sale of our properties. Any adverse change in the financial condition of any of our tenants, including but not limited to the state cannabis markets not developing and growing in ways that we or our tenants projected, or any adverse change in the political climate regarding cannabis where our properties are located, would subject us to a significant risk of loss.

In addition, failure by any of our tenants to comply with the terms of its lease agreement with us could require us to find another lessee for the applicable property. We may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment and re-leasing that property. Furthermore, we cannot assure you that

we will be able to re-lease that property for the rent we currently receive, or at all, or that a lease termination would not result in our having to sell the property at a loss. The result of any of the foregoing risks could materially and adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

See Note 11 “Commitments and Contingencies — Litigation” to our consolidated financial statements for more information regarding Kings Garden, Parallel and Green Peak, which defaulted on their obligations under certain leases with us.

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

Because our portfolio of properties primarily consists of industrial and greenhouse properties used in the regulated cannabis industry, we are subject to risks inherent in investments in a single industry. A decrease in the demand for cannabis cultivation and processing facilities would have a greater adverse effect on our rental revenues than if we owned a more diversified real estate portfolio. Demand for cannabis cultivation and processing facilities has been and could be adversely affected by changes in current favorable state or local laws relating to cultivation and production of cannabis or any change in the federal government’s current enforcement posture with respect to state-licensed cannabis operations, among others, including but not limited to changes to local zoning and other laws that no longer allow a facility to be utilized for regulated cannabis activities. To the extent that any of these conditions occur, they are likely to affect demand and market rents for cannabis cultivation and processing facilities, which could cause a decrease in our rental revenue. Any such decrease could impair our ability to make distributions to you. Other than with respect to three properties (one located in San Bernardino, California and two located in Palm Springs, California) where we are evaluating alternative non-cannabis uses as of December 31, 2023, we do not currently and do not expect in the future to invest in other real estate or businesses to hedge against the risk that industry trends might decrease the profitability of our facilities leased for cannabis operations.

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

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

Furthermore, we may be required to make expenditures to correct defects or to make improvements before a property can be sold and we cannot assure you that we will have funds available to correct such defects or to make such improvements. With these kinds of properties, if the current lease is terminated or not renewed, we may be required to make expenditures and rent concessions in order to lease the property to another tenant.

In addition, in the event we are forced to sell or re-lease the property, we may have difficulty finding qualified purchasers who are willing to buy the property or tenants who are willing to lease the property on terms that we expect,

or at all. As our properties are concentrated in the regulated cannabis industry, a shift in property preferences by regulated cannabis operators, including but not limited to changing preferences regarding location and types of improvements, could have a significant negative impact on the desirability of our properties to prospective tenants when we need to re-lease them, in addition to other challenges, such as obtaining the necessary state and local authorizations for a new tenant to commence operations at the property. These and other limitations may affect our ability to sell or re-lease properties, which may adversely affect returns to our stockholders. Certain regulated cannabis operators have recently announced that they are consolidating operations or shuttering certain operations to reduce costs, which if prolonged, could have a material negative impact on operators' demand for regulated cannabis facilities, including our existing tenants.

See Note 11 "Commitments and Contingencies — Litigation" to our consolidated financial statements for more information regarding Kings Garden, Parallel and Green Peak, which defaulted on their obligations under certain leases with us.

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

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

The assets we acquire may be subject to impairment charges.

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

See Note 11 "Commitments and Contingencies — Litigation" to our consolidated financial statements for more information regarding Kings Garden, Parallel and Green Peak, which defaulted on their obligations under certain leases with us. While we have not determined that an impairment has occurred with respect to these properties, as we periodically evaluate these and other properties, we may be required to make an adjustment to the net carrying value of one or more of these properties in the future.

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

In many instances, we engage in development or redevelopment of properties that we acquire. Development and redevelopment activities entail risks that could adversely impact our financial condition and results of operations, including:

- construction costs, which may exceed our or our tenant's original estimates due to increases in materials, labor or other costs, which could make the project less profitable for our tenant, require us or our tenant to commit additional funds to complete the project and adversely impact our tenant's business and prospects as a result;
- permitting or construction delays, which may result in increased project costs, as well as deferred revenue and delayed commencement of operations by our tenant;
- unavailability of raw materials when needed, which may result in project delays, stoppages or interruptions, which could make the project less profitable;
- claims for warranty, product liability and construction defects after a property has been built;
- health and safety incidents and site accidents;
- poor performance or nonperformance by, or disputes with, any of our contractors, subcontractors or other third parties on whom we rely;
- a contractor, subcontractor or other third party on whom we rely files for bankruptcy or commits fraud before completing a project that we have funded in part or in full;
- unforeseen engineering, environmental or geological problems, which may result in delays or increased costs;
- changes in local zoning, permitting and other requirements which may impact the permitted use or scope of a project;
- labor stoppages, slowdowns or interruptions;
- a default on an existing lease of a property under development or redevelopment by the tenant, exposing us to potential vacancy for a property that is not ready for its intended use;
- liabilities, expenses or project delays, stoppages or interruptions as a result of challenges by third parties in legal proceedings; and
- weather-related and geological interference, including hurricanes, landslides, earthquakes, floods, drought, wildfires and other events, which may result in delays or increased costs.

The realization of any of the risks above or other delays in development and redevelopment activities at a property may also materially adversely impact our tenant's ability to commence, continue or expand its operations, which may result in that tenant defaulting on its rent obligations to us. As of December 31, 2023, we had properties consisting of an aggregate of approximately 1.4 million rentable square feet under development or redevelopment, and we had committed to fund improvements at our properties in the future totaling up to approximately \$40.1 million.

For one of our properties located in San Bernardino, California, as of December 31, 2023, we are evaluating alternative non-cannabis uses for the property, due in part to changes in the zoning of the property that no longer allow for regulated cannabis cultivation and processing.

In November 2022, Green Peak defaulted on its obligations to pay rent at one of our properties in Michigan, which was under redevelopment as a regulated cannabis cultivation and processing facility, and we subsequently regained possession of that property in March 2023.

In February 2023, Parallel also defaulted on its obligations to pay rent at one of our properties in Texas, which was under development, and we regained possession of that property in March 2023.

Ongoing inflation for construction and labor costs, labor shortages and global supply chain issues also continue to adversely impact costs and timing for completion of our development and redevelopment projects, which are resulting in cost overruns and delays in commencing operations on certain projects.

We are currently subject to securities lawsuits and we may be subject to similar or other litigation in the future, which may divert management's attention and have a material adverse effect on our business, financial condition and results of operations.

A purported securities class action lawsuit has been filed against us and certain of our executive officers alleging that the Company made false or misleading statements regarding its business. According to the filed complaint, the plaintiff is seeking an undetermined amount of damages, interest, attorneys' fees and costs and other relief on behalf of the putative classes of all persons who acquired shares of the Company's common stock between August 7, 2020 and August 4, 2022. Derivative lawsuits also have been filed against us and certain of our officers and directors asserting putative derivative claims for breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, and waste of corporate assets against our directors and certain of our officers. According to the filed complaint, the plaintiffs are seeking declaratory relief, direction to reform and improve corporate governance and internal procedures, and an undetermined amount of damages, restitution, interest, and attorneys' fees and costs. See Note 11 "Commitments and Contingencies" for a full description of these actions.

We will continue to incur legal fees in connection with these pending cases, including expenses for the reimbursement of legal fees of our officers and directors under indemnification obligations. The expense of continuing to defend such litigation may be significant. We intend to defend these lawsuits vigorously, but there can be no assurance that we will be successful in any defense. If any of the lawsuits are adversely decided, we may be liable for significant damages directly or under our indemnification obligations, which could adversely affect our business, results of operations and cash flows. Further, the amount of time that will be required to resolve these lawsuits is unpredictable and these actions may divert management's attention from the day-to-day operations of our business, which could adversely affect our business, results of operations and cash flows.

We cannot predict the outcome of these lawsuits and we may be subject to other similar securities litigation in the future. Monitoring and defending against legal actions, whether or not meritorious, is time-consuming for our management and detracts from our ability to fully focus our internal resources on our business activities. In addition, we may incur substantial legal fees and costs in connection with litigation. Although we have insurance, coverage could be denied or prove to be insufficient. We are not currently able to estimate the possible cost to us from the currently pending lawsuits, and we cannot be certain how long it may take to resolve these matters or the possible amount of any damages that we may be required to pay. We have not established any reserves for any potential liability relating to these or future lawsuits. It is possible that we could, in the future, incur judgments or enter into settlements of claims for monetary damages. A decision adverse to our interests on these actions could result in the payment of substantial damages and could have a material adverse effect on our business, results of operations and financial condition. In addition, the uncertainty of the currently pending lawsuits could lead to volatility in our stock price. The ultimate outcome of litigation could have a material adverse effect on our business and the trading price for our securities.

Inflation may adversely affect our business and our tenants' financial condition and results of operations.

Increased inflation could have a more pronounced negative impact on any variable rate debt we incur in the future and on our results of operations. We also enter into leases that generally provide for fixed increases in rent. During times when inflation is greater than increases in rent as provided for in our leases, rent increases may not keep up with the rate of inflation. Likewise, even though net leases reduce our exposure to rising property expenses due to inflation,

substantial inflationary pressures and increased costs may have an adverse impact on our tenants if increases in their operating expenses exceed increases in their revenues, which may adversely affect our tenants' ability to pay rent. Substantial inflation in the cost of construction materials and labor may also adversely impact our and our tenants' ability to complete building projects on budget and on time, which may also materially adversely impact our tenants' ability to commence operations of facilities and consequently our tenants' ability to pay rent.

Competition for the acquisition of properties suitable for the retail sale, cultivation or production of regulated cannabis and alternative financing sources for licensed operators may impede our ability to make acquisitions or increase the cost of these acquisitions, which could adversely affect our operating results and financial condition.

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

We also compete as a provider of capital to regulated cannabis operators with alternative financing sources to these companies, including both equity and debt financing alternatives. For example, many larger, publicly traded multi-state cannabis operators are able to raise significant capital through public equity offerings, in addition to access to significant debt financing options. Furthermore, changes in federal regulations pertaining to cannabis could also lead to increased access to U.S. capital markets for our competitors and for regulated cannabis operators (including but not limited to access to the Nasdaq Stock Market and/or the New York Stock Exchange).

Increased competition for properties as a result of greater clarity of the federal regulatory environment may also preclude us from acquiring those properties that would generate attractive returns to us. If any of the proposed bills in Congress focused on the regulated cannabis industry became law, there could be further increased competition for the acquisition of properties that can be leased to licensed cannabis operators, consolidation of cannabis cultivation facilities for more cost efficient, larger scale production and manufacturing may occur (including consolidation that may occur as a result of authorization of interstate commerce in cannabis), and such operators would have greater access to alternative financing sources with lower costs of capital. These factors may reduce the number of operators that wish to enter into lease transactions with us or renew leases with us, or may result in us having to enter into leases on less favorable terms with tenants, each of which may significantly adversely impact our profitability and ability to generate cash flow and make distributions to our stockholders.

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

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

- competition from other potential acquirers or increased availability of alternative debt and equity financing sources for tenants may significantly increase the purchase price of a desired property and/or negatively impact the lease terms we are able to secure with our tenants;

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

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

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

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

Our and our tenants' businesses may be materially and adversely affected by the impact of global pandemics.

We cannot predict the extent to which global pandemics may impact our business and operating results and those of our tenants, but their impact may include the following:

- a complete or partial closure of, or other operational issues at, one or more of our properties resulting from government or tenant actions;
- the temporary inability of consumers and patients to purchase our tenant's cannabis products due to a number of factors, including but not limited to illness, dispensary closures or limitations on operations (including but not limited to shortened operating hours, social distancing requirements and mandated "curbside only" pickup), quarantine, financial hardship, and "stay at home" orders, could severely impact our tenants' businesses, financial condition and liquidity and may cause one or more of our tenants to be unable to meet their obligations to us in full, or at all, or to otherwise seek modifications of such obligations;
- difficulty accessing equity and debt capital on attractive terms, or at all, and a severe disruption and instability in the global financial markets or deteriorations in credit and financing conditions may affect our access to capital necessary to fund business operations and our tenants' ability to fund their business operations and meet their obligations to us;
- workforce disruptions for our tenants, as a result of infections, quarantines, stay at home orders or other factors, could result in a material reduction in our tenants' cannabis cultivation, manufacturing, distribution and/or sales capacity;

- because of the federal regulatory uncertainty relating to the regulated cannabis industry, our tenants may not be eligible for financial relief available to other businesses, including federal assistance programs;
- restrictions on public events for the regulated cannabis industry limit the opportunity for our tenants to market and sell their products and promote their brands;
- delays in construction at our properties may adversely impact our tenants' ability to commence operations and generate revenues from projects, including but not limited to delays caused by:
 - construction moratoriums by local, state or federal government authorities;
 - delays by applicable governmental authorities in providing the necessary authorizations to continue construction or commence operations;
 - reductions in construction team sizes to effectuate social distancing and other requirements;
 - infection by one or more members of a construction team necessitating a partial or full shutdown of construction; and
 - manufacturing and supply chain disruptions for materials sourced from other geographies which may be experiencing shutdowns and/or restrictions on transportation of such materials;
- a general decline in business activity in the regulated cannabis industry would adversely affect our ability to grow our portfolio of regulated cannabis properties; and
- the potential negative impact on the health of our personnel, particularly if a significant number of them are impacted, would result in a deterioration in our ability to ensure business continuity during a disruption.

The extent to which pandemics impact 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 pandemic, the actions taken to contain the outbreak or mitigate its impact, and the extent of the direct and indirect economic effects of the pandemic and containment measures, among others.

Our tenants may be unable to renew or otherwise maintain their licenses or other requisite authorizations for their cannabis operations, which may result in such tenants not being able to operate their businesses and defaulting on their lease payments to us.

Most states where we own properties issue licenses for cannabis operations for a limited period. We rely on our tenants to renew or otherwise maintain the requisite state and local cannabis licenses and other authorizations on a continuous basis. If one or more of our tenants are unable to renew or otherwise maintain its licenses or other state and local authorizations necessary to continue its cannabis operations, such tenants may default on their lease payments to us.

Any such noncompliance by our tenants of state and local laws, rules and regulations may also subject us, as the owner of such properties, to potential penalties, fines or other liabilities.

Any lease payment defaults by a tenant or additional liability on us could adversely affect our cash flows and cause us to reduce the amount of distributions to stockholders. In the event of a default by a tenant, we may also experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment and re-leasing our property as operators of cannabis cultivation and production facilities are generally subject to extensive state licensing requirements, including required state and local authorizations for a new tenant to take over operations at a facility.

In July 2022, Kings Garden, a prior tenant of ours at six properties that we own in southern California, defaulted on

its obligations to pay rent. As previously disclosed, for one property in San Bernardino, California, we are evaluating alternative non-cannabis uses for the property, due in part to changes in the zoning of the property that no longer allow for regulated cannabis cultivation and processing. In September 2023, we regained possession of the remaining four properties that Kings Garden previously occupied. Of those four properties, we are evaluating non-cannabis uses for two properties representing less than 1% of our invested capital at December 31, 2023, also due in part to changes in the zoning of the property that no longer allow for regulated cannabis cultivation and processing.

In November 2022, a subsidiary of Parallel defaulted on its obligations to pay rent at one of our properties in Pennsylvania, and we regained possession of the property in October 2023. The Pennsylvania regulated cannabis program issued a limited number of operator licenses, and as a result, we may encounter longer delays and other challenges in finding a suitable tenant, versus in states with more licensed operators.

In February 2023, Parallel also defaulted on its obligations to pay rent at one of our properties in Texas, and we regained possession of that property in March 2023. The Texas regulated cannabis program is a restricted medical cannabis program with a limited number of operator licenses, and as a result, we may encounter longer delays and other challenges in development and finding a suitable tenant, versus in states with more licensed operators and a more open regulated cannabis program.

See Note 11 “Commitments and Contingencies — Litigation” to our consolidated financial statements for more information regarding Kings Garden and Parallel.

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

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

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

As of February 27, 2024, we owned properties in 19 states, and we expect that the properties that we acquire will be geographically concentrated in these states and other states that have established cannabis programs. See “Geographic Concentration” under Item 1, “Business” for a table of properties owned by us and organized by state as of December 31, 2023. Circumstances and developments related to operations in these markets that could negatively affect our business, financial condition, liquidity and results of operations include, but are not limited to, the following factors:

- the state regulated cannabis market fails to develop and grow in ways that we or our tenants projected;
- the responsibility of complying with multiple and, in some respects, conflicting state and federal laws in the United States, including with respect to cultivation and distribution of cannabis, licensing, banking and insurance;
- access to capital may be more restricted, or unavailable on favorable terms or at all in certain locations;
- difficulties and costs of staffing and managing operations;

- unexpected changes in regulatory requirements and other laws;
- the impact of national, regional or state specific business cycles and economic instability; and
- potentially adverse tax consequences.

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

In addition to the risk of tenants being unable to make regular rent payments, certain of our tenants may depend on debt, which could make them especially susceptible to bankruptcy in the event that their cash flows are insufficient to satisfy their debt. Because cannabis remains illegal under federal law, there is no assurance that federal bankruptcy courts will provide relief for parties who engage in cannabis-related businesses. Recent bankruptcy court rulings have denied bankruptcy relief for certain cannabis businesses on the basis that businesses cannot violate federal law and then claim the benefits of federal bankruptcy for such activity and on the basis that courts cannot ask a bankruptcy trustee to take possession of, and distribute cannabis assets, as such action would violate the CSA. Any inability of our tenants to seek bankruptcy protection may impact their ability to secure financing for their operations and prevent our tenants from utilizing the benefits of reorganization of their businesses under bankruptcy protection to operate in a financially sustainable way, thereby reducing the probability that such a tenant would be able to honor its lease obligations with us.

Generally, under bankruptcy law, a tenant who is the subject of bankruptcy proceedings may continue (“assume”) or give up (“reject”) any unexpired lease of non-residential real property. If a bankrupt tenant decides to give up (reject) a lease, any claim for breach of the lease is treated as a general unsecured claim in the tenant’s bankruptcy case, subject to certain exceptions for collateral and guarantees. In the event one of our tenants is permitted to seek bankruptcy protection in the U.S., our general unsecured claim would likely be capped at the amount the tenant owed us for unpaid rent prior to the bankruptcy unrelated to the termination, plus the greater of one year of lease payments or 15% of the lease payments payable under the remaining term of the lease, but in no case more than three years of lease payments. In addition to the cap on our damages for breach of the lease, even if our claim is timely submitted to the bankruptcy court, there is no guaranty that the tenant’s bankruptcy estate would have sufficient funds to satisfy the claims of general unsecured creditors. Finally, a bankruptcy court could re-characterize a net lease transaction as a disguised secured lending transaction. If that were to occur, we would not be treated as the owner of the property, but might have additional rights as a secured creditor. This would mean our claim in bankruptcy court could be limited to the amount we paid for the property, which could adversely impact our financial condition. Any bankruptcy, if allowed, of one of our tenants would result in a loss of lease payments to us, as well as an increase in our costs to carry the property.

Our tenants may be subject to Section 280E of the Code because of the nature of their business activities, which could have an adverse impact on their financial condition due to a disallowance of certain tax deductions.

Section 280E of the Code provides that, with respect to any taxpayer, no deduction or credit is allowed for expenses incurred during a taxable year “in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of Schedule I and II of the CSA) which is prohibited by federal law or the law of any state in which such trade or business is conducted.” Because cannabis is a Schedule I controlled substance under the CSA, Section 280E by its terms applies to the purchase and sale of cannabis products. Our tenants are engaged in the cultivation, processing and sale of cannabis and cannabis-related products, and therefore may be subject to Section 280E. Application of the provisions of Section 280E to our tenants would result in the disallowance of certain tax deductions, including for depreciation or interest expense, which could have an adverse impact on their respective financial condition and ability to make lease payments to us. Any lease payment defaults by a tenant could adversely affect our results of operations and cash flows, and cause us to reduce the amount of distributions to our stockholders.

We have acquired and may continue to acquire cannabis retail stores and dispensaries and enter into leases with licensed operators for those properties, which present additional risks and challenges in comparison to properties for the cultivation and production of cannabis.

We have acquired and may continue to acquire cannabis retail stores and dispensaries and enter into leases with licensed operators for those locations. Cannabis retail stores and dispensaries entail risks that could adversely impact our financial condition and results of operations, and that are in addition to risks associated with regulated cannabis cultivation and processing facilities, including but not limited to:

- the impact of the continued evolution of the retail distribution model for cannabis and customer preferences, including the impact of e-commerce and home delivery on demand for cannabis retail space;
- negative perceptions by customers of the safety, convenience and attractiveness of cannabis dispensaries;
- the handling of significant cash transactions and cannabis inventory at the property, which may increase security risks associated with dispensary operations;
- local real estate conditions (such as an oversupply of, or a reduction in demand for, cannabis retail space);
- our and our tenants' ability to procure and maintain appropriate levels of property and casualty insurance; and
- risks associated with data breaches through cyberattacks, cyber intrusions or otherwise that expose customer personal information at dispensaries, which may result in liability and reputational damage to our tenants and our company.

The realization of any of the risks above, among others, with respect to one or more of our properties or tenants could have a material adverse impact on our business.

We are exposed to the potential impacts of future climate change, which may result in unanticipated losses that could affect our business and financial condition.

We are exposed to potential physical risks from possible future changes in climate. Our properties may be exposed to catastrophic weather events, such as severe storms, hurricanes, fires, floods or droughts, in addition to changes in temperature and air quality. If the frequency of extreme weather events increases, our exposure to these events could increase. We may also be exposed to regulatory risks related to climate change, including regulations seeking to limit greenhouse gas emissions and reduce water usage. We may also be adversely impacted by potential impacts to the supply chain or stricter energy efficiency standards or greenhouse gas regulations for commercial real estate. We cannot give any assurance that other such conditions do not exist or may not arise in the future. The potential impacts of future climate change on our properties could adversely affect our ability to lease or sell such properties or to borrow using such properties as collateral.

Liability for uninsured losses could adversely affect our financial condition.

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

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

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

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

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

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

Construction loans involve an increased risk of loss and other risks that are different from owning and leasing properties.

In June 2021, we executed a construction loan agreement with a developer, pursuant to which we agreed to make available up to \$18.5 million for the development of a regulated cannabis cultivation and processing facility in California. In January 2023, we amended our construction loan agreement to provide up to an additional \$4.5 million for the development as a result of costs incurred by the developer that were in excess of the original budget, making our total potential investment in the project \$23.0 million. We may invest in other such loans in the future. Construction loans involve an increased risk of loss and other risks that are different from owning and leasing properties, including the following risks:

- If we fail to fund our entire commitment on a construction loan or if a borrower otherwise fails to complete the construction of a project, there could be adverse consequences associated with the loan, including, but not limited to: a loss of the value of the property securing the loan, especially if the borrower is unable to raise funds to complete it from other sources; a borrower's claim against us for failure to perform under the loan documents; increased costs to the borrower that the borrower is unable to pay; a bankruptcy or receivership filing by the borrower; and abandonment by the borrower of the collateral for the loan;

- We are subject to the risk that a borrower may make business decisions with which we disagree and the management of such company may take risks or otherwise act in ways that do not serve our interests;
- A borrower may not be able to realize the value anticipated from the project and otherwise not have the resources to repay the amount owed under the construction loan at maturity;
- We may incur significant costs and assume significant liabilities in foreclosing on any property subject to a construction loan, in addition to costs and risks associated with completing construction of the property if construction was not completed; and
- If we foreclose on the property and take ownership, we may incur a significant loss on disposing of the property or, in the alternative, we may not be able to lease the property at all or on terms reasonably acceptable to us if we determine to continue to own the property.

If any one of these risks were to materialize with respect to one or more construction loans, our financial condition, results of operations, cash flow, and our ability to make distributions to our stockholders could be materially and adversely affected.

We may purchase properties subject to ground leases or enter into other transactions involving ground leases that expose us to the loss of such properties upon breach or termination of the ground leases.

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

Risks Related to Regulation

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

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

In January 2018, the DOJ rescinded certain memoranda, including the so-called “Cole Memo” issued on August 29, 2013 under the Obama Administration, which had characterized enforcement of federal cannabis prohibitions under the CSA to prosecute those complying with state regulatory systems allowing the use, manufacture and distribution of medical cannabis as an inefficient use of federal investigative and prosecutorial resources when state regulatory and enforcement efforts are effective with respect to enumerated federal enforcement priorities under the CSA. In rescinding the Cole Memo, DOJ instructed its prosecutors to enforce the laws enacted by Congress and to follow well-established principles that govern all federal prosecutions when deciding whether to pursue prosecutions related to cannabis activities. As a result, federal prosecutors could, and still can, use their prosecutorial discretion to decide to prosecute actors compliant with their state laws. Although there have not been any identified prosecutions of state law compliant

cannabis entities, there can be no assurance that the federal government will not enforce federal laws against the regulated cannabis industry generally, including our tenants and us.

Current Attorney General Merrick Garland has not provided a clear policy directive for the United States as it pertains to state-legal cannabis-related activities, and there can be no assurance that DOJ or other law enforcement authorities will not seek to vigorously enforce existing laws.

Congress previously enacted an omnibus spending bill that includes the Rohrabacher-Blumenauer Amendment prohibiting the DOJ (which includes the DEA) from using funds appropriated by that bill to prevent states from implementing their medical-use cannabis laws. This provision will expire on March 8, 2024. There can be no assurance that Congress will approve inclusion of a similar prohibition in future appropriations bills to prevent DOJ from using congressionally appropriated funds to enforce federal cannabis laws against regulated medical cannabis actors operating in compliance with state and local law. In *USA vs. McIntosh*, the U.S. Court of Appeals for the Ninth Circuit held that this provision prohibits the DOJ from spending funds from relevant appropriations acts to prosecute individuals who engage in conduct permitted by state medical-use cannabis laws and who strictly comply with such laws. However, the Ninth Circuit's opinion, which only applies to the states of Alaska, Arizona, California, Hawaii, and Idaho, also held that persons who do not strictly comply with all state laws and regulations regarding the distribution, possession and cultivation of medical-use cannabis have engaged in conduct that is unauthorized, and in such instances the DOJ may prosecute those individuals. Furthermore, while we target the acquisition of medical-use cannabis facilities, our leases do not prohibit cannabis cultivation for adult-use that is permissible under the state and local laws where our facilities are located. Consequently, certain of our tenants currently (and additional tenants may in the future) cultivate adult-use cannabis in our medical-use cannabis facilities, as permitted by such state and local laws now or in the future, which may in turn subject the tenant, us and our properties to greater and/or different federal legal and other risks as compared to facilities where cannabis is cultivated exclusively for medical use, including not providing protection under the Congressional spending bill provision described above.

Additionally, financial transactions involving proceeds generated by cannabis-related conduct can form the basis for prosecution under the federal money laundering statutes, unlicensed money transmitter statutes and the Bank Secrecy Act. The penalties for violation of these laws include imprisonment, substantial fines and forfeiture. Prior to the DOJ's rescission of the Cole Memo, supplemental guidance from the DOJ issued under the Obama administration directed federal prosecutors to consider the federal enforcement priorities enumerated in the Cole Memo when determining whether to charge institutions or individuals with any of the financial crimes described above based upon cannabis-related activity. This supplemental guidance was followed by the February 14, 2014 FinCEN Memorandum outlining the pathways for financial institutions to bank state-sanctioned cannabis businesses in compliance with federal enforcement priorities. Under these guidelines, financial institutions must submit a SAR in connection with all cannabis-related banking activities by any client of such financial institution, in accordance with federal money laundering laws. These cannabis-related SARs are divided into three categories - cannabis limited, cannabis priority, and cannabis terminated - based on the financial institution's belief that the business in question follows state law, is operating outside of compliance with state law, or where the banking relationship has been terminated, respectively. The FinCEN Memorandum states that in some circumstances, it is permissible for banks to provide services to cannabis-related businesses without risking prosecution for violation of federal money laundering laws. Although the Cole Memo has been rescinded, the FinCEN Memorandum technically remains intact; however, it is unclear whether the current administration will continue to follow the FinCEN Memorandum. The DOJ continues to have the right and power to prosecute crimes committed by banks and financial institutions, such as money laundering and violations of the Bank Secrecy Act, that occur in any state including states that have in some form legalized the sale of cannabis. Further, the conduct of the DOJ's enforcement priorities could change for any number of reasons. A change in the DOJ's priorities could result in the DOJ's prosecuting banks and financial institutions for crimes that were not previously prosecuted.

Federal prosecutors have significant discretion and no assurance can be given that the federal prosecutor in each judicial district where we purchase a property will not choose to strictly enforce the federal laws governing cannabis operations. Any change in the federal government's enforcement posture with respect to state-licensed cannabis operations, including the enforcement postures of individual federal prosecutors in judicial districts where we purchase properties, would result in our inability to execute our business plan, and we would likely suffer significant losses with respect to our investment in cannabis facilities in the United States, which would adversely affect the trading price of our

securities. Furthermore, following any such change in the federal government's enforcement position, we could be subject to criminal prosecution, which could lead to imprisonment and/or the imposition of penalties, fines, or forfeiture.

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

Our existing leases at our properties do not, and we expect that leases that we enter into with future tenants at other properties we acquire will not, prohibit cannabis operations for adult-use that is permissible under state and local laws where our facilities are located and certain of our tenants are currently engaged in operations for the adult-use cannabis industry, which may subject our tenants, us and our properties to different and greater risks, including greater prosecution risk for aiding and abetting violation of the CSA and federal laws governing money laundering. For example, the prohibition in the current omnibus spending bill that prohibits the DOJ from using funds appropriated by Congress to prevent states from implementing their medical-use cannabis laws does not extend to adult-use cannabis laws. In addition, while we may purchase properties in states that only permit medical-use cannabis at the time of acquisition, such states may in the future authorize by state legislation or popular vote the legalization of adult-use cannabis, thus permitting our tenants to engage in adult-use cannabis operations at our properties. For example, a number of states permit licensed adult-use cannabis operations, and our leases with tenants in those states allow for adult-use cannabis operations to be conducted at the properties in compliance with state and local laws.

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

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

For example, we believe that California's taxation of regulated cannabis at local and state governmental levels and ineffective enforcement policy with respect to illicit cannabis sales have significantly limited the growth and profitability of operators in that state. According to Global Go Analytics, the illicit market for cannabis remains a much larger portion of overall sales in the state, and state and local authorities have assessed significant taxes on regulated cannabis products, both of which have had the impact of significantly limiting the growth and profitability for operators in the state's regulated cannabis market.

Recently, many states have also experienced significant declines in unit pricing for regulated cannabis products, with that decline more pronounced in certain states than in others. As a result, certain regulated cannabis operators have announced that they are consolidating operations or shuttering certain operations to reduce costs, which if prolonged, could have a material negative impact on operators' demand for regulated cannabis facilities, including our existing tenants.

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

We have acquired and are targeting for acquisition properties that are owned by state-licensed cannabis operators. Relevant state or local laws may be amended or repealed, or new laws may be enacted in the future to eliminate existing

laws permitting cannabis operations. If our tenants were forced to close their operations, we would need to replace those tenants with tenants who are not engaged in the cannabis industry, who most likely pay significantly lower rents. Moreover, any changes in state or local laws that reduce or eliminate the ability to conduct cannabis operations would likely result in a high vacancy rate for the kinds of properties that we seek to acquire, which would depress our lease rates and property values. In addition, we would realize an economic loss on any and all improvements made to properties that were specific to the cannabis industry.

For example, in connection with the Centers for Disease Control and Prevention identifying cases of vaping-related lung injuries, certain state and local governments had instituted temporary bans. In addition to litigation and reputational risks surrounding vaping-related lung injuries, bans or heightened regulations could have a material adverse impact on our tenants' operations in those states and localities where such a ban or other restrictive regulation has been implemented.

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

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

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

Financial transactions involving proceeds generated by cannabis-related conduct can form the basis for prosecution under the federal money laundering statutes, unlicensed money transmitter statute and the Bank Secrecy Act. Previous guidance issued by FinCEN clarified how financial institutions can provide services to cannabis-related businesses consistent with their obligations under the Bank Secrecy Act. However, this guidance does not provide any safe harbors or legal defenses from examination or regulatory or criminal enforcement actions by the DOJ, FinCEN or other federal regulators. Thus, most banks and other financial institutions in the United States do not appear to be comfortable providing banking services to cannabis-related businesses, or relying on this guidance, which can be amended or revoked at any time by the executive branch. In addition to the foregoing, banks may refuse to process debit card payments and credit card companies generally refuse to process credit card payments for cannabis-related businesses. Prior to the DOJ's announcement in January 2018 of the rescission of the Cole Memo and related memoranda, supplemental guidance from the DOJ directed federal prosecutors to consider the federal enforcement priorities enumerated in the Cole Memo when determining whether to charge institutions or individuals with any of the financial crimes described above based upon cannabis-related activity. It remains unclear what impact the rescission of the Cole Memo will have, but federal prosecutors may increase enforcement activities against institutions or individuals that are conducting financial transactions related to cannabis activities. The increased uncertainty surrounding financial transactions related to cannabis activities may also result in financial institutions discontinuing services to the cannabis industry.

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

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

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

In addition, federal money laundering statutes and Bank Secrecy Act regulations discourage financial institutions from working with any organization that sells a controlled substance, regardless of whether the state it resides in permits cannabis sales. While the United States House of Representatives has passed the SAFE Banking Act, which would permit commercial banks to offer services to cannabis companies that are in compliance with state law, it remains under consideration by the Senate, and if Congress fails to pass the SAFE Banking Act, the Company's inability, or limitations on the Company's ability, to open or maintain bank accounts, obtain other banking services and/or accept credit card and debit card payments may make it difficult for the Company to operate and conduct its business as planned or to operate efficiently.

Federal and state banking regulators closed two U.S. banks in March 2023, and another U.S. bank in May 2023, with which we have no banking, financing or other business relationships, precipitating financial industry and capital markets turmoil centered on concerns about the stability and solvency of other banks and financial institutions and the attendant risk they may be closed and/or forced by governmental agencies into receivership or sale. The failure of other banks and financial institutions, if it occurs, could have a material adverse effect on our or our tenants' liquidity or consolidated financial statements if we or our tenants have placed cash and cash equivalent deposits at such banks or financial institutions or have lending relationships with those banks.

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

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

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

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

In August 2023, HHS recommended to the DEA that cannabis be reclassified from a Schedule I drug to a Schedule III drug under the CSA. HHS based this recommendation on an FDA review of cannabis' classification pursuant to

President Biden's executive order in October 2022. The process for reclassification will require DEA approval and likely complex administrative rulemaking proceedings, and it remains unclear how long this process will take and the scope of any final decisions or rules. Further, the impact of such decisions or rules, if any are promulgated, on existing state-regulated cannabis programs remains unclear, including but not limited to FDA and other federal regulatory agency involvement, the impact of such a decision on potential federal legislative reform such as proposals to de-schedule cannabis and provide greater access to capital markets for state-regulated cannabis operators, and the potential entry into the cannabis markets of large, well-capitalized companies as a result of any re-scheduling.

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

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

We may have difficulty accessing bankruptcy courts.

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

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

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

Compliance with environmental laws could materially increase our operating expenses.

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

be sure that our tenants would satisfy their indemnification obligations to us. Such environmental liability exposure associated with properties we acquire could harm our business, financial condition, liquidity and results of operations.

Risks Related to Financing Our Business

Our growth depends on external sources of capital, which may not be available on favorable terms or at all. In addition, banks, financial institutions, and other capital market participants may be reluctant to enter into lending and other financing transactions with us because we acquire properties used in the cultivation and production of cannabis. If one or more of these sources of funding is unavailable to us, it could have a material adverse effect on our business, financial condition, liquidity and results of operations.

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

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

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

In addition, securities clearing firms may refuse to accept deposits of our securities, which may negatively impact the trading of our securities and have a material adverse impact on our ability to obtain capital.

In recent months, general financial conditions have deteriorated significantly, which has also significantly reduced our access to capital. If sustained, this would have a material adverse effect on our business, financial condition and results of operations, including our ability to continue to make acquisitions of new properties and fund draws for future improvements at existing properties.

Our Notes due 2026 and any future indebtedness reduce our cash available for distribution and may expose us to the risk of default.

As of February 27, 2024, we had outstanding \$300.0 million aggregate principal amount of our Notes due 2026. Payments of principal and interest on our Notes due 2026 and borrowings that we may incur in the future, including pursuant to the Revolving Credit Facility, may leave us with insufficient cash resources to operate our properties or to

pay the distributions currently contemplated or necessary to satisfy the requirements for REIT qualification. Our level of debt and the limitations imposed on us by these debt agreements could have significant material and adverse consequences, including the following:

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

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

A downgrade in our investment grade credit rating could materially adversely affect our business and financial condition.

There can be no assurance that we will be able to maintain our current credit rating. Any downgrade in terms of rating or outlook by the rating agency could have a material adverse impact on our cost and availability of capital, which could in turn have a material adverse impact on our financial condition, results of operations and liquidity and a material adverse effect on the market price of our common stock.

The terms governing our Notes due 2026 and the Revolving Credit Facility include restrictive covenants relating to our operations, which could limit our ability to respond to changing market conditions and our ability to make distributions to our stockholders.

The indenture governing the Notes due 2026 and the Loan Agreement governing the Revolving Credit Facility each contains financial and operating covenants that, among other things, restrict our ability to take specific actions, even if we believe them to be in our best interest, including restrictions on our ability to (1) consummate a merger, consolidation or sale of all or substantially all of our assets and (2) incur additional secured and unsecured indebtedness.

The covenants relating to our Notes due 2026 and Revolving Credit Facility may adversely affect our flexibility and our ability to achieve our operating plans. Our ability to comply with these covenants and other provisions relating to our indenture governing the Notes due 2026 and the Loan Agreement governing the Revolving Credit Facility may be affected by changes in our operating and financial performance, changes in general business and economic conditions, adverse regulatory developments or other events adversely impacting us. The breach of any of these covenants could result in a default under our indebtedness, which could cause those and other obligations to become due and payable. If any of our indebtedness is accelerated, we may not be able to repay it, pursue our business plan or make distributions to our stockholders.

Risks Related to Our Organization and Structure

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

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

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

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

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

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

Certain provisions of Maryland law could inhibit changes in control.

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

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

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

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

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

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

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

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

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

Our charter permits our board of directors to authorize us to issue additional shares of our authorized but unissued common or preferred stock. In addition, our board of directors may, without stockholder approval, amend our charter to

increase the aggregate number of our shares of stock or the number of shares of stock of any class or series that we have the authority to issue and classify or reclassify any unissued shares of common or preferred stock and set the terms of the classified or reclassified shares. As a result, our board of directors may establish a class or series of shares of common or preferred stock that could delay or prevent a transaction or a change in control that might involve a premium price for shares of our common stock or otherwise be in the best interest of our stockholders.

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

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

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

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

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

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

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

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

existed. If the value of such limited partnership interests is greater than the value of the related property, your interest in us may be diluted.

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

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

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

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

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

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

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

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

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

holders of our common stock might receive a premium for their shares over the then prevailing market price or which holders might believe to be otherwise in their best interests.

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

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

Risks Related to Our Securities

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

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

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

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

- refusal of securities clearing firms to accept deposits of our securities;
- a delisting of our common stock or preferred stock from the New York Stock Exchange (“NYSE”);
- the realization of any of the other risk factors presented in this report;
- actions by institutional stockholders;
- price and volume fluctuations in the stock market generally; and
- market and economic conditions generally, including the current state of the credit and capital markets and the market and economic conditions.

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

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

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

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

Furthermore, we filed 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.

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

As of February 27, 2024, 28,205,423 shares of our common stock were issued and outstanding, and we had reserved an additional 683,342 shares of common stock for future issuance under our 2016 Omnibus Incentive Plan (the “2016 Plan”). In addition, as of February 27, 2024, we had approximately \$490.0 million in shares of common stock available for future issuance under the ATM Program. The existence of operating partnership units, shares of Series A Preferred Stock, shares of our common stock reserved for issuance under our 2016 Plan and shares available for future issuance under the ATM Program may adversely affect the terms upon which we may be able to obtain additional capital through the sale of equity securities.

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

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

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

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

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

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

Risks Related to Our Taxation as a REIT

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

We have made an election to be taxed as a REIT under Sections 856 through 860 of the Code commencing with our taxable year ended December 31, 2017. We believe that we have been organized and operated in such a manner as to qualify for taxation as a REIT under the Code for such taxable year and all subsequent taxable years to date, and intend to continue to operate in such a manner in the future. We have not requested and do not intend to request a ruling from the Internal Revenue Service (the “Service”) that we qualify as a REIT, and the statements in this report are not binding on the Service or any court. Qualification as a REIT involves the application of highly technical and complex Code provisions and regulations promulgated by the U.S. Treasury Department thereunder (“Treasury Regulations”) for which there are limited judicial and administrative interpretations. Accordingly, we cannot provide assurance that we will qualify or remain qualified as a REIT.

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

If we fail to qualify as a REIT in any taxable year, and we do not qualify for certain statutory relief provisions, we would be required to pay U.S. federal income tax, including any applicable alternative minimum tax (for taxable years beginning before December 31, 2017), on our taxable income at regular corporate rates and possibly increased state and local taxes. We will not be able to deduct distributions to our stockholders in any year in which we fail to qualify, nor will we be required to make distributions to our stockholders. In such a case, we might need to borrow money, sell assets, or reduce or even cease making distributions in order to pay our taxes. Our payment of income tax would reduce significantly the amount of cash available for distribution to our stockholders. If we fail to qualify as a REIT, all distributions to stockholders, to the extent of current and accumulated earnings and profits, will be taxable to the stockholders as dividend income (which may be subject to tax at preferential rates) and corporate distributions may be eligible for the dividends received deduction if they satisfy the relevant provisions of the Code. Furthermore, if we fail to qualify as a REIT, we no longer would be required to distribute substantially all of our net taxable income to our stockholders. In addition, unless we were eligible for certain statutory relief provisions, we could not re-elect to qualify as a REIT until the fifth calendar year following the year in which we failed to qualify. We might not be entitled to the statutory relief described in this paragraph in all circumstances.

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

To qualify as a REIT, we must distribute to our stockholders, on an annual basis, at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gain. In addition, we will be subject to U.S. federal income tax at regular corporate rates to the extent that we distribute less than 100% of our net taxable income (including net capital gain) and will be subject to a 4% nondeductible excise tax on the amount by which our distributions in any calendar year are less than a minimum amount specified under U.S. federal income tax laws. We intend to distribute our net income to our stockholders in a manner intended to satisfy the REIT 90% distribution requirement and to avoid U.S. federal income tax and the 4% nondeductible excise tax. However, we can

provide no assurances that we will have sufficient cash or other liquid assets to meet these requirements. Difficulties in meeting the distribution requirements might arise due to competing demands for available funds or timing differences between tax reporting and cash receipts. In addition, if the Service were to disallow certain of our deductions, such as employee salaries, depreciation or interest expense, by alleging that we, through our rental agreements with our state-licensed medical cannabis tenants, are primarily or vicariously liable for “trafficking” a Schedule I substance (cannabis) under Section 280E of the Code or otherwise, we would be unable to meet the distribution requirements and would fail to qualify as a REIT. Likewise, if any governmental entity were to impose fines on us for our business involvement in state-licensed cannabis, such fines would not be deductible and the inability to deduct such fines could also cause us to be unable to satisfy the distribution requirement.

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

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

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

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

To qualify as a REIT, we must ensure that we meet the REIT gross income tests annually. In addition, we must ensure that, at the end of each calendar quarter, at least 75% of the value of our total assets consists of cash, cash items, government securities and qualified REIT real estate assets, including certain mortgage loans, certain kinds of mortgage-backed securities and certain securities issued by other REITs. The remainder of our investment in securities (other than government securities, securities of corporations that are treated as taxable REIT subsidiaries (“TRSs”), and qualified REIT real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer.

In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, no more than 20% of the value of our total securities can be represented by securities of one or more TRSs, and the aggregate value of debt instruments issued by public REITs held by us that are not otherwise secured by real property may not exceed 25% of the value of our total assets. If we fail to comply with these asset requirements at the end of any calendar quarter, we generally must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences.

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

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

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

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

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

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

The maximum U.S. federal income tax rate for certain qualified dividends payable to U.S. stockholders that are individuals, trusts and estates is 20%. Dividends (other than capital gain dividends) payable by REITs, however, generally are not eligible for the reduced rates. Although the reduced U.S. federal income tax rate applicable to dividend income from regular corporate dividends does not adversely affect the taxation of REITs or dividends paid by REITs, the more favorable rates applicable to regular corporate dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of our common stock.

Non-corporate stockholders, including individuals, generally may deduct 20% of dividends from a REIT, other than capital gain dividends and dividends treated as qualified dividend income, for taxable years beginning after December 31, 2017 and before January 1, 2026. If we fail to qualify as a REIT, such stockholders may not claim this deduction with respect to dividends paid by us.

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

The REIT provisions of the Code may limit our ability to hedge our liabilities. Any income from a hedging transaction we enter into to manage risk of interest rate changes, price changes or currency fluctuations with respect to borrowings made or to be made to acquire or carry real estate assets, if properly identified under applicable Treasury Regulations, does not constitute “gross income” for purposes of the 75% or 95% gross income tests. To the extent that we enter into other types of hedging transactions, the income from those transactions will likely be treated as non-qualifying income for purposes of both of the gross income tests. As a result of these rules, we may need to limit our use of advantageous hedging techniques or implement those hedges through a TRS. This could increase the cost of our hedging activities because our TRSs would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in a TRS generally will not provide any tax benefit, except for being carried forward against future taxable income of such TRS, provided, however, losses in a TRS arising in taxable years beginning after December 31, 2017 may only be deducted against 80% of future taxable income in the TRS.

Re-characterization of sale-leaseback transactions may cause us to lose our REIT status.

We purchase many properties and lease them back to the sellers of such properties. While we will use our best efforts to structure any such sale-leaseback transaction so that the lease will be characterized as a “true lease,” thereby allowing us to be treated as the owner of the property for federal income tax purposes, the Service could challenge such characterization. In the event that any sale-leaseback transaction is challenged and re-characterized as a financing transaction or loan for federal income tax purposes, deductions for depreciation and cost recovery relating to such property would be disallowed. If a sale-leaseback transaction were so re-characterized, we might fail to satisfy the REIT qualification “asset tests” or the “income tests” and, consequently, lose our REIT status effective with the year of re-characterization. Alternatively, the amount of our REIT taxable income could be recalculated which might also cause us to fail to meet the distribution requirement for a taxable year.

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

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

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

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

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

such tax deductions are disallowed, we would be unable to meet the distribution requirements applicable to REITs under the Code, which could cause us to incur U.S. federal income tax and fail to qualify as a REIT.

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

General Risk Factors

We are dependent on our key personnel for our success.

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 1C. CYBERSECURITY

Risk Management and Strategy

Our corporate information technology, communication networks, enterprise applications, accounting and financial reporting platforms, and related systems are necessary for the operation of our business. We use these systems, among others, to manage our tenant and vendor relationships, for internal communications, for accounting and record-keeping functions, and for many other key aspects of our business. Our business operations rely on the secure collection, storage, transmission, and other processing of proprietary, confidential, and sensitive data.

We have implemented and maintain various information security processes designed to identify, assess and manage material risks from cybersecurity threats to our critical computer networks, third-party hosted services, communications systems, hardware and software, and our critical data, including confidential information that is proprietary, strategic or competitive in nature, and tenant data (“Information Systems and Data”).

We rely on a multidisciplinary team, as described further below, to identify, assess, and manage cybersecurity threats and risks. We identify and assess risks from cybersecurity threats by monitoring and evaluating our threat environment and our risk profile using various methods including, for example, using manual and automated tools, analyzing reports of threats and threat actors, conducting scans of the threat environment, evaluating our industry’s risk profile, and conducting threat and vulnerability assessments.

Depending on the environment, we implement and maintain various technical, physical, and organizational measures, processes, standards, and/or policies designed to manage and mitigate material risks from cybersecurity threats to our Information Systems and Data, including risk assessments, incident detection and response, vulnerability management, disaster recovery and business continuity plans, internal controls within our accounting and financial reporting functions, encryption of data, network security controls, access controls, physical security, systems monitoring, employee training, and penetration testing.

To operate our business, we utilize certain third-party service providers to perform a variety of functions. We seek to engage reliable, reputable service providers that maintain cybersecurity programs. Depending on the nature of the services provided, the sensitivity and quantity of information processed, and the identity of the service provider, our vendor management process may include reviewing the cybersecurity practices of such provider, conducting security assessments, and conducting periodic reassessments during their engagement.

We are not aware of any risks from cybersecurity threats, including as a result of any cybersecurity incidents, which have materially affected or are reasonably likely to materially affect us, including our business strategy, results of operations, or financial condition. Refer to “Item 1A. Risk factors” in this annual report on Form 10-K, including “The occurrence of cyber incidents or cyberattacks could disrupt our operations, result in the loss of confidential information and/or damage our business relationships and reputation,” for additional discussion about cybersecurity-related risks.

Governance

Our board of directors holds oversight responsibility over our strategy and risk management, including material risks related to cybersecurity threats. This oversight is executed directly by the Board of Directors and through its committees. The audit committee of the board of directors oversees the management of systemic risks, including cybersecurity, in accordance with its charter. The audit committee engages in regular discussions with management regarding our significant financial risk exposures and the measures implemented to monitor and control these risks, including those that may result from material cybersecurity threats.

Our management, represented by our Chief Operating Officer, Catherine Hastings, leads our cybersecurity risk assessment and management processes and oversees their implementation and maintenance. Ms. Hastings is an experienced risk management professional, having previously served as our Chief Financial Officer and Treasurer from 2017 until March 2023, and as Vice President, internal audit of BioMed Realty Trust, Inc. (formerly NYSE: BMR) until December 2016, having joined BioMed Realty in 2009. Ms. Hastings currently oversees key functions for our development, asset management, human resources and information technology functions, including cybersecurity risk oversight and the development and enhancement of internal controls designed to prevent, detect, address, and mitigate the risk of cyber incidents. Since 2016, we have retained a third-party information technology specialist to develop and maintain our information technology infrastructure and network, who has extensive experience in the development of business processes, system infrastructure design and cybersecurity for large-scale, institutional real estate companies.

Management is responsible for helping to integrate cybersecurity risk considerations into our overall risk management strategy, and communicating key priorities to relevant personnel. Management is responsible for approving cybersecurity processes, reviewing cybersecurity assessments and other cybersecurity-related matters, and responding to cybersecurity incidents, including reporting to the audit committee for certain cybersecurity incidents. Our management team also evaluates the potential impact of cybersecurity incidents to determine materiality. This evaluation considers factors such as the nature and scope of the incident, and its effects on operations, assets, or reputation. The audit committee holds quarterly meetings and receives periodic reports from management, including our Chief Operating Officer and third-party information technology expert, concerning our significant cybersecurity threats and risks and the processes we have implemented to address them.

ITEM 2. *PROPERTIES*

Information pertaining to our properties can be found under Item 1 and Schedule III.

ITEM 3. *LEGAL PROCEEDINGS*

For a description of our legal proceedings, see Note 11 “Commitments and Contingencies — Litigation” to our consolidated financial statements, which is hereby incorporated by reference.

ITEM 4. *MINE SAFETY DISCLOSURES*

Not applicable.

PART II

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

Our common stock is traded on the NYSE under the symbol "IIPR." As of February 27, 2024, there were 32 holders of record of our common shares. This number excludes our common shares owned by stockholders holding under nominee security position listings.

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

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

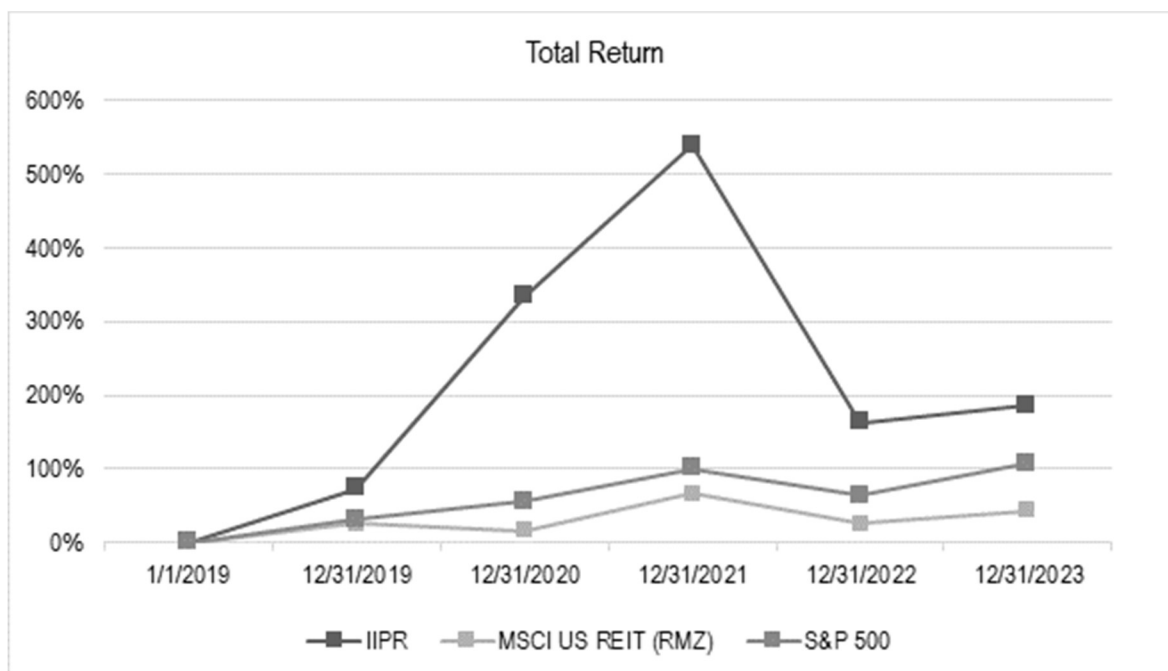
Our organizational documents permit us to make distributions from any source. If our cash available for distribution is insufficient to cover our distributions, we expect to use the proceeds from the issuance of securities, the proceeds from borrowings or other sources to pay distributions. During our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

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

Information about our equity compensation plans and other related stockholder matters is incorporated by reference in Item 12 of Part III of this Annual Report on Form 10-K.

Stock Performance Graph

The following graph shows a comparison from January 1, 2019 to December 31, 2023 of cumulative total stockholder return, calculated on a dividends reinvested basis, for Innovative Industrial Properties, Inc., the S&P 500 Stock Index, or the S&P 500, and the MSCI US REIT Index, which includes all tax-qualified equity REITs listed in the United States. Note that historic stock price performance is not necessarily indicative of future stock price performance. The stock performance graph should not be deemed filed or incorporated by reference into any other filing made by us under the Securities Act or the Exchange Act, except to the extent that we specifically incorporate the stock performance graph by reference in another filing.



Source: SNL Financial

Recent Sales of Unregistered Securities

During the year ended December 31, 2023, we issued 32,200 shares of our common stock upon exchange by holders of \$2.0 million of outstanding principal amount of our Exchangeable Senior Notes. Such shares of our common stock were issued in reliance on Section 3(a)(9) of the Securities Act of 1933, as amended.

For information regarding our outstanding indebtedness, which includes our Notes due 2026 and our Exchangeable Senior Notes, see Note 7 “Debt” in the notes to our consolidated financial statements.

ITEM 6. *[RESERVED]*

Not applicable.

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

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

Overview

We are an internally-managed REIT focused on the acquisition, ownership and management of specialized industrial properties leased to experienced, state-licensed operators for their regulated cannabis facilities. We have leased and expect to continue to lease our properties on a triple-net lease basis, where the tenant is generally responsible for all aspects of and costs related to the property and its operation during the lease term, including structural repairs, maintenance, real estate 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 December 31, 2023, we had 21 full-time employees.

As of December 31, 2023, we owned 108 properties comprising approximately 8.9 million square feet (including approximately 1.4 million rentable square feet under development/redevelopment) in 19 states. As of December 31, 2023, we had invested approximately \$2.4 billion in the aggregate (consisting of purchase price and funding of draws for improvements submitted by tenants, if any, but excluding transaction costs) and had committed an additional approximately \$40.1 million to fund draws to certain tenants and vendors for improvements at our properties. Of the approximately \$40.1 million committed to fund draws to certain tenants and vendors for improvements at our properties, approximately \$9.6 million was incurred but not funded as of December 31, 2023. These statistics do not include a \$23.0 million loan commitment from us to a developer for construction of a regulated cannabis cultivation and processing facility in California, of which we have funded \$22.0 million as of December 31, 2023.

Of these properties, we include 103 properties in our operating portfolio, which were 95.8% leased as of December 31, 2023, with a weighted-average remaining lease term of approximately 14.6 years. Rent collection for our operating portfolio (calculated as base rent and property management fees collected as a percentage of contractually due base rent and property management fees, including an aggregate of approximately \$8.7 million of security deposits applied for payment of rent for our leases with five tenants) was approximately 98% for the year ended December 31, 2023. Rent collection for our operating portfolio (including approximately \$767,000 of security deposits applied for payment of rent from our lease with one tenant) was 100% for the three months ended December 31, 2023.

We do not include in our operating portfolio the following properties (all of which were under development/redevelopment as of December 31, 2023, and together are expected to comprise approximately 715,000 rentable square feet upon completion of development/redevelopment):

- Inland Center Drive in San Bernardino, California;
- Perez Road in Cathedral City, California (pre-leased);
- 63795 19th Avenue in Palm Springs, California;
- Leah Avenue in San Marcos, Texas; and
- Davis Highway in Dimondale, Michigan (pre-leased).

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 cannabis industry, and the competitive environment for real estate assets that support the regulated cannabis industry.

Rental Revenues

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

- our ability to enter into leases with increasing or market value rents for the properties that we acquire; and
- rent collection, which primarily relates to each of our current and future tenant's financial condition and ability to make rent payments to us on time.

The properties that we acquire consist of real estate assets that support the regulated cannabis industry. Most states where we own properties issue licenses for cannabis operations for a limited period. If one or more of our tenants are unable to renew or otherwise maintain their licenses or other state and local authorizations necessary to continue its cannabis operations, such tenants may default on their lease payments to us. Furthermore, 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 success of our tenants in operating their businesses and their ability to pay rent continue to be significantly influenced by many challenges including the impact of inflation, labor shortages, supply chain constraints on their cost of doing business, and the U.S. consumer financial health. Additionally, market dynamics and the regulatory regime in the states where they operate create challenges that may impact our tenants' businesses and/or decrease future demand for regulated cannabis cultivation and production facilities. The potential impact of current economic challenges on the Company's financial condition, results of operations, and cash flows is subject to change and continues to depend on the extent and duration of these risks and uncertainties.

Market Dynamics in Regulated Cannabis State Programs

States vary significantly in their market dynamics, driven by many factors, including, but not limited to, regulatory frameworks, enforcement policies with respect to illicit, unlicensed cannabis operations, taxation and licensing structures. For example, in California, according to Global Go Analytics, the illicit market for cannabis remains a much larger portion of overall sales in the state, and state and local authorities have assessed significant taxes on regulated cannabis products, both of which have had the impact of significantly limiting the growth and profitability for operators in the state's regulated cannabis market.

Many states continue to experience significant declines in unit pricing for regulated cannabis products, with that decline more pronounced in certain states than in others, which compresses operating margins for operators. As a result, certain regulated cannabis operators have announced that they are consolidating operations or shuttering certain operations to reduce costs, which if prolonged, could have a material negative impact on operators' demand for regulated cannabis facilities, including our existing tenants.

Inflation and Supply Chain Constraints

The U.S. economy has experienced a sustained increase in inflation rates in recent years, which we believe is negatively impacting our tenants. This inflation has impacted costs for labor and production inputs for regulated cannabis operators, in addition to increasing costs of construction for development and redevelopment projects. Ongoing labor shortages and global supply chain issues also continue to adversely impact costs and timing for completion of these development and redevelopment projects, which are resulting in cost overruns and delays in commencing operations on certain of our tenants' projects.

Reduced Capital Availability for Tenants and the Company

In recent years, financial markets have been volatile, reflecting heightened geopolitical risks and material tightening of financial conditions since the U.S. Federal Reserve began increasing interest rates in spring of 2022 and continued uncertainty regarding monetary policy. Driven in part by overall macroeconomic conditions, capital availability has significantly declined for regulated cannabis operators.

According to Viridian, worldwide cannabis capital raises in 2023 constituted a multi-year low, with less than \$2 billion in total capital raises, versus over \$4.3 billion in 2022 and over \$12 billion in 2021. Total equity and debt capital raising for public and private cannabis cultivation and retail companies in the United States decreased 74% from 2022 and were lower than any previous year since before 2018, with debt accounting for over 80% of all capital raised for cannabis cultivation operations. According to Viridian, as of December 31, 2023, cannabis stock prices (as measured by the MSOS ETF) had declined 87% since their February 2021 peak.

Also according to Viridian, mergers and acquisitions activity in the North American regulated cannabis industry declined significantly in 2023 to \$1.75 billion, down from \$4.95 billion in 2022.

Capital raising activities by U.S. REITs continued to be subdued in 2023, after experiencing a significant decline in the latter part of 2022. According to the NAREIT, U.S. REIT 2023 capital raising was modestly higher than 2022, though 2022 represented the lowest level since 2009.

Significant Tenants and Concentrations of Risk

As of December 31, 2023, we owned 108 properties located in 19 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 December 31, 2023, our largest property was located in New York and accounted for approximately 5.4% of our net real estate held for investment. No other properties accounted for more than 5% of our net real estate held for investment at December 31, 2023. See Note 2 "Summary of Significant Accounting Policies and Procedures" in the notes to the consolidated financial statements for further information regarding the tenants in our portfolio that represented the largest percentage of our total rental revenues for the year ended December 31, 2023.

See Note 11 "Commitments and Contingencies — Litigation" to our consolidated financial statements for more information regarding Kings Garden, Parallel and Green Peak, which defaulted on their obligations under certain leases with us.

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, 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 regulated 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. Our operating expenses also include costs that we incur for properties, including taxes, insurance, maintenance, security, utilities and other property-specific costs. We generally expect to structure our leases so that the tenant is responsible for real estate 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

See Note 6 “Investments in Real Estate” in the notes to the consolidated financial statements for information regarding our investments in real estate and property portfolio activity during the year ended December 31, 2023. In March 2023, we sold the portfolio of four properties in California previously leased to affiliates of Vertical for \$16.2 million (excluding transaction costs) with a secured loan for \$16.1 million with the buyer of the properties. The transaction did not qualify for recognition as a completed sale since not all of the criteria were met. Accordingly, we have not derecognized the assets transferred. All consideration received, as well as any future payments, from the buyer is recognized as a deposit liability and is included in other liabilities on our consolidated balance sheet until such time the criteria for recognition as a sale have been met. In addition, as we have not met all of the held-for-sale criteria, land and building and improvements with gross carrying values of approximately \$3.4 million and approximately \$13.9 million, respectively, and accumulated depreciation of approximately \$1.6 million as of December 31, 2023, remain on the consolidated balance sheet, and the buildings and improvements continue to be depreciated. During the year ended December 31, 2023, we received cash interest payments of approximately \$1.3 million, which has been recorded as a liability as of December 31, 2023.

See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2022 for a comparison of the years ended December 31, 2022 and December 31, 2021.

Comparison of the Years Ended December 31, 2023 and 2022 (in thousands)

	Years Ended December 31,		
	2023	2022	Change
Revenues:			
Rental (including tenant reimbursements)	\$ 307,349	\$ 274,377	\$ 32,972
Other	2,157	1,982	175
Total revenues	<u>309,506</u>	<u>276,359</u>	<u>33,147</u>
Expenses:			
Property expenses	24,893	10,520	14,373
General and administrative expense	42,832	38,520	4,312
Depreciation and amortization expense	67,194	61,303	5,891
Total expenses	<u>134,919</u>	<u>110,343</u>	<u>24,576</u>
Gain on sale of real estate	—	3,601	(3,601)
Income from operations	174,587	169,617	4,970
Interest and other income	8,446	3,195	5,251
Interest expense	(17,467)	(18,301)	834
Gain (loss) on exchange of Exchangeable Senior Notes	22	(125)	147
Net income	<u>165,588</u>	<u>154,386</u>	<u>11,202</u>
Preferred stock dividends	<u>(1,352)</u>	<u>(1,352)</u>	<u>—</u>
Net income attributable to common stockholders	<u>\$ 164,236</u>	<u>\$ 153,034</u>	<u>\$ 11,202</u>

Revenues

Rental Revenues. Rental revenues for the year ended December 31, 2023 increased by approximately \$33.0 million, or 12%, to approximately \$307.4 million, compared to approximately \$274.4 million for the year ended December 31, 2022. Of that increase, approximately \$13.3 million was related to tenant reimbursements for property insurance premiums and property taxes, which increased to approximately \$23.4 million for the year ended December 31, 2023, compared to approximately \$10.1 million for the year ended December 31, 2022. The increase in tenant reimbursements was primarily due to a change in our policy, starting in January 2023, from allowing tenants to pay property taxes directly to taxing authorities to us making tax payments directly to taxing authorities and then billing tenants for property

tax reimbursements. Prior to 2023, real estate taxes required to be paid by the tenant under our leases were paid directly by the tenant to the tax authorities and were therefore not reflected in our consolidated financial statements. The remaining approximately \$19.7 million increase in rental revenue was attributable to:

- The two properties we acquired in 2023 which generated approximately \$5.2 million of rental revenue in 2023;
- The nine properties we acquired in 2022 which generated approximately \$17.8 million of rental revenue in 2023, including a rent adjustment on a lease amendment for an additional improvement allowance at one of these properties, compared to approximately \$10.2 million in 2022, a net increase of approximately \$7.6 million; and
- A net increase of approximately \$6.9 million in rental revenue generated by properties we acquired prior to 2022, including contractual rent escalations, rent adjustments for amendments to leases for additional improvement allowances at existing properties that resulted in adjustments to rent.

Rental revenues for the year ended December 31, 2023 included the application of approximately \$8.7 million of security deposits applied for rent for our leases with five tenants and approximately \$888,000 of security deposits applied for tenant reimbursements for property insurance premiums and property taxes for our leases with three tenants. Rental revenues for the year ended December 31, 2023 also included approximately \$1.7 million as partial payment of a consent order against Parallel for its failure to pay rent at one of our Pennsylvania properties previously leased to Parallel and approximately \$243,000 in payments from Kings Garden pursuant to an offer of judgment relating to certain properties previously leased to Kings Garden (see Note 11 “Commitments and Contingencies — Litigation” to our consolidated financial statements included in this report for more information).

Rental revenues for the year ended December 31, 2023 were negatively impacted by non-collection of rent during the period from properties in our operating portfolio totaling approximately \$4.8 million (consisting of approximately \$4.5 million of contractual base rents and property management fees from three tenants and approximately \$289,000 for tenant reimbursements for property insurance premiums and property taxes from three tenants), and the termination of certain leases with Green Peak, Kings Garden and Parallel.

Other Revenues. Other revenues for the year ended December 31, 2023 consists of interest revenue related to leases for property acquisitions that did not satisfy the requirements for sale-leaseback accounting. Other revenues for the year ended December 31, 2023 increased by approximately \$175,000, or 9%, to approximately \$2.2 million, compared to approximately \$2.0 million for the year ended December 31, 2022. The increase was primarily due to recognizing a full year of interest revenue in 2023 related to the two properties acquired in 2022 that did not satisfy the requirements for sale-leaseback accounting.

Expenses

Property Expenses. Property expenses for the year ended December 31, 2023 increased by approximately \$14.4 million, compared to 2022. The increase was primarily due to the recognition of property taxes incurred and paid or to be paid by us starting in January 2023, as described above. The increase was also due to new property acquisitions and additional investment in existing properties which resulted in higher property insurance premiums and property taxes that we paid for our properties. Property expenses are generally reimbursable to us by the tenants under the terms of the leases.

General and Administrative Expense. General and administrative expense for the year ended December 31, 2023 increased by approximately \$4.3 million, or 11%, to approximately \$42.8 million, compared to approximately \$38.5 million for the year ended December 31, 2022. The increase in general and administrative expense was primarily due to higher compensation expense to employees, the hiring of additional employees, and higher public company costs.

Compensation expense for the years ended December 31, 2023 and 2022 included approximately \$19.6 million and \$17.5 million, respectively, of non-cash stock-based compensation. The increase in non-cash stock-based compensation expense was primarily due to additional grants of stock-based awards to existing and new employees. Non-cash stock-

based compensation for the years ended December 31, 2023 and 2022 each included approximately \$4.0 million relating to performance share units (“PSUs”) granted to certain employees in 2021 and approximately \$6.7 million relating to the PSUs granted to certain employees in 2022. As measured as of December 31, 2023, the performance thresholds for the vesting of the PSUs were not met for any of the applicable awards, and the PSUs granted in January 2021 were forfeited in their entirety pursuant to the terms of the agreements.

Depreciation and Amortization Expense. Depreciation and amortization expense for the year ended December 31, 2023 increased by approximately \$5.9 million, or 10%, to approximately \$67.2 million, compared to approximately \$61.3 million for the year ended December 31, 2022. The approximately \$5.9 million increase was related to depreciation and amortization on properties that we acquired and the placement into service of construction at certain of our properties, of which approximately \$1.0 million was related to the two properties we acquired in 2023, approximately \$1.7 million was related to nine properties we acquired in 2022, and the remaining increase related to properties acquired prior to 2022.

Interest and Other Income. Interest and other income for the year ended December 31, 2023 increased by approximately \$5.2 million to approximately \$8.4 million, compared to the year ended December 31, 2022. Approximately \$4.2 million of the increase was due to higher interest rates on our interest-bearing cash and cash equivalents along with our short-term investments. The remaining increase of approximately \$1.0 million was related to interest received on our construction loan during the year ended December 31, 2023.

Interest Expense. Interest expense is primarily related to our Exchangeable Senior Notes issued in February 2019 and Notes due 2026 issued in May 2021. For the year ended December 31, 2023, interest expense decreased by approximately \$834,000, or 5%, to approximately \$17.5 million, compared to \$18.3 million for the year ended December 31, 2022 due to exchanges of approximately \$26.9 million outstanding principal amount of our Exchangeable Senior Notes during the year ended December 31, 2022, and also due to the exchanges of \$2.0 million outstanding principal amount of our Exchangeable Senior Notes and capitalization of approximately \$627,000 of interest during the year ended December 31, 2023.

Cash Flows

The following summary discussion of our cash flows is based on the consolidated statements of cash flows in Item 8, “Financial Statements and Supplementary Data” and is not meant to be an all-inclusive discussion of the changes in our cash flows for the periods presented below (in thousands):

	<u>Year Ended December 31,</u>		
	<u>2023</u>	<u>2022</u>	<u>Change</u>
Net cash provided by (used in) operating activities	\$ 255,543	\$ 234,130	\$ 21,413
Net cash provided by (used in) investing activities	(6,788)	(396,201)	389,413
Net cash provided by (used in) financing activities	(195,628)	164,224	(359,852)
Ending cash, cash equivalents and restricted cash	141,699	88,572	53,127

Operating Activities

Cash flows provided by operating activities for the years ended December 31, 2023 and 2022 were approximately \$255.5 million and \$234.1 million, respectively. Cash flows provided by operating activities primarily related to contractual rent and security deposits from our properties, partially offset by general and administrative expense, interest expense, property expense in excess of tenant reimbursements and property expenses at properties that were not leased. Cash flows provided by operating activities increased from 2022 to 2023 primarily due to leases for properties we acquired during these time periods, annual escalations of base rent on our leases, and amendments to existing leases to increase improvement allowances at those properties, which resulted in a corresponding increase in base rents, partially offset by rent payment defaults by certain tenants, higher cash compensation to employees and higher public company costs.

Investing Activities

Cash flows used in investing activities for the year ended December 31, 2023 included approximately \$189.0 million of purchases of investments in real estate, funding of draws for improvements and construction, and funding of construction loan and other investments in the aggregate, partially offset by approximately \$182.2 million of net maturities of short-term investments.

Cash flows used in investing activities for the year ended December 31, 2022 included approximately \$545.9 million of purchases of investments in real estate, funding of draws for improvements and construction, and funding of construction loan and other investments in the aggregate, partially offset by approximately \$126.2 million of net maturities of short-term investments and receipt of \$23.5 million of proceeds from sale of one of our Pennsylvania properties previously leased to a subsidiary of Maitri Holdings, LLC.

Financing Activities

Cash flows used in financing activities for the year ended December 31, 2023 were approximately \$195.6 million, primarily related to dividend payments of approximately \$204.1 million to common and preferred stockholders, approximately \$561,000 related to payment of deferred financing costs on the Revolving Credit Facility, and approximately \$568,000 related to the net share settlement of equity awards to pay the required withholding taxes upon vesting of restricted stock for certain employees, partially offset by approximately \$9.6 million in net proceeds from the issuance of our common stock.

Cash flows provided by financing activities for the year ended December 31, 2022 were approximately \$164.2 million, primarily related to approximately \$351.9 million in net proceeds from the issuance of our common stock, partially offset by dividend payments of approximately \$185.3 million to common and preferred stockholders and approximately \$2.4 million 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 additional properties, develop and redevelop existing properties, pay dividends to our stockholders, fund our operations, service our Exchangeable Senior Notes and Notes due 2026 and meet other general business needs.

Sources and Uses of Cash

We derive substantially all of our revenues from the leasing of our properties and 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, Notes due 2026 interest payments, repayments of borrowings and interest payments under our Revolving Credit Facility, 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. Because substantially all our leases are triple net, our tenants are generally responsible for the maintenance, insurance and property taxes associated with the properties they lease from us. If a tenant defaults on one of our leases or the lease term expires with no tenant renewal, we would incur property costs not paid by the tenant during the time it takes to re-lease or sell the property.

As of December 31, 2023, we owned 108 properties. Of these properties, we include 103 properties in our operating portfolio, which were 95.8% leased, with a weighted-average remaining lease term of approximately 14.6 years. Rent collection for our operating portfolio (calculated as base rent and property management fees collected as a percentage of contractually due base rent and property management fees, including an aggregate of approximately \$8.7 million of security deposits applied for payment of rent for our leases with five tenants) was approximately 98% for the year ended December 31, 2023. Rent collection for our operating portfolio (including approximately \$767,000 of security deposits applied for payment of rent from our lease with one tenant) was 100% for the three months ended December 31, 2023.

In July 2022, Kings Garden defaulted on its obligations to pay rent at all of the properties that Kings Garden leases from us. In September 2023, we regained possession of the four remaining properties that Kings Garden had occupied, where Kings Garden paid stipulated rent during its period of occupancy until September 20, 2023. In November 2022, Parallel defaulted on its obligations to pay rent at one of our properties in Pennsylvania, and we regained possession of that property in October 2023. Also in November 2022, Green Peak defaulted on its obligations to pay rent at one of our properties in Michigan. In March 2023, a receiver was appointed over substantially all of Green Peak's assets, and we subsequently regained possession of one property that was under redevelopment as a regulated cannabis cultivation and processing facility and three retail properties in Michigan. In February 2023, Parallel also defaulted on its obligations to pay rent at one of our properties in Texas, and we regained possession of that property in March 2023.

See Part I, Item 3. Legal Proceedings and Note 11 "Commitments and Contingencies — Litigation" to our consolidated financial statements for more information regarding Kings Garden, Parallel and Green Peak.

We expect to incur some property-level operating costs from time to time in periods during which properties that become vacant are being remarketed or re-positioned. In addition, we may recognize an expense for certain property costs, such as insurance premiums and real estate taxes billed in arrears, if we believe the tenant is likely to vacate the property before making payment on those obligations or may be unable to pay such costs in a timely manner. Property costs are generally not significant to our operations, but the amount of property costs can vary quarter to quarter based on the number of property vacancies and whether we have any underperforming properties. We may advance certain property costs on behalf of our tenants but expect that the majority of these costs will be reimbursed by the tenant and do not anticipate that they will be significant to our operations. In addition, for properties that are not leased and are under development or redevelopment, we may make significant additional investments in these properties in order to get them ready for their intended use and to re-lease them. For the year ended December 31, 2023, property expenses included approximately \$844,000 of non-reimbursed expenses related to operating properties that were not leased.

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 along with draws on our Revolving Credit Facility. 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 May 2021, we received an investment grade rating from a ratings agency. We sought to obtain an investment grade rating to facilitate access to the investment grade unsecured debt market as part of our overall strategy to maximize our financial flexibility and manage our overall cost of capital. On May 25, 2021, our Operating Partnership issued \$300.0 million aggregate principal amount of Notes due 2026. The Notes due 2026 are the Operating Partnership's general unsecured obligations, are fully and unconditionally guaranteed by us and all of the direct and indirect subsidiaries of the Operating Partnership, and rank equally in right of payment with all of the Operating Partnership's existing and future senior unsecured indebtedness, including the Exchangeable Senior Notes. The terms of the Notes due 2026 are governed by an indenture, which requires compliance with various financial covenants including limits on the amount of total leverage and secured debt maintained by the Operating Partnership and which require the Operating Partnership to maintain minimum levels of debt service coverage. Management believes that it was in compliance with those covenants as of December 31, 2023. Subject to the terms of the indenture, any new subsidiary of the Operating Partnership will also guarantee the Notes due 2026. In addition, the terms of the indenture provide that if the debt rating on the Notes due 2026 is downgraded or withdrawn entirely, interest on the Notes due 2026 will increase to a range of 6.0% to 6.5% based on such debt rating.

During the year ended December 31, 2023, we issued 32,200 shares of our common stock upon exchange by holders of \$2.0 million of outstanding principal amount of our Exchangeable Senior Notes.

In January 2023, we terminated the previously existing "at-the-market" offering program and entered into new equity distribution agreements with four sales agents, pursuant to which we may offer and sell from time to time through the ATM Program up to \$500.0 million in shares of our common stock. During the year ended December 31, 2023, we sold 101,061 shares of our common stock under the ATM Program for net proceeds of approximately \$9.6 million.

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, debt securities of our Operating Partnership and other securities to the extent necessary or advisable to meet our liquidity needs.

On October 23, 2023, our Operating Partnership entered into a loan and security agreement (the “Loan Agreement”) with a federally regulated commercial bank, as lender and as agent for lenders that become party thereto from time to time. The Loan Agreement matures on October 23, 2026, and provides \$30.0 million in aggregate commitments for the Revolving Credit Facility, which was increased to \$45.0 million in aggregate commitments pursuant to an amendment to the Loan Agreement executed subsequent to year-end. The Loan Agreement also allows the Operating Partnership, subject to the satisfaction of certain conditions, to request additional revolving loan commitments up to a specified amount. The Loan Agreement is subject to certain liquidity and operating covenants and includes customary representations and warranties, affirmative and negative covenants and events of default. There were no amounts outstanding under the Loan Agreement as of December 31, 2023. See Note 7 “Debt” to our consolidated financial statements included in this report for more information.

Subsequent to year-end, we issued 28,408 shares of our common stock and paid approximately \$4.3 million in cash upon exchange by holders of approximately \$4.3 million principal amount of Exchangeable Senior Notes and paid off the remaining \$100,000 principal amount at maturity, in accordance with the terms of the indenture for the Exchangeable Senior Notes.

We expect to meet our short-term and long-term liquidity needs through cash and short-term investments on hand, cash flows from operations and cash flows from sources discussed above. We believe that our liquidity and sources of capital are adequate to satisfy our cash requirements. We cannot, however, be certain that these sources of funds will be available at a time and upon terms acceptable to the Company in sufficient amounts to meet our 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.

In recent years, financial markets have been volatile in general, which has also significantly reduced our access to capital. If sustained, this could have a material adverse effect on our business, financial condition and results of operations, including our ability to continue to make acquisitions of new properties and fund investments for improvements at existing properties.

Dividends

The Company is required to pay dividends to its stockholders at least equal to 90% of its taxable income in order to qualify and maintain its qualification as a REIT. As a result of this distribution requirement, our Operating Partnership cannot rely on retained earnings to fund its ongoing operations to the same extent that other companies whose parent companies are not REITs can. During 2023, we declared cash dividends on our common stock totaling \$7.22 per share, and cash dividends on our Series A Preferred Stock totaling \$2.25 per share. Our ability to continue to pay dividends is dependent upon our ability to continue to generate cash flows, service any debt obligations we have, including our Exchangeable Senior Notes, and make accretive new investments.

	Year Ended December 31,		
	2023	2022	2021
Ordinary income distributions	\$ 7.700000	\$ 6.929636	\$ 5.340000
Long-term capital gain distributions ⁽¹⁾	—	0.100364	—
Total	<u>\$ 7.700000</u>	<u>\$ 7.030000</u>	<u>\$ 5.340000</u>

(1) Unrecaptured Section 1250 Gain of \$0.058864 represents additional characterization of and is part of long-term capital gain distributions for the year ended December 31, 2022.

The common stock distribution with a record date of December 29, 2023 was a split-year distribution, with \$0.83 allocable to 2023 for federal income tax purposes and \$0.99 allocable to 2024 for federal income tax purposes. The common stock distribution with a record date of December 30, 2022 was a split-year distribution, with \$0.33 allocable to

2022 for federal income tax purposes and \$1.47 allocable to 2023 for federal income tax purposes. The common stock distribution with a record date of December 31, 2021 was a split-year distribution, with \$0.10 allocable to 2021 for federal income tax purposes and \$1.40 allocable to 2022 for federal income tax purposes.

Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2023 (in thousands):

Payments Due by Year	Notes due 2026	Exchangeable Senior Notes	Interest	Office Rent	Total
2024	\$ —	\$ 4,436	\$ 16,523	\$ 511	\$ 21,470
2025	—	—	16,500	526	17,026
2026	300,000	—	6,646	543	307,189
2027	—	—	—	45	45
2028	—	—	—	—	—
Total	\$ 300,000	\$ 4,436	\$ 39,669	\$ 1,625	\$ 345,730

As of December 31, 2023, we had (1) approximately \$18.7 million outstanding in commitments related to 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; (2) approximately \$11.8 million outstanding in commitments related to contracts with vendors for improvements at our properties, which are expected to be incurred by December 31, 2024; and (3) \$1.0 million outstanding in commitments to fund a construction loan. The commitments discussed in this paragraph are excluded from the table of contractual obligations above, as 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, there is no explicit time frame for incurring the obligations related to our contracts with vendors, and construction loan funding generally may be requested by the borrower from time to time, subject to satisfaction of certain conditions.

There were no amounts outstanding under the Loan Agreement as of December 31, 2023. See Note 7 “Debt” to our consolidated financial statements included in this report for more information.

Supplemental Guarantor Information

Our Notes due 2026 and our Exchangeable Senior Notes are the unsecured senior obligations of our Operating Partnership and are fully and unconditionally guaranteed on an unsecured basis, jointly and severally, by us and all of our direct and indirect wholly-owned subsidiaries, which are listed on Exhibit 22.1 hereto and which we refer to collectively as “Subsidiary Guarantors.” Only the Notes due 2026 and the related guarantees are registered securities under the Securities Act. See Note 7 “Debt” in the notes to our consolidated financial statements for a description of certain terms of our Notes due 2026.

The offer and sale of the Exchangeable Senior Notes and the related guarantees were not and will not be registered under the Securities Act or the securities laws of any other jurisdiction and instead were issued in reliance upon an exemption from such registration.

As a result of the amendments to Rule 3-10 of Regulation S-X, subsidiary issuers of obligations guaranteed by the parent are not required to provide separate financial statements, provided that the subsidiary obligor is consolidated into the parent company’s consolidated financial statements, the parent guarantee is “full and unconditional” and, subject to certain exceptions as set forth below, the alternative disclosure required by Rule 13-01 of Regulation S-X is provided, which includes narrative disclosure and summarized financial information. Accordingly, separate consolidated financial statements of our Operating Partnership and the Subsidiary Guarantors have not been presented.

Furthermore, as permitted under Rule 13-01(a)(4)(vi) of Regulation S-X, we have excluded the summarized financial information for the Operating Partnership and the Subsidiary Guarantors because the combined assets, liabilities, and results of operations of the Operating Partnership and the Subsidiary Guarantors are not materially different than the corresponding amounts in our consolidated financial statements, and management believes such summarized financial information would be repetitive and would not provide incremental value to investors.

Non-GAAP Financial Information and Other Metrics

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

Funds from Operations, Normalized Funds from Operations and Adjusted Funds from Operations

Funds from operations (“FFO”) and FFO per share are operating performance measures adopted by NAREIT. NAREIT defines FFO as the most commonly accepted and reported non-GAAP measure of a REIT’s operating performance equal to net income (computed in accordance with GAAP), excluding gains (or losses) from sales of property, 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. We report FFO and FFO per share because these measures are observed by management to also be the predominant measures used by the REIT industry and by industry analysts to evaluate REITs and because FFO per share is consistently reported, discussed, and compared by research analysts in their notes and publications about REITs. For these reasons, management has deemed it appropriate to disclose and discuss FFO and FFO per share.

We compute normalized funds from operations (“Normalized FFO”) by adjusting FFO, as defined by NAREIT, to exclude certain GAAP income and expense amounts that we believe are infrequent and unusual in nature and/or not related to our core real estate operations. Exclusion of these items from similar FFO-type metrics is common within the equity REIT industry, and management believes that presentation of Normalized FFO and Normalized FFO per share provides investors with a metric to assist in their evaluation of our operating performance across multiple periods and in comparison to the operating performance of other companies, because it removes the effect of unusual items that are not expected to impact our operating performance on an ongoing basis. Normalized FFO is used by management in evaluating the performance of our core business operations. Items included in calculating FFO that may be excluded in calculating Normalized FFO include certain transaction-related gains, losses, income or expense or other non-core amounts as they occur.

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 adjusting Normalized FFO for certain cash and non-cash items.

For all periods presented FFO (diluted), Normalized FFO, AFFO and FFO, Normalized FFO and AFFO per diluted share include the dilutive impact of the assumed full exchange of the Exchangeable Senior Notes for shares of common stock. The Exchangeable Senior Notes were anti-dilutive for purposes of calculating earnings per diluted share for all periods presented, and as such, were treated as anti-dilutive for purposes of calculating FFO, Normalized FFO, AFFO and FFO, Normalized FFO and AFFO per diluted share for such periods.

For the three months ended March 31, 2022, 102,333 shares issuable upon vesting of the PSUs were dilutive, as the performance thresholds for vesting of these PSUs were met as measured as of March 31, 2022. For the year ended December 31, 2021, 81,414 shares issuable upon vesting of the PSUs were dilutive, as the performance thresholds for vesting of these PSUs were met as measured as of December 31, 2021. No shares were issuable upon vesting of the PSUs for all other periods presented, as the performance thresholds for vesting of the PSUs were not met as measured as of the end of those respective periods.

Our computation of FFO, Normalized FFO and AFFO may differ from the methodology for calculating FFO, Normalized FFO and AFFO utilized by other equity REITs and, accordingly, may not be comparable to such REITs.

Further, FFO, Normalized FFO and AFFO do not represent cash flow available for management's discretionary use. FFO, Normalized 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, Normalized 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, Normalized FFO and AFFO for the years ended December 31, 2023, 2022 and 2021 (in thousands, except share and per share amounts):

	Years Ended December 31,		
	2023	2022	2021
Net income attributable to common stockholders	\$ 164,236	\$ 153,034	\$ 112,638
Real estate depreciation and amortization	67,194	61,303	41,776
Gain on sale of real estate	—	(3,601)	—
FFO attributable to common stockholders (basic)	231,430	210,736	154,414
Cash and non-cash interest expense on Exchangeable Senior Notes . .	219	546	7,517
FFO attributable to common stockholders (diluted)	231,649	211,282	161,931
Financing expense	—	367	—
Litigation-related expense	2,480	3,010	—
Loss (gain) on exchange of Exchangeable Senior Notes	(22)	125	3,692
Normalized FFO attributable to common stockholders (diluted)	234,107	214,784	165,623
Interest income on seller-financed note ⁽¹⁾	1,342	—	—
Stock-based compensation	19,581	17,507	8,616
Non-cash interest expense	1,375	1,255	715
Above-market lease amortization	92	91	4
AFFO attributable to common stockholders (diluted)	\$ 256,497	\$ 233,637	\$ 174,958
FFO per common share – diluted	\$ 8.20	\$ 7.64	\$ 6.17
Normalized FFO per common share – diluted	\$ 8.29	\$ 7.76	\$ 6.31
AFFO per common share – diluted	\$ 9.08	\$ 8.45	\$ 6.66
Weighted average common shares outstanding – basic	27,977,807	27,345,047	23,903,017
Restricted stock and RSUs	196,821	116,046	96,174
PSUs	—	—	81,414
Dilutive effect of Exchangeable Senior Notes	81,169	202,076	2,180,550
Weighted average common shares outstanding – diluted	28,255,797	27,663,169	26,261,155

- (1) Amount reflects the non-refundable interest paid on the seller-financed note issued to us by the buyer in connection with our disposition of a portfolio of four properties in southern California previously leased to affiliates of Vertical, which is recognized as a deposit liability and is included in other liabilities in our consolidated balance sheet as of December 31, 2023, as the transaction did not qualify for recognition as a completed sale.

The tables below are reconciliations of quarterly net income attributable to common stockholders to FFO, Normalized FFO and AFFO for the years ended December 31, 2023 and 2022 (in thousands, except share and per share amounts):

	Three Months Ended ⁽¹⁾			
	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023
Net income attributable to common stockholders . . .	\$ 41,295	\$ 41,256	\$ 40,931	\$ 40,754
Real estate depreciation and amortization	17,098	16,678	16,704	16,714
FFO attributable to common stockholders (basic) . . .	58,393	57,934	57,635	57,468
Cash and non-cash interest expense on				
Exchangeable Senior Notes	50	50	50	69
FFO attributable to common stockholders (diluted) . .	58,443	57,984	57,685	57,537
Litigation-related expense	152	1,112	670	546
Loss (gain) on exchange of Exchangeable Senior				
Notes	—	—	—	(22)
Normalized FFO attributable to common				
stockholders (diluted)	58,595	59,096	58,355	58,061
Interest income on seller-financed note ⁽²⁾	403	402	403	134
Stock-based compensation	4,934	4,934	4,884	4,829
Non-cash interest expense	383	335	331	326
Above-market lease amortization	23	23	23	23
AFFO attributable to common stockholders				
(diluted)	\$ 64,338	\$ 64,790	\$ 63,996	\$ 63,373
FFO per common share – diluted	\$ 2.07	\$ 2.05	\$ 2.04	\$ 2.04
Normalized FFO per common share – diluted	\$ 2.07	\$ 2.09	\$ 2.07	\$ 2.06
AFFO per common share – diluted	\$ 2.28	\$ 2.29	\$ 2.26	\$ 2.25
Weighted-average common shares outstanding –				
basic	27,996,393	27,983,004	27,981,517	27,949,747
Restricted stock and RSUs	206,667	206,919	201,462	171,741
Dilutive effect of Exchangeable Senior Notes	76,774	75,682	74,260	102,210
Weighted-average common shares outstanding –				
diluted	28,279,834	28,265,605	28,257,239	28,223,698

	Three Months Ended ⁽¹⁾			
	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022
Net income attributable to common stockholders. . . .	\$ 41,168	\$ 37,278	\$ 39,876	\$ 34,712
Real estate depreciation and amortization.	16,302	15,900	15,233	13,868
Gain on sale of real estate	(3,601)	—	—	—
FFO attributable to common stockholders (basic) . . .	53,869	53,178	55,109	48,580
Cash and non-cash interest expense	72	72	68	334
FFO attributable to common stockholders (diluted) . .	53,941	53,250	55,177	48,914
Financing expense	249	14	104	—
Litigation-related expense	779	2,112	119	—
Loss (gain) on exchange of Exchangeable Senior Notes	—	—	7	118
Normalized FFO attributable to common stockholders (diluted)	54,969	55,376	55,407	49,032
Stock-based compensation	4,312	4,379	4,437	4,379
Non-cash interest expense	321	316	311	307
Above-market lease amortization	23	23	23	23
AFFO attributable to common stockholders (diluted)	\$ 59,625	\$ 60,094	\$ 60,178	\$ 53,741
FFO per common share – diluted	\$ 1.92	\$ 1.89	\$ 1.97	\$ 1.86
Normalized FFO per common share – diluted	\$ 1.95	\$ 1.97	\$ 1.98	\$ 1.86
AFFO per common share – diluted	\$ 2.12	\$ 2.13	\$ 2.15	\$ 2.04
Weighted-average common shares outstanding – basic	27,938,804	27,938,568	27,850,561	25,620,253
Restricted stock and RSUs	117,831	118,567	82,387	110,457
PSUs	—	—	—	102,333
Dilutive effect of Exchangeable Senior Notes	103,626	100,799	103,742	507,181
Weighted-average common shares outstanding – diluted	28,160,261	28,157,934	28,036,690	26,340,224

- (1) The sum of quarterly financial data may vary from annual data due to rounding and differences in the dilutive effect of potentially issuable shares of each reporting period.
- (2) Amount reflects the non-refundable interest paid on the seller-financed note issued to us by the buyer in connection with our disposition of a portfolio of four properties in southern California previously leased to affiliates of Vertical, which is recognized as a deposit liability and is included in other liabilities in our consolidated balance sheet as of December 31, 2023, as the transaction did not qualify for recognition as a completed sale.

Critical Accounting Estimates

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.

We continually evaluate the estimates and assumptions we use to prepare our consolidated financial statements. Our critical accounting estimates are defined as accounting estimates or assumptions made in accordance with GAAP, which involve a significant level of estimation uncertainty or subjectivity and have had or are reasonably likely to have a material impact on our financial condition or results of operations. The following critical accounting estimates discussion reflects what we believe are the most significant estimates and assumptions used in the preparation of our consolidated financial statements. This discussion of our critical accounting estimates is intended to supplement the description of our accounting policies in the footnotes to our consolidated financial statements and to provide additional insight into the information used by management when evaluating significant estimates and assumptions. For further discussion of our significant accounting policies, see Note 2 “Summary of Significant Accounting Policies and Procedures and Recent Accounting Pronouncements” to our consolidated financial statements included in this report.

Lease Accounting

We account for our leases under Accounting Standards Codification 842, Leases, which requires significant estimates and judgments by management in its application. Upon lease inception or lease modification, we assess the lease classification of both the land and building components of the property. The determination of lease classification requires the calculation of the rate implicit in the lease, which is driven by significant estimates relating to the unguaranteed residual value of the assets at the end of the non-cancelable lease term. A decrease of 5% in the estimated unguaranteed residual value of our properties would result in changes to the lease classifications of two leases that were modified during the year ended December 31, 2023.

Acquisition of Rental Property, Depreciation and Impairment

All of our acquisitions of rental properties to date were accounted for as asset acquisitions and not business combinations because substantially all of the fair value is concentrated in a single identifiable asset or group of similar identifiable assets (i.e., land, buildings, and related intangible assets). The accounting model for asset acquisitions requires that the acquisition consideration (including acquisition costs) be allocated to the individual assets acquired and liabilities assumed on a relative fair value basis.

We exercise judgment to determine key assumptions used in each valuation technique (cost, income, and sales approaches). For example, we are required to use judgment and make a number of assumptions, including those related to projected growth in rental rates and operating expenses, anticipated trends and market/economic conditions. The use of different assumptions can affect the amount of consideration allocated to the acquired depreciable/amortizable asset, which in turn can impact our net income due to the recognition of the related depreciation/amortization expense in our consolidated statements of operations.

We depreciate buildings and improvements where we are considered the owner for accounting purposes based on our evaluation of the estimated useful life of each specific asset, not to exceed 40 years. Determining whether expenditures meet the criteria for capitalization and the assignment of depreciable lives requires management to exercise significant judgment.

The determination of whether we are or the tenant is the owner of improvements for accounting purposes is subject to significant judgment. In making that determination, we consider numerous factors and perform a detailed evaluation of each individual lease. No one factor is determinative in reaching a conclusion. The factors we evaluate include but are not limited to the following:

- whether the lease agreement requires landlord approval of how the improvement allowance is spent prior to installation of the improvements;
- whether the lease agreement requires the tenant to provide evidence to the landlord supporting the cost and what the improvement allowance was spent on prior to payment by the landlord for such improvements;
- whether the improvements are unique to the tenant or reusable by other tenants;
- whether the tenant is permitted to alter or remove the improvements without the consent of the landlord or without compensating the landlord for any lost utility or diminution in fair value; and
- whether the ownership of the improvements remains with the landlord or remains with the tenant at the end of the lease term.

When we conclude that we are the owner of improvements for accounting purposes using the factors discussed above, we record the cost to construct the improvements as our capital asset.

We evaluate our real estate assets for potential impairment whenever events or changes in circumstances indicate that the carrying amount of a given asset may not be recoverable. We evaluate our real estate assets for impairment on a property-by-property basis. Indicators we use to determine whether an impairment evaluation is necessary include:

- deterioration in rental rates for a specific property;

- deterioration of a given rental submarket;
- significant change in strategy or use of a specific property or any other event that could result in a decreased holding period, including classifying a property as held for sale, or significant development delay;
- evidence of material physical damage to the property; and
- default by a significant tenant when any of the other indicators above are present.

When we evaluate for potential impairment our real estate assets to be held and used, we first evaluate whether there are any indicators of impairment. If any impairment indicators are present for a specific real estate asset, we then perform an undiscounted cash flow analysis and compare the net carrying amount of the real estate asset to the real estate asset's estimated undiscounted future cash flow over the anticipated holding period. If the estimated undiscounted future cash flow is less than the net carrying amount of the real estate asset, we perform an impairment loss calculation to determine if the fair value of the real estate asset is less than the net carrying value of the real estate asset. Our impairment loss calculation compares the net carrying amount of the real estate asset to the real estate asset's estimated fair value, which may be based on estimated discounted future cash flow calculations or third-party valuations or appraisals. We recognize an impairment loss if the amount of the asset's net carrying amount exceeds the asset's estimated fair value. If we recognize an impairment loss, the estimated fair value of the asset becomes its new cost basis. For a depreciable long-lived asset, the new cost basis would be depreciated (amortized) over the remaining useful life of that asset. If a real estate asset is designated as real estate held-for-sale, it is carried at the lower of the net carrying value or estimated fair value less costs to sell, and depreciation ceases.

Our undiscounted cash flow and fair value calculations contain uncertainties because they require management to make assumptions and to apply judgment to estimate future cash flow and property fair values, including determining our estimated holding period. We are also required to make a number of assumptions relating to future economic and market events and prospective operating trends.

For each property where such an indicator occurred, we completed an impairment evaluation. After completing this process, we determined that for each of the operating properties evaluated, undiscounted cash flows over the holding period were in excess of carrying value and, therefore, we did not record any impairment losses for these properties for the years ended December 31, 2023, 2022 and 2021. Significant adverse changes in the critical accounting estimates used in the impairment evaluation are required for the undiscounted cash flows over the holding period to be less than the carrying value as of December 31, 2023.

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.

Interest Rate Risk

As of December 31, 2023, we had \$300.0 million principal amount of Notes due 2026 and approximately \$4.4 million principal amount of Exchangeable Senior Notes outstanding at fixed interest rates, 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

The U.S. economy has experienced a sustained increase in inflation rates in recent years. We enter into leases that generally provide for fixed increases in rent. During times when inflation is greater than the fixed increases in rent, as provided for in the leases, rent increases may not keep up with the rate of inflation. See also the discussion under Item 1A, "Risk Factors," under the caption "Inflation may adversely affect our business and our tenants' financial condition and results of operations."

Seasonality

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our Notes due 2026 bear interest at a fixed rate of 5.50% per annum until maturity, and is the only debt we have outstanding (the remaining principal amount of our Exchangeable Senior Notes was exchanged or paid off in full in February 2024).

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 the consolidated financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act, designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15(b) and 15d-15(b) promulgated under the Exchange Act, our management has evaluated, under supervision of the audit committee of the board of directors and with the participation of our principal executive and principal financial officers, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of December 31, 2023. Based on that evaluation, our principal executive and financial officers concluded that our disclosure controls and procedures were effective as of December 31, 2023 (the end of the period covered by this Annual Report).

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f), designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Under the supervision and with the participation of our management, including our principal executive and principal financial officers, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in the 2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, our principal executive officer and principal financial officer concluded that

our internal controls, as of December 31, 2023, were effective. BDO USA, P.C. has issued an attestation report on the effectiveness of the Company's internal control over financial reporting, which appears in this Annual Report on Form 10-K.

Remediation of Material Weakness

We previously determined that we did not design and maintain effective internal control over financial reporting related to management's review and approval of requests for funding disbursements for improvements at the Company's properties.

In response, we immediately commenced measures to remediate the identified material weakness. We have provided additional training to personnel regarding policies and procedures around construction projects and the necessary approvals of requests for funding disbursements in connection with qualifying property improvements at our properties. Our remediation efforts also included (1) enhancing the design of existing procedures and controls over the review and approval of funding requests for improvements; (2) providing additional training and developing tools to implement and monitor our policies and procedures; and (3) supplementing existing resources with the engagement of third-party construction consultants.

Management believes that significant progress has been made in enhancing internal controls as of December 31, 2023 and has concluded that the enhanced controls are operating effectively. The material weakness described in Part II, Item 9A, "Controls and Procedures" in our Annual Report on Form 10-K for the year ended December 31, 2022 has been fully remediated.

Changes in Internal Control Over Financial Reporting

Other than remediation of the material weakness as discussed above, there have been no changes in our system of internal control over financial reporting during the quarter ended December 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Controls

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

Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors
Innovative Industrial Properties, Inc.
Park City, Utah

Opinion on Internal Control over Financial Reporting

We have audited Innovative Industrial Properties, Inc.'s (the "Company's") internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2023 and 2022, the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2023, and the related notes and financial statement schedule, and our report dated February 27, 2024 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, "Management's Report on Internal Control over Financial Reporting." Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BDO USA, P.C.
San Diego, California
February 27, 2024

ITEM 9B. OTHER INFORMATION***(b) Rule 10b5-1 Trading Plans***

During the three months ended December 31, 2023, no director or officer of the Company adopted or terminated a “Rule 10b5-1 trading arrangement,” or “non-Rule 10b5-1 trading arrangement,” as each term is defined in Item 408(a) of Regulation S-K.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSECCTIONS

Not applicable.

PART III

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

The information concerning our directors, executive officers and corporate governance required by Item 10 will be included in the Proxy Statement to be filed relating to our 2024 Annual Meeting of Stockholders and is incorporated herein by reference. Pursuant to instruction G(3) to Form 10-K, information concerning audit committee financial expert disclosure set forth under the heading “Information Regarding the Board — Committees of the Board — Audit Committee” will be included in the Proxy Statement to be filed relating to Innovative Industrial Properties, Inc.’s 2024 Annual Meeting of Stockholders and is incorporated herein by reference.

Pursuant to instruction G(3) to Form 10-K, information concerning compliance with Section 16(a) of the Exchange Act concerning our directors and executive officers set forth under the heading entitled “General Section 16(a) Beneficial Ownership Reporting Compliance” will be included in the Proxy Statement to be filed relating to Innovative Industrial Properties, Inc.’s 2024 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 11. *EXECUTIVE COMPENSATION*

The information concerning our executive compensation required by Item 11 will be included in the Proxy Statement to be filed relating to our 2024 Annual Meeting of Stockholders and is incorporated herein by reference.

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

The information concerning the security ownership of certain beneficial owners and management, our equity compensation plans and related stockholder matters required by Item 12 will be included in the Proxy Statement to be filed relating to our 2024 Annual Meeting of Stockholders and is incorporated herein by reference.

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

The information concerning certain relationships and related transactions and director independence required by Item 13 will be included in the Proxy Statement to be filed relating to our 2024 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 14. *PRINCIPAL ACCOUNTANT FEES AND SERVICES*

The information concerning our principal accountant fees and services required by Item 14 will be included in the Proxy Statement to be filed relating to our 2024 Annual Meeting of Stockholders and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBIT AND FINANCIAL STATEMENT SCHEDULE

(a)(1) and (2) Financial Statements and Schedule:

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

(3) Exhibits

Exhibit Number	Description of Exhibit
1.1	Form of Equity Distribution Agreement, dated as of January 20, 2023, between Innovative Industrial Properties, Inc., IIP Operating Partnership, LP and each sales agent.(1)
3.1	Second Articles of Amendment and Restatement of Innovative Industrial Properties, Inc. (including Articles Supplementary Classifying Innovative Industrial Properties, Inc.'s 9.00% Series A Cumulative Redeemable Preferred Stock).(2)
3.2	Third Amended and Restated Bylaws of Innovative Industrial Properties, Inc.(3)
4.1	Form of Certificate for Common Stock.(4)
4.2	Indenture, dated as of February 21, 2019, among IIP Operating Partnership, LP, as issuer, Innovative Industrial Properties, Inc. and the subsidiaries of IIP Operating Partnership, LP, as guarantors, Argent Institutional Trust Company, as trustee (as successor-in-interest to GLAS Trust Company LLC), and Securities Transfer Corporation, as registrar (as successor-in-interest to GLAS Trust Company LLC), including the Form of Note representing IIP Operating Partnership, LP's 3.75% Exchangeable Senior Notes due 2024.(5)
4.3	Indenture, dated as of May 25, 2021, among Innovative Industrial Properties, Inc., IIP Operating Partnership, LP, the Subsidiary Guarantors set forth on the signature page thereto, Argent Institutional Trust Company, as trustee (as successor-in-interest to GLAS Trust Company LLC), and Securities Transfer Corporation, as registrar (as successor-in-interest to GLAS Trust Company LLC), including the form of 5.50% Senior Note due 2026.(6)
4.4	Innovative Industrial Properties, Inc. Description of Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934, as amended.(7)
10.1	Agreement of Limited Partnership of IIP Operating Partnership, LP.(8)
10.2+	2016 Omnibus Incentive Plan.(8)
10.3+	Form of Restricted Stock Award Agreement for Officers.(9)
10.4+	Form of Restricted Stock Award Agreement for Directors.(9)
10.5+	Form of Restricted Stock Unit Award Agreement.(10)
10.6+	Form of 2021 Performance Share Unit Award Agreement.(11)
10.6+	Form of 2022 Performance Share Unit Award Agreement.(12)
10.7+	Form of Indemnification Agreement between Innovative Industrial Properties, Inc. and each of its Directors and Officers.(4)
10.8+	Severance and Change of Control Agreement dated as of January 18, 2017 among Innovative Industrial Properties, Inc., IIP Operating Partnership, LP and Alan Gold.(13)
10.9+	Severance and Change of Control Agreement dated as of January 18, 2017 among Innovative Industrial Properties, Inc., IIP Operating Partnership, LP and Paul Smithers.(13)
10.10+	Severance and Change of Control Agreement dated as of January 18, 2017 among Innovative Industrial Properties, Inc., IIP Operating Partnership, LP and Brian Wolfe.(13)
10.11+	Severance and Change of Control Agreement dated as of June 7, 2017 among Innovative Industrial Properties, Inc., IIP Operating Partnership, LP and Catherine Hastings.(14)
10.12+	Severance and Change of Control Agreement dated as of March 29, 2023 among Innovative Industrial Properties, Inc., IIP Operating Partnership, LP and David Smith.(15)
10.13+	Director Compensation Policy.(11)
10.14+	Innovative Industrial Properties, Inc. Nonqualified Deferred Compensation Plan.(16)

10.15	Registration Rights Agreement, dated as of May 25, 2021, among Innovative Industrial Properties, Inc., IIP Operating Partnership, LP, the Subsidiary Guarantors set forth on the signature page thereto and BTIG, LLC, as representative of the initial purchasers.(6)
21.1*	List of Subsidiaries of Innovative Industrial Properties, Inc.
22.1	List of Subsidiary Guarantors.(17)
23.1*	Consent of Independent Registered Public Accounting Firm.
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.
97.1*	Innovative Industrial Properties, Inc. Compensation Recovery Policy.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed herewith.

+ Indicates management contract or compensatory plan.

- (1) Incorporated by reference to Innovative Industrial Properties, Inc.'s Current Report on Form 8-K filed with the SEC on January 23, 2023.
- (2) Incorporated herein by reference to Innovative Industrial Properties, Inc.'s Quarterly Report on Form 10-Q filed with the SEC on August 6, 2020.
- (3) Incorporated by reference to Innovative Industrial Properties, Inc.'s Current Report on Form 8-K filed with the SEC on December 8, 2022.
- (4) Incorporated by reference to Innovative Industrial Properties, Inc.'s Registration Statement on Form S-11, as amended (File No. 333-214148), filed with the SEC on November 17, 2016.
- (5) Incorporated herein by reference to Innovative Industrial Properties, Inc.'s Current Report on Form 8-K filed with the SEC on February 21, 2019.
- (6) Incorporated herein by reference to Innovative Industrial Properties, Inc.'s Current Report on Form 8-K filed with the SEC on May 25, 2021.
- (7) Incorporated herein by reference to Innovative Industrial Properties, Inc.'s Annual Report on Form 10-K filed with the SEC on February 26, 2021.
- (8) Incorporated by reference to Innovative Industrial Properties, Inc.'s Registration Statement on Form S-11, as amended (File No. 333-214148), filed with the SEC on October 17, 2016.
- (9) Incorporated by reference to Innovative Industrial Properties, Inc.'s Registration Statement on Form S-8 (File No. 333-214919), filed with the SEC on December 6, 2016.
- (10) Incorporated by reference to Innovative Industrial Properties, Inc.'s Current Report on Form 8-K filed with the SEC on January 6, 2020.
- (11) Incorporated by reference to Innovative Industrial Properties, Inc.'s Current Report on Form 8-K filed with the SEC on January 15, 2021.
- (12) Incorporated by reference to Innovative Industrial Properties, Inc.'s Current Report on Form 8-K filed with the SEC on January 12, 2022.
- (13) Incorporated herein by reference to Innovative Industrial Properties, Inc.'s Current Report on Form 8-K filed with the SEC on January 24, 2017.
- (14) Incorporated herein by reference to Innovative Industrial Properties, Inc.'s Current Report on Form 8-K filed with the SEC on June 8, 2017.
- (15) Incorporated herein by reference to Innovative Industrial Properties, Inc.'s Current Report on Form 8-K filed with the SEC on March 30, 2023.
- (16) Incorporated herein by reference to Innovative Industrial Properties, Inc.'s Current Report on Form 8-K filed with the SEC on November 18, 2019.
- (17) Incorporated by reference to Innovative Industrial Properties, Inc.'s Quarterly Report on Form 10-Q filed with the SEC on August 3, 2023.

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

None.

SIGNATURES

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

INNOVATIVE INDUSTRIAL PROPERTIES, INC.

By: /s/ Paul Smithers

Paul Smithers

President, Chief Executive Officer and Director

(Principal Executive Officer)

By: /s/ David Smith

David Smith

Chief Financial Officer and Treasurer

(Principal Financial Officer)

By: /s/ Andy Bui

Andy Bui

Vice President, Chief Accounting Officer

(Principal Accounting Officer)

Dated February 27, 2024

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

<u>Name</u>	<u>Capacity</u>	<u>Date</u>
<u>/s/ Alan Gold</u> Alan Gold	Executive Chairman	February 27, 2024
<u>/s/ Gary Kreitzer</u> Gary Kreitzer	Vice Chairman	February 27, 2024
<u>/s/ Mary Curran</u> Mary Curran	Director	February 27, 2024
<u>/s/ Paul Smithers</u> Paul Smithers	President, Chief Executive Officer and Director	February 27, 2024
<u>/s/ Scott Shoemaker</u> Scott Shoemaker	Director	February 27, 2024
<u>/s/ David Stecher</u> David Stecher	Director	February 27, 2024

**INDEX TO CONSOLIDATED
FINANCIAL STATEMENTS**

Innovative Industrial Properties, Inc.

(a) Financial Statements:

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Consolidated Statements of Stockholders' Equity for the years ended December 31, 2023, 2022 and 2021	F-6
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(b) Financial Statement Schedule:

Schedule III – Real Estate and Accumulated Depreciation as of December 31, 2023	F-30
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Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors
Innovative Industrial Properties, Inc.
Park City, Utah

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Innovative Industrial Properties, Inc. (the “Company”) as of December 31, 2023 and 2022, the related consolidated statements of income, stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2023, and the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated February 27, 2024 expressed an unqualified opinion thereon.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

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

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Real Estate Acquisitions - Fair Value of Assets Acquired

As described in Notes 2 and 6 to the consolidated financial statements, the Company’s consolidated real estate property acquisitions totaled approximately \$35.2 million for the year ended December 31, 2023. The two 2023 property acquisitions involved significant judgments in estimating the fair values used in the allocation between the land and buildings and improvements acquired.

We identified the estimation of the fair values used in the allocation of the land and buildings and improvements acquired for the two 2023 property acquisitions as a critical audit matter. The principal considerations for our determination included significant judgments used to evaluate certain assumptions used in the fair values of land and buildings and improvements acquired, including the comparable sales of land, current replacement cost of the buildings and improvements, and certain other assumptions for the two real estate asset acquisitions. Auditing these elements involved a high degree of auditor judgment and subjectivity due to the nature and extent of audit effort required to address these matters, including the extent of specialized skill or knowledge needed.

The primary procedures we performed to address this critical audit matter included:

- Utilizing personnel with specialized knowledge and skills in valuation to assist in the evaluation of the reasonableness of the comparable sales of land, the current replacement cost of the buildings and improvements, and certain other assumptions used in the estimation of the allocation of fair values of land and buildings and improvements acquired, including the comparison of these assumptions to market data.

/s/ BDO USA, P.C.

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

San Diego, California
February 27, 2024

Innovative Industrial Properties, Inc.

Consolidated Balance Sheets

(In thousands, except share and per share amounts)

	December 31, 2023	December 31, 2022
Assets		
Real estate, at cost:		
Land	\$ 142,524	\$ 139,953
Buildings and improvements	2,108,218	2,010,628
Construction in progress	117,773	54,106
Total real estate, at cost	2,368,515	2,204,687
Less accumulated depreciation	(202,692)	(138,405)
Net real estate held for investment	2,165,823	2,066,282
Construction loan receivable	22,000	18,021
Cash and cash equivalents	140,249	87,122
Restricted cash	1,450	1,450
Investments	21,948	200,935
Right of use office lease asset	1,355	1,739
In-place lease intangible assets, net	8,245	9,105
Other assets, net	30,020	30,182
Total assets	<u>\$ 2,391,090</u>	<u>\$ 2,414,836</u>
Liabilities and stockholders' equity		
Liabilities:		
Exchangeable Senior Notes, net	\$ 4,431	\$ 6,380
Notes due 2026, net	296,449	295,115
Building improvements and construction funding payable	9,591	29,376
Accounts payable and accrued expenses	11,406	10,615
Dividends payable	51,827	50,840
Rent received in advance and tenant security deposits	59,358	58,716
Other liabilities	5,056	1,901
Total liabilities	<u>438,118</u>	<u>452,943</u>
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 December 31, 2023 and December 31, 2022	14,009	14,009
Common stock, par value \$0.001 per share, 50,000,000 shares authorized: 28,140,891 and 27,972,830 shares issued and outstanding at December 31, 2023 and December 31, 2022, respectively	28	28
Additional paid-in capital	2,095,789	2,065,248
Dividends in excess of earnings	(156,854)	(117,392)
Total stockholders' equity	<u>1,952,972</u>	<u>1,961,893</u>
Total liabilities and stockholders' equity	<u>\$ 2,391,090</u>	<u>\$ 2,414,836</u>

See the accompanying notes to the consolidated financial statements.

Innovative Industrial Properties, Inc.

Consolidated Statements of Income

(In thousands, except share and per share amounts)

	Years Ended December 31,		
	2023	2022	2021
Revenues:			
Rental (including tenant reimbursements)	\$ 307,349	\$ 274,377	\$ 204,551
Other	2,157	1,982	—
Total revenues	<u>309,506</u>	<u>276,359</u>	<u>204,551</u>
Expenses:			
Property expenses	24,893	10,520	4,443
General and administrative expense	42,832	38,520	22,961
Depreciation and amortization expense	67,194	61,303	41,776
Total expenses	<u>134,919</u>	<u>110,343</u>	<u>69,180</u>
Gain on sale of real estate	—	3,601	—
Income from operations	174,587	169,617	135,371
Interest and other income	8,446	3,195	397
Interest expense	(17,467)	(18,301)	(18,086)
Gain (loss) on exchange of Exchangeable Senior Notes	22	(125)	(3,692)
Net income	165,588	154,386	113,990
Preferred stock dividends	<u>(1,352)</u>	<u>(1,352)</u>	<u>(1,352)</u>
Net income attributable to common stockholders	<u>\$ 164,236</u>	<u>\$ 153,034</u>	<u>\$ 112,638</u>
Net income attributable to common stockholders per share (Note 8):			
Basic	<u>\$ 5.82</u>	<u>\$ 5.57</u>	<u>\$ 4.69</u>
Diluted	<u>\$ 5.77</u>	<u>\$ 5.52</u>	<u>\$ 4.55</u>
Weighted-average shares outstanding:			
Basic	27,977,807	27,345,047	23,903,017
Diluted	28,255,797	27,663,169	26,261,155

See accompanying notes to the consolidated financial statements.

Innovative Industrial Properties, Inc.

Consolidated Statements of Stockholders' Equity

(In thousands, except share amounts)

	<u>Series A Preferred Stock</u>	<u>Shares of Common Stock</u>	<u>Common Stock</u>	<u>Additional Paid-In- Capital</u>	<u>Dividends in Excess of Earnings</u>	<u>Total Stockholders' Equity</u>
Balance, December 31, 2020	\$ 14,009	23,936,928	\$ 24	\$ 1,559,059	\$ (48,120)	\$ 1,524,972
Net income	—	—	—	—	113,990	113,990
Issuance of common stock in conjunction with inducement of Exchangeable Senior Notes, net	—	1,684,237	2	108,591	—	108,593
Preferred stock dividend	—	—	—	—	(1,352)	(1,352)
Common stock dividend	—	—	—	—	(139,736)	(139,736)
Issuance of unvested restricted stock, net of forfeitures	—	(8,624)	—	(3,384)	—	(3,384)
Stock-based compensation	—	—	—	8,616	—	8,616
Balance, December 31, 2021	<u>14,009</u>	<u>25,612,541</u>	<u>26</u>	<u>1,672,882</u>	<u>(75,218)</u>	<u>1,611,699</u>
Adjustment to opening balance upon adoption of ASU 2020-06 (Note 2)	—	—	—	(1,340)	728	(612)
Net income	—	—	—	—	154,386	154,386
Exchange of Exchangeable Senior Notes	—	413,166	—	26,682	—	26,682
Net proceeds from sale of common stock	—	1,932,813	2	351,958	—	351,960
Preferred stock dividend	—	—	—	—	(1,352)	(1,352)
Common stock dividend	—	—	—	—	(195,936)	(195,936)
Issuance of unvested restricted stock, net of forfeitures	—	14,310	—	(2,441)	—	(2,441)
Stock-based compensation	—	—	—	17,507	—	17,507
Balance, December 31, 2022	<u>14,009</u>	<u>27,972,830</u>	<u>28</u>	<u>2,065,248</u>	<u>(117,392)</u>	<u>1,961,893</u>
Net income	—	—	—	—	165,588	165,588
Exchange of Exchangeable Senior Notes	—	32,200	—	1,964	—	1,964
Net proceeds from sale of common stock	—	101,061	—	9,564	—	9,564
Preferred stock dividend	—	—	—	—	(1,352)	(1,352)
Common stock dividend	—	—	—	—	(203,698)	(203,698)
Issuance of unvested restricted stock, net of forfeitures	—	34,800	—	(568)	—	(568)
Stock-based compensation	—	—	—	19,581	—	19,581
Balance, December 31, 2023	<u>\$ 14,009</u>	<u>28,140,891</u>	<u>\$ 28</u>	<u>\$ 2,095,789</u>	<u>\$ (156,854)</u>	<u>\$ 1,952,972</u>

See accompanying notes to the consolidated financial statements.

Innovative Industrial Properties, Inc.
Consolidated Statements of Cash Flows
(In thousands)

	Years Ended December 31,		
	2023	2022	2021
Cash flows from operating activities			
Net income.....	\$ 165,588	\$ 154,386	\$ 113,990
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation and amortization.....	67,194	61,303	41,776
Loss (gain) on exchange of Exchangeable Senior Notes.....	(22)	125	3,692
Gain on sale of real estate.....	—	(3,601)	—
Other non-cash adjustments.....	111	185	95
Stock-based compensation.....	19,581	17,507	8,616
Amortization of discounts on investments.....	(3,198)	(2,246)	(340)
Amortization of debt discount and issuance costs.....	1,371	1,349	2,851
Changes in assets and liabilities			
Other assets, net.....	352	(3,506)	(3,687)
Accounts payable, accrued expenses and other liabilities.....	3,924	2,717	3,102
Rent received in advance and tenant security deposits.....	642	5,911	18,652
Net cash provided by (used in) operating activities.....	<u>255,543</u>	<u>234,130</u>	<u>188,747</u>
Cash flows from investing activities			
Purchases of investments in real estate.....	(34,906)	(150,090)	(287,585)
Proceeds from sale of real estate asset.....	—	23,500	—
Funding of draws for improvements and construction.....	(150,088)	(373,878)	(374,541)
Funding of construction loan and other investments.....	(3,979)	(21,683)	(16,068)
Deposits in escrow for acquisitions.....	—	(250)	(625)
Purchases of short-term investments.....	(111,872)	(388,800)	(569,772)
Maturities of short-term investments.....	294,057	515,000	864,498
Net cash provided by (used in) investing activities.....	<u>(6,788)</u>	<u>(396,201)</u>	<u>(384,093)</u>
Cash flows from financing activities			
Issuance of common stock, net of offering costs.....	9,564	351,960	—
Gross proceeds from issuance of Notes due 2026.....	—	—	300,000
Payment of deferred financing costs.....	(561)	—	(6,855)
Payment of inducement and transaction costs relating to inducement of the Exchangeable Senior Notes.....	—	—	(1,696)
Dividends paid to common stockholders.....	(202,711)	(183,943)	(130,954)
Dividends paid to preferred stockholders.....	(1,352)	(1,352)	(1,352)
Taxes paid related to net share settlement of equity awards.....	(568)	(2,441)	(3,384)
Net cash provided by (used in) financing activities.....	<u>(195,628)</u>	<u>164,224</u>	<u>155,759</u>
Net increase (decrease) in cash, cash equivalents and restricted cash.....	53,127	2,153	(39,587)
Cash, cash equivalents and restricted cash, beginning of year.....	88,572	86,419	126,006
Cash, cash equivalents and restricted cash, end of year.....	<u>\$ 141,699</u>	<u>\$ 88,572</u>	<u>\$ 86,419</u>
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest, net of interest capitalized.....	\$ 16,125	\$ 17,247	\$ 14,381
Supplemental disclosure of non-cash investing and financing activities:			
Accrual for current-year additions to real estate.....	\$ 8,385	\$ 29,376	\$ 46,274
Deposits applied for acquisitions.....	250	25	200
Accrual for common and preferred stock dividends declared.....	51,827	50,840	38,847
Exchange of Exchangeable Senior Notes for common stock.....	2,000	26,682	109,040
Operating lease liability for obtaining right of use asset.....	—	1,017	192

See accompanying notes to the consolidated financial statements.

Innovative Industrial Properties, Inc.

Notes to Consolidated Financial Statements

1. Organization

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

We are an internally-managed real estate investment trust (“REIT”) focused on the acquisition, ownership and management of specialized industrial properties leased to experienced, state-licensed operators for their regulated 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, real estate 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.

Information with respect to rentable square footage is unaudited.

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

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

Reclassification. We have combined \$705.3 million of “Tenant improvements” as of December 31, 2022, which represented building improvements in which we are considered to be the accounting owner, with “Building and improvements” in our consolidated balance sheets to conform to the current period presentation as of December 31, 2023. There was no change to “Total real estate, at cost”.

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

Use of Estimates. The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results may differ materially from these estimates and assumptions. The most significant estimates and assumptions made include determination of lease accounting, fair value of acquisition of real estate properties and valuation of stock-based compensation.

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. We estimate the fair value of buildings and improvements as if the property was vacant utilizing a direct capitalization approach and take into consideration current replacement costs and other relevant market rate information and may engage third-party valuation specialists. Acquisition costs are capitalized as incurred. All of our acquisitions to date were recorded as asset acquisitions.

The fair value of acquired in-place leases is derived based on our assessment of estimated lost revenue and costs incurred for the period required to lease the “assumed vacant” property to the occupancy level when purchased. The amounts recorded for acquired in-place leases are reflected as in-place lease intangible assets, net on the consolidated balance sheets and are amortized on a straight-line basis as a component of depreciation and amortization expense over the remaining term of the applicable leases.

The fair value of the above-market component of an acquired in-place operating lease is based upon the present value (calculated using a market discount rate) of the difference between (i) the contractual rents to be paid pursuant to the lease over its remaining non-cancellable lease term and (ii) our estimate of the rents that would be paid using fair market rental rates and rent escalations at the date of acquisition measured over the remaining non-cancellable term of the lease. The amount recorded for one above-market operating lease is included in other assets, net on the consolidated balance sheets and is amortized on a straight-line basis as a reduction of rental income over the remaining term of the applicable lease.

Certain acquisitions of real estate did not satisfy the requirements for sale-leaseback accounting and therefore as of December 31, 2023 and 2022, acquisitions of approximately \$20.0 million and approximately \$20.1 million, respectively, have been recognized as notes receivable and are included in other assets, net on our consolidated balance sheets.

Sale of Real Estate. When a real estate asset is sold, we evaluate the provisions of Accounting Standards Codification (“ASC”) 610-20, *Gains and Losses from the Derecognition of Nonfinancial Assets* (“ASC 610-20”) to determine whether the asset is within the scope of ASC 610-20, including an evaluation of whether the asset being sold is a nonfinancial asset and whether the buyer has gained control of an asset within the scope of ASC 610-20. In assessing whether the buyer has gained control of the asset, we must determine whether the contract criteria in ASC 606, *Revenue from Contracts with Customers (Topic 606)* have been met, including 1) the parties to the contract have approved the contract and the contract has commercial substance, 2) we can identify each party’s rights regarding the asset to be transferred, 3) we can identify the payment terms for the asset to be transferred, and 4) it is probable that we will collect substantially all of the consideration to which we will be entitled in exchange for the asset to be transferred. If all of the contract criteria have been met, the carrying amount of the applicable asset is derecognized with a corresponding gain or loss from the sale recognized in our consolidated statements of income. If the contract criteria are not all met, the asset transferred is not derecognized and we continue to report the asset in our consolidated balance sheet. See Note 6 “Investments in Real Estate - Property Dispositions” for further information.

Cost Capitalization and Depreciation. We capitalize costs (including interest) associated with development and redevelopment activities and improvements when we are considered to be the accounting owner of the resulting assets. The development and redevelopment activities may be funded by us pursuant to the lease. We are generally considered the accounting owner for such improvements that are attached to or built into the premises, which are required under the lease to be surrendered to us upon the expiration or earlier termination of the lease. Typically, such improvements include, but are not limited to, ground up development, and enhanced HVAC, plumbing, electrical and other building systems.

Amounts capitalized are depreciated on a straight-line basis over the estimated useful lives determined by management. We depreciate buildings and improvements based on our evaluation of the estimated useful life of each specific asset, not to exceed 40 years. For the years ended December 31, 2023, 2022 and 2021, we recognized depreciation expense of approximately \$66.3 million, \$60.5 million and \$41.7 million, respectively, which are included in depreciation and amortization expense in our consolidated statements of income. We depreciate office equipment and

furniture and fixtures on a straight-line basis over the estimated useful lives ranging from three to seven years. We depreciate the leasehold improvements at our corporate office on a straight-line basis over the shorter of the estimated useful lives or the remaining lease term. Depreciation expense relating to our corporate assets is included in general and administrative expense in our consolidated statements of income.

Determining whether expenditures meet the criteria for capitalization and the assignment of depreciable lives requires management to exercise significant judgment. Project costs that are clearly associated with the acquisition and development or redevelopment of a real estate project, for which we are the accounting owner, are capitalized as a cost of that project. Expenditures that meet one or more of the following criteria generally qualify for capitalization:

- the expenditure provides benefit in future periods; and
- the expenditure extends the useful life of the asset beyond our original estimates.

We define redevelopment properties as existing properties for which we expect to spend significant development and construction costs that are not reimbursements to tenants for improvements at the properties. When existing properties are determined to be redevelopment properties, the net carrying value of the buildings and improvements are transferred to construction in progress while the redevelopment activities are in process. Costs capitalized to construction in progress related to redevelopment properties are transferred to buildings and improvements at historical cost of the properties as the redevelopment project or phases of projects are placed in service. During the year ended December 31, 2023, we reclassified the net carrying value of the buildings and improvements totaling approximately \$56.8 million to construction in progress relating to two existing properties that were placed into redevelopment. Costs capitalized to construction in progress related to redevelopment properties are transferred to buildings and improvements at historical cost of the properties as the redevelopment project or phases of projects are placed in service.

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.

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 years ended December 31, 2023, 2022 and 2021.

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 pertaining to the regulated cannabis industry, the limited operating history of certain tenants and the resulting uncertainty of collectability of lease payments from each tenant over the duration of the lease term. Contractually obligated reimbursements from tenants for recoverable real estate taxes, insurance and operating expenses are included in rental revenues 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 consolidated financial statements.

For the year ended December 31, 2023, rental revenue recognized included the application of approximately \$3.1 million of security deposits for rent with two tenants who were in default under their respective lease agreements and approximately \$5.7 million of security deposits for rent with three tenants in connection with lease amendments.

Construction Loan. In June 2021, we executed a construction loan agreement with a developer, pursuant to which we agreed to lend up to \$18.5 million for the development of a regulated cannabis cultivation and processing facility in California. We have an option to purchase the property, and may execute a negotiated lease with an affiliate of the developer or with another third party, if we determine to exercise our purchase option. In February 2023, we amended the construction loan to provide for, among other things: (1) the additional capital commitment of the borrower into the project of \$1.0 million; (2) our agreement to fund an additional \$4.5 million into the project; (3) an increase in the interest rate effective April 1, 2023; (4) an extension of the loan term to December 31, 2023; and (5) the provision of additional collateral from the borrower for the loan. Interest on the loan continued to accrue through March 31, 2023, with monthly payments of interest contractually required commencing April 1, 2023. In December 2023, we further amended to construction loan to extend the loan term to June 30, 2024, with an option for the borrower to extend the loan term to December 31, 2024 upon satisfaction of certain conditions and payment of an extension fee. As of December 31, 2023 and 2022, we had funded approximately \$22.0 million and \$18.0 million, respectively, of the construction loan. Interest income on the construction loan is recognized on a cash basis.

Cash and Cash Equivalents. We consider all highly-liquid investments with original maturities of three months or less to be cash equivalents, which is comprised of 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. Restricted cash relates to cash held in escrow accounts for future draws for improvements for tenants in accordance with certain lease agreements.

Investments. Investments consist of short-term 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. In August 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2020-06, Debt — Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity. ASU 2020-06 simplifies the accounting for convertible debt by eliminating the beneficial conversion and cash conversion accounting models, and convertible debt proceeds, unless issued with a substantial premium or an embedded conversion feature, will no longer be allocated between debt and equity components. ASU 2020-06 also updates the earnings per share calculation and requires entities to assume share settlement when the convertible debt can be settled in cash or shares. We adopted ASU 2020-06 on January 1, 2022 and recognized a cumulative-effect adjustment of approximately \$728,000 to the opening balance of retained earnings and derecognized approximately \$1.3 million of the remaining equity component relating to the outstanding principal balance of our Exchangeable Senior Notes at the date of adoption.

Deferred Financing Costs. The deferred financing costs relating to our Exchangeable Senior Notes and Notes due 2026 are included as a reduction in the net book value of the related liability on our consolidated balance sheets reflect. These costs are amortized as non-cash interest expense using the effective interest method over the life of the related obligations. Deferred financing costs relating to our Revolving Credit Facility are included in other assets, net on our consolidated balance sheets. These costs are being amortized on a straight-line basis and recognized as non-cash interest expense over the term of the Revolving Credit Facility.

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 or performance 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. Certain equity awards are subject to vesting based upon the satisfaction of various market conditions. Forfeiture of share awards with market-based restrictions does not result in a reversal of previously recognized share-based compensation expense.

Lease Accounting. We account for our leases under ASC 842, *Leases*, and have elected the practical expedient not to separate certain non-lease components from the lease component if the timing and pattern of transfer are the same for the non-lease component and associated lease component, and the lease component would be classified as an operating lease if accounted for separately. We also elected the short-term lease exception for lessees for leases that are less than 12 months. As lessee, we recognized a liability to account for our future obligations and a corresponding right-of-use asset related to our corporate office lease, which contains annual escalations. The lease liability was initially measured based on the present value of the future lease payments discounted using the estimated incremental borrowing rate of 7.25%, which was the interest rate that we estimate we would have to pay to borrow on a collateralized basis over a similar term for an amount equal to the lease payments. In November 2021, we amended the lease to extend the term from April 2025 to January 2027 in connection with an expansion of the leased space which did not commence until February 2022. As a result of the lease amendment, we re-measured the lease liability relating to the existing lease space and measured the lease liability to the expansion space based on the present value of the respective future lease payments (excluding the extension option that we are not reasonably certain to exercise), discounted using the estimated incremental borrowing rate of 5.5%, which was the interest rate that we estimate we would have to pay to borrow on a collateralized basis over a similar term for an amount equal to the lease payments. Subsequently, the lease liability is accreted by applying a discount rate established at the lease commencement date to the lease liability balance as of the beginning of the period and is reduced by the payments made during the period.

The right-of-use asset is measured based on the corresponding lease liability. We did not incur any initial direct leasing costs and any other consideration exchanged with the landlord prior to the commencement of the lease. Subsequently, the right-of-use asset is amortized on a straight-line basis during the lease term. For the years ended December 31, 2023, 2022 and 2021, we recognized office lease expense of approximately \$486,000, \$466,000 and \$231,000, respectively, which are included in general and administrative expense in our consolidated statements of income. For the years ended December 31, 2023, 2022 and 2021, amounts paid and classified as operating activities in our consolidated statements of cash flows for the office lease were approximately \$496,000, \$402,000 and \$234,000, respectively.

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 and will be classified as a sales-type lease if control of the underlying asset is transferred to the lessee. 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. Substantially all of our leases continued to be classified as operating leases and we continue to record revenue for each of our properties on a cash basis. Our tenant reimbursable revenue and property expenses continue to be presented on a gross basis as rental revenues and as property expenses, respectively, on our consolidated statements of income. Property taxes paid directly by the lessee to a third party continue to be excluded from our consolidated financial statements.

Lease amendments 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.

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 November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*. The amendments in ASU 2023-07 improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses, measures

of segment profit and loss, and disclosures of how the chief operating decision maker uses the reported measure(s) of a segment's profit or loss in assessing segment performance and deciding how to allocate resources. The amendments are effective for all public entities that are required to report segment information for fiscal years beginning after December 15, 2023 and interim periods beginning after December 15, 2024. The ASU also requires a public entity that has a single reportable segment to provide all the disclosures required by the amendments in this ASU and all existing segment disclosures in Topic 280. Early adoption is permitted. The amendments should be applied retrospectively to all prior periods presented. The Company is currently evaluating the potential impact that this standard will have on its consolidated financial statements and related disclosures.

Concentration of Credit Risk. As of December 31, 2023, we owned 108 properties located in 19 states. 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 tables set forth the five tenants in our portfolio that represented the largest percentage of our total rental revenues for the years ended December 31, 2023, 2022 and 2021, including tenant reimbursements:

	For the Year Ended December 31, 2023	
	Number of Leases	Percentage of Rental Revenue
PharmaCann Inc. ("PharmaCann")	11	15 %
Ascend Wellness Holdings, Inc. ("Ascend")	4	10 %
Green Thumb Industries, Inc. ("Green Thumb")	3	8 %
SH Parent, Inc. ("Parallel") ⁽¹⁾	4	7 %
Curaleaf Holdings, Inc. ("Curaleaf")	8	7 %

	For the Year Ended December 31, 2022	
	Number of Leases	Percentage of Rental Revenue
PharmaCann	11	14 %
Parallel ⁽¹⁾	4	10 %
Ascend	4	9 %
Green Thumb	3	7 %
Trulieve Cannabis Corp.	6	7 %

	For the Year Ended December 31, 2021	
	Number of Leases	Percentage of Rental Revenue
PharmaCann	5	12 %
Parallel ⁽¹⁾	4	10 %
Ascend	3	9 %
Cresco Labs Inc. ("Cresco")	5	8 %
Kings Garden ⁽²⁾	5	8 %

- (1) Commencing in November 2022, Parallel defaulted on its obligations to pay rent at one of our Pennsylvania properties, and we regained possession of that property in October 2023. In February 2023, Parallel defaulted on its obligations to pay rent at one of our Texas properties, and we regained possession of that property in March 2023. See Note 11 "Commitments and Contingencies — Litigation" for more information.
- (2) In July 2022, Kings Garden defaulted on its obligations to pay rent at all of the properties it leases with us, and pursuant to a confidential, conditional settlement agreement executed on September 11, 2022 between us and Kings Garden, we

terminated the leases for two properties and regained possession of those properties, which continued to be in development or redevelopment as of December 31, 2023. Kings Garden paid the stipulated rent during its period of occupancy for the remaining four properties through September 20, 2023, and we regained possession of those properties in September 2023. See Note 11 “Commitments and Contingencies — Litigation” for more information.

In each of the tables above, these leases include leases with affiliates of each entity, for which the entity has provided a corporate guaranty.

As of December 31, 2023, our largest property was located in New York and accounted for approximately 5.4% of our net real estate held for investment. No other properties accounted for more than 5% of our net real estate held for investment as of December 31, 2023. As of December 31, 2022, none of our properties individually represented more than 5% of our net real estate held for investment.

We have deposited cash with a financial institution that is insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. As of December 31, 2023, we had cash accounts in excess of FDIC insured limits. We have not experienced any losses in such accounts.

3. Common Stock

As of December 31, 2023, the Company was authorized to issue up to 50,000,000 shares of common stock, par value \$0.001 per share, and there were 28,140,891 shares of common stock issued and outstanding.

In April 2022, we issued 1,815,790 shares of common stock in an underwritten public offering, including the exercise in full of the underwriters’ option to purchase an additional 236,842 shares, resulting in net proceeds of approximately \$330.9 million.

During the year ended December 31, 2022, we sold 117,023 shares of our common stock pursuant to an “at-the-market” offering program (the “Prior ATM Program”) for net proceeds of approximately \$21.1 million.

In January 2023, we terminated the Prior ATM Program and entered into new equity distribution agreements with four sales agents, pursuant to which we may offer and sell from time-to-time through an “at-the-market” offering program (the “ATM Program”) up to \$500.0 million in shares of our common stock. During the year ended December 31, 2023, we sold 101,061 shares of our common stock under the ATM Program for net proceeds of approximately \$9.6 million.

During the year ended December 31, 2022, we issued 413,166 shares of our common stock upon exchange by holders of approximately \$26.9 million of outstanding principal amount of our Exchangeable Senior Notes.

During the year ended December 31, 2023, we issued 32,200 shares of our common stock upon exchange by holders of \$2.0 million of outstanding principal amount of our Exchangeable Senior Notes.

4. Preferred Stock

As of December 31, 2023, 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 (the “Series A Preferred Stock”). 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 years ended December 31, 2023, 2022 and 2021:

Declaration Date	Security Class	Amount Per Share	Period Covered	Dividend Paid Date	Dividend Amount <i>(In thousands)</i>
March 15, 2021	Common stock	\$ 1.32	January 1, 2021 to March 31, 2021	April 15, 2021	\$ 31,660
March 15, 2021	Series A preferred stock	\$ 0.5625	January 15, 2021 to April 14, 2021	April 15, 2021	\$ 338
June 15, 2021	Common stock	\$ 1.40	April 1, 2021 to June 30, 2021	July 15, 2021	\$ 33,584
June 15, 2021	Series A preferred stock	\$ 0.5625	April 15, 2021 to July 14, 2021	July 15, 2021	\$ 338
September 15, 2021	Common stock	\$ 1.50	July 1, 2021 to September 30, 2021	October 15, 2021	\$ 35,983
September 15, 2021	Series A preferred stock	\$ 0.5625	July 15, 2021 to October 14, 2021	October 15, 2021	\$ 338
December 15, 2021	Common stock	\$ 1.50	October 1, 2021 to December 31, 2021	January 14, 2022	\$ 38,509
December 15, 2021	Series A preferred stock	\$ 0.5625	October 15, 2021 to January 14, 2022	January 14, 2022	\$ 338
March 14, 2022	Common stock	\$ 1.75	January 1, 2022 to March 31, 2022	April 14, 2022	\$ 45,830
March 14, 2022	Series A preferred stock	\$ 0.5625	January 15, 2022 to April 14, 2022	April 14, 2022	\$ 338
June 15, 2022	Common stock	\$ 1.75	April 1, 2022 to June 30, 2022	July 15, 2022	\$ 49,101
June 15, 2022	Series A preferred stock	\$ 0.5625	April 15, 2022 to July 14, 2022	July 15, 2022	\$ 338
September 15, 2022	Common stock	\$ 1.80	July 1, 2022 to September 30, 2022	October 14, 2022	\$ 50,503
September 15, 2022	Series A preferred stock	\$ 0.5625	July 15, 2022 to October 14, 2022	October 14, 2022	\$ 338
December 15, 2022	Common stock	\$ 1.80	October 1, 2022 to December 31, 2022	January 13, 2023	\$ 50,502
December 15, 2022	Series A preferred stock	\$ 0.5625	October 15, 2022 to January 14, 2023	January 13, 2023	\$ 338
March 15, 2023	Common stock	\$ 1.80	January 1, 2023 to March 31, 2023	April 14, 2023	\$ 50,725
March 15, 2023	Series A preferred stock	\$ 0.5625	January 15, 2023 to April 14, 2023	April 14, 2023	\$ 338
June 15, 2023	Common stock	\$ 1.80	April 1, 2023 to June 30, 2023	July 14, 2023	\$ 50,742
June 15, 2023	Series A preferred stock	\$ 0.5625	April 15, 2023 to July 14, 2023	July 14, 2023	\$ 338
September 15, 2023	Common stock	\$ 1.80	July 1, 2023 to September 30, 2023	October 13, 2023	\$ 50,742
September 15, 2023	Series A preferred stock	\$ 0.5625	July 15, 2023 to October 14, 2023	October 13, 2023	\$ 338
December 15, 2023	Common stock	\$ 1.82	October 1, 2023 to December 31, 2023	January 12, 2024	\$ 51,489
December 15, 2023	Series A preferred stock	\$ 0.5625	October 15, 2023 to January 14, 2024	January 12, 2024	\$ 338

6. Investments in Real Estate

Acquisitions

The Company made the following acquisitions during the year ended December 31, 2023 (dollars in thousands):

Property	Market	Closing Date	Rentable Square Feet ⁽¹⁾	Initial Purchase Price	Transaction Costs	Total
Susquehanna Street	Pennsylvania	February 15, 2023	58,000	\$ 15,000	\$ 26	\$ 15,026
Boltonfield Street.	Ohio	March 3, 2023	157,000	20,100	29	20,129 ⁽²⁾
Total			<u>215,000</u>	<u>\$ 35,100</u>	<u>\$ 55</u>	<u>\$ 35,155 ⁽³⁾</u>

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

(2) The tenant is expected to complete improvements at the property, for which we agreed to provide funding of up to \$21.9 million.

(3) Approximately \$2.6 million was allocated to land and approximately \$32.6 million was allocated to building and improvements.

Acquired In-Place Lease Intangible Assets

In-place lease intangible assets and related accumulated amortization as of December 31, 2023 and 2022 is as follows (in thousands):

	December 31, 2023	December 31, 2022
In-place lease intangible assets.	\$ 9,979	\$ 9,979
Accumulated amortization	(1,734)	(874)
In-place lease intangible assets, net	<u>\$ 8,245</u>	<u>\$ 9,105</u>

Amortization of in-place lease intangible assets classified in depreciation and amortization expense in our consolidated statements of income was approximately \$860,000, \$841,000 and \$33,000 for the years ended December 31, 2023, 2022 and 2021, respectively. The remaining weighted-average amortization period of the value of acquired in-place leases was approximately 9.6 years, and the estimated annual amortization of the value of the acquired in-place leases as of December 31, 2023 is as follows (in thousands):

Year	Amount
2024	\$ 860
2025	860
2026	860
2027	860
2028	860
Thereafter.	3,945
Total	<u>\$ 8,245</u>

Above-Market Lease

The above-market lease and related accumulated amortization included in other assets, net on our consolidated balance sheets as of December 31, 2023 and 2022 is as follows (in thousands):

	December 31, 2023	December 31, 2022
Above-market lease.	\$ 1,054	\$ 1,054
Accumulated amortization	(187)	(95)
Above-market lease, net	<u>\$ 867</u>	<u>\$ 959</u>

The above-market lease is amortized on a straight-line basis as a reduction to rental revenues over the remaining lease term of approximately 9.3 years. For the years ended December 31, 2023, 2022 and 2021, the amortization of the above-market lease was approximately \$92,000, \$91,000 and \$4,000, respectively. As of December 31, 2023, the amortization for each of the next five years is approximately \$92,000 and approximately \$407,000 thereafter.

Additional Improvement Allowances

In February 2023, we amended our lease with a subsidiary of Ascend at one of our New Jersey properties, increasing the improvement allowance under the lease by \$15.0 million to a total of approximately \$19.6 million, which also resulted in a corresponding adjustment to the base rent for the lease at the property. We also amended each of our leases with Ascend to include cross-default provisions applicable to each lease.

In February 2023, we amended our lease and development agreement with PharmaCann at one of our New York properties, increasing the construction funding by \$15.0 million to a total of approximately \$93.5 million, which also resulted in a corresponding adjustment to the base rent for the lease at the property. We also amended each of our leases with PharmaCann to include cross-default provisions applicable to each lease.

In February 2023, we amended our lease with a subsidiary of Goodness Growth Holdings Inc. (“Goodness Growth”) at one of our New York properties, increasing the improvement allowance under the lease by \$4.0 million to a total of approximately \$53.4 million, which also resulted in a corresponding adjustment to the base rent for the lease at the property. We also amended each of our leases with Goodness Growth to include cross-default provisions applicable to each lease.

In October 2023, we amended our lease with a subsidiary of Goodness Growth at one of our New York properties, increasing the improvement allowance under the lease by \$14.0 million to a total of approximately \$67.4 million, which also resulted in a corresponding adjustment to the base rent for the lease at the property. In connection with the lease amendment, the tenant prepaid rent for the three month period commencing on November 1, 2023 and ending January 31, 2024.

Lease Amendments

In January 2023, we entered into lease amendments with Holistic Industries Inc. at our properties located in California, Maryland, Massachusetts, Michigan and Pennsylvania, which (1) included cross-default provisions applicable to each lease; (2) extended the term of each lease; and (3) provided that 100% of the base rent shall be applied from the security deposits held by us for (a) the nine months ending September 30, 2023 with respect to the Michigan property and (b) the eight months ending September 30, 2023 with respect to the California property, with pro rata monthly payback of the security deposits over the twelve-month period starting January 2024.

In January 2023, we executed a lease amendment with Calyx Peak, Inc. at our Missouri property, which (1) extended the term of the lease; and (2) provided for 100% base rent deferral through March 31, 2023, with pro rata monthly payback of the deferred rent over the twelve-month period starting April 2023.

In March 2023, we executed a lease amendment with Temescal Wellness of Massachusetts, LLC at our Massachusetts property, which (1) provided for temporary reduced base rent from April 2023 through January 2024 to be partially paid through application of security deposits, with pro rata payback of those security deposits over twelve months starting in February 2024; (2) extended the lease term; and (3) increased base rent for the remainder of the term of the lease.

In July 2023, we amended our lease with a subsidiary of 4Front Ventures Corp. (“4Front”) at one of our Illinois properties, pursuant to which, among other things, we agreed to apply a portion of the security deposit that we hold under the lease to pay one-half of the monthly installments of base rent due from the tenant, commencing on August 1, 2023 and continuing through November 30, 2023, which the tenant is then required to repay over a 12-month period commencing on January 1, 2024.

New Leases

In June 2023, we executed a new long-term lease with a tenant at our property located at 68860 Perez Road in Cathedral City, California that was previously leased to Kings Garden, which is under construction as of December 31, 2023.

In December 2023, we executed a new lease with a tenant at our property located at 9410 Davis Highway in Dimondale, Michigan that was previously leased to Green Peak, which is under construction as of December 31, 2023.

Capitalized Costs

Including all of our properties, during the year ended December 31, 2023, we capitalized costs of approximately \$130.7 million and funded approximately \$150.1 million relating to improvements and construction activities at our properties.

Property Dispositions

In November 2022, we sold one of our Pennsylvania properties that was leased to a subsidiary of Maitri Holdings, LLC for \$23.5 million, excluding transaction costs, and recognized a gain on sale of the property of approximately \$3.6 million.

In March 2023, we sold the portfolio of four properties in California previously leased to affiliates of Medical Investor Holdings, LLC (“Vertical”) for \$16.2 million (excluding transaction costs) and provided a secured loan for \$16.1 million to the buyer of the properties. The loan matures on February 29, 2028 with two options to extend the maturity for twelve months, conditional in each instance on the payment of an extension fee and at least \$500,000 of the principal balance. The loan is interest only and payments are payable monthly in advance. The transaction did not qualify for recognition as a completed sale under GAAP since not all of the criteria were met. Accordingly, we have not derecognized the assets transferred on our consolidated balance sheets. All consideration received, as well as any future payments, from the buyer will be recognized as a deposit liability and will be included in other liabilities on our consolidated balance sheet until such time the criteria for recognition as a sale have been met. As of December 31, 2023, we received interest payments of approximately \$1.3 million. In addition, as we have not met all of the held-for-sale criteria, land and building and improvements with gross carrying values of approximately \$3.4 million and approximately \$13.9 million, respectively, and accumulated depreciation of approximately \$1.6 million as of December 31, 2023, remain on the consolidated balance sheet, and the buildings and improvements continue to be depreciated.

Future Contractual Minimum Rent

Future contractual minimum rent (including base rent and property management fees) under the operating leases as of December 31, 2023 for future periods is summarized as follows (in thousands):

Year	Contractual Minimum Rent
2024	\$ 291,260
2025	303,164
2026	312,135
2027	319,665
2028	326,618
Thereafter	3,727,850
Total	\$ 5,280,692

7. Debt

Exchangeable Senior Notes

As of December 31, 2023 and 2022, our Operating Partnership had outstanding approximately \$4.4 million and \$6.4 million, respectively, principal amount of 3.75% Exchangeable Senior Notes due 2024 (the “Exchangeable Senior 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 December 31, 2023 was 17.30699 shares of our common stock per \$1,000 principal amount of the Exchangeable Senior Notes and the exchange price at December 31, 2023 was approximately \$57.78 per share of our common stock. At December 31, 2023, there were 76,774 shares potentially issuable upon conversion of the Exchangeable Senior Notes. 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. The effective interest rate including amortization of issuance costs is 4.53%. 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. At December 31, 2023, the if-exchanged value of the Exchangeable Senior Notes exceeded the principal amount by approximately \$3.3 million. See Note 12 “Subsequent Events” for more information.

During the year ended December 31, 2023, we issued 32,200 shares of our common stock upon exchanges by holders of \$2.0 million of outstanding principal amount of our Exchangeable Senior Notes. For the year ended December 31, 2023, we recognized a gain on the exchange totaling approximately \$22,000, resulting from the difference between the fair value and carrying value of the debt as of the date of the exchange. The issuance of the shares pursuant to the exchanges resulted in a net non-cash increase to our additional paid-in capital account of approximately \$2.0 million for the year ended December 31, 2023.

During the year ended December 31, 2022, we issued 413,166 shares of our common stock upon exchanges by holders of approximately \$26.9 million of outstanding principal amount of our Exchangeable Senior Notes. For the year ended December 31, 2022, we recognized a loss on the exchange totaling approximately \$125,000 resulting from the difference between the fair value and carrying value of the debt as of the date of the exchange. The issuance of the shares pursuant to the exchanges resulted in a non-cash increase to our additional paid-in capital account of approximately \$26.7 million for the year ended December 31, 2022.

In December 2021, our Operating Partnership entered into separate privately-negotiated exchange agreements with certain holders of the Exchangeable Senior Notes, pursuant to which the Operating Partnership delivered and paid an aggregate of (a) 1,684,237 shares of the Company’s common stock and (b) approximately \$2.3 million in cash (consisting of approximately \$1.2 million in accrued interest and approximately \$1.1 million in inducement), collectively, in exchange for approximately \$110.4 million principal amount of the Exchangeable Senior Notes (the “Exchange Transactions”). The issuance of the shares pursuant to the Exchange Transactions resulted in a non-cash increase to our additional paid-in capital account of approximately \$109.0 million, primarily driven by the fair value of the shares issued, partially offset by the amount allocated to the repurchase of the exchange option. In connection with the Exchange Transactions, we recognized a loss on induced exchange of Exchangeable Senior Notes of approximately \$3.7 million.

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

	For the Year Ended December 31,		
	2023	2022	2021
Cash coupon	\$ 182	\$ 452	\$ 5,380
Amortization of debt discount	—	—	1,146
Amortization of issuance cost	37	94	991
Capitalized interest	(7)	—	—
Total interest expense	<u>\$ 212</u>	<u>\$ 546</u>	<u>\$ 7,517</u>

The following table details the carrying value of our Exchangeable Senior Notes (in thousands):

	December 31, 2023	December 31, 2022
Principal amount	\$ 4,436	\$ 6,436
Unamortized issuance cost	(5)	(56)
Carrying value	<u>\$ 4,431</u>	<u>\$ 6,380</u>

Accrued interest payable for the Exchangeable Senior Notes was approximately \$49,000 and \$70,000 as of December 31, 2023 and 2022, respectively, and is included in accounts payable and accrued expenses on our consolidated balance sheets.

Notes due 2026

On May 25, 2021, our Operating Partnership issued \$300.0 million aggregate principal amount of its 5.50% Senior Notes due 2026 (the “Notes due 2026”). The Notes due 2026 are senior unsecured obligations of our Operating Partnership, are fully and unconditionally guaranteed by us and our Operating Partnership’s subsidiaries and rank equally in right of payment with all of the Operating Partnership’s existing and future senior unsecured indebtedness, including the Exchangeable Senior Notes. However, the Notes due 2026 are effectively subordinated to any of the Company’s, the Operating Partnership’s and the Operating Partnership’s subsidiaries’ future secured indebtedness to the extent of the value of the assets securing such indebtedness. The Notes due 2026 will pay interest semiannually at a rate of 5.50% per year and will mature on May 25, 2026. The terms of the Notes due 2026 are governed by an indenture, dated May 25, 2021, among the Operating Partnership, as issuer, the Company and the Operating Partnership’s subsidiaries, as guarantors, Argent Institutional Trust Company, as trustee (as successor-in-interest to GLAS Trust Company LLC), and Securities Transfer Corporation, as registrar (as successor-in-interest to GLAS Trust Company LLC). The terms of the indenture provide that if the debt rating on the Notes due 2026 is downgraded or withdrawn entirely, interest on the Notes due 2026 will increase to a range of 6.0% to 6.5% based on such debt rating.

In connection with the issuance of the Notes due 2026, we recorded approximately \$6.8 million of issuance costs, which are being amortized using the effective interest method and recognized as non-cash interest expense over the term of the Notes due 2026. The effective interest rate including amortization of issuance costs is 6.03%.

The following table details our interest expense related to the Notes due 2026 (in thousands):

	For the Year Ended December 31,		
	2023	2022	2021
Cash coupon	\$ 16,500	\$ 16,500	\$ 9,854
Amortization of issuance cost	1,334	1,255	715
Capitalized interest	(620)	—	—
Total interest expense	<u>\$ 17,214</u>	<u>\$ 17,755</u>	<u>\$ 10,569</u>

The following table details the carrying value of our Notes due 2026 (in thousands):

	December 31, 2023	December 31, 2022
Principal amount	\$ 300,000	\$ 300,000
Unamortized issuance cost	(3,551)	(4,885)
Carrying value	<u>\$ 296,449</u>	<u>\$ 295,115</u>

The Operating Partnership may redeem some or all of the notes at its option at any time at the applicable redemption price. If the notes are redeemed prior to February 25, 2026, the redemption price will be equal to 100% of the principal amount of the notes being redeemed, plus a make-whole premium and accrued and unpaid interest thereon to, but excluding, the applicable redemption date. If the notes are redeemed on or after February 25, 2026, the redemption price will be equal to 100% of the principal amount of the notes being redeemed, plus accrued and unpaid interest thereon to, but excluding, the applicable redemption date.

The terms of the indenture for the Notes due 2026 require compliance with various financial covenants, including minimum level of debt service coverage and limits on the amount of total leverage and secured debt maintained by the Operating Partnership. Management believes that it was in compliance with those covenants as of December 31, 2023.

Accrued interest payable for the Notes due 2026 as of December 31, 2023 and 2022 was approximately \$2.1 million and is included in accounts payable and accrued expenses on our consolidated balance sheets.

Revolving Credit Facility

On October 23, 2023, our Operating Partnership entered into a loan and security agreement (the “Loan Agreement”) with a federally regulated commercial bank, as lender and as agent for lenders that become party thereto from time to time. The Loan Agreement matures on October 23, 2026, and provides \$30.0 million in aggregate commitments for secured revolving loans (the “Revolving Credit Facility”), the availability of which is based on a borrowing base

consisting of real properties owned by subsidiaries (the “Subsidiary Guarantors”) of the Operating Partnership that satisfy eligibility criteria set forth in the Loan Agreement. The obligations of the Operating Partnership under the Loan Agreement are guaranteed by the Company and the Subsidiary Guarantors, and are secured by (i) operating accounts of the Operating Partnership into which lease payments under the real property included in the borrowing base are paid, (ii) the equity interest of the Subsidiary Guarantors, (iii) the real estate included in the borrowing base and the leases and rents thereunder, and (iv) all personal property of the Subsidiary Guarantors. Borrowings under the Revolving Credit Facility bear interest at a variable rate based on the greater of the prime rate and an applicable margin based on deposits with the participating bank(s) and a stipulated interest rate. The Revolving Credit Facility is subject to an unused line of credit fee, calculated in accordance with the Loan Agreement. The Loan Agreement is subject to certain liquidity and operating covenants and includes customary representations and warranties, affirmative and negative covenants and events of default. The Loan Agreement also allows the Operating Partnership, subject to the satisfaction of certain conditions, to request additional revolving loan commitments up to a specified amount. There were no amounts outstanding under the Revolving Credit Facility as of December 31, 2023.

In connection with the Revolving Credit Facility, we recorded approximately \$561,000 of issuance costs, which are being amortized on a straight-line basis and recognized as non-cash interest expense over the term of the Revolving Credit Facility. For the year ended December 31, 2023, we recognized approximately \$41,000 of non-cash interest expense related to the Revolving Credit Facility.

The following table summarizes the principal payments on our outstanding indebtedness as of December 31, 2023 (in thousands):

Payments Due by Year	Amount
2024	4,436
2025	—
2026	300,000
2027	—
2028	—
Thereafter	—
Total	\$ 304,436

8. Net Income Per Share

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

Through December 31, 2023, all of the Company’s participating securities received dividends or dividend equivalents at an equal dividend rate per share. As a result, distributions to participating securities have been included in net income attributable to common stockholders to calculate net income per basic and diluted share.

The 81,169 shares, 202,076 shares and 2,180,550 shares necessary to settle the Exchangeable Senior Notes on the if-exchanged method basis were dilutive for the years ended December 31, 2023, 2022 and 2021, respectively, and were included in the computation of diluted earnings per share.

For the years ended December 31, 2023 and 2022, the performance share units (“PSUs”) granted to certain employees were not included in dilutive securities as the performance thresholds for the vesting of the PSUs were not

met as measured as of the respective dates. For the year ended December 31, 2021, 81,414 shares issuable upon vesting of PSUs granted to certain employees in January 2021 were included in dilutive securities, as the performance thresholds for vesting of these PSUs were met as measured as of December 31, 2021 (see Note 10 for further discussion of the PSUs).

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

	Years Ended December 31,		
	2023	2022	2021
Net income	\$ 165,588	\$ 154,386	\$ 113,990
Preferred stock dividends	(1,352)	(1,352)	(1,352)
Distribution to participating securities	(1,482)	(834)	(557)
Net income attributable to common stockholders used to compute net income per share – basic	162,754	152,200	112,081
Dilutive effect of Exchangeable Senior Notes	212	546	7,517
Net income attributable to common stockholders used to compute net income per share – diluted	<u>\$ 162,966</u>	<u>\$ 152,746</u>	<u>\$ 119,598</u>
Weighted-average common shares outstanding:			
Basic	27,977,807	27,345,047	23,903,017
Restricted stock and RSUs	196,821	116,046	96,174
PSUs	—	—	81,414
Dilutive effect of Exchangeable Senior Notes	81,169	202,076	2,180,550
Diluted	<u>28,255,797</u>	<u>27,663,169</u>	<u>26,261,155</u>
Net income attributable to common stockholders per share:			
Basic	<u>\$ 5.82</u>	<u>\$ 5.57</u>	<u>\$ 4.69</u>
Diluted	<u>\$ 5.77</u>	<u>\$ 5.52</u>	<u>\$ 4.55</u>

9. Fair Value of Financial Instruments

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

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

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

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

The following table presents the carrying value and approximate fair value of financial instruments at December 31, 2023 and 2022 (in thousands):

	At December 31, 2023		At December 31, 2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Investments ⁽¹⁾	\$ 21,948	\$ 21,951	\$ 200,935	\$ 200,715
Investments as cash equivalents ⁽²⁾	\$ 15,187	\$ 15,029	\$ —	\$ —
Exchangeable Senior Notes ⁽³⁾	\$ 4,431	\$ 7,576	\$ 6,380	\$ 10,282
Notes due 2026 ⁽³⁾	\$ 296,449	\$ 278,325	\$ 295,115	\$ 264,234
Construction Loan ⁽⁴⁾	\$ 22,000	\$ 27,543	\$ 18,021	\$ 20,167

- (1) Investments consisting of short-term obligations of the U.S. government with an original maturity at the time of purchase of greater than three months and less than one year are classified as held-to-maturity and valued using Level 1 inputs. At December 31, 2023, the unrecognized gain was approximately \$78,000.
- (2) Investments as cash equivalents consisting of obligations of the U.S. government with an original maturity at the time of purchase of less than or equal to three months are classified as held-to-maturity and valued using Level 1 inputs.
- (3) The fair value is determined based upon Level 2 inputs as the Exchangeable Senior Notes and Notes due 2026 were trading in the private market.
- (4) The construction loan receivable is categorized as Level 3 and was valued using a yield analysis, which is typically performed for non-credit impaired loans. To determine fair value using a yield analysis, a current price is imputed for the loan based upon an assessment of the expected market yield for a similarly structured loan with a similar level of risk. In the yield analysis, the Company considers the current contractual interest rate, the maturity and other terms of the loan relative to risk of the company and the specific loan. At December 31, 2023 and 2022, the expected market yields used to determine fair value were 16.25% and 25%, respectively. Changes in market yields may change the fair value of the construction loan. Generally, an increase in market yields may result in a decrease in the fair value of the construction loan. Due to the inherent uncertainty of determining the fair value of a loan that does not have a readily available market value, the fair value of the construction loan may fluctuate from period to period. Additionally, the fair value of the construction loan may differ significantly from the value that would have been used had a readily available market existed for such loan and may differ materially from the value that the Company may ultimately realize.

The carrying amounts of cash equivalents, accounts payable, accrued expenses and other liabilities approximate fair values.

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. Any equity awards that lapse, expire, terminate, are canceled or are forfeited (including forfeitures in connection with satisfaction of tax withholding obligations of the recipient) are re-credited to the 2016 Plan’s reserve for future issuance. The 2016 Plan automatically terminates on the date which is ten years following the effective date of the 2016 Plan.

A summary of the restricted stock activity under the 2016 Plan and related information for the years ended December 31, 2023, 2022 and 2021 is included in the table below:

	Restricted Shares	Weighted- Average Grant Date Fair Value
Nonvested balance at December 31, 2020.....	76,346	\$ 50.14
Granted.....	9,679	\$ 187.74
Vested.....	(29,955)	\$ 52.31
Forfeited ⁽¹⁾	(18,303)	\$ 31.99
Nonvested balance at December 31, 2021.....	37,767	\$ 92.49
Granted.....	24,456	\$ 205.62
Vested.....	(18,051)	\$ 91.57
Forfeited ⁽¹⁾	(10,146)	\$ 69.74
Nonvested balance at December 31, 2022.....	34,026	\$ 181.08
Granted.....	40,770	\$ 105.85
Vested.....	(12,115)	\$ 173.37
Forfeited ⁽¹⁾	(5,970)	\$ 116.31
Nonvested balance at December 31, 2023.....	56,711	\$ 135.46

- (1) Shares that were forfeited to cover the employees’ tax withholding obligation upon vesting or employees’ cessation of employment.

The remaining unrecognized compensation cost of approximately \$4.3 million for restricted stock awards is expected to be recognized over a weighted-average amortization period of approximately 1.6 years as of December 31, 2023. The fair value of restricted stock that vested in 2023, 2022 and 2021 was approximately \$1.7 million, \$6.9 million and \$8.8 million, respectively.

The following table summarizes our RSU activity for the years ended December 31, 2023, 2022 and 2021. RSUs are issued as part of the Innovative Industrial Properties, Inc. Nonqualified Deferred Compensation Plan (the “Deferred

Compensation Plan”), which allows a select group of management and our non-employee directors to defer receiving certain of their cash and equity-based compensation. RSUs are subject to vesting conditions of the Deferred Compensation Plan and have the same economic rights as shares of restricted stock under the 2016 Plan:

	Unvested RSUs	Weighted- Average Grant Date Fair Value
Balance at December 31, 2020.....	36,687	\$ 76.06
Granted.....	23,639	\$ 188.80
Balance at December 31, 2021.....	60,326	\$ 120.24
Granted.....	23,351	\$ 206.45
Balance at December 31, 2022.....	83,677	\$ 144.30
Granted.....	66,279	\$ 101.40
Balance at December 31, 2023.....	149,956	\$ 125.34

The remaining unrecognized compensation cost of approximately \$5.9 million for RSU awards is expected to be recognized over an amortization period of approximately 1.7 years as of December 31, 2023.

In January 2021, we initiated the PSU program and issued 70,795 “target” PSUs to a select group of officers, which vest and are settled in shares of common stock (“Award Shares”) based on the Company’s total stockholder return over a period commencing on January 11, 2021 and ending on December 31, 2023 (the “Performance Period”) relative to two different comparator groups of companies. In January 2022, we issued 102,641 “target” PSUs to a select group of officers, which vest and are settled in shares of common stock (referred to herein together with the 2021 PSU Award Shares as the “Award Shares”) based on the Company’s total stockholder return over a period commencing on January 11, 2022 and ending on December 31, 2024 (referred to herein together with the 2021 PSU Performance Period as the “Performance Periods”) relative to two different comparator groups of companies.

At the end of the applicable Performance Periods, a recipient of PSUs may receive as few as zero Award Shares or as many as 150% of the number of target PSUs in Award Shares, plus deemed dividends. PSUs will also be reduced as necessary so the total value at the vesting date does not exceed 800% of the grant date PSU price, and if the Company’s absolute total stockholder return during the applicable Performance Period is negative, the payout of Award Shares is capped at the target number of PSUs, notwithstanding the Company’s outperformance of comparator groups. No dividends are paid to the recipient during the applicable Performance Periods. At the end of the applicable Performance Periods, if the Company’s total stockholder return is such that the recipient earns Award Shares, the recipient will receive additional shares of common stock relating to dividends deemed to have been paid and reinvested on the Award Shares. The recipient of the Award Shares may not sell, transfer or otherwise dispose of the Award Shares for a one-year period following the vesting date of the Award Shares.

The grant date fair value of the PSUs granted in January 2021 and January 2022 was \$12.0 million and \$20.0 million, respectively. The fair value was calculated using a Monte Carlo simulation pricing model based on the following assumptions:

	2021 PSU Award Fair Value Assumptions	2022 PSU Award Fair Value Assumptions
Valuation date	January 6, 2021	January 7, 2022
Fair value per share on valuation date	\$169.51	\$194.86
Expected term	3 years	3 years
Expected price volatility	57.64%	55.99%
Risk-free interest rate	0.20%	1.17%
Discount for post vesting restriction	12.44%	12.22%

The expected share price volatility was based on the historical volatility of our shares of common stock over a period of approximately the applicable Performance Periods. The risk-free interest rate was based on the zero-coupon risk-free interest rate derived from the Treasury Constant Maturities yield curve on the valuation date. The discount for the post vesting restriction was estimated using the Finnerty model.

Stock-based compensation for market-based PSU awards is based on the grant date fair value of the equity awards and is recognized over the applicable Performance Periods. For the years ended December 31, 2023, 2022 and 2021, we recognized stock-based compensation expense of approximately \$10.7 million, \$10.7 million and \$4.0 million respectively, relating to the PSU awards. As of December 31, 2023, the remaining unrecognized compensation cost of approximately \$6.7 million relating to the PSUs granted in January 2022 is expected to be recognized over the remaining Performance Period of 1.0 year.

As measured as of December 31, 2023, the performance thresholds for the vesting of the PSUs were not met for any of the applicable awards, and the PSUs granted in January 2021 were forfeited in their entirety pursuant to the terms of the agreements.

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 other liabilities in our consolidated balance sheet as of December 31, 2023 is presented in the table below (in thousands):

Year	Amount
2024	\$ 511
2025	526
2026	543
2027	45
2028	—
Total future contractual lease payments	1,625
Effect of discounting	(143)
Office lease liability	<u>\$ 1,482</u>

Improvement Allowances. As of December 31, 2023, we had approximately \$18.7 million of commitments related to improvement allowances, which generally may be requested by the tenants at any time up until a date that is near the expiration of the initial term of the applicable lease.

Construction Commitments. As of December 31, 2023, we had approximately \$11.8 million of commitments related to contracts with vendors for improvements at our properties.

Construction Loan. As of December 31, 2023, we had \$1.0 million of commitments related to our construction loan for the development of a regulated cannabis cultivation and processing facility in California.

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.

Class Action Lawsuit

On April 25, 2022, a federal securities class action lawsuit was filed against the Company and certain of its officers. The case was named *Michael V. Malozzi, individually and on behalf of others similarly situated v. Innovative Industrial Properties, Inc., Paul Smithers, Catherine Hastings and Andy Bui*, Case No. 2-22-cv-02359, and was filed in the U.S. District Court for the District of New Jersey. The lawsuit was purportedly brought on behalf of purchasers of our common stock and alleges that we and certain of our officers made false or misleading statements regarding our business in violation of Section 10(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), SEC Rule 10b-5, and Section 20(a) of the Exchange Act. According to the filed complaint, the plaintiff is seeking an undetermined amount of damages, interest, attorneys’ fees and costs and other relief on behalf of the putative classes of all persons who acquired shares of the Company’s common stock between May 7, 2020 and April 13, 2022.

On September 29, 2022, an Amended Class Action Complaint was filed under the same Case Number, adding as defendants Alan D. Gold and Benjamin C. Regin, and asserting causes of action under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. According to the Amended Class Action Complaint, the plaintiff is seeking an undetermined amount of damages, interest, attorneys' fees and costs and other relief on behalf of the putative classes of all persons who acquired shares of the Company's common stock between August 7, 2020 and August 4, 2022. On December 1, 2022, defendants moved to dismiss the Amended Class Action Complaint. On September 19, 2023, the court granted defendants' motion to dismiss the Amended Class Action Complaint without prejudice.

On October 19, 2023, a Second Amended Class Action Complaint was filed under the same Case Number, and asserted causes of action under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. According to the Second Amended Class Action Complaint, the plaintiff is seeking an undetermined amount of damages, interest, attorneys' fees and costs and other relief on behalf of the putative classes of all persons who acquired shares of the Company's common stock between August 7, 2020 and August 4, 2022. On December 18, 2023, defendants moved to dismiss the Second Amended Class Action Complaint. On February 1, 2024, plaintiff responded with their opposition to defendants' motion to dismiss the Second Amended Class Action Complaint. Defendants' reply in support of the motion to dismiss is due March 1, 2024. It is possible that similar lawsuits may yet be filed in the same or other courts that name the same or additional defendants. We intend to defend the lawsuit vigorously. However, at this time, we cannot predict the probable outcome of this action, and, accordingly, no amounts have been accrued in the Company's consolidated financial statements.

Derivative Action Lawsuit

On July 26, 2022, a derivative action lawsuit was filed against the Company and certain of its officers and directors. The case was named *John Rice, derivatively on behalf of Innovative Industrial Properties, Inc. v. Paul Smithers, Catherine Hastings, Andy Bui, Alan Gold, Gary Kreitzer, Mary Curran, Scott Shoemaker, David Stecher, and Innovative Industrial Properties, Inc.*, and was filed in the Circuit Court for Baltimore City, Maryland. The lawsuit asserts putative derivative claims for breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, and waste of corporate assets against the directors and certain officers of the Company. The plaintiffs are seeking declaratory relief, direction to reform and improve corporate governance and internal procedures, and an undetermined amount of damages, restitution, interest, and attorneys' fees and costs. On September 6, 2022, the defendants in this action filed a Consent Motion to Stay the Proceedings, which was granted on October 11, 2022. On September 28, 2022, a second derivative action lawsuit was filed against the Company and certain of its officers and directors. The case was named *Karen Draper, derivatively on behalf of Innovative Industrial Properties, Inc. v. Paul Smithers, Catherine Hastings, Andy Bui, Alan Gold, Gary Kreitzer, Mary Curran, Scott Shoemaker, David Stecher, Defendants, and Innovative Industrial Properties Inc., Nominal Defendant*, Case Number 24-C-22-004243, and filed in the Circuit Court for Baltimore City, Maryland. The lawsuit asserts putative derivative claims for breach of fiduciary duty, and seeks actions to reform and improve the Company, and an undetermined amount of damages, restitution, interest, and attorneys' fees and costs. On October 19, 2022, the parties to both cases filed a Joint Motion to Consolidate Related Shareholder Derivative Actions and to Appoint Lead and Liaison Counsel for plaintiffs, which was granted on December 16, 2022, along with a stay in the lawsuit pending a ruling on the defendants' motion to dismiss the federal class action lawsuit described above. On April 17, 2023, a third derivative action lawsuit was filed against the Company and certain of its officers and directors. The case was named *Ross Weintraub, derivatively on behalf of Innovative Industrial Properties, Inc. v. Alan Gold, Paul Smithers, Catherine Hastings, Ben Regin, Andy Bui, Tracie Hager, Gary Kreitzer, David Stecher, Scott Shoemaker, Mary Curran, and Innovative Industrial Properties, Inc.*, Case Number 1:23-cv-00737-GLR, and filed in the United States District Court for the District of Maryland. The lawsuit asserts putative derivative claims for breach of fiduciary duty and violations of Section 14(a) of the Exchange Act, and seeks an undetermined amount of damages, equitable relief, and attorneys' fees and costs. Defendants in this action filed a Consent Motion to Stay the Proceeding, which was granted on April 17, 2023. On June 5, 2023, a fourth derivative action lawsuit was filed against the Company and certain of its officers and directors. The case was named *Franco DeBlasio, on behalf of Gerich Melenth Nin (GMN) LP, derivatively on behalf of Innovative Industrial Properties, Inc. v. Paul Smithers, Catherine Hastings, Alan D. Gold, Tracie J. Hager, Benjamin C. Regin, Andy Bui, Gary A. Kreitzer, David Stecher, Scott Shoemaker, Mary Curran, and Innovative Industrial Properties, Inc.*, Case Number 1:23-cv-01513-GLR, and filed in the United States District Court for the District of Maryland. On July 19, 2023, the United States Court for the District of Maryland consolidated Case Nos. 1:23-cv-00737-GLR and 1:23-cv-01513-GLR with case number 1:23-cv-00737-GLR as the lead case, and kept the stay in place. The Company intends to vigorously defend each of these lawsuits. However,

at this time, the Company cannot predict the probable outcome of these actions, and, accordingly, no amounts have been accrued in the Company's consolidated financial statements.

Kings Garden Lawsuit

On July 25, 2022, IIP-CA 2 LP filed a lawsuit against Kings Garden, a former tenant at six properties. The case was named *IIP-CA 2 LP, a Delaware limited partnership v. Kings Garden Inc., a Nevada corporation, CK Endeavors, Inc., a California corporation, and JM Endeavors, Inc., a California corporation*, and was filed in the Superior Court of the State of California. On August 2, 2022, the case was amended to be named *IIP-CA 2 LP, a Delaware limited partnership v. Kings Garden Inc., a Nevada corporation, CK Endeavors, Inc., a California corporation, JM Endeavors, Inc., a California corporation, Michael King, an individual, Gary LaSalle, an individual, Charles Kieley, an individual, and Laurie Kibby, an individual*, and to include claims relating to construction at two projects as of June 30, 2022 for breach of implied covenant of good faith and fair dealing, fraud, negligent misrepresentation, conversion, theft by false pretenses, money had and received, and violations of the Racketeer Influenced and Corrupt Organization Act (18 U.S.C. Section 1962(c)) ("RICO Act").

On September 11, 2022, the parties to the lawsuit entered into a confidential, conditional settlement agreement pertaining to matters related to the lawsuit. Pursuant to the conditional settlement agreement, as of December 31, 2023, the Company has received a total of approximately \$19.8 million in partial settlement payments from Kings Garden, which has been accounted for as a reduction to net real estate held for investment on our consolidated balance sheets. During the year ended December 31, 2023, we received approximately \$4.4 million in additional payments from Kings Garden (reflected in the total amount above).

On February 14, 2023, Kings Garden filed an Arbitration Demand related to the interpretation of the confidential, conditional settlement agreement between the parties that concerns certain terms governing the assignment of one of the Kings Garden leases. On August 4, 2023, the Company accepted an offer of judgment extended by Kings Garden under California Code of Civil Procedure Section 998, pursuant to which Kings Garden (i) vacated the remaining four properties it previously occupied in September 2023, paying the stipulated rent during its period of occupancy through September 20, 2023, and (ii) agreed to pay the Company damages and attorneys' fees totaling approximately \$6.0 million, including interest on the then-outstanding amount, on a fully amortizing schedule of approximately \$193,000 per month over a three-year period. The offer of judgment included a mutual release. During November and December 2023, we received an aggregate of approximately \$386,000 from Kings Garden pursuant to the terms of the offer of judgement, which is primarily reported as rental revenues for the year ended December 31, 2023.

Orr Lawsuit

On August 16, 2023, we filed suit against Orr Builders, the general contractor for certain amounts on one construction project undertaken by Kings Garden, and filed a first amended complaint on January 24, 2024, named *IIP-CA 2 LP v. Orr Builders and Does 1-20*, asserting claims for fraud, negligent misrepresentation, negligence, breach of contract, breach of covenant of good faith and fair dealing, violation of California unfair competition law, money had and received, and unjust enrichment.

Enviro Air Lawsuit

On January 29, 2024, we filed suit against Enviro Air Systems Inc., Haik Akiopyan and Desert Construction Services, LLC, regarding certain amounts for one construction project undertaken by Kings Garden, named *IIP-CA 2 LP vs. Enviro Air Systems Inc., Haik Akopyan and Desert Construction Services, LLC*, asserting claims for fraud, negligent misrepresentation, conspiracy, violation of California unfair competition law, money had and received, unjust enrichment, conversion, theft by false pretenses and violations of the RICO Act.

Parallel Pennsylvania Litigation

On February 6, 2023, IIP-PA 8 LLC, as landlord and an indirect subsidiary of the Company, filed a lawsuit against Goodblend Pennsylvania LLC, as tenant, and Parallel, as guarantor, in the Court of Common Pleas of Allegheny County, Pennsylvania, regarding the lease and related guaranty for one of the Company's properties located in Pennsylvania. On October 25, 2023, a consent order was executed by the Court which awarded possession of the property to IIP-PA 8 LLC on October 31, 2023 and damages in favor of IIP-PA 8 LLC in the amount of approximately \$15.5 million. In December

2023, IIP-PA 8 LLC received approximately \$1.7 million from Goodblend Pennsylvania LLC as a partial payment of the judgment, which is reported as rental revenues for the year ended December 31, 2023.

Parallel Texas Litigation

On February 11, 2023, a subsidiary of Parallel defaulted on its obligations to pay rent under the lease at one of our properties in Texas that is under development. On February 23, 2023, IIP-TX 1 LLC, as landlord and an indirect subsidiary of the Company, filed a lawsuit against Surterra San Marcos, LLC, as tenant, in the Justice Court of Hays County, Texas, regarding the lease, asserting claim for possession. In March 2023, a judgment for possession was entered in favor of IIP-TX 1 LLC, as well as monthly rental amounts due, and we regained possession of the property. On March 13, 2023, IIP-TX 1 LLC filed a subsequent lawsuit against Surterra San Marcos, LLC, Parallel and Sunstream Opportunities LP (“SAF Entity 1”) in the District Court of Hays County, Texas, regarding the same lease, asserting claims against Surterra San Marcos, LLC, Parallel and SAF Entity 1 for breach of contract, tortious interference with contract, unjust enrichment, fraud and fraudulent inducement, intentional failure to disclose and misrepresentations and conversion, and also requested the granting of a temporary injunction and the appointment of a receiver over the license(s) pertaining to the property’s operations as a regulated cannabis facility. The parties exchanged initial disclosures in September 2023, and are in the discovery phase.

Green Peak Michigan Litigation

On February 22, 2023, IIP-MI 1 LLC filed a lawsuit against Green Peak and Tropics LP (“SAF Entity 2”) in the Circuit Court of Eaton County, Michigan, regarding a lease for one of the Company’s properties located in Michigan, asserting claims against Green Peak for breach of contract, unjust enrichment, and innocent misrepresentation, against SAF Entity 2 for tortious interference with contract, and against both Green Peak and SAF Entity 2 for civil conspiracy (the “Circuit Court Action”). On March 3, 2023, a receiver was appointed over substantially all of Green Peak’s assets in the Circuit Court of Ingham County, Michigan (the “Receivership Case”), pursuant to which the Company subsequently re-gained possession of one of the Company’s cultivation and processing properties, which is under redevelopment as December 31, 2023, and three retail properties. As a result of the Receivership Case, the claims asserted against Green Peak in the Circuit Court Action were stayed by order of the court and the claims against SAF Entity 2 were suspended by agreement of the parties pending the outcome of the Receivership Case. On October 3, 2023, the court approved the sale of substantially all of Green Peak’s remaining assets in receivership to an affiliate of Green Peak’s senior secured lender. The receiver informed the Company that it intends to vacate the remaining operational cannabis cultivation and processing facility occupied by the receiver by February 29, 2024. The leases for the remaining three retail properties are expected to be assumed by the purchaser in connection with the closing of the sale.

We may, from time to time, be a party to other legal proceedings, which arise in the ordinary course of our business. Although the results of these proceedings, claims, inquiries, and investigations cannot be predicted with certainty, we do not believe that the final outcome of these matters is reasonably likely to have a material adverse effect on our business, financial condition, or results of operations. Regardless of final outcomes, however, any such proceedings, claims, inquiries, and investigations may nonetheless impose a significant burden on management and employees and may come with significant defense costs or unfavorable preliminary and interim rulings.

Deferred Compensation Plan. In November 2019, we adopted the Innovative Industrial Properties, Inc. Nonqualified Deferred Compensation Plan (the “Plan”), which allows a select group of management and non-employee directors to defer receipt of their compensation, including up to 80% of base salary, 100% of bonus, 100% of director fees and 100% of restricted equity awards. The Plan assets are held in a rabbi trust which is consolidated and included in the consolidated financial statements.

12. Subsequent Events

Exchange of Remaining Outstanding Principal Amount Exchangeable Senior Notes

Subsequent to year-end, we issued 28,408 shares of our common stock and paid approximately \$4.3 million in cash upon exchange by holders of approximately \$4.3 million principal amount of Exchangeable Senior Notes and paid off the remaining \$100,000 principal amount at maturity, in accordance with terms of the indenture for the Exchangeable Senior Notes.

Lease Amendments

In January 2024, we entered into lease amendments with subsidiaries of 4Front Ventures Corp. (“4Front”) at the four properties we lease to them in Illinois, Massachusetts and Washington, extending the term of each lease. The Illinois property, which is under development, has experienced significant delays in construction, primarily relating to completion of required utilities enhancements, which has resulted in an extended delay of the estimated completion of the project. As a result, we amended the Illinois lease to reduce base rent owing for the nine months ending September 30, 2024, defer the payback of the security deposit applicable to the lease (with the security deposit subject to future pro-rata monthly payback), and increase the base rent for the remainder of the term commencing November 1, 2024.

In February 2024, we amended our lease and development agreement with PharmaCann at one of our New York properties, increasing the construction funding by \$16.0 million, which also resulted in a corresponding adjustment to the base rent for the lease at the property. We also amended the lease to extend the term.

New Lease

In January 2024, we executed a new lease with a tenant at one of our retail properties in Michigan that was previously leased to Green Peak.

Amendment to Loan Agreement to Increase Commitments Under Revolving Credit Facility

In February 2024, our Operating Partnership entered into an amendment to the Loan Agreement, pursuant to which the aggregate commitments under the Revolving Credit Facility were increased from \$30.0 million to \$45.0 million.

INNOVATIVE INDUSTRIAL PROPERTIES, INC.
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
As of December 31, 2023
(In thousands)

Initial Costs										Total Costs			
Property	Property Type ⁽¹⁾	State	Year Built/Renovated	Land	Building and Improvements	Costs Capitalized Subsequent to Acquisition	Land	Building and Improvements ⁽⁶⁾	Total	Accumulated Depreciation	Net Cost Basis	Year Acquired	
				\$	\$		\$	\$	\$				\$
East Cherry Street	Industrial	Arizona	1971 / 2016	723	3,995	—	723	3,995	4,718	(171)	4,547	2022	
West Greenhouse Drive	Industrial	Arizona	1995 / 2017	398	14,629	5,003	398	19,632	20,030	(4,221)	15,809	2017	
Perez Road ⁽⁵⁾	Industrial	California	1981 / (2)	734	5,634	7,080	734	12,714	13,448	(329)	13,119	2022	
64125 19th Avenue	Industrial	California	2019 / 2023	5,930	45,081	12,605	5,930	57,686	63,616	(3,144)	60,472	2021	
McLane Street	Industrial	California	2005 / 2019	1,577	15,935	—	1,577	15,935	17,512	(1,449)	16,063	2020	
Inland Center Drive ⁽⁵⁾	Industrial ⁽⁴⁾	California	1969 / (2)	3,485	21,911	10,481	3,485	32,392	35,877	—	35,877	2020	
63795 19th Avenue ⁽⁶⁾	Industrial	California	2004 / (2)	3,534	12,852	18,234	3,534	31,086	34,620	(1,869)	32,751	2019	
North Anza Road	Industrial ⁽⁴⁾	California	1980 / 2017	916	5,406	—	916	5,406	6,322	(786)	5,536	2019	
North Anza Road & Del Sol Road													
1804 Needles Highway ⁽³⁾	Industrial ⁽⁴⁾	California	1980 / 2017	840	4,959	—	840	4,959	5,799	(721)	5,078	2019	
West Broadway ⁽⁵⁾	Industrial	California	1964 / 2019	174	715	1	174	716	890	(84)	806	2019	
3253 Needles Highway ⁽³⁾	Industrial	California	1976 / 2019	289	1,185	2	289	1,187	1,476	(139)	1,337	2019	
3241 & 3247 Needles Highway ⁽³⁾	Industrial	California	2018 / 2019	949	3,900	8	949	3,908	4,857	(458)	4,399	2019	
Sacramento	Industrial	California	2020 / 2020	1,981	8,138	16	1,981	8,154	10,135	(957)	9,178	2019	
Steele Street	Industrial	California	1990 / 2019	1,376	5,321	6,033	1,376	11,354	12,730	(1,694)	11,036	2019	
Washington Street	Industrial	Colorado	1967 / 1978 / 2018	2,101	9,176	—	2,101	9,176	9,297	(1,579)	9,698	2018	
West Barbary Place	Industrial	Colorado	1975 / 2017	4,309	4,988	—	4,309	4,988	9,297	(271)	9,026	2021	
Hamilton Road	Industrial	Colorado	1971 / 2012	389	2,478	—	389	2,478	2,738	(129)	2,609	2021	
West Lake Drive	Industrial	Florida	1982 / 2021	2,186	17,371	36,340	2,186	53,711	55,897	(3,871)	52,026	2020	
NW Highway 441	Industrial	Florida	2014 / 2021	1,071	34,249	16,007	1,071	50,256	51,327	(5,808)	45,519	2020	
Ben Bostic Road	Industrial	Florida	1981 / 2021	752	23,064	17,782	752	40,846	41,598	(2,214)	38,361	2021	
East Mazon Avenue	Industrial	Illinois	2019 / 2020	274	16,729	—	274	16,729	17,003	(2,237)	14,789	2019	
Revolution Road	Industrial	Illinois	1992 / 2020	201	17,807	10,008	201	27,815	28,016	(4,107)	23,909	2019	
East 4th Street	Industrial	Illinois	2015 / 2020	563	18,457	51,538	563	69,995	70,558	(9,631)	60,927	2018	
Industrial Drive	Industrial	Illinois	2015 / 2020	739	8,284	40,998	739	49,282	50,021	(5,887)	44,134	2020	
S US Highway 45 52	Industrial	Illinois	2015 / 2020	350	10,191	29,446	350	39,637	39,987	(5,287)	34,700	2019	
Centerpoint Way	Industrial	Illinois	2015 / 2019	268	11,840	13,279	268	25,119	25,387	(3,477)	21,910	2019	
Adams Street	Industrial	Illinois	2016 / 2019	254	17,761	62,247	254	18,015	20,962	(2,376)	18,586	2019	
South Street	Industrial	Maryland	(2)	3,366	—	62,247	3,366	62,247	62,247	(2,273)	63,340	2021	
Alaking Court	Industrial	Maryland	1980 / 2021	1,861	14,775	12,858	1,861	27,633	29,494	(2,134)	27,360	2021	
Western Maryland Parkway	Industrial	Maryland	2017 / 2017	2,785	8,410	22,765	2,785	31,175	33,960	(5,711)	28,249	2017	
Hopping Brook Road	Industrial	Maryland	1996 / 2021	1,849	23,441	—	1,849	23,441	25,290	(1,001)	24,289	2022	
Chestnut Hill Avenue	Industrial	Massachusetts	2020 / 2020	3,030	—	27,512	3,030	27,512	30,542	(3,236)	27,306	2018	
Worcester Road	Industrial	Massachusetts	1938 / 2021	2,202	24,568	36,965	2,202	61,533	63,735	(6,039)	57,696	2020	
Canal Street/7 North Bridge Street	Industrial	Massachusetts	1973 / 2022	4,063	16,462	—	4,063	16,462	20,525	(532)	19,993	2022	
Pulner Road	Industrial	Massachusetts	1890 / 2021	694	2,831	40,035	694	42,866	43,560	(6,594)	36,966	2019	
East Main Street	Industrial	Massachusetts	1980 / 2018	1,059	11,717	6,977	1,059	18,694	19,753	(2,550)	17,203	2018	
Curran Highway	Industrial	Massachusetts	1991 / 2019	2,316	13,194	—	2,316	13,194	15,510	(1,135)	14,375	2020	
Hoover Road	Industrial	Massachusetts	1978 / 2021	2,082	1,026	23,685	2,082	24,711	26,793	(1,568)	25,225	2021	
East Hazel Street	Industrial	Michigan	1940 / 2020 / 2021	1,237	17,791	64,484	1,237	82,275	83,512	(7,934)	75,578	2019	
Oliver Drive	Industrial	Michigan	1929 / 2021	409	4,360	19,297	409	23,657	24,066	(2,656)	21,410	2019	
Davis Highway ⁽⁵⁾	Industrial	Michigan	1930 / 1972 / 2021	1,385	3,631	26,755	1,385	30,386	31,771	(3,011)	28,365	2020	
			1999 / (2)	1,907	13,647	42,105	1,907	55,752	57,659	—	57,659	2021	

Property	Property Type ⁽¹⁾	State	Year Built/Renovated	Initial Costs		Costs Capitalized Subsequent to Acquisition		Total Costs		Accumulated Depreciation	Net Cost Basis	Year Acquired
				Land	Building and Improvements	Land	Building and Improvements ⁽⁶⁾	Land	Building and Improvements ⁽⁶⁾			
Harvest Park	Industrial	Michigan	2018 / 2021	1,933	3,559	10,301	13,860	1,933	13,860	15,793	13,219	2018
Executive Drive	Industrial	Michigan	1960 / 2020	389	6,489	3,140	9,629	389	9,629	10,018	8,567	2019
77th Street Northeast	Industrial	Minnesota	2015 / 2017 / 2019	427	2,644	6,618	9,262	427	9,262	9,689	8,031	2017
Industrial Drive	Industrial	Missouri	2022	753	787	26,710	27,497	753	27,497	28,250	26,749	2021
East Cheyenne Avenue	Industrial	Nevada	1984 / 2022	1,088	5,771	1,088	5,771	1,088	5,771	9,627	8,314	2019
Munsonhurst Road	Industrial	New Jersey	1956 / 2020	4,987	30,421	19,637	50,058	4,987	50,058	55,045	52,546	2022
South Route 73	Industrial	New Jersey	1995 / 2020	702	4,857	29,511	34,368	702	34,368	35,070	30,444	2020
North West Blvd	Industrial	New Jersey	1962 / 2020	222	10,046	1,580	11,626	222	11,626	11,848	10,617	2020
Hudson Crossing Drive	Industrial	New York	2016 / (2)	7,600	22,475	93,670	116,145	7,600	116,145	123,745	116,277	2016
County Route 117	Industrial	New York	1970 / (2)	1,593	3,157	72,008	75,165	1,593	76,758	76,758	72,538	2017
98th Ave South	Industrial	North Dakota	2018 / 2020	191	9,743	2,272	12,015	191	12,015	12,066	10,604	2019
Hunts Landing Road	Industrial	Ohio	2019 / 2019	712	—	19,309	19,309	712	19,309	20,021	17,872	2019
Jason Street	Industrial	Ohio	1937 / 2020	239	2,688	29,250	31,938	239	31,938	32,177	28,918	2020
Springs Way	Industrial	Ohio	2018 / 2020	235	10,377	2,335	12,712	235	12,712	12,947	11,490	2020
East Tallmadge Ave.	Industrial	Ohio	1954 / 1986 / 2020	22	1,014	2,501	3,515	22	3,515	3,537	2,925	2019
Boltonfield Street	Industrial	Ohio	2023 / (2)	1,253	18,876	21,990	40,866	1,253	40,866	42,119	41,427	2023
Scott Technology Park	Industrial	Pennsylvania	2020 / 2020	954	—	27,070	27,070	954	27,070	28,024	25,611	2019
New Beaver Avenue	Industrial	Pennsylvania	1976 / 2021	6,979	34,781	25,986	60,767	6,979	67,746	67,746	62,908	2021
East Market Street	Industrial	Pennsylvania	1927 / 2017	1,435	19,098	74,306	93,404	1,435	93,404	94,839	84,600	2019
Wayne Avenue	Industrial	Pennsylvania	1980 / (2)	1,228	13,080	47,359	60,439	1,228	60,439	61,667	55,662	2019
Horton Drive	Industrial	Pennsylvania	1988 / 2020	1,353	11,854	29,745	41,599	1,353	42,952	42,952	38,599	2019
Industrial Street	Industrial	Pennsylvania	1930 / 2020	941	7,941	16,318	24,259	941	24,259	25,200	22,722	2020
Rosanna Avenue	Industrial	Pennsylvania	1959 / 2020	3,540	5,603	36,671	42,274	3,540	45,814	45,814	40,567	2018
Susquehanna Street	Industrial	Pennsylvania	1968 / 2017	1,318	13,708	—	13,708	1,318	13,708	15,026	14,699	2023
FM 969	Industrial	Texas	(2)	—	11,157	3,682	14,839	—	14,839	15,026	14,235	2022
Dectur Street	Industrial	Virginia	2019 / 2020	231	11,582	7,936	19,518	231	19,518	19,749	16,516	2020
Lathrop Industrial Drive SW	Industrial	Washington	1997 / 2015	1,826	15,684	—	15,684	1,826	15,684	17,510	16,006	2020
East Glendale Avenue	Retail	Arizona	2019 / 2019	1,216	811	501	1,312	1,216	1,312	2,528	2,298	2019
Dahlia Street	Retail	Colorado	2019 / 2019	179	2,132	—	2,132	179	2,132	2,311	2,104	2020
East Colfax Avenue	Retail	Colorado	1998 / 2020	244	307	916	1,467	244	1,467	1,394	1,394	2021
North 2nd Street	Retail	Colorado	1973 / 2020	140	258	810	1,068	140	1,068	1,208	1,148	2021
West Railroad Avenue	Retail	Colorado	1977 / 2020	149	618	168	786	149	786	935	873	2021
Southgate Pl.	Retail	Colorado	1998 / 2019	367	645	54	699	367	699	1,066	990	2020
Wevatta Street	Retail	Colorado	2015 / 2018	4,036	2,417	—	2,417	4,036	2,417	6,453	6,324	2021
Southgate Place	Retail	Colorado	2018 / 2018	942	3,314	—	3,314	942	3,314	4,256	4,062	2021
South Peoria Court	Retail	Colorado	1979 / 2016	938	2,770	—	2,770	938	2,770	3,708	3,547	2021
Highway 6 & 24	Retail	Colorado	1960 / 2019	892	1,996	—	1,996	892	1,996	2,888	2,772	2021
North College Avenue	Retail	Colorado	1952 / 2017	527	2,952	—	2,952	527	2,952	3,479	3,323	2021
East Quincy Avenue	Retail	Colorado	2018 / 2018	659	2,493	—	2,493	659	2,493	3,152	3,013	2021
East Montview Boulevard	Retail	Colorado	1952 / 2019	256	1,490	—	1,490	256	1,490	1,746	1,666	2021
South Federal Blvd	Retail	Colorado	1980 / 2017	193	1,361	—	1,361	193	1,361	1,554	1,483	2021
Santa Fe Trail	Retail	Colorado	1948 / 2000	232	1,110	—	1,110	232	1,110	1,342	1,278	2021
Water Street	Retail	Colorado	1930 / 2013	319	945	—	945	319	945	1,264	1,208	2021
Gregory Street	Retail	Colorado	1875 / 2014	101	1,058	—	1,058	101	1,058	1,159	1,105	2021
West 20th Avenue	Retail	Colorado	1970 / 2014	289	666	—	666	289	666	955	917	2021
South Federal Blvd.	Retail	Colorado	1941 / 2018	461	319	—	319	461	319	780	760	2021
West 6th Street	Retail	Colorado	2019 / 2019	60	272	—	272	60	272	332	314	2021
Elm Avenue	Retail	Colorado	1962 / 2020	21	311	—	311	21	311	332	310	2021
Bent Avenue North	Retail	Colorado	2019 / 2020	49	284	—	284	49	284	333	315	2021
Coolidge Rd	Retail	Michigan	2019 / 2019	1,635	—	1,727	1,727	1,635	1,727	3,362	3,138	2019
South Cedar Street	Retail	Michigan	1957 / 2019	282	1,951	—	1,951	282	1,951	2,233	1,925	2019
West Person Road	Retail	Michigan	1975 / 2019	122	2,065	—	2,065	122	2,065	2,187	1,861	2019
Wildor Road	Retail	Michigan	1988 / 2019	49	1,696	—	1,696	49	1,696	1,745	1,478	2019
East Front Street	Retail	Michigan	1992 / 2019	449	827	—	827	449	827	1,276	1,146	2019
South Mason Drive	Retail	Michigan	1970 / 2019	25	973	—	973	25	973	998	845	2019
N Delsea Dr	Retail	New Jersey	1974 / 2020	244	1,928	—	1,928	244	1,928	2,172	2,005	2020
24th Street East	Retail	North Dakota	2019 / 2019	348	1,368	—	1,368	348	1,368	1,716	1,633	2021
Highway 2 East	Retail	North Dakota	1976 / 2019	120	1,225	—	1,225	120	1,225	1,345	1,267	2021

Property	Property Type ⁽¹⁾	State	Year Built/Renovated	Initial Costs			Costs Capitalized Subsequent to Acquisition			Total Costs			Net Cost Basis	Year Acquired
				Land	Building and Improvements	Land	Building and Improvements ⁽⁶⁾	Land	Building and Improvements ⁽⁶⁾	Total	Accumulated Depreciation	Net Cost Basis		
Main Street	Retail	Pennsylvania	1980 / 2019	57	840	57	840	—	—	897	(43)	854	2021	
South 17th Street	Retail	Pennsylvania	2021 / 2021	553	2,000	553	2,000	—	—	2,553	(90)	2,463	2022	
Esperanza Street	Industrial/Retail	California	1926 / 1976	1,713	11,307	1,713	11,307	979	—	13,999	(1,346)	12,653	2019	
Grape Street	Industrial/Retail	Colorado	1982 / 2018	1,380	5,786	1,380	5,786	—	—	7,166	(308)	6,858	2021	
US 50 Business and Baxter Road	Industrial/Retail	Colorado	1929 / 2019	119	1,652	119	1,652	—	—	1,771	(106)	1,665	2021	
South Fox Street	Industrial/Retail	Colorado	1965 / 2014	297	829	297	829	—	—	1,126	(44)	1,082	2021	
West Street	Industrial/Retail	Massachusetts	1880 / 2021	650	7,119	650	26,169	19,050	—	26,819	(2,419)	24,400	2020	
Mozzone Boulevard	Industrial/Retail	Massachusetts	1975 / 2019	1,626	38,406	1,626	38,406	—	—	40,032	(1,717)	38,315	2022	
Stephenson Highway	Industrial/Retail	Michigan	2021 / 2021	6,211	—	6,211	22,304	22,304	—	28,515	(1,741)	26,774	2020	
Hoover Road	Industrial/Retail	Michigan	1951 / 2021	700	9,557	700	16,541	6,984	—	17,241	(1,276)	15,965	2021	
Leah Avenue ⁽⁵⁾	Industrial/Retail	Texas	(2)	2,222	1,195	2,222	5,666	4,471	—	7,888	—	7,888	2021	
Total				\$ 142,524	\$ 891,551	\$ 142,524	\$ 2,225,991	\$ 1,334,440	\$ —	\$ 2,368,515	\$ (202,692)	\$ 2,165,823		

- (1) "Industrial" reflects facilities utilized or expected to be utilized for regulated cannabis cultivation, processing and/or distribution activities, which can consist of industrial and/or greenhouse space.
- (2) As of December 31, 2023, all or a portion of the property was under development or redevelopment.
- (3) These four properties were sold in March 2023 but the transaction did not qualify for recognition as a completed sale under GAAP. As such, the properties remain on the consolidated balance sheet. Refer to Note 6 "Investments in Real Estate" for more information.
- (4) As of December 31, 2023, we were evaluating alternative non-cannabis uses for the property, due in part to changes in the zoning of the property that no longer allow for regulated cannabis cultivation and processing.
- (5) As of December 31, 2023, these properties were vacant and excluded from our operating portfolio.
- (6) Building and improvements balance includes Construction in progress.

As of December 31, 2023, the aggregate gross cost of the properties included above for federal income tax purposes was approximately \$2.4 billion, which excludes the four properties that were sold in March 2023 that did not qualify for recognition as a completed sale under GAAP but is recognized as a sale for tax purposes.

A reconciliation of historical cost and related accumulated depreciation is as follows (in thousands):

	Years Ended December 31,	
	2023	2022
Investment in real estate, at cost:		
Balance at beginning of year	\$ 2,204,687	\$ 1,722,104
Purchases of investments in real estate	35,155	149,317
Additions and improvements, net	128,673	355,633
Sale of real estate investments	—	(22,367)
Balance at end of year	\$ 2,368,515	\$ 2,204,687
Accumulated Depreciation:		
Balance at beginning of year	\$ (138,405)	\$ (81,938)
Depreciation expense, net	(64,287)	(58,935)
Sale of real estate investments	—	2,468
Balance at end of year	\$ (202,692)	\$ (138,405)