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PRESENTATION

Operator

Good day, and welcome to the Innovative Industrial Properties Fourth Quarter 2019 Earnings Conference Call. (Operator Instructions) Please note this event is being recorded.

I would now like to turn the conference over to Brian Wolfe, General Counsel. Please go ahead.

Brian J. Wolfe - *Innovative Industrial Properties, Inc. - VP, General Counsel & Company Secretary*

Thank you for joining the call. Presenting today are Alan Gold, Executive Chairman; Paul Smithers, President and Chief Executive Officer; Catherine Hastings, Chief Financial Officer; and Ben Regin, Vice President of Investments.

Before we begin, I'd like to remind everyone that statements made during today's conference call may be deemed forward-looking statements within the meaning of the safe harbor of the Private Securities Litigation Reform Act of 1995, and actual results may differ materially due to a variety of risks, uncertainties and other factors. For a detailed discussion of some of the ongoing risks and uncertainties of the company's business, I refer you to the news release issued yesterday and filed with the SEC on Form 8-K as well as the company's reports filed periodically with the SEC.

The company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

We will open up the line for questions after our prepared remarks. I will now turn the call over to Alan.

Alan D. Gold - *Innovative Industrial Properties, Inc. - Executive Chairman*

Thank you, Brian, and welcome, everyone. Today, we look forward to recapping what has really been a transformational year for our company.

First, please remember that 2019 represented just our third year of operations. At the end of 2018, we started with a base of 11 properties. We then acquired 35 new properties in 2019 in addition to 5 properties in the first 2 months of 2020. These transactions represented both follow-on transactions with our existing tenant partners to facilitate their continued expansion and new tenant relationships.

From January 1, 2019, through today, we have grown our total portfolio in terms of committed investments by well over 300%. As of today, we own 51 properties in 15 states, totaling 3.2 million square feet, which are 99% leased on a long-term basis to high-quality, licensed cannabis operators. Our current blended yield on these properties is 13.3%, with a weighted average remaining lease term of 15.6 years.

Ben Regin, our Vice President of Investments, will discuss our recent acquisitions in more detail and our overall portfolio.

We paid a quarterly common stock dividend of $1 per share to stockholders on January 15, representing 186% increase over our fourth quarter 2018 dividend. This is a testament to our portfolio's operating performance and our confidence in the strength of our existing portfolio and our pipeline of acquisitions. This dividend was also supported by our tremendous 250-plus percent growth year-over-year in rental revenue, net income and AFFO during the fourth quarter, which to note only partially reflects the 15 acquisitions completed during the quarter and does not take into account at all the 5 acquisitions we completed in the first 2 months of 2020, which together with lease amendments for additional tenant improvements at existing properties during that time represent over $300 million of additional investments.

Catherine Hastings, our CFO, will also provide more detail regarding our financial results.

The medical-use cannabis industry continues to experience tremendous growth and change. And Paul Smithers, our CEO, will provide some detail on the industry and regulatory trends in our call today.

Finally, as announced in December, we continue to make great additions to our team; most recently, with the appointment of Mary Curran as a member of our Board of Directors. Mary brings a wealth of experience in executive leadership positions in the finance industry, and we are thrilled to bring her insight and perspective into our boardroom, in addition to her membership on the Board's audit and nominating committees.

We continue to be very optimistic about the future of this nascent industry and our ability to deliver results for our stakeholders and enduring value to our tenant partners by providing tailored real estate solutions that meet key operational and capital needs.

Now with that, I'd like to turn the call over to Paul. Paul?

Paul E. Smithers - *Innovative Industrial Properties, Inc. - President, CEO & Director*

Thanks, Alan. As with prior calls, we'll try to provide as effective an overview as we can, focusing in on 2 main topics: One, the current regulatory environment; and two, the dynamics of the industry and developments that we continue to monitor closely.

First, regarding the current federal regulatory environment and legislative developments. Of course, cannabis remains a Schedule 1 controlled substance, which generally prohibits all cannabis use and cannabis-related commercial activity in the United States.

That said, Congress has continued to enact spending bills since 2014 with a provision that has been interpreted by courts as preventing the Department of Justice from using funds to interfere with the implementation of state medical-use cannabis laws. That provision was again included in this year's Congressional Spending Bill passed in late December, which carries through to September 30, 2020.

In addition, as we reported earlier, the Secure And Fair Enforcement Banking Act, also known as the SAFE Banking Act, was passed by the House in late September with resounding support in a vote of 321 to 103. The legislation is now with the Senate Banking Committee, where it has been for some months and facing more opposition.

As we noted previously, the SAFE Banking Act, if it became law, would provide greater federal protection to banks, servicing state license, compliant operators and may also result in banks being more open to providing debt capital to these operators.

In other Congressional developments, the House Judiciary Committee in November approved the Marijuana Opportunity Reinvestment and Expungement Act or the MORE Act by a vote of 24 to 10. The MORE Act would deschedule cannabis from the Controlled Substances Act, require federal courts to expunge prior cannabis-related convictions and establish a federal sales tax on cannabis products, with proceeds to fund certain social justice initiatives.

The MORE Act is the ambitious in scope. And if it does reach the House for a full vote and passes, we expected to meet with very significant opposition in the Senate.

As you can see, the movement continues forward regarding federal legalization and addressing key concerns of the industry.

Now from a state level perspective, currently, 33 states have legalized cannabis for medical use, with 11 states having introduced adult-use programs.

At the outset, 2020 has the potential to be another year of significant development for the industry in the remaining states.

According to New Frontier Data, as 2020 began, 19 states were actively debating reform policies. 11 states with active medical cannabis programs were considering introducing regulated adult-use programs and another 8 states were considering adoption of medical-use cannabis programs.

We are following these legislative and valid initiatives closely and are excited to see the continued momentum of the industry and state authorities moving in the direction of the clear will of the constituents, with polls of U.S. citizens indicating 90% plus support for medical cannabis legalization and 2/3 support for adult-use cannabis legalization. I also want to touch on other industry developments that we are monitoring closely.

Vaping. As we discussed on our call in November, there have been a large number of reported lung injury cases associated with vaping products reported to the CDC. 2,758 cases as of February 4. The FDA and CDC have made some progress in identifying the causes of the lung injuries, citing that vitamin E acetate is strongly linked to the lung injury cases.

The CDC further noted that findings indicate that the vaping products contain THC, particularly those obtained illicitly were linked to most of the cases. The CDC further noted that after a sharp rise in cases in August and peaking in September last year, there has been a gradual but persistent decline since then, citing a few potential driving factors including the removal of vitamin E acetate from some products and enhanced law enforcement actions related to illicit products.

We remain hopeful that authorities will be able to definitively identify the source of these injuries as soon as possible for the protection of the public and move quickly to remove those products from the market. And that this will further push the industry away from illicit, potential unsafe products to the regulated cannabis markets, where products are generally subject to robust laboratory testing in quality and safety requirements.

As we discussed previously as well, states have taken different approaches to addressing this vaping concern. For example, in Massachusetts, state authorities initiated a temporary ban in September on all vaping products and then decided to lift the ban for cannabis vaping products in December, with stipulations requiring additional testing for substances such as vitamin E acetate.

We continue to monitor the situation closely. And we are in contact with our tenants regarding the impacts of vaping bands and other related restrictions have had and are having on their businesses.

On a macro level, Arcview estimated that monthly regulated cannabis vape sales declined from an all-time high of $160 million in August to about $119 million in October, but then stabilized somewhat through the balance of 2019.

Capital markets. We also addressed on our last call our views of the current capital raising environment for the regulated cannabis industry, noting certain headwinds facing the industry, including vaping concerns, challenges in Canada with respect to the rollout of its adult-use cannabis program and public equity markets pullback for cannabis companies.

Based on data from Viridian Capital, there were a total of 530 capital raises in 2019 for private and public cannabis operators, raising approximately $11.3 billion compared to 609 capital raises in 2018, raising $14.2 billion. 2019 also witnessed a decline in M&A activity with 294 public and private M&A transactions completed in 2019 versus 325 transactions completed in 2018.

As we discussed on our last call, we do expect the cannabis industry to remain capital constrained as we progress through 2020 but, of course, remain firm believers in the tremendous growth opportunities and long-term outlook of an industry that is still in its very early stages.

We remain steadfast in our commitment as a long-term real estate capital provider to aid our tenant partners as they grow their companies. We would also note that even faced with these headwinds, the U.S. regulated cannabis industry continues its tremendous growth trajectory with 34% year-over-year growth in 2019 to over $12 billion in revenues.

Consolidation. We have also been monitoring the continued consolidation of the cannabis industry, as larger multi-state operators continue to acquire new licenses and businesses in addition to mergers between large multi-state operators themselves. We believe this trend will continue, if not accelerate as companies with strong capital resources and a national footprint seek to continue to grow their businesses and team with smaller operators with complementary brands and footprints.

The consolidation is also likely to be driven by capital markets constraints as operators look to achieve further efficiencies of scale in their operations through combinations, and certain operators with depressed valuations become attractive targets for better capitalized companies. At the same time, we do continue to see ample space for smaller independent operators with strong ties to local communities to continue to thrive in the industry.

Ben will discuss our recent acquisitions and leasing activity where we continue to partner with some of the leading multi-state operators in the nation.

I'll now turn the call over to Ben, who will walk you through our recent acquisitions. Ben?

Ben Regin - *Innovative Industrial Properties, Inc. - Director of Investments & Finance*

Thanks, Paul. As Alan alluded to, our acquisition momentum continued to accelerate in the fourth quarter of 2019 and into this year, capping off a truly transformational 2019 for our company.

Since October 1, we have acquired 20 properties in 8 states and executed 5 lease amendments with tenants at existing properties as they continue to build further capacity to meet demand for their products. As of today, we own 51 properties across 15 states, representing approximately 3.2 million square feet, including approximately 871,000 square feet under development or redevelopment.

Consistent with our prior call, I plan to touch on each of our recent acquisitions by state and also provide some information about each tenant in our portfolio overall in that state.

Starting with Illinois. We were very active over the last 4 months, originally entering the state with our acquisition and lease to Ascend Wellness in late 2018 and then further amending our lease with them in September to provide an additional $8 million in capital for tenant improvements at the property, which is partially in anticipation of required additional capacity to meet demand for the Illinois adult-use cannabis program that commenced sales last month.

As discussed on our last call as well, in October, we acquired 2 more properties in Illinois, totaling 90,000 square feet of industrial space and entered into long-term leases for each property with Cresco Labs, with our total investment in the acquisition and tenant improvements at the properties expected to be $46.6 million in the aggregate.

Cresco Labs is one of the largest vertically integrated cannabis operators in the United States. Last month, Cresco executed on a senior secured term loan for an initial principal amount of $100 million and closed on its acquisition of Origin House, making Cresco one of the largest wholesale distributors in California, selling into over 575 dispensaries, representing approximately 65% of California's storefront dispensaries.

Also, in October, we acquired a 70,000 square foot industrial property in Illinois and entered into a long-term lease with Grassroots, with our total investment in the acquisition and tenant improvements at the property, including a planned 50,000 square foot expansion expected to be about

$28.2 million. Grassroots is one of the leading multi-state cannabis operators with operations in 11 states and signed a definitive agreement last year to be acquired by Curaleaf, which is expected to close in the spring of this year according to Curaleaf.

Finally, in October, we acquired a 48,000 square foot industrial property in Illinois and entered into a long-term lease with PharmaCann, with our total investment in the acquisition and tenant improvements at the property, including a planned 18,000 square foot expansion expected to be $25 million. As you know, our first acquisition in 2016 was a sale-leaseback transaction with PharmaCann for their cultivation and processing facility in New York. Our transaction with PharmaCann in Illinois makes it our fifth property acquisition and lease with them, including transactions for their licensed cannabis cultivation and processing facilities in Massachusetts, New York, Ohio and Pennsylvania. Our total investment in properties leased to PharmaCann, including commitments to fund future tenant improvements or construction, is $131.5 million.

As of today, we own 5 properties in Illinois, and our total investment, including committed funding for future tenant improvements, is over $115 million, which does not include the additional $15.9 million, which may be requested by Grassroots at our Litchfield property.

We are very pleased with this group of strong multi-state operators and are excited for the future of the regulated cannabis industry in Illinois, with the medical cannabis program expanding rapidly through the relaxation of certain regulations and introduction of new qualifying medical conditions.

In addition, Illinois had first sales of adult-use cannabis at the beginning of this year, registering sales in the first day under the regulated program of nearly $3.2 million, marking a truly tremendous start.

We now move on to Pennsylvania. In November, we acquired a property in Pennsylvania and entered into a long-term lease with Green Thumb Industries, representing a total expected investment by us, including an allowance for improvements to the property to significantly enhance production capacity, of approximately $39.6 million. This marked our first transaction with GTI, a leading multi-state operator that operates 13 cannabis manufacturing facilities and 96 retail locations across 12 U.S. markets. We are thrilled to be a long-term real estate capital partner with GTI, and we followed this transaction with another transaction for GTI's cannabis processing facility in Ohio, which I will touch on later.

In December, we expanded our relationship with Grassroots through the acquisition of a 72,000 square foot cultivation and processing facility, with our total investment expected to be approximately $25.1 million, including an allowance for additional tenant improvements at the property. This marked our third transaction with Grassroots, having acquired Grassroots' Illinois facility in October, as I discussed, and Grassroots' North Dakota facility concurrently with this acquisition, which I will touch on later.

And in January, we executed a lease amendment with our tenant, Vireo Health, to provide an additional $4.5 million in tenant improvements at its Scranton cultivation and processing facility to further enhance production capacity.

As of today, we own 6 properties in Pennsylvania, and our total investment in the market, including committed allowance for future tenant improvements, is $140 million. Pennsylvania's medical-use cannabis program has grown tremendously in a very short period of time with first sales commencing in 2018.

As we've seen with other states, the program has also expanded its reach over time, including the addition of 5 new qualifying conditions. In just its first 2 years of operations, Pennsylvania's medical cannabis program generated more than $500 million in sales according to state data. In addition, Governor Tom Wolf is in favor of legalizing cannabis for adult-use consumption, which is in line with a large majority of Pennsylvanians.

In February, we also executed a lease amendment with our tenant, Maitri Medicinals, to provide an additional $6 million in tenant improvements at its Pittsburgh area cultivation and processing facility for further build-out of production capacity.

Moving on to Michigan. In October, we acquired 156,000 square foot industrial property and entered into a long-term lease with LivWell, with our total investment in the acquisition and redevelopment of the property expected to be approximately $42 million. Established in 2009, LivWell is one of the preeminent licensed cannabis operators in Colorado with 18 dispensary locations, employing over 700 employees, in addition to operations in Oregon, Michigan, Puerto Rico and Canada. We further expanded our relationship with LivWell in February, acquiring 2 dispensary locations in Colorado, which I will discuss later.

In October and November, we completed the acquisitions and leases of 6 dispensary locations in Michigan for a total of $11.3 million, including reimbursement for certain future tenant improvements and entered into long-term leases with the Green Peak Innovations for each location. We acquired Green Peak's cultivation and processing facility in mid-development in 2018. And together with these dispensary locations, our total investment in properties leased to Green Peak is approximately $27 million, including commitments to fund future tenant improvements.

As of today, we own 10 properties in Michigan, and our total investment in the market, including committed funding for future tenant improvements, is $99 million. Michigan's medical-use cannabis program is one of the largest in the country, and sales under Michigan's regulated adult-use cannabis program started on December 1 of last year. The adult-use cannabis rollout was limited in scope with only 5 retail cannabis stores opened the first week. However, demand at those stores was tremendous, registering $1.6 million in adult-use cannabis sales in just the first 8 days of the program at those 5 stores.

As more and more stores come online, we expect the regulated adult-use program to experience tremendous growth. In fact, adult-use cannabis sales rose 40% from December to January along with increases in medical cannabis sales.

Moving to Ohio. In January, we acquired a property comprising approximately 50,000 square feet of industrial space and entered into a long-term lease with Cresco Labs, marking our third investment with Cresco as our tenant partner after closing on 2 of Cresco's Illinois cultivation and processing facilities in October, as I described earlier. Our total investment in the acquisition and tenant improvements of the property is expected to be $12.5 million.

Also, in January, we acquired a property in Ohio and executed a long-term lease with GTI, marking our second transaction with GTI following our Pennsylvania sale-leaseback transaction completed in November. Our total investment in the property, including reimbursement for tenant improvements, is expected to be $7.2 million.

As of today, we own 4 properties in Ohio, and our total investment in the market, including committed funding for future tenant improvements, is $43 million. Medical-use cannabis dispensaries in Ohio made their first sales in 2019. And as of the end of December, nearly 80,000 patients and over 8,000 caregivers have been registered for the state's medical cannabis program, generating approximately $60 million in its first year of sales with 50% of those revenues coming in the last quarter of 2019.

And as we alluded to on our last call, we entered the Florida market in October, completing the acquisition of a property for $17 million, comprising approximately 120,000 square feet of industrial space and entering into a long-term lease with Trulieve. Together with our Massachusetts property, assuming the full funding of the additional $36 million available to Trulieve there, our total investment in properties leased to Trulieve is expected to be $60.5 million. This month, Trulieve, 1 of just 22 vertically integrated licensees in the state, opened its 45th medical-use cannabis dispensary in Florida and captures nearly 50% of all sales in the state.

Florida represents one of the largest and one of the fastest-growing medical-use cannabis markets in the United States, with over 300,000 qualified patients as of the end of January.

In January, we also marked our entry into the Virginia market with the acquisition of a property expected to comprise approximately 82,000 square feet of industrial space upon completion of development. Our total investment in the property is expected to be $19.8 million, including funding for completion of development.

We executed a long-term lease with Green Leaf Medical, and the property will be utilized for medical-use cannabis cultivation, processing and dispensing. This is our second transaction with Green Leaf Medical, having executed a sale-leaseback transaction in 2019 for their Pennsylvania cultivation and processing facility. Together with our Pennsylvania property, our total expected investment in properties leased to Green Leaf is $32.8 million. Green Leaf holds 1 of 5 vertically integrated licenses to cultivate, process and dispense medical cannabis in Virginia.

As we indicated in our press release announcing the transaction, the Virginia medical cannabis market is in its start-up phase with first dispensary sales expected later this year.

And as previously noted, we acquired a North Dakota property and executed a lease with Grassroots in December for a 33,000 square foot industrial facility, with our total investment, including reimbursement for tenant improvements, expected to be $12.2 million. Together with our Illinois and Pennsylvania properties, our total expected investment, assuming full reimbursement for tenant improvements in properties leased to Grassroots, is $65.5 million.

North Dakota's medical-use cannabis program is in its early stages. However, we are encouraged by the steps that North Dakota regulatory authorities have taken over time to expand patient access, including the introduction of a dozen additional qualifying medical conditions. In addition, we note that Grassroots is 1 of only 2 licensed cannabis cultivation and processing operators in the state of North Dakota, somewhat similar to our tenant, Vireo's, position as 1 of only 2 licensed operators in the state of Minnesota.

Moving to Colorado. As noted previously, earlier this month, we acquired 2 dispensary locations in Colorado and sale-leaseback transactions with LivWell, marking our second and third transactions with LivWell after acquiring their Michigan cultivation and processing facility. Our total expected investment, including reimbursement for tenant improvements, is expected to be approximately $4.2 million. Together with our Michigan property, our total expected investment in properties leased to LivWell is $46.2 million.

Finally, to note, we amended leases with PharmaCann earlier this week, which had the effect of moving $4 million of available tenant improvements from PharmaCann's lease in Pennsylvania to our lease with them in Massachusetts.

It is important to reiterate that when we invest in properties with multi-state operators, which is a very large portion of our overall tenant base, we focus on securing a corporate level lease guarantee, which allows us to underwrite not just the specific operations at the location or within the particular state but the tenant's overall national operations.

I'll now turn the call over to Catherine, who will talk about our capital raising activity and financial results for the fourth quarter and full year 2019. Catherine?

Catherine Hastings - *Innovative Industrial Properties, Inc. - CFO, CAO & Treasurer*

Thanks, Ben. It's been a very busy year, capping off a tremendous year of growth for our company, which is reflected in our financial results for the fourth quarter and full year.

We generated total revenues of approximately $17.7 million in Q4, an increase of nearly 270% from the prior year's fourth quarter, and $44.7 million for the full year, an increase of 202% from 2018. The increases in both periods were driven primarily by the acquisition of leasing of new properties, additional tenant improvement allowances provided to tenants of certain properties that resulted in base rent adjustments and contractual rent escalations at certain parties.

As strong as this growth was, please note as well that this reflects only partial quarters of revenues from the numerous acquisitions and leases executed during the fourth quarter and no revenues, of course, for the 5 leases and 5 lease amendments we executed after the end of the quarter. Our revenues for the quarter were also impacted by rent abatements or deferrals under certain leases that are expected to burn off in the next few months, as we continue to account for all of our leases on a cash basis.

For the 3 months ended December 31, 2019, we recorded net income of approximately $9.6 million. Funds from operations, which adds back property depreciation to net income, was $13.1 million. Adjusted funds from operations, which adds back noncash stock-based compensation expense and noncash interest expense related to our exchangeable senior notes, was $14.3 million. For the 3 months ended December 31, 2019, adjusted funds from operations nearly tripled from the prior year period.

For the year, we recorded net income of $22.1 million, funds from operations of $30.7 million, and adjusted funds from operations of $34.9 million. Adjusted funds from operations for the year increased by 259% from 2018.

As Alan mentioned, on January 15, we paid our quarterly dividend of $1 per share to common stockholders of record as of December 31. The Q4 2019 common stock dividend reflects a 28% increase from the prior quarter and a 186% increase from the prior year's fourth quarter.

This serves as a reflection of our strong growth and operational performance over the past year and our confidence in our acquisition pipeline, including the post December 31 acquisitions completed that Ben discussed earlier.

And with respect to financing activity. In September 2019, we established an at-the-market equity offering program, or ATM program, with 3 sales agents and raised net proceeds under the program through today of about $185 million. And last month, we completed an underwritten public offering of common stock raising gross proceeds of $250 million.

As we previously reported, taking into account this financing activity, as of today, we have over 17 million shares of common stock outstanding. We are truly grateful for all of our stakeholders' continued support and we are focused exclusively on investing the proceeds from our recent equity raises with the best tenants.

And with that, I'll turn it back to Alan. Alan?

Alan D. Gold - *Innovative Industrial Properties, Inc. - Executive Chairman*

Thanks, Catherine. We had a truly remarkable 2019, far outpacing our expectations.

With that, we are very excited about the opportunities to come in this fast-growing industry, and we remain focused on executing our business plan.

I want to personally thank the team for their outstanding work and dedication, and most importantly, our stockholders for your continued support as we aim to continue to create sustainable and long-term value for you.

With that, I'd like to open it up for questions. Operator, could you please open the call up for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from Tom Catherwood with BTIG.

William Thomas Catherwood - *BTIG, LLC, Research Division - Director & REIT Analyst*

So you had a strong finish to 2019 in terms of acquisitions and 1Q '20 looks strong as well. And then on top of that, it looks like yields picked up, maybe 100-plus basis points between 4Q and 1Q. How is your pipeline sizing up for the balance of 2020? And how sustainable are the higher yields?

Alan D. Gold - *Innovative Industrial Properties, Inc. - Executive Chairman*

Well, Tom, I think we had just an unbelievably strong 2019, and it was a very exciting year, and the team was -- performed extremely well. 2020 looks to be as strong as '19 or even stronger. And so our pipeline is very large, and we continue to have very strong growth prospects within the pipeline, once again, being able -- we think that we're going to be able to provide between 60% and 70% of our capital to our existing growers and the balance going to potentially some new growers that are looking to join our tenant base, keeping in mind that we have a tenant base right now of about 20 different very large and strong growers.

William Thomas Catherwood - *BTIG, LLC, Research Division - Director & REIT Analyst*

Got you, got you. And then in terms of yields, then that kind of pickup from 4Q to 1Q, that's kind of how 2020 is shaping up so far, at least?

Alan D. Gold - *Innovative Industrial Properties, Inc. - Executive Chairman*

Yes. I mean I think we can say it's stabilized in the sense that the increase from mid last year of about 100 to 150 basis points is what we're -- is what we've been able to achieve, and we believe we'll be able to maintain that going forward given where we are with the financial markets in the industry today.

William Thomas Catherwood - *BTIG, LLC, Research Division - Director & REIT Analyst*

Understood. And then, know this is about the Canadian markets, which are very different from your markets, but up in Canada, there's this kind of persistent fear of oversupply. It hasn't necessarily played out that way yet, but it's a real concern. What's the status of supply and demand in your states? And have you seen any early indicators of oversupply that give you some concerns?

Alan D. Gold - *Innovative Industrial Properties, Inc. - Executive Chairman*

I think from our perspective, we're not seeing anything that approaches an oversupply condition other than perhaps maybe in California a little bit. The other states that are new to the program, obviously, there's still a lot of growth happening. We're seeing year-over-year growth in the states and just in the demand well over 30%. So oversupply has not been the issue. It's just, as a matter of fact, been the opposite.

William Thomas Catherwood - *BTIG, LLC, Research Division - Director & REIT Analyst*

Got you. What about outdoor growth? I think Arizona, maybe Colorado and California allow them, are they allowed in your states that have a limited license provisions? And could that impact pricing due to lower production costs?

Alan D. Gold - *Innovative Industrial Properties, Inc. - Executive Chairman*

So keep in mind that we are focused on licensed medical cannabis growers. And the concept of an outdoor grow just doesn't work with trying to provide a consistent pure product or high-quality product that can't be done with an -- in an outdoor grow. An outdoor grow situation can be contaminated with pesticides and fungus and pests from a variety of other crops and -- which requires that the high-quality medical cannabis product and even high-quality adult-use product be grown indoors in a controlled environment, which drives a long-term value of our real estate.

William Thomas Catherwood - *BTIG, LLC, Research Division - Director & REIT Analyst*

Got it, got it. And then last one for me. Paul, your commentary on the cannabis capital markets was very helpful. And along those lines, yesterday's press release noted that the tenant at your LA asset had ceased paying rent in January and February. Can you provide an update on the progress of working through that lease? And maybe more generally, are there any other tenants that pose near-term credit risks in your portfolio?

Paul E. Smithers - *Innovative Industrial Properties, Inc. - President, CEO & Director*

Yes. Thanks, Don. So with regard to DYME, the process continues to move forward. We are still getting a lot of interest from other operators that look at the LA location of the assets and think that's a very valuable piece of property, especially for distribution. So the process and receivership continues.

I'm sorry, what was the second part of your question?

William Thomas Catherwood - *BTIG, LLC, Research Division - Director & REIT Analyst*

Just beyond just the LA asset, any changes in credit profiles or any other credit risks that you're seeing in your portfolio near term?

Paul E. Smithers - *Innovative Industrial Properties, Inc. - President, CEO & Director*

Tom, as you know, we keep a close eye on all of our tenants. And we look at their financials at least on a quarterly basis. And we continue to be very happy with the performance of the portfolio to date.

Operator

Our next question will come from Scott Fortune with Roth Capital.

Scott Thomas Fortune - *Roth Capital Partners, LLC, Research Division - Director & Research Analyst*

I wanted to touch base real quick on kind of the competition. We're seeing a little more in the cannabis industry, some competitors coming on board. What's your sense of them looking at industrial versus retail side of things? And how that might affect the yields going forward? Are you seeing competitive threats here?

Alan D. Gold - *Innovative Industrial Properties, Inc. - Executive Chairman*

So at this time, we believe that we're in a very strong position. As you know that we are the only New York Stock Exchange listed public entity in the country. As a matter of fact, we're the only company with a U.S.-based listing. We have seen the formation of up to 4, 5 other new private-type entities that have tried to launch and raise capital. Initially, they've been able to raise private capital, but have since deployed that capital and are not able to obtain a listing in the U.S. market.

The most newest -- the newest entrant is a company by the name of Subversive, which raised a couple of hundred million dollars. And as you know, we're probably 10x or at least 5x the size of that company. And the -- so we're not seeing competition driving down yields in our market per se. We think the primary competition for our capital is other capital coming from private equity, family offices and friends and family of those growers. And we believe our capital is fairly priced and fairly attractive to the growers today, as evidenced by a very strong pipeline. We have over -- our pipeline today, we have not seen it as large ever as we have seen it today.

Scott Thomas Fortune - *Roth Capital Partners, LLC, Research Division - Director & Research Analyst*

Okay. Covering a lot of these different cannabis names in talking to management team, obviously, this is a high priority for them with the capital markets that you have a very strong portfolio of the top MSOs out there. How do you look at kind of diversification or different tenant exposure from a geographic side or different tenant exposure from a percentage side of the portfolio?

And just one other question is looking to get a little bit more on the retail strategy versus just growers on the industrial side, kind of strategy there?

Alan D. Gold - *Innovative Industrial Properties, Inc. - Executive Chairman*

Let me address the retail versus the industrial growth -- grow facilities. I mean we have, in our portfolio, dispensaries, and we'll continue to look at dispensaries with our existing growers. We believe that dispensaries are a unique and interesting part of the real estate component, but we believe that the -- that our team, based on our team's size and the efficiency of doing larger scale type transactions, that we are best suited to continue to focus on the larger industrial grow type facilities.

So with that -- that's where we are. As to diversification, we're fairly -- we're pretty well diversified already. We have 51 properties in 15 different states. We have 20 different growers. We continue to believe that adding 1 to 2 to 3 growers per year is the right way to do it with our strong and straightforward business model because our business model is focused on making sure that we are there as a very strong partner for our existing MSOs that are in a growth mode and growing.

We believe that there are going to be new states, as Paul has indicated in the prepared remarks. There are new states that are coming online, and we're really excited about a couple of those new states. We're very excited about continuing to grow in our existing states, including Florida, if we can.

Two, our largest tenant concentration still is with PharmaCann. We're very excited about PharmaCann's prospects and their business. And we've worked very carefully at reducing that exposure. And we believe that we'll be able to continue to do that as we grow over time.

Operator

Our next question will come from John Massocca with Ladenburg Thalmann.

John James Massocca - *Ladenburg Thalmann & Co. Inc., Research Division - Associate*

So you talked a little bit about competing capital. But one of the things that was kind of out there, particularly at the end of last year, was some of the larger MSOs doing debt deals. Are you seeing increased kind of debt opportunities out there for your tenants kind of competing with you in terms of your sale-leaseback solutions?

Alan D. Gold - *Innovative Industrial Properties, Inc. - Executive Chairman*

So I think what you're referring to is some of the convertible debt type transactions that the -- some of the large MSOs were able to access. And if they were -- if the true cost of capital was identified by the -- those MSOs or those individual companies, they would see that their cost -- that cost of that debt was very comparable or even actually higher than what doing a standard sale-leaseback with us would have entailed. We don't take any ownership in any of the -- of any of the entities. We -- so -- as opposed to a convertible debt type structure where they are giving up a piece of their company to raise that kind of capital.

John James Massocca - *Ladenburg Thalmann & Co. Inc., Research Division - Associate*

Okay. And then maybe switching to the pipeline, what's the mix between maybe larger public MSOs and smaller MSOs/kind of single-state operators?

Alan D. Gold - *Innovative Industrial Properties, Inc. - Executive Chairman*

So as I described, we have 20 different growers today -- MSOs in our portfolio today. Over 80% of them are the very large-type entities, and they are continuing to perform extremely well.

John James Massocca - *Ladenburg Thalmann & Co. Inc., Research Division - Associate*

Okay. And then kind of lastly, you touched on it briefly that you were kind of excited about some of the potential progress in states on the regulatory front, but are there any specific kind of catalysts you see out there that maybe over the longer term could help kind of keep the pipeline growing, if you will?

Alan D. Gold - *Innovative Industrial Properties, Inc. - Executive Chairman*

Well, I mean, I think, as Paul described, over 11 different states are contemplating new programs, and -- just -- if you do a math and you do -- I mean I'm not even saying that these states are going to be just doing this type of issuance of state licenses. But if all those 11 states and let's say there was only 10 of them that actually got it approved, if 10 states approved it, and they had 10 new licenses and each one of those new states -- new licenses required $50 million of additional capital, that's over $5 billion of additional capital needed in the industry just in those states alone, not to mention the existing states and the potential for additional licenses associated with recreational use. The demand for capital in this industry is rather large growing. And the catalyst that I think that you're really referring to is the fact that the U.S. -- over 90% of the U.S. population is very excited and very positive about medical cannabis, and the majority of the population is -- has a positive view of recreational cannabis.

Operator

(Operator Instructions) At this time, there are no further questions, and I would like to turn the conference back over to Alan Gold for any closing remarks.

Alan D. Gold - *Innovative Industrial Properties, Inc. - Executive Chairman*

Thank you. Thank you all for joining us here today. And again, I want to thank our team for their dedication and great work in producing what was a phenomenal 2019 and what is looking to be a very strong 2020. And also to thank our stockholders for your continued support. With that, we'll end the call. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation, and you may now disconnect.
