



Innovative Industrial Properties (IIPR)

Updated May 9th, 2025 by Nikolaos Sismanis

Key Metrics

Current Price:	\$56	5 Year CAGR Estimate:	21.7%	Market Cap:	\$1.56 B
Fair Value Price:	\$85	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	06/27/25
% Fair Value:	66%	5 Year Valuation Multiple Estimate:	8.8%	Dividend Payment Date¹:	07/15/25
Dividend Yield:	13.7%	5 Year Price Target	\$108	Years Of Dividend Growth:	7
Dividend Risk Score:	F	Sector:	Real Estate	Rating:	Hold

Overview & Current Events

Innovative Industrial Properties is a specialized real estate investment trust (REIT) that focuses on owning and leasing properties used for the cultivation and production of cannabis. Given the industry's evolving legal landscape, cannabis businesses face significant constraints on access to traditional financing. IIPR went public during a period that allowed its listing, establishing itself as a leader in the space. While other cannabis-focused REITs have since entered the market, IIPR continues to benefit from its first-mover advantage, strong portfolio growth, and ongoing demand for real estate capital within the industry. The \$1.56 billion REIT owned 110 properties in 19 states at the end of March. Due to the cannabis boom over the past few years, as well as its exclusivity in terms of the listing giving the trust access to public markets, Innovate Industrial Properties is a truly unique REIT.

On March 14th and March 28th, 2025, IIPR disclosed lease defaults by tenants PharmaCann and 4Front Ventures, respectively. The company noted that it was evaluating its options under the leases, including seeking replacement tenants or potential re-leasing of the properties. These defaults follow IIPR's broader efforts to manage tenant credit across its cannabis-focused real estate portfolio.

On May 7th, 2025, IIPR posted its Q1 results for the period ending March 31st, 2025. Revenues and normalized AFFO per share were \$71.7 million and \$1.94, down 5% and 12.2% year-over-year, respectively. The fall in revenues was primarily due to: (i) partial or unpaid rent from defaulting tenants, (ii) lease modifications that deferred or reduced rent, and (iii) the reclassification of certain leases to sales-type, which are now recorded as deposit liabilities. These headwinds were partially offset by contributions from new lease agreements and contractual rent escalations. The drop in AFFO per share reflected lower revenue and higher impairment charges, along with reduced stock-based compensation and interest income compared to the prior year.

Subsequent to quarter end, IIPR completed a \$7.75 million acquisition of a 22,000-square-foot facility in Maryland and signed additional lease agreements, sustaining a portfolio that was 98.4% leased at the end of the period. The portfolio's weighted average remaining lease term stood at 13.5 years. We forecast AFFO/share of \$7.72 for FY2025.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
AFFO	---	(\$0.62)	\$0.67	\$1.34	\$3.27	\$5.01	\$6.66	\$8.45	\$9.08	\$8.98	\$7.72	\$9.85
DPS	---	---	\$0.55	\$1.20	\$2.83	\$4.47	\$5.72	\$7.10	\$7.22	\$7.52	\$7.60	\$8.39
Shares²	---	1	3.4	7.3	10.7	19.4	23.9	27.3	28.0	28.2	28.2	35.0

Industrial Innovating Properties has seen AFFO/share grow dramatically since the trust's IPO. To capitalize on the growth of the cannabis sector, IIPR acquired 37 and nine properties in 2021 and 2022, respectively. With the schedule-1 drug being decriminalized in one state after the other, we expect to see the current growth rates sustained in the medium term. In line with its AFFO growth, management has consistently raised the dividend, often on a sequential basis. Payouts grew by just 1.7% in FY2023 and 4.2% in FY2024. We retain our AFFO/share growth estimate to 5%. This is

¹ Estimated dates based on past dividend dates.

² Share count is in millions.

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largely to be prudent against rising interest rates and the possibility of some of the company's tenants being unable to pay rent. We have also set our dividend per share growth estimate at 2%, reflecting the recent deceleration in dividend growth. As mentioned in previous reports, and it was once again proven in results over the past few years, these estimates will likely turn out to be prudent. Still, IIPR has short trading history, and its acquisition-driven strategy may see availability headwinds in the future, which also supports the case for our more reserved estimates.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/FFO	---	---	47.8	12.2	16.6	30.2	33.0	18.9	8.9	11.2	7.2	11.0
Avg. Yld.	---	---	3.4%	3.3%	2.8%	2.8%	2.6%	4.4%	9.0%	7.5%	13.7%	7.7%

IIPR's shares underwent a violent valuation multiple compression since 2021. The stock's P/FFO now stands at 7.2x our FY2025 expected AFFOs. We believe the stock is significantly undervalued here. The REIT's financials remain robust, but we remain wary of the intricacies of its tenant base and higher interest rates. We retain our fair valuation multiple at 11X through 2030. Shares are now yielding 13.7%, which remains a massive tangible return given IIPR's track record.

Safety, Quality, Competitive Advantage, & Recession Resiliency

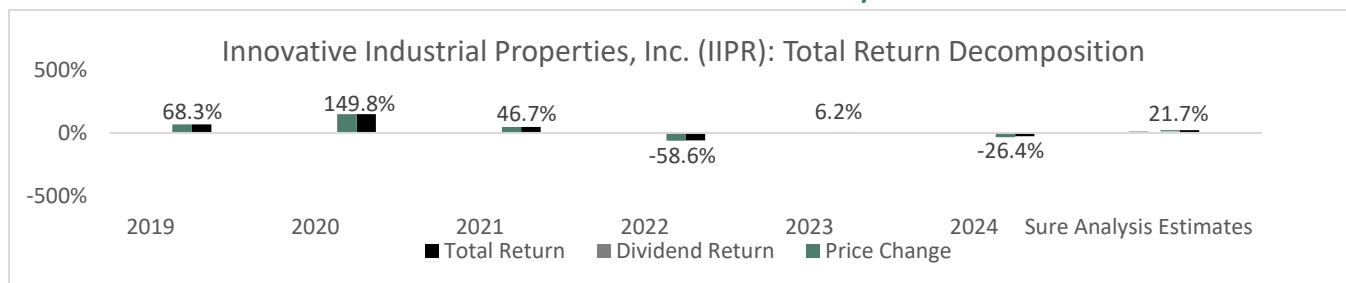
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	---	---	82%	90%	87%	89%	86%	84%	80%	84%	98%	85%

Despite the company's high payout ratio, we believe the dividend should remain well-covered. Last year's bold dividend increases reassure us of that. Regarding its qualities, being the only listed pure-cannabis REIT, the company has a massive moat. With access to public markets, management can issue debt and equity much cheaper than its few private competitors. IIPR can build more durable and sustainable relationships with tenants as it possesses higher credibility and transparency. With more states legalizing weed over time, the company is subject to a fantastic medium/long-term expansion trend. Despite the headwinds COVID-19 caused in many industries, IIPR was barely affected, continuing its proven acquisition-based growth model. That said, because of how new the cannabis sector is, its recession resiliency is untested to the passage of time and remains to be seen. And, despite its average lease duration standing at a fantastic 13.5 years, we are wary of the tenants' ability to commit to their leasing obligations. This is due to many of them facing financial hurdles as a result of the steep competition in the cannabis space, as well as the industry's razor-thin margins.

Final Thoughts & Recommendation

Innovative Industrial Properties is a genuinely unique investment case. Instead of guessing which cannabis-producing stock will be a long-term winner, investors can profit off of what every producer needs, which is specialized property. This way, the sector's growth can be taken advantage of while benefiting from the consistent rental cash flows from IIPR's facilities. While most cannabis producers still struggle to make money, IIPR continues to post robust results. We forecast an annualized return of 21.7% until 2030 driven by our growth estimates, the massive yield, and the potential of a valuation tailwind. Shares earn a hold rating. We believe the dividend can remain covered, but don't blindly trust it.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	---	\$0.32	\$6.42	\$14.79	\$44.67	\$116.90	\$204.6	276.4	310	309
Gross Profit	---	\$0.23	\$6.30	\$14.34	\$43.35	\$111.94	\$200.1	266	285	280
Gross Margin	---	72.9%	98.2%	97.0%	97.1%	95.7%	97.8%	96.2%	91.9%	90.6%
SG&A Exp.	---	\$0.83	\$5.50	\$6.38	\$9.82	\$14.18	\$22.96	38.52	43	37
D&A Exp.	---	\$0.03	\$0.92	\$2.63	\$8.60	\$28.02	\$41.78	61.30	67	71
Operating Profit	---	-\$0.69	-\$0.11	\$5.34	\$24.94	\$69.74	\$135.37	166	175	172
Operating Margin	---	-213.4%	-1.7%	36.1%	55.8%	59.7%	66.2%	60.1%	56.5%	55.7%
Net Profit	---	-\$4.39	-\$0.07	\$6.99	\$23.48	\$65.73	\$113.99	154	166	162
Net Margin	---	-1368.2%	-1.1%	47.2%	52.6%	56.2%	55.7%	55.7%	53.5%	52.4%
Free Cash Flow	---	-\$28.34	\$5.02	\$15.69	\$44.93	\$110.81	\$188.75	234	256	258
Income Tax	---	\$0.32	\$6.42	\$14.79	\$44.67	---	---	---	---	---

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	---	\$63.33	\$80.03	\$281.47	\$745.86	\$1,768	\$2,085	2,415	2,391	2,378
Cash & Equivalents	---	\$33.00	\$11.76	\$13.05	\$82.24	\$126.01	\$81.10	87	140	146
Total Liabilities	---	\$2.89	\$6.48	\$17.17	\$197.85	\$243.11	\$472.9	453	438	442
Accounts Payable	---	\$0.07	\$1.08	\$4.40	\$28.39	\$41.14	\$53.99	40	21	21
Long-Term Debt	---	\$0.00	\$0.00	\$0.00	\$134.65	\$136.69	\$326.09	302	301	298
Shareholder's Equity	---	\$60.44	\$59.54	\$250.28	\$534.00	\$1,511	\$1,598	1,948	1,939	1,912
LTD/E Ratio	---	0.00	0.00	0.00	0.25	0.09	0.20	0.15	0.15	0.15

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	---	---	-0.1%	3.9%	4.6%	5.2%	5.9%	6.9%	6.9%	6.8%
Return on Equity	---	-14.5%	-0.1%	4.5%	6.0%	6.4%	7.3%	8.7%	8.5%	8.3%
ROIC	---	---	-0.1%	4.1%	5.0%	5.6%	6.3%	7.4%	7.3%	7.2%
Shares Out.	---	0.96	3.38	7.29	10.68	19.56	26.26	27.66	28.3	28.5
Revenue/Share	---	\$0.33	\$1.90	\$2.03	\$4.18	\$5.98	\$7.79	9.99	10.95	9.06
FCF/Share	---	-\$29.43	\$1.49	\$2.15	\$4.21	\$5.67	\$7.19	8.46	9.04	

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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