



# Innovative Industrial Properties (IIPR)

Updated August 9<sup>th</sup>, 2025 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$46	<b>5 Year CAGR Estimate:</b>	21.8%	<b>Market Cap:</b>	\$1.28 B
<b>Fair Value Price:</b>	\$59	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	09/30/25
<b>% Fair Value:</b>	78%	<b>5 Year Valuation Multiple Estimate:</b>	5.1%	<b>Dividend Payment Date<sup>1</sup>:</b>	10/15/25
<b>Dividend Yield:</b>	16.6%	<b>5 Year Price Target</b>	\$83	<b>Years Of Dividend Growth:</b>	7
<b>Dividend Risk Score:</b>	F	<b>Sector:</b>	Real Estate	<b>Rating:</b>	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 \$1.28 billion REIT owned 108 properties in 19 states at the end of June. 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 14<sup>th</sup> and March 28<sup>th</sup>, 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 August 6<sup>th</sup>, 2025, IIPR posted its Q2 results for the period ending June 30<sup>th</sup>, 2025. Revenues and normalized AFFO per share were \$62.9 million and \$1.56, down 21% and 24% year-over-year, respectively. The decline in revenues was primarily driven by: (i) tenant defaults totaling \$15.8 million related to PharmaCann, Gold Flora, TILT, and 4Front, (ii) properties vacated or sold, and (iii) the absence of a \$3.9 million one-time lease termination fee collected in Q2 2024. These headwinds were partially offset by contributions from recent acquisitions, new lease agreements on existing properties, and contractual rent escalations. The drop in AFFO per share reflected lower revenue and reduced tenants. Subsequent to quarter end, IIPR continued executing its strategic tenant replacement initiative, re-leasing certain properties and pursuing legal remedies for rent defaults, while maintaining 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. IIPR also repurchased \$19.8 million of common stock. We forecast AFFO/share of \$6.54 for FY2025.

## Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
<b>AFFO</b>	---	(\$0.62)	\$0.67	\$1.34	\$3.27	\$5.01	\$6.66	\$8.45	\$9.08	\$8.98	<b>\$6.54</b>	<b>\$9.17</b>
<b>DPS</b>	---	---	\$0.55	\$1.20	\$2.83	\$4.47	\$5.72	\$7.10	\$7.22	\$7.52	<b>\$7.60</b>	<b>\$8.39</b>
<b>Shares<sup>2</sup></b>	---	1	3.4	7.3	10.7	19.4	23.9	27.3	28.0	28.2	<b>28.6</b>	<b>35.0</b>

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 have set our AFFO/share growth estimate to 7%. This is

<sup>1</sup> Estimated dates based on past dividend dates.

<sup>2</sup> Share count is in millions.

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due to starting off a low AFFO/share base, while also being prudent against rising interest rates and the possibility of some of its 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.

## 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	7.0	9.0
Avg. Yld.	---	---	3.4%	3.3%	2.8%	2.8%	2.6%	4.4%	9.0%	7.5%	16.6%	10.2%

IIPR's shares underwent a violent valuation multiple compression since 2021. The stock's P/FFO now stands at 7.0x 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 have set our fair valuation multiple at 9X through 2030. Shares are now yielding 16.6%, which remains a massive tangible return given IIPR's track record.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

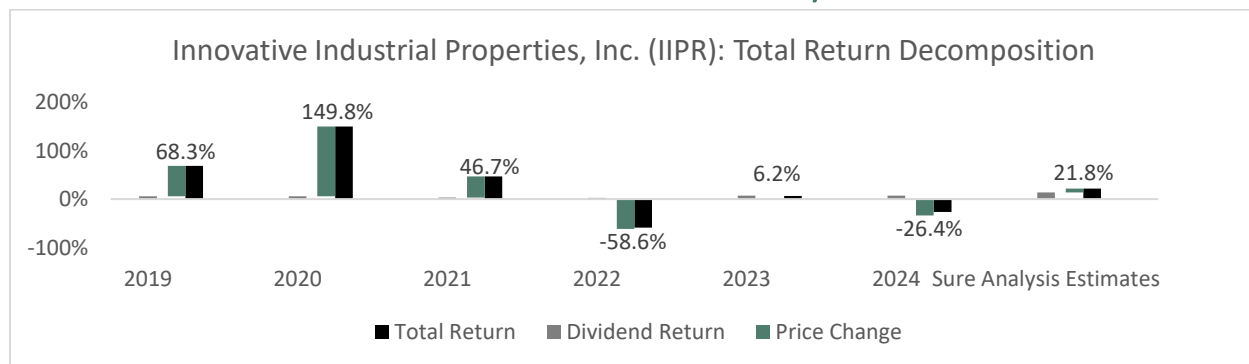
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	---	---	82%	90%	87%	89%	86%	84%	80%	84%	116%	91%

Despite the company's high payout ratio, we believe the dividend won't necessarily see a cut. 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 21.8% 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.*

### Disclaimer

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