



Is Innovative Industrial Properties, Inc. (NYSE:IIPR) the WeWork of Cannabis? We think it's Worse!

- IIPR is a publicly traded REIT focused on cannabis, and we are highly skeptical of the company and its management.
- We visited in person dozens of properties, interviewed neighbors, the county clerks, and reviewed related leases. Our findings are shocking: We believe IIPR has accumulated a highly toxic portfolio of low-quality assets.
- In our opinion IIPR either fails to do basic due diligence on its counterparts or is defrauding investors.
- Multiple key lessees are already insolvent or at a high risk of insolvency.
- Even worse, we suspect IIPR of arranging sham transactions to keep its biggest tenant solvent in the short term. We think this scheme has reached its breaking point since IIPR is drowning in unfunded commitments and its tenant ran out of properties to transact with IIPR.
- We have identified a pattern of massive overpayment to inflate the book value of the portfolio, bordering in our opinion on fraud. Our on the ground due diligence corroborates that property improvements can't possibly justify the incredible markups IIPR paid.
- We estimate that about 38% to 49% of the company's 2020 rental income is in direct jeopardy or already lost.
- Our cash flow analysis shows that IIPR has many characteristics of a pyramid scheme. We believe the ever-increasing dividend would have to be financed from capital raises or reduced substantially.
- IIPR shares many similarities with WeWork which too recently fell off: A real estate company with a flawed business model led by a young charismatic leader. Both companies are heavily dependent on outside financing. IIPR Executive Chairman Alan Gold is now pursuing new ventures, similar to WeWork's Neumann.
- Our independent analysis concludes that IIPR's value per share is even under optimistic assumptions no more than \$22.29.



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5 IIPR Deals You Should Know about

1 PharmaCann – Scott Township PA

\$3M in annual rent for an empty Property



IIPR purchased this property from PharmaCann for \$942,000 and offered TI up to \$29.1M. PharmaCann is paying over \$3M in rent per year

starting August 2019. The project was scheduled to finish in November 2019. IIPR indicated that \$2.3M already went into the development of the property. We visited the property in March 2020 and found fallow land with signs of earliest stages of production, no building, nothing. Can shareholders really expect to receive \$3 in rent on this property from its struggling tenant?

2 Holistic Industries – Monson MA

14x inflation in 1 year when IIPR bought it

2. TERM AND RENT

a. Landlord leases the Demised Premises to Tenant for a term of ten (10) years commencing **January 1, 2017** ("Lease Commencement Date") and ending **December 31, 2026** ("Lease Expiration Date"), subject to Tenant's renewal option. Landlord shall deliver the Premises to Tenant on the Lease Commencement Date and Tenant expressly acknowledges and agrees that it is obligated to accept the Premises in their current "as is" condition on the Lease Commencement Date.

b. Tenant shall pay base rent ("Base Rent") without deduction or offset, on the first day of each month of the Lease term as set forth in this Section 2(b), on a monthly basis, and as set forth in Section 20 if Tenant elects to extend the term. Rent shall increase 1.5% at the end of each lease year, according to the following schedule.

Year	Annual Rent
1	\$225,000.00
2	\$228,375.00
3	\$231,800.62
4	\$235,277.62
5	\$238,806.78
6	\$242,388.98
7	\$246,024.71
8	\$249,715.08
9	\$253,460.80
10	\$257,262.71

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On 07/12/18, IIPR purchased the property from Holistic for \$12.75M. The lease requires an initial annual rent of \$1.9M. However, the property was previously purchased for \$825,000 on 05/23/18. In addition, Holistic previously rented

the property for only \$225,000. We fail to understand why Holistic would rather pay 10x on rent and believe an overpayment of property + inflated rent look more like a financing transaction. Is IIPR really just a bank for law-quality cannabis operators?

3 Ascend Wellness – Lansing MI

IIPR paid 5x what the seller paid just 4 days prior



On 07/09/2019, IIPR purchased the property for \$4.8M and offered TI of up to \$15M. Yet, records show that the property was purchased just days before for merely \$930,000. The price had been inflated by 5X in 4 days! In addition, we believe that as of Jan 2020, the building was still an

empty warehouse with no sign of production. As of March 2020, we believe construction had just begun. We estimate Ascend Wellness has to pay over \$723,000 in base rent per year but this property seems far away from being able to generate any kind of revenue.

4 PharmaCann – Dwight IL

10x inflation in 1 year with no visible Improvements



On 10/30/19, IIPR purchased the property for \$18M with up to \$7M in TI. However, the property was previously sold for \$1.75M on 08/16/18. We were unable to identify visible

changes to the property happening between 2015 and 2017. We visited the property in March 2020 and found minimal improvements made to the property compared to historical photos from 2017 and 2018. Therefore, we find it difficult to justify the 10x price increase in merely one year. We estimate that PharmaCann pays \$3.7M annually in rent for this property, but PharmaCann seems to be on the brink of insolvency.

5 Emerald Growth Partners – Harrison Township MI

Over 300% property appreciation in a day



On 06/21/19, IIPR purchased the property for \$6.9M, with up to \$3.1M in TI.

However, deed records show that the property price jumped from \$2M to \$6.9M in just one day. In addition, when we visited the facility, it appears that it was still under construction. EMG is estimated to pay close to \$1.5M in annual rent before considering TI.



1 Introduction

Innovative Industrial Properties Inc (NYSE:IIPR) went public on the New York Stock Exchange in November 2016. The newly formed company was able to raise a little over \$60 million in its initial public offering by selling 8.75 million common shares to the public, despite having no prior operations. Cannabis stocks were hot in 2016 and the promise of a publicly traded REIT that specializes in the high yield emerging cannabis sector seemed appealing.

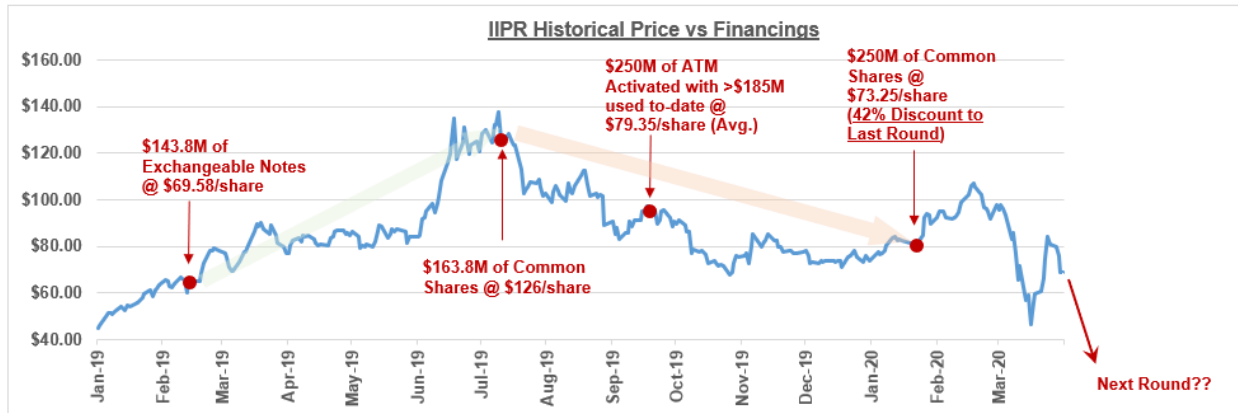
IIPR went on to conduct multiple capital raises on the back of a rising stock price. Ladenburg Thalman & Co, Inc and BTIG LLC conducted the offerings of the company.

Date	Method	Shares Issued	Price	Discount/Premium to Last Round	Proceeds to IIPR (MM)
12/5/2016	Equity	3,350,000	\$20		\$ 67
10/11/2017	Preferred Convert	600,000	\$25	25%	\$ 15
1/18/2018	Equity	2,800,000	\$26	4%	\$ 73
10/3/2018	Equity	2,600,000	\$40	54%	\$ 104
2/15/2019	Senior Exchangable				\$ 144
7/12/2019	Equity	1,495,000	\$126	215%	\$ 180
1/24/2020	Equity	3,412,969	\$73	-42%	\$ 250
				Total	\$ 832.65

Source: SEC Company Filings and Press Releases

On the surface IIPR has been performing well, seeing its stock skyrocket. Even after the recent decline in stock price the company still sports a market cap and Enterprise Value in excess of \$1.1B and \$1.24B. The rising stock price has caused something of an arbitrage opportunity for IIPR as the company's current dividend implies a cost of equity capital of about 5%. At the same time IIPR is targeting average yields of around 14% for its real estate investments. However, we believe this arbitrage is firstly unsustainable and secondly about to fall apart, because our findings imply that IIPR will in fact have to finance the 2020 dividend from capital raises or reduce the dividend substantially.

It is also noticeable that the company has been conducting the latest raises at substantial discounts.



IIPR's business model is straight forward. The company focused on the acquisition, ownership and management of specialized industrial properties leased to operators for the regulated medical-use cannabis industry. Most of these facilities are related to the cultivation or processing of marijuana.

Since the company went public it has been busy raising money and putting it in the ground through a range of deals and commitments for future improvement. As of December 2019, the company sported 747million in asset which consists of real estate investments and some working capital. In total the company has signed 56 leases (double check) with 19 key tenants to date. We have identified key problems with a majority of the company's leases.

In this report we examine systematically the issues the company faces, and our conclusion is devastating. At the current rate the company will have to pay \$86M in dividends throughout 2020, which is supposed to be financed by rental income. Our analysis concludes that up to 50% of the rental income has either already vanished or is in high jeopardy. This combined with future commitments IIPR still has to fulfill, we believe the company will face insolvency in the near term.

You can find a comprehensive list of our analysis of each individual lease, including sales history, and our on-the-ground due diligence in the Appendix, which is uploaded in a separate document on our website.



2 Insolvent Tenants

IIPR has a number of tenants who are effectively insolvent or are in a dire financial situation.

Despite some decent transactions with multi-state operators, IIPR's portfolio is still heavily skewed towards smaller lower quality tenants. Below is a list of IIPR's tenants that we were able to identify and how much they are budgeted to contribute to 2020 rental income. It is noteworthy that IIPR has a very concentrated portfolio with the top four tenants contributing over 54% of rental income for 2019. PharmaCann and Vireo are especially important as the largest and second largest tenant for 2020. We are deeply concerned about the solvency of both of those tenants. While recurring transaction with weaker credit tenants have helped boost portfolio scale and rent income, they have deteriorated the portfolio quality.

Tenants	2020 Budgeted Rent	Total Investments	% of 2020 Total Estimated Rent (\$110M)
PharmaCann	18,794,436	89,109,000	17%
Ascend Wellness	5,792,168	36,934,000	5%
Grassroots	5,473,540	35,951,000	5%
Cresco	5,402,439	35,484,000	5%
Holistic	4,889,469	31,650,000	4%
GTI	4,624,813	32,200,000	4%
Kings Garden	4,125,518	27,097,000	4%
Vireo	4,114,652	26,163,000	4%
Green Peak	4,017,237	25,841,000	4%
LivWell	3,903,690	25,640,000	4%
GreenLeaf	3,701,969	24,800,000	3%
The Pharm	3,306,125	20,452,000	3%
Vertical	2,633,925	17,300,000	2%
Trulieve	1,898,050	17,000,000	2%
Undisclosed Tenant	1,804,950	11,460,000	2%
The Green Solution	1,771,875	11,250,000	2%
DYME	1,759,254	13,000,000	2%
Maitri	1,643,539	10,795,000	1%
Emerald	1,478,348	9,710,000	1%
Mjardin	1,122,844	7,375,000	1%
Trulieve	677,827	6,071,000	1%
Other Unidentified	27,063,334	NA.	25%
Total	110,000,000	501,836,000	100%

Source: Company Filings, Grizzly Research Analysis



The performance of IIPR's publicly listed tenants is truly terrible. Below is a list of companies that have seen their stock prices plummet since signing their first lease with IIPR as of April 2nd 2020.

As of 04/02/2020

Name	Lease Commencement Date	Price Change Since Lease Commencement
Dionymed	7/23/2019	(100%)
Mjardin	7/12/2019	(93%)
Trulieve	7/26/2019	(3%)
Cresco Labs	10/22/2019	(51%)
Green Thumb Industries	11/12/2019	(26%)
Vireo Health	10/23/2017	(92%)

Source: Company Filings; Bloomberg

Note: Vireo price change uses reverse takeover price of C\$5.65

This is especially devastating since these publicly traded key tenants are all money losing, and as cannabis companies they don't have access to traditional bank financing. These companies are heavily dependent on equity raises, and a decline in stock price dilutes the chances for successful big equity raises substantially. Some of IIPR's publicly traded tenants show unsustainable debt levels.

In USD millions unless stated otherwise
USD/CAD 1.4122

Tenant	Lease Commencement	BS at Quarter Prior or Upon Lease Commencement Date										
		Financial Quarter	Total Debt	Total Assets	Total Equity	Cash Balance	Current Liabilities	Current Assets	Current Ratio	Debt/EBITDA (LQA)	Debt/Sales	Debt/Equity
Dionymed	Tuesday, July 23, 2019	Q2/19	\$39.4	\$55.5	(\$6.7)	\$1.6	\$36.3	\$12.3	0.3x	-0.7x	1.0x	NMF
Mjardin	Friday, July 12, 2019	Q2/19	\$155.9	\$360.7	\$179.4	\$15.7	\$16.0	\$40.7	2.5x	-4.6x	5.1x	87%
Trulieve	Friday, July 26, 2019	Q2/19	\$128.3	\$372.6	\$175.6	\$54.0	\$63.2	\$192.5	3.0x	0.4x	0.6x	73%
Cresco Labs	Tuesday, October 22, 2019	Q2/19	\$54.1	\$355.0	\$272.4	\$61.1	\$31.5	\$160.2	5.1x	2.9x	0.5x	20%
Green Thumb Industries	Tuesday, November 12, 2019	Q2/19	\$179.6	\$1,070.3	\$821.4	\$135.8	\$95.6	\$189.2	2.0x	-4.3x	1.0x	22%
Vireo Health	Monday, October 23, 2017	Q3/17	\$0.1	\$0.0	(\$0.2)	\$0.0	\$0.2	\$0.0	0.0x	1.7x	0.0x	NMF
Average									2.2x	-0.8x	1.3x	50%

Source: Company filings, Grizzly Research Analysis

In USD millions unless stated otherwise
USD/CAD 1.4122

Tenant	Lease Commencement	Financial Quarter	BS as of Present Day											
			Total Debt	Proforma Debt	Total Assets	Total Equity	Total Cash	Proforma Liabilities	Current Liabilities	Current Assets	Current Ratio	Debt/EBITDA (LQA)	Debt/Sales	Debt/Equity
Dionymed	Tuesday, July 23, 2019	Q3/19	\$204.1	\$204.1	\$407.5	\$179.6	\$19.6	\$97.6	\$39.7	\$44.8	1.1x	-17.2x	6.7x	114%
Mjardin	Friday, July 12, 2019	Q3/19	\$122.3	\$182.3	\$442.2	\$236.8	\$31.0	\$109.1	\$49.1	\$242.3	4.9x	0.5x	0.6x	52%
Trulieve	Friday, July 26, 2019	Q3/19	\$50.1	\$270.9	\$416.5	\$315.3	\$61.6	\$265.1	\$45.7	\$190.3	4.2x	-35.9x	1.9x	16%
Cresco Labs	Tuesday, October 22, 2019	Q3/19	\$152.3	\$164.2	\$1,081.7	\$821.5	\$65.9	\$82.7	\$105.6	\$123.8	1.2x	-254.4x	0.6x	19%
Green Thumb Industries	Tuesday, November 12, 2019	Q4/19	\$35.2	\$35.2	\$144.8	\$100.6	\$16.4	\$23.8	\$6.2	\$57.6	9.3x	-0.5x	1.1x	35%
Vireo Health	Monday, October 23, 2017	Q3/19												
Average											4.1x	-61.5x	2.2x	47%

Source: Company filings, Grizzly Research Analysis

We also noted that the credit profiles of the tenants have been trending negatively. Financial performance got worse and therefore the need for external financing increased. At the same time drastically fallen stock prices put IIPR's tenants into a difficult situation to access such financing.

To make matters worse for IIPR, the newly introduced Section [280E](#) of the Internal Revenue Code will put additional financial strains on its tenants. The new ruling forbids businesses associated with the "trafficking" of Schedule I or II substances, for example cannabis, to deduct otherwise ordinary expenses



from its taxable income. This might some cannabis businesses to pay taxes eventhough they might be still losing tons of cash on a cash flow basis.

2.1 PharmaCann – IIPR’s By Far Biggest Client

PharmaCann represents IIPR first and most important tenant in terms of income, representing more than one quarter of its total rental revenue with 26.2% in 2019 and 17% of the expected rental revenue in 2020.

PharmaCann is a private cannabis operator and under a lease agreement with IIPR for 5 properties. Those properties are located in different states: New York, Massachusetts, Pennsylvania, Ohio and Illinois. Again, all individual leases are listed in the Appendix.

The aggregate represents a total investment of \$89,109,000 (excluding the remaining tenant improvements available but not used totaling \$42,400,000) and a total annual rental income of approximately \$18,794,000.

PharmaCann acquired by MedMen for US\$680M in October 2018 but the transaction was terminated a year later by MedMen in October 2019. The latest available financials for PharmaCann, filed as exhibits to publicly traded MedMen’s financials, paint a devastating picture. As of June 30, 2019, PharmaCann’s balance sheet looked horrendous, having accumulated \$101,882,753 in liabilities, and the majority of the \$13,870,311 in other assets consists of goodwill. PharmaCann was running at a quarterly burn from operations of \$6.5M and was in urgent need of continuous financing to survive. With cash of \$13,441,003 in the bank as of June 30, 2019 PharmaCann had about two quarters left (excluding investing activities) before it ran dry without outside financing. With the MedMen deal falling apart, PharmaCann might be in serious solvency issues, and we found more strong signs for that during our due diligence.

The MedMen deal failing apart had additional immediate negative consequences for PharmaCann. As part of the termination agreement, PharmaCann paid a termination fee to MedMen through a transfer of the membership interests in three entities (including a cultivation facility and two retail location in Illinois, as well as a license for vertically integrated facility in Virginia), which further deteriorated its credit quality. MedMen had advanced PharmaCann \$3.4 million in the period between December 23, 2018 and June 30, 2019.

PharmaCann’s Co-founder and Chief Executive Officer, Teddy Scott, who was involved in the company since its inception in 2014, [resigned](#) from his position in August 2019.

All of PharmaCann’s cultivation properties are now encumbered so it doesn’t have further sale-leaseback alternatives and with private capital in cannabis heavily challenged, the company’s financial position can only become more dire. PharmaCann canceled in February 2020 the \$4.0M construction funding commitment for its Pennsylvania facility. Is this a sign that the company is about to throw in the towel and declare bankruptcy?

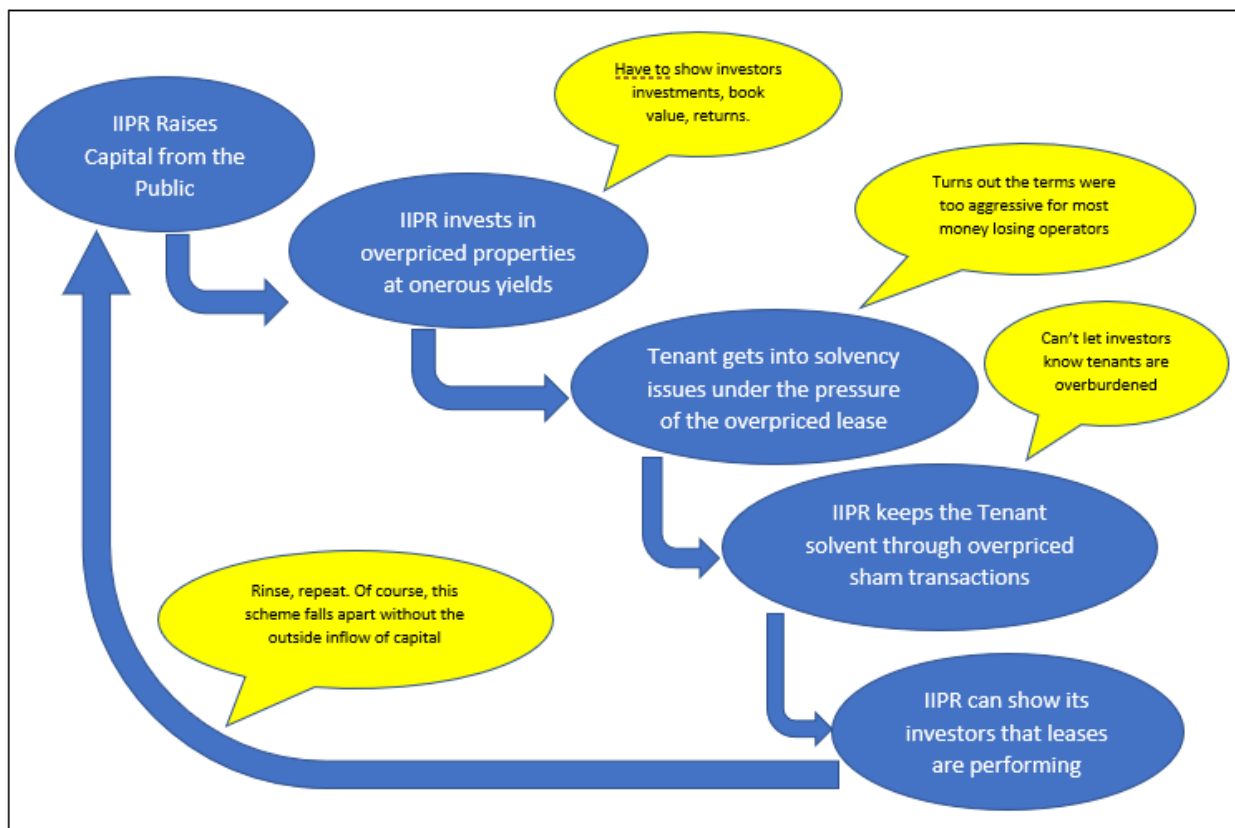
We spoke with several industry experts who confirmed PharmaCann is in a dire financial situation. We were also told that due to funding challenges and HSR provisions (antitrust) restricting integration efforts, PharmaCann operations were set back by over a year.



2.1.1 Throwing Good Money after Bad – Is IIPR PharmaCann’s Bank?

We have established that PharmaCann is by far the most significant tenant for IIPR, and believe PharmaCann is currently financially challenged or even at the brink of insolvency. But here is where it gets a lot worse: While the initial deals IIPR made with PharmaCann had some economic basis, the latest transactions appear to be outright sham transactions. The series of events is noteworthy, IIPR signed a big \$30M lease with PharmaCann in 2016, another big \$18.5M deal in 2018 and three smaller deals recently in 2019.

Readers should keep two questions in mind when reading our analysis on the last two sale-leasebacks IIPR signed with PharmaCann: 1. At what point does a price mark-up become fraudulent? 2. Has IIPR been engineering these transactions to keep their biggest tenant monetarily solvent? The answers and implications of the second question hint strongly at a Ponzi-like scheme: We suspect IIPR keeps its low-quality tenant solvent through sham transactions to hide deteriorating credit quality from investors.



We believe IIPR is trying to hide that its business model is fundamentally flawed. Already financially strained tenants sign overpriced sales leasebacks at onerous yields. No credible company would agree to sale leasebacks with its core assets for yields in excess of 13%, unless it urgently needs a cash injection now. Over time the high rent burdens the tenants additionally, but instead of reducing the exposure, IIPR extends additional short-term liquidity through more onerously priced sale leasebacks.



In PharmaCann's specific case we think this scheme has naturally come to an end. We consulted with industry experts and believe that as of 2019, PharmaCann had ran out of properties to sell to IIPR in sale-leaseback transactions, and also don't have sufficient cash to pursue new projects.

In this section we examine the latest two of the four transactions between IIPR and PharmaCann to establish why we suspect IIPR is constructing sham transactions to keep its tenant solvent. Again, a comprehensive analysis on all leases can be found in the Appendix, which is uploaded as a separate document on our website.

2.1.2 Scott Township PA – \$260,000 a month for Empty Land?

On August 8th, 2019, IIPR purchased property from PharmaCann for initially \$942,000, offering reimbursement for improvement up to \$29.1M for a total investment of \$30.0 million (excluding transaction costs).

We have identified the address to be Lot 4 Life Science Drive, Scott Technology Park, Olyphant, PA, corresponding to parcel 071.04-010-004.12

The monthly Base Rent for the first twelve (12) months of the Term of the Lease is \$260,000.

We visited the site on 03/20/2020. To our astonishment, the property was still in very early age of construction.



This should come as a huge surprise to investors. According to the [schedule](#) IIPR disclosed, construction was planned to finish in November of 2019.



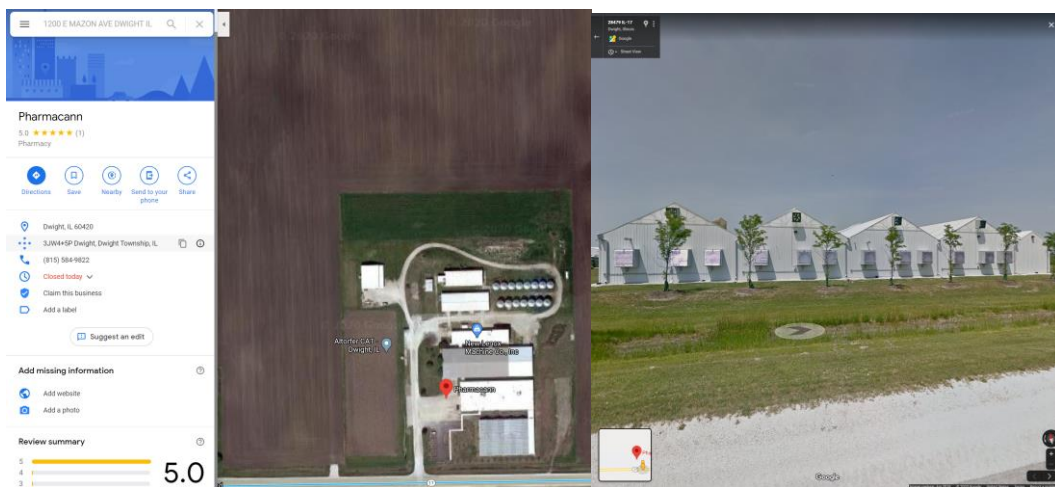
This property showed significant price increases in just one year prior to the sales to IIPR. According to deed records, the property was sold for \$1.75M in 08/16/2018 to PharmaCann before selling for \$18M on 10/30/2019 to IIPR. This is a truly incredible mark-up.

Sales History								
Year	Document #	Sale Type	Sale Date	Sold By	Sold To	Gross Price	Personal Property	Net Price
2019	2019R04478	Special Warranty Deed	10/30/2019	PHARMACANN LLC	IIP-IL 3 LLC	\$18,000,000.00	\$0.00	\$18,000,000.00
2018	2018R03424	Trustee Deed	8/16/2018	CHICAGO TITLE LAND TR CO	PHARMACANN LLC	\$1,753,500.00	\$0.00	\$1,753,500.00

However, according to pictures from Google Maps, and our on the ground due diligence the property is still consisting of Steel Structures similar to ones built in 2015. We find it suspicious that the price has gone up significantly from \$1.75M to \$18M, over 10x, in just one year. We also see that the property is sold at a significant premium compared to the county's assessment value.

We dare to ask the question: Did this property really increase by over 10x in value or did IIPR inject money into its struggling main tenant?

Below is the street view taken in June 2018.



Building Permit Information						Back to top
Date	Number	Tag Descr	Tag Date	Amount	Reason	
10/27/2014	14-63	Completed	11/01/2015	2,250,000	New Bldg	
05/07/1992	I-59-92	Completed	01/01/1993	220,000	New Bldg	

Tax Information				Back to top
Tax Year	Assessed Value	Taxable Value	Net Tax	
2018	\$361,115.00	\$361,115.00	\$36,135.88	
2017	\$332,212.00	\$332,212.00	\$33,186.58	
2016	\$313,704.00	\$313,704.00	\$31,513.62	
2015	\$99,235.00	\$99,235.00	\$10,136.34	

Our investigator visited the property in March 2020 and confirmed that minimal improvements have been made. We see construction to the right of the greenhouses, of what appears to be the early construction of an empty warehouse.



2.2 Vireo – IIPR’s Third Biggest Client is Also in Financial Troubles

Vireo Health International, Inc. (CSE: VREO) (OTCQX: VREOF) is an American science-focused, multi-state cannabis company. The Company has operations in 10 states— Arizona, Maryland, Minnesota, Massachusetts, Nevada, New Mexico, New York, Ohio, Pennsylvania, and Rhode Island —and Puerto Rico.

Leases with IIPR, Vireo represents the third most important tenant with 8.9% of their total rental revenue which is approximately \$3.8/3.9M, by renting 4 of their properties. The aggregate of the investments made by IIPR for those properties is totaling approximately \$26.2M.

In 2019 Vireo has come short of its dispensary rollout plan and gross margins have been significantly below expectations (16% in Q3/2019 vs 35% consensus and down 19% sequentially) Buildout in a number of locations have been put on hold and while the company has received some funding boost from Bruce Linton (Executive Chairman) recently, it still faces significant balance sheet risks going forward.



Similar to PharmaCann, the company has four properties tied up with IIPR at yields between 13.5%-16.5% which are very burdensome to cash flow in foreseeable future especially with operations progressing at much slower pace than initially anticipated. The company has a history of legal issues relating to smuggling charges against two former executives where company officials were charged with illegally transporting \$500,000 worth of cannabis oil from the company's Minnesota facility to its New York operation in December 2015.

Along with its underperformance Vireo saw its stock price plummet by over 90% since its reverse-takeover last year.



During the past 9 months Vireo has aggressively pursued acquisitions to overcome the struggles in its existing businesses but we attribute little value to the new acquisitions. Those acquisitions don't represent much in terms of tangible assets and basis for future borrowing, according to their last quarterly filings; Only \$4 million in tangible assets was acquired for a total investment of around \$46.7 million. Vireo mostly acquired licenses (intangible assets), totaling a fair value of approximately \$38.2 million.

Vireo will need to raise a significant amount of money to operate these licenses properly. In fact, their intangible assets went from a very small \$2,184,565 in December 31, 2018 to \$38,149,913 as of September 30, 2019 while their operating expenses have just doubled, thus we believe that they are not yet operating most of their newly acquired licenses. Also, as of September 30, 2019, their net loss is \$19,884,720, ten times more than the same period a year before with a loss of \$1,894,732. Vireo is currently at a run rate of burning about \$11.3M in cash per quarter from operations; With \$16.4M cash in the bank as of Q3 2019 the company had only 4.3 months of cash left before it will run out of money.

Vireo just raised \$10.5 million with the help of one of their directors (by indirectly subscribing for 1,736,715 Units in the Offering, representing an estimate of \$1.34 million) by issuing stock before their stock price collapsed. However we strongly believe this is far from enough and with the strongly suppressed stock price access to financing will be increasingly challenging.



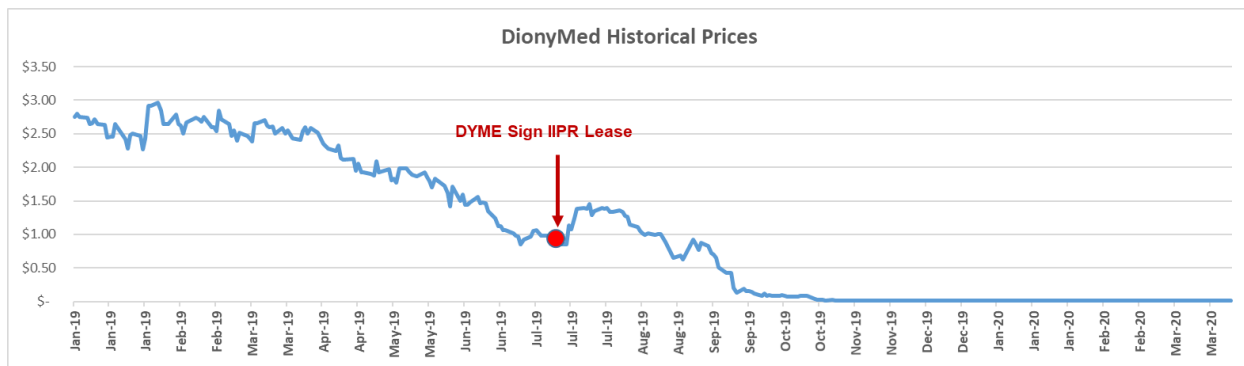
2.3 DionyMed – IIPR signed a deal mere Weeks before Insolvency

Another part of IIPR's expected rental income that will never see the light of the day comes from DionyMed Brands Inc. (DYME). Indeed, this tenant is in receivership, considered bankrupt and has been delisted from both the Canadian and American Stock Market after going through numerous financial issues during the past year. Founded in 2017, DionyMed is (or was) a multi-state cannabis brands platform.

DYME is a relatively small tenant for IIPR but the timing of the transaction is troubling. IIPR signed its only sale-leaseback with DYME at the end of July 2019, mere weeks before DYME went into default. DionyMed was one of the first and only major credit defaults in US cannabis, which makes us question the management's investment/due diligence process, risk mitigation strategy and financial acumen.

According to IIPR's filings, the tenant defaulted on its obligations to pay rent for January and February 2020. After having a closer look at the tenant's situation, we have no doubt about the fact that IIPR will have to find another tenant for this property and can put a cross on the money they are owed from their agreement with DionyMed. This tenant rents a property located in Los Angeles, California which represents approximately 35,000 square feet of rentable surface and approximately \$776,000 in rental revenue for the year ended December 31, 2019. This amount represents 5.9% of the investment of \$13,000,000 made by IIPR to acquire this property (excluding tenant improvement allowance available of \$2.0 million which has not been requested by the tenant).

Starting March 2019, DionyMed Brands Inc. stock started to decline before getting caught in a downward spiral that eventually led to the stock being worth literally a penny.



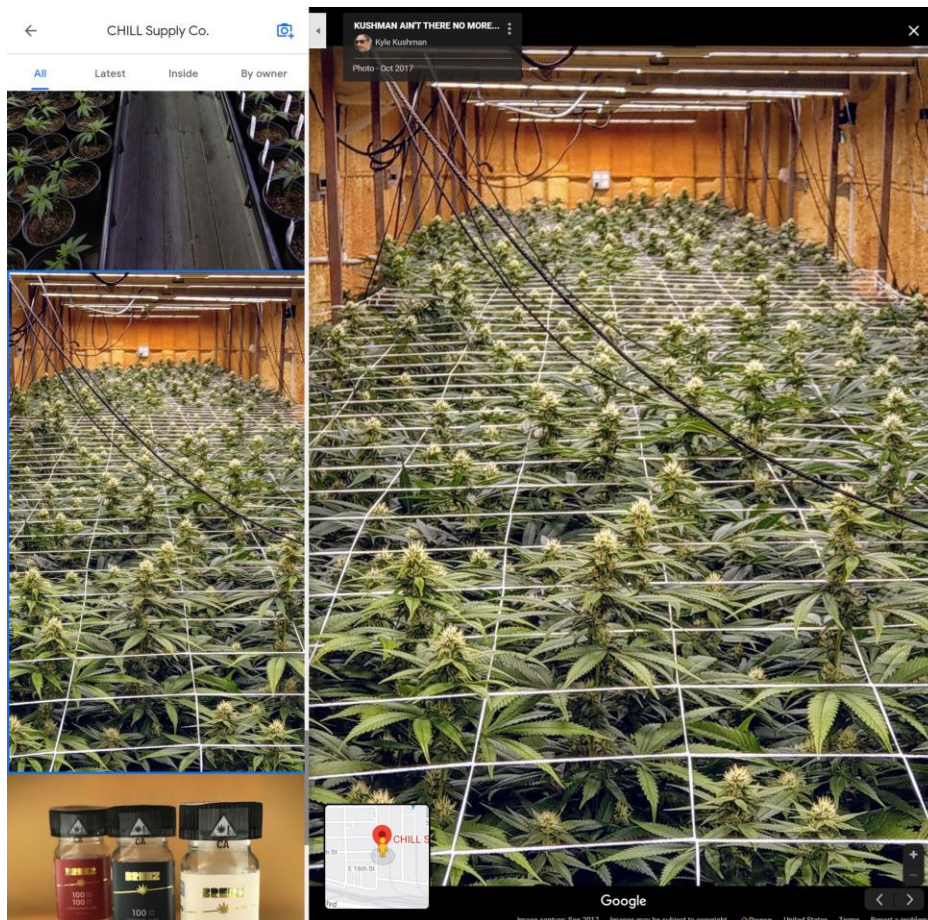
Some investors and executives of the company remained confident until the point where DionyMed started to receive numerous requests of repayment and notice of default in September 2019. The first one was from [Flow Capital Corp.](#) which engaged in legal proceedings against DionyMed Brands Inc. as DionyMed was in default under the company's royalty agreement. The claim was for the minimum sum of \$2,698,116 made up of the investment balance, past-due royalty payments and late payment fees. Following this, the company [Gotham Green](#) also issued a request for repayment of its outstanding balance of \$2.2 million representing the credit advance they made with DionyMed on July 30, 2019, plus accrued and unpaid interest.



Then in October, [GLAS USA LLC and GLAS America LLC](#), as administrative agent and collateral agent under DionyMed Brands Inc.'s credit agreement dated January 2019, provided the company with notice of default under the credit agreement and demand for immediate payment of the amount of \$24,810,682. In the end, the company was unable to attract a viable transaction to restructure its debts and/or seek a sale of the company or its assets outside of a court process. GLAS America has therefore proceeded with the receivership application and the company, without any opposition, accepted the appointment of a receiver.

Only a few days prior to receiving the notice, Edward Fields, DionyMed Brands Inc.'s chief executive officer, and Mark Zinselmeier, the company's interim chief operating officer, both [resigned](#) effective immediately. Mr. Fields also resigned as a director of the company and as an officer of the subsidiaries of the company. Following this decision, the company's four directors, being Susan Watt, David Kerr, Brett Moyer and Stephen Dineley, each independent director, have advised the company that they also intend to resign effective upon the appointment of the receiver.

The one property PharmaCann sold to IIPR seems to us very problematic from a regulatory perspective. According to its [PR statement](#), DionyMed received a provisional retail license from the California Bureau of Cannabis Control under its subsidiary Gourmet Green Room, Inc., for recreational and medical sales in its dispensary located at 1500 Esperanza Street in Los Angeles. The property in question at 1500 Esperanza Street is the property PharmaCann sold to IIPR. However we found photos showing that this property is clearly used as a growth facility.





2.4 MJardin – On its way to Insolvency

MJardin is another client who seems weak and effectively insolvent.

IIPR is leasing one property in Nevada to MJardin. It represents a rentable surface of 43,000 sq. The total investment made by IIPR for this property is \$7,350,000 (excluding the remaining \$2.2 million of improvement allowance available). The yield on this property is 13.7% which represents an annual rental income of approximately \$1,006,000.

MJardin seems to be in severe financial troubles, on the brink of insolvency. The company saw its stock price fall to \$0.01 and thus their market cap reaching an alarming \$6.654 million on March 23, 2020.



MJardin was recently [reported](#) to be selling core assets in a desperate attempt to keep their head above the water. On January 2, 2020, MJardin said it had agreed to sell its GreenMart of Nevada cultivation facility in Cheyenne to a division of Phoenix-based Harvest Health & Recreation. MJardin plans to use the proceeds to **reduce its debt and for working capital**. The company bought GreenMart in July 2019. This shows that the acquisition only worsened their situation.

MJardin burnt almost half of its cash in the period December 31, 2018 to September 30, 2019, going from approximately \$30.4 million to \$16.5 million. Receipts due from affiliates and related parties increased from \$7.4 million to \$13.9 million, which is another alarming sign of deteriorating earnings quality.

MJardin burned \$13.2M in cash from operations for Q3 2019 and we estimate the monthly burn to be about \$4M. With the stock currently being severely depressed and the last capital raise in January 2020 we estimate the company has only about 4 months until it runs out of capital and will be forced to halt operations. The coronavirus situation could have only worsened the company's predicaments. The company discloses a going concern in their filings.

MJardin has gone in a short period of time from an aspiring high growth company to a struggling company in what management calls a "turnaround" process.



3 Outrageous Markups, We See No Economic Basis for Lease Terms

IIPR massively overpaid for the vast majority of the properties in its portfolio. An analysis of the deed records and conversation with county clerks enabled us to get transparency on the purchase history of each lease. All the transactions that IIPR has conducted are essentially sale-leaseback agreements, where the cannabis operator sells its property to IIPR and concurrently signs a long-term lease.

For most of the leases in the below list our due diligence could not identify improvements on the properties that could possibly justify the giant mark ups in price within short periods of time. We also do not see an economic basis that would allow the tenants to pay anything near the proposed rent, simply because the underlying asset is too weak to produce that type of cash flow.

Property	(before discount)	Date acquired by IIPR	Price paid by IIPR	Date acquired by seller	Price paid by seller	return for seller	Assets holding period in years	Improvement commitments by IIPR
PharmaCann IL	\$ 3,679,374.96	10/30/2019	\$18,000,000	8/16/2018	\$1,753,500	590%	1.2	Up to \$7.0M
Holistic MA	\$ 2,240,340.63	7/12/2018	\$12,750,000	5/23/2016	\$825,000	260%	2.1	
Holistic MD	\$ 2,649,128.34	5/30/2017	\$8,000,000	1/23/2017	\$2,950,000	1659%	0.3	Up to \$7.0M
Green Peak MI -PF	\$ 1,528,894.50	11/12/2019	\$2,225,000	3/14/2019	\$550,000	716%	0.7	
Ascend MI	\$ 723,187.50	7/15/2019	\$4,750,000	7/5/2019	\$930,000	>10000%	0.0	Up to \$15.0M
Ascend IL	\$ 5,068,980.00	12/20/2018	\$19,000,000	7/20/2015	\$312,500	232%	3.4	Up to \$6.0M
Grassroots PA	\$ 2,164,995.00	12/20/2019	\$14,220,000	10/26/2017	\$3,700,000	87%	2.2	
Grassroots IL	\$ 1,799,747.25	10/30/2019	\$10,500,000	2/1/2017	\$1,050,000	132%	2.7	Up to \$17.7M
Emerald Growth MI	\$ 1,478,347.50	6/5/2019	\$6,860,000	6/4/2019	\$2,000,000	TOO HIGH	0.0	Up to \$3.1M
Maitri PA	\$ 1,643,538.75	4/25/2019	\$6,250,000	10/17/2018	\$3,450,000	213%	0.5	Up to \$10.0M
The Green Solution CC	\$ 1,771,875.00	10/31/2018	\$11,250,000	9/11/2013	\$1,860,000	42%	5.1	
Pharm AZ - Retail	\$ 373,317.00	9/19/2019	\$2,000,000	9/16/2019	\$1,200,000	>10000%	0.0	
Southern CA Portfolioc	\$ 4,125,518.25	4/16/2019	\$27,100,000					
Sacramento CA	\$ 1,804,950.00	2/8/2019	\$6,700,000	6/15/2017	\$2,570,000	79%	1.7	Up to \$4.8M
Cresco IL - Portfolio	\$ 5,402,439.00	10/22/2019	\$32,800,000	3/27/2015	\$1,887,000	87%	4.6	
GTI IL	\$ 1,133,741.10	3/3/2020	\$9,000,000	6/23/2015	\$722,000	71%	4.7	Up to \$41.0M
GTI OH	\$ 400,396.64	2/3/2020	\$2,900,000	4/2/2019	\$200,000	2303%	0.8	Up to \$4.3M
GTI PA	\$ 3,090,675.00	11/12/2019	\$20,300,000	4/9/2019	\$3,400,000	1920%	0.6	

Source: Company Filings, Grizzly Research Analysis

Note: Discount refers to adjustments made by Grizzly Research

We identified at least 18 of a total of 37 transactions were marked up by crazy amounts without proper justification.

A couple of transactions are truly staggering, and one starts to wonder at what point this becomes fraud. We made an effort to analyze the merits of each individual deal, and concluded that out of 37 properties identified, 29 of them had obvious and significant issues that would negatively impact IIPR's rental income directly, ranging from significant mark ups to defaults and egregious lease terms.

The mark ups themselves are very problematic for multiple reasons. All of IIPR's transactions are sale-leaseback agreements. IIPR charges tenants about 14% on the investment, which also means that along with exaggerated purchase prices and improvements comes a high rent. This looks good for IIPR on paper, but we see that a lot of the leases lack the economic basis to charge such a high rent. Tenants are generally cash strapped and in need of short-term financing. This makes it more attractive for tenants to transact with IIPR now and receive outrageous returns on a property in a sale leaseback transaction, but will likely destroy the company in the future under the burden of the high rental payments.

Another major reason we see for the mark-ups being highly problematic is that the repurposing value is likely be only a fraction of what IIPR paid for the properties. The vast majority of IIPR's properties are not



retail locations, but greenhouses and processing facilities that would likely have to be sold at substantially lower prices if IIPR had to sell them to a non-cannabis operator (or any credible operator in our opinion).

We consulted with the regional county clerks, who also often questioned why the property values were inflated so much in short periods of time.

We highlight a couple of transactions in this report; The comprehensive analysis on the individual leases can be found in our Appendix, which is published in a separate document on our website. Frankly, the number of outrageous transactions is so big that it would blow the scope of this report.

3.1 Lansing MI Ascend Wellness

On 07/09/2019, IIPR closed the acquisition of a property in Lansing, MI, which comprises approximately 145,000 sq. ft. of industrial space. The initial purchase price was approximately \$4.8M, with additional reimbursement for improvements of up to \$15M. We think IIPR significantly overpaid in this transaction with Ascend Wellness.

We have identified the address to be 735 E. Hazel Street, Lansing, MI, 48912. Parcel ID #: 33-01-01-22-105-001

These are photos taken of the property on 01/15/2020. We do not see any signs of production activity going on and suspect it is an empty warehouse.





We visited the facility again on 03/23/2020. It appears construction has just started.



We suspect the property is months away from being ready to use, and question why the tenant would pay rental income of \$700,000 annually for an empty warehouse.

More disturbingly, this property value has been hugely inflated. According to [deed records](#), the property transaction price has gone up from \$930,000 to \$4.8M in merely a week! We also see it being priced at a significant premium compared to [the county's assessment](#).

Seller	Buyer	Document No.	Date	Price
Tranter Commons LLC	735 Hazel LLC	2019-022431	7/5/2019	\$ 930,000
735 Hazel LLC	Element 52 LLC	2019-022432	7/5/2019	\$ 3,600,000
Element 52 LLC	FPAW Michigan LLC	2019-022432	7/9/2019	\$ 4,750,000
FPAW Michigan LLC	IIP MI3 LLC	2019-023507	7/15/2019	\$ 4,750,000

Source: County deed records

Are investors really supposed to believe that the value of this empty warehouse more than quadrupled within a week?



3.2 Harrison Township MU Emerald Growth Partners

IIPR purchased a property in Harrison MI from Emerald Growth Partners comprising of 45,000 sq. ft. of industrial space on 06/05/2019 for a purchase price of \$6.9M. IIPR is offering up to \$3.1M in reimbursement for improvements.

We identify the address to be 40800 Executive, Harrison Township, MI 48045

[Deed records](#) show that IIPR purchased the property from EGH Executive LLC on 06/05/2019 for \$6.86M, which matches IIPR’s announcement.

WARRANTY DEED

①

This **WARRANTY DEED** is made this 4th day of July, 2019, between **PRODUCTION DRIVE PROPERTIES, L.L.C.**, a Michigan limited liability company (“**Grantor**”), whose address is PO BOX 480485, New Haven, Michigan 48048, and **EGH EXECUTIVE LLC**, a Michigan limited liability company (“**Grantee**”), whose address is 1001 Woodward Ave, Suite 500, Detroit Michigan 48226 (the words “Grantor” and “Grantee” to include their respective successors and assigns where the context requires or permits).

However, another deed indicates that EGH Executive LLC purchased the exact property from Production Drive Properties on 07/04/2019 for \$2M.

WARRANTY DEED

This **WARRANTY DEED** is made this 5 day of June, 2019, between **EGH EXECUTIVE LLC**, a Michigan limited liability company (“**Grantor**”), whose address is 1001 Woodward Avenue, Suite 500, Detroit, Michigan 48226, and **IIP-MI 2 LLC**, a Delaware limited liability company (“**Grantee**”), whose address is 11440 West Bernardo Court, Suite 220, San Diego, California 92127 (the words “Grantor” and “Grantee” to include their respective successors and assigns where the context requires or permits).

[Sale History](#)

[Back To Top](#)

Sale Date	Sale Price	Instrument	Grantor	Grantee	Terms of Sale	Liber/Page
07/04/2019	\$2,000,000.00	WD	PRODUCTION DRIVE PROPERTIES LLC	EGH EXECUTIVE LLC	ARMS LENGTH	26017/183
06/05/2019	\$6,860,000.00	WD	EGH EXECUTIVE LLC	IIP-MI 2	NOT USED	26017/187
06/11/2013	\$213,500.00	COV	TALMER BANK & TRUST	PRODUCTION DRIVE PROPERTIES LLC	POST FORFEITURE SAL	22250 414
09/15/2011	\$0.00	SFD	JELINEK. TERI & JEFF	TALMER BANK & TRUST	FORCLOSURE	20925 208

The peculiarity of how EGH was able to sell a property to IIPR before even owning it is already disturbing. This transaction seems clearly prearranged to put money into the pockets of Emerald Growth Partners. We dare to ask again: Is IIPR really just a bank for low quality cannabis companies? We noticed that in the signature section of the deeds, these two deeds were signed one day apart.



IN WITNESS WHEREOF, Grantor has caused this Warranty Deed to be executed and delivered under seal by its duly authorized officer the day and year first above written.

Signed, sealed and delivered in the presence of

[Signature]
Witness
Christina Vandeberghe

GRANTOR:

PRODUCTION DRIVE PROPERTIES, L.L.C., a Michigan limited liability company

By: [Signature]
Name: Micheal J. DeMil
Title: Sole Member

STATE OF MICHIGAN)
COUNTY OF MACOMB) ss.

The foregoing instrument was acknowledged before me, a Notary Public of the State of Michigan, on the 4th day of June, 2019, by MICHEAL J. DEMIL, the Sole Member of PRODUCTION DRIVE PROPERTIES, L.L.C., for and on behalf of said limited liability company.

[Signature]
Notary Public JENNIFER B. BODIE
State of Michigan, County of Wayne acting in Macomb
My Commission Expires: 11-31-2019

IN WITNESS WHEREOF, Grantor has caused this Warranty Deed to be executed and delivered under seal by its duly authorized officer the day and year first above written.

Signed, sealed and delivered in the presence of

[Signature]
Witness LICKI L ATKINS

GRANTOR:

EGH EXECUTIVE LLC, a Michigan limited liability company

By: [Signature]
Name: Randall J. Bushman
Title: CEO

STATE OF Michigan)
COUNTY OF Macomb) ss.

The foregoing instrument was acknowledged before me, a Notary Public of the State of Michigan, on the 5 day of JUNE, 2019, by Randall Bushman, the CEO of EGH Executive LLC, for and on behalf of said limited liability company.

We believe it is simply impossible to justify the price of the property to rise from \$2M to \$6.86M in just a matter of days.

Our investigator visited the facility and discovered that it was now occupied by Pleasantrees, which is a retail medical marijuana outlet of Emerald Growth Partners.





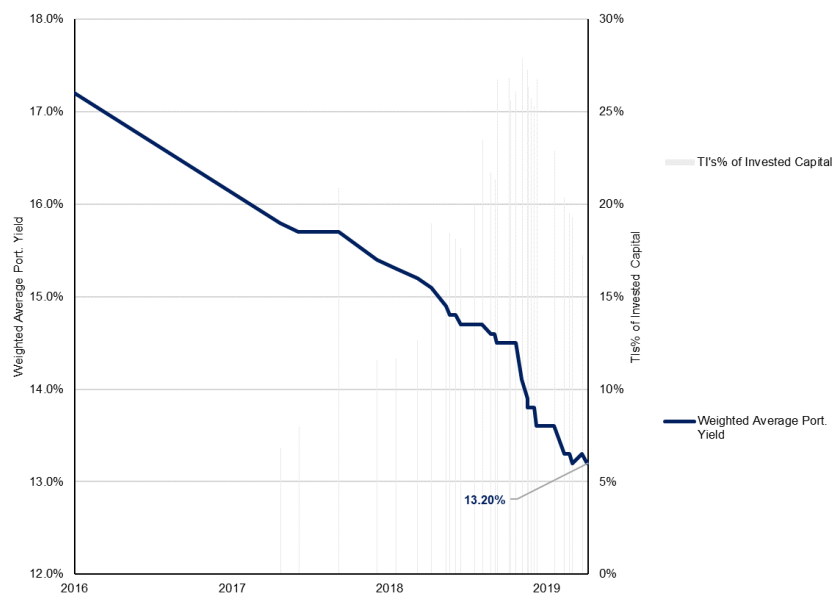
4 IIPR's Business Model Seems Fundamentally Flawed

We believe IIPR's business model is fundamentally flawed. Already financially strained tenants sign overpriced sales leasebacks at onerous yields. No credible company would agree to sale leasebacks with its core assets for yields in excess of 13%, unless it urgently needs a cash injection now. Over time the high rent burdens the tenants, but instead of reducing the exposure, IIPR extends additional short-term liquidity through more onerously priced sale leasebacks.

We simply do not see how IIPR buying warehouses and empty land for outrageous mark-ups creates low risk yields over 14%. The yield on investment might be initially high, but as we have shown in this report it is extremely risky and in a lot of cases the risks have already materialized (bankrupt tenants, empty land/construction way behind schedule, etc.).

IIPR's portfolio consists almost entirely of cultivation and manufacturing assets (almost no retail), which provide very limited recovery value. The majority of the facilities are warehouse spaces in remote locations away from city centers, which may not be appropriate for other industrial purposes under a triple net structure. If IIPR were forced to sell off assets we believe they would have to be sold at a substantial discount to IIPR's acquisition price.

On the surface, yields are already showing signs of compression and would likely continue on that path going forward due to increased competitions. Though IIPR discloses total portfolio yield, they have stopped disclosing acquisition yields in their press releases. One can see decreasing acquisition yields overtime.



Source: Grizzly Research Analysis



Quarter	Price (MM)	Yield
1Q19	\$ 31.5	13.4%
2Q19	\$ 70.0	13.4%
3Q19	\$ 117.4	13.4%
4Q19	\$ 233.0	12.0%
Total	\$ 451.9	12.7%

Year	Total Acquisitions			Initial Yield	Average Deal	
	Price (MM)	Total SF	S/SF		Price (MM)	Sq. Ft.
2016	33	127,000	260	17.2%	\$ 30.0	127,000
2017	47.3	559,000	85	14.9%	\$ 11.8	139,750
2018	90.1	446,000	202	14.4%	\$ 15.0	74,333
2019	452	1,920,000	235	12.7%	\$ 16.1	68,571
1Q20	61.4	161,000	381	13.4%	\$ 6.8	17,889
Total	683.8	3,213,000	213	13.3%	\$ 14.5	68,362

Source: BTIG Research Report (February 26, 2020); Grizzly Research Analysis

We also believe that IIPR faces significant regulatory and competitive risks. Headwind from US federal legalization of cannabis that can come through legislations like the SAFE Act and STATES Act would open the sector to banking and other financing alternatives. The Secure and Fair Enforcement (SAFE) Banking Act already passed the House in September 2019. Recently, there has also been some positive commentary on the bill, with Senator Gardner indicating that lawmakers are “close” to advancing the reform measure; We believe this could happen within months. The COVID-19 pandemic and its impacts on the cannabis sector is only emphasizing the need for regulatory changes, especially in regard to the banking access for cannabis companies, especially given the sector is excluded from accessing financial aid packages offered by the government.

Management is guiding to 60-70% of their growth pipeline to derive from operators who are already tenants of IIPR. However, the higher quality, larger public multi-state operators have all been able to access the credit market over the past few months and will likely not rush to deal with IIPR at onerous terms. Also, as these operators become more profitable, they will be in much better position to service debt and would prefer to take on shorter-term fixed income liabilities rather than to sign long-term leases that escalate by 2.5-4% annually. A few examples of MSOs accessing credit market (straight debt) in recent months include [Cresco](#)’s Securing \$200M Senior Debt raise at 13% in February 2020, [Harvest](#) raising US\$73M of senior secured notes at an interest rate of 15% and an additional \$21M in senior secured notes at a rate of 9.25%, and CuraLeaf raising \$275M in Debt at 14% in December 2019.

We also found a few examples of other REITs signing deals with IIPR’s tenants and other operators (which could be potential targets for IIPR). This shows how limited the MSO landscape is and how competitive it is becoming for IIPR to sign new properties



Marijuana REIT IPR Known Tenants Overlap						
	IIPR	Treehouse	NewLake Capital	Freehold Properties	Green Acreage	Inception REIT
The Pharm	x					
DionyMed	x					
Vertical	x					
The Green Solution	x					
Trulieve	x					
Ascend Wellness	x	x				
Cresco Labs	x				x	
Grassroots	x		x	x		
Green Thumb Industries	x		x			
PharmaCann	x		x			
Holistic Industries	x					
Emerald Growth Partners	x					
Green Peak	x					
LivWell	x					
Vireo Health	x					
Mjardin	x					
Green Leaf	x					
Maitri Genetics	x					
MedMen		x				
NorCal Cannabis		x				
Golden State Greens PL		x				
New Apothecary		x				
Pleasantrees		x				
Avant			x			
Columbia Care			x			
Curaleaf				x		
Revolution				x		
GreenAcreage					x	
Canndescent						x
Sweet Flower						x
Lighthouse						x
Pruf						x
Cultivar						x
Groundworks Industries						x
Cura						x

Source: Grizzly Research Analysis

COVID-19 could be the final blow to many of IIPR's tenants and expedite the inevitable scenario. At the very least, a higher portion of IIPR's 2020 rental income is in jeopardy. Direct negative impacts from Covid-19 on IIPR and its tenants include:

- [Disruption to dispensary operations](#) (E.g. MA, NV)
- Missed lease payments
- Disruption in production
- Layoffs
- Supply chain issues
- Delays and cancellations of facility developments/construction and lower request for TI reimbursements which make up a significant portion of IIPR's investments
- Delays and slow downs in license and regulatory approvals
- Likely delays in adult-use transitions in many states (e.g. NY which IIPR has meaningful exposure to)

We believe the impacts of COVID-19 are not yet priced into the stock. It's also important to note that the stock is up by 70% since March 18, 2020 but the overall social and economic outlook and impacts and of the pandemic have not improved but have actually worsened.



5 Cash Flow Analysis shows Dividend is unsustainable – Why we believe IIPR has the characteristics of a Pyramid Scheme

In this chapter we quantify the impact of our previous analysis to set the insights into perspective and get an accurate picture of IIPR's financial future. We believe the company has overpaid for properties with cash hungry tenants, who soon falter under the pressure of IIPR leases. This has led to defaulting tenants, and sham deals in an effort to keep the most important tenants afloat.

The discounts we apply are based on a few main factors:

- The tenant is already insolvent/has declared bankruptcy
- The tenant is at high risk of insolvency
- The underlying properties show no economic justification for the rental prices

This spreadsheet shows our comprehensive bottom up analysis of every single lease we have identified. According to sell side reports the company has 52 leases in total of which we were able to identify 37. The remaining leases are smaller, and/or have not been announced or disclosed in any detail by IIPR. Our instinct tells us that if you see one cockroach there are probably many. In IIPR's case that means that the smaller leases where the company is even more opaque should be expected to have even more egregious terms than the ones we actually found. Accordingly, we apply the average discount of the properties we were able to find to the unidentified portion of the property portfolio.

According to our analysis, after taking into consideration the effects of tenants defaulting, and removing overpayment effects, we determine that even in a good case scenario at least 38% of IIPR's 2020 rental income is under direct jeopardy. In our Appendix where comprehensively analyze each lease we explain in detail our reasons for applying a discount for each individual property.



Property	Lease Start	Annual Rent (Before Discount) \$	Discount	Annual Rent (Discounted) \$	Reason for Discount
PharmaCann NY	December 2016	5,637,057	75%	1,426,161	
PharmaCann OH	March 2019	2,775,871	20%	2,220,697	
PharmaCann MA	May 2018	3,535,333	20%	2,828,267	
PharmaCann PA	August 2019	3,166,800	100%	-	Far from completion
PharmaCann IL	October 2019	3,679,375	93%	257,556	Overpayment
Vireo NY	October 2017	1,079,273	50%	544,562	
Vireo MN	November 2017	1,011,819	35%	654,449	Overpayment
Vireo PA	April 2018	1,512,000	54%	702,424	Overpayment
Vireo OH	May 2019	511,560	20%	409,248	Default (Potential)
Holistic MA	July 2018	2,240,341	81%	417,691	Overpayment and adjusted for outrageous lease terms
Holistic MD	May 2017	2,649,128	30%	1,854,390	
Green Peak MI	August 2018	2,488,343	0%	2,488,343	
Green Peak MI -PF	Oct/Nov 2019	1,528,895	7%	1,422,320	Overpayment
Ascend MI	July 2019	723,188	80%	141,593	Overpayment
Ascend IL	December 2018	5,068,980	58%	2,128,972	
Grassroots PA	December 2019	2,164,995	35%	1,407,247	Overpayment (Potential)
Grassroots IL	October 2019	1,799,747	40%	1,079,848	Overpayment
Grassroots ND	December 2019	1,508,798	0%	1,508,798	
Mjardin NV	July 2019	1,122,844	26%	832,046	Overpayment
DYME CA	July 23, 2019	1,759,254	100%	-	Default
Emerald Growth MI	June 7, 2019	1,478,348	50%	738,413	Overpayment
LivWell MI	October, 2019	3,903,690	0%	3,903,690	
GreenLeaf VA	January 15, 2020	1,722,719	0%	1,722,719	
GreenLeaf PA	May, 2019	1,979,250	0%	1,979,250	
Maitri PA	April, 2019	1,643,539	0%	1,643,539	
The Green Solution CO	October, 2018	1,771,875	48%	921,375	Overpayment
Vertical CA Portfolio	Aug/Sept 2019	2,633,925	0%	2,633,925	
Pharm AZ	December, 2017	2,932,808	0%	2,932,808	
Pharm AZ - Retail	September, 2019	373,317	33%	251,517	Overpayment
Trulieve FL	October, 2019	1,898,050	0%	1,898,050	Questionable tenant
Trulieve MA	July, 2019	677,827	0%	677,827	Questionable tenant
Southern CA Portfolio	April 16, 2019	4,125,518	40%	2,475,311	Undisclosed tenant overpayment
Sacramento CA	February, 2019	1,804,950	36%	1,154,687	Undisclosed tenant overpayment
Cresco IL - Portfolio	October, 2019	5,402,439	48%	2,801,400	Overpayment (Potential)
GTI IL	March 3, 2020	1,133,741	44%	634,895	Overpayment (Potential)
GTI OH	February 3, 2020	400,397	0%	400,397	None
GTI PA	November, 2019	3,090,675	35%	2,008,939	Overpayment
		Total Discounted Rent		\$ 51,103,350.02	
		Total Identified Undiscounted Rent		\$ 82,936,665.81	
		Discount Ratio		38%	
		Analyst Estimate 2020 Rent		\$ 110,000,000.00	
		Estimated Downside		\$ 42,220,949	

Source: Company Filings, Grizzly Research LLC

If we look at our bad case scenario, which in our opinion is more realistic due to the worsening economic environment, we are looking at a 49% decrease in 2020 rental income. Again, the detailed reasons for the application of a discount on each property are listed in our Appendix.



Property	Lease Start	Annual Rent (before Discount) \$	Discount	Annual Rent (Discounted) \$	Reason for Discount
PharmaCann NY	December 2016	5,637,057	100%	-	Default
PharmaCann OH	March 2019	2,775,871	100%	-	Default
PharmaCann MA	May 2018	3,535,333	100%	-	Default
PharmaCann PA	August 2019	3,166,800	100%	-	Default. Far from completion
PharmaCann IL	October 2019	3,679,375	100%	-	Default. Overpayment
Vireo NY	October 2017	1,079,273	65%	377,746	Default
Vireo MN	November 2017	1,011,819	65%	354,137	Default
Vireo PA	April 2018	1,512,000	65%	529,200	Default
Vireo OH	May 2019	511,560	65%	179,046	Default
Holistic MA	July 2018	2,240,341	81%	417,691	Overpayment and adjusted for outrageous lease terms
Holistic MD	May 2017	2,649,128	30%	1,865,363	Overpayment (Potential)
Green Peak MI	August 2018	2,488,343	0%	2,488,343	
Green Peak MI -PF	Oct/Nov 2019	1,528,895	7%	1,422,320	Overpayment
Ascend MI	July 2019	723,188	80%	141,593	Overpayment
Ascend IL	December 2018	5,068,980	58%	2,125,699	Overpayment (Potential)
Grassroots PA	December 2019	2,164,995	35%	1,407,247	Overpayment (Potential)
Grassroots IL	October 2019	1,799,747	60%	719,899	Overpayment
Grassroots ND	December 2019	1,508,798	0%	1,508,798	
Mjardin NV	July 2019	1,122,844	26%	832,046	Default
DYME CA	July 23, 2019	1,759,254	100%	-	Default
Emerald Growth MI	June 7, 2019	1,478,348	50%	738,413	Overpayment
LivWell MI	October, 2019	3,903,690	0%	3,903,690	
GreenLeaf VA	January 15, 2020	1,722,719	0%	1,722,719	
GreenLeaf PA	May, 2019	1,979,250	0%	1,979,250	
Maitri PA	April, 2019	1,643,539	8%	1,507,009	Overpayment (Potential)
The Green Solution CO	October, 2018	1,771,875	48%	925,297	Overpayment
Vertical CA Portfolio	Aug/Sept 2019	2,633,925	0%	2,633,925	
Pharm AZ	December, 2017	2,932,808	0%	2,932,808	
Pharm AZ - Retail	September, 2019	373,317	33%	251,517	Overpayment
Trulieve FL	October, 2019	1,898,050	0%	1,898,050	Questionable tenant
Trulieve MA	July, 2019	677,827	0%	677,827	Questionable tenant
Southern CA Portfolio	April 16, 2019	4,125,518	60%	1,650,207	Undisclosed tenant overpayment
Sacramento CA	February, 2019	1,804,950	36%	1,154,687	Undisclosed tenant overpayment
Cresco IL - Portfolio	October, 2019	5,402,439	48%	2,801,400	Overpayment (potential)
GTI IL	March 3, 2020	1,133,741	44%	629,856	Unnecessary reimbursement and potential overpayment (Graciously assume \$4+M went into improvements)
GTI OH	February 3, 2020	400,397	0%	400,397	Overpayment
GTI PA	November, 2019	3,090,675	35%	2,008,939	Overpayment

Total Discounted Rent	\$ 42,185,114
Total Identified Undiscounted Rent	\$ 82,936,666
Discount Ratio	49%
Analyst Estimate 2020 Rent	\$ 110,000,000
Estimated Downside	\$ 54,049,324

Source: Company Filings, Grizzly Research Analysis

At the current run rate IIPR would have to pay out \$86M in dividends throughout 2020. It seems to us that the company will not be able to do so based on our analysis. We expect that the dividend will have to be reduced substantially.



6 The WeWork of Cannabis?

We see many striking similarities between IIPR and WeWork. WeWork has recently made headlines through its [failed IPO](#) along with the departure of its CEO and founder Adam Neumann.

Both companies are led by a young dynamic/charismatic CEO/founder. While Neumann has already departed as CEO of WeWork Alan Gold is still maintaining his official roles with IIPR. However we can't help but feel that Alan Gold is looking to exit the company given his new extensive side ventures (we comment on this more in the section below).

Both businesses are flawed real estate models. WeWork had a run on the bank when it couldn't manage to access financing through a public offering. Similarly, we believe there is a high risk for IIPR to get into serious financial issues once investors realize the low quality of IIPR's assets and how dependent the company really is on equity raises.

WeWork and IIPR also have in common that they promise their investors a differentiated business model and high-quality assets. WeWork liked to present itself as a community and technology company. IIPR pretends to have found the holy grail of real estate yields by renting to cannabis operators. We simply do not see how IIPR buying warehouses and empty land for outrageous mark-ups creates low risk yields over 14%. The yield on investment might be initially high, but as we have shown in this report it is extremely risky and in a lot of cases the risks have already materialized (bankrupt tenants, empty land/construction way behind schedule, etc.).

6.1 Is Alan Gold Exiting?

Executive Chairman Alan Gold has been arguably the key driver and brain behind IIPR since its inception. His resume and credibility have allowed the company to conduct multiple capital raises without any kind of track record.

Alan Gold has recently started another venture called [IQHQ](#) - (Formerly Creative Science Properties). The company focused on life science office developments and Alan Gold is currently a Director and Executive Chairman. Given Alan Gold's profile and selected subsector of his new entity, we have reason to believe Alan's attention is stretched too far.

This is also concerning, given:

- Mr. Gold's role and importance in IIPR as Chairman and key drive since its inception
- IIPR is still a growth stage company requiring full attention of management and board

IQHQ is by no means a small venture either. The company has already [raised](#) almost as much capital as IIPR's total raise to-date in a single private raise, namely \$770M of equity capital.

IQHQ is already taking on big projects with a \$270M purchase of Fenway Office-Medical Property in Boston; This is larger than any other project that IIPR is involved with. The project includes a main 22-story high-rise building, a 12-story mid-rise building, and a shared use automated garage that will be accessible to both buildings. This seems to us far more sophisticated and financially/time/labor-consuming than any of IIPR's projects.



Alan Gold has [not yet officially](#) resigned from any of his positions with IIPR and the company continues to pay him over \$2.6M per year. This is about 2.5x the annual salary for IIPR's CEO. Should IIPR reduce Alan Gold's pay knowing a large portion of his time will be allocated to another growth company?

7 Our Independent Analysis Suggests Significant Downside

At the end of 2019, IIPR had cash and cash equivalents and restricted cash of \$117.3M and exchangeable senior notes of \$134.7M. IIPR has meaningful obligations towards its tenants to fund improvements, amounting as of December 31st 2019 to \$195M. It is also noteworthy that IIPR still has to pay for about \$25M in tenant improvements that were already made but not yet funded by IIPR. We noticed that an increasing number of tenants start to cancel tenant improvements in the first few weeks of 2020. \$4M of construction funding commitments related to IIPR's lease with PharmaCann at one of IIPR's Pennsylvania properties was canceled. Green Peak amended its lease with IIPR which, among other things, canceled the remaining tenant improvement allowance of approximately \$15.2M. DionyMed, which is effectively bankrupt now, has unsurprisingly also canceled \$2M of tenant improvements.

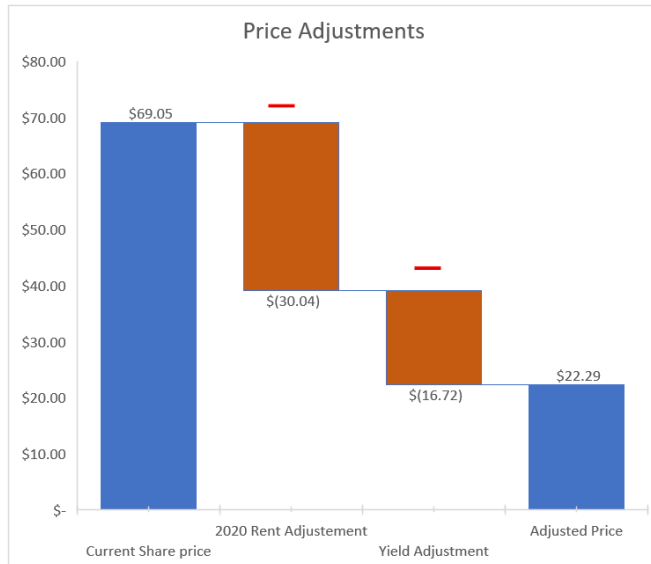
However, investors should also pay attention to the reimbursement options that IIPR extended to certain tenants including Trulieve and Grassroots, amounting according to the company's [10K](#) to approximately \$53.8M.

These reimbursement options between IIPR and these tenants are essentially "put options" and they will likely only get exercised if the tenant is unable to access alternative financing. Since the tenants have the option of cancelling these reimbursements, these leases should not be considered when estimating the company's NAV or rent projections.

As the March 2020, the company's shareholder equity was \$798.0M, and the company's majority asset is Net Real Estate held for Investment of \$505.9M. We note that IIPR's current book value is only \$46.84 per share. However, an analysis only based on book value of assets booked at costs ignores the quality of the assets. Based on our tenant and rental income analysis in above sections, we believe that the economic and fair value of IIPR's main balance sheet item should be materially lower.

Another way to look at the company's value is its ability to pay out dividend to investors and dividend yield rate would be able to compensate the risk that investors bear when holding IIPR's stock. Based on our rental income analysis, we estimate that IIPR's rental income would be 38% lower in a Good Case Scenario and 49% lower in a Bad Case Scenario in 2020 compared to 2019, which would translate to an even greater decrease in IIPR's dividend due to costs remaining relatively resilient.

We have shown in this report that IIPR's assets are risky and overpriced, and we do not believe that the current spread between the company's cost of capital and the yield on the underlying assets is sustainable. At current prices and with the current dividend run rate, IIPR sports a cost of equity capital around 5.38%, while its risky portfolio of assets yields over 13%. We think IIPR's valuation will adjust to reflect more closely the risk profile of its underlying assets. We do not think IIPR deserves a premium valuation, if anything a discount is applicable due to the severe operational challenges we outline in this report.



For our valuation we assumed that the average rental decrease of our good and bad case scenario, which is a 43.5% decrease. We then adjusted the company's cost of equity capital up from 5% to about 8%, still giving IIPR a premium valuation that it probably does not deserve. We conclude a price target of \$22.29.

8 Conclusion

We have demonstrated in this report why we are deeply skeptical of IIPR and its management. In the end, we think the business model is fundamentally flawed and starting to fall apart. IIPR is heavily dependent on capital raises, and we expect the company to approach the capital markets aggressively in 2020. The company currently still has about 10M shares available for sale through its ATM offering. The dividend will have to be reduced or financed from capital raises.

We also expect Executive Chairman Alan Gold to continue pursuing other ventures more extensively. Is he realizing the tide is about to turn for IIPR in a tightening capital market?

Even though flawed sell side reports from investment banks continue to push IIPR's stock we think the company will soon run out of investors willing to buy the stock at heavily inflated prices. And the clock is ticking for IIPR.



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