Through the Looking Glass

"Creativity is what makes humanity move. We were created to participate."

– Keith Jarrett, Composer

January 2020

Dear Fellow Shareholders,

The time has come to talk of many things as we peer through the looking glass and inspect our Company, Monmouth Real Estate Investment Corporation. In so doing, we must also analyze aspects of the broader market and even the world at large, as Monmouth, like any other living organism, does not exist in a vacuum. Having just completed our 52nd year as a public REIT, we move into the future with our PAST by our side. We will look back at our upbringing in order to understand the time-tested principles that have enabled us to thrive through so many business cycles. Because in order to succeed, one must first survive.

Drilling down on the PRESENT will of course be done, as it is essential to understanding our story. However, it is important to point out that it is impossible to do so in isolation. Like a single melodic note, its true meaning is dependent on that which came before it and that which will come after it. As our reliable progress continues to build to a crescendo, investors in our Company will best prosper by investing for the long term.

Importantly, we will also peer further out beyond the horizon, into that real yet imagined place we call the FUTURE. Though abundant clouds of uncertainty obscure its landscape these days, visualizing what the future will bring is the secret to successful investing. Pricing mechanisms reflect upon the balance of supply and demand based primarily upon what is known today. Tomorrow is another story.

During Fiscal 2019, the Company's many accomplishments include the following:

- Increased our Gross Revenue by 14.1% to $173.7 million,
- Increased our Net Operating Income by 14.3% to $131.2 million,
- Reduced our Net Debt to Adjusted EBITDA to 5.9x from 7.1x,
- Maintained a conservative AFFO dividend payout ratio of 80%,
- Reduced our General and Administrative expenses as a percentage of gross revenue to 5.2% from 5.8%,
- Achieved $2.6 billion in total market capitalization at fiscal yearend,
- Acquired 824,000 square feet of high-quality industrial space for $138.6 million, comprising three brand new Class A, built-to-suit properties, all leased long-term to investment-grade tenants,
- Completed one 155,000 square foot building expansion for $8.6 million, generating additional rental revenue and resulting in a 15-year lease extension,
- Increased our gross leasable area (GLA) by 5.1% year-over-year to 22.3 million square feet,
- Entered into commitments to acquire five new Class A, build-to-suit properties containing 1.6 million total square feet, all leased long-term to investment-grade tenants,
- Maintained a sector-leading occupancy rate of 98.9% at fiscal yearend, representing our fourth consecutive year with above 98% occupancy, which increased to 99.2% subsequent to fiscal yearend,
- Renewed seven leases comprising 1.1 million square feet for a weighted-average lease term of 7.2 years,
- Achieved a weighted average lease maturity of 7.6 years as of the current fiscal yearend, which subsequently increased to 7.8 years,
- Increased our annualized average base rent per occupied square foot by 3% to $6.20 from the prior year,
- Raised $132.3 million in net proceeds in a Common Stock Offering in October 2018,
- Raised 58.2 million in equity through our Dividend Reinvestment and Stock Purchase Plan, representing a 26% participation rate,
- Raised $58.2 million in net proceeds through our Perpetual Preferred Stock ATM Program,
- Maintained the weighted-average debt maturity on our fixed-rate debt at 11.3 years, and
- Subsequent to yearend, purchased one new Class A built-to-suit property comprising 616,000 square feet for $81.5 million.

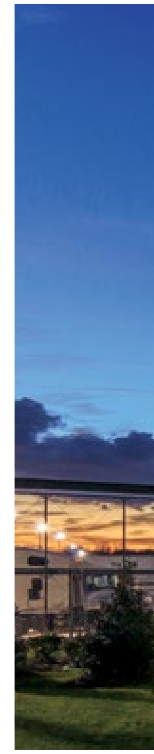
Formed in 1968, Monmouth is one of the oldest publicly-traded REITs. We are also one of the most specialized. Our focus is on single-tenant, net-leased industrial properties on long-term leases to investment-grade tenants. Over our long history, valuable relationships have been forged that have been instrumental to our success. We have assembled a best-in-class industrial property portfolio with an all-star tenant roster that includes Amazon, Anheuser-Busch, Beam Suntory, Coca-Cola, FedEx, Home Depot, International Paper, Milwaukee Tool, National Oilwell Varco, PP&G, Sherwin-Williams, Siemens, Toyota, Ulta Beauty, United Technologies, among other high-quality companies.

With 80% of our rental revenue derived from investment-grade rated tenants and the other 20% secured by strong non-rated tenants, our operating earnings quality is among the highest in the REIT industry. Our property portfolio now contains 22.9 million rentable square feet, consisting of 115 properties, geographically diversified across 30 states. Our weighted average lease maturity is currently 7.8 years, providing visible earnings for many years to come. Our land-to-building ratio is 5.2:1 which allows us ample capacity for building expansions as our tenants continue to grow their strong businesses.

Building age is an increasingly important metric in the industrial real estate sector these days, as newer, modern buildings are benefiting the most from the secular shifts in consumer spending brought on by Ecommerce. As you can see from the pictures in this report, our portfolio is Class A. The highly automated infrastructure inside of our buildings is substantial and involves considerable capital investment borne by our tenants. Our properties are mission critical to our tenants' needs and, therefore, we have historically benefited from high tenant retention rates. The weighted average building age of our portfolio is only 9.1 years old, making it the youngest and most state-of-the-art in the industrial REIT sector. It is no coincidence that we consistently achieve the highest occupancy rate in our sector, which is currently at 99.2%.

Competition for acquiring U.S. industrial real estate this past year has been fierce, driven by unprecedented demand from tenants and investors alike. It is a seller's market if ever there was one. The largest industrial REIT, Prologis, and the giant private equity firm, Blackstone, have both been aggressively acquiring industrial property portfolios and consolidating our industry to the point where they now control 10% of the total U.S. industrial space market. Sovereign wealth funds and other large institutions have been favoring our property type as well. This has resulted in continued cap rate compression. It is estimated that industrial real estate values have more than doubled during the past ten years and have increased by 15% in the past year alone. Consequently, the value of our properties has appreciated substantially.

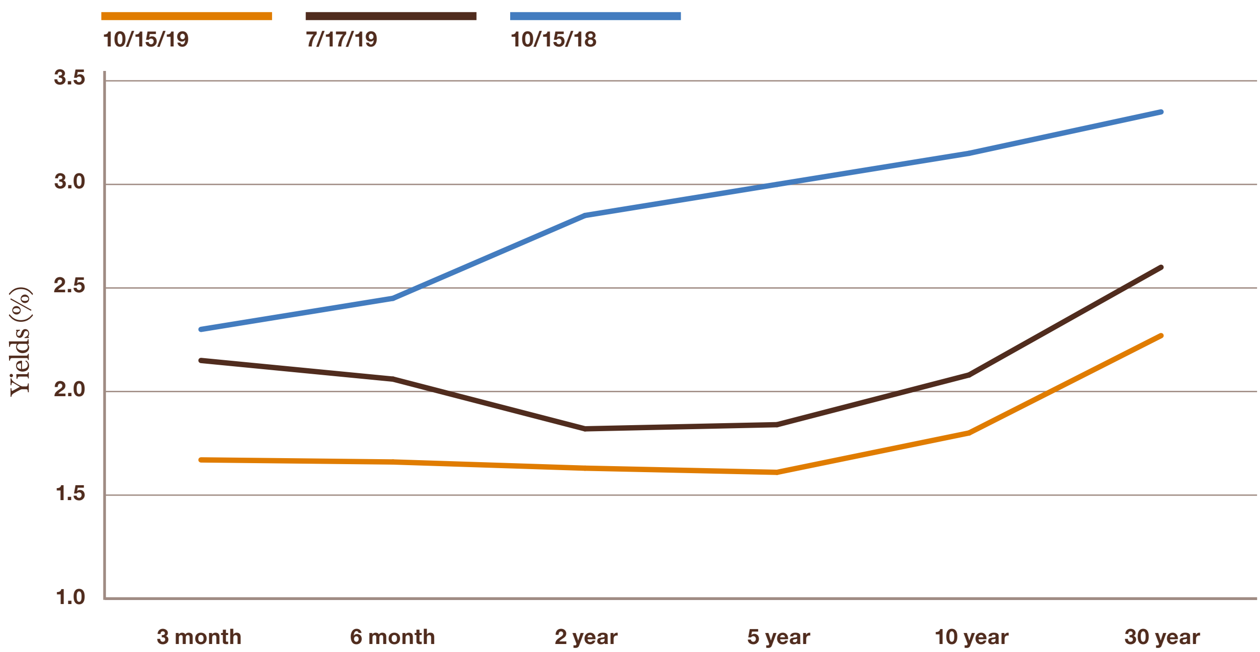
The main catalyst driving this feeding frenzy continues to be Ecommerce. Pioneered by Jeff Bezos in the mid-1990s, first with book sales and then with music, Amazon has rapidly grown to become "The Everything Store." Many of the large retailers have finally woken up to the wide-spread disruption resulting from ever increasing internet sales. To keep pace, many of these retailers have been busy reconfiguring their supply chains to accelerate the distribution of goods both directly to the consumer, as well as through their traditional brick-and-mortar store networks. This new approach, known as "Omni-channel distribution," is here to stay as consumer spending the world over has embraced the unlimited product selection and increased efficiencies that the digital marketplace provides. Monmouth was early in seeing this changing of the guard driving massive demand for industrial real estate, and today our portfolio is greatly benefiting from the secular shift to Ecommerce.



> *“Diversification may conserve wealth, but concentration builds wealth.”*
>
> – Warren Buffett, CEO of Berkshire Hathaway

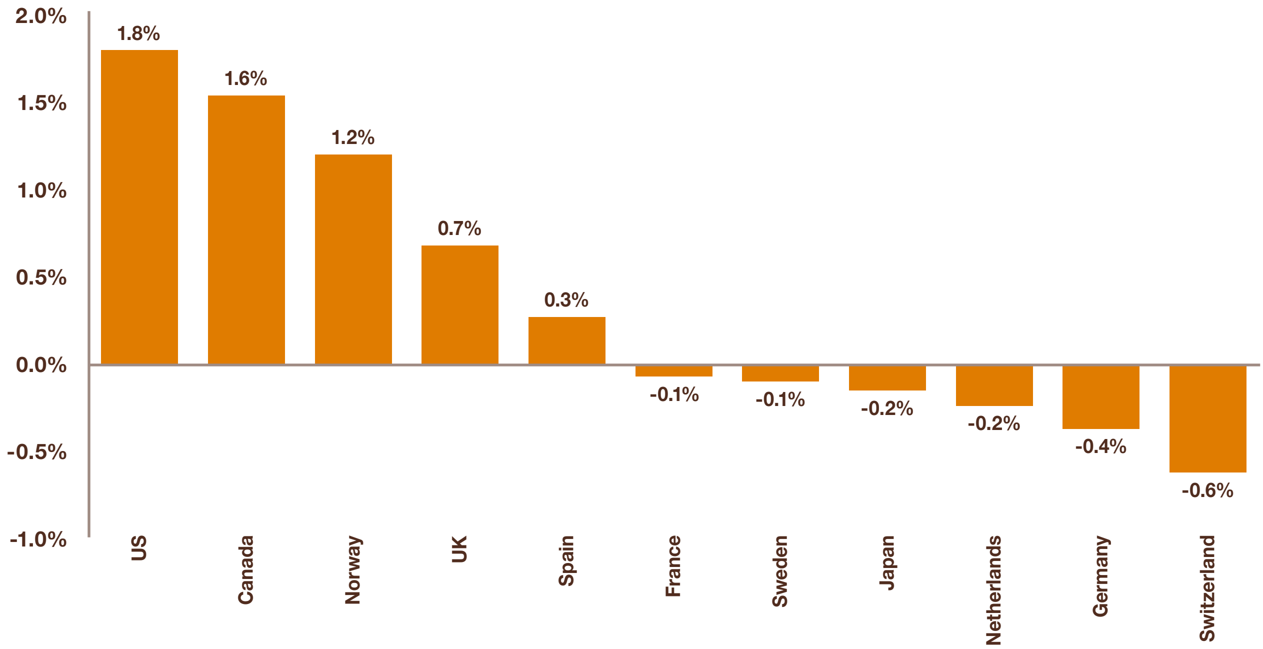
FedEx is by far our largest tenant and we wouldn’t want it any other way. Goods move quickly in a continuous manner throughout the world thanks in part to their vast and highly efficient networks. Their world-class services are as integral to global trade as our vascular systems that deploy blood to our organs are to our survival. Monmouth currently owns 60 properties leased to FedEx with more under construction. We now have 10.4 million square feet serving FedEx, representing approximately 45% of our 23 million square foot portfolio. It is estimated that the total U.S. parcel market will double from 50 million packages per day currently to 100 million packages per day by 2026. Because of this surging demand, FedEx recently announced that they will begin delivering packages seven days a week all year round. This means that our mission critical properties leased to FedEx have now become more mission critical than ever before.

Movement of the Yield Curve



The theme of last year's letter was "Balancing Forces," in which we looked at how irrational behavior and biased thinking can create capital misallocations, and how natural forces have a way of self-correcting these imbalances over time. If there was only one single tool that investors could use to guide their decision-making in order to benefit from these imbalances, it should be the yield curve. The yield curve is a looking glass of its own, containing more information about the market sentiment than all other surveys combined. For much of this past year the U.S. yield curve has either been very flat or inverted. From a historical perspective this represents rare imbalances. America does have the distinction of having only positive nominal interest rates. The rest of the world is even more imbalanced with a number of countries exhibiting negative nominal rates. When factoring in just minimal inflation, the resulting amount of global debt with negative real interest rates becomes staggering. In times like these, it makes sense to lock in the longest-term financing possible. For the first time ever, this year Germany issued negative yielding 30-year bonds, while back home the 30-year U.S. Treasury Bond fell to a record low of under 2%. Many countries have issued ultra-long bonds that don't mature for 50 or even 100 years. So, let me now turn to how Monmouth has utilized this protracted period of historically low rates and yield curve imbalances to our advantage.

Global: 10-Year Government Bond Yields



By financing our growth with a combination of low cost, long term, fixed-rate mortgage debt and perpetual preferred equity, we've made our fortress balance sheet stronger than ever. At fiscal yearend, our capital structure consisted of approximately $840 million in debt, of which $745 million was property-level fixed-rate mortgage debt, with a weighted average interest rate of 4.0%, and a weighted average maturity of 11.3 years. This represents one of the longest average debt maturities reported in the entire REIT sector. We also had a total of $348 million in perpetual preferred equity at yearend. Our Series C Preferred shares have a dividend rate of 6.125% and while these preferred shares are redeemable at our discretion in a few years, they never mature and can go all the way out in perpetuity, to eternity and back. We always recommend financing long-term assets with long-term capital, and this is especially true in the current interest rate environment. There is no longer term, fixed-rate instrument than perpetual preferred. We've also been building up our unencumbered asset pool. This year we increased and extended our credit facility while reducing the interest rate. As a result, our new facility provides for up to $400 million in borrowing capacity. Our overall debt ratios have improved substantially this year with our net debt to adjusted EBITDA reduced from 7.1x to 5.9x at fiscal yearend. Given our 7.8 year weighted average lease maturity and the fact that our cash flow is secured by investment grade tenants, our balance sheet is very conservatively levered. Further enhancing our liquidity, we ended the year with $185.3 million in REIT securities and $20.2 million in cash.

REITs are a total return vehicle. They provide income plus capital appreciation. Inflationary forces can build quietly off in the distance, out of sight and out of mind. However, when inflation does appear, great wealth can quickly be confiscated through the erosion of purchasing power. Because real estate is a hard asset, with the power to preserve value during inflationary periods through rising rents and rising replacement costs, it offers a unique safe harbor from this cruelest tax of all. In addition, Monmouth's Net Operating Income is further protected during inflationary periods given our net lease structure, whereby the tenant bears the responsibility for rising real estate taxes, insurance, and operating expenses.

One of the unique aspects of our business model is that in addition to investing in hard assets, we also invest in liquid real estate. Our primary motive for so doing is Liquidity. The most common cause of real estate investors failing from one cycle to the next is they get over-burdened with debt. Having a balance sheet with not only free and clear hard assets but also unencumbered liquid assets allows us quick access to capital even during the most difficult points in the cycle. In the past, we limited our REIT securities investments to no more than 10% of gross assets. Following the implementation of a new accounting rule in October 2018, the impact of quarterly mark-to-market fluctuations of our REIT securities portfolio shifted from our balance sheet onto our income statement, thereby introducing increased volatility into some of our key earnings and other valuation metrics. Consequently, in order to mitigate some of this volatility, we have recently decided to opportunistically reduce our securities investments over time down to a target threshold of 5% of our undepreciated assets. We hope that investors can see through the quarterly noise of these mark-to-market adjustments and understand the long-term benefits of owning liquid assets. By taking a long-term view we have realized substantial gains on our securities investments since we implemented this program in the mid-1990s. In addition to providing us with access to liquidity, our portfolio also generates dividend income.

“A zero tariff, zero subsidy global trade environment is the most powerful economic growth engine there is.”

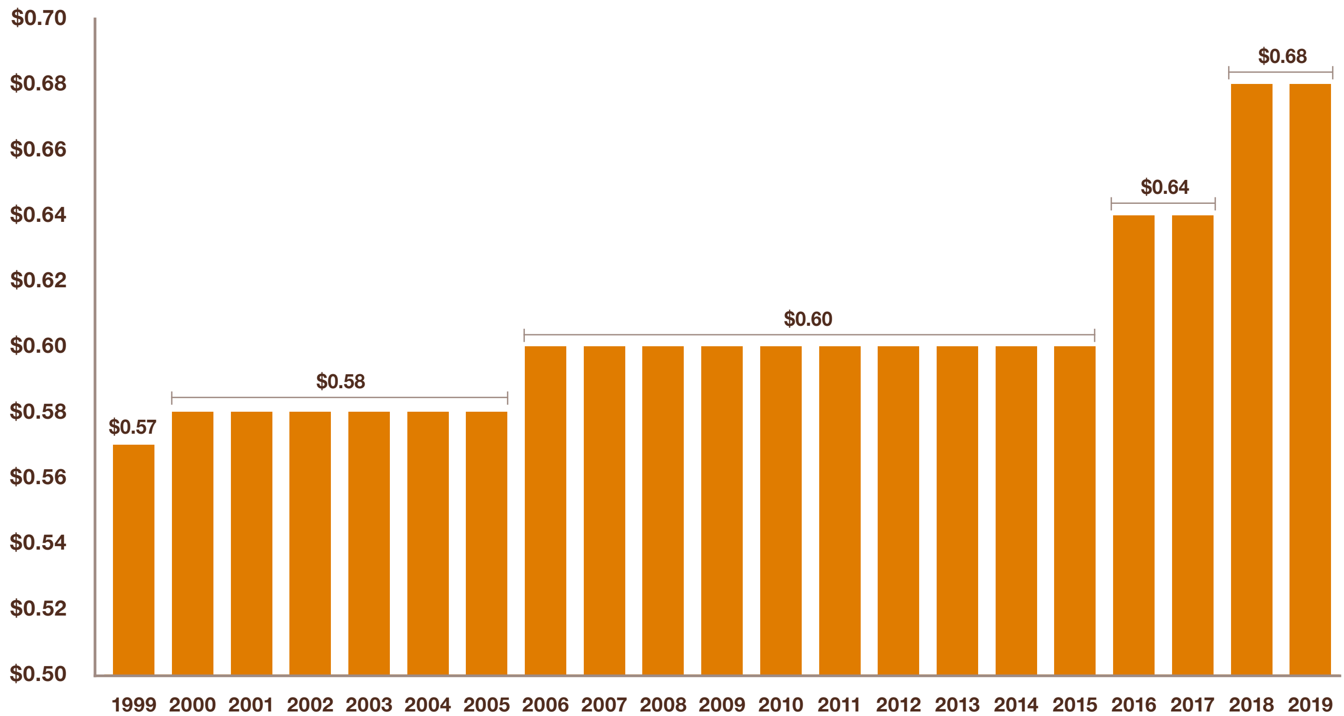
– Frederick Smith, CEO of FedEx

The two-way street of free and fair trade has become gridlocked. When access to global markets is unfettered, new businesses are created, jobs are added, economies grow, and living standards improve. Global per capita GDP has risen dramatically due to unrestricted access to the goods and services produced in all markets and in all regions throughout the world. Total trade, imports plus exports, has grown in the U.S. from $50 billion annually in the late ‘60s to over $4 trillion today. While America benefits by having the largest economy, 80% of the world’s purchasing power resides beyond our borders. The recent trade disputes between the U.S. and China have constrained both economies. Hopefully these issues will soon be resolved, and goods and services will flow freely in a reciprocal manner. National economies will never come close to realizing their full potential if protectionism and mercantilism isolate them from the rest of the world.

Monmouth's rental and reimbursement revenues for the year were $158.5 million compared to $139.2 million, or an increase of 13.9% from the prior year. Net Operating Income increased $16.4 million to $131.2 million, reflecting a 14.3% increase from a year ago. Funds from Operations (FFO) for fiscal 2019 were $81.2 million, or $0.87 per diluted share, as compared to $69.8 million, or $0.89 per diluted share last year, representing a 2% per share decrease. A primary focus of ours is on growing our recurring earnings, or what is commonly referred to as Adjusted Funds from Operations (AFFO). AFFO excludes gains or losses on the sale of real estate and gains or losses on the sale of REIT securities, as well as lease termination income and the effects of straight-lined rent adjustments. Therefore, we believe AFFO serves as the best proxy for recurring cash earnings. Over the prior three-year period, our AFFO per share increased at an average annual rate of 14%, thereby allowing us to increase our common stock dividend by 13% during that period. This year our AFFO per diluted share decreased slightly to $0.85 from $0.87 in the prior year, representing a 2% decrease. Our financial results were modestly impacted by the timing of our equity issuance in October 2018 and by a 70-basis point reduction in our occupancy rate. Given our current $180 million acquisition pipeline as well as our occupancy gains subsequent to fiscal yearend, we expect our per share earnings and cash flow to increase going forward.

During this ultra-competitive period, we were once again very pleased with our ability to successfully source high-quality acquisitions. Of course, we could always have a larger acquisition pipeline which would enable us to generate faster growth in total assets, but with so much of our own "skin in the game," we always hold true to our conservative principles and wait until we find what has become known as "A Monmouth Asset." What defines a Monmouth asset is the following: 1. The tenant must have an investment grade rating or, if non-rated, must be deemed by us to be of equivalent investment-grade quality. 2. The lease must be of a long duration of 10 or more years. 3. The lease must be a solid net-lease that requires the tenant to be responsible for all taxes, insurance, and operating expenses. Taking our stringent investment criteria a few steps further, the property must be a modern building. I discussed earlier the reasons why the supply chain has shifted to these smart, highly automated, omni-channel capable buildings.
Last but certainly not least, the property must be well-located. I spent several pages in last year's annual report on the topic "Location, Location, Location." We invest in business-friendly states as these areas enjoy greater population growth and greater per-capita GDP growth. We also focus on logistics centers. These are areas near international airports, seaports, inland ports, or rail hubs. With 70% of the U.S. population residing east of the Mississippi River, our portfolio is strategically very well-positioned (see Property Locations map, pages 18–19 of this report). We have shown great discipline in building our portfolio of mission-critical industrial properties one high quality asset at a time. Today our portfolio is second to none.

Reliable Dividends

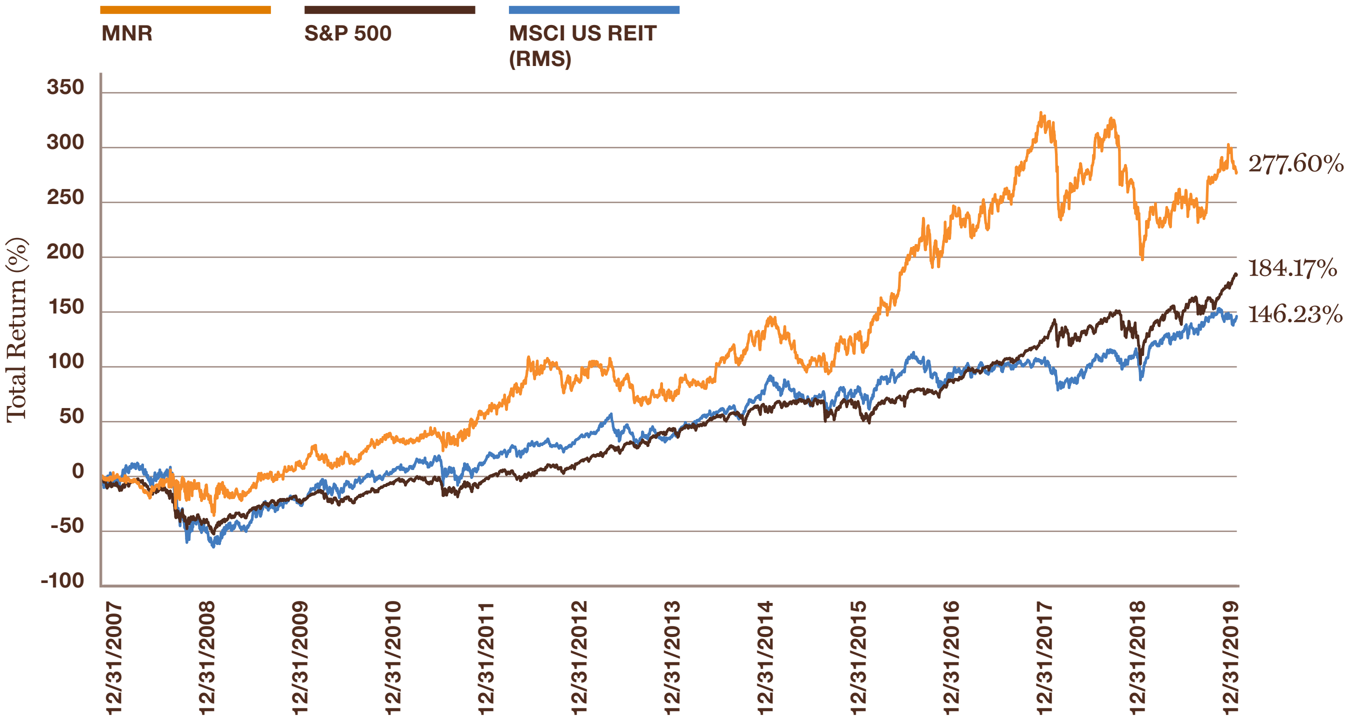


> *"Compound interest is the 8th wonder of the world. He who understands it earns it; he who doesn't pays it."*
>
> – Albert Einstein, Physicist

The mistaken belief that so much is vulnerable to the forces of disruption is in itself disruptive and therefore, self-fulfilling in the short term. New economy stocks have soared while old economy stocks have been battered. Unicorn companies are commanding valuations that appear one step removed from reality. But hope and patience do not spring eternal and sooner or later a focus on profitability returns.

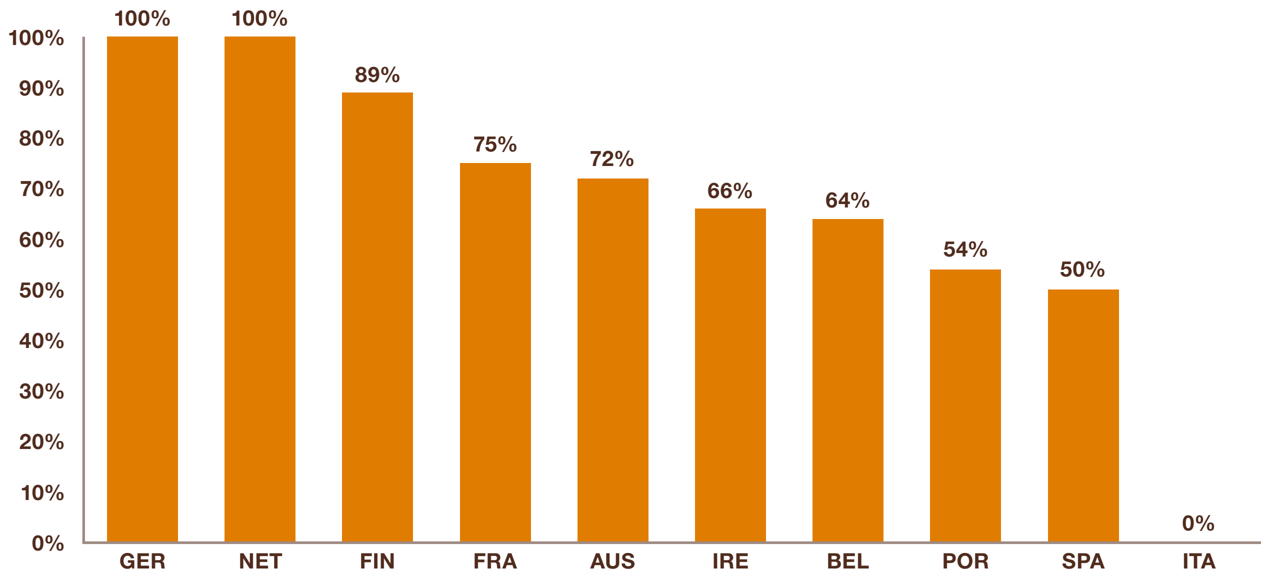
Perhaps the best proof of the strength of our qualitative business model is our dividend track record. Even during the depths of the Global Financial Crisis our shareholder dividends were paid without missing a beat. We passed that stress-test with flying colors and have since raised our dividend by 13%. Our AFFO dividend payout ratio this year was 80%, which given our high-quality tenant base and our 7.8 year weighted average lease maturity, provides for a very safe and well-protected dividend. With reliable dividends should come patience and less volatility. Warren Buffet has compared life to a snowball. All that is needed, he says, is some wet snow and a really long hill. It is empirically proven that Monmouth possesses both of these key ingredients for tapping into the wonders of compounding investment returns over the long term.

Total Return Performance



Looking at our total return performance over the past 12-year period we see that Monmouth has handily outperformed both the MSCI US REIT Index and the S&P 500. The algorithms that play an increasing role in the public markets these days are known for their hyper-active trading. Given our consistent fundamental performance, Monmouth's more recent trading pattern shown above has become much too volatile and perhaps even predictably so. Real estate is a long-term cyclical asset class that can deliver the type of compounded returns over time that will outperform all other asset classes. Just because the robots are superfast does not mean that high-speed dating is a superior "investment" strategy. Instead of creative destruction, the computer engineers who have infiltrated the public arena may ultimately end up with a legacy of destructive creation. Long-term investing should be defined by a substantial amount of years, not quarters. Much time and thought has gone into writing this letter to shareholders, and I am grateful for the time you are taking to read it. Unfortunately, not a single millisecond will be spent on it, or anyone else's shareholder letter for that matter, by the robo-advisors who are out there controlling so much of the public market today. And that, my fellow human beings, is a sad commentary.

Percentage of Bonds Trading at Negative Yields



"It's no easy thing trying to shout down a mass delusion!"

– James Grant, Writer

Who is crazy enough to be investing in negative yielding bonds? Due to the widespread proliferation of index funds, the answer could very well be, YOU ARE!!! With 25% of the total fixed income instruments yielding less than zero during much of the past year, anyone in a global bond ETF is exposed, whether wittingly or unwittingly, to these negative nominal interest rates. This long period of financially repressed markets has made low-cost, passive investing the dominant force in portfolio management today. Compounding the situation, many "active" investors are really not very active at all, as their holdings intentionally mirror those of the largest index funds. Therefore, the amount of assets under management owned by the truly active investors is much lower than most people think. Having stock ownership more widely dispersed to both active human investors as well as index funds would provide for a more balanced market structure. The current situation in which giant ownership concentrations can be found in just a handful of passive funds is a much less stable environment. Innovation is an enlightened act. Imitation is far less so. While index funds do serve a useful purpose, I believe that balancing forces will at some point reappear, and active investing will once again return to its preeminent place in the sun.

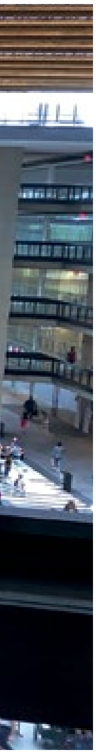
"Wisdom is the son of failure, and the father of success."

– Isaac Bashevis Singer, Writer

It is no secret that without the wisdom, intuition, vision, guidance, and judgement of our Founder, my father and mentor, Eugene Landy, Monmouth would not be what it is today. There is so much to admire about his leadership. So much to aspire to, and to emulate, both in business and beyond. The words to define it have not yet been created. Please know that a better example there could never be.

It must also be stated that working alongside our exceptional Team over many years, we have built upon our strong foundation and taken Monmouth to places far beyond what was capable before. So, thank you to my teammates. Your hard work, dedication, and deep concern for all things Monmouth is truly a blessing.

To our Directors, for your vigilant oversight. There can be no more effective judge of things than time itself. Thank you for looking out for Monmouth's long-term interests and for understanding the enduring principles that have made us one of the oldest and best performing REITs in the world.



Lastly, it has been said that the surest proof of intelligent life existing on other planets is that they've never come to visit us. One can imagine intergalactic space aliens peering through a looking glass of their own, down at our little world today. What an upside-down place they would see. One of the many faults of human nature is that sometimes in order to understand the true value of things, we first need to throw them away. Only when it's too late do we understand how blinded we'd become, as the thing to remember about looking glasses is, that in order to truly see the world clearly, one must also look within!

The forces of Creative Destruction have been unleashed by the Digital Revolution, and they will continue to select the winners from the losers, or in today's parlance, the disruptors from the disrupted. Let us all strive to be on the side of CREATION. For those who can anticipate what tomorrow will bring, prosperity awaits.

Here's to a Healthy and Prosperous New Year!

Sincerely,

Michael Landy

Michael P. Landy
President and Chief Executive Officer