Interlocking Fragility: The Year the Earth Stood Still

"Globalization creates interlocking fragility, while reducing volatility and giving the appearance of stability. In other words, it creates devastating Black Swans."

— Nassim Nicholas Taleb, Writer

January 2021

Dear Fellow Shareholders,

Globalization is now in retreat. People are being socially distant out of mandate and out of fear. We are isolated in lockdown mode with no ability to venture out and so much as enjoy a live concert. The performing arts are non-performing. Looking up, we see an empty sky that hasn't been this devoid of plane travel since the early 1970s. Thanksgiving and Christmas were cancelled this year. We are experiencing life during wartime.

Global trade is essential for human progress to advance further. However, an over-reliance on hostile foreign sources for critically needed resources is a recipe for disaster. For many decades, living conditions for the world's seven billion inhabitants have steadily improved. Even the poorest people can now enjoy modern technologies such as cell phones, the internet and television. Unfortunately, 2020 was a year in which the substantial advances we have made gave way to rapid declines. If we seek to advance the human condition further, people and goods will need to travel freely as before. For in the eternal continuum of time, a world standing still is really falling behind.

Heading into the new year, there is promising news on the vaccine front from several companies. Our largest tenant FedEx is extremely busy distributing millions of doses of these urgently needed vaccines globally. Hopefully, this war will be coming to an end soon and the new year will bring new reasons to be thankful.

During Fiscal 2020, our Company's many accomplishments included the following:

Increased our Gross Revenue by **4.9% to $178.3 million**

Increased our Net Operating Income by **7.3% to $140.7 million**

Increased our Gross Leasable Area to **23.4msf** and subsequent to fiscal yearend to **24.5msf**, representing a total increase of **10.3%**

Increased our Occupancy Rate by **50 bps to 99.4%,** representing our fifth consecutive year with **98.9%** occupancy or above

Achieved **99.8%** Rent Collection Results throughout the COVID-19 Pandemic

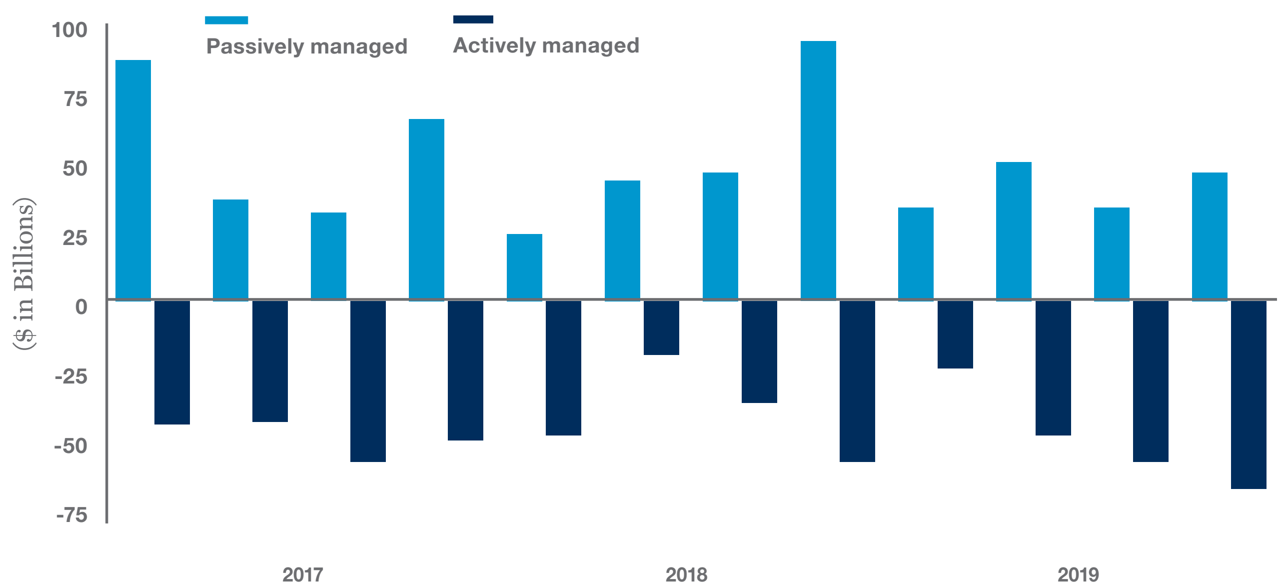
Achieved **$2.7 billion** in Total Market Capitalization at fiscal yearend

- Maintained our Net Debt to Adjusted EBITDA at 6.0x versus 5.9x as of the prior year period,
- Maintained a well-covered AFFO dividend payout ratio of 87%,
- Reduced our General and Administrative expenses as a percentage of gross revenue to 5.0% from 5.3%,
- Acquired 1.2 million square feet of high-quality industrial space for $175.1 million, comprising five brand-new Class A, built-to-suit properties, all leased long-term to investment-grade tenants,
- Entered into commitments to acquire six new Class A, build-to-suit properties containing 2.4 million total square feet, all leased long-term to investment-grade tenants, for a total cost of $339.3 million and with a weighted-average lease term of 15.3 years,
- Achieved 87% tenant retention through the renewal of four leases comprising 355,000 square feet for a weighted-average lease term of 4.2 years. These lease renewals resulted in an increase in the weighted-average lease rate of 12.0% on a GAAP basis and an increase of 4.4% on a cash basis,
- Achieved a weighted-average lease maturity of 7.1 years, which increased to 7.5 years subsequent to fiscal yearend,
- Increased our annualized average base rent per occupied square foot by 3% to $6.36 from the prior year,
- Raised $122.4 million in net proceeds through our 6.125% Series C Perpetual Preferred Stock ATM Program,
- Raised $26.4 million, including dividend reinvestments of $7.6 million, through our Dividend Reinvestment and Stock Purchase Plan, representing an 11% participation rate,
- Maintained the weighted-average debt maturity on our fixed-rate debt at 11.1 years,
- Reduced the weighted-average interest rate on our total debt to 3.89% from 4.00% at prior fiscal yearend.

Founded and publicly held since 1968, Monmouth is one of the oldest REITs in the world. 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, UPS, and other high-quality companies. With over 81% of our rental revenue derived from investment-grade tenants and the remainder generated from strong non-rated companies, our earnings quality is among the best in the entire REIT industry.

Having grown by 5.2% this fiscal year and an additional 4.9% subsequent to fiscal yearend, our property portfolio now contains 24.5 million rentable square feet. We currently own 121 properties geographically diversified across 31 states. The weighted-average age of our portfolio is currently 9.5 years, making it the youngest in the industrial REIT sector. Our land-to-building ratio is 5.4:1 which provides us with ample capacity for building and parking expansions, of which we have several taking place currently. Despite the severe financial pressures plaguing other sectors as a result of the global pandemic, our tenants have continued to grow their strong and essential businesses.

Estimated Net Flows into US Stock Mutual Funds and ETFs, quarterly



Riding the tsunami wave of passive investing, growth stocks have been handily outperforming value stocks for many years. Bulking up in size has proven to be a winning strategy, as a larger index weighting provides companies with a higher multiple and a cost of capital advantage. Investors today move money around much more rapidly than in the past. With the advent of computer-driven funds, the average holding period for a public equity investment has gone from many years to a few short months. Just as the simple act of shaking hands is now recognized as a risky proposition, people will one day realize that moving enormous amounts of money passively throughout the entire market creates interlocking fragilities.

At Monmouth, we have remained true to our qualitative focus. We are content letting other companies bulk up indiscriminately. We invest in single tenant, net-leased industrial properties, secured with long-term leases of ten or more years, to investment-grade tenants. It is a very selective and long-term focused strategy. It would be very difficult for a larger entity to adhere to this strategy if it were not their focus right from the outset. Our goal is simply to own great real estate and in so doing, we have created substantial value for our shareholders.

Prior to the Black Swan event of COVID-19, quality of earnings took a back seat to leasing spreads for many public market participants. Some management teams even went so far as to say they were intentionally trying to reduce their occupancy rates in order to be sure that they were boosting their rental rates as aggressively as possible. At Monmouth, we take a completely different approach. We firmly believe that in the long run, a $6 per square foot rent can be more valuable than a $7 per square foot rent depending upon who is writing the check. Unfortunately, the computer-driven algorithms still do not process this sort of qualitative analysis very well. With the onset of the Pandemic, rent collection results and tenant credit quality quickly regained prominence. As was the case during the Global Financial Crisis of 2008, our steadfast commitment to owning high-quality real estate leased to high-grade tenants enabled Monmouth to deliver the most resilient results throughout this challenging period. Looking at our current occupancy rate of 99.7%, as well as our 99.8% rent collection results, one is hard pressed to see even the faintest signs of a crisis event having taken place.

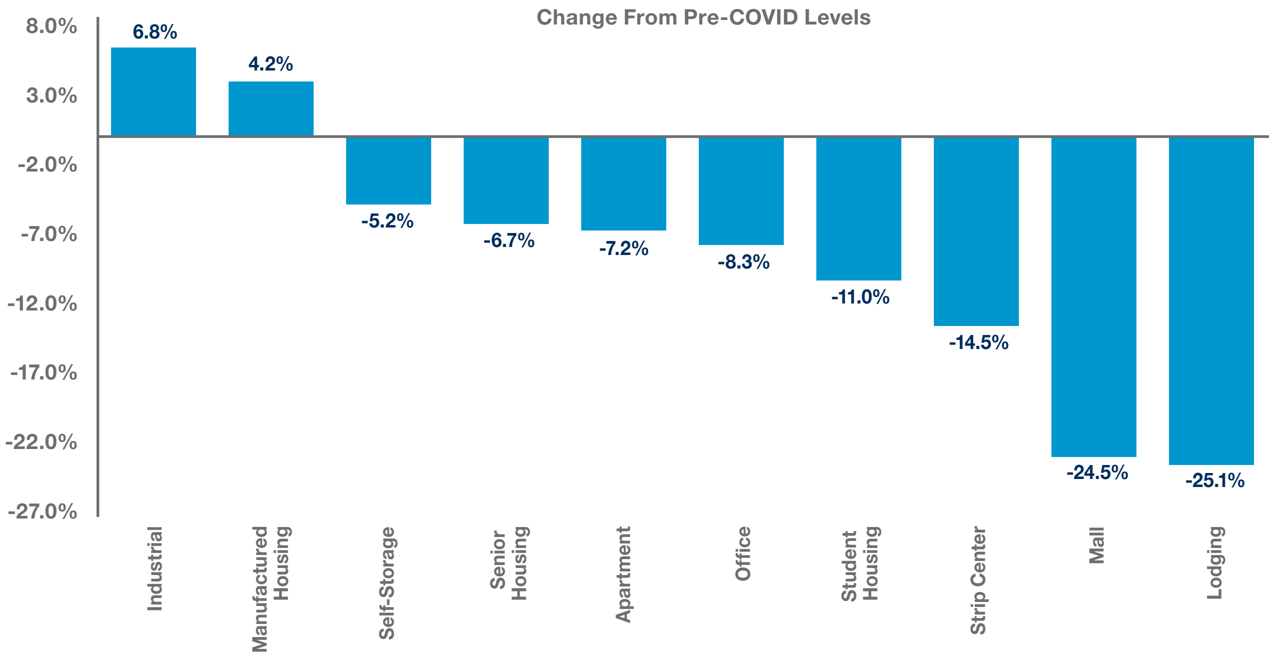
Kevin Miller, our Chief Financial Officer, has been integral to Monmouth for many years. Even though we are both left-handed, I consider him to be my right-hand man. Kevin happens to laugh heartily at all of my jokes, with the exception of the really good ones. I am not sure how he will feel about this one but,

here it goes:

Two robo-advisors walk into a bar. The bartender says, “I didn’t know that computer-driven algorithms could drink but, what will it be?” The first robot says, “I’ll have whatever your most expensive drink is.” The bartender turns to the other robot and asks, “And what would you like?” To which the second robo-advisor proclaims, “I’ll have the same thing, only charge me more!”

Thus is the interlocking, pro-cyclical fragility of passive investing…

COVID Winners and Losers: Commercial Property Price Indexes

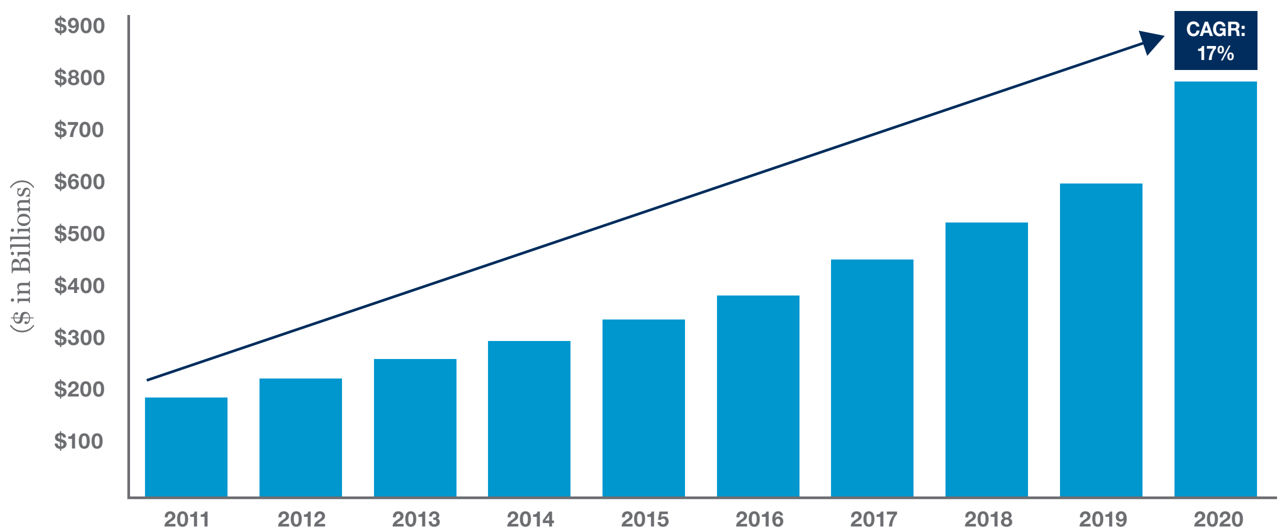


From a real estate standpoint, the COVID Pandemic has caused much value destruction. Occupancy rates have plummeted in many sectors, causing the average REIT dividend to fall by 20% this year. Many REITs have suspended their dividend payments entirely. However, there are two defensive property types that have actually experienced value appreciation during the Pandemic. They are the industrial and manufactured housing sectors.

It is no coincidence that our Founder and Chairman, Eugene Landy has spent his entire professional career building two very successful public companies that specialize in each of these two resilient property types. Monmouth Real Estate and UMH Properties have risen above the interlocking fragility and clearly stand out as The COVID Winners!!!

For this, we cannot thank him enough.

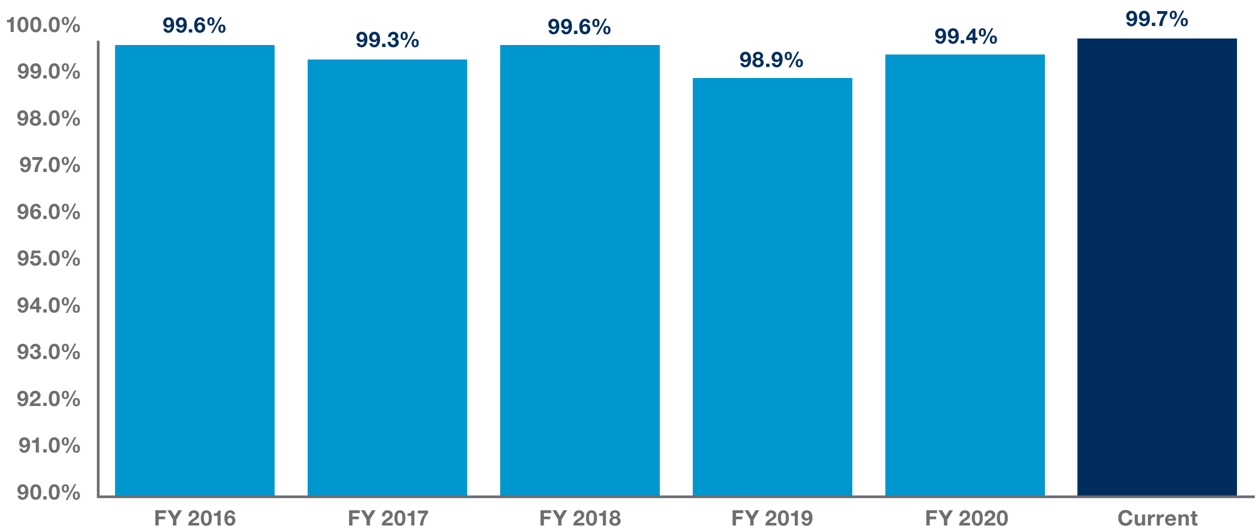
Ecommerce Sales Growth



The COVID-19 Pandemic greatly accelerated the already strong ecommerce growth trajectory. This year ecommerce sales as a percentage of total retail sales nearly doubled from approximately 15% to 27%. This has resulted in FedEx, Amazon, and UPS all experiencing peak season like demand all-year-round. It has literally been Christmas in July for these companies. This holiday season has been referred to as "The Peak of all Peaks," as demand has eclipsed total shipping capacity. Current total shipping capacity in the US allows for approximately 80 million packages-per-day. Peak season demand this year has exceeded capacity by over 10%. This is despite logistics operations now running 24/7 all-year-round. For the year, pre-Pandemic average daily package shipments in the US totaled 50 million packages and it was estimated that it would grow to 100 million packages-per-day by 2026. Because the Pandemic has rapidly pulled forward demand by several years, the average daily package shipments in the US will now reach the 100 million packages-per-day milestone much sooner.

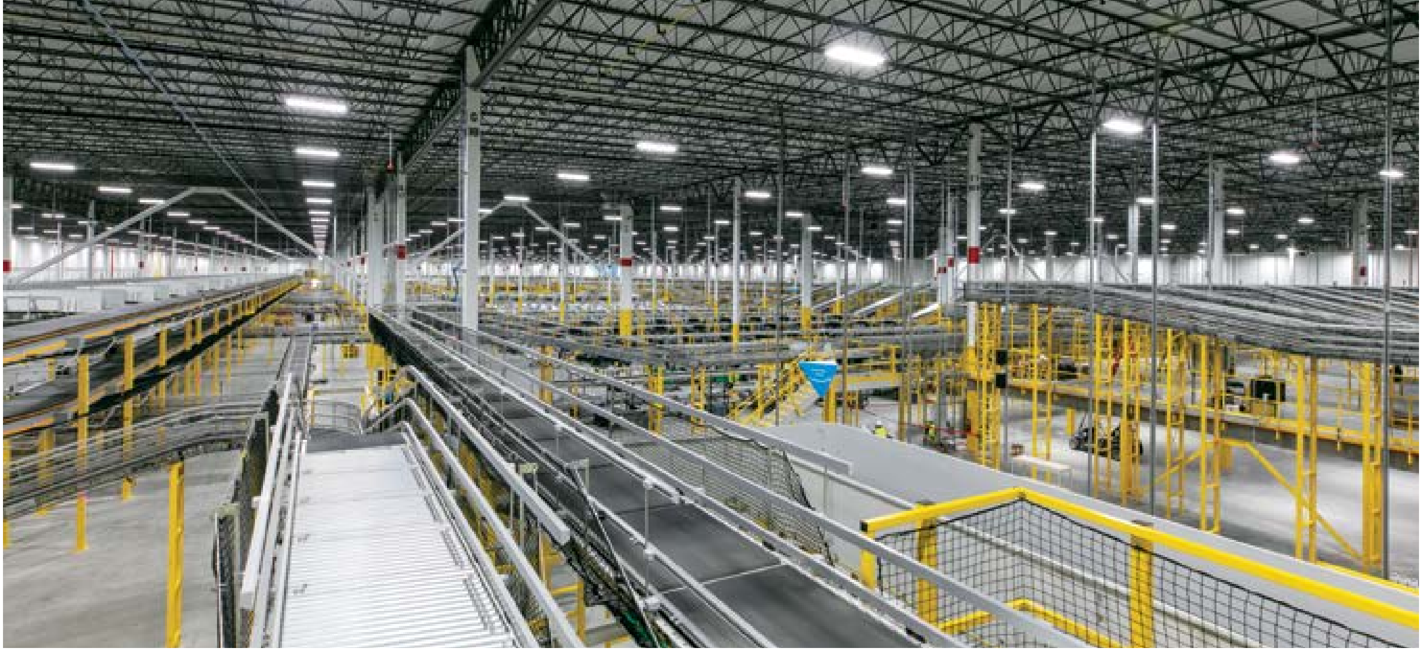
We are working closely with our tenants to increase their throughput and we will be doing numerous parking expansion projects during the new year for our largest tenant, FedEx. Increasing the amount of parking at many of our properties will likely be a multi-year endeavor. These expansion projects will be very beneficial to Monmouth, as they will result in increased lease terms, increased rental rates, and increased property values. We are very fortunate to have worked alongside FedEx since 1994. They have been a great partner and their future prospects have never been better.

Occupancy



For every dollar of goods that is consumed via ecommerce, three times the warehouse space is needed compared to that needed for goods purchased in traditional retail settings. A new world order in consumer spending has resulted, as traditional brick-and-mortar store sales have increasingly migrated to the digital economy. This has resulted in unprecedented growth in demand for industrial real estate. The US industrial real estate market has now experienced 42 consecutive quarters of positive net absorption. That is 10.5 consecutive years of increased demand at a rate of over 100 million square feet annually. The US industrial vacancy rate is now at record lows of 4.7%, causing rents to continue to rise higher. For Monmouth, we are nearly fully occupied, as our vacancy rate is currently only 0.3%. Tight occupancy translates into increased bargaining power when negotiating lease renewals. We are entering our sixth consecutive year with a 98.9% occupancy rate or better. Our lease renewals this year resulted in a 12% increase in GAAP straight-line rent, and a 4.4% increase in cash rent. Tenant retention was 87% this year, which is in line with our long-term average of approximately 90%. We are shooting for 100% tenant retention in the new year, as renewal requests are coming in strong. In addition, our numerous property expansion projects will take our leases out even further. Once again, no collateral damage from the Black Swan event or even signs of interlocking fragility.

Naturally, the industrial sector's outperformance during this difficult period has resulted in intense competition. Investor demand for other property types has diminished, causing the lanes of opportunity to narrow. From a real estate investor perspective, everyone now wants exposure to the industrial REIT sector. Whether foreign or domestic, large or small, the US industrial real estate market is by far the most dominant attraction for capital these days.



Inside one of Monmouth's Digital Buildings: Amazon, Indianapolis

"Real Estate cannot be lost or stolen, nor can it be carried away. Purchased with common sense, paid for in full, and managed with reasonable care, it is about the safest investment in the world."

— Franklin D. Roosevelt, 32nd US President

One misconception is that all industrial real estate provides a linkage to the digital economy. The truth is that there is a new type of industrial real estate that has been designed specifically to serve the digital economy. These are smart, highly-automated facilities, with sophisticated infrastructures that utilize artificial intelligence, robotics, high-speed conveyor systems, and large climate-controlled information technology rooms. For lack of a better term, let us call these: "Digital Buildings." The older "Analog Buildings" served the wholesale distribution supply chain very well, with just stocking racks and forklifts being the extent of the technology needed. Today's Digital Buildings are designed to serve both ecommerce sales and wholesale distribution, or what is referred to as "omni-channel distribution." Digital Buildings utilize much more land, as large amounts of trailer, van, and car parking is required. Therefore, when calculating prices and rents on a per-square-foot basis, the costs will necessarily be higher.

At Monmouth, we own a very modern portfolio of Digital Buildings. Our weighted-average building age is under 10 years, representing one of the youngest and most state-of-the-art portfolios in the industrial REIT sector. As you can see from the picture above, our tenants have made substantial investments in the automated infrastructure inside of our buildings to serve the digital economy.

Monmouth's rental and reimbursement revenues for the year were $167.8 million compared to $154.8 million, or an increase of 8.4% from the prior year. Net Operating Income increased $9.5 million to $140.7 million, reflecting a 7.3% increase from a year ago. Funds from Operations (FFO) were $78.5 million or $0.80 per diluted share, as compared to $81.2 million or $0.87 per diluted share for the same period a year ago, representing an 8% per share decrease. Adjusted Funds from Operations or AFFO, excludes gains or losses on the sale of real estate or REIT securities, as well as lease termination income and the effects of straight-lined rent adjustments. This year our AFFO per diluted share decreased to $0.78 from $0.85, representing an 8% decrease. The main reason for the decrease in FFO and AFFO was a $4.7 million reduction in dividend income from our REIT securities portfolio as many REITs have reduced or eliminated their dividends in response to the COVID-19 Pandemic. We have been allocating capital solely to our core business for the past year-and-a-half and have reduced our securities portfolio to under 5% of gross assets currently. While the Pandemic did cause significant weakness in our securities holdings, it also caused unprecedented growth in our core business. Because they are negatively correlated, no interlocking fragility exists between our core business of investing in industrial real estate and our liquid real estate securities portfolio.

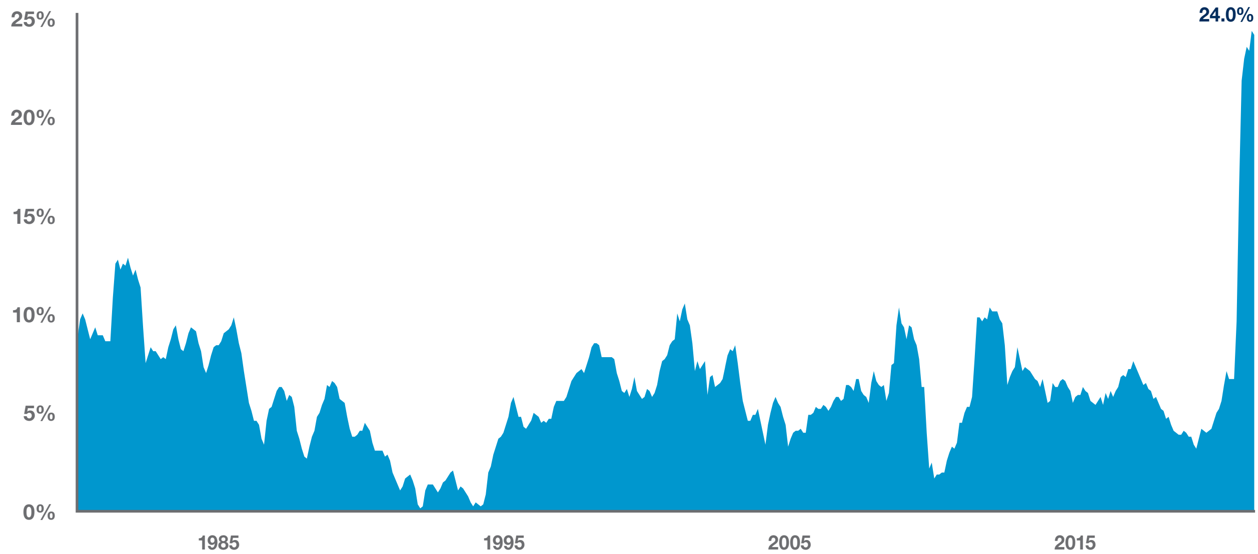
Subsequent to fiscal yearend, we have successfully grown our portfolio substantially with the acquisition of two high-quality properties totaling 1.15 million square feet, situated on 230 acres, leased to FedEx and Home Depot for $170.0 million. Our current acquisition pipeline now totals $169.3 million. It is comprised of four digital buildings, totaling 1.2 million square feet. All four properties are leased to investment-grade tenants with a weighted-average lease term of 12.8 years. These tenants include FedEx and Mercedes-Benz. With 185 total acres, the land-to-building ratio on our pipeline is 6.6:1. This amounts to twice the land capacity that analog buildings would typically be situated on. We expect the combination of our two recent acquisitions totaling $170.0 million, our $169.3 million acquisition pipeline, our substantial parking expansions, and our increased occupancy to meaningfully contribute to our per share earnings and cash flow growth in fiscal 2021 and beyond.

We have been financing our growth with a combination of low-cost, long-term, fixed-rate mortgage debt and perpetual preferred equity. During fiscal 2020, we raised approximately $26.4 million in equity capital through our Dividend Reinvestment plan. Of this amount, a total of $7.6 million in dividends were reinvested, representing an 11% participation rate among our shareholders. Throughout the year, we also raised $122.4 million in net proceeds from our Preferred Stock ATM Program, with the sale of 5.0 million shares of our 6.125% Series C Preferred Stock at an average price of $25.04 per share. We continue to finance our long-term assets with long-term capital. Our preferred equity is permanent capital that never matures. Towards the end of the fiscal new year, our Series C preferred stock will become redeemable, in whole or in part, at our discretion. Reducing the amount of our 6.125% preferred equity outstanding will be considered if it can be prudently done and generate increased earnings per common share.

As of the end of the fiscal year, our capital structure consisted of approximately $875 million in debt, of which $800 million was property-level fixed-rate mortgage debt, with a weighted-average interest rate of 3.98%. The weighted-average debt maturity on our fixed-rate mortgage debt is 11.1 years representing one of the longest debt maturity schedules in the REIT sector. We also had a total of $472 million in perpetual preferred equity at yearend. Combined with an equity market capitalization of approximately $1.4 billion, our total market capitalization was approximately $2.7 billion at yearend, representing a 5% increase from a year ago.

From a credit standpoint, we continue to be conservatively capitalized with our net debt to total market capitalization at 31%. Our net debt to adjusted EBITDA was 6.0x at fiscal yearend, which is unchanged from the prior year period. Further enhancing our liquidity, we ended the year with $23.5 million in cash and the full availability of our $325 million credit facility. In addition, we held $108.8 million in marketable REIT securities, representing 4.9% of our undepreciated assets. The primary function of our securities portfolio is to provide additional liquidity while generating dividend income. To satisfy short-term capital needs, we also have the ability to borrow up to approximately $60 million at a current rate of 0.75% per annum against our securities portfolio. We no longer allocate capital to REIT securities, and plan to reduce our holdings at the appropriate time. Subsequent to fiscal yearend, the value of our securities portfolio has improved meaningfully with the recent positive news on the vaccine front.

M2 Money Supply (monthly, percent change from prior year)

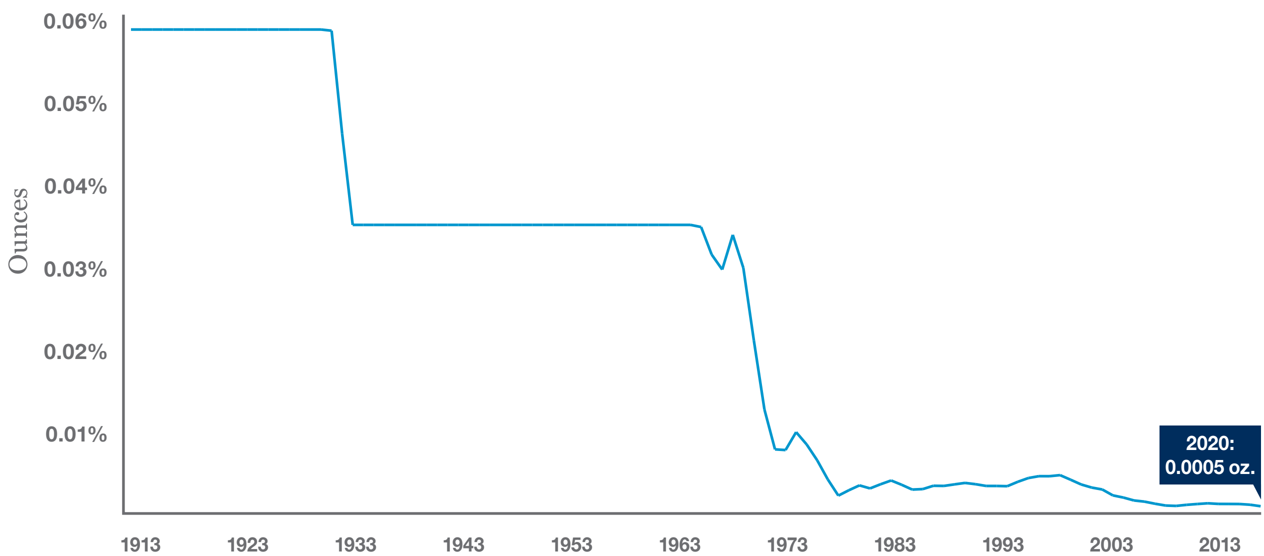


"Cycle by cycle, individual responsibility for financial outcomes has given way to collective responsibility, and price discovery has yielded to financial repression."

— James Grant, Writer

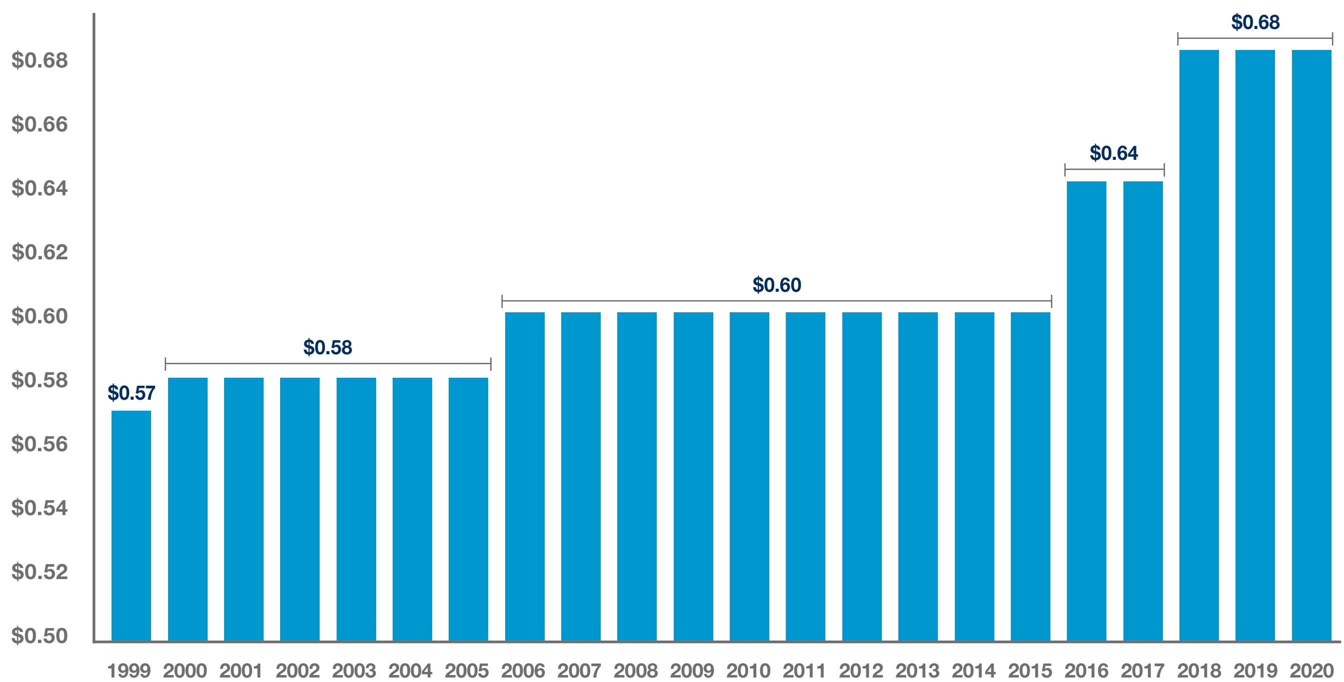
Once not thought possible, there is currently over $18 trillion in negative nominal interest rate debt worldwide. In real terms it is considerably more. In addition to monetary stimulus, the Pandemic has also required massive amounts of fiscal stimulus. The US money supply has been growing exponentially. The public market has grown dependent upon central bank bailouts. With each leg down in the broad economy, the Federal Reserve has pumped trillions of dollars into the system to prop the economy back up. Unfortunately, there is an interlocking fragility that results from all of this intervention. We have seen clear signs of the structural weaknesses and the moral hazard this has caused, as the market quickly recoils into taper tantrums whenever the Fed tries to unwind its now over $7 trillion balance sheet.
One cannot help but wonder if the market will ever be allowed to function on its own accord again.

Ounces of Gold that One US Dollar can Purchase



While the Digital Revolution unleashed widespread deflation for many years, it is now becoming increasingly likely that the massive increases in our money supply, combined with the huge fiscal deficits and record amounts of public and private debt, will inevitably result in higher levels of inflation in the years ahead. Real estate is a total return investment. It generates both income and capital appreciation. In recommending gold as a hedge against potential large increases in the rate of inflation, legendary investor John Paulson recently warned that "There are periods of time when storing value is the most important investment consideration." Like gold, real estate has historically represented a great store of value. Real estate has an excellent track record of protecting investors from the long-term corrosive effects of inflation. Because commercial real estate also generates income, we believe that high-quality properties can be a superior investment to gold.

Dividends Per Share



Speaking of income, having maintained or increased our common stock dividend for 29 consecutive years and counting, Monmouth has one of the best dividend track records in the entire REIT sector. Our annual dividend yield as a multiple of the yield on the 10-year treasury note, is currently at historic highs. Normally this multiple is approximately 2.5 times. The ability to receive several years of treasury note income in one year of income from our common stock should represent compelling relative value.

In addition, real estate provides inflation protection, while fixed income instruments do not. The strong financial position of our tenants, together with the mission-critical nature of our assets, has provided for high-quality, reliable income streams throughout many business cycles. Our dividend was one of the very few that was maintained throughout the Global Financial Crisis. It has been increased by 13% since then, and it has the potential to increase further.

As destructive as the Pandemic has been, I shudder to think about how much worse things would be if we were still living in an analog world. The Digital Revolution made working remotely not only possible, but surprisingly productive. While a return to normalcy cannot happen soon enough, the Monmouth team truly went above and beyond the call of duty this year.

To the team, I cannot thank you enough for keeping everything on track during such difficult times. Although we all had personal challenges this year, we remained focused on our mission and dedicated throughout. Please know that in the midst of so much adversity, I found your strength and courage to be inspiring. It will not be forgotten.

To our Chairman and Founder, THANK YOU for getting us to where we are today. It is never easy as this year made abundantly clear. For 53 years your guidance has always been steady, your judgement has always been sound, and your vision has always been clear. Leading a successful public company for over five decades is quite a feat. Leading two of them is truly an extraordinary accomplishment. For you have also successfully guided UMH Properties with equal care. Having witnessed your commitment and dedication throughout my entire life, I couldn't be more proud of you.

To our Board of Directors, maintaining a long-term focus can become increasingly difficult in the high-speed frenetic trading environment in which we operate. However, when a Black Swan suddenly appears, and everything comes to a screeching halt, we once again see why a long-term focus should remain our only focus. Thank you for your deep understanding of the enduring value we have built. Monmouth is one of the oldest and most successful REITs in the world. You should all be proud of a job well done.

And to the Doctors, Nurses, Medical Technicians, Police, Firemen, Armed Forces, and all the heroic people who risk their lives on a daily basis in order to protect the people of this great Nation, it is especially important that you be recognized this year. May our gratitude loudly be heard far and wide, and may your nobility never be taken for granted.

"The future is already here, it's just not evenly distributed."

— William Gibson, Writer

Recognizing some of the lessons of the Global Pandemic of 2020 is not going to be easy. One of the lessons of this Black Swan event is that collectively, we fell into the mistaken belief that things were stronger than they truly were. Fragility is something we often prefer not to recognize, but it exists all around us. In fact, I would go so far as to say that everything is more fragile than we care to admit.

Presently, America is deeply divided. Perhaps more so than at any time since the Civil War. There has been much social unrest and violence. Millions of people are trying to get by without good prospects for gainful employment. The direction things have taken is very sad indeed.

My observation is that for the most part, people will remain inherently optimistic. Optimism fuels our desire to be productive and make progress in whatever goals we seek. Clinging so dependently to our smartphone devices, searching fervently for answers, we remain eternally optimistic in our core belief, that we can make the future better than the past.

Black Swans are out there, and by definition they always show up unannounced. Companies and entire industries can be more fragile than we would care to see. Because it can endure forever, real estate investment should be a long-term proposition. Ideally, find a good company that pays a safe and growing dividend and hold it forever. Monmouth, at its core, is a well-managed owner of high-quality American real estate. In a world filled with many interlocking fragilities, after 53 years of successful operations our resilience should be self-evident. Besides, if the entire market becomes held by passive funds, who is going to read my letters?

Wishing you all a healthy, happy, and prosperous New Year, and an especially bright future.

Sincerely,

Michael P. Landy
President and Chief Executive Officer