MONMOUTH REAL ESTATE INVESTMENT CORP
Form 10-K
November 28, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2016

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period ____________________ to ____________________

Commission File Number: 001-33177

MONMOUTH REAL ESTATE INVESTMENT CORPORATION

(Exact name of registrant as specified in its charter)

Maryland	**22-1897375**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3499 Route 9 North, Suite 3-D, Freehold, NJ 07728

(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code**: (732)-577-9996**

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $0.01 par value per share – New York Stock Exchange

7.875% Series B Cumulative Redeemable Preferred Stock, $0.01 par value per share, $25 liquidation value per share – New York Stock Exchange

6.125% Series C Cumulative Redeemable Preferred Stock, $0.01 par value per share, $25 liquidation value per share – New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. [ ] Yes [X] No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. [ ] Yes [X] No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [X] Yes [ ] No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

[X] Yes [ ] No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act:

Large accelerated filer	[X]	Accelerated filer	[ ]
Non-accelerated filer	[ ]	Smaller reporting company	[ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). [ ] Yes [X] No

The aggregate market value of the voting and non-voting common equity of the registrant held by non-affiliates of the registrant at March 31, 2016 was approximately $715,934,000 (based on the $11.89 closing price per share of common stock on March 31, 2016).

There were 69,902,492 shares of Common Stock outstanding as of November 15, 2016.

Documents Incorporated by Reference: None.

TABLE OF CONTENTS

Item No.		Page No.
	Part I	
1	Business.	3
1A	Risk Factors.	8
1B	Unresolved Staff Comments.	16
2	Properties.	17
3	Legal Proceedings.	25
4	Mine Safety Disclosures.	25
	Part II	
5	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.	26
6	Selected Financial Data.	29
7	Management's Discussion and Analysis of Financial Condition and Results of Operations.	31
7A	Quantitative and Qualitative Disclosures About Market Risk.	57
8	Financial Statements and Supplementary Data.	59
9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.	60
9A	Controls and Procedures.	60
9B	Other Information.	61
	Part III	
10	Directors, Executive Officers and Corporate Governance.	62
11	Executive Compensation.	66
12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.	83
13	Certain Relationships and Related Transactions, and Director Independence.	85
14	Principal Accounting Fees and Services.	86
	Part IV	
15	Exhibits, Financial Statement Schedules.	88
	Signatures	148

Table of Contents

PART I

ITEM 1 – BUSINESS

General Development of the Business

In this 10-K, "we", "us", "our", "MREIC" or "the Company", refers to Monmouth Real Estate Investment Corporation, togethe with its predecessors and subsidiaries, unless the context requires otherwise.

The Company is a corporation operating as a qualified real estate investment trust (REIT) under Sections 856-860 of the Internal Revenue Code of 1986, as amended (the Code). The Company has been a REIT since 1969 and intends to maintain its qualification as a REIT in the future. As a qualified REIT, with limited exceptions, the Company will not be taxed under Federal and certain state income tax laws at the corporate level on taxable income that it distributes to its shareholders. For special tax provisions applicable to REITs, refer to Sections 856-860 of the Code.

The Company was established in 1968 as a New Jersey Business Trust (NJBT). In 1990, the NJBT merged into a newly formed Delaware corporation. On May 15, 2003, the Company changed its state of incorporation from Delaware to Maryland by merging with and into a Maryland corporation (the Reincorporation).

Narrative Description of Business

The Company's primary business is the ownership of real estate. Its investment focus is to own well-located, modern, single tenant, industrial buildings, leased primarily to investment-grade tenants or their subsidiaries on long-term net leases. In addition, the Company owns a portfolio of REIT investment securities which the Company generally limits to no more than approximately 10% of its undepreciated assets (which is the Company's total assets excluding accumulated depreciation).

At September 30, 2016, the Company held investments in ninety-nine properties totaling approximately 16,010,000 square feet with an occupancy rate of 99.6% (See Item 2 for a detailed description of the properties). These properties are located in thirty states: Alabama, Arizona, Colorado, Connecticut, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Michigan, Minnesota, Mississippi, Missouri, Nebraska, New Jersey, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, Washington and

Wisconsin. All of these properties are wholly-owned with the exception of the two properties in New Jersey in which the Company owns a majority interest. All properties in which the Company has investments are leased on a net basis except an industrial park in Monaca (Pittsburgh), Pennsylvania and the shopping center located in Somerset, New Jersey.

During fiscal 2016, the Company purchased eight industrial properties totaling approximately 1,830,000 square feet with net-leased terms ranging from ten to fifteen years resulting in a weighted average lease maturity of 12.3 years. Approximately 1,567,000 square feet, or 86%, is leased to FedEx Ground Package System, Inc., a subsidiary of FedEx Corporation (FDX). The purchase price for the eight properties was approximately $210,747,000 and they are located in Colorado, Florida, Kansas, Kentucky, Louisiana, North Carolina, Pennsylvania and Washington. These eight properties generate annualized rental income over the life of their leases of approximately $14,076,000. The funds for these eight acquisitions were provided by eight property level mortgage loans totaling $141,586,000, draws on an unsecured line of credit facility and cash on hand. The eight mortgages have a weighted average interest rate of 3.85% and a weighted average maturity of 14.9 years.

Subsequent to the fiscal yearend, on October 17, 2016, the Company purchased a newly constructed 338,584 square foot industrial building located in Hamburg, NY, which is in the Buffalo Metropolitan Statistical Area (MSA). The building is 100% net-leased to FedEx Ground Package System, Inc. for fifteen years through March 2031. The purchase price was $35,100,000. The Company obtained a 15 year fully-amortizing mortgage loan of $23,500,000 at a fixed interest rate of 4.03%. Annual rental revenue over the remaining term of the lease averages approximately $2,308,000.

In addition, subsequent to the fiscal yearend, on October 1, 2016, a 50,741 square foot expansion of a building leased to FedEx Ground Package System, Inc. located in Edinburg, TX was substantially completed for a cost of approximately $4,988,000, resulting in a new 10 year lease which extended the prior lease expiration date from September 2021 through September 2026. In addition, the expansion resulted in an increase in annual rent effective from the date of completion of approximately $499,000 from approximately $598,000, or $5.27 per square foot, to approximately $1,097,000, or $6.68 per square foot.

On October 27, 2016, the Company sold its only vacant building, (which increased our occupancy rate from 99.6% to 100.0%), consisting of a 59,425 square foot industrial building situated on 4.78 acres located in White Bear Lake, MN for approximately $4,272,000, which is the Company's approximate U.S. GAAP net book carrying value.

The industrial properties purchased, expanded and sold during fiscal 2017 to date increased our current total leasable square feet to approximately 16,340,000 and increased our occupancy rate to 100.0%.

In addition to the property purchased subsequent to the fiscal yearend, we have entered into agreements to purchase eight new build-to-suit, industrial buildings that are currently being developed in Florida, Michigan, North Carolina, Ohio and South Carolina totaling approximately 2,099,000 square feet, each with net-leased terms ranging between ten to fifteen years with a weighted average lease maturity of 13.3 years. Approximately 1,267,000 square feet, or 60%, is leased to FDX and its subsidiaries. The purchase price for the eight properties is approximately $212,373,000. Subject to satisfactory due diligence and other customary closing conditions and requirements, we anticipate closing these eight transactions during fiscal 2017 and fiscal 2018. In connection with five of the eight properties, the Company has entered into commitments to obtain five mortgages totaling $101,204,000 at fixed rates ranging from 3.60% to 4.20%, with a weighted average interest rate of 3.83%. Each of these mortgages will be a fifteen year, fully-amortizing loan. The Company may make additional acquisitions in fiscal 2017 and fiscal 2018, and the funds for these acquisitions may come from mortgages, draws on our unsecured line of credit facility, cash on hand, sale of marketable securities, other bank borrowings, proceeds from the Dividend Reinvestment and Stock Purchase Plan (DRIP), private placements and public offerings of additional common or preferred stock or other securities. To the extent that funds or appropriate properties are not available, fewer acquisitions will be made.

Currently, the Company derives its income primarily from real estate rental operations. Rental and Reimbursement Revenue (excluding Lease Termination Income in fiscal 2016, 2015 and 2014 of $-0-, $238,625 and $1,182,890, respectively) was $94,916,110, $77,775,497 and $64,672,341 for the years ended September 30, 2016, 2015 and 2014, respectively. Total assets were $1,229,758,028 and $915,991,942 as of September 30, 2016 and 2015, respectively.

As of September 30, 2016, the Company had approximately 16,010,000 square feet of property, of which approximately 7,584,000 square feet, or 47%, consisting of fifty-three separate stand-alone leases, were leased to FDX and its subsidiaries, (6% to FDX and 41% to FDX subsidiaries). These properties are located in twenty-four different states. As of September 30, 2016, the only tenants that leased 5% or more of the Company's total square footage were

FDX and its subsidiaries and Milwaukee Electric Tool Corporation, which leased approximately 862,000 square feet, comprising approximately 5% of the Company's rental space.

During fiscal 2016, the only tenant that accounted for 5% or more of the Company's rental and reimbursement revenue was FDX (including its subsidiaries). The Company's rental and reimbursement revenue from FDX and its subsidiaries for the fiscal years ended September 30, 2016, 2015 and 2014, respectively, totaled approximately $52,793,000, $41,954,000 and $35,007,000, or 56% (7% from FDX and 49% from FDX subsidiaries), 54% (8% from FDX and 46% from FDX subsidiaries) and 54% (10% from FDX and 44% from FDX subsidiaries), of total rent and reimbursement revenues.

In addition to real estate property holdings, the Company held $73,604,894 in marketable REIT securities at September 30, 2016, representing 5.3% of the Company's undepreciated assets (which is the Company's total assets excluding accumulated depreciation). These liquid real estate holdings are not included in calculating the tenant concentration ratios above and therefore further enhance the Company's diversification. As a result, the securities portfolio provides the Company with additional liquidity, diversification, income and serves as a proxy for real estate when more favorable risk adjusted returns are not available.

Table of Contents

The Company's weighted-average lease expiration was 7.4 and 7.2 years as of September 30, 2016 and 2015, respectively, and its average annualized rent per occupied square foot as of September 30, 2016 and 2015 was $5.72 and $5.48, respectively. The Company's occupancy rate as of September 30, 2016 and 2015 was 99.6% and 97.7%, respectively. Subsequent to fiscal yearend, on October 27, 2016, the Company sold its only vacant building for $4,272,000 which increased our occupancy rate to 100.0%.

The Company competes with other investors in real estate for attractive investment opportunities. These investors include other equity real estate investment trusts, limited partnerships, syndications and private investors, among others. Competition in the market areas in which the Company operates is significant and affects the Company's ability to acquire or expand properties, occupancy levels, rental rates, and operating expenses of certain properties. Management has built relationships with merchant builders which have historically provided the Company with investment opportunities that fit the Company's investment policy. The amount of new construction of industrial properties on the national level has been increasing the past four years following several years of historically low levels of new supply. These levels of new supply, although increasing, continue to be below historical norms. Driven to a large extent by the rampant growth in ecommerce sales, demand for industrial space remains very strong, driving national occupancy rates to an all-time high of 95% currently. For further discussion of potential impact of competitive conditions on our business, see Item 1A: Risk Factors below.

The Company continues to invest in marketable securities of other REITs, which the Company generally limits to no more than approximately 10% of its undepreciated assets, (which is the Company's total assets excluding accumulated depreciation). The Company from time to time may purchase these securities on margin when the dividend and interest yields exceed the cost of the funds. As of September 30, 2016 and 2015, there were no draws against the margin. The REIT securities portfolio, to the extent not pledged to secure borrowings, provides the Company with additional liquidity and additional income. Such securities are subject to risks arising from adverse changes in market rates and prices, primarily interest rate risk relating to debt securities and market price risk relating to equity securities. From time to time, the Company may use derivative instruments to mitigate interest rate risk, however, this has not occurred during any periods presented. At September 30, 2016 and 2015, the Company had $73,604,894 and $54,541,237, respectively, of securities available for sale. The unrealized net gain (loss) on securities available for sale at September 30, 2016 and 2015 was $12,942,267 and $(5,441,603), respectively, resulting in an increase for the fiscal year of $18,383,870. For the fiscal years ended September 30, 2016, 2015 and 2014, the Company's net realized gains from the sale of securities were $4,398,599, $805,513 and $2,166,766, respectively.

On September 13, 2016, the Company issued 5,400,000 shares of a 6.125% Series C Cumulative Redeemable Preferred Stock (Series C Preferred Stock) at an offering price of $25.00 per share in an underwritten public offering. The Company received net proceeds from the offering, after deducting the underwriting discount and other estimated offering expenses, of approximately $130,543,000. On September 15, 2016, the Company used $45,000,000 of such net proceeds from the offering to reduce the amounts outstanding under its unsecured line of credit facility (the "Facility") and on October 14, 2016, the Company used $53,493,750 of such net proceeds from the offering to redeem all of the 2,139,750 issued and outstanding shares of its 7.625% Series A Cumulative Redeemable Preferred Stock (7.625% Series A Preferred Stock). In addition, on October 14, 2016, the Company used $498,540 of such net proceeds from the offering to pay all dividends, accrued and unpaid, to and including the redemption date of the 7.625% Series A Preferred Stock. The Company intends to use the remaining proceeds to reduce the amounts outstanding under its Facility and to purchase properties and fund expansions of its existing properties in the ordinary course of business and for general corporate purposes.

On September 14, 2016, the Company announced that it intended to redeem all 2,139,750 issued and outstanding shares of its 7.625% Series A Preferred Stock. As discussed above, the Company redeemed the 7.625% Series A Preferred Stock on October 14, 2016 at a redemption price of $25.00 per share, plus all dividends accrued and unpaid to and including the redemption date, in an amount equal to $0.23299 per share. As of September 30, 2016, the outstanding 7.625% Series A Preferred Stock has been reclassified out of stockholder's equity and is reflected as a liability at redemption value and has recognized a deemed dividend of $2,942,149 on the Company's consolidated statement of income for the fiscal year ended September 30, 2016, which represents the difference between redemption value and carrying value net of original deferred issuance costs.

Table of Contents

Investment and Other Policies

The Company’s investment policy is to concentrate its investments in well-located, modern, single tenant, industrial buildings, leased primarily to investment-grade tenants or their subsidiaries on long-term net leases. The Company’s strategy is to obtain a favorable yield spread between the income from the net-leased industrial properties and interest costs. In addition, management believes that investments in well-located, modern industrial properties provide a potential for long-term capital appreciation. There is the risk that, upon expiration of leases, the properties will become vacant or will be re-leased at lower rents. The results obtained by the Company by re-leasing the properties will depend on the market for industrial properties at that time. The Company has renewed all three leases, or 100% of the gross leasable area that was scheduled to expire during fiscal 2016 at an increase in the weighted average lease rate of 5.3% on a U.S. GAAP straight-line basis and a decrease in the weighted average lease rate of 2.2% on a cash basis.

The Company seeks to invest in well-located, modern, single tenant, industrial buildings, leased primarily to investment-grade tenants or their subsidiaries on long-term net leases. In management’s opinion, the newly built facilities meet these criteria. The Company has a concentration of properties leased to FDX and FDX subsidiaries. This is a risk factor that shareholders should consider. FDX is a publicly-owned corporation and financial information related to FDX is available at the SEC’s website, www.sec.gov. The reference in this report to the SEC’s website is not intended to and does not include or incorporate by reference into this report the information on this website.

The Company may issue securities for property; however, this has not occurred to date. The Company may repurchase or reacquire its shares from time to time if, in the opinion of the Board of Directors, such acquisition is advantageous to the Company. No shares were repurchased or reacquired during fiscal 2016 and, as of September 30, 2016, the Company does not own any of its own shares.

Property Management

Currently, all ninety-nine properties owned by the Company, with the exception of two properties that are located in Streetsboro, Ohio and Carlstadt, New Jersey, are self-managed by the Company.

The Company paid fees directly to local property management subagents in the amount of $356,316, $306,487 and $264,811 for fiscal years ended September 30, 2016, 2015 and 2014, respectively.

Until October 31, 2014, the Company’s two industrial properties in Olive Branch, Mississippi, were managed by Industrial Developments International (IDI). Management fees paid to IDI for the fiscal years ended September 30, 2016, 2015 and 2014 were $-0-, $8,274 and $49,476, respectively. These management fees were reimbursed to the Company by the tenants. Effective November 1, 2014, the Company began to self-manage these properties.

The Company’s industrial property in Streetsboro, Ohio is managed by GEIS Companies (GEIS). Management fees paid to GEIS for the fiscal years ended September 30, 2016, 2015 and 2014 were $50,082, $50,112 and $50,138, respectively. These management fees were reimbursed to the Company by the tenants.

The Company’s industrial property in Carlstadt, New Jersey is owned by Palmer Terrace Realty Associates, LLC. The Company owns 51% of Palmer Terrace Realty Associates, LLC. This property is managed by Marcus Associates, an entity affiliated with the owner of the 49% non-controlling interest. Management fees paid by Palmer Terrace Realty Associates, LLC to Marcus Associates were $15,804 for each of the fiscal years ended September 30, 2016, 2015 and 2014.

Table of Contents

Environmental Matters

Under various federal, state and local environmental laws, statutes, ordinances, rules and regulations, an owner of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, in or under such property as well as certain other potential costs relating to hazardous or toxic substances. These liabilities may include government fines and penalties and damages for injuries to persons and adjacent property. Such laws often impose liability without regard to whether the owner knew of, or was responsible for, the presence or disposal of such substances. Although generally our tenants are primarily responsible for any environmental damages and claims related to the leased premises, in the event of the bankruptcy or inability of a tenant of such premises to satisfy any obligations with respect to such environmental liability, the Company may be required to satisfy such obligations. In addition, as the owner of such properties, the Company may be held directly liable for any such damages or claims irrespective of the provisions of any lease.

From time to time, in connection with managing the properties or upon acquisition of a property, the Company authorizes the preparation of Phase I and, when necessary, Phase II environmental reports with respect to its properties. Based upon such environmental reports and the Company’s ongoing review of its properties, as of the date of this Annual Report, the Company is not aware of any environmental condition with respect to any of its properties which it believes would be reasonably likely to have a material adverse effect on its financial condition and/or results of operations. There can be no assurance, however, that (1) the discovery of environmental conditions, the existence or severity of which were previously unknown; (2) changes in law; (3) the conduct of tenants; or (4) activities relating to properties in the vicinity of our properties, will not expose the Company to material liability in the future.

Contact Information

Additional information about the Company can be found on the Company’s website which is located at www.mreic.reit. Information contained on or hyperlinked from our Web site is not incorporated by reference into and should not be considered part of this Annual Report on Form 10-K or our other filings with the Securities and Exchange Commission (SEC). The Company makes available, free of charge, on or through its website, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. You can also read and copy any materials the Company files with the SEC at its Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Segment Reporting & Financial Information

The Company’s primary business is the ownership and management of real estate properties. The Company invests in well-located, modern, single tenant, industrial buildings leased primarily to investment grade tenants or their subsidiaries on long-term net leases. The Company reviews operating and financial information for each property on an individual basis and, therefore, each property represents an individual operating segment. The Company evaluates financial performance using Net Operating Income (“NOI”) from property operations. NOI is defined as recurring Rental and Reimbursement Revenue, less Real Estate Taxes and Operating Expenses, such as insurance, utilities and repairs and maintenance. The Company has aggregated the properties into one reportable segment as the properties share similar long-term economic characteristics and have other similarities, including the fact that they are operated as industrial properties subject to long-term net leases primarily to investment grade tenants or their subsidiaries. For required financial information related to our operations and assets, please refer to our consolidated financial statements, including the notes thereto, included in Item 8 “Financial Statements and Supplementary Data” in this Annual Report.

Table of Contents

ITEM 1A – RISK FACTORS

The following risk factors address the material risks concerning our business. If any of the risks discussed in this report were to occur, our business, prospects, financial condition, results of operation and our ability to service our debt and make distributions to our shareholders could be materially and adversely affected and the market price per share of our stock could decline significantly. Some statements in this report, including statements in the following risk factors, constitute forward-looking statements. Please refer to the section entitled "Cautionary Statement Regarding Forward-Looking Statements."

Real Estate Industry Risks

Our business and financial results are affected by local real estate conditions in areas where we own properties. We may be affected adversely by general economic conditions and local real estate conditions. For example, an oversupply of industrial properties in a local area or a decline in the attractiveness of our properties to tenants and potential tenants could have a negative effect on us.

Other factors that may affect general economic conditions or local real estate conditions include but are not limited to:

- population and demographic trends;
- employment and personal income trends;
- zoning, use and other regulatory restrictions;
- income tax laws;
- changes in interest rates and availability and costs of financing; and
- competition from other available real estate.

We may be unable to compete with our larger competitors and other alternatives available to tenants or potential tenants of our properties. The real estate business is highly competitive. We compete for properties with other real estate investors and purchasers, including other real estate investment trusts, limited partnerships, syndications and private investors, some of whom may have greater financial resources, revenues and geographical diversity than we have. Furthermore, we compete for tenants with other property owners. All of our industrial properties are subject to significant local competition. We also compete with a wide variety of institutions and other investors for capital funds necessary to support our investment activities and asset growth. To the extent that we are unable to effectively compete in the marketplace, our business may be adversely affected.

We are subject to significant regulation that inhibits our activities and may increase our costs. Local zoning and use laws, environmental statutes and other governmental requirements may restrict expansion, rehabilitation and reconstruction activities. These regulations may prevent us from taking advantage of economic opportunities. Legislation such as the Americans with Disabilities Act may require us to modify our properties at a substantial cost and noncompliance could result in the imposition of fines or an award of damages to private litigants. Future legislation may impose additional requirements. We may incur additional costs to comply with any future requirements.

Our investments are concentrated in the industrial distribution sector and our business would be adversely affected by an economic downturn in that sector. Our investments in real estate assets are primarily concentrated in the industrial distribution sector. This concentration may expose us to the risk of economic downturns in this sector to a greater extent than if our business activities included a more significant portion of other sectors of the real estate industry.

Table of Contents

Risks Associated with Our Properties

We may be unable to renew or extend leases or re-let space as leases expire. While we seek to invest in well-located, modern, single tenant, industrial buildings, leased to investment-grade tenants or their subsidiaries on long-term net leases, a number of our properties are subject to short-term leases. When a lease expires, a tenant may elect not to renew or extend it. We may not be able to re-let the property on similar terms, if we are able to re-let the property at all. The terms of renewal, extension or re-lease (including the cost of required renovations and/or concessions to tenants) may be less favorable to us than the prior lease. If we are unable to re-let all or a substantial portion of our properties, or if the rental rates upon such re-letting are significantly lower than expected rates, our cash generated before debt repayments and capital expenditures and our ability to make expected distributions, may be adversely affected. We have established an annual budget for renovation and re-letting expenses that we believe is reasonable in light of each property’s operating history and local market characteristics. However, this budget may not be sufficient to cover these expenses.

Our business is substantially dependent on FedEx Corporation. FDX, together with its subsidiaries, is our largest tenant, consisting of fifty-three separate stand-alone leases located in twenty-four different states as of September 30, 2016. As of September 30, 2016, the Company had approximately 16,010,000 square feet of property, of which approximately 7,584,000 square feet, or 47%, were leased to FDX and its subsidiaries, (6% from FDX and 41% from FDX subsidiaries). Rental and reimbursement revenue from FDX and its subsidiaries is approximately 56% (7% from FDX and 49% from FDX subsidiaries) of total rental and reimbursement revenue for fiscal 2016. No other tenant accounted for 5% or more of the Company’s total Rental and Reimbursement revenue for fiscal 2016. As a result of this concentration, our business, financial condition and results of operations, including the amount of cash available for distribution to our stockholders, could be adversely affected if we are unable to do business with FDX or FDX reduces its business with us or FDX and its subsidiaries were to become unable to make lease payments because of a downturn in its business or otherwise.

We are subject to risks involved in single tenant leases*. We focus our acquisition activities on real properties that are net-leased to single tenants. Therefore, the financial failure of, or other default by, a single tenant under its lease is likely to cause a significant reduction in the operating cash flow generated by the property leased to that tenant and might decrease the value of that property. In addition, we will be responsible for 100% of the operating costs following a vacancy at a single tenant building.*

We may be affected negatively by tenant financial difficulties and leasing delays. At any time, a tenant may experience a downturn in its business that may weaken its financial condition. Similarly, a general decline in the economy may result in a decline in the demand for space at our industrial properties. As a result, our tenants may delay lease commencement, fail to make rental payments when due, or declare bankruptcy. Any such event could result in the termination of that tenant’s lease and losses to us.

We receive a substantial portion of our income as rents under long-term leases. If tenants are unable to comply with the terms of their leases because of rising costs or falling revenues, we, in our sole discretion, may deem it advisable to modify lease terms to allow tenants to pay a lower rental rate or a smaller share of operating costs, taxes and insurance. If a tenant becomes insolvent or bankrupt, we cannot be sure that we could recover the premises from the tenant promptly or from a trustee or debtor-in-possession in any bankruptcy proceeding relating to the tenant. We also cannot be sure that we would receive rent in the proceeding sufficient to cover our expenses with respect to the premises. If a tenant becomes bankrupt, the federal bankruptcy code will apply and, in some instances, may restrict the amount and recoverability of our claims against the tenant. A tenant's default on its obligations to us for any reason could adversely affect our financial condition and the cash we have available for distribution.

We may be unable to sell properties when appropriate because real estate investments are illiquid. Real estate investments generally cannot be sold quickly and, therefore, will tend to limit our ability to vary our property portfolio promptly in response to changes in economic or other conditions. In addition, the Code may limit our ability to sell our properties. The inability to respond promptly to changes in the performance of our property portfolio could adversely affect our financial condition and ability to service debt and make distributions to our shareholders.

Table of Contents

Environmental liabilities could affect our profitability. We face possible environmental liabilities. Environmental laws today can impose liability on a previous owner or operator of a property that owned or operated the property at a time when hazardous or toxic substances were disposed on, or released from, the property. A conveyance of the property, therefore, does not relieve the owner or operator from liability. As a current or former owner and operator of real estate, we may be required by law to investigate and clean up hazardous substances released at or from the properties we currently own or operate or have in the past owned or operated. We may also be liable to the government or to third parties for property damage, investigation costs and cleanup costs. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs the government incurs in connection with the contamination. Contamination may adversely affect our ability to sell or lease real estate or to borrow using the real estate as collateral. We are not aware of any environmental liabilities relating to our investment properties which would have a material adverse effect on our business, assets, or results of operations. However, we cannot assure you that environmental liabilities will not arise in the future and that such liabilities will not have a material adverse effect on our business, assets or results of operation.

Actions by our competitors may decrease or prevent increases in the occupancy and rental rates of our properties. We compete with other owners and operators of real estate, some of which own properties similar to ours in the same submarkets in which our properties are located. If our competitors offer space at rental rates below current market rates or below the rental rates we currently charge our tenants, we may lose potential tenants, and we may be pressured to reduce our rental rates below those we currently charge in order to retain tenants when our tenants' leases expire. As a result, our financial condition, cash flow and cash available for distribution, the market price of our preferred and common stock and our ability to satisfy our debt service obligations could be materially and adversely affected.

Coverage under our existing insurance policies may be inadequate to cover losses. Weather conditions and natural disasters such as hurricanes, tornados, earthquakes, floods, droughts, fires and other environmental conditions can harm our business operations. We generally maintain insurance policies related to our business, including casualty, general liability and other policies, covering our business operations, employees and assets. However, we would be required to bear all losses that are not adequately covered by insurance. In addition, there are certain losses that are not generally insured because it is not economically feasible to insure against them, including losses due to riots or acts of war. If an uninsured loss or a loss in excess of insured limits were to occur with respect to one or more of our properties, then we could lose the capital we invested in the properties, as well as the anticipated future revenue from the properties and, in the case of debt, which is with recourse to us, we would remain obligated for any mortgage debt or other financial obligations related to the properties. Although we believe that our insurance programs are adequate, we cannot assure you that we will not incur losses in excess of our insurance coverage, or that we will be able to obtain insurance in the future at acceptable levels and reasonable costs.

We may be unable to acquire properties on advantageous terms or acquisitions may not perform as we expect. We have acquired individual properties and intend to continue to do so. However, we may be unable to acquire any of the properties that we may identify as potential acquisition opportunities in the future. Our acquisition activities and their success are subject to the following risks:

when we are able to locate a desired property, competition from other real estate investors may significantly increase the purchase price;

acquired properties may fail to perform as expected;

the actual costs of repositioning or redeveloping acquired properties may be higher than our estimates;

acquired properties may be located in new markets where we face risks associated with an incomplete knowledge or understanding of the local market, a limited number of established business relationships in the area and a relative unfamiliarity with local governmental and permitting procedures;

we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations, and as a result, our results of operations and financial condition could be adversely affected; and

we may acquire properties subject to liabilities and without any recourse, or with only limited recourse, to the seller. As a result, if a claim were asserted against us based upon ownership of those properties, we might have to pay substantial sums to resolve it, which could adversely affect our cash flow and financial condition.

Table of Contents

Financing Risks

We face inherent risks associated with our debt incurrence. We finance a portion of our investments in properties and marketable securities through the incurrence of debt. We are subject to the risks normally associated with debt financing, including the risk that our cash flow will be insufficient to meet required payments of principal and interest. In addition, debt creates other risks, including:

- rising interest rates on our variable rate debt;
- inability to repay or refinance existing debt as it matures, which may result in forced disposition of assets on disadvantageous terms;
- one or more lenders under our $200 million unsecured line of credit could refuse to fund their financing commitment to us or could fail, and we may not be able to replace the financing commitment of any such lenders on favorable terms, or at all;
- refinancing terms that are less favorable than the terms of existing debt; and
- inability to meet required payments of principal and/or interest.

We mortgage our properties, which subjects us to the risk of foreclosure in the event of non-payment. We mortgage many of our properties to secure payment of indebtedness and, if we are unable to meet mortgage payments, the property could be foreclosed upon or transferred to the mortgagee with a consequent loss of income and asset value. A foreclosure of one or more of our properties could adversely affect our financial condition, results of operations, cash flow, and ability to service debt and make distributions and the market price of our preferred and common stock.

We face risks related to "balloon payments" and refinancings. Certain mortgages will have significant outstanding principal balances on their maturity dates, commonly known as "balloon payments." There can be no assurance that we will have the funds available to fund the balloon payment or that we will be able to refinance the debt on favorable terms or at all. To the extent we cannot either pay off or refinance this debt on favorable terms or at all, we may be forced to dispose of properties on disadvantageous terms or pay higher interest rates, either of which could have an adverse impact on our financial performance and ability to service debt and make distributions.

We face risks associated with our dependence on external sources of capital. In order to qualify as a REIT, we are required each year to distribute to our shareholders at least 90% of our REIT taxable income, and we are subject to tax on our income to the extent it is not distributed. Because of this distribution requirement, we may not be able to fund all future capital needs from cash retained from operations. As a result, to fund capital needs, we rely on third-party sources of capital, which we may not be able to obtain on favorable terms, if at all. Our access to third-party sources of capital depends upon a number of factors, including (i) general market conditions; (ii) the market's perception of our growth potential; (iii) our current and potential future earnings and cash distributions; and (iv) the market price of our capital stock. Additional debt financing may substantially increase our debt-to-total capitalization ratio. Additional equity issuances may dilute the holdings of our current shareholders.

We may become more highly leveraged, resulting in increased risk of default on our obligations and an increase in debt service requirements which could adversely affect our financial condition and results of operations and our ability to pay distributions. We have incurred, and may continue to incur, indebtedness in furtherance of our activities. Our governing documents do not limit the amount of indebtedness we may incur. Accordingly, our Board of Directors may authorize us to incur additional debt and would do so, for example, if it were necessary to maintain our status as a REIT. We could therefore become more highly leveraged, resulting in an increased risk of default on our obligations and an increase in debt service requirements which could adversely affect our financial condition and results of operations and our ability to pay distributions to shareholders.

Table of Contents

Fluctuations in interest rates could materially affect our financial results. Because a portion of our debt bears interest at variable rates, increases in interest rates could materially increase our interest expense. If the United States Federal Reserve increases short-term interest rates, this may have a significant upward impact on shorter-term interest rates, including the interest rates that our variable rate debt is based upon. Potential future increases in interest rates and credit spreads may increase our interest expense and therefore negatively affect our financial condition and results of operations, and reduce our access to the debt or equity capital markets.

Covenants in our loan documents could limit our flexibility and adversely affect our financial condition. The terms of our various credit agreements and other indebtedness require us to comply with a number of customary financial and other covenants, such as maintaining debt service coverage and leverage ratios and maintaining insurance coverage. These covenants may limit our flexibility in our operations, and breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness even if we had satisfied our payment obligations. If we were to default under credit agreements or other debt instruments, our financial condition could be adversely affected.

Risks Related to our Status as a REIT

If our leases are not respected as true leases for federal income tax purposes, we would fail to qualify as a REIT. To qualify as a REIT, we must, among other things, satisfy two gross income tests, under which specified percentages of our gross income must be passive income, such as rent. For the rent paid pursuant to our leases to qualify for purposes of the gross income tests, the leases must be respected as true leases for federal income tax purposes and not be treated as service contracts, joint ventures or some other type of arrangement. We believe that our leases will be respected as true leases for federal income tax purposes. However, there can be no assurance that the Internal Revenue Service (IRS) will agree with this view. If the leases are not respected as true leases for federal income tax purposes, we would not be able to satisfy either of the two gross income tests applicable to REITs, and we could lose our REIT status.

Failure to make required distributions would subject us to additional tax. In order to qualify as a REIT, we must, among other requirements, distribute, each year, to our shareholders at least 90 percent of our taxable income, excluding net capital gains. To the extent that we satisfy the 90 percent distribution requirement, but distribute less than 100 percent of our taxable income, we will be subject to federal corporate income tax on our undistributed income. In addition, we will incur a 4 percent nondeductible excise tax on the amount, if any, by which our distributions (or deemed distributions) in any year are less than the sum of:

85 percent of our ordinary income for that year;

95 percent of our capital gain net earnings for that year; and

100 percent of our undistributed taxable income from prior years.

To the extent we pay out in excess of 100 percent of our taxable income for any tax year, we may be able to carry forward such excess to subsequent years to reduce our required distributions for purposes of the 4 percent excise tax in such subsequent years. We intend to pay out our income to our shareholders in a manner intended to satisfy the 90 percent distribution requirement. Differences in timing between the recognition of income and the related cash receipts or the effect of required debt amortization payments could require us to borrow money or sell assets to pay out enough of our taxable income to satisfy the 90 percent distribution requirement and to avoid corporate income tax.

We may not have sufficient cash available from operations to pay distributions, and, therefore, distributions may be made from borrowings. The actual amount and timing of distributions will be determined by our Board of Directors in its discretion and typically will depend on the amount of cash available for distribution, which will depend on items such as current and projected cash requirements, limitations on distributions imposed by law or our financing arrangements and tax considerations. As a result, we may not have sufficient cash available from operations to pay distributions as required to maintain our status as a REIT. Therefore, we may need to borrow funds to make sufficient cash distributions in order to maintain our status as a REIT, which may cause us to incur additional interest expense as a result of an increase in borrowed funds for the purpose of paying distributions.

Table of Contents

We may be required to pay a penalty tax upon the sale of a property. The federal income tax provisions applicable to REITs provide that any gain realized by a REIT on the sale of property held as inventory or other property held primarily for sale to customers in the ordinary course of business is treated as income from a "prohibited transaction" that is subject to a 100 percent penalty tax. Under current law, unless a sale of real property qualifies for a safe harbor, the question of whether the sale of real estate or other property constitutes the sale of property held primarily for sale to customers is generally a question of the facts and circumstances regarding a particular transaction. It is our intent that we and our subsidiaries will hold the interests in the real estate for investment with a view to long-term appreciation, engage in the business of acquiring and owning real estate, and make occasional sales as are consistent with our investment objectives. We do not intend to engage in prohibited transactions. We cannot assure you, however, that we will only make sales that satisfy the requirements of the safe harbors or that the IRS will not successfully assert that one or more of such sales are prohibited transactions.

We may be adversely affected if we fail to qualify as a REIT. If we fail to qualify as a REIT, we will not be allowed to deduct distributions to shareholders in computing our taxable income and will be subject to federal income tax, including any applicable alternative minimum tax, at regular corporate rates. In addition, we might be barred from qualification as a REIT for the four years following disqualification. The additional tax incurred at regular corporate rates would reduce significantly the cash flow available for distribution to shareholders and for debt service. Furthermore, we would no longer be required to make any distributions to our shareholders as a condition to REIT qualification. Any distributions to shareholders would be taxable as ordinary income to the extent of our current and accumulated earnings and profits, although such dividend distributions would be subject to a top federal income tax rate of 20% (and potentially a Medicare tax of 3.8%). Corporate distributees, however, may be eligible for the dividends received deduction on the distributions, subject to limitations under the Code.

To qualify as a REIT, we must comply with certain highly technical and complex requirements. We cannot be certain we have complied, and will always be able to comply, with the requirements to qualify as a REIT because there are few judicial and administrative interpretations of these provisions. In addition, facts and circumstances that may be beyond our control may affect our ability to continue to qualify as a REIT. We cannot assure you that new legislation, regulations, administrative interpretations or court decisions will not change the tax laws significantly with respect to our qualification as a REIT or with respect to the federal income tax consequences of qualification. We believe that we have qualified as a REIT since our inception and intend to continue to qualify as a REIT. However, we cannot assure you that we are qualified or will remain qualified.

There is a risk of changes in the tax law applicable to real estate investment trusts. Because the IRS, the United States Treasury Department and Congress frequently review federal income tax legislation, we cannot predict whether, when or to what extent new federal tax laws, regulations, interpretations or rulings will be adopted. Any of such legislative action may prospectively or retroactively modify our tax treatment and, therefore, may adversely affect taxation of us and/or our investors.

We may be unable to comply with the strict income distribution requirement applicable to REITs. As noted above, to maintain qualification as a REIT under the Code, a REIT must annually distribute to its shareholders at least 90% of its REIT taxable income, excluding the dividends paid deduction and net capital gains. This requirement limits our ability to accumulate capital. We may not have sufficient cash or other liquid assets to meet the 90% distribution requirements. Difficulties in meeting the 90% distribution requirement might arise due to competing demands for our funds or to timing differences between tax reporting and cash receipts and disbursements, because income may have to be reported before cash is received, because expenses may have to be paid before a deduction is allowed, because deductions may be disallowed or limited or because the IRS may make a determination that adjusts reported income. In those situations, we might be required to borrow funds or sell properties on adverse terms in order to meet the 90% distribution requirement and interest and penalties could apply which could adversely affect our financial condition. If we fail to satisfy the 90% distribution requirement, we would cease to be taxed as a REIT.

Notwithstanding our status as a REIT, we are subject to various federal, state and local taxes on our income and property. For example, we will be taxed at regular corporate rates on any undistributed taxable income, including undistributed net capital gains; provided, however, that properly designated undistributed capital gains will effectively avoid taxation at the shareholder level. We may be subject to other federal income taxes and may also have to pay some state income or franchise taxes because not all states treat REITs in the same manner as they are treated for federal income tax purposes.

Other Risks

We may not be able to access adequate cash to fund our business. Our business requires access to adequate cash to finance our operations, distributions, capital expenditures, debt service obligations, development and redevelopment costs and property acquisition costs, if any. We expect to generate the cash to be used for these purposes primarily with operating cash flow, borrowings under secured and unsecured term loans, proceeds from sales of strategically identified assets and, when market conditions permit, through the issuance of debt and equity securities from time to time. We may not be able to generate sufficient cash to fund our business, particularly if we are unable to renew or extend leases, lease vacant space or re-lease space as leases expire according to expectations.

We are dependent on key personnel. Our executive and other senior officers have a significant role in our success. Our ability to retain our management group or to attract suitable replacements should any members of the management group leave is dependent on the competitive nature of the employment market. The loss of services from key members of the management group or a limitation in their availability could adversely affect our financial condition and cash flow. Further, such a loss could be negatively perceived in the capital markets.

We may amend our business policies without shareholder approval. Our Board of Directors determines our growth, investment, financing, capitalization, borrowing, operations and distributions policies. In addition, our charter provides that our Board of Directors may revoke or otherwise terminate our REIT election, without the approval of our shareholders, if it determines that it is no longer in our best interest to continue to qualify as a REIT. Although our Board of Directors has no present intention to amend or reverse any of these policies, they may be amended or revised without notice to shareholders. Accordingly, shareholders may not have control over changes in our policies. We cannot assure you that changes in our policies will serve fully the interests of all shareholders.

The market value of our preferred and common stock could decrease based on our performance and market perception and conditions. The market value of our preferred and common stock may be based primarily upon the market's perception of our growth potential and current and future cash dividends, and may be secondarily based upon the real estate market value of our underlying assets. The market price of our preferred and common stock is influenced by their respective distributions relative to market interest rates. Rising interest rates may lead potential buyers of our stock to expect a higher distribution rate, which could adversely affect the market price of our stock. In addition, rising interest rates could result in increased expense, thereby adversely affecting cash flow and our ability to service our indebtedness and pay distributions.

There are restrictions on the ownership and transfer of our capital stock. To maintain our qualification as a REIT under the Code, no more than 50% in value of our outstanding capital stock may be owned, actually or by attribution, by five or fewer individuals, as defined in the Code to also include certain entities, during the last half of a taxable year. Accordingly, our charter contains provisions restricting the ownership and transfer of our capital stock. These restrictions may discourage a tender offer or other transaction, or a change in management or of control of us that might involve a premium price for our common stock or preferred stock or that our shareholders otherwise believe to be in their best interests, and may result in the transfer of shares acquired in excess of the restrictions to a trust for the benefit of a charitable beneficiary and, as a result, the forfeiture by the acquirer of the benefits of owning the additional shares.

Table of Contents

Our earnings are dependent, in part, upon the performance of our investment portfolio. As permitted by the Code, we invest in and own marketable securities of other REITs, which we generally limit to no more than approximately 10% of our undepreciated assets (which is our total assets excluding accumulated depreciation). To the extent that the value of those investments declines or those investments do not provide an attractive return, our earnings and cash flow could be adversely affected.

We are subject to restrictions that may impede our ability to effect a change in control. Certain provisions contained in our charter and bylaws and certain provisions of Maryland law may have the effect of discouraging a third party from making an acquisition proposal for us and thereby inhibit a change in control. These provisions include the following:

Our charter provides for three classes of directors with the term of office of one class expiring each year, commonly referred to as a "staggered board." By preventing common shareholders from voting on the election of more than one class of directors at any annual meeting of shareholders, this provision may have the effect of keeping the current members of our Board of Directors in control for a longer period of time than shareholders may desire.

Our charter generally limits any stockholder from acquiring more than 9.8% (in value or in number of shares, whichever is more restrictive) of our outstanding equity stock (defined as all of our classes of capital stock, except our excess stock). While this provision is intended to assist us in qualifying as a REIT for federal income tax purposes, the ownership limit may also limit the opportunity for shareholders to receive a premium for their shares of common stock that might otherwise exist if an investor was attempting to assemble a block of shares in excess of 9.8% of the outstanding shares of equity stock or otherwise effect a change in control.

The request of shareholders entitled to cast a majority of the votes entitled to be cast at such meeting is necessary for shareholders to call a special meeting. We also require advance notice from shareholders for the nomination of directors or proposals of business to be considered at a meeting of shareholders.

Our Board of Directors may authorize and cause us to issue securities without shareholder approval. Under our charter, our Board of Directors has the power to classify and reclassify any of our unissued shares of capital stock into shares of capital stock with such preferences, rights, powers and restrictions as the Board of Directors may determine.

"Business combination" provisions that provide that, unless exempted, a Maryland corporation may not engage in certain business combinations, including mergers, dispositions of 10 percent or more of its assets, certain issuances of shares of stock and other specified transactions, with an "interested shareholder" or an affiliate of an interested shareholder for five years after the most recent date on which the interested shareholder became an interested shareholder, and thereafter unless specified criteria are met. An interested shareholder is defined generally as any person who beneficially owns 10% or more of the voting power of our shares or an affiliate thereof or an affiliate or associate of ours who was the beneficial owner, directly or indirectly, of 10% or more of the voting power of our then outstanding voting stock at any time within the two-year period immediately prior to the date in question. In our charter, we have expressly elected that the Maryland Business Combination Act not govern or apply to any transaction with a related company, UMH Properties, Inc. ("UMH"), a Maryland corporation.

The duties of directors of a Maryland corporation do not require them to, among other things (a) accept, recommend or respond to any proposal by a person seeking to acquire control of the corporation, (b) authorize the corporation to redeem any rights under, or modify or render inapplicable, any shareholders rights plan, (c) make a determination under the Maryland Business Combination Act or the Maryland Control Share Acquisition Act to exempt any person or transaction from the requirements of those provisions, or (d) act or fail to act solely because of the effect of the act or failure to act may have on an acquisition or potential acquisition of control of the corporation or the amount or type of consideration that may be offered or paid to the shareholders in an acquisition.

Table of Contents

We cannot assure you that we will be able to pay distributions regularly. Our ability to pay distributions in the future is dependent on our ability to operate profitably and to generate cash from our operations and the operations of our subsidiaries and is subject to limitations under our financing arrangements and Maryland law. Under the Maryland General Corporation Law, or the MGCL, a Maryland corporation generally may not make a distribution if, after giving effect to the distribution, the corporation would not be able to pay its debts as the debts became due in the usual course of business, or the corporation's total assets would be less than the sum of its total liabilities plus, unless the charter permits otherwise, the amount that would be needed if the corporation were to be dissolved at the time of the distribution to satisfy the preferential rights upon dissolution of stockholders whose preferential rights on dissolution are superior to those receiving the distribution. Accordingly, we cannot guarantee that we will be able to pay distributions on a regular quarterly basis in the future.

Future terrorist attacks and military conflicts could have a material adverse effect on general economic conditions, consumer confidence and market liquidity. Among other things, it is possible that interest rates may be affected by these events. An increase in interest rates may increase our costs of borrowing, leading to a reduction in our earnings. Terrorist acts could also result in significant damages to, or loss of, our properties.

We and our tenants may be unable to obtain adequate insurance coverage on acceptable economic terms for losses resulting from acts of terrorism. Our lenders may require that we carry terrorism insurance even if we do not believe this insurance is necessary or cost effective. We may also be prohibited under the applicable lease from passing all or a portion of the cost of such insurance through to the tenant. Should an act of terrorism result in an uninsured loss or a loss in excess of insured limits, we could lose capital invested in a property, as well as the anticipated future revenues from a property, while remaining obligated for any mortgage indebtedness or other financial obligations related to the property. Any loss of these types could adversely affect our financial condition.

Disruptions in the financial markets could affect our ability to obtain financing on reasonable terms and have other adverse effects on us and the market price of our capital stock. Over the last several years, the United States stock and credit markets have experienced significant price volatility, dislocations and liquidity disruptions, which have caused market prices of many stocks and debt securities to fluctuate substantially and the spreads on prospective debt financing to widen considerably. More recently, the financial crisis in Europe (including financial difficulties at several large European banks) has had a similar, although less pronounced, effect. Adding to the European credit crisis, in June 2016, voters in the United Kingdom elected to withdraw from the European Union in a national referendum. The referendum has created significant uncertainty about the future relationship between the United Kingdom and the European Union and has continued to have a material adverse effect on global economic conditions and the stability of global financial markets and could significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. Continued uncertainty in the stock and credit markets may negatively impact our ability to access additional financing at reasonable terms, which may negatively affect our ability to acquire properties and otherwise pursue our investment strategy. A prolonged downturn in the stock or credit markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our investment strategy accordingly. These types of events in the stock and credit markets may make it more difficult or costly for us to raise capital through the issuance of the common stock, preferred stock or debt securities. The potential disruptions in the financial markets may have a material adverse effect on the market value of the common stock and preferred stock and the return we receive on our properties and investments, as well as other unknown adverse effects on us or the economy in general.

We are subject to risks arising from litigation. We may become involved in litigation. Litigation can be costly, and the results of litigation are often difficult to predict. We may not have adequate insurance coverage or contractual protection to cover costs and liability in the event we are sued, and to the extent we resort to litigation to enforce our rights, we may incur significant costs and ultimately be unsuccessful or unable to recover amounts we believe are owed to us. We may have little or no control of the timing of litigation, which presents challenges to our strategic planning.

Dividends on our capital stock do not qualify for the reduced tax rates available for some dividends. Income from "qualified dividends" payable to U.S. stockholders that are individuals, trusts and estates are generally subject to tax at preferential rates. Dividends payable by REITs, however, generally are not eligible for the preferential tax rates applicable to qualified dividend income. Although these rules do not adversely affect our taxation or the dividends payable by us, to the extent that the preferential rates continue to apply to regular corporate qualified dividends, investors who are individuals, trusts and estates may perceive an investment in us to be relatively less attractive than an investment in the stock of a non-REIT corporation that pays dividends, which could materially and adversely affect the value of the shares of, and per share trading price of, our capital stock.

ITEM 1B – UNRESOLVED STAFF COMMENTS

None.

Table of Contents

ITEM 2 - PROPERTIES

The Company operates as a REIT. Our portfolio is primarily comprised of real estate holdings, some of which have been long-term holdings carried on our financial statements at depreciated cost. We believe that their current market values exceed both the original cost and the depreciated cost.

The following table sets forth certain information concerning the Company’s real estate investments as of September 30, 2016:

State	City (MSA)	Fiscal Year Acquisition	Type	Square Footage	Mortgage Balance 9/30/2016
AL	Huntsville	2005	Industrial	88,653	$795,594
AZ	Tolleson (Phoenix)	2003	Industrial	283,358	5,299,383
CO	Colorado Springs	2006	Industrial	68,370	1,329,709
CO	Colorado Springs	2016	Industrial	225,362	18,576,282
CO	Denver	2005	Industrial	69,865	1,059,646
CT	Newington (Hartford)	2001	Industrial	54,812	-0-
FL	Cocoa	2008	Industrial	144,138	5,063,864
FL	Davenport (Orlando)	2016	Industrial	310,922	26,400,000
FL	Ft. Myers	2003	Industrial	87,500	-0-
FL	Jacksonville (FDX)	1999	Industrial	95,883	1,384,194
FL	Jacksonville (FDX Ground)	2015	Industrial	297,579	18,453,112
FL	Lakeland	2006	Industrial	32,105	-0-
FL	Orlando	2008	Industrial	110,638	4,342,604
FL	Punta Gorda	2007	Industrial	34,624	1,990,764
FL	Tampa (FDX Ground)	2004	Industrial	170,779	6,633,049
FL	Tampa (FDX)	2006	Industrial	95,662	3,900,447
FL	Tampa (Tampa Bay Grand Prix)	2005	Industrial	68,385	-0-
GA	Augusta (FDX Ground)	2005	Industrial	59,358	774,093
GA	Augusta (FDX)	2006	Industrial	30,184	-0-
GA	Griffin (Atlanta)	2006	Industrial	218,120	-0-
IA	Urbandale (Des Moines)	1994	Industrial	36,270	-0-
IL	Burr Ridge (Chicago)	1997	Industrial	12,500	-0-
IL	Elgin (Chicago)	2002	Industrial	89,052	349,658
IL	Granite City (St. Louis, MO)	2001	Industrial	184,800	-0-
IL	Montgomery (Chicago)	2004	Industrial	171,200	-0-
IL	Rockford (B/E Aerospace, Inc.)	2015	Industrial	38,833	-0-
IL	Rockford (Sherwin-Williams Company)	2011	Industrial	66,387	-0-
IL	Sauget (St. Louis, MO)	2015	Industrial	198,773	9,701,419
IL	Schaumburg (Chicago)	1997	Industrial	73,500	-0-

IL	Wheeling (Chicago)	2003	Industrial	123,000	-0-
IN	Greenwood (Indianapolis)	2015	Industrial	671,354	22,760,488
IN	Indianapolis	2014	Industrial	327,822	12,289,676
KS	Edwardsville (Kansas City) (Carlisle Tire)	2003	Industrial	179,280	397,513
KS	Edwardsville (Kansas City) (International Paper)	2014	Industrial	280,000	10,648,115
KS	Olathe (Kansas City)	2016	Industrial	313,763	22,215,000
KS	Topeka	2009	Industrial	40,000	1,363,023
KY	Buckner (Louisville)	2014	Industrial	558,600	16,694,846
KY	Frankfort (Lexington)	2015	Industrial	599,840	18,352,289
KY	Louisville	2016	Industrial	137,500	7,288,891
LA	Covington (New Orleans)	2016	Industrial	175,315	12,468,713
MD	Beltsville (Washington, DC)	2001	Industrial	144,523	-0-
MI	Livonia (Detroit)	2013	Industrial	172,005	7,503,400
MI	Orion	2007	Industrial	245,633	8,580,058
MI	Romulus (Detroit)	1998	Industrial	71,933	-0-
MN	Stewartville (Rochester) (1)	2013	Industrial	60,398	2,612,978
MN	White Bear Lake (Minneapolis/St. Paul) (4)	2001	Industrial	59,425	-0-
MO	Kansas City (Bunzl Distribution Midcentral, Inc.)	2015	Industrial	158,417	6,958,091

Table of Contents

State	City (MSA)	**Fiscal Year** Acquisition	Type	**Square** Footage	**Mortgage Balance** 9/30/2016
MO	Kansas City (Kellogg Sales Company)	2007	Industrial	65,067	$2,241,680
MO	Liberty (Kansas City)	1998	Industrial	95,898	-0-
MO	O’Fallon (St. Louis)	1994	Industrial	102,135	-0-
MO	St. Joseph	2001	Industrial	382,880	-0-
MS	Olive Branch (Memphis, TN) (Anda)	2012	Industrial	234,660	8,750,368
MS	Olive Branch (Memphis, TN) (Milwaukee Tool)	2013	Industrial	861,889	25,000,000
MS	Richland (Jackson)	1994	Industrial	36,000	-0-
MS	Ridgeland (Jackson)	1993	Industrial	26,340	-0-
NC	Concord (Charlotte)	2016	Industrial	330,717	20,001,944
NC	Fayetteville	1997	Industrial	148,000	-0-
NC	Winston-Salem	2002	Industrial	106,507	-0-
NE	Omaha	1999	Industrial	89,115	-0-
NJ	Carlstadt (New York, NY) (2)	2001	Industrial	60,400	1,898,198
NJ	Somerset (3)	1970	Shopping Center	64,138	-0-
NY	Cheektowaga (Buffalo)	2000	Industrial	104,981	343,548
NY	Halfmoon (Albany)	2012	Industrial	75,000	3,786,098
NY	Orangeburg (New York)	1993	Industrial	50,400	-0-
OH	Bedford Heights (Cleveland)	2007	Industrial	82,269	2,685,791
OH	Cincinnati	2015	Industrial	63,840	-0-
OH	Lebanon (Cincinnati)	2012	Industrial	51,130	2,592,182
OH	Monroe (Cincinnati)	2015	Industrial	232,200	8,071,987
OH	Richfield (Cleveland)	2006	Industrial	131,152	3,078,731
OH	Streetsboro (Cleveland)	2012	Industrial	368,060	10,446,469
OH	West Chester Twp. (Cincinnati)	1999	Industrial	103,818	2,071,107
OK	Oklahoma City	2012	Industrial	158,340	4,401,832
OK	Tulsa	2014	Industrial	46,240	1,934,175
PA	Altoona (1)	2014	Industrial	122,522	4,017,147
PA	Imperial (Pittsburgh)	2016	Industrial	125,860	12,700,739
PA	Monaca (Pittsburgh)	1988	Industrial	255,658	-0-
SC	Ft. Mill (Charlotte, NC)	2010	Industrial	176,939	1,926,986
SC	Hanahan (Charleston) (SAIC)	2005	Industrial	302,400	5,605,514
SC	Hanahan (Charleston) (FDX Ground)	2005	Industrial	91,776	1,064,185
TN	Chattanooga	2007	Industrial	60,637	1,551,081
TN	Lebanon (Nashville)	2011	Industrial	381,240	7,659,116
TN	Memphis	2010	Industrial	449,900	6,667,886
TN	Shelby County	2007	Land	N/A	-0-
TX	Carrollton (Dallas)	2010	Industrial	184,317	7,960,781
TX	Corpus Christi	2012	Industrial	46,253	-0-
TX	Edinburg	2011	Industrial	113,582	-0-
TX	El Paso	2006	Industrial	144,149	3,259,726
TX	Fort Worth (Dallas)	2015	Industrial	304,608	23,431,093
TX	Houston	2010	Industrial	91,295	3,124,904
TX	Lindale (Tyler)	2015	Industrial	163,378	6,378,382
TX	Spring (Houston)	2014	Industrial	181,176	9,126,834

TX	Waco	2012	Industrial	150,710	4,799,919
VA	Charlottesville	1999	Industrial	48,064	-0-
VA	Mechanicsville (Richmond) (FDX)	2001	Industrial	112,799	-0-
VA	Richmond (United Technologies)	2004	Industrial	60,000	-0-
VA	Roanoke (CHEP)	2007	Industrial	83,000	2,519,243
VA	Roanoke (FDX Ground)	2013	Industrial	103,402	5,321,390
WA	Burlington (Seattle/Everett)	2016	Industrial	210,445	19,881,817
WI	Cudahy (Milwaukee)	2001	Industrial	139,564	-0-
WI					