Letter to Shareholders

JANUARY, 2017

Dear Shareholders:

Back in the day, long before high-speed Internet connectivity, in the year 500 B.C.E., there lived a great philosopher named Lao-Tzu. He was given the name Lao-Tzu because it means "Old wise teacher." One of Lao's greatest students was a man named Confucius. Most people have heard of Confucius but few have heard of his great teacher. This is how Lao-Tzu would have wanted it, as he was a humble man who once wrote:

"A leader is best when people barely know that he exists. When his work is done, his aims fulfilled, they will all say, 'We did this ourselves.'"

– Lao-Tzu, Philosopher

Thus could be the story of Monmouth. Nearly 50 years in the making, we are just now gaining the critical mass and growth trajectory needed to achieve widespread acceptance. It is important that people realize that our success didn't just occur of late. Much hard work and wise decision making was needed for us to survive and thrive for so long. For these reasons it is important that we acknowledge the leadership of our Founder, Chairman, and Teacher, Eugene W. Landy. Like Lao-Tzu, Gene Landy is a man of great character and humility. We hosted an event at the New York Stock Exchange this year in recognition of his 50 years of distinguished leadership. As someone who has witnessed the blood, sweat, and tears that he has put into Monmouth, I cannot overstate how much gratitude, love and respect we all have for him.

Fiscal 2016 was another excellent year for Monmouth. Our best-in-class industrial property portfolio performed exceptionally well, achieving a 100% occupancy rate and a 100% tenant retention rate. This past year represented one of the most productive years ever in our long history as a public REIT. To highlight some of our many accomplishments, during fiscal 2016 the Company:

- Generated AFFO per share growth of 23%, representing our third consecutive year of double digit growth
- Increased our common stock dividend by 6.7%
- Increased our Gross Revenue by 23% to $100.5 million
- Increased our Net Operating Income by 23% to $80.2 million
- Acquired 1.8 million square feet of high-quality industrial space for $210.7 million comprising eight brand new, Class A built-to-suit properties, all leased long term to investment-grade tenants
- Completed three expansion projects adding 261,000 square feet of new rental space for approximately $13.0 million
- Entered into commitments to purchase nine new build-to-suit properties containing 2.4 million total square feet, for $247.5 million which are scheduled to close in fiscal 2017 and 2018
- Renewed all three leases totaling 326,000 square feet that were scheduled to expire in fiscal 2016, resulting in a 100% tenant retention rate for the second consecutive year
- Increased rents on lease renewals by 5.3% on a U.S. GAAP straight-line basis
- Increased our sector leading occupancy rate by 190 basis points from 97.7% to 99.6% at fiscal yearend
- Extended our weighted average lease maturity from 7.2 years to 7.6 years currently
- Reduced our net debt to total market capitalization from 38.0% to 29.1%
- Increased our total market capitalization by 53% to $1.8 billion
- Raised $135.0 million in gross proceeds through our new Series C Perpetual Preferred offering at 6.125%
- Raised approximately $72.2 million in equity through our Dividend Reinvestment and Stock Purchase Plan
- Generated $4.4 million in net realized gains in addition to the $12.9 million in unrealized gains we held at fiscal yearend on our REIT securities investments
- Achieved a 100% occupancy rate subsequent to fiscal yearend

In the Digital age in which we live, replete with three second attention spans and ever-shorter investment horizons, our cycle-tested longevity stands out as a remarkable achievement. Publicly traded since 1968, Monmouth is one of the oldest REITs in the world. We are also one of the most specialized. By focusing exclusively on single-tenant, net-leased industrial properties on long-term leases to investment-grade tenants, we have delivered superior investment returns throughout the business cycle. Over our long history we have put together a high-quality industrial property portfolio with an all-star tenant roster that includes: Anheuser-Busch, Beam Suntory, Cardinal Health, Caterpillar, Coca-Cola, FedEx, GE, Home Depot, International Paper, Kellogg's, Sherwin-Williams, Siemens, ULTA Cosmetics, and United Technologies. Because 85% of our rental revenue is derived from long-term leases to investment-grade tenants, our earnings quality is among the highest in the REIT industry. Our property portfolio now comprises 100 properties containing 16.6 million rentable square feet, geographically diversified across 30 states.

We've positioned our portfolio to benefit from three long-term catalysts. First and foremost is the secular shift toward ecommerce. Second is strategically positioning our assets near major transportation hubs, major airports, and manufacturing plants that are integral to our tenant's operations. Third is strategically positioning our assets in anticipation of the shift in the global supply chain due to the recently completed Panama Canal expansion. As a result of seeing these developments well in advance of their occurrence, our Company enjoyed another stellar year in fiscal 2016. The migration toward on-line shopping was once again the biggest story in our consumer driven economy this past year. Excluding food and fuel, ecommerce now represents 13% of total retail spending and is climbing rapidly. We have carefully put together a portfolio that is benefiting from the substantial rise in ecommerce and we anticipate future growth from these three long-term catalysts.

Since 2010, our asset base has more than tripled in size. We have achieved this substantial growth without sacrificing our high standards as illustrated in the three case studies featured in this year's annual report depicting some of our mission critical properties. This year's $210.7 million in acquisitions represented a record year for Monmouth. In fiscal 2016 we acquired eight brand-new Class A built-to-suit industrial properties containing a total of 1.8 million square feet. In keeping with our business model, all eight acquisitions are leased long term to investment-grade companies. These brand new, state-of-the-art industrial assets contain very modern automated systems that represent substantial investments that our tenants have made in each of our properties. We completed three expansion projects this year adding 261,000 square feet of new rental space for approximately $13 million. We have assembled a modern industrial property portfolio that contains substantial acreage to accommodate future growth. The land-to-building ratio on our recent acquisitions is 7:1 which will provide for future expansion space as needed. Growing our Company one high-quality asset at a time will continue to be our key focus. We are not striving to be the biggest company. Our goal is simply to be a better company.

This year represented our third consecutive year of double-digit AFFO per share growth.

"Not everything that is countable counts, and some of the things that count the most are not even countable."

– Albert Einstein

The above quote comes to mind with increasing frequency these days as the result of computers taking over so many aspects of our lives. Algorithms rapidly scan company financials in search of value but while they may be expert in quantitative analysis, they can barely scratch the surface when it comes to qualitative analysis. For instance, a computer will always tell you that a $5.00 per square foot rent is less than a $6.00 per square foot rent. However, to a wise investor the answer is it depends on who is paying the rent.

At Monmouth, we have assembled such a strong tenant roster that we sleep very well at night knowing the rent will be paid, the lease provisions will be fully honored, and the lease will most likely be renewed. It's really not very subtle, but to date it is still largely beyond the comprehension of the robo-investor community. For now, our shares are best suited for intelligent human beings with an appreciation for high-quality, reliable income streams.

Speaking of reliable income streams, with regards to our major tenant, FedEx, they quite simply deliver, and have done so for Monmouth since 1992. It is much too simplistic to argue that you should not have too many eggs in one basket. The determining factor should not be on how spread out your investments might be, but on the future prospects for those investments. FedEx has been riding the tsunami-like wave of demand generated by ecommerce and we have been growing right alongside them. Since the turn of the century, the U.S. economy has been growing at an annual rate of less than 3%. Meanwhile, on-line sales have been surging ahead at an annual rate of 15%. FedEx has been working very hard to keep up with this tremendous demand and we've been benefiting through the acquisition of several well-located, state-of-the-art distribution centers and numerous building expansions. The age old axiom that, "Demographics are destiny" rings true. When looking at today's youth, one is looking through a window at tomorrow. To the next generation, the most valuable piece of real estate is the screen on their cellphone. They are completely transfixed by what is taking place there and where that portal can take them. One place it can take them is to the largest marketplace in the world. From their smartphone they can purchase anything, anytime, anywhere and they do. Given the seismic shift that is taking place in consumer spending habits, we feel very confident that our exposure to one of the most profitable ecommerce giants in the world today, FedEx, will continue to pay substantial dividends for many years to come.

Over the 12 month period, the occupancy rate in our portfolio increased 190 basis points, from 97.7% at fiscal yearend in 2015, to a sector-leading 99.6% at the end of fiscal 2016. Subsequent to yearend, our occupancy rate has risen further and is now 100%. In fiscal 2016, 2% of our gross leasable area, representing three leases totaling approximately 326,000 square feet, was scheduled to expire. All three of these leases were renewed, giving Monmouth a 100% tenant retention rate for the second consecutive year. As the result of owning mission-critical facilities occupied by some of the strongest companies in the world, we have achieved a perfect 100% tenant retention rate in four of the past seven years. Our renewed leases this year have an average term of 4.1 years and an average lease rate of $4.20 per square foot, representing a 5.3% increase in GAAP rents. The weighted average lease maturity for our entire portfolio increased 6% this year to 7.6 years currently, with in-place leases going out as far as 2034. Given the secular shift toward on-line consumption, we believe that these favorable trends will persist for many years to come.

In fiscal 2016, we raised a total of $72.2 million in common stock through our Dividend Reinvestment and Stock Purchase Plan (DRIP). Investors who participate in our DRIP can enhance their returns by reinvesting their dividends and achieving a compounded return. This has proven to be a very reliable program to help fund our growth. Additionally, we financed our new acquisitions with low-cost, long-term mortgage debt, raising $141.6 million in conjunction with our fiscal 2016 acquisitions. Notwithstanding the FOMC's recent 25 basis point increase, interest rates remain at very low levels from a historical perspective. We have achieved investment spreads in excess of 250 basis points this year. In view of the significant positive investment spreads associated with our acquisition pipeline, for which we have already locked-in very favorable rates, we expect our investment returns to be meaningfully additive to our earnings in fiscal 2017.

One of the key ingredients needed to achieve the cycle-tested track record that we have enjoyed, is a strong balance sheet. This year we enhanced our already strong position. At fiscal yearend, our net debt to total market capitalization was a conservative 29%. Our total market capitalization was approximately $1.8 billion at fiscal yearend, representing a 53% increase over the prior year. Our capital structure is composed of approximately $618 million in debt, $193 million in perpetual preferred capital, and $984 million in equity capitalization. Eighty-six percent of our total debt is fixed-rate, with a weighted-average interest rate of 4.5% and a weighted-average maturity of 10.5 years. We ended the fiscal year with $95.7 million in cash, $124 million available from our recently expanded credit facility, as well as an additional $100 million potentially available from the facility's accordion feature. We also held $73.6 million in marketable REIT securities, representing 5% of our undepreciated assets. Our securities portfolio delivered outstanding results this year with net realized gains of $4.4 million and an additional $12.9 million in unrealized gains at yearend. Over the past seven years we have generated net realized gains of over $28 million from our REIT securities portfolio. During the year, we fully repaid a total of six loans with unamortized balances totaling $14.7 million, which unencumbered approximately $83 million worth of properties. Our Company is very well capitalized to continue to execute our qualitative growth strategy.

It is much too simplistic to argue that you should not have too many eggs in one basket. The determining factor should not be on how spread out your investments might be, but on the future prospects for those investments.

"Technology changes, markets evolve, but people remain the same."

– James Grant

Much of the liquidity in the public markets today is driven by Exchange Traded Funds (ETFs). These ETFs make their investment decisions based on computer algorithms. ETFs have become so ubiquitous that there are now ETFs of ETFs. Surely the original programmers of these algorithms never imagined nor contemplated the consequences of having formulaic investments in formulaic investments. History we have seen doesn't always repeat itself precisely, but it certainly does rhyme. It wasn't long ago that we had a huge housing bubble inflated with pools of pools of the very same mortgages. These were known as Collateralized Debt Obligations (CDOs). There was such an appetite for these complex instruments that Wall Street felt the need to create synthetic ones and we all remember how that story ended, right? ETFs today are very top heavy, meaning they favor size over quality. There is such a voracious appetite for these low-cost investment vehicles that they need to favor the larger more liquid stocks over all else. This bias forces these funds to behave irrationally at times by buying high and selling low. Because they have become such a dominant market presence, this irrationality can spread quickly. Similar to the CDO phenomena, any defects contained in these funds will become more glaring and problematic as they grow in size. The low investment return world, in which nearly everything is correlated, has given rise to these computerized-investment vehicles. While active investing has been out of favor of late, alpha will be generated in the future by those that can see what the computers cannot.

Monmouth's Core Funds from Operations (Core FFO), for fiscal 2016 were $50.3 million as compared with $35.3 million in the prior year. On a per share basis, Core FFO was $0.77 per diluted share this year, as compared to $0.60 per diluted share in fiscal 2015 representing a 28% increase. Growing our recurring earnings, or what is commonly referred to as Adjusted Funds from Operations (AFFO), is a major focus at Monmouth. AFFO excludes gains or losses on the sale of real estate and gains or losses on the sale of REIT securities, as well as lease termination income and the effects of straight-lined rent adjustments. Therefore, we believe AFFO serves as the best proxy for recurring cash earnings. This year represented our third consecutive year of double-digit per share growth for this important metric. Our AFFO per diluted share this year was $0.70 as compared to $0.57 per diluted share in the prior year, representing a 23% increase. As a result of our substantial recent acquisition and expansion activity, our increased occupancy, and our robust acquisition pipeline, we anticipate continuing to meaningfully grow our AFFO per share in fiscal 2017 and beyond.

With regards to the overall U.S. industrial market, our property sector is performing stronger than ever before. Net absorption through the first three quarters is up 18% over the prior year with 213 million square feet of positive net absorption for the nine month period. The U.S. industrial property sector has now registered 26 consecutive quarters of positive net absorption, marking the longest winning streak in over 20 years. This has resulted in a continued decline in vacancy rates, falling by 90 basis points from the prior year period to 5.6% currently. New construction has increased with 214 million square feet currently under construction. However, demand growth continues to outpace supply by a healthy margin. National industrial rental rates are up 5.1% this year and it is anticipated that rent growth will continue in 2017. Many analysts who have followed the industrial property sector closely for quite some time, have begun commenting on what we saw early on. Namely, that there is something fundamentally different about today's market that is driving demand growth to these record levels. The fundamental change is largely due to the structural changes in the supply chain brought about by ecommerce. We feel that we are still in the very early stages of this secular shift toward on-line consumption and that these favorable changes will continue for many years to come. Our portfolio is currently 100% occupied and our linkage to the digital economy is one of the big drivers of our success.

The yield on the benchmark U.S. 10 Year Treasury Note has been on the rise recently. This is not before hitting an all-time low of 1.34% earlier this year, following the U.K.'s withdrawal from the European Union. As of this writing, the Treasury Note is yielding around 2.6%, which is still substantially below its long-term average of 6.3%. Monmouth has been taking advantage of the protracted period of historically low interest rates by extending our debt maturities out as far as possible. Our weighted average debt maturity is now a very considerable 10.5 years and our weighted average interest rate is at an all-time low of 4.5%. This year we also successfully refinanced our $53.5 million Series A Perpetual Preferred Stock with proceeds from our new $135.0 million Series C issue. This successful transaction, which generated significant investor interest and was over-subscribed, helped us reduce our preferred dividend cost from 7.625% to 6.125%. These substantial improvements in our capital structure will benefit Monmouth for many years to come, regardless of what interest rates do in the future.

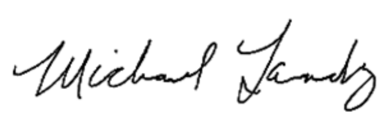
While active investing has been out of favor of late, alpha will be generated in the future by those that can see what the computers cannot.

REITs essentially house the broad economy. Assuming we are now in a rising interest rate environment, what does this mean for the REIT asset class as a whole and Monmouth's prospects more specifically? In the short term, due to their fixed-income component, public REIT stocks may very well see net cash outflows. However, assuming a strengthening economy, in the longer run REITs should benefit from higher occupancy and rental rates, rising net operating incomes, and increased inflation. The massive global monetary expansion that has taken place since the Global Financial Crisis of 2008, has thus far resulted in very limited economic growth. While technological advances have brought about near term deflation, inflationary forces have been mounting. Public debt as a percentage of GDP is at record levels here at home, and throughout the world. Real estate is one of the few safe harbors when increased inflation occurs. In an inflationary environment rents will reset higher, as rising land values and increased construction costs will require them to do so. Like a canary in a coal mine, foreign capital has recently been pouring into the U.S. commercial real estate sector in search of hard assets that can endure this cruelest tax of all. What is different this time is that the industrial property sector has become an important focus for many of these foreign investors.

In this new Internet Century, physical real estate often finds itself competing with virtual real estate. Brick and mortar retail and office assets have been going head to head against Websites and Clouds. As I stated in our shareholder letter a few years ago, there will be winners and losers, but in all industries, those companies that understand and embrace this new world order will be the successful ones. We recently developed some virtual real estate of our own with the launching of our new website. Our new corporate website illustrates the transformative growth that Monmouth has enjoyed over the past several years. The site allows the visitor to take a virtual tour of our property portfolio and contains a vast database of useful information for investors. I encourage you to visit our new website in order to more fully understand our unique Company (www.mreic.reit).

On behalf of the talented team at Monmouth, I am very happy to report the exceptional progress that is detailed throughout this year's annual report. Our business model of investing in well-located, mission-critical industrial properties, leased to investment-grade tenants has provided our shareholders with outperformance over the near, mid, and long term. I am proud to state that we were recently named by SNL Financial as one of the top 25 performing REITs over the past 10 years and we were the only Industrial REIT to make the list. I would like to thank our great team for their dedication and hard work. I would also like to thank our directors for their valuable input throughout. Thank you as well to our loyal long-term shareholders for the faith and trust that you have shown in our Company. We appreciate your support and we look forward to continuing our prosperous journey together.

Very truly yours,



Michael P. Landy
President and Chief Executive Officer