

Letter to Shareholders



Michael P. Landy

President and Chief Executive Officer

“Machines cannot dream, not even in sleep mode. If we stop dreaming big dreams, if we stop looking for a greater purpose, then we may as well be machines ourselves.”

Gary Kasparov

First World Chess Champion to be defeated by a computer

JANUARY, 2018

Dear Fellow Human Shareholders,

Welcome to our 2017 annual report. Sadly, some of our largest investors will not be reading this annual report because their computer-driven algorithms are not programmed to seek value here. While I certainly hope it never comes to pass, because these massive computer-based index funds have grown exponentially, currently representing approximately 40% of total public-equity ownership, we may see the day when writing a letter to shareholders will be a futile endeavor. For even if these computers somehow became interested in reading this letter, it would be a very difficult letter to write, as humans and computers think so differently. Paramount in the mind of a human investor is gaining an understanding of a company’s intrinsic value. While placing funds regardless of price across a broad spectrum of companies has, to date, been the relatively simple-minded task of the robot advisor. So, let us proceed with the former and drill down on the intrinsic value that has been growing here at Monmouth Real Estate Investment Corporation (Monmouth), keeping in mind that one of the big detriments and opportunities created by these large, passive computer-driven ownership positions, is that they can cause stock prices to diverge greatly from their intrinsic value.



"All in favor of fewer people?"

On January 19, 2017, we celebrated our 50-year anniversary as a public REIT at the NYSE. Our longevity is a testament to our conservative principles. We have always been guided in our quest for value creation by keeping a long-term outlook. When looking back over the cycles, although we have performed well throughout, it has been the downturns that saw Monmouth's business model outperform the most. Our anniversary celebration began with the ringing of the closing bell. This is an honor that we will always hold near and dear to our hearts. Our celebration continued with a dinner honoring our Founder and Chairman, Eugene Landy. Guests attended from all over the country and the room was overflowing with love and respect.

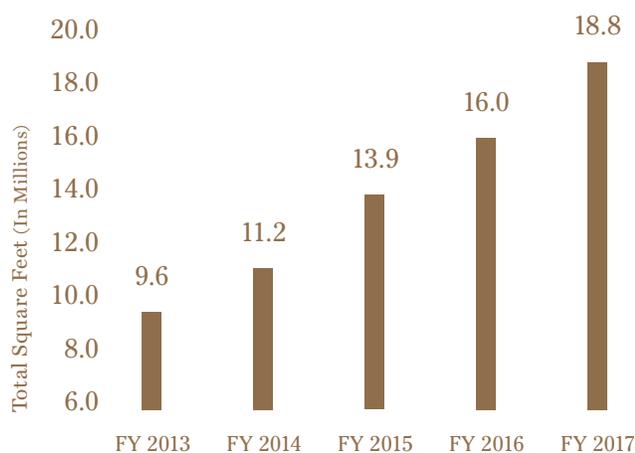
Fiscal 2017 was a banner year for Monmouth. Our Company executed exceptionally well, and our achievements were many. During the year, the Company accomplished the following:

- Generated AFFO per share growth of **9%**,
- Increased our Gross Revenue by **20%** to **\$120.5 million**,
- Increased our Net Operating Income by **20%** to **\$96.2 million**,
- Acquired **2.8 million** square feet of high-quality industrial space for **\$286.5 million** comprising 10 brand new, Class A built-to-suit properties, all leased long term, of which **77%** is leased to investment grade tenants,
- Completed two expansion projects for approximately **\$5.6 million**, adding additional rental space of **51,000** square feet,
- Generated **17%** year-over-year growth in gross leasable area through acquisitions and expansions,

- Entered into commitments to purchase four new build-to-suit properties containing approximately **1.65 million** square feet, for a purchase price of approximately **\$139.3 million** scheduled to close over the next several quarters, including two properties we acquired subsequent to fiscal yearend,
- Renewed **11 of the 13** leases totaling **1.4 million** square feet that were scheduled to expire in fiscal 2017, resulting in a **92%** tenant retention rate,
- Maintained a sector leading occupancy rate of **99.3%** at fiscal yearend, representing our second consecutive year with above **99%** occupancy,
- Extended our weighted average lease maturity from **7.4 years** to **7.9 years**,
- Achieved a **19%** total shareholder return for fiscal 2017, versus less than a 1% total return for the MSCI US REIT Index during the same period,
- Increased our total market capitalization by **22%** to **\$2.2 billion** at fiscal yearend,
- Raised **\$73.5 million** in gross proceeds through our Series C Perpetual Preferred Stock follow-on offering at **6.125%**,
- Raised an additional **\$36.4 million** in gross proceeds from the issuance of shares of our **6.125%** Series C Perpetual Preferred Stock through our Preferred Stock ATM Program,
- Raised approximately **\$91.9 million** in equity through our Dividend Reinvestment and Stock Purchase Plan,
- Redeemed our high coupon **7.625%** Series A Preferred Stock and our high coupon **7.875%** Series B Preferred Stock,
- Extended our weighted average debt maturity from **9.6 years** to **10.2 years** at fiscal yearend,
- Reduced our weighted average interest rate on our fixed rate debt from **4.5%** to **4.2%**,
- Generated **\$2.3 million** in net realized gains in addition to the **\$6.6 million** in unrealized gains we held at fiscal yearend on our REIT securities investments, and
- Subsequent to yearend, increased our common stock dividend by **6.25%** on October 2, 2017, representing our second dividend increase in three years.

Built one high-quality asset at a time, with a focus solely on single tenant, net leased industrial properties, leased long-term to investment grade tenants, Monmouth stands out as one of the most specialized of all REITs. Publicly traded since 1968, we are also one of the oldest REITs in the world. One of our most important assets, and a reason for our cycle-tested longevity, is our exceptional roster of tenant relationships. Our modern industrial property portfolio boasts an all-star tenant line up that currently includes Amazon, Anheuser-Busch, Beam Suntory, Coca-Cola, FedEx, GE, Home Depot, International Paper, National Oilwell Varco, Sherwin-Williams, Siemens, ULTA Cosmetics, United Technologies, and other high-quality companies. With approximately 85% of our rental revenue derived from investment grade tenants, our earnings quality is among the highest in the entire REIT sector. Today, our property portfolio comprises 108 properties totaling 19.1 million rentable square feet, geographically diversified across 30 states. This represents substantial progress, considering that our gross leasable area was less than half its current size just six years ago. Most importantly, because this growth was generated through the acquisition of brand new, Class A, built-to-suit properties, Monmouth owns the youngest and most state-of-the-art property portfolio in the industrial REIT sector.

Gross Leasable Area

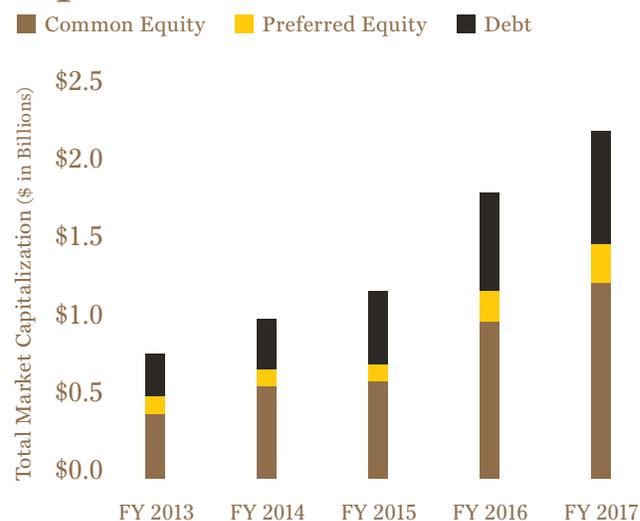


We've positioned our assets to benefit from three long-term catalysts. First and foremost is the continued migration of consumer spending from traditional store shopping, to the infinite virtual storefronts that can be found on the Internet. Excluding food and fuel, ecommerce now represents approximately 16% of total retail spending, and continues to climb rapidly. Second is our focus on locations that are near major transportation hubs, major airports, and manufacturing plants that are vital to our tenants' operations. This has proven over the long term to result in high tenant

retention rates, and as a result we have averaged over 90% tenant retention for the past eight years. Third is strategically positioning our assets to benefit from the shift in the global supply chain that has been occurring due to the recently expanded Panama Canal. Over 70% of the U.S. population resides east of the Mississippi River, and because of the new, wider Panama Canal, shipping container growth at the East Coast ports has been outpacing the West Coast ports for several years now. Domestic manufacturing has been increasing dramatically this past year, with many companies relocating their plants near the Eastern Ports to benefit from the greater shipping capacity that the expanded canal provides. As you can see from the map on pages 14 and 15 of this report, our portfolio is very well positioned to benefit from these ongoing changes.

Since 2011, our capital structure has grown by nearly 350%. We have achieved this substantial growth while reducing our overall leverage. This year's \$286.5 million in acquisitions represented the third straight record-breaking year of new acquisitions for Monmouth. In fiscal 2017 we acquired 10 brand-new Class A built-to-suit industrial properties totaling 2.8 million square feet. We completed two expansion projects this year, adding 51,000 square feet of new rental space, for approximately \$5.6 million. We have assembled a modern industrial property portfolio that contains substantial acreage to accommodate future growth. The land-to-building ratio of our recent acquisitions is approximately 7:1, which will provide for ample future expansion space as needed. Growing Monmouth one high-quality asset at a time will continue to be a key focus here. We are not striving to be the biggest company. Our goal is simply to be a better company.

Capital Structure



“We’re blind to our blindness. We have very little idea of how little we know. We’re not designed to know how little we know.”

Daniel Kahneman

2002 Nobel Prize recipient in Economic Sciences

Understanding behavioral economics is an essential tool for anyone wanting to be a successful investor. Death, taxes, and change stand alone in the province of certainty. All else comes down to probabilistic judgments based upon experience and knowledge. In our 2014 annual report, we featured an essay titled “A Few Thoughts on REIT Dividends and Total Return.” That essay is reprinted in its original form in this year’s annual report, as it explains a few fundamental pillars for understanding our philosophy and the value of our business model. The essay’s accompanying chart has been brought up to date to illustrate how prescient our predictions were. I encourage you to read it.

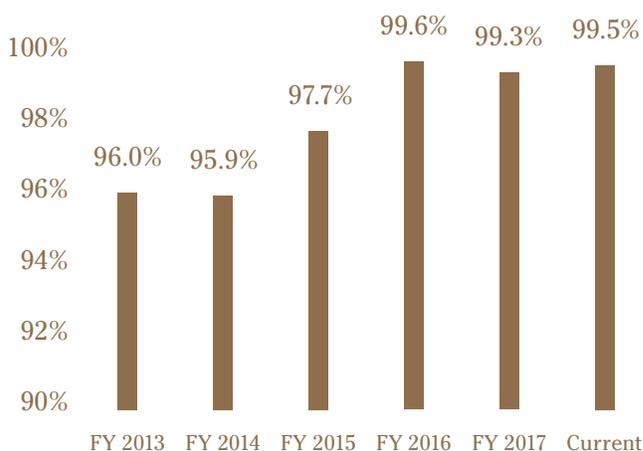
Last year, we discussed how qualitative differences can at times more than offset quantitative differences and how this is one of the areas where computer comprehension has a blind spot. We talked about how a \$5.00 rent can be more valuable than a \$6.00 rent depending on who is paying it. Time is another key element where analysis can often go astray. Taking time for granted has undoubtedly been one of the costliest errors people make, and yet they make this error time and time again. Another common blind spot is many people see the world solely as a zero-sum game. They apply a very sharp pencil in their analysis and keep their heads up in the theoretical clouds. For instance, they argue that capital allocation should merely be a matter of raising capital when your currency is at a premium and then simply buying it back when it is at a discount. This is beyond overly simplistic. It may work well on the drawing board, but the reality on the ground is rarely so black and white. The entrepreneurial people we seek to do business with are those who can appreciate these nuances, for that is what is necessary to create value where there was none. These are the people we have been fortunate to partner with throughout our 50-year history. Walking away at the end of a transaction with all parties satisfied with the outcome is the norm here. In looking at the difficulties plaguing the retail real estate sector today, I can’t help but think that in many cases, had the landlords not pushed rents so aggressively year after year, perhaps they could be weathering the ecommerce storm better than they find themselves doing today. Here at Monmouth, by understanding the bigger picture, we have built some of the most dependable income streams the REIT world has to offer, and I’m proud to say that over the past 10 years, out of more than 180 REITs, Monmouth, with a total return of over 300%, is one of the top 10 performing companies.

Approximately 85% of our rental revenue is derived from investment-grade companies or their subsidiaries. The remaining 15% is derived from very strong credits as well; they are just non-rated. While from a geographic standpoint our portfolio is well diversified across 30 states, from a tenant concentration standpoint our

largest tenant, FedEx, currently represents 50% of our total square footage. Given the strength of FedEx, their long-term successful track record, and their increasingly bright prospects, we are more than comfortable with this high concentration. FedEx is an essential component of the Internet ecosystem, and without them there would be no ecommerce. Since the turn of the century, ecommerce sales have been growing at a 15% compound annual growth rate. Demand, and therefore the value of the FedEx logistics network, has grown considerably as a result. Today, we have 59 properties totaling approximately 9.5 million square feet leased to FedEx. FedEx still occupies the very first building we purchased back in 1992, that was leased to them. They are a big reason our tenant retention rates have historically averaged over 90%, and they have been the primary source of the substantial building expansions we have been doing over the past several years. In our opinion, the value of the FedEx network is only going to increase further with time.

Fiscal 2017 marked our second consecutive year of achieving above 99% occupancy. In fact, 100% occupancy was achieved for most of the year. We ended it with a 99.3% occupancy rate, which is down 30 basis points from the end of fiscal 2016. These occupancy rates represent the highest in the industrial REIT sector and illustrate the mission-critical nature of our properties. Subsequent to year-end, our occupancy rate has risen further, and is now 99.5%. In fiscal 2017, 10% of our gross leasable area, representing 13 leases totaling approximately 1.5 million square feet, was scheduled to expire. Eleven of the 13 leases were renewed this year, representing 1.4 million total square feet, giving Monmouth a 92% tenant retention rate. Our fiscal 2017 lease renewals have an average term of 6.8 years, and an average GAAP lease rate of \$5.70 per square foot. This represents a slight decrease of 0.5% on a straight-line GAAP basis. Given the strength of our tenants and the long average lease renewal term, we are pleased with these results.

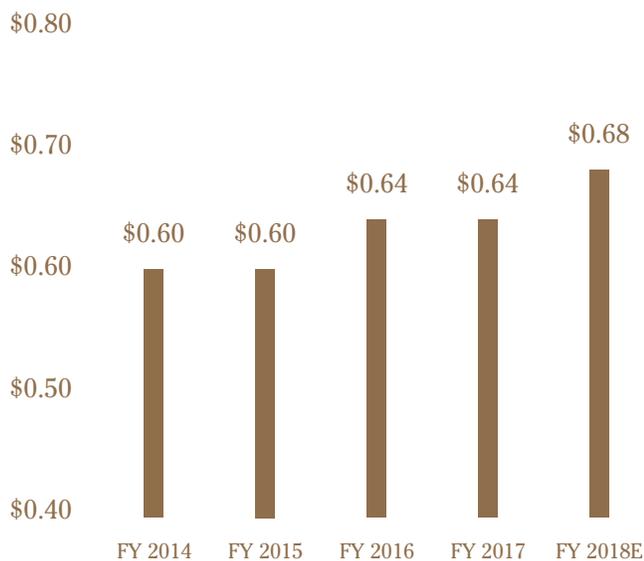
Occupancy



In fiscal 2017, we raised approximately \$91.9 million in equity capital through our Dividend Reinvestment and Stock Purchase Plan (DRIP). Of this amount, a total of \$10.1 million in dividends was reinvested this year, representing a 22% participation rate in our dividend reinvestment plan. 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 \$188.8 million in conjunction with our fiscal 2017 acquisitions at a weighted average interest rate of 3.9% and a weighted average debt maturity of 14.9 years. This year has seen increasingly strong competition for industrial property acquisitions, and as a result cap rates have reached record low levels. Interest rates are beginning to rise, thus tightening our investment spreads and reducing our levered returns on equity. We are very pleased to have executed substantial growth at precisely the right time in the cycle, and while it is still beneficial to seek opportunistic acquisitions, Warren Buffett's famous admonition, "What the wise man does in the beginning, the fool does in the end," is something to keep in mind should investment spreads continue to compress further.

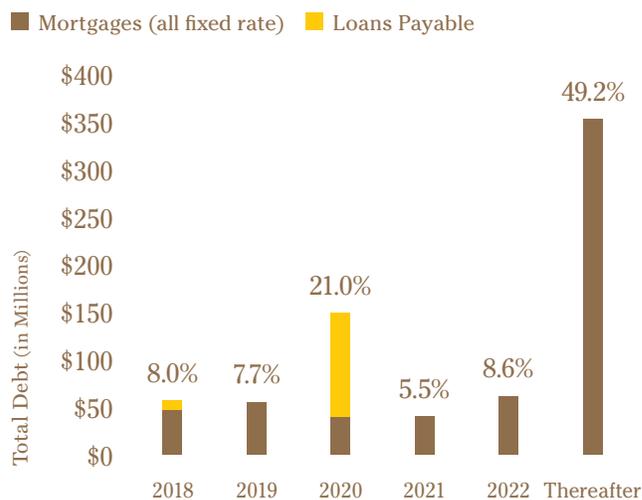
Dividend Growth

(per share)



Balance-sheet strength must be an essential focus for any REIT. Over our 50-year history, we have seen companies implode from excessive leverage and poorly structured debt-maturity schedules. A continuing theme here has been to capitalize on this protracted period of historically low interest rates by extending our debt maturities as far as possible, and by reducing our cost of capital throughout our capital structure. During the year, we successfully finished replacing all \$111 million of our high-dividend Series A and Series B Preferred Stock, which had a weighted-average coupon of 7.75%, with our new 6.125% Series C Perpetual Preferred Stock. This resulted in approximately \$1.8 million in annual preferred dividend savings going forward. At fiscal yearend, our net debt to total market capitalization ratio was a conservative 32%. Our total market capitalization was approximately \$2.2 billion, representing a 22% increase over the prior year. Our capital structure at fiscal yearend is composed of \$1.2 billion in equity capitalization, \$246 million in perpetual preferred capital and \$711 million in debt. Eighty-three percent of our total debt is fixed-rate, with a weighted-average interest rate of 4.2% and a weighted-average maturity of 11.6 years, representing one of the longest debt maturity schedules in the entire REIT sector. We also held \$123.8 million in marketable REIT securities, representing 8% of our undepreciated assets. Our securities portfolio delivered strong results this year, with \$2.3 million in net realized gains as well as substantial dividend income. During the year, we fully repaid \$40 million in mortgage loans, thereby unencumbering approximately \$160 million worth of properties. Our Company remains very well capitalized to execute our qualitative growth strategy going forward.

Debt Maturity Schedule



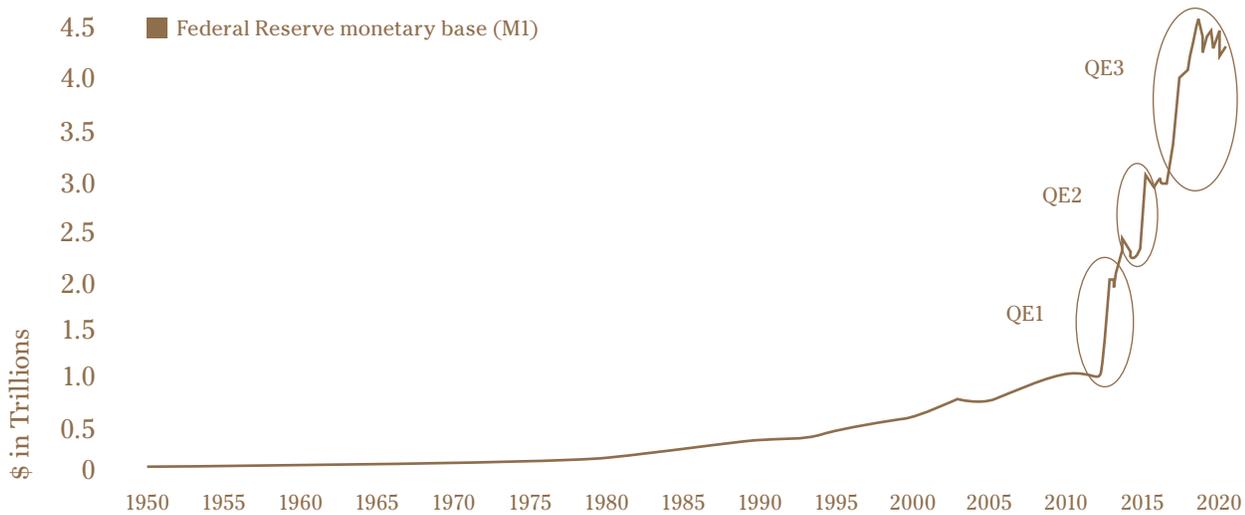
Monmouth's Funds from Operations (FFO) for fiscal 2017 were \$54.4 million, or \$0.75 per diluted share, as compared to \$46.6 million, or \$0.71 per diluted share, for the same period a year ago, representing an increase in FFO per share of 6%. Growing our recurring earnings, or what are commonly referred to as Adjusted Funds from Operations (AFFO), is always a major focus here. 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. Following three consecutive years of double-digit per-share growth for this important metric, our AFFO per diluted share increased this year to \$0.76 per diluted share from \$0.70 in the prior year, representing a 9% increase. The significant growth in our AFFO per diluted share has allowed us to raise our common stock dividend twice in the last three years. Because Monmouth's dividend was maintained throughout the Global Financial Crisis, our current \$0.68 annual common share dividend is greater than it has ever been.

AFFO Growth

(per share)



Federal Reserve Monetary Base



Source: BofA Merrill Lynch Global Investment Strategy, Federal Reserve

“Inflation is always and everywhere a monetary phenomenon.”

Milton Friedman

1976 Nobel Prize recipient in Economic Sciences

At \$4.5 trillion, the Federal Reserve’s balance sheet has never been larger. Because the European Central Bank, the Bank of Japan, and others followed suit with their own monetary expansions, the amount of added global liquidity equates to over \$22 trillion. Debt-to-GDP ratios have risen to levels too high both here and abroad. Increased price inflation is one of the only solutions available in order to bring these ratios down to sustainable levels. Despite record-low unemployment, to date, these experiments in monetary policy have not produced the inflation levels that the central bankers have been targeting. While we have seen widespread asset price inflation in the bond market, the stock market, the commercial and residential real estate markets, the world of art, classic cars, and even the surreal world of crypto-currencies, the consumer price index (CPI) has stubbornly remained below the 2% level the central bankers desire. With so much new money being pumped into the system globally, why have we not seen rampant inflation? A large part of the answer can be found in the deflationary forces that the digital revolution has unleashed. The speed of change brought on by digitization has been remarkable. Computer processing power has been growing two-fold every 12-24 months since the 1970s. This has resulted in exponential increases in power at exponentially reduced costs. Tremendous gains in productivity have been unleashed that have thus far more than offset the inflationary pressures that these enormous liquidity injections were intended to produce. While it is hard to calculate all the deflation the digital revolution has created, it is not outside

the realm of possibility that our real GDP is actually higher than our nominal GDP if all things are considered. While deflationary forces have until now ruled the day, inflation will inevitably return at some point, and likely at higher levels than anticipated. Historically, real estate has provided one of the few safe harbors from inflationary forces as land values, rental rates, and construction costs will all rise with inflation.

With regard to the overall US industrial market, our property sector is experiencing record results. In addition to the continued growth in ecommerce, there has been strong growth in the manufacturing sector, with new plants springing up near the Gulf and Eastern Ports as a result of the aforementioned recently expanded Panama Canal. Port activity, rail volume, and imports are all at very high levels. Consumer spending levels are strong and rising. The above 3% real GDP growth reported for the second and third quarter of this year represents more than a 50% improvement over the anemic GDP levels that have held the US economy back throughout this recovery. The industrial property sector is heading into 2018 with very strong momentum. Net absorption has now been positive for a record 30 consecutive quarters and will surpass 230 million square feet for the fourth year in a row. This growth has resulted in a continued decline in vacancy rates, which have fallen by 40 basis points from the prior-year period to a record low of 5.1% currently. New construction has increased, with 233 million square feet currently being built. However, demand continues



to outpace new supply by a healthy margin. National rental rates are up 4.1% year over year to an average asking rate of \$5.80 per square foot. It is anticipated that industrial rent growth will continue in 2018 due to these favorable conditions. Our portfolio is currently 99.5% occupied, and clearly our strong linkages to the digital economy have been one of the key drivers of our success.

In conclusion, I'd like to thank my great teammates at Monmouth. It is truly an honor to work with each and every one of you. We have grown so much over the past several years, and it is in no small part due to the fact that our industrious group embraces our culture and philosophy. So, thank you all for your hard work, sound judgment, honesty, and integrity. Thank you for thinking BIG and for not seeing the world as a zero-sum game.

To our directors, thank you for your strong oversight, vigilance, and care. Experience, continuity, predictability, and reliability are all still virtues in my book. Each of you has a deep understanding of our business model and our philosophy. Here's to keeping our ship sailing in smooth seas for the next 50 years.

Last but not least, to our long-term human shareholders, thank you, as you are essential to our success. In constructing plans, one of the inherent weaknesses in human nature is that people often cling to the best-case scenario. Always assuming that their desired outcome will follow their plan. Even when the facts change, and the plan should be reevaluated and adjusted accordingly, they are blind to see it. People have a strong propensity to fall in love with their plans. An inherent advantage of artificial intelligence is that each decision is made without any emotional attachment to the prior decision. Each step is evaluated in complete isolation. This is one of the major reasons artificial intelligence now plays chess at levels humans cannot. Notwithstanding the tremendous progress being made in artificial intelligence, I remain hopeful that the human component will always be an integral part of the value creation process, as it alone can provide the imagination necessary to dream the big dreams. Monmouth's long-term track record provides empirical proof that we have executed the sound judgment needed to realize these dreams. We are eternally grateful for the faith that you have shown in us. Your continued faith is something that we will never take for granted. It is essential to realizing our dreams of tomorrow.

Sincerely yours,

A handwritten signature in black ink that reads "Michael Landy". The signature is written in a cursive, flowing style.

Michael P. Landy

President and Chief Executive Officer