INDUSTRIAL LOGISTICS
PROPERTIES TRUST

2021 Annual Report

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2021

or

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

Commission file number 001-38342

INDUSTRIAL LOGISTICS PROPERTIES TRUST
(Exact Name of Registrant as Specified in Its Charter)

Maryland	**82-2809631**
(State of Organization)	(IRS Employer Identification No.)
Two Newton Place, 255 Washington Street, Suite 300, Newton, Massachusetts	**02458-1634**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code: **617-219-1460**

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

Title Of Each Class	Trading Symbol	Name of Each Exchange On Which Registered
Common Shares of Beneficial Interest	ILPT	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

The aggregate market value of the voting common shares of beneficial interest, $.01 par value, or common shares, of the registrant held by non-affiliates was $1.7 billion based on the $26.14 closing price per common share on The Nasdaq Stock Market LLC on June 30, 2021. For purposes of this calculation, an aggregate of 931,806 common shares held directly by, or by affiliates of, the trustees and the executive officers of the registrant have been included in the number of common shares held by affiliates.

Number of the registrant's common shares outstanding as of February 11, 2022: 65,404,592.

References in this Annual Report on Form 10-K to the Company, ILPT, we, us or our mean Industrial Logistics Properties Trust and its consolidated subsidiaries unless otherwise expressly stated or the context indicates otherwise.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K is incorporated by reference to our definitive Proxy Statement for the 2022 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission within 120 days after the fiscal year ended December 31, 2021.

Warning Concerning Forward-Looking Statements

This Annual Report on Form 10-K contains statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and other securities laws. Also, whenever we use words such as "believe", "expect", "anticipate", "intend", "plan", "estimate", "will", "may" and negatives or derivatives of these or similar expressions, we are making forward-looking statements. These forward-looking statements are based upon our present intent, beliefs or expectations, but forward-looking statements are not guaranteed to occur and may not occur. Forward-looking statements in this Annual Report on Form 10-K relate to various aspects of our business, including:

- The likelihood that we will complete our pending acquisition of Monmouth Real Estate Investment Corporation, or Monmouth, as described in Part I, Item 1, "Business" of this Annual Report on Form 10-K, or the Monmouth Transaction, or successfully execute on our financing plan for the Monmouth Transaction as we currently intend,
- Our expectation that our shareholders will benefit from the Monmouth Transaction,
- Our tenants' ability and willingness to pay their rent obligations to us,
- The likelihood that our tenants will renew or extend their leases or that we will be able to obtain replacement tenants on terms as favorable to us as the terms of our existing leases,
- Our belief that the industrial and logistics sector and many of our tenants are critical to sustaining a resilient supply chain and that our business will benefit as a result,
- Our acquisitions or sales of properties,
- The development, redevelopment or repositioning of our properties,
- Our ability to compete for tenancies and acquisitions effectively,
- The likelihood that our rents will increase when we renew or extend our leases, when we enter new leases, or when our rents reset at our properties in Hawaii,
- Our ability to pay distributions to our shareholders and to sustain the amount of such distributions,
- The future availability of borrowings under our revolving credit facility,
- Our policies and plans regarding investments, financings and dispositions,
- Our ability to raise debt or equity capital,
- Our ability to pay interest on and principal of our debt,
- Our ability to appropriately balance our use of debt and equity capital,
- Our ability to expand our existing or enter into additional real estate joint ventures or to attract co-venturers and benefit from our existing joint venture or any real estate joint ventures we may enter into,
- Whether we may contribute additional properties to our joint venture and receive proceeds from the other investors in our joint venture in connection with any such contributions,
- The credit qualities of our tenants,
- Changes in the security of cash flows from our properties,
- Our expectations about our ability and the ability of the industrial and logistics properties real estate sector and our tenants to operate throughout the remainder of the COVID-19 pandemic and current economic conditions,
- Our ability to maintain sufficient liquidity for the remainder of the COVID-19 pandemic and any resulting economic impact,
- Our ability to prudently pursue, and successfully and profitably complete, expansion and renovation projects at our properties and to realize our expected returns on those projects,
- Our expectation that we benefit from our relationships with The RMR Group LLC, or RMR LLC,

- Our qualification for taxation as a real estate investment trust, or REIT,
- Changes in federal or state tax laws,
- Changes in environmental laws or in their interpretations or enforcement as a result of climate change or otherwise, or our incurring environmental remediation costs or other liabilities,
- Changes in global supply chain conditions, and
- Other matters.

Our actual results may differ materially from those contained in or implied by our forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. Risks, uncertainties and other factors that could have a material adverse effect on our forward-looking statements and upon our business, results of operations, financial condition, funds from operations, or FFO, attributable to common shareholders, normalized funds from operations, or Normalized FFO, attributable to common shareholders, net operating income, or NOI, cash flows, liquidity and prospects include, but are not limited to:

- The impact of economic conditions and the capital markets on us and our tenants,
- Competition within the real estate industry, particularly for industrial and logistics properties in those markets in which our properties are located,
- Compliance with, and changes to, federal, state and local laws and regulations, accounting rules, tax laws and similar matters,
- Limitations imposed on our business and our ability to satisfy complex rules in order for us to maintain our qualification for taxation as a REIT for U.S. federal income tax purposes,
- Actual and potential conflicts of interest with our related parties, including our managing trustees, RMR LLC and others affiliated with them, and
- Acts of terrorism, outbreaks of pandemics, war, further material or prolonged disruption to supply chains, or other manmade or natural disasters beyond our control.

For example:

- Our ability to make future distributions to our shareholders and to make payments of principal and interest on our indebtedness depends upon a number of factors, including our receipt of rent from our tenants, future earnings, the capital costs we incur to lease our properties and our working capital requirements. We may be unable to pay our debt obligations or to increase or maintain our current rate of distributions on our common shares and future distributions may be reduced or eliminated,
- Our ability to grow our business and increase our distributions depends in large part upon our ability to acquire properties and lease them for rents, less their property operating costs, that exceed our capital costs. Following the completion of the Monmouth Transaction, we may be unable to further grow our business by acquiring additional properties. We may be unable to identify properties that we want to acquire, and we may fail to reach agreement with the sellers and complete the purchases of any properties we do want to acquire. In addition, we might encounter unanticipated difficulties and expenditures relating to the properties we acquire in the Monmouth Transaction or other properties we may acquire in the future, and these properties may not provide us with rents less property operating costs that exceed our capital costs or achieve our expected returns,
- Contingencies in our acquisition and sale agreements may not be satisfied and any expected acquisitions and sales may not occur, may be delayed or the terms of such transactions may change,
- We may experience declining rents or incur significant costs when we renew our leases with current tenants or lease our properties to new tenants or when our rents reset at our properties in Hawaii,
- Leasing for some of our properties depends on a single tenant and we may be adversely affected by the bankruptcy, insolvency, downturn of business or lease termination of a single tenant at these properties,

- Any existing or possible development, redevelopment or repositioning of our properties may not be successful and may cost more or take longer to complete than we currently expect. In addition, we may not realize the returns we expect from these projects and we may incur losses from these projects,
- It is difficult to accurately estimate leasing related obligations and costs of development and tenant improvement costs. Our leasing related obligations, development projects and tenant improvements may cost more and may take longer to complete than we currently expect and we may incur increasing amounts for these and similar purposes in the future,
- Economic conditions in areas where our properties are located may decline in the future. Such circumstances or other conditions may reduce demand for leasing industrial space. If the demand for leasing industrial space is reduced, we may be unable to renew leases with our tenants as leases expire or enter new leases at rental rates as high as expiring rents and our financial results may decline,
- E-commerce retail sales may not continue to grow and increase the demand for industrial and logistics real estate as we expect,
- Increasing development of industrial and logistics properties may reduce the demand for, and rents from, our properties,
- We may not achieve or sustain our targeted capitalization rates for properties we acquire and we may incur losses with respect to those acquisitions,
- Our belief that there is a likelihood that tenants may renew or extend our leases prior to their expirations whenever they have made significant investments in the leased properties, or because those properties may be of strategic importance to them, may not be realized,
- Some of our tenants may not renew expiring leases, and we may be unable to obtain new tenants to maintain or increase the historical occupancy rates of, or rents from, our properties, and we may need to make significant expenditures to lease our properties,
- The competitive advantages we believe we have may not in fact exist or provide us with the advantages we expect. We may fail to maintain any of these advantages or our competition may obtain or increase their competitive advantages relative to us,
- We intend to conduct our business activities in a manner that will afford us reasonable access to capital for investing and financing activities. However, we may not succeed in this regard and we may not have reasonable access to capital,
- Continued availability of borrowings under our revolving credit facility is subject to our satisfying certain financial covenants and other credit facility conditions. However, if challenging market conditions last for a long period or worsen, our tenants may experience liquidity constraints and as a result may be unable to pay rent to us and our ability to operate our business effectively may be challenged. If our operating results and financial condition are significantly negatively impacted by the current economic conditions or otherwise, we may fail to satisfy those covenants and conditions,
- Actual costs under our revolving credit facility will be higher than the stated rates because of fees and expenses associated with such debt,
- The premiums used to determine the interest rate payable on our revolving credit facility and the unused fee payable on our revolving credit facility are based on our leverage. Changes in our leverage may cause the interest and fees we pay to increase,
- We intend to incur additional debt, including in connection with the Monmouth Transaction. Additional debt leverage may limit our ability to make acquisitions, pay distributions and pursue other opportunities we may deem desirable. Further, increased leverage may increase our cost of capital,
- Any derivative contracts we may enter into may not have the desired beneficial impact, and may expose us to additional risks such as counterparty credit risk and may involve additional costs,
- We may spend more for capital expenditures than we currently expect and we expect to spend more than we have in the past,

- Our existing joint venture plans to incur approximately $134.0 million of debt secured by six properties we sold to it in the fourth quarter of 2021. However, our joint venture may be unable to obtain debt financing in 2022 or at all, and any debt financing arrangement our joint venture may enter into may not be on the terms we expect or desire,
- We plan to use the net proceeds from our recent sale of properties to our existing joint venture and related subsequent debt financing of that joint venture to reduce outstanding borrowings under our revolving credit facility. However, we may not reduce our level of indebtedness or maintain any reduction we may achieve. We have a revolving credit facility under which we may borrow, repay and reborrow amounts and we may seek to obtain additional debt financing in the future in addition to the debt financing we intend to seek with respect to the Monmouth Transaction. As a result, we expect our leverage will increase even if our joint venture succeeds in obtaining its expected debt financing,
- Our existing joint venture and any additional joint ventures we may enter into in the future, including the joint venture in connection with the Monmouth Transaction we expect to enter into, may not be successful,
- Our Board of Trustees considers, among other factors, our distribution rate as a percentage of the trading price of our common shares, or dividend yield, and our dividend yield compared to the dividend yields of other industrial REITs when setting our distributions to shareholders. This may imply that we will maintain or seek to maintain a specific dividend yield on our common shares. However, the dividend yield is only one of many factors our Board of Trustees considers in its discretion when setting our distributions to shareholders. Further, various market and other factors impact trading prices for our and our competitors' securities and the corresponding yields on those securities. As a result, the trading prices on our common shares and the yields on our common shares are subject to change and may fluctuate significantly. We do not intend to maintain or to seek to maintain any specific yield on our common shares,
- The business and property management agreements between us and RMR LLC have continuing 20 year terms. However, those agreements permit early termination in certain circumstances. Accordingly, we cannot be sure that these agreements will remain in effect for continuing 20 year terms,
- We expect that we will benefit from RMR LLC's Environmental, Social and Governance, or ESG, program and initiatives. However, we may incur extensive costs and may not realize the benefits we expect from such program and initiatives and we or RMR LLC may not succeed in meeting existing or future standards, or investors' expectations, regarding ESG,
- We believe that our relationships with our related parties, including RMR LLC, The RMR Group Inc., or RMR Inc., and others affiliated with them may benefit us and provide us with competitive advantages in operating and growing our business. However, the advantages we believe we may realize from these relationships may not materialize,
- We, our wholly owned subsidiary and Monmouth have entered into an Agreement and Plan of Merger, as described in Part I, Item 1, "Business" of this Annual Report on Form 10-K, or the Merger Agreement, to acquire Monmouth and such transaction is expected to close in the first quarter of 2022. The Monmouth Transaction is subject to the satisfaction of conditions, including the receipt of requisite approval by Monmouth's stockholders. We cannot be sure that these conditions will be satisfied. Accordingly, the Monmouth Transaction may not close when expected or at all, or the terms of the Monmouth Transaction may change,
- We intend to finance the Monmouth Transaction by entering into a joint venture with one or more institutional investors for equity investments, and with proceeds from new mortgage debt and the assumption of existing Monmouth mortgage debt. We may also use proceeds from the sale of certain Monmouth properties to finance this transaction. In addition, in connection with the financing of the Monmouth Transaction, we have obtained commitments from lenders to make a bridge loan available to us. However, we may not be able to enter into such joint venture or obtain such equity investments on favorable terms, and we may not be able to find alternative financing in the expected amount and/or on as favorable terms, if at all. In addition, there are conditions to the funding of the

bridge loan facility that may not be satisfied. In the event any of these funds are not available or are available in less than the full amount anticipated, or if we are unable to repay the amounts outstanding under the bridge loan facility prior to its expiration, we will be required to seek alternative financing, and our available cash flow to fund working capital, capital expenditures, acquisitions and other business activities may be reduced. In such event, the alternative financing may be more expensive and the expected benefits of the Monmouth Transaction could be reduced or eliminated, and

- We may not succeed in selling properties we may identify for sale in connection with the long term financing of the Monmouth Transaction and any proceeds we may receive from any such sales we do complete may be less than expected, and we may incur losses with respect to any such sales.

The information contained elsewhere in this Annual Report on Form 10-K or in our other filings with the Securities and Exchange Commission, or SEC, including under the caption "Risk Factors", or incorporated herein or therein, identifies other important factors that could cause differences from our forward-looking statements. Our filings with the SEC are available on the SEC's website at www.sec.gov.

You should not place undue reliance upon our forward-looking statements.

Except as required by law, we do not intend to update or change any forward-looking statements as a result of new information, future events or otherwise.

Statement Concerning Limited Liability

The Amended and Restated Declaration of Trust establishing Industrial Logistics Properties Trust, dated January 11, 2018, as filed with the State Department of Assessments and Taxation of Maryland, provides that no trustee, officer, shareholder, employee or agent of Industrial Logistics Properties Trust shall be held to any personal liability, jointly or severally, for any obligation of, or claim against, Industrial Logistics Properties Trust. All persons dealing with Industrial Logistics Properties Trust in any way shall look only to the assets of Industrial Logistics Properties Trust for the payment of any sum or the performance of any obligation.

INDUSTRIAL LOGISTICS PROPERTIES TRUST
2021 FORM 10-K ANNUAL REPORT

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PART I

Item 1. Business

Our Company

We are a real estate investment trust, or REIT, organized under Maryland law in 2017. We own and lease industrial and logistics properties throughout the United States. As of December 31, 2021, our portfolio was comprised of 288 wholly owned properties that were approximately 99.2% leased to 259 tenants with a weighted average (by annualized rental revenues) remaining lease term of approximately 9.4 years. The 288 properties consisted of 226 buildings, leasable land parcels and easements containing approximately 16.7 million rentable square feet (all square footage amounts included within this Annual Report on Form 10-K are unaudited) that were primarily industrial lands located on the island of Oahu, HI, or our Hawaii Properties, and 62 properties containing approximately 17.3 million rentable square feet that were industrial and logistics properties located in 30 other states, or our Mainland Properties.

As of December 31, 2021, our Hawaii Properties represented 52.9% of our annualized rental revenues and our Mainland Properties represented 47.1% of our annualized rental revenues. We define the term annualized rental revenues as used in this Annual Report on Form 10-K as the annualized contractual rents as of December 31, 2021, including straight line rent adjustments and excluding lease value amortization, adjusted for tenant concessions including free rent and amounts reimbursed to tenants, plus estimated recurring expense reimbursements from tenants.

As of December 31, 2021, we also owned a 22% equity interest in an unconsolidated joint venture that owns 18 properties located in 12 states in the mainland United States containing approximately 11.7 million rentable square feet that were 100% leased with an average (by annualized rental revenues) remaining lease term of 6.6 years.

In November 2021, we, our wholly owned subsidiary and Monmouth entered into the Merger Agreement, pursuant to which we have agreed to acquire all of the outstanding shares of Monmouth for $21.00 per Monmouth share in cash, in a transaction valued at approximately $4.0 billion, including the assumption of existing Monmouth mortgage debt, as well as transaction costs, referred to as the Monmouth Transaction. The Monmouth Transaction will add 126 new, Class A, single tenant, net leased, e-commerce focused industrial properties containing over 26 million square feet with a weighted average remaining lease term of approximately eight years to our portfolio. We intend to finance the Monmouth Transaction by entering into a joint venture with one or more institutional investors for equity investments and with proceeds from new mortgage debt and the assumption of existing Monmouth mortgage debt. Depending on the ultimate amount of the joint venture equity investments, we may also use proceeds from the sale of some of Monmouth's properties to finance the Monmouth Transaction. In addition, in connection with the financing of the Monmouth Transaction, we have obtained commitments from lenders to make a bridge loan of up to $4.0 billion available to us. The Monmouth Transaction is subject to the satisfaction of conditions, including the receipt of requisite approval by Monmouth's stockholders, and is expected to close in the first quarter of 2022. For more information regarding the Monmouth Transaction and the associated risks, see elsewhere in this Annual Report on Form 10-K.

Our principal executive offices are located at Two Newton Place, 255 Washington Street, Suite 300, Newton, Massachusetts 02458-1634, and our telephone number is (617) 219-1460.

Our Business and Growth Strategies

We own and lease industrial and logistics properties located throughout the United States. We believe our current properties provide a stable base of increasing income. We intend to expand our business by acquiring additional industrial and logistics properties in the United States that may benefit from the growth of e-commerce or demand for logistics properties.

External Growth through Acquisitions. Our external growth strategy is to acquire industrial and logistics properties that we believe will produce NOI in excess of our cost of capital used to purchase the properties. We intend to grow our business by investing primarily in industrial and logistics properties that serve the growing needs of e-commerce. We believe that e-commerce sales will continue to grow, in dollar value and volume of units sold and as a percentage of total retail sales, and that this will create strong demand for industrial and logistics properties and rental growth for the next several years. We are focused on acquiring industrial and logistics properties that are of strategic importance to our tenants' businesses, such as build to suit properties, strategic distribution hubs or other properties in which tenants have invested a significant amount of capital. We target occupied properties, where tenants are financially responsible for all, or substantially all, property operating expenses, including increases with respect thereto. As there are a limited number of industrial and logistics properties in Hawaii, we expect that most of our acquisitions will be in other states. Our external growth strategy is further defined by our investment policies.

Internal Growth through Rent Resets and Leasing Activity, Fixed Increases in Our Leases and Selective Development. Certain of the leases for our Hawaii Properties provide for rents to be reset to fair market value periodically during the lease terms. Since our predecessors began acquiring our Hawaii Properties in December 2003, our Hawaii Properties have remained over 96% leased, and periodic rent resets, together with lease extensions and new leasing activity following lease expirations, at our Hawaii Properties have resulted in significant rent increases. Due to the limited availability of land suitable for industrial uses that might compete with our Hawaii Properties, we believe that our Hawaii Properties offer the potential for rent growth as a result of periodic rent resets, lease extensions and new leasing. In addition to the internal rent growth which may result from our rent resets and lease expirations at our Hawaii Properties, a majority of the leases at our Mainland Properties and certain leases at our Hawaii Properties include periodic set dollar amount or percentage increases that raise the cash rent payable to us.

Since the time, in some cases 40 to 50 years ago, certain of our Hawaii Properties' leases were originally entered into, the characteristics of the neighborhoods in the vicinity of some of those properties have changed. In such circumstances, we have sometimes engaged in redevelopment activities to change the character of certain properties in order to increase rents. As our Hawaii Properties are currently experiencing strong demand for their current uses, we do not currently expect redevelopment efforts in Hawaii to become a major activity in the near term; however, we may undertake such activities on a selective basis. Also, we and our predecessors have sometimes built expansions for tenants at our Mainland Properties in return for lease extensions and rent increases, and we expect to continue such activities.

Our Leases

The following is an overview of the general lease terms for our properties. The terms of a particular lease may vary from those described below.

Mainland Properties' Leases. In general, our Mainland Properties are subject to leases pursuant to which the tenants pay fixed annual rents on a monthly, quarterly or semi-annual basis, and also pay or reimburse us for all, or substantially all, property level operating and maintenance expenses, such as real estate taxes, insurance, utilities and repairs, including increases with respect thereto. Many of our Mainland Properties' leases require us to maintain the roof, exterior walls, foundation and other structural elements of the buildings at our expense; however, as we believe our Mainland Properties are being well maintained, we do not believe these expenses will be material to us during the remaining lease terms.

Our Mainland Properties are currently 100% leased. We expect to have opportunities to raise rents or redevelop these properties as lease expirations at these properties approach. Also, some of the tenant renewal options at our Mainland Properties provide for rents to be reset to fair market values, and we may be able to raise rents if and when these options are exercised. We regularly confer with tenants at our Mainland Properties to determine if they are interested in our expanding or otherwise improving their leased properties in return for increased rents and extended terms.

Hawaii Properties' Leases. In general, our Hawaii Properties are subject to leases pursuant to which the tenants pay fixed annual rent on a monthly, quarterly or semi-annual basis, and also pay or reimburse us for all, or substantially all, property level operating and maintenance expenses, such as real estate taxes, insurance, utilities and repairs, including increases with respect thereto. Certain of our Hawaii Properties are leased for fixed annual rents that periodically reset based on fair market values and others are subject to leases with fixed increases. In some cases, the resets are based on fair market value rent and in other cases a percentage of the fair market value of the leased land. Fair market value rent reset rates are generally determined through negotiations between us and individual tenants; however, when no agreement is achieved, our Hawaii Properties' leases require an appraisal process. In the appraisal process for land leases that are periodically reset based on fair market value rents, the appraisers are required to determine the fair and reasonable rent, exclusive of improvements. In the appraisal process for land leases that are periodically reset based on a percentage of the fair market value of the land, the appraisers are required to determine the fair market value of the land, usually exclusive of improvements, with such fair market value being based on the highest and best use of such land and as though unencumbered by the lease, and then the appraisers apply a rent return rate to the land value which may be set in the lease or determined by the appraisers based on market conditions. Historically, this process has resulted in significant reset amounts.

Our Investment Policies

Our target investments include all industrial and logistics buildings in top tier markets. Outside of top tier markets, our focus is on newer buildings, high credit quality tenants and longer lease terms. We target estimated capitalization rates of 4% to 7% for new investments. If and as market conditions change, or in certain other instances, our target investments and target estimated capitalization rates may change.

In evaluating potential property acquisitions, we consider various factors, including, but not limited to, the following:

- the location of the property;
- the historical and projected rents received and to be received from the property;
- our cost of capital compared to projected returns we may realize by owning the property;
- the experience and credit quality of the property's tenants;
- the industries in which the tenants operate;
- the remaining term of the leases at the property and other lease terms;
- the type of property (e.g., bulk distribution, last-mile distribution, etc.);
- the tax and regulatory circumstances of the market area in which the property is located;
- the occupancy and demand for similar properties in the same or nearby locations;
- the construction quality, physical condition and design of the property, including various environmental sustainability factors;
- the expected capital expenditures that may be needed at the property;
- the price at which the property may be acquired as compared to the estimated replacement cost of the property;
- the price at which the property may be acquired as compared to the prices of comparable properties as evidenced by recent market sales;
- the strategic fit of the property with the rest of our portfolio;
- the existence of alternative sources, uses or needs for our capital; and
- the tenants' historic and expected adoption of environmental sustainability in connection with their operations.

Also, we may invest in or enter into real estate joint ventures. We currently own a 22% equity interest in an unconsolidated joint venture. In the future, we may invest in or enter into additional real estate joint ventures, or acquire additional properties with the intention of contributing such properties to our existing joint venture, if we conclude that by doing so we may benefit from the participation of co-venturers or that our opportunity to participate in the investment is contingent on the use of a joint venture structure or to take advantage of property valuation differences among private and public sources of equity capital. As noted above, we intend to enter a joint venture in connection with the financing of the Monmouth Transaction.

We have no limitations on the amount or percentage of our total assets that may be invested in any one property and no limits on the concentration of investments in any one location. However, we believe it is prudent to seek portfolio diversification, not concentration.

Our Board of Trustees may change our acquisition and investment policies at any time without a vote of, or advance notice to, our shareholders. We may in the future adopt policies with respect to investments in real estate mortgages or securities of other entities engaged in real estate activities. We may in the future consider the possibility of entering into mergers, strategic combinations or additional joint ventures with other companies.

Our Disposition Policies

We generally consider ourselves to be a long term owner of our properties. We have no current plans to sell any of our properties, but we may decide to sell some of our properties or a stake in some of our properties in the future. We expect our decision to sell properties or a stake in some of our properties will be based upon the following considerations, among others, which may be relevant to a particular property at a particular time:

- whether the property is leased and, if so, the remaining lease term and likelihood of lease renewal;
- whether the property's tenants are current on their lease obligations;
- our evaluation of the property's tenants' abilities to pay their contractual rents;
- our ability to identify new tenants if the property has or is likely to develop vacancies;
- our evaluation of future rents which may be achieved from the property;
- the potential costs associated with finding replacement tenants, including tenant improvements, leasing commissions and concessions, the cost to operate the property while vacant, and required building improvement capital, if any, all as compared to our projected returns from future rents;
- the estimated proceeds we may receive by selling the property;
- the strategic fit of the property with the rest of our portfolio;
- our intended use of the proceeds we may realize from the sale of a property;
- the benefits we believe we will achieve from contributing additional properties to our existing or any new joint venture;
- the existence of alternative sources, uses or needs for capital; and
- the tax implications to us and our shareholders of any proposed disposition.

Our Board of Trustees may change our disposition policies at any time without a vote of, or notice to, our shareholders.

Our Financing Policies

To qualify for taxation as a REIT under the Internal Revenue Code of 1986, as amended, or the IRC, we generally are required to distribute annually at least 90% of our REIT taxable income, subject to specified adjustments and excluding any net capital gain. We expect to repay our debts, invest in our properties or fund acquisitions, developments or redevelopments by borrowing under our revolving credit facility, issuing equity or debt securities or using retained cash from operations that may exceed distributions paid. We also expect that our operating and investing activities will be financed by rents from tenants at our properties in excess of planned distributions to our shareholders and by borrowings under our revolving credit facility. As the maximum borrowing under, or the maturity of, our revolving credit facility approaches, we expect to renew that facility or refinance that indebtedness with equity issuances or new debt. We will decide when and whether to issue equity or new debt depending primarily upon our success in operating our business and upon market conditions. Because our ability to raise capital will depend, in large part, upon market conditions, we cannot be sure that we will be able to raise sufficient capital to repay our debts or to fund our growth strategies.

We currently have a $750.0 million unsecured revolving credit facility that we use for working capital and general business purposes, including for acquisition funding on an interim basis until we are able to refinance acquisitions with equity or debt. In addition, in January 2019, we obtained a $650.0 million mortgage loan secured by 186 properties containing 9.6 million rentable square feet located on the island of Oahu, HI. In connection with the financing of the Monmouth Transaction, we have obtained commitments from lenders to make a bridge loan of up to $4.0 billion available to us, and may enter into an agreement for such bridge loan facility if necessary to fund the Monmouth Transaction. Also, as noted above, we intend to enter a joint venture in connection with the financing of the Monmouth Transaction. For more information regarding our financing sources and activities, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Our Investing and Financing Liquidity and Resources" of this Annual Report on Form 10-K and Note 3 to the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

We do not have policies limiting the amount of debt we may incur or the number or amount of mortgages that may be placed on our properties. Our Board of Trustees may change our financing policies at any time without a vote of, or notice to, our shareholders.

Environmental Matters

Ownership of real estate is subject to risks associated with environmental matters. When we acquire properties we perform environmental site assessments and where there are concerns we do additional monitoring and periodic assessments. Some of our properties are used or have been used for industrial purposes such that there may be forms of contamination present. We require our tenants to maintain compliance with environmental laws and we also monitor any known conditions and in some cases have set up reserves for potential environmental liabilities. Although we do not believe that there are environmental conditions at any of our properties that will materially and adversely affect us, we cannot be sure that such conditions or costs we may be required to incur in the future to address environmental contamination will not materially and adversely affect us.

Competition

Investing in and operating real estate is a very competitive business. We compete against publicly traded and private REITs, numerous financial institutions, individuals and public and private companies. Some of our competitors may have greater financial and other resources than us. We believe the experience and abilities of our management and our manager, the quality of our properties, the diversity and credit qualities of our tenants, and the structure of our leases may afford us some competitive advantages and allow us to operate our business successfully despite the competitive nature of our business. For more information, see "Risk Factors—Risks Related to Our Business—We face significant competition" in this Annual Report on Form 10-K.

Our Manager

RMR Inc. is a holding company and substantially all of its business is conducted by its majority owned subsidiary, RMR LLC. Adam D. Portnoy, the Chair of our Board of Trustees and one of our Managing Trustees, is the sole trustee, an officer and the controlling shareholder of ABP Trust, which is the controlling shareholder of RMR Inc., a managing director and the president and chief executive officer of RMR Inc. and an officer and employee of RMR LLC. John G. Murray, our other Managing Trustee and our President and Chief Executive Officer, also serves as an officer and employee of RMR LLC. Our day to day operations are conducted by RMR LLC. RMR LLC originates and presents investment and divestment opportunities to our Board of Trustees and provides management and administrative services to us. RMR LLC has a principal place of business at Two Newton Place, 255 Washington Street, Suite 300, Newton, Massachusetts 02458-1634, and its telephone number is (617) 796-8390.

RMR LLC is an alternative asset management company that is focused on commercial real estate and related businesses. RMR LLC or its subsidiaries also act as a manager to other publicly traded real estate companies, privately held real estate funds and real estate related operating businesses. In addition, RMR LLC provides management services to our existing joint venture. As of the date of this Annual Report on Form 10-K, the executive officers of RMR LLC are: Adam Portnoy, President and Chief Executive Officer;

Jennifer B. Clark, Executive Vice President, General Counsel and Secretary; Jennifer F. Francis, Executive Vice President; Matthew P. Jordan, Executive Vice President, Chief Financial Officer and Treasurer; John Murray, Executive Vice President; and Jonathan M. Pertchik, Executive Vice President. Our Chief Financial Officer and Treasurer, Richard W. Siedel, Jr., and our Chief Operating Officer and Vice President, Yael Duffy, are Senior Vice Presidents of RMR LLC. Messrs. Murray and Siedel and other officers of RMR LLC also serve as officers of other companies to which RMR LLC or its subsidiaries provide management services.

Employees

We have no employees. Services which would otherwise be provided to us by employees are provided by RMR LLC and by our Managing Trustees and officers. As of December 31, 2021, RMR LLC had nearly 600 full time employees in its headquarters and regional offices located throughout the United States.

Board Diversity

As of December 31, 2021, our Board of Trustees was comprised of six Trustees, of which four were independent trustees. Our Board of Trustees is comprised of 16.7% women and 16.7% members of underrepresented minorities.

Corporate Sustainability

Our business strategy incorporates a focus on sustainable approaches to operating our properties in a manner that benefits our shareholders, tenants and the communities in which we are located. We seek to operate our properties in ways that improve the economic performance of their operations, while simultaneously ensuring tenant comfort and safety, managing energy and water consumption, as well as greenhouse gas emissions. Our ESG initiatives are primarily implemented by our manager, RMR LLC, and focus on a complementary set of objectives, including responsible investment, environmental stewardship and investments in human capital. RMR LLC's annual Sustainability Report may be accessed on RMR Inc.'s website at www.rmrgroup.com/corporate-sustainability/default.aspx. The information on or accessible through RMR Inc.'s website is not incorporated by reference into this Annual Report on Form 10-K.

Insurance

The leases for our properties generally provide that our tenants are responsible for the costs of insurance for the properties we lease to them and the operations conducted on them, including for casualty, liability, fire, extended coverage and rental or business interruption losses. Under the leases for our Hawaii Properties, our tenants generally are responsible for maintaining insurance; and, under the leases for our Mainland Properties, our tenants generally are either required to reimburse us for the costs of maintaining the insurance coverage or to purchase such insurance directly and list us as an insured party.

Other Matters

Legislative and regulatory developments may occur at the federal, state and local levels that have direct or indirect impact on the ownership, leasing and operation of our properties. We may need to make expenditures due to changes in federal, state or local laws and regulations, or the application of these laws and regulations to our properties, including the Americans with Disabilities Act, fire and safety regulations, building codes, land use regulations or environmental regulations for containment, abatement or removal of hazardous substances. Under some of our leases, some of these costs are required to be paid or reimbursed to us by our tenants.

Internet Website

Our internet website address is www.ilptreit.com. Copies of our governance guidelines, our code of business conduct and ethics, or our Code of Conduct, and the charters of our audit, compensation and nominating and governance committees are posted on our website and also may be obtained free of charge by writing to our Secretary, Industrial Logistics Properties Trust, Two Newton Place, 255 Washington Street, Suite 300, Newton, Massachusetts, 02458-1634. We also have a policy outlining procedures for handling concerns or complaints about accounting, internal accounting controls or auditing matters and a governance hotline accessible on our website that shareholders can use to report concerns or complaints about accounting, internal accounting controls or auditing matters or violations or possible violations of our Code of Conduct. We make available, free of charge, through the "Investors" section of our website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as soon as reasonably practicable after these forms are filed with, or furnished to the Securities and Exchange Commission, or SEC. Any material we file with or furnish to the SEC is also maintained on the SEC website, www.sec.gov. Security holders may send communications to our Board of Trustees or individual Trustees by writing to the party for whom the communication is intended at c/o Secretary, Industrial Logistics Properties Trust, Two Newton Place, 255 Washington Street, Suite 300, Newton, Massachusetts 02458-1634 or by email at secretary@ilptreit.com. Our website address is included several times in this Annual Report on Form 10-K as a textual reference only. The information on or accessible through our website is not incorporated by reference into this Annual Report on Form 10-K or other documents we file with, or furnish to, the SEC. We intend to use our website as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. Those disclosures will be included on our website in the "Investors" section. Accordingly, investors should monitor our website, in addition to following our press releases, SEC filings and public conference calls and webcasts.

Segment Information

As of December 31, 2021, we had one operating segment: ownership and leasing of properties that include industrial and logistics buildings and leased industrial lands. For more information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following summary of material United States federal income tax considerations is based on existing law and is limited to investors who own our shares as investment assets rather than as inventory or as property used in a trade or business. The summary does not discuss all of the particular tax considerations that might be relevant to you if you are subject to special rules under federal income tax law, for example if you are:

- a bank, insurance company or other financial institution;
- a regulated investment company or REIT;
- a subchapter S corporation;
- a broker, dealer or trader in securities or foreign currencies;
- a person who marks-to-market our shares for U.S. federal income tax purposes;
- a U.S. shareholder (as defined below) that has a functional currency other than the U.S. dollar;
- a person who acquires or owns our shares in connection with employment or other performance of services;
- a person subject to alternative minimum tax;
- a person who acquires or owns our shares as part of a straddle, hedging transaction, constructive sale transaction, constructive ownership transaction or conversion transaction, or as part of a "synthetic security" or other integrated financial transaction;
- a person who owns 10% or more (by vote or value, directly or constructively under the IRC) of any class of our shares;
- a U.S. expatriate;
- a non-U.S. shareholder (as defined below) whose investment in our shares is effectively connected with the conduct of a trade or business in the United States;
- a nonresident alien individual present in the United States for 183 days or more during an applicable taxable year;
- a "qualified shareholder" (as defined in Section 897(k)(3)(A) of the IRC);
- a "qualified foreign pension fund" (as defined in Section 897(l)(2) of the IRC) or any entity wholly owned by one or more qualified foreign pension funds;
- a person subject to special tax accounting rules as a result of their use of applicable financial statements (within the meaning of Section 451(b)(3) of the IRC); or
- except as specifically described in the following summary, a trust, estate, tax-exempt entity or foreign person.

The sections of the IRC that govern the federal income tax qualification and treatment of a REIT and its shareholders are complex. This presentation is a summary of applicable IRC provisions, related rules and regulations, and administrative and judicial interpretations, all of which are subject to change, possibly with retroactive effect. Future legislative, judicial or administrative actions or decisions could also affect the accuracy of statements made in this summary. We have not received a ruling from the U.S. Internal Revenue Service, or the IRS, with respect to any matter described in this summary, and we cannot be sure that the IRS or a court will agree with all of the statements made in this summary. The IRS could, for example, take a different position from that described in this summary with respect to our acquisitions, operations, valuations, restructurings or other matters, which, if a court agreed, could result in significant tax liabilities for applicable parties. In addition, this summary is not exhaustive of all possible tax considerations and does not discuss any estate, gift, state, local or foreign tax considerations. For all these reasons, we urge you and any holder of or prospective acquiror of our shares to consult with a tax advisor about the federal income tax and other tax consequences of the acquisition, ownership and disposition of our shares. Our intentions and beliefs described in this summary are based upon our understanding of applicable laws and regulations that are in effect as of the date of this Annual Report on Form 10-K. If new laws or regulations are enacted which impact us directly or indirectly, we may change our intentions or beliefs.

Your federal income tax consequences generally will differ depending on whether or not you are a "U.S. shareholder." For purposes of this summary, a "U.S. shareholder" is a beneficial owner of our shares that is:

- an individual who is a citizen or resident of the United States, including an alien individual who is a lawful permanent resident of the United States or meets the substantial presence residency test under the federal income tax laws;
- an entity treated as a corporation for federal income tax purposes that is created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to federal income taxation regardless of its source; or
- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or, to the extent provided in Treasury regulations, a trust in existence on August 20, 1996 that has elected to be treated as a domestic trust;

whose status as a U.S. shareholder is not overridden by an applicable tax treaty. Conversely, a "non-U.S. shareholder" is a beneficial owner of our shares that is not an entity (or other arrangement) treated as a partnership for federal income tax purposes and is not a U.S. shareholder.

If any entity (or other arrangement) treated as a partnership for federal income tax purposes holds our shares, the tax treatment of a partner in the partnership generally will depend upon the tax status of the partner and the activities of the partnership. Any entity (or other arrangement) treated as a partnership for federal income tax purposes that is a holder of our shares and the partners in such a partnership (as determined for federal income tax purposes) are urged to consult their own tax advisors about the federal income tax consequences and other tax consequences of the acquisition, ownership and disposition of our shares.

Taxation as a REIT

We have elected to be taxed as a REIT under Sections 856 through 860 of the IRC, commencing with our 2018 taxable year. Our REIT election, assuming continuing compliance with the then applicable qualification tests, has continued and will continue in effect for subsequent taxable years. Although we cannot be sure, we believe that from and after our 2018 taxable year we have been organized and have operated, and will continue to be organized and to operate, in a manner that qualified us and will continue to qualify us to be taxed as a REIT under the IRC.

As a REIT, we generally are not subject to federal income tax on our net income distributed as dividends to our shareholders. Distributions to our shareholders generally are included in our shareholders' income as dividends to the extent of our available current or accumulated earnings and profits. Our dividends are not generally entitled to the preferential tax rates on qualified dividend income, but a portion of our dividends may be treated as capital gain dividends or as qualified dividend income, all as explained below. In addition, for taxable years beginning before 2026 and pursuant to the deduction-without-outlay mechanism of Section 199A of the IRC, our noncorporate U.S. shareholders that meet specified holding period requirements are generally eligible for lower effective tax rates on our dividends that are not treated as capital gain dividends or as qualified dividend income. No portion of any of our dividends is eligible for the dividends received deduction for corporate shareholders. Distributions in excess of our current or accumulated earnings and profits generally are treated for federal income tax purposes as returns of capital to the extent of a recipient shareholder's basis in our shares, and will reduce this basis. Our current or accumulated earnings and profits are generally allocated first to distributions made on our preferred shares, of which there are none outstanding at this time, and thereafter to distributions made on our common shares. For all these purposes, our distributions include cash distributions, any in kind distributions of property that we might make, and deemed or constructive distributions resulting from capital market activities (such as some redemptions), as described below.

Our counsel, Sullivan & Worcester LLP, is of the opinion that we have been organized and have qualified for taxation as a REIT under the IRC for our 2018 through 2021 taxable years, and that our current and anticipated investments and plan of operation will enable us to continue to meet the requirements for qualification and taxation as a REIT under the IRC. Our counsel's opinions are conditioned upon the assumption that our leases, our declaration of trust, and all other legal documents to which we have been or are a party have been and will be complied with by all parties to those documents, upon the accuracy and completeness of the factual matters described in this Annual Report on Form 10-K and upon representations made by us to our counsel as to certain factual matters relating to our organization and operations and our expected manner of operation. If this assumption or a description or representation is inaccurate or incomplete, our counsel's opinions may be adversely affected and may not be relied upon. The opinions of our counsel are based upon the law as it exists today, but the law may change in the future, possibly with retroactive effect. Given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, and the possibility of future changes in our circumstances, neither Sullivan & Worcester LLP nor we can be sure that we will qualify as or be taxed as a REIT for any particular year. Any opinion of Sullivan & Worcester LLP as to our qualification or taxation as a REIT will be expressed as of the date issued. Our counsel will have no obligation to advise us or our shareholders of any subsequent change in the matters stated, represented or assumed, or of any subsequent change in the applicable law. Also, the opinions of our counsel are not binding on either the IRS or a court, and either could take a position different from that expressed by our counsel.

Our continued qualification and taxation as a REIT will depend upon our compliance with various qualification tests imposed under the IRC and summarized below. While we believe that we have satisfied and will satisfy these tests, our counsel does not review compliance with these tests on a continuing basis. If we fail to qualify for taxation as a REIT in any year, then we will be subject to federal income taxation as if we were a corporation taxed under subchapter C of the IRC, or a C corporation, and our shareholders will be taxed like shareholders of regular C corporations, meaning that federal income tax generally will be applied at both the corporate and shareholder levels. In this event, we could be subject to significant tax liabilities, and the amount of cash available for distribution to our shareholders could be reduced or eliminated.

If we continue to qualify for taxation as a REIT and meet the tests described below, then we generally will not pay federal income tax on amounts that we distribute to our shareholders. However, even if we continue to qualify for taxation as a REIT, we may still be subject to federal tax in the following circumstances, as described below:

- We will be taxed at regular corporate income tax rates on any undistributed "real estate investment trust taxable income," determined by including our undistributed ordinary income and net capital gains, if any.
- If we have net income from the disposition of "foreclosure property," as described in Section 856(e) of the IRC, that is held primarily for sale to customers in the ordinary course of a trade or business or other nonqualifying income from foreclosure property, we will be subject to tax on this income at the highest regular corporate income tax rate.
- If we have net income from "prohibited transactions"—that is, dispositions at a gain of inventory or property held primarily for sale to customers in the ordinary course of a trade or business other than dispositions of foreclosure property and other than dispositions excepted by statutory safe harbors—we will be subject to tax on this income at a 100% rate.
- If we fail to satisfy the 75% gross income test or the 95% gross income test discussed below, due to reasonable cause and not due to willful neglect, but nonetheless maintain our qualification for taxation as a REIT because of specified cure provisions, we will be subject to tax at a 100% rate on the greater of the amount by which we fail the 75% gross income test or the 95% gross income test, with adjustments, multiplied by a fraction intended to reflect our profitability for the taxable year.
- If we fail to satisfy any of the REIT asset tests described below (other than a de minimis failure of the 5% or 10% asset tests) due to reasonable cause and not due to willful neglect, but nonetheless maintain our qualification for taxation as a REIT because of specified cure provisions, we will be subject to a tax equal to the greater of $50,000 or the highest regular corporate income tax rate multiplied by the net income generated by the nonqualifying assets that caused us to fail the test.

- If we fail to satisfy any provision of the IRC that would result in our failure to qualify for taxation as a REIT (other than violations of the REIT gross income tests or violations of the REIT asset tests described below) due to reasonable cause and not due to willful neglect, we may retain our qualification for taxation as a REIT but will be subject to a penalty of $50,000 for each failure.
- If we fail to distribute for any calendar year at least the sum of 85% of our REIT ordinary income for that year, 95% of our REIT capital gain net income for that year and any undistributed taxable income from prior periods, we will be subject to a 4% nondeductible excise tax on the excess of the required distribution over the amounts actually distributed.
- If we acquire a REIT asset where our adjusted tax basis in the asset is determined by reference to the adjusted tax basis of the asset in the hands of a C corporation, under specified circumstances we may be subject to federal income taxation on all or part of the built-in gain (calculated as of the date the property ceased being owned by the C corporation) on such asset. We generally do not expect to sell assets if doing so would result in the imposition of a material built-in gains tax liability; but if and when we do sell assets that may have associated built-in gains tax exposure, then we expect to make appropriate provision for the associated tax liabilities on our financial statements.
- If we acquire a corporation in a transaction where we succeed to its tax attributes, to preserve our qualification for taxation as a REIT we must generally distribute all of the C corporation earnings and profits inherited in that acquisition, if any, no later than the end of our taxable year in which the acquisition occurs. However, if we fail to do so, relief provisions would allow us to maintain our qualification for taxation as a REIT provided we distribute any subsequently discovered C corporation earnings and profits and pay an interest charge in respect of the period of delayed distribution.
- Our subsidiaries that are C corporations, including our "taxable REIT subsidiaries", as defined in Section 856(l) of the IRC, or TRSs, generally will be required to pay federal corporate income tax on their earnings, and a 100% tax may be imposed on any transaction between us and one of our TRSs that does not reflect arm's length terms.
- If following our acquisition of Monmouth it is determined that Monmouth failed to satisfy one or more of the REIT tests described below, the IRS might allow us, as Monmouth's successor, the same opportunity for relief as though we were the remediating REIT. In such case, Monmouth would be deemed to have retained its qualification for taxation as a REIT and the relevant penalties or sanctions for remediation would fall upon us in a manner comparable to the above.
- As discussed below, we are invested in real estate through a subsidiary that we believe qualifies for taxation as a REIT. If it is determined that this entity failed to qualify for taxation as a REIT, we may fail one or more of the REIT asset tests. In such case, we expect that we would be able to avail ourselves of the relief provisions described below, but would be subject to a tax equal to the greater of $50,000 or the highest regular corporate income tax rate multiplied by the net income we earned from this subsidiary.

If we fail to qualify for taxation as a REIT in any year, then we will be subject to federal income tax in the same manner as a regular C corporation. Further, as a regular C corporation, distributions to our shareholders will not be deductible by us, nor will distributions be required under the IRC. Also, to the extent of our current and accumulated earnings and profits, all distributions to our shareholders will generally be taxable as ordinary dividends potentially eligible for the preferential tax rates discussed below under the heading "—Taxation of Taxable U.S. Shareholders" and, subject to limitations in the IRC, will be potentially eligible for the dividends received deduction for corporate shareholders. Finally, we will generally be disqualified from taxation as a REIT for the four taxable years following the taxable year in which the termination of our REIT status is effective. Our failure to qualify for taxation as a REIT for even one year could result in us reducing or eliminating distributions to our shareholders, or in us incurring substantial indebtedness or liquidating substantial investments in order to pay the resulting corporate-level income taxes. Relief provisions under the IRC may allow us to continue to qualify for taxation as a REIT even if we fail to comply with various REIT requirements, all as discussed in more detail below. However, it is impossible to state whether in any particular circumstance we would be entitled to the benefit of these relief provisions.

REIT Qualification Requirements

General Requirements. Section 856(a) of the IRC defines a REIT as a corporation, trust or association:

(1) that is managed by one or more trustees or directors;

(2) the beneficial ownership of which is evidenced by transferable shares or by transferable certificates of beneficial interest;

(3) that would be taxable, but for Sections 856 through 859 of the IRC, as a domestic C corporation;

(4) that is not a financial institution or an insurance company subject to special provisions of the IRC;

(5) the beneficial ownership of which is held by 100 or more persons;

(6) that is not "closely held," meaning that during the last half of each taxable year, not more than 50% in value of the outstanding shares are owned, directly or indirectly, by five or fewer "individuals" (as defined in the IRC to include specified tax-exempt entities);

(7) that does not have (and has not succeeded to) the post-December 7, 2015 tax-free spin-off history proscribed by Section 856(c)(8) of the IRC; and

(8) that meets other tests regarding the nature of its income and assets and the amount of its distributions, all as described below.

Section 856(b) of the IRC provides that conditions (1) through (4) must be met during the entire taxable year and that condition (5) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months. Although we cannot be sure, we believe that we have met conditions (1) through (8) during each of the requisite periods ending on or before the close of our most recently completed taxable year, and that we will continue to meet these conditions in our current and future taxable years. To help comply with condition (6), our declaration of trust restricts transfers of our shares that would otherwise result in concentrated ownership positions. These restrictions, however, do not ensure that we have previously satisfied, and may not ensure that we will in all cases be able to continue to satisfy, the share ownership requirements described in condition (6). If we comply with applicable Treasury regulations to ascertain the ownership of our outstanding shares and do not know, or by exercising reasonable diligence would not have known, that we failed condition (6), then we will be treated as having met condition (6). Accordingly, we have complied and will continue to comply with these regulations, including by requesting annually from holders of significant percentages of our shares information regarding the ownership of our shares. Under our declaration of trust, our shareholders are required to respond to these requests for information. A shareholder that fails or refuses to comply with the request is required by Treasury regulations to submit a statement with its federal income tax return disclosing its actual ownership of our shares and other information.

For purposes of condition (6), an "individual" generally includes a natural person, a supplemental unemployment compensation benefit plan, a private foundation, or a portion of a trust permanently set aside or used exclusively for charitable purposes, but does not include a qualified pension plan or profit-sharing trust. As a result, REIT shares owned by an entity that is not an "individual" are considered to be owned by the direct and indirect owners of the entity that are individuals (as so defined), rather than to be owned by the entity itself. Similarly, REIT shares held by a qualified pension plan or profit-sharing trust are treated as held directly by the individual beneficiaries in proportion to their actuarial interests in such plan or trust. Consequently, five or fewer such trusts could own more than 50% of the interests in an entity without jeopardizing that entity's qualification for taxation as a REIT.

The IRC provides that we will not automatically fail to qualify for taxation as a REIT if we do not meet conditions (1) through (7), provided we can establish that such failure was due to reasonable cause and not due to willful neglect. Each such excused failure will result in the imposition of a $50,000 penalty instead of REIT disqualification. This relief provision may apply to a failure of the applicable conditions even if the failure first occurred in a year prior to the taxable year in which the failure was discovered.

Our Wholly Owned Subsidiaries and Our Investments Through Partnerships. Except in respect of a TRS as discussed below, Section 856(i) of the IRC provides that any corporation, 100% of whose stock is held by a REIT and its disregarded subsidiaries, is a qualified REIT subsidiary and shall not be treated as a separate corporation for U.S. federal income tax purposes. The assets, liabilities and items of income, deduction and credit of a qualified REIT subsidiary are treated as the REIT's. We believe that each of our direct and indirect wholly owned subsidiaries, other than the TRSs discussed below (and entities whose equity is owned in whole or in part by such TRSs), will be either a qualified REIT subsidiary within the meaning of Section 856(i)(2) of the IRC or a noncorporate entity that for federal income tax purposes is not treated as separate from its owner under Treasury regulations issued under Section 7701 of the IRC, each such entity referred to as a QRS. Thus, in applying all of the REIT qualification requirements described in this summary, all assets, liabilities and items of income, deduction and credit of our QRSs are treated as ours, and our investment in the stock and other securities of such QRSs will be disregarded.

We have invested and may in the future invest in real estate through one or more entities that are treated as partnerships for federal income tax purposes. In the case of a REIT that is a partner in a partnership, Treasury regulations under the IRC provide that, for purposes of the REIT qualification requirements regarding income and assets described below, the REIT is generally deemed to own its proportionate share, based on respective capital interests, of the income and assets of the partnership (except that for purposes of the 10% value test, described below, the REIT's proportionate share of the partnership's assets is based on its proportionate interest in the equity and specified debt securities issued by the partnership). In addition, for these purposes, the character of the assets and items of gross income of the partnership generally remains the same in the hands of the REIT. In contrast, for purposes of the distribution requirements discussed below, we must take into account as a partner our share of the partnership's income as determined under the general federal income tax rules governing partners and partnerships under Subchapter K of the IRC.

Subsidiary REITs. We indirectly own real estate through a subsidiary that we believe has qualified and will remain qualified for taxation as a REIT under the IRC, and we may in the future invest in real estate through one or more other subsidiary entities that are intended to qualify for taxation as REITs. When a subsidiary qualifies for taxation as a REIT separate and apart from its REIT parent, the subsidiary's shares are qualifying real estate assets for purposes of the REIT parent's 75% asset test described below. However, failure of the subsidiary to separately satisfy the various REIT qualification requirements described in this summary or that are otherwise applicable (and failure to qualify for the applicable relief provisions) would generally result in (a) the subsidiary being subject to regular U.S. corporate income tax, as described above, and (b) the REIT parent's ownership in the subsidiary (i) ceasing to be qualifying real estate assets for purposes of the 75% asset test and (ii) becoming subject to the 5% asset test, the 10% vote test and the 10% value test generally applicable to a REIT's ownership in corporations other than REITs and TRSs. In such a situation, the REIT parent's own REIT qualification and taxation could be jeopardized on account of the subsidiary's failure cascading up to the REIT parent, all as described below under the heading "—Asset Tests".

We joined with our subsidiary REIT in filing a protective TRS election, effective for the first quarter of 2020. We have subsequently reaffirmed this protective election with this subsidiary every January thereafter and we may continue to do so unless and until our ownership of this subsidiary falls below 10%. Pursuant to this protective TRS election, we believe that if our subsidiary is not a REIT for some reason, then it would instead be considered one of our TRSs, and as such its value would fit within our REIT gross asset tests described below. We expect to make similar protective TRS elections with respect to any other subsidiary REIT that we form or acquire. We do not expect protective TRS elections to impact our compliance with the 75% and 95% gross income tests described below, because we do not expect our gains and dividends from a subsidiary REIT's shares to jeopardize compliance with these tests even if for some reason the subsidiary is not a REIT.

Taxable REIT Subsidiaries. As a REIT, we are permitted to own any or all of the securities of a TRS, provided that no more than 20% of the total value of our assets, at the close of each quarter, is comprised of our investments in the stock or other securities of our TRSs. Very generally, a TRS is a subsidiary corporation other than a REIT in which a REIT directly or indirectly holds stock and that has made a joint election with such REIT to be treated as a TRS. A TRS is taxed as a regular C corporation, separate and apart from any affiliated REIT. Our ownership of stock and other securities in our TRSs is exempt from the 5% asset test, the 10% vote test and the 10% value test discussed below.

In addition, any corporation (other than a REIT and other than a QRS) in which a TRS directly or indirectly owns more than 35% of the voting power or value of the outstanding securities is automatically a TRS (excluding, for this purpose, certain "straight debt" securities). Subject to the discussion below, we believe that we and each of our TRSs have complied with, and will continue to comply with, the requirements for TRS status at all times during which the subsidiary's TRS election is intended to be in effect, and we believe that the same will be true for any TRS that we later form or acquire.

As discussed below, TRSs can perform services for our tenants without disqualifying the rents we receive from those tenants under the 75% gross income test or the 95% gross income test discussed below. Moreover, because our TRSs are taxed as C corporations that are separate from us, their assets, liabilities and items of income, deduction and credit generally are not imputed to us for purposes of the REIT qualification requirements described in this summary. Therefore, our TRSs may generally conduct activities that would be treated as prohibited transactions or would give rise to nonqualified income if conducted by us directly.

Restrictions and sanctions are imposed on TRSs and their affiliated REITs to ensure that the TRSs will be subject to an appropriate level of federal income taxation. For example, if a TRS pays interest, rent or other amounts to its affiliated REIT in an amount that exceeds what an unrelated third party would have paid in an arm's length transaction, then the REIT generally will be subject to an excise tax equal to 100% of the excessive portion of the payment. Further, if in comparison to an arm's length transaction, a third-party tenant has overpaid rent to the REIT in exchange for underpaying the TRS for services rendered, and if the REIT has not adequately compensated the TRS for services provided to or on behalf of the third-party tenant, then the REIT may be subject to an excise tax equal to 100% of the undercompensation to the TRS. A safe harbor exception to this excise tax applies if the TRS has been compensated at a rate at least equal to 150% of its direct cost in furnishing or rendering the service. Finally, the 100% excise tax also applies to the underpricing of services provided by a TRS to its affiliated REIT in contexts where the services are unrelated to services for REIT tenants. We cannot be sure that arrangements involving our TRSs will not result in the imposition of one or more of these restrictions or sanctions, but we do not believe that we or our TRSs are or will be subject to these impositions.

Income Tests. We must satisfy two gross income tests annually to maintain our qualification for taxation as a REIT. First, at least 75% of our gross income for each taxable year must be derived from investments relating to real property, including "rents from real property" within the meaning of Section 856(d) of the IRC, interest and gain from mortgages on real property or on interests in real property, income and gain from foreclosure property, gain from the sale or other disposition of real property (including specified ancillary personal property treated as real property under the IRC), or dividends on and gain from the sale or disposition of shares in other REITs (but excluding in all cases any gains subject to the 100% tax on prohibited transactions). When we receive new capital in exchange for our shares or in a public offering of our five-year or longer debt instruments, income attributable to the temporary investment of this new capital in stock or a debt instrument, if received or accrued within one year of our receipt of the new capital, is generally also qualifying income under the 75% gross income test. Second, at least 95% of our gross income for each taxable year must consist of income that is qualifying income for purposes of the 75% gross income test, other types of interest and dividends, gain from the sale or disposition of stock or securities, or any combination of these. Gross income from our sale of property that we hold primarily for sale to customers in the ordinary course of business, income and gain from specified "hedging transactions" that are clearly and timely identified as such, and income from the repurchase or discharge of indebtedness is excluded from both the numerator and the denominator in both gross income tests. In addition, specified foreign currency gains will be excluded from gross income for purposes of one or both of the gross income tests.

In order to qualify as "rents from real property" within the meaning of Section 856(d) of the IRC, several requirements must be met:

- The amount of rent received generally must not be based on the income or profits of any person, but may be based on a fixed percentage or percentages of receipts or sales.

- Rents generally do not qualify if the REIT owns 10% or more by vote or value of stock of the tenant (or 10% or more of the interests in the assets or net profits of the tenant, if the tenant is not a corporation), whether directly or after application of attribution rules. We generally do not intend to lease property to any party if rents from that property would not qualify as "rents from real property," but application of the 10% ownership rule is dependent upon complex attribution rules and circumstances that may be beyond our control. Our declaration of trust generally disallows transfers or purported acquisitions, directly or by attribution, of our shares to the extent necessary to maintain our qualification for taxation as a REIT under the IRC. Nevertheless, we cannot be sure that these restrictions will be effective to prevent our qualification for taxation as a REIT from being jeopardized under the 10% affiliated tenant rule. Furthermore, we cannot be sure that we will be able to monitor and enforce these restrictions, nor will our shareholders necessarily be aware of ownership of our shares attributed to them under the IRC's attribution rules.
- There is a limited exception to the above prohibition on earning "rents from real property" from a 10% affiliated tenant where the tenant is a TRS. If at least 90% of the leased space of a property is leased to tenants other than TRSs and 10% affiliated tenants, and if the TRS's rent to the REIT for space at that property is substantially comparable to the rents paid by nonaffiliated tenants for comparable space at the property, then otherwise qualifying rents paid by the TRS to the REIT will not be disqualified on account of the rule prohibiting 10% affiliated tenants.
- In order for rents to qualify, a REIT generally must not manage the property or furnish or render services to the tenants of the property, except through an independent contractor from whom it derives no income or through one of its TRSs. There is an exception to this rule permitting a REIT to perform customary management and tenant services of the sort that a tax-exempt organization could perform without being considered in receipt of "unrelated business taxable income" as defined in Section 512(b)(3) of the IRC, or UBTI. In addition, a de minimis amount of noncustomary services provided to tenants will not disqualify income as "rents from real property" as long as the value of the impermissible tenant services does not exceed 1% of the gross income from the property.
- If rent attributable to personal property leased in connection with a lease of real property is 15% or less of the total rent received under the lease, then the rent attributable to personal property will qualify as "rents from real property;" if this 15% threshold is exceeded, then the rent attributable to personal property will not so qualify. The portion of rental income treated as attributable to personal property is determined according to the ratio of the fair market value of the personal property to the total fair market value of the real and personal property that is rented.
- In addition, "rents from real property" includes both charges we receive for services customarily rendered in connection with the rental of comparable real property in the same geographic area, even if the charges are separately stated, as well as charges we receive for services provided by our TRSs when the charges are not separately stated. Whether separately stated charges received by a REIT for services that are not geographically customary and provided by a TRS are included in "rents from real property" has not been addressed clearly by the IRS in published authorities; however, our counsel, Sullivan & Worcester LLP, is of the opinion that, although the matter is not free from doubt, "rents from real property" also includes charges we receive for services provided by our TRSs when the charges are separately stated, even if the services are not geographically customary. Accordingly, we expect that any revenues from TRS-provided services, whether the charges are separately stated or not, will qualify as "rents from real property" because the services will satisfy the geographically customary standard, because the services will be provided by a TRS, or for both reasons.

We believe that all or substantially all of our rents and related service charges have qualified and will continue to qualify as "rents from real property" for purposes of Section 856 of the IRC.

Absent the "foreclosure property" rules of Section 856(e) of the IRC, a REIT's receipt of active, nonrental gross income from a property would not qualify under the 75% and 95% gross income tests. But as foreclosure property, the active, nonrental gross income from the property would so qualify. Foreclosure property is generally any real property, including interests in real property, and any personal property incident to such real property:

- that is acquired by a REIT as a result of the REIT having bid on such property at foreclosure, or having otherwise reduced such property to ownership or possession by agreement or process of law, after there was a default or when default was imminent on a lease of such property or on indebtedness that such property secured;
- for which any related loan acquired by the REIT was acquired at a time when the default was not imminent or anticipated; and
- for which the REIT makes a proper election to treat the property as foreclosure property.

Any gain that a REIT recognizes on the sale of foreclosure property held as inventory or primarily for sale to customers, plus any income it receives from foreclosure property that would not otherwise qualify under the 75% gross income test in the absence of foreclosure property treatment, reduced by expenses directly connected with the production of those items of income, would be subject to income tax at the highest regular corporate income tax rate under the foreclosure property income tax rules of Section 857(b)(4) of the IRC. Thus, if a REIT should lease foreclosure property in exchange for rent that qualifies as “rents from real property” as described above, then that rental income is not subject to the foreclosure property income tax.

Property generally ceases to be foreclosure property at the end of the third taxable year following the taxable year in which the REIT acquired the property, or longer if an extension is obtained from the IRS. However, this grace period terminates and foreclosure property ceases to be foreclosure property on the first day:

- on which a lease is entered into for the property that, by its terms, will give rise to income that does not qualify for purposes of the 75% gross income test (disregarding income from foreclosure property), or any nonqualified income under the 75% gross income test is received or accrued by the REIT, directly or indirectly, pursuant to a lease entered into on or after such day;
- on which any construction takes place on the property, other than completion of a building or any other improvement where more than 10% of the construction was completed before default became imminent and other than specifically exempted forms of maintenance or deferred maintenance; or
- which is more than 90 days after the day on which the REIT acquired the property and the property is used in a trade or business which is conducted by the REIT, other than through an independent contractor from whom the REIT itself does not derive or receive any income or a TRS.

Other than sales of foreclosure property, any gain that we realize on the sale of property held as inventory or other property held primarily for sale to customers in the ordinary course of a trade or business, together known as dealer gains, may be treated as income from a prohibited transaction that is subject to a penalty tax at a 100% rate. The 100% tax does not apply to gains from the sale of property that is held through a TRS, although such income will be subject to tax in the hands of the TRS at regular corporate income tax rates; we may therefore utilize our TRSs in transactions in which we might otherwise recognize dealer gains. Whether property is held as inventory or primarily for sale to customers in the ordinary course of a trade or business is a question of fact that depends on all the facts and circumstances surrounding each particular transaction. Sections 857(b)(6)(C) and (E) of the IRC provide safe harbors pursuant to which limited sales of real property held for at least two years and meeting specified additional requirements will not be treated as prohibited transactions. However, compliance with the safe harbors is not always achievable in practice. We attempt to structure our activities to avoid transactions that are prohibited transactions, or otherwise conduct such activities through TRSs; but, we cannot be sure whether or not the IRS might successfully assert that we are subject to the 100% penalty tax with respect to any particular transaction. Gains subject to the 100% penalty tax are excluded from the 75% and 95% gross income tests, whereas real property gains that are not dealer gains or that are exempted from the 100% penalty tax on account of the safe harbors are considered qualifying gross income for purposes of the 75% and 95% gross income tests.

We believe that any gain that we have recognized, or will recognize, in connection with our disposition of assets and other transactions, including through any partnerships, will generally qualify as income that satisfies the 75% and 95% gross income tests, and will not be dealer gains or subject to the 100% penalty tax.

This is because our general intent has been and is to: (a) own our assets for investment (including through joint ventures) with a view to long-term income production and capital appreciation; (b) engage in the business of developing, owning, leasing and managing our existing properties and acquiring, developing, owning, leasing and managing new properties; and (c) make occasional dispositions of our assets consistent with our long-term investment objectives.

If we fail to satisfy one or both of the 75% gross income test or the 95% gross income test in any taxable year, we may nevertheless qualify for taxation as a REIT for that year if we satisfy the following requirements: (a) our failure to meet the test is due to reasonable cause and not due to willful neglect; and (b) after we identify the failure, we file a schedule describing each item of our gross income included in the 75% gross income test or the 95% gross income test for that taxable year. Even if this relief provision does apply, a 100% tax is imposed upon the greater of the amount by which we failed the 75% gross income test or the amount by which we failed the 95% gross income test, with adjustments, multiplied by a fraction intended to reflect our profitability for the taxable year. This relief provision may apply to a failure of the applicable income tests even if the failure first occurred in a year prior to the taxable year in which the failure was discovered.

Based on the discussion above, we believe that we have satisfied, and will continue to satisfy, the 75% and 95% gross income tests outlined above on a continuing basis beginning with our first taxable year as a REIT.

Asset Tests. At the close of each calendar quarter of each taxable year, we must also satisfy the following asset percentage tests in order to qualify for taxation as a REIT for federal income tax purposes:

- At least 75% of the value of our total assets must consist of "real estate assets," defined as real property (including interests in real property and interests in mortgages on real property or on interests in real property), ancillary personal property to the extent that rents attributable to such personal property are treated as rents from real property in accordance with the rules described above, cash and cash items, shares in other REITs, debt instruments issued by "publicly offered REITs" as defined in Section 562(c)(2) of the IRC, government securities and temporary investments of new capital (that is, any stock or debt instrument that we hold that is attributable to any amount received by us (a) in exchange for our stock or (b) in a public offering of our five-year or longer debt instruments, but in each case only for the one-year period commencing with our receipt of the new capital).
- Not more than 25% of the value of our total assets may be represented by securities other than those securities that count favorably toward the preceding 75% asset test.
- Of the investments included in the preceding 25% asset class, the value of any one non-REIT issuer's securities that we own may not exceed 5% of the value of our total assets. In addition, we may not own more than 10% of the vote or value of any one non-REIT issuer's outstanding securities, unless the securities are "straight debt" securities or otherwise excepted as discussed below. Our stock and other securities in a TRS are exempted from these 5% and 10% asset tests.
- Not more than 20% of the value of our total assets may be represented by stock or other securities of our TRSs.
- Not more than 25% of the value of our total assets may be represented by "nonqualified publicly offered REIT debt instruments" as defined in Section 856(c)(5)(L)(ii) of the IRC.

Our counsel, Sullivan & Worcester LLP, is of the opinion that, although the matter is not free from doubt, our investments in the equity or debt of a TRS of ours, to the extent that and during the period in which they qualify as temporary investments of new capital, will be treated as real estate assets, and not as securities, for purposes of the above REIT asset tests.

The above REIT asset tests must be satisfied at the close of each calendar quarter of each taxable year as a REIT. After a REIT meets the asset tests at the close of any quarter, it will not lose its qualification for taxation as a REIT in any subsequent quarter solely because of fluctuations in the values of its assets. This grandfathering rule may be of limited benefit to a REIT such as us that makes periodic acquisitions of both qualifying and nonqualifying REIT assets. When a failure to satisfy the above asset tests results from an acquisition of securities or other property during a quarter, the failure can be cured by disposition of sufficient nonqualifying assets within thirty days after the close of that quarter.

In addition, if we fail the 5% asset test, the 10% vote test or the 10% value test at the close of any quarter and we do not cure such failure within thirty days after the close of that quarter, that failure will nevertheless be excused if (a) the failure is de minimis and (b) within six months after the last day of the quarter in which we identify the failure, we either dispose of the assets causing the failure or otherwise satisfy the 5% asset test, the 10% vote test and the 10% value test. For purposes of this relief provision, the failure will be de minimis if the value of the assets causing the failure does not exceed \$10,000,000. If our failure is not de minimis, or if any of the other REIT asset tests have been violated, we may nevertheless qualify for taxation as a REIT if (a) we provide the IRS with a description of each asset causing the failure, (b) the failure was due to reasonable cause and not willful neglect, (c) we pay a tax equal to the greater of (1) \$50,000 or (2) the highest regular corporate income tax rate imposed on the net income generated by the assets causing the failure during the period of the failure, and (d) within six months after the last day of the quarter in which we identify the failure, we either dispose of the assets causing the failure or otherwise satisfy all of the REIT asset tests. These relief provisions may apply to a failure of the applicable asset tests even if the failure first occurred in a year prior to the taxable year in which the failure was discovered.

The IRC also provides an excepted securities safe harbor to the 10% value test that includes among other items (a) "straight debt" securities, (b) specified rental agreements in which payment is to be made in subsequent years, (c) any obligation to pay "rents from real property," (d) securities issued by governmental entities that are not dependent in whole or in part on the profits of or payments from a nongovernmental entity, and (e) any security issued by another REIT. In addition, any debt instrument issued by an entity classified as a partnership for federal income tax purposes, and not otherwise excepted from the definition of a security for purposes of the above safe harbor, will not be treated as a security for purposes of the 10% value test if at least 75% of the partnership's gross income, excluding income from prohibited transactions, is qualifying income for purposes of the 75% gross income test.

We have maintained and will continue to maintain records of the value of our assets to document our compliance with the above asset tests and intend to take actions as may be required to cure any failure to satisfy the tests within thirty days after the close of any quarter or within the six month periods described above.

Based on the discussion above, we believe that we have satisfied, and will continue to satisfy, the REIT asset tests outlined above on a continuing basis beginning with our first taxable year as a REIT.

Annual Distribution Requirements. In order to qualify for taxation as a REIT under the IRC, we are required to make annual distributions other than capital gain dividends to our shareholders in an amount at least equal to the excess of:

- the sum of 90% of our "real estate investment trust taxable income" and 90% of our net income after tax, if any, from property received in foreclosure, over
- the amount by which our noncash income (e.g., imputed rental income or income from transactions inadvertently failing to qualify as like-kind exchanges) exceeds 5% of our "real estate investment trust taxable income."

For these purposes, our "real estate investment trust taxable income" is as defined under Section 857 of the IRC and is computed without regard to the dividends paid deduction and our net capital gain and will generally be reduced by specified corporate-level income taxes that we pay (e.g., taxes on built-in gains or foreclosure property income).

The IRC generally limits the deductibility of net interest expense paid or accrued on debt properly allocable to a trade or business to 30% of "adjusted taxable income," subject to specified exceptions. Any deduction in excess of the limitation is carried forward and may be used in a subsequent year, subject to that year's 30% limitation. Provided a taxpayer makes an election (which is irrevocable), the limitation on the deductibility of net interest expense does not apply to a trade or business involving real property development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing, or brokerage, within the meaning of Section 469(c)(7)(C) of the IRC. Treasury regulations provide that a real property trade or business includes a trade or business conducted by a REIT. We have made an election to be treated as a real property trade or business and accordingly do not expect the foregoing interest deduction limitations to apply to us or to the calculation of our "real estate investment trust taxable income."

Distributions must be paid in the taxable year to which they relate, or in the following taxable year if declared before we timely file our federal income tax return for the earlier taxable year and if paid on or before the first regular distribution payment after that declaration. If a dividend is declared in October, November or December to shareholders of record during one of those months and is paid during the following January, then for federal income tax purposes such dividend will be treated as having been both paid and received on December 31 of the prior taxable year to the extent of any undistributed earnings and profits.

The 90% distribution requirements may be waived by the IRS if a REIT establishes that it failed to meet them by reason of distributions previously made to meet the requirements of the 4% excise tax discussed below. To the extent that we do not distribute all of our net capital gain and all of our "real estate investment trust taxable income," as adjusted, we will be subject to federal income tax at regular corporate income tax rates on undistributed amounts. In addition, we will be subject to a 4% nondeductible excise tax to the extent we fail within a calendar year to make required distributions to our shareholders of 85% of our ordinary income and 95% of our capital gain net income plus the excess, if any, of the "grossed up required distribution" for the preceding calendar year over the amount treated as distributed for that preceding calendar year. For this purpose, the term "grossed up required distribution" for any calendar year is the sum of our taxable income for the calendar year without regard to the deduction for dividends paid and all amounts from earlier years that are not treated as having been distributed under the provision. We will be treated as having sufficient earnings and profits to treat as a dividend any distribution by us up to the amount required to be distributed in order to avoid imposition of the 4% excise tax.

If we do not have enough cash or other liquid assets to meet our distribution requirements, or if we so choose, we may find it necessary or desirable to arrange for new debt or equity financing to provide funds for required distributions in order to maintain our qualification for taxation as a REIT. We cannot be sure that financing would be available for these purposes on favorable terms, or at all.

We may be able to rectify a failure to pay sufficient dividends for any year by paying "deficiency dividends" to shareholders in a later year. These deficiency dividends may be included in our deduction for dividends paid for the earlier year, but an interest charge would be imposed upon us for the delay in distribution. While the payment of a deficiency dividend will apply to a prior year for purposes of our REIT distribution requirements and our dividends paid deduction, it will be treated as an additional distribution to the shareholders receiving it in the year such dividend is paid.

In addition to the other distribution requirements above, to preserve our qualification for taxation as a REIT we are required to timely distribute all C corporation earnings and profits that we inherit from acquired corporations, as described below.

Acquisitions of C Corporations

We may in the future engage in transactions where we acquire all of the outstanding stock of a C corporation. Upon these acquisitions, except to the extent we make an applicable TRS election, each of our acquired entities and their various wholly-owned corporate and noncorporate subsidiaries will become our QRSs. Thus, after such acquisitions, all assets, liabilities and items of income, deduction and credit of the acquired and then disregarded entities will be treated as ours for purposes of the various REIT qualification tests described above. In addition, we generally will be treated as the successor to the acquired (and then disregarded) entities' federal income tax attributes, such as those entities' (a) adjusted tax bases in their assets and their depreciation schedules; and (b) earnings and profits for federal income tax purposes, if any. The carryover of these attributes creates REIT implications such as built-in gains tax exposure and additional distribution requirements, as described below. However, when we make an election under Section 338(g) of the IRC with respect to corporations that we acquire, we generally will not be subject to such attribute carryovers in respect of attributes existing prior to such election.

Built-in Gains from C Corporations. Notwithstanding our qualification and taxation as a REIT, under specified circumstances we may be subject to corporate income taxation if we acquire a REIT asset where our adjusted tax basis in the asset is determined by reference to the adjusted tax basis of the asset as owned by a C corporation. For instance, we may be subject to federal income taxation on all or part of the built-in gain that was present on the last date an asset was owned by a C corporation, if we succeed to a carryover tax basis in that asset directly or indirectly from such C corporation and if we sell the asset during the five year period beginning on the day the asset ceased being owned by such C corporation. To the extent of our income and gains in a taxable year that are subject to the built-in gains tax, net of any taxes paid on such income and gains with respect to that taxable year, our taxable dividends paid in the following year will be potentially eligible for taxation to noncorporate U.S. shareholders at the preferential tax rates for "qualified dividends" as described below under the heading "—Taxation of Taxable U.S. Shareholders". We generally do not expect to sell assets if doing so would result in the imposition of a material built-in gains tax liability; but if and when we do sell assets that may have associated built-in gains tax exposure, then we expect to make appropriate provision for the associated tax liabilities on our financial statements.

Earnings and Profits. Following a corporate acquisition, we must generally distribute all of the C corporation earnings and profits inherited in that transaction, if any, no later than the end of our taxable year in which the transaction occurs, in order to preserve our qualification for taxation as a REIT. However, if we fail to do so, relief provisions would allow us to maintain our qualification for taxation as a REIT provided we distribute any subsequently discovered C corporation earnings and profits and pay an interest charge in respect of the period of delayed distribution. C corporation earnings and profits that we inherit are, in general, specially allocated under a priority rule to the earliest possible distributions following the event causing the inheritance, and only then is the balance of our earnings and profits for the taxable year allocated among our distributions to the extent not already treated as a distribution of C corporation earnings and profits under the priority rule. The distribution of these C corporation earnings and profits is potentially eligible for taxation to noncorporate U.S. shareholders at the preferential tax rates for "qualified dividends" as described below under the heading "—Taxation of Taxable U.S. Shareholders".

Tax Consequences of the Monmouth Transaction

As discussed above, we intend to complete the Monmouth Transaction, which will include a cash payment by us to the holders of the Monmouth common shares. As a result of the Monmouth Transaction, we will be treated for federal income tax purposes as acquiring the assets of Monmouth for the cash we pay plus the assumption of Monmouth's liabilities, after which Monmouth will be treated as liquidating and distributing the cash to its shareholders. Monmouth will recognize gain or loss on the disposition of its assets based on the sum of the cash paid by us and the value of the liabilities assumed by us, but this gain or loss plus Monmouth's operating income is expected to be offset fully by the dividends paid deduction available to liquidating REITs in their final taxable year. Our holding period in the assets we acquire from Monmouth will begin on the day following the completion of the Monmouth Transaction and our initial tax basis in the assets of Monmouth will be equal to the sum of the cash we pay to the holders of Monmouth common shares in conjunction with the Monmouth Transaction, the value of Monmouth's liabilities that we assume, and the acquisition costs that we capitalize for income tax purposes.

The assets that we acquire in the Monmouth Transaction are generally expected to (a) qualify as real estate assets that satisfy the REIT asset tests that are described above under the heading "—REIT Qualification Requirements—Asset Tests," and (b) generate gross income that satisfies the REIT gross income tests that are described above under the heading "—REIT Qualification Requirements—Income Tests." As a result, we believe that our acquisition of Monmouth's assets will not materially impact our qualification for taxation as a REIT.

If the Monmouth Transaction is not completed, then under specified circumstances we may be entitled to receive a termination fee from Monmouth over time. The timing for the payment of the termination fee has been structured so that we can manage successfully the REIT gross income tests that we must satisfy. In addition, if we become entitled to termination fee payments then we may seek an IRS private letter ruling or opinion of counsel that enables us to receive the termination fee on an accelerated basis while still complying with the REIT gross income tests. In sum, we believe that our receipt of termination fee payments would not materially impact our qualification for taxation as a REIT.

As a condition of the closing of the Monmouth Transaction, Monmouth's counsel will provide us with an opinion that Monmouth has been organized and has operated in conformity with the requirements for qualification and taxation as a REIT under the IRC. If, contrary to that opinion and our expectation, Monmouth has failed or fails to qualify for taxation as a REIT for U.S. federal income tax purposes, then we may inherit significant tax liabilities in the Monmouth Transaction because, as the successor by merger to Monmouth, we would generally inherit any corporate income tax liabilities of Monmouth, including penalties and interest.

It is unclear whether the IRC provisions that are generally available to remediate REIT compliance failures will be available to us as a successor in respect of any determination that Monmouth failed to qualify for taxation as a REIT. If and to the extent the remedial provisions are available to us to address Monmouth's REIT qualification and taxation for the applicable period prior to or including the Monmouth Transaction, we may incur significant cash outlays in connection with the remediation, possibly including (a) required distribution payments to shareholders and associated interest payments to the IRS and (b) tax and interest payments to the IRS and state and local tax authorities. Monmouth's failure before the Transaction to qualify for taxation as a REIT and our efforts to remedy any such failure could have an adverse effect on our results of operations and financial condition.

Depreciation and Federal Income Tax Treatment of Leases

Our initial tax bases in our assets will generally be our acquisition cost. We will generally depreciate our depreciable real property on a straight-line basis over forty years and our personal property over the applicable shorter periods. These depreciation schedules, and our initial tax bases, may vary for properties that we acquire through tax-free or carryover basis acquisitions, or that are the subject of cost segregation analyses.

We are entitled to depreciation deductions from our properties only if we are treated for federal income tax purposes as the owner of the properties. This means that the leases of our properties must be classified for U.S. federal income tax purposes as true leases, rather than as sales or financing arrangements, and we believe this to be the case.

Distributions to our Shareholders

As described above, we expect to make distributions to our shareholders from time to time. These distributions may include cash distributions, in kind distributions of property, and deemed or constructive distributions resulting from capital market activities. The U.S. federal income tax treatment of our distributions will vary based on the status of the recipient shareholder as more fully described below under the headings "—Taxation of Taxable U.S. Shareholders," "—Taxation of Tax-Exempt U.S. Shareholders," and "—Taxation of Non-U.S. Shareholders."

Section 302 of the IRC treats a redemption of our shares for cash only as a distribution under Section 301 of the IRC, and hence taxable as a dividend to the extent of our available current or accumulated earnings and profits, unless the redemption satisfies one of the tests set forth in Section 302(b) of the IRC enabling the redemption to be treated as a sale or exchange of the shares. The redemption for cash only will be treated as a sale or exchange if it (a) is "substantially disproportionate" with respect to the surrendering shareholder's ownership in us, (b) results in a "complete termination" of the surrendering shareholder's entire share interest in us, or (c) is "not essentially equivalent to a dividend" with respect to the surrendering shareholder, all within the meaning of Section 302(b) of the IRC. In determining whether any of these tests have been met, a shareholder must generally take into account shares considered to be owned by such shareholder by reason of constructive ownership rules set forth in the IRC, as well as shares actually owned by such shareholder. In addition, if a redemption is treated as a distribution under the preceding tests, then a shareholder's tax basis in the redeemed shares generally will be transferred to the shareholder's remaining shares in us, if any, and if such shareholder owns no other shares in us, such basis generally may be transferred to a related person or may be lost entirely. Because the determination as to whether a shareholder will satisfy any of the tests of Section 302(b) of the IRC depends upon the facts and circumstances at the time that our shares are redeemed, we urge you to consult your own tax advisor to determine the particular tax treatment of any redemption.

Taxation of Taxable U.S. Shareholders

For noncorporate U.S. shareholders, to the extent that their total adjusted income does not exceed applicable thresholds, the maximum federal income tax rate for long-term capital gains and most corporate dividends is generally 15%. For those noncorporate U.S. shareholders whose total adjusted income exceeds the applicable thresholds, the maximum federal income tax rate for long-term capital gains and most corporate dividends is generally 20%. However, because we are not generally subject to federal income tax on the portion of our "real estate investment trust taxable income" distributed to our shareholders, dividends on our shares generally are not eligible for these preferential tax rates, except that any distribution of C corporation earnings and profits and taxed built-in gain items will potentially be eligible for these preferential tax rates. As a result, our ordinary dividends generally are taxed at the higher federal income tax rates applicable to ordinary income (subject to the lower effective tax rates applicable to qualified REIT dividends via the deduction-without-outlay mechanism of Section 199A of the IRC, which is generally available to our noncorporate U.S. shareholders that meet specified holding period requirements for taxable years before 2026). To summarize, the preferential federal income tax rates for long-term capital gains and for qualified dividends generally apply to:

(1) long-term capital gains, if any, recognized on the disposition of our shares;

(2) our distributions designated as long-term capital gain dividends (except to the extent attributable to real estate depreciation recapture, in which case the distributions are subject to a maximum 25% federal income tax rate);

(3) our dividends attributable to dividend income, if any, received by us from C corporations such as TRSs;

(4) our dividends attributable to earnings and profits that we inherit from C corporations; and

(5) our dividends to the extent attributable to income upon which we have paid federal corporate income tax (such as taxes on foreclosure property income or on built-in gains), net of the corporate income taxes thereon.

As long as we qualify for taxation as a REIT, a distribution to our U.S. shareholders that we do not designate as a capital gain dividend generally will be treated as an ordinary income dividend to the extent of our available current or accumulated earnings and profits (subject to the lower effective tax rates applicable to qualified REIT dividends via the deduction-without-outlay mechanism of Section 199A of the IRC, which is generally available to our noncorporate U.S. shareholders that meet specified holding period requirements for taxable years before 2026). Distributions made out of our current or accumulated earnings and profits that we properly designate as capital gain dividends generally will be taxed as long-term capital gains, as discussed below, to the extent they do not exceed our actual net capital gain for the taxable year. However, corporate shareholders may be required to treat up to 20% of any capital gain dividend as ordinary income under Section 291 of the IRC.

In addition, we may elect to retain net capital gain income and treat it as constructively distributed. In that case:

(1) we will be taxed at regular corporate capital gains tax rates on retained amounts;

(2) each of our U.S. shareholders will be taxed on its designated proportionate share of our retained net capital gains as though that amount were distributed and designated as a capital gain dividend;

(3) each of our U.S. shareholders will receive a credit or refund for its designated proportionate share of the tax that we pay;

(4) each of our U.S. shareholders will increase its adjusted basis in our shares by the excess of the amount of its proportionate share of these retained net capital gains over the U.S. shareholder's proportionate share of the tax that we pay; and

(5) both we and our corporate shareholders will make commensurate adjustments in our respective earnings and profits for federal income tax purposes.

If we elect to retain our net capital gains in this fashion, we will notify our U.S. shareholders of the relevant tax information within sixty days after the close of the affected taxable year.

If for any taxable year we designate capital gain dividends for our shareholders, then a portion of the capital gain dividends we designate will be allocated to the holders of a particular class of shares on a percentage basis equal to the ratio of the amount of the total dividends paid or made available for the year to the holders of that class of shares to the total dividends paid or made available for the year to holders of all outstanding classes of our shares. We will similarly designate the portion of any dividend that is to be taxed to noncorporate U.S. shareholders at preferential maximum rates (including any qualified dividend income and any capital gains attributable to real estate depreciation recapture that are subject to a maximum 25% federal income tax rate) so that the designations will be proportionate among all outstanding classes of our shares.

Distributions in excess of our current or accumulated earnings and profits will not be taxable to a U.S. shareholder to the extent that they do not exceed the shareholder's adjusted tax basis in our shares, but will reduce the shareholder's basis in such shares. To the extent that these excess distributions exceed a U.S. shareholder's adjusted basis in such shares, they will be included in income as capital gain, with long-term gain generally taxed to noncorporate U.S. shareholders at preferential maximum rates. No U.S. shareholder may include on its federal income tax return any of our net operating losses or any of our capital losses. In addition, no portion of any of our dividends is eligible for the dividends received deduction for corporate shareholders.

If a dividend is declared in October, November or December to shareholders of record during one of those months and is paid during the following January, then for federal income tax purposes the dividend will be treated as having been both paid and received on December 31 of the prior taxable year.

A U.S. shareholder will generally recognize gain or loss equal to the difference between the amount realized and the shareholder's adjusted basis in our shares that are sold or exchanged. This gain or loss will be capital gain or loss, and will be long-term capital gain or loss if the shareholder's holding period in our shares exceeds one year. In addition, any loss upon a sale or exchange of our shares held for six months or less will generally be treated as a long-term capital loss to the extent of any long-term capital gain dividends we paid on such shares during the holding period.

U.S. shareholders who are individuals, estates or trusts are generally required to pay a 3.8% Medicare tax on their net investment income (including dividends on our shares (without regard to any deduction allowed by Section 199A of the IRC) and gains from the sale or other disposition of our shares), or in the case of estates and trusts on their net investment income that is not distributed, in each case to the extent that their total adjusted income exceeds applicable thresholds. U.S. shareholders are urged to consult their tax advisors regarding the application of the 3.8% Medicare tax.

If a U.S. shareholder recognizes a loss upon a disposition of our shares in an amount that exceeds a prescribed threshold, it is possible that the provisions of Treasury regulations involving "reportable transactions" could apply, with a resulting requirement to separately disclose the loss-generating transaction to the IRS. These Treasury regulations are written quite broadly, and apply to many routine and simple transactions. A reportable transaction currently includes, among other things, a sale or exchange of our shares resulting in a tax loss in excess of (a) $10 million in any single year or $20 million in a prescribed combination of taxable years in the case of our shares held by a C corporation or by a partnership with only C corporation partners or (b) $2 million in any single year or $4 million in a prescribed combination of taxable years in the case of our shares held by any other partnership or an S corporation, trust or individual, including losses that flow through pass through entities to individuals. A taxpayer discloses a reportable transaction by filing IRS Form 8886 with its federal income tax return and, in the first year of filing, a copy of Form 8886 must be sent to the IRS's Office of Tax Shelter Analysis. The annual maximum penalty for failing to disclose a reportable transaction is generally $10,000 in the case of a natural person and $50,000 in any other case.

Noncorporate U.S. shareholders who borrow funds to finance their acquisition of our shares could be limited in the amount of deductions allowed for the interest paid on the indebtedness incurred. Under Section 163(d) of the IRC, interest paid or accrued on indebtedness incurred or continued to purchase or carry property held for investment is generally deductible only to the extent of the investor's net investment income. A U.S. shareholder's net investment income will include ordinary income dividend distributions received from us and, only if an appropriate election is made by the shareholder, capital gain dividend distributions and qualified dividends received from us; however, distributions treated as a nontaxable return of the shareholder's basis will not enter into the computation of net investment income.

Taxation of Tax-Exempt U.S. Shareholders

The rules governing the federal income taxation of tax-exempt entities are complex, and the following discussion is intended only as a summary of material considerations of an investment in our shares relevant to such investors. If you are a tax-exempt shareholder, we urge you to consult your own tax advisor to determine the impact of federal, state, local and foreign tax laws, including any tax return filing and other reporting requirements, with respect to your acquisition of or investment in our shares.

We expect that shareholders that are tax-exempt pension plans, individual retirement accounts or other qualifying tax-exempt entities, and that receive (a) distributions from us, or (b) proceeds from the sale of our shares, should not have such amounts treated as UBTI, provided in each case (x) that the shareholder has not financed its acquisition of our shares with "acquisition indebtedness" within the meaning of the IRC, (y) that the shares are not otherwise used in an unrelated trade or business of the tax-exempt entity, and (z) that, consistent with our present intent, we do not hold a residual interest in a real estate mortgage investment conduit or otherwise hold mortgage assets or conduct mortgage securitization activities that generate "excess inclusion" income.

Taxation of Non-U.S. Shareholders

The rules governing the U.S. federal income taxation of non-U.S. shareholders are complex, and the following discussion is intended only as a summary of material considerations of an investment in our shares relevant to such investors. If you are a non-U.S. shareholder, we urge you to consult your own tax advisor to determine the impact of U.S. federal, state, local and foreign tax laws, including any tax return filing and other reporting requirements, with respect to your acquisition of or investment in our shares.

We expect that a non-U.S. shareholder's receipt of (a) distributions from us, and (b) proceeds from the sale of our shares, will not be treated as income effectively connected with a U.S. trade or business and a non-U.S. shareholder will therefore not be subject to the often higher federal tax and withholding rates, branch profits taxes and increased reporting and filing requirements that apply to income effectively connected with a U.S. trade or business. This expectation and a number of the determinations below are predicated on our shares being listed on a U.S. national securities exchange, such as The Nasdaq Stock Market LLC, or Nasdaq. Each class of our shares has been listed on a U.S. national securities exchange; however, we cannot be sure that our shares will continue to be so listed in future taxable years or that any class of our shares that we may issue in the future will be so listed.

Distributions. A distribution by us to a non-U.S. shareholder that is not designated as a capital gain dividend will be treated as an ordinary income dividend to the extent that it is made out of our current or accumulated earnings and profits. A distribution of this type will generally be subject to U.S. federal income tax and withholding at the rate of 30%, or at a lower rate if the non-U.S. shareholder has in the manner prescribed by the IRS demonstrated to the applicable withholding agent its entitlement to benefits under a tax treaty. Because we cannot determine our current and accumulated earnings and profits until the end of the taxable year, withholding at the statutory rate of 30% or applicable lower treaty rate will generally be imposed on the gross amount of any distribution to a non-U.S. shareholder that we make and do not designate as a capital gain dividend. Notwithstanding this potential withholding on distributions in excess of our current and accumulated earnings and profits, these excess portions of distributions are a nontaxable return of capital to the extent that they do not exceed the non-U.S. shareholder's adjusted basis in our shares, and the nontaxable return of capital will reduce the adjusted basis in these shares. To the extent that distributions in excess of our current and accumulated earnings and profits exceed the non-U.S. shareholder's adjusted basis in our shares, the distributions will give rise to U.S. federal income tax liability only in the unlikely event that the non-U.S. shareholder would otherwise be subject to tax on any gain from the sale or exchange of these shares, as discussed below under the heading "—Dispositions of Our Shares."

A non-U.S. shareholder may seek a refund from the IRS of amounts withheld on distributions to it in excess of such shareholder's allocable share of our current and accumulated earnings and profits.

For so long as a class of our shares is listed on a U.S. national securities exchange, capital gain dividends that we declare and pay to a non-U.S. shareholder on those shares, as well as dividends to a non-U.S. shareholder on those shares attributable to our sale or exchange of "United States real property interests" within the meaning of Section 897 of the IRC, or USRPIs, will not be subject to withholding as though those amounts were effectively connected with a U.S. trade or business, and non-U.S. shareholders will not be required to file U.S. federal income tax returns or pay branch profits tax in respect of these dividends. Instead, these dividends will generally be treated as ordinary dividends and subject to withholding in the manner described above.

Tax treaties may reduce the withholding obligations on our distributions. Under some treaties, however, rates below 30% that are applicable to ordinary income dividends from U.S. corporations may not apply to ordinary income dividends from a REIT or may apply only if the REIT meets specified additional conditions. A non-U.S. shareholder must generally use an applicable IRS Form W-8, or substantially similar form, to claim tax treaty benefits. If the amount of tax withheld with respect to a distribution to a non-U.S. shareholder exceeds the shareholder's U.S. federal income tax liability with respect to the distribution, the non-U.S. shareholder may file for a refund of the excess from the IRS. Treasury regulations also provide special rules to determine whether, for purposes of determining the applicability of a tax treaty, our distributions to a non-U.S. shareholder that is an entity should be treated as paid to the entity or to those owning an interest in that entity, and whether the entity or its owners are entitled to benefits under the tax treaty.

If, contrary to our expectation, a class of our shares was not listed on a U.S. national securities exchange and we made a distribution on those shares that was attributable to gain from the sale or exchange of a USRPI, then a non-U.S. shareholder holding those shares would be taxed as if the distribution was gain effectively connected with a trade or business in the United States conducted by the non-U.S. shareholder. In addition, the applicable withholding agent would be required to withhold from a distribution to such a non-U.S. shareholder, and remit to the IRS, up to 21% of the maximum amount of any distribution that was or could have been designated as a capital gain dividend. The non-U.S. shareholder also would generally be subject to the same treatment as a U.S. shareholder with respect to the distribution (subject to any applicable alternative minimum tax and a special alternative minimum tax in the case of a nonresident alien individual), would be subject to fulsome U.S. federal income tax return reporting requirements, and, in the case of a corporate non-U.S. shareholder, may owe the up to 30% branch profits tax under Section 884 of the IRC (or lower applicable tax treaty rate) in respect of these amounts.

Dispositions of Our Shares. If as expected our shares are not USRPIs, then a non-U.S. shareholder's gain on the sale of these shares generally will not be subject to U.S. federal income taxation or withholding. We expect that our shares will not be USRPIs because one or both of the following exemptions will be available at all times.

First, for so long as a class of our shares is listed on a U.S. national securities exchange, a non-U.S. shareholder's gain on the sale of those shares will not be subject to U.S. federal income taxation as a sale of a USRPI. Second, our shares will not constitute USRPIs if we are a "domestically controlled" REIT. We will be a "domestically controlled" REIT if less than 50% of the value of our shares (including any future class of shares that we may issue) is held, directly or indirectly, by non-U.S. shareholders at all times during the preceding five years, after applying specified presumptions regarding the ownership of our shares as described in Section 897(h)(4)(E) of the IRC. For these purposes, we believe that the statutory ownership presumptions apply to validate our status as a "domestically controlled" REIT. Accordingly, we believe that we are and will remain a "domestically controlled" REIT.

If, contrary to our expectation, a gain on the sale of our shares is subject to U.S. federal income taxation (for example, because neither of the above exemptions were then available, i.e., that class of our shares were not then listed on a U.S. national securities exchange and we were not a "domestically controlled" REIT), then (a) a non-U.S. shareholder would generally be subject to the same treatment as a U.S. shareholder with respect to its gain (subject to any applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals), (b) the non-U.S. shareholder would also be subject to fulsome U.S. federal income tax return reporting requirements, and (c) a purchaser of that class of our shares from the non-U.S. shareholder may be required to withhold 15% of the purchase price paid to the non-U.S. shareholder and to remit the withheld amount to the IRS.

Information Reporting, Backup Withholding, and Foreign Account Withholding

Information reporting, backup withholding, and foreign account withholding may apply to distributions or proceeds paid to our shareholders under the circumstances discussed below. If a shareholder is subject to backup or other U.S. federal income tax withholding, then the applicable withholding agent will be required to withhold the appropriate amount with respect to a deemed or constructive distribution or a distribution in kind even though there is insufficient cash from which to satisfy the withholding obligation. To satisfy this withholding obligation, the applicable withholding agent may collect the amount of U.S. federal income tax required to be withheld by reducing to cash for remittance to the IRS a sufficient portion of the property that the shareholder would otherwise receive or own, and the shareholder may bear brokerage or other costs for this withholding procedure.

Amounts withheld under backup withholding are generally not an additional tax and may be refunded by the IRS or credited against the shareholder's federal income tax liability, provided that such shareholder timely files for a refund or credit with the IRS. A U.S. shareholder may be subject to backup withholding when it receives distributions on our shares or proceeds upon the sale, exchange, redemption, retirement or other disposition of our shares, unless the U.S. shareholder properly executes, or has previously properly executed, under penalties of perjury an IRS Form W-9 or substantially similar form that:

- provides the U.S. shareholder's correct taxpayer identification number;
- certifies that the U.S. shareholder is exempt from backup withholding because (a) it comes within an enumerated exempt category, (b) it has not been notified by the IRS that it is subject to backup withholding, or (c) it has been notified by the IRS that it is no longer subject to backup withholding; and
- certifies that it is a U.S. citizen or other U.S. person.

If the U.S. shareholder has not provided and does not provide its correct taxpayer identification number and appropriate certifications on an IRS Form W-9 or substantially similar form, it may be subject to penalties imposed by the IRS, and the applicable withholding agent may have to withhold a portion of any distributions or proceeds paid to such U.S. shareholder. Unless the U.S. shareholder has established on a properly executed IRS Form W-9 or substantially similar form that it comes within an enumerated exempt category, distributions or proceeds on our shares paid to it during the calendar year, and the amount of tax withheld, if any, will be reported to it and to the IRS.

Distributions on our shares to a non-U.S. shareholder during each calendar year and the amount of tax withheld, if any, will generally be reported to the non-U.S. shareholder and to the IRS. This information reporting requirement applies regardless of whether the non-U.S. shareholder is subject to withholding on distributions on our shares or whether the withholding was reduced or eliminated by an applicable tax treaty. Also, distributions paid to a non-U.S. shareholder on our shares will generally be subject to backup withholding, unless the non-U.S. shareholder properly certifies to the applicable withholding agent its non-U.S. shareholder status on an applicable IRS Form W-8 or substantially similar form. Information reporting and backup withholding will not apply to proceeds a non-U.S. shareholder receives upon the sale, exchange, redemption, retirement or other disposition of our shares, if the non-U.S. shareholder properly certifies to the applicable withholding agent its non-U.S. shareholder status on an applicable IRS Form W-8 or substantially similar form. Even without having executed an applicable IRS Form W-8 or substantially similar form, however, in some cases information reporting and backup withholding will not apply to proceeds that a non-U.S. shareholder receives upon the sale, exchange, redemption, retirement or other disposition of our shares if the non-U.S. shareholder receives those proceeds through a broker's foreign office.

Non-U.S. financial institutions and other non-U.S. entities are subject to diligence and reporting requirements for purposes of identifying accounts and investments held directly or indirectly by U.S. persons. The failure to comply with these additional information reporting, certification and other requirements could result in a 30% U.S. withholding tax on applicable payments to non-U.S. persons, notwithstanding any otherwise applicable provisions of an income tax treaty. In particular, a payee that is a foreign financial institution that is subject to the diligence and reporting requirements described above must enter into an agreement with the U.S. Department of the Treasury requiring, among other things, that it undertake to identify accounts held by "specified United States persons" or "United States owned foreign entities" (each as defined in the IRC and administrative guidance thereunder), annually report information about such accounts, and withhold 30% on applicable payments to noncompliant foreign financial institutions and account holders. Foreign financial institutions located in jurisdictions that have an intergovernmental agreement with the United States with respect to these requirements may be subject to different rules. The foregoing withholding regime generally applies to payments of dividends on our shares. In general, to avoid withholding, any non-U.S. intermediary through which a shareholder owns our shares must establish its compliance with the foregoing regime, and a non-U.S. shareholder must provide specified documentation (usually an applicable IRS Form W-8) containing information about its identity, its status, and if required, its direct and indirect U.S. owners. Non-U.S. shareholders and shareholders who hold our shares through a non-U.S. intermediary are encouraged to consult their own tax advisors regarding foreign account tax compliance.

Other Tax Considerations

Our tax treatment and that of our shareholders may be modified by legislative, judicial or administrative actions at any time, which actions may have retroactive effect. The rules dealing with federal income taxation are constantly under review by the U.S. Congress, the IRS and the U.S. Department of the Treasury, and statutory changes, new regulations, revisions to existing regulations and revised interpretations of established concepts are issued frequently. Likewise, the rules regarding taxes other than U.S. federal income taxes may also be modified. No prediction can be made as to the likelihood of passage of new tax legislation or other provisions, or the direct or indirect effect on us and our shareholders. Revisions to tax laws and interpretations of these laws could adversely affect our ability to qualify and be taxed as a REIT, as well as the tax or other consequences of an investment in our shares. We and our shareholders may also be subject to taxation by state, local or other jurisdictions, including those in which we or our shareholders transact business or reside. These tax consequences may not be comparable to the U.S. federal income tax consequences discussed above.

ERISA PLANS, KEOGH PLANS AND INDIVIDUAL RETIREMENT ACCOUNTS

General Fiduciary Obligations

The Employee Retirement Income Security Act of 1974, as amended, or ERISA, the IRC and similar provisions to those described below under applicable foreign or state law, individually and collectively, impose certain duties on persons who are fiduciaries of any employee benefit plan subject to Title I of ERISA, or an ERISA Plan, or an individual retirement account or annuity, or an IRA, a Roth IRA, a tax-favored account (such as an Archer MSA, Coverdell education savings account or health savings account), a Keogh plan or other qualified retirement plan not subject to Title I of ERISA, each a Non-ERISA Plan. Under ERISA and the IRC, any person who exercises any discretionary authority or control over the administration of, or the management or disposition of the assets of, an ERISA Plan or Non-ERISA Plan, or who renders investment advice for a fee or other compensation to an ERISA Plan or Non-ERISA Plan, is generally considered to be a fiduciary of the ERISA Plan or Non-ERISA Plan.

Fiduciaries of an ERISA Plan must consider whether:

- their investment in our shares or other securities satisfies the diversification requirements of ERISA;
- the investment is prudent in light of possible limitations on the marketability of our shares;
- they have authority to acquire our shares or other securities under the applicable governing instrument and Title I of ERISA; and
- the investment is otherwise consistent with their fiduciary responsibilities.

Fiduciaries of an ERISA Plan may incur personal liability for any loss suffered by the ERISA Plan on account of a violation of their fiduciary responsibilities. In addition, these fiduciaries may be subject to a civil penalty of up to 20% of any amount recovered by the ERISA Plan on account of a violation. Fiduciaries of any Non-ERISA Plan should consider that the Non-ERISA Plan may only make investments that are authorized by the appropriate governing instrument and applicable law.

Fiduciaries considering an investment in our securities should consult their own legal advisors if they have any concern as to whether the investment is consistent with the foregoing criteria or is otherwise appropriate. The sale of our securities to an ERISA Plan or Non-ERISA Plan is in no respect a representation by us or any underwriter of the securities that the investment meets all relevant legal requirements with respect to investments by the arrangements generally or any particular arrangement, or that the investment is appropriate for arrangements generally or any particular arrangement.

Prohibited Transactions

Fiduciaries of ERISA Plans and persons making the investment decision for Non-ERISA Plans should consider the application of the prohibited transaction provisions of ERISA and the IRC in making their investment decision. Sales and other transactions between an ERISA Plan or a Non-ERISA Plan and disqualified persons or parties in interest, as applicable, are prohibited transactions and result in adverse consequences absent an exemption. The particular facts concerning the sponsorship, operations and other investments of an ERISA Plan or Non-ERISA Plan may cause a wide range of persons to be treated as disqualified persons or parties in interest with respect to it. A non-exempt prohibited transaction, in addition to imposing potential personal liability upon ERISA Plan fiduciaries, may also result in the imposition of an excise tax under the IRC or a penalty under ERISA upon the disqualified person or party in interest. If the disqualified person who engages in the transaction is the individual on behalf of whom an IRA, Roth IRA or other tax-favored account is maintained (or his beneficiary), the IRA, Roth IRA or other tax-favored account may lose its tax-exempt status and its assets may be deemed to have been distributed to the individual in a taxable distribution on account of the non-exempt prohibited transaction, but no excise tax will be imposed. Fiduciaries considering an investment in our securities should consult their own legal advisors as to whether the ownership of our securities involves a non-exempt prohibited transaction.

"Plan Assets" Considerations

The U.S. Department of Labor has issued a regulation defining "plan assets." The regulation, as subsequently modified by ERISA, generally provides that when an ERISA Plan or a Non-ERISA Plan otherwise subject to Title I of ERISA and/or Section 4975 of the IRC acquires an interest in an entity that is neither a "publicly offered security" nor a security issued by an investment company registered under the Investment Company Act of 1940, as amended, the assets of the ERISA Plan or Non-ERISA Plan include both the equity interest and an undivided interest in each of the underlying assets of the entity, unless it is established either that the entity is an operating company or that equity participation in the entity by benefit plan investors is not significant. We are not an investment company registered under the Investment Company Act of 1940, as amended.

Each class of our equity (that is, our common shares and any other class of equity that we may issue) must be analyzed separately to ascertain whether it is a publicly offered security. The regulation defines a publicly offered security as a security that is "widely held," "freely transferable" and either part of a class of securities registered under the Exchange Act, or sold under an effective registration statement under the Securities Act of 1933, as amended, or the Securities Act, provided the securities are registered under the Exchange Act within 120 days after the end of the fiscal year of the issuer during which the offering occurred. Each class of our outstanding shares has been registered under the Exchange Act within the necessary time frame to satisfy the foregoing condition.

The regulation provides that a security is "widely held" only if it is part of a class of securities that is owned by 100 or more investors independent of the issuer and of one another. However, a security will not fail to be "widely held" because the number of independent investors falls below 100 subsequent to the initial public offering as a result of events beyond the issuer's control. Although we cannot be sure, we believe our common shares have been and will remain widely held, and we expect the same to be true of any future class of equity that we may issue.

The regulation provides that whether a security is "freely transferable" is a factual question to be determined on the basis of all relevant facts and circumstances. The regulation further provides that, where a security is part of an offering in which the minimum investment is $10,000 or less, some restrictions on transfer ordinarily will not, alone or in combination, affect a finding that these securities are freely transferable. The restrictions on transfer enumerated in the regulation as not affecting that finding include:

- any restriction on or prohibition against any transfer or assignment that would result in a termination or reclassification for federal or state tax purposes, or would otherwise violate any state or federal law or court order;
- any requirement that advance notice of a transfer or assignment be given to the issuer and any requirement that either the transferor or transferee, or both, execute documentation setting forth representations as to compliance with any restrictions on transfer that are among those enumerated in the regulation as not affecting free transferability, including those described in the preceding clause of this sentence;
- any administrative procedure that establishes an effective date, or an event prior to which a transfer or assignment will not be effective; and
- any limitation or restriction on transfer or assignment that is not imposed by the issuer or a person acting on behalf of the issuer.

We believe that the restrictions imposed under our declaration of trust on the transfer of shares do not result in the failure of our shares to be "freely transferable." Furthermore, we believe that no other facts or circumstances limiting the transferability of our shares exist, other than those that are enumerated under the regulation as not affecting the free transferability of shares. In addition, we do not expect or intend to impose in the future, or to permit any person to impose on our behalf, any limitations or restrictions on transfer that would not be among the enumerated permissible limitations or restrictions.

Assuming that each class of our shares will be "widely held" and that no other facts and circumstances exist that restrict transferability of these shares, our counsel, Sullivan & Worcester LLP, is of the opinion that our shares will not fail to be "freely transferable" for purposes of the regulation due to the restrictions on transfer of our shares in our declaration of trust and that under the regulation each class of our currently outstanding shares is publicly offered and our assets will not be deemed to be "plan assets" of any ERISA Plan or Non-ERISA Plan that acquires our shares in a public offering. This opinion is conditioned upon certain assumptions and representations, as discussed above under the heading "Material United States Federal Income Tax Considerations—Taxation as a REIT."

Item 1A. Risk Factors

Summary of Risk Factors

Our business is subject to a number of risks and uncertainties. The summary below provides an overview of many of the risks we face that are described in this section. Additional risks, beyond those summarized below, discussed under the caption "Risk Factors" or described elsewhere in this Annual Report on Form 10-K, may also materially and adversely impact our business, operations or financial results. Consistent with the foregoing, the risks we face include, but are not limited to, the following:

- failure to complete the Monmouth Transaction or to execute on our financing plan for the Monmouth Transaction as we currently intend, including by obtaining equity investments from one or more joint venture investors or by selling properties we have identified for sale for the proceeds we expect, could have material and adverse effects on us;
- our tenants may be unable to satisfy their lease obligations to us, which could materially and adversely affect us;
- we may be unable to renew our leases with current tenants when our leases expire or lease our properties to new tenants without decreasing rents or incurring significant costs, providing certain concessions or otherwise;
- the concentration of our investments in industrial and logistics properties leased to single tenants may result in us being adversely affected by cyclical economic conditions and subject us to greater risks of loss than if our properties had more industry sector and tenant diversity;
- following the completion of the Monmouth Transaction, we may be unable to further grow our business by acquiring additional properties, and we face significant competition for tenants and for acquisition opportunities;
- risks associated with the development, redevelopment or repositioning of our properties may cause delays in leasing those properties and generating cash flows from those properties;
- we have debt and we intend to incur additional debt, including in connection with the Monmouth Transaction, and we are subject to the covenants and conditions contained in the agreements governing our debt, which may restrict our operations and ability to make investments and distributions;
- REIT distribution requirements and any limitations on our ability to access reasonably priced capital may adversely impact our ability to carry out our business plan, and we are subject to risks associated with our qualification for taxation as a REIT;
- our distributions to our shareholders may be reduced or eliminated and the form of payment could change;
- changes in market interest rates, including changes resulting from the phase out of LIBOR, may adversely affect us;
- ownership of real estate is subject to environmental risks and liabilities, as well as risks from adverse weather, natural disasters and climate change and climate related events, and we may incur significant costs and invest significant amounts with respect to these matters;
- our existing and any future joint ventures may limit our flexibility with jointly owned investments and we may not realize the benefits we expect from these arrangements;
- insurance may not adequately cover our losses, and insurance costs may continue to increase;
- we depend upon RMR LLC to manage our business and implement our growth strategy and RMR LLC has broad discretion in operating our day to day business;
- any material failure, inadequacy, interruption or security breach of RMR LLC's information technology or systems could materially harm us;

- our management structure and agreements with RMR LLC and our relationships with our related parties, including our Managing Trustees, RMR LLC and others affiliated with them, may create conflicts of interest;
- we may change our operational, financing and investment policies without shareholder approval;
- ownership limitations and certain provisions in our declaration of trust, bylaws and agreements, as well as certain provisions of Maryland law, may deter, delay or prevent a change in our control or unsolicited acquisition proposals; and
- our rights and the rights of our shareholders to take action against our Trustees and officers are limited, and our bylaws contain provisions that could limit our shareholders' ability to obtain a judicial forum they deem favorable for certain disputes.

The risks described below may not be the only risks we face but are risks we believe may be material at this time. Other risks of which we are not yet aware, or that we currently believe are not material, may also materially and adversely impact our business operations or financial results. If any of the events or circumstances described below occurs, our business, financial condition, liquidity, results of operations or ability to make distributions to our shareholders could be adversely impacted and the value of an investment in our securities could decline. Investors and prospective investors should consider the risks described below and the information contained under the caption "Warning Concerning Forward-Looking Statements" and elsewhere in this Annual Report on Form 10-K before deciding whether to invest in our securities.

Risks Related to the Monmouth Transaction

The Monmouth Transaction is subject to the satisfaction of conditions which may not be satisfied or completed on a timely basis, if at all. Failure to complete the Monmouth Transaction could have material and adverse effects on us.

The completion of the Monmouth Transaction is subject to the satisfaction of conditions, including, among others, the approval of the holders of at least two-thirds of Monmouth's outstanding common stock. These conditions make the timing of the completion of the Monmouth Transaction, and the completion of the Monmouth Transaction itself, uncertain. Either we, or Monmouth, may elect to terminate the Merger Agreement in certain circumstances, and we and Monmouth can mutually decide to terminate the Merger Agreement at any time prior to the consummation of the Merger, either before or after approval of the Monmouth stockholders. In addition, if legal proceedings are instituted against Monmouth, us or others relating to the Merger Agreement, that also could delay or prevent the Merger from becoming effective within the agreed upon timeframe. If the Monmouth Transaction is not completed or is significantly delayed, we may be adversely affected, including as a result of the following:

- we will be required to pay our costs relating to the Merger, such as legal, accounting and financial advisory fees, whether or not the Merger is completed;
- the time and attention committed by our management team to matters relating to the Monmouth Transaction could otherwise have been devoted to pursuing other opportunities; and
- the market price of our common shares could decline to the extent that the then current market price is positively affected by a market assumption that the Monmouth Transaction will be completed.

If we do not enter into a joint venture with one or more institutional investors for equity investments in the amounts we currently expect, or if our committed debt financing is not available, we may be required to obtain alternative financing for the Monmouth Transaction on terms which are materially less favorable to us.

We intend to finance the cash consideration and the fees, expenses and costs incurred in connection with the Monmouth Transaction by entering into a joint venture with one or more institutional investors for equity investments of up to $1.3 billion, and with proceeds from new mortgage debt and the assumption of existing Monmouth mortgage debt. Depending on the ultimate amount of the joint venture equity investments, we may also use proceeds from the sale of up to approximately $1.6 billion of Monmouth properties to finance this transaction. In addition, in connection with the financing of the Monmouth Transaction, we have obtained commitments from lenders to make a bridge loan available to us under which we may borrow up to $4.0 billion for 364 days. However, we may not be able to enter into such joint venture or obtain such equity investments on favorable terms, and we may not be able to find alternative financing in such amount and/or on as favorable terms, if at all. In addition, there are conditions to the funding of the bridge loan facility that may not be satisfied. In the event any of these funds are not available or are available in less than the full amount anticipated, or if we are unable to repay the amounts outstanding under the bridge loan facility prior to its expiration, we will be required to seek alternative financing, and our available cash flow to fund working capital, capital expenditures, acquisitions and other business activities may be reduced. In such event, the alternative financing may be more expensive and the expected benefits of the Monmouth Transaction could be reduced or eliminated.

We may not succeed in selling properties we may identify for sale in connection with the long term financing of the Monmouth Transaction and any proceeds we may receive from any such sales we do complete may be less than expected, and we may incur losses with respect to any such sales.

In connection with the long term financing of the Monmouth Transaction, we may sell up to $1.6 billion of Monmouth properties. Our ability to sell properties and the prices we receive upon any sale, may be affected by various factors. In particular, these factors could arise from weaknesses in or a lack of established markets for the properties we have identified for sale, changes in the financial condition or prospects of prospective purchasers for and the tenants of the properties, the terms of leases with tenants at certain of the properties, the characteristics, quality and prospects of the properties, the availability of financing to potential purchasers on reasonable terms, the number of prospective purchasers, the number of competing properties in the market, unfavorable local, national or international economic conditions, industry trends and changes in laws, regulations or fiscal policies of jurisdictions in which the properties are located. We may not succeed in selling properties or other assets and any sales may be delayed or may not occur or, if sales do occur, the terms may not meet our expectations, and we may incur losses in connection with any sales.

Risks Related to Our Business

Our business depends upon our tenants satisfying their lease obligations to us, which depends, to a large degree, on our tenants' abilities to successfully operate their businesses.

Our business depends on our tenants satisfying their lease obligations to us. The financial capacities of our tenants to pay us rent will depend upon their abilities to successfully operate their businesses, which may be adversely affected by factors over which we and they have no control, including the COVID-19 pandemic. The failure of our tenants and any applicable parent guarantor to satisfy their lease obligations to us, whether due to a downturn in their business or otherwise, could materially and adversely affect us.

The majority of our properties are industrial and logistics properties leased to single tenants, which may subject us to greater risks of loss than if our properties had more industry sector and tenant diversity.

Our properties are substantially all industrial and logistics properties leased to single tenants and we intend to acquire similar additional properties, including in the Monmouth Transaction. This concentration may expose us to the risk of economic downturns in the industrial and logistics sector to a greater extent than if we were invested in other sectors of the real estate industry. Further, the value of single tenant properties is materially dependent on the performance of those tenants under their respective leases. Many of our single tenant leases require that certain property level operating expenses and capital expenditures, such as real estate taxes, insurance, utilities, maintenance and repairs, including increases with respect thereto, be paid, or reimbursed to us, by our tenants. Accordingly, in addition to our not receiving rental income, a tenant default on such leases could make us responsible for paying these expenses. Because most of our properties are leased to single tenants, the adverse impact of individual tenant defaults or non-renewals is likely to be greater than would be the case if our properties were leased to multiple tenants. In addition, the default, financial distress or bankruptcy of a tenant could cause interruptions in the receipt of rental revenue and/or result in a vacancy, which is, in the case of a single tenant property, likely to result in the complete reduction in the operating cash flows generated by the property and may decrease the value of that property.

We may be unable to lease our properties when our leases expire.

Although we typically will seek to renew our leases with current tenants when they expire, we cannot be sure that we will be successful in doing so. If our tenants do not renew their leases, we may be unable to obtain new tenants to maintain or increase the historical occupancy rates of, or rents from, our properties.

We may experience declining rents or incur significant costs to renew our leases with current tenants, lease our properties to new tenants or when our rents reset at our properties in Hawaii.

When we renew our leases with current tenants or lease to new tenants, we may experience rent decreases, and we may have to spend substantial amounts for leasing commissions, tenant improvements or other tenant inducements. Moreover, many of our properties have been specially designed for the particular businesses of our tenants; if the current leases for those properties are terminated or are not renewed, we may be required to renovate those properties at substantial costs, decrease the rents we charge or provide other concessions in order to lease those properties to new tenants. In addition, some of our Hawaii Properties require the rents to be reset periodically based on fair market values, which could result in rental increases or decreases. When we reset rents at our Hawaii Properties, our rents may decrease.

Following the completion of the Monmouth Transaction, we may be unable to further grow our business by acquiring additional properties, and we might encounter unanticipated difficulties and expenditures relating to the properties we acquire in the Monmouth Transaction or other properties we may acquire in the future.

Our business plan includes the acquisition of additional properties. Our ability to make profitable acquisitions is subject to risks, including, but not limited to, risks associated with:

- competition from other investors;
- contingencies in our acquisition agreements; and
- the availability, terms and cost of debt and equity capital.

These risks may limit our ability to grow our business by acquiring additional properties. In addition, we might encounter unanticipated difficulties and expenditures relating to our acquired properties. For example:

- notwithstanding pre-acquisition due diligence, we could acquire a property that contains undisclosed defects in design or construction or unknown liabilities, including those related to undisclosed environmental contamination;
- an acquired property may be located in a new market where we may face risks associated with investing in an unfamiliar market;
- the market in which an acquired property is located may experience unexpected changes that adversely affect the property's value; and
- property operating costs for our acquired properties may be higher than anticipated, which may result in tenants that pay or reimburse us for those costs terminating their leases or our acquired properties not yielding expected returns.

For these reasons, among others, we might not realize the anticipated benefits of our acquisitions, and our business plan to acquire additional properties may not succeed or may cause us to experience losses.

We are exposed to risks associated with property development, redevelopment and repositioning that could adversely affect us, including our financial condition and results of operations.

We currently have one property under development and we intend to continue to engage in development, redevelopment and repositioning activities with respect to our properties, and, as a result, we are subject to certain risks, which could adversely affect us, including our financial condition and results of operations. These risks include cost overruns and untimely completion of construction due to, among other things, weather conditions, inflation, labor or material shortages or delays in receiving permits or other governmental approvals, as well as the availability and pricing of financing on favorable terms or at all. These risks could result in substantial unanticipated delays and increased development and renovation costs and could prevent the initiation or the completion of development, redevelopment or repositioning activities and cause delays in leasing these properties and generating cash flows from these properties or possible loss of tenancies, any of which could have a material adverse effect on our business, financial condition and results of operations.

We face significant competition.

We face significant competition for tenants at our properties. Some competing properties may be newer, better located or more attractive to tenants. Competing properties may have lower rates of occupancy than our properties, which may result in competing owners offering available space at lower rents than we offer at our properties. In addition, the continuing strong demand for industrial and logistics properties is encouraging new development of these properties. If the development of new industrial and logistics properties exceeds the increase in demand for these properties, our existing properties may be unable to successfully compete for tenants with newer developed buildings and our income and the values of our properties may decline. Competition may make it difficult for us to attract and retain tenants and may reduce the rents we are able to charge and the values of our properties.

We also face competition for acquisition opportunities from other investors, including publicly traded and private REITs, numerous financial institutions, individuals, foreign investors and other public and private companies. We believe that the rapid growth in e-commerce sales, which has intensified as a result of the COVID-19 pandemic, will continue to result in strong demand and increase the competition for industrial real estate. Some of our competitors may have greater financial and other resources than us. Because of competition for acquisitions, we may be unable to acquire desirable properties or we may pay higher prices for, and realize lower net cash flows than we hope to achieve from, acquisitions.

We have debt and we intend to incur additional debt, including in connection with the Monmouth Transaction.

As of December 31, 2021, our consolidated indebtedness was $832.0 million and our ratio of consolidated net debt to total gross assets (total assets plus accumulated depreciation) was 38.7%, and we had $568.0 million available for borrowing under our $750.0 million revolving credit facility. The agreement governing our revolving credit facility, or our credit agreement, includes a feature under which the maximum borrowing availability may be increased to up to $1.5 billion in certain circumstances. In addition, in connection with the Monmouth Transaction, we expect to incur up to an additional $4.0 billion of secured debt.

We are subject to numerous risks associated with our debt, including the risk that our cash flows could be insufficient for us to make required payments on our debt. There are no limits in our organizational documents on the amount of debt we may incur, and we may incur substantial debt. Our debt obligations could have important consequences to our security holders. Our incurrence of debt may increase our vulnerability to adverse economic, market and industry conditions, limit our flexibility in planning for, or reacting to, changes in our business, and place us at a disadvantage in relation to competitors that have lower debt levels. Our incurrence of debt could also increase the costs to us of incurring additional debt, increase our exposure to floating interest rates or expose us to potential events of default (if not cured or waived) under covenants contained in debt instruments that could have a material adverse effect on our business, financial condition and operating results. Excessive debt could reduce the available cash flow to fund, or limit our ability to obtain financing for, working capital, capital expenditures, acquisitions, construction projects, refinancing, lease obligations or other purposes and hinder our ability to make or sustain distributions to our shareholders.

If we default under any of our debt obligations, we may be in default under the agreements governing other debt obligations of ours which have cross default provisions, including our credit agreement. In such case, our lenders may demand immediate payment of any outstanding indebtedness and we could be forced to liquidate our assets for less than the values we would receive in a more orderly process.

We may fail to comply with the terms of the agreements governing our debt, which could adversely affect our business and may prevent our making distributions to our shareholders.

The agreements governing our debt include various conditions, covenants and events of default. We may not be able to satisfy all of these conditions or may default on some of these covenants for various reasons, including for reasons beyond our control. Complying with these covenants may limit our ability to take actions that may be beneficial to us and our security holders. For example, our credit agreement requires us to comply with certain financial and other covenants.

Similarly, our secured debt agreements also contain financial and/or operating covenants, including, among other things, certain coverage ratios, as well as limitations on the ability to incur secured and unsecured debt. These covenants may limit our operational flexibility and acquisition and disposition activities. Moreover, if any of the covenants in these secured debt agreements are breached and not cured within the applicable cure period, we could be required to repay the debt immediately, even in the absence of a payment default. As a result, covenants which limit our operational flexibility or a default under applicable debt covenants could have an adverse effect on our business, financial condition and results of operations.

In the future, we may obtain additional debt financing, and the covenants and conditions which apply to any such additional debt may be more restrictive than the covenants and conditions that are contained in the existing agreements governing our debt.

Secured indebtedness exposes us to the possibility of foreclosure, which could result in the loss of our investment in certain of our subsidiaries or in a property or group of properties or other assets that secure that indebtedness.

We currently have a $650.0 million mortgage loan secured by 186 of our properties, a $350.0 million mortgage loan secured by 11 properties that are owned by a joint venture in which we own a 22% equity interest, and a $57.0 million mortgage note that is secured by another property owned by such joint venture, subject to certain limitations and we expect that our joint venture will incur additional secured debt in the future. In addition, in connection with the Monmouth Transaction, we expect to incur up to an additional $4.0 billion of secured debt. Incurring secured indebtedness, including mortgage indebtedness, increases our risk of asset and property losses because defaults on indebtedness secured by our assets may result in foreclosure actions initiated by lenders and ultimately our loss of the property or other assets securing any loans for which we are in default. Any foreclosure on a mortgaged property or group of properties could have a material adverse effect on the overall value of our portfolio of properties and more generally on us. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the indebtedness secured by the mortgage. If the outstanding balance of the indebtedness secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds, which could materially and adversely affect us.

REIT distribution requirements and limitations on our ability to access reasonably priced capital may adversely impact our ability to carry out our business plan.

To maintain our qualification for taxation as a REIT under the IRC, we are required to satisfy distribution requirements imposed by the IRC. See "Material United States Federal Income Tax Considerations—REIT Qualification Requirements—Annual Distribution Requirements" included in Part I, Item 1 of this Annual Report on Form 10-K. Accordingly, we may not be able to retain sufficient cash to fund our operations, repay our debts, invest in our properties or fund our acquisitions or development, redevelopment or repositioning efforts. Our business strategies therefore depend, in part, upon our ability to raise additional capital at reasonable costs. The volatility in the availability of capital to businesses on a global basis in most debt and equity markets generally may limit our ability to raise reasonably priced capital. We may also be unable to raise reasonably priced capital because of reasons related to our business, market perceptions of our prospects, the terms of our indebtedness, the extent of our leverage or for reasons beyond our control, such as market conditions. Because the earnings we are permitted to retain are limited by the rules governing REIT qualification and taxation, if we are unable to raise reasonably priced capital, we may not be able to carry out our business plan.

Changes in market interest rates, including changes resulting from the phase out of LIBOR, may adversely affect us.

Changes in market interest rates may be sudden and may significantly impede our growth. Interest rates have remained at relatively low levels on a historical basis, but the U.S. Federal Reserve recently indicated that, in light of the economic recovery and higher than anticipated inflation, it expects to raise interest rates as early as March 2022. However, the timing, number and amount of any such future interest rate increases are uncertain.

In addition, as noted in Part II, Item 7A of this Annual Report on Form 10-K, LIBOR has been phased out for new contracts and is expected to be phased out for pre-existing contracts by June 30, 2023. We are required to pay interest on borrowings under our revolving credit facility at floating rates based on LIBOR, and interest we may pay on any future borrowings under our revolving credit facility may also require that we pay interest based upon LIBOR. We currently expect that the determination of interest under our revolving credit facility will be revised as provided under our credit agreement or amended as necessary to provide for an interest rate that approximates the existing interest rate as calculated in accordance with LIBOR. Despite our current expectations, we cannot be sure that any changes to the determination of interest under our credit agreement would approximate the current calculation in accordance with LIBOR. We cannot be certain of what standard, if any, will replace LIBOR if it is phased out or transitioned, and any alternative interest rate index that may replace LIBOR may result in our paying increased interest.

Interest rate increases may materially and negatively affect us in several ways, including:

- investors may consider whether to buy or sell our common shares based upon the distribution rate on our common shares relative to the then prevailing market interest rates. If market interest rates go up, investors may expect a higher distribution rate than we are able to pay, which may increase our cost of capital, or they may sell our common shares and seek alternative investments that offer higher distribution rates. Sales of our common shares may cause a decline in the value of our common shares;
- amounts outstanding under our revolving credit facility require interest to be paid at floating interest rates. When interest rates increase, our interest costs will increase, which could adversely affect our cash flows, our ability to pay principal and interest on our debt, our cost of refinancing our fixed rate debts when they become due and our ability to make or sustain distributions to our shareholders. Additionally, if we choose to hedge our interest rate risk, we cannot be sure that the hedge will be effective or that our hedging counterparty will meet its obligations to us; and
- property values are often determined, in part, based upon a capitalization of rental income formula. When market interest rates increase, property investors often demand higher capitalization rates and that causes property values to decline. Increases in interest rates could lower the value of our properties and cause the value of our securities to decline.

Failure to hedge effectively against interest rate changes may adversely affect our results of operations.

We may use derivatives to manage our exposure to interest rate volatility on debt instruments, including hedging for future debt issuances, as well as to increase our exposure to floating interest rates. There can be no assurance that any such hedging arrangements will have the desired beneficial impact. Such arrangements, which can include a number of counterparties, may expose us to additional risks, including failure of any of our counterparties to perform under these contracts, and may involve extensive costs, such as transaction fees or breakage costs, if we terminate them. Hedging may reduce the overall returns on our investments, which could reduce our cash available for distribution to our shareholders. The REIT provisions of the IRC may limit our ability to utilize advantageous hedging techniques or cause us to implement some hedges through a TRS, which could further reduce our overall returns. Failure to hedge effectively against interest rate changes may materially adversely affect our financial condition, results of operations and cash flow.

A significant number of our properties are located on the island of Oahu, Hawaii, and we are exposed to risks as a result of this geographic concentration.

A significant number of our properties are located on the island of Oahu, Hawaii. This geographic concentration creates risks. For example, Oahu's remote location on a volcanic island makes our properties there vulnerable to certain risks from natural disasters, such as tsunamis, hurricanes, flooding, volcanic eruptions and earthquakes, as well as possible sea rise as a result of climate change, which could cause damage to our properties, affect our Hawaii tenants' abilities to pay rent to us and cause the values of our properties and our securities to decline. Further, the operating results and values of our Hawaii Properties are impacted by local market conditions as well as possible government action that may limit our ability to increase rents.

Ownership of real estate is subject to environmental risks and liabilities.

Ownership of real estate is subject to risks associated with environmental hazards. Under various laws, owners as well as tenants of real estate may be required to investigate and clean up or remove hazardous substances present at or migrating from properties they own, lease or operate and may be held liable for property damage or personal injuries that result from hazardous substances. These laws also expose us to the possibility that we may become liable to government agencies or third parties for costs and damages they incur in connection with hazardous substances. The costs and damages that may arise from environmental hazards may be substantial and are difficult to assess and estimate for numerous reasons, including uncertainty about the extent of contamination, alternative treatment methods that may be applied, the location of the property which subjects it to differing local laws and regulations and their interpretations, as well as the time it may take to remediate contamination. In addition, these laws also impose various requirements regarding the operation and maintenance of properties and recordkeeping and reporting requirements relating to environmental matters that require us or the tenants of our properties to incur costs to comply with. Further, the loan agreement governing our $650.0 million mortgage loan contains certain exceptions to the general non-recourse provisions that obligate us to indemnify the lenders for certain potential environmental losses relating to hazardous materials and violations of environmental law.

While our leases generally require our tenants to operate in compliance with applicable law and to indemnify us against any environmental liabilities arising from their activities on our properties, applicable law may make us subject to strict liability by virtue of our ownership interests. Also, our tenants may have insufficient financial resources to satisfy their indemnification obligations under our leases or they may resist doing so. Furthermore, such liabilities or obligations may affect the ability of some tenants to pay their rents to us. As of December 31, 2021, we had reserved approximately $6.9 million for potential environmental liabilities arising at our properties. We may incur substantial liabilities and costs for environmental matters.

We are subject to risks from adverse weather, natural disasters and climate change and climate related events, and we incur significant costs and invest significant amounts with respect to these matters.

We are subject to risks and could be exposed to additional costs from adverse weather, natural disasters and climate change and climate related events. For example, our properties could be severely damaged or destroyed from either singular extreme weather events (for example floods, storms and wildfires) or through long-term impacts of climatic conditions (such as precipitation frequency, weather instability and rise of sea levels). Such events could also adversely impact us or the tenants of our properties if we or they are unable to operate our or their businesses due to damage resulting from such events. If we fail to adequately prepare for such events, our revenues, results of operations and financial condition may be impacted. In addition, we may incur significant costs in preparing for possible future climate change or climate related events or in response to our tenants' requests for such investments and we may not realize desirable returns on those investments.

Our existing and any future joint ventures may limit our flexibility with jointly owned investments and we may not realize the benefits we expect from these arrangements.

We are currently party to a joint venture, we expect to enter into an additional joint venture in connection with the Monmouth Transaction and we may in the future sell or contribute additional properties or acquire, develop or recapitalize properties to or in this joint venture or other joint ventures that we may enter. Our participation in our existing joint venture is subject to risks, including the following:

- we share approval rights over major decisions affecting the ownership or operation of the joint venture and any property owned by the joint venture;
- we may need to contribute additional capital in order to preserve, maintain or grow the joint venture and its investments;

- our joint venture investors may have economic or other business interests or goals that are inconsistent with our business interests or goals and that could affect our ability to lease, relet or operate the properties owned by the joint venture or maintain our or the joint venture's qualification for taxation as a REIT;
- our joint venture investors may be subject to different laws or regulations than us, or may be structured differently than us for tax purposes, which could create conflicts of interest and/or affect our ability to maintain our qualification for taxation as a REIT;
- our ability to sell our interest in, or sell additional properties to, the joint venture or the joint venture's ability to sell additional interests of, or properties owned by, the joint venture when we so desire are subject to the approval rights of the other joint venture investors under the terms of the agreements governing the joint venture; and
- disagreements with our joint venture investors could result in litigation or arbitration that could be expensive and distracting to management and could delay important decisions.

Any of the foregoing risks could have a material adverse effect on our business, financial condition and results of operations. Further, these, similar, enhanced or additional risks, including possible mandatory capital contribution requirements, may apply to any future additional or amended joint ventures that we may enter into.

Insurance may not adequately cover our losses, and insurance costs may continue to increase.

The tenants at our properties are generally responsible for the costs of insurance, including for casualty, liability, fire, extended coverage and rental or business interruption loss insurance. In the future, we may acquire properties for which we are responsible for the costs of insurance. In the past few years, the costs of insurance have increased significantly, and these increased costs have had an adverse effect on us and certain of our tenants. Increased insurance costs may adversely affect our applicable tenants' abilities to pay us rent or result in downward pressure on rents we can charge under new or renewed leases. Losses of a catastrophic nature, such as those caused by hurricanes, flooding, volcanic eruptions and earthquakes, among other things, losses as a result of outbreaks of pandemics, including the COVID-19 pandemic, or losses from terrorism, may be covered by insurance policies with limitations such as large deductibles or co-payments that we or a responsible tenant may not be able to pay. Insurance proceeds may not be adequate to restore an affected property to its condition prior to a loss or to compensate us for our losses, including lost revenues or other costs. Certain losses, such as losses we may incur as a result of known or unknown environmental conditions, are not covered by our insurance. Market conditions or our loss history may limit the scope of insurance or coverage available to us or our applicable tenants on economic terms. If we determine that an uninsured loss or a loss in excess of insured limits occurs and if we are not able to recover amounts from our applicable tenants for certain losses, we may have to incur uninsured costs as a result or lose all or a portion of the capital invested in a property, as well as the anticipated future revenue from the property.

Changes in global supply chain conditions may result in reduced demand for industrial and logistics properties.

The global economy, including the U.S. economy, has been experiencing supply chain challenges, which, at times, have reduced the availability of goods and materials, caused price inflation and increased the time from order to receipt of goods and materials. In addition, increasing market and government concerns about climate change may cause changes in the process for manufacturing, producing and transporting of goods and materials. Market and governmental actions taken in response to these conditions may result in reduced transporting of goods and lower demand for industrial and logistics properties. For example, if increased onshoring of manufacturing to countries where the goods or materials are consumed, decreased global trade and increased localization of commercial ecosystems occur, there may be reduced volume of, and travel distance for, transporting goods, which may reduce demand for our properties. Further, if 3D printing technology, which allows for more localized manufacture and production of products, expands and gains wide market acceptance, the demand for transporting and storing goods at our properties may decrease and other technological changes could be developed and adopted in the future that have a similar effect. If so, our properties may decline in value and our business, operations and financial condition could be adversely impacted.

Our distributions to our shareholders may be reduced or eliminated and the form of payment could change.

We intend to continue to make regular quarterly distributions to our shareholders. However:

- our ability to make or sustain the rate of distributions may be adversely affected if any of the risks described in this Annual Report on Form 10-K occur, including any negative impact caused by the prolonged duration of the COVID-19 pandemic and its aftermath on our business, results of operations and liquidity;
- our making of distributions is subject to restrictions contained in the agreements governing our debt and may be subject to restrictions in future debt obligations we may incur; during the continuance of any event of default under the agreements governing our debt, we may be limited or in some cases prohibited from making distributions to our shareholders; and
- the timing and amount of any distributions will be determined at the discretion of our Board of Trustees and will depend on various factors that our Board of Trustees deems relevant, including our FFO attributable to common shareholders, our Normalized FFO attributable to common shareholders, requirements to maintain our qualification for taxation as a REIT, limitations in the agreements governing our debt, the availability to us of debt and equity capital, our dividend yield and our dividend yield compared to the dividend yields of other industrial REITs, our expectation of our future capital requirements and operating performance and our expected needs for and availability of cash to pay our obligations.

For these reasons, among others, our distribution rate may decline or we may cease making distributions to our shareholders.

Further, in order to preserve liquidity, we may elect to pay distributions to our shareholders in part in a form other than cash, such as issuing additional common shares of ours to our shareholders, as permitted by the applicable tax rules.

RMR LLC relies on information technology and systems in providing services to us, and any material failure, inadequacy, interruption or security breach of that technology or those systems could materially harm us.

RMR LLC relies on information technology and systems, including the Internet and cloud-based infrastructures, commercially available software and its internally developed applications, to process, transmit, store and safeguard information and to manage or support a variety of its business processes (including managing our building systems), including financial transactions and maintenance of records, which may include personal identifying information of employees, tenants and guarantors and lease data. If these systems experience material failures, inadequacies or interruptions, we could incur material costs and losses and our operations could be disrupted as a result. RMR LLC takes various actions, and incurs significant costs, to maintain and protect the operation and security of information technology and systems, including the data maintained in those systems. However, these measures may not prevent the systems' improper functioning or a compromise in security.

Security breaches, computer viruses, attacks by hackers, online fraud schemes and similar breaches can create significant system disruptions, shutdowns, fraudulent transfer of assets or unauthorized disclosure of confidential information. The risk of a security breach or disruption, particularly through cyberattack or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. Our cybersecurity risks are heightened by, among other things, the evolving nature of the threats faced, advances in computer capabilities, new discoveries in the field of cryptography and new and increasingly sophisticated methods used to perpetrate illegal or fraudulent activities, including cyberattacks, email or wire fraud and other attacks exploiting security vulnerabilities in RMR LLC's or other third parties' information technology networks and systems or operations. The COVID-19 pandemic may adversely impact RMR LLC's ability to maintain the security, proper function and availability of information technology and systems since a continued period of remote working by its employees or individuals with whom RMR LLC works outside of its organization could strain its technology resources and introduce operational risk, including heightened cybersecurity risk. Remote working environments may be less secure and more susceptible to hacking attacks, including phishing and social engineering attempts that seek to exploit the COVID-19 pandemic. Although most of RMR LLC's office-based employees have returned to the office, the ongoing transition to in person work arrangements, or any return to remote work in light of the resurgence of the COVID-19 pandemic may result in the continuation of many of the risks of offsite work arrangements. In addition, RMR LLC's data security, data privacy, investor reporting and business continuity processes could be impacted by a third party's inability to perform due to the COVID-19 pandemic or by the failure of, or attack on, their information systems and technology. Any failure by RMR LLC or third party vendors to maintain the security, proper function and availability of RMR LLC's information technology and systems could result in financial losses, interrupt our operations, damage our reputation, cause us to be in default of material contracts and subject us to liability claims or regulatory penalties, any of which could materially and adversely affect our business and the value of our securities.

Third party expectations relating to ESG factors may impose additional costs and expose us to new risks.

There is an increasing focus from certain investors and certain of our tenants and other stakeholders concerning corporate responsibility, specifically related to ESG factors. Some investors may use these factors to guide their investment strategies and, in some cases, may choose not to invest in us, or otherwise do business with us, if they believe our or RMR LLC's policies relating to corporate responsibility are inadequate. Third party providers of corporate responsibility ratings and reports on companies have increased in number, resulting in varied and, in some cases, inconsistent standards. In addition, the criteria by which companies' corporate responsibility practices are assessed are evolving, which could result in greater expectations of us and RMR LLC and cause us and RMR LLC to undertake costly initiatives to satisfy such new criteria. Alternatively, if we or RMR LLC elect not to or are unable to satisfy such new criteria or do not meet the criteria of a specific third party provider, some investors may conclude that our or RMR LLC's policies with respect to corporate responsibility are inadequate. We and RMR LLC may face reputational damage in the event that our or their corporate responsibility procedures or standards do not meet the standards set by various constituencies. If we and RMR LLC fail to satisfy the expectations of investors and our tenants and other stakeholders or our or RMR LLC's initiatives are not executed as planned, our and RMR LLC's reputation and financial results could be adversely affected, and our revenues, results of operations and ability to grow our business may be negatively impacted.

Risks Related to Our Relationships with RMR LLC

We are dependent upon RMR LLC to manage our business and implement our growth strategy.

We have no employees. Personnel and services that we require are provided to us by RMR LLC pursuant to our management agreements with RMR LLC. Our ability to achieve our business objectives depends on RMR LLC and its ability to effectively manage our properties, to appropriately identify and complete our acquisitions and dispositions and to execute our growth strategy. Accordingly, our business is dependent upon RMR LLC's business contacts, its ability to successfully hire, train, supervise and manage its personnel and its ability to maintain its operating systems. If we lose the services provided by RMR LLC or its key personnel, our business and growth prospects may decline. We may be unable to duplicate the quality and depth of management available to us by becoming internally managed or by hiring another manager. In the event RMR LLC is unwilling or unable to continue to provide management services to us, our cost of obtaining substitute services may be greater than the fees we pay RMR LLC under our management agreements, and as a result our expenses may increase.

RMR LLC has broad discretion in operating our day to day business.

Our manager, RMR LLC, is authorized to follow broad operating and investment guidelines and, therefore, has discretion in identifying the properties that will be appropriate investments for us, as well as our individual operating and investment decisions. Our Board of Trustees periodically reviews our operating and investment guidelines and our operating activities and investments but it does not review or approve each decision made by RMR LLC on our behalf. In addition, in conducting periodic reviews, our Board of Trustees relies primarily on information provided to it by RMR LLC. RMR LLC may exercise its discretion in a manner that results in investment returns that are substantially below expectations or that results in losses.

Our management structure and agreements and relationships with RMR LLC and RMR LLC's and its controlling shareholder's relationships with others may create conflicts of interest, or the perception of such conflicts, and may restrict our investment activities.

RMR LLC is a majority-owned subsidiary of RMR Inc. The Chair of our Board of Trustees who is also one of our Managing Trustees, Adam Portnoy, as the sole trustee of ABP Trust, is the controlling shareholder of RMR Inc. and is a managing director and the president and chief executive officer of RMR Inc. and an officer and employee of RMR LLC. RMR LLC or its subsidiary also acts as the manager to certain other Nasdaq listed companies and private companies, as noted elsewhere in this Annual Report on Form 10-K, and Mr. Portnoy serves as a managing director, managing trustee, director or trustee, as applicable, of those companies, and as chair of the board of trustees or board of directors, as applicable, of certain of those companies.

John Murray, our other Managing Trustee and our President and Chief Executive Officer, Richard Siedel, Jr., our Chief Financial Officer and Treasurer, and Yael Duffy, our Vice President and Chief Operating Officer, are also officers and employees of RMR LLC. Mr. Murray is also a managing trustee and the president and chief executive officer of Service Properties Trust, or SVC, and Mr. Siedel is also the chief financial officer and treasurer of Diversified Healthcare Trust, or DHC. Messrs. Portnoy, Murray and Siedel and Ms. Duffy have duties to RMR LLC, Mr. Murray has duties to SVC and Mr. Siedel has duties to DHC, as well as to us, and we do not have their undivided attention. They and other RMR LLC personnel may have conflicts in allocating their time and resources between us and RMR LLC and other companies to which RMR LLC or its subsidiaries provide services. Some of our Independent Trustees also serve as independent directors or independent trustees of other public companies to which RMR LLC or its subsidiaries provide management services.

In addition, we may in the future enter into additional transactions with RMR LLC, its affiliates or entities managed by it or its subsidiaries. In addition to his investments in RMR Inc. and RMR LLC, Mr. Portnoy holds equity investments in other companies to which RMR LLC or its subsidiaries provide management services and some of these companies have significant cross ownership interests. Our executive officers may also own equity investments in other companies to which RMR LLC or its subsidiaries provide management services. These multiple responsibilities, relationships and cross ownerships may give rise to conflicts of interest or the perception of such conflicts of interest with respect to matters involving us, RMR Inc., RMR LLC, our Managing Trustees, the other companies to which RMR LLC or its subsidiaries provide management services and their related parties. Conflicts of interest or the perception of conflicts of interest could have a material adverse impact on our reputation, business and the market price of our common shares and other securities and we may be subject to increased risk of litigation as a result.

In our management agreements with RMR LLC, we acknowledge that RMR LLC may engage in other activities or businesses and act as the manager to any other person or entity (including other REITs) even though such person or entity has investment policies and objectives similar to our policies and objectives and we are not entitled to preferential treatment in receiving information, recommendations and other services from RMR LLC. Accordingly, we may lose investment opportunities to, and may compete for tenants with, other businesses managed by RMR LLC or its subsidiaries, including our existing and any future joint ventures. We cannot be sure that our Code of Conduct or our governance guidelines, or other procedural protections we adopt will be sufficient to enable us to identify, adequately address or mitigate actual or alleged conflicts of interest or ensure that our transactions with related persons are made on terms that are at least as favorable to us as those that would have been obtained with an unrelated person.

Our management agreements with RMR LLC were not negotiated on an arm's length basis and their fee and expense structure may not create proper incentives for RMR LLC, which may increase the risk of an investment in our common shares.

As a result of our relationships with RMR LLC and its current and former controlling shareholder(s), our management agreements with RMR LLC were not negotiated on an arm's length basis between unrelated parties, and therefore, while such agreements were negotiated with the use of a special committee and disinterested Trustees, the terms, including the fees payable to RMR LLC, may be different from those negotiated on an arm's length basis between unrelated parties. Our property management fees are calculated based on rents we receive and construction supervision fees for construction at our properties overseen and managed by RMR LLC, and our base business management fee is calculated based upon the lower of the historical costs of our real estate investments and our market capitalization. We pay RMR LLC substantial base management fees regardless of our financial results. These fee arrangements could incentivize RMR LLC to pursue acquisitions, capital transactions, tenancies and construction projects or to avoid disposing of our assets in order to increase or maintain its management fees and might reduce RMR LLC's incentive to devote its time and effort to seeking investments that provide attractive returns for us. If we do not effectively manage our investment, disposition and capital transactions and leasing, construction and other property management activities, we may pay increased management fees without proportional benefits to us. In addition, we are obligated under our management agreements to reimburse RMR LLC for employment and related expenses of RMR LLC's employees assigned to work exclusively or partly at our properties, our share of the wages, benefits and other related costs of RMR LLC's centralized accounting personnel and our share of RMR LLC's costs for providing our internal audit function. We are also required to pay for third party costs incurred with respect to us. Our obligation to reimburse RMR LLC for certain of its costs and to pay third party costs may reduce RMR LLC's incentive to efficiently manage those costs, which may increase our costs.

The termination of our management agreements with RMR LLC may require us to pay a substantial termination fee, including in the case of a termination for unsatisfactory performance, which may limit our ability to end our relationship with RMR LLC.

The terms of our management agreements with RMR LLC automatically extend on December 31 of each year so that such terms thereafter end on the 20th anniversary of the date of the extension. We have the right to terminate these agreements: (1) at any time on 60 days' written notice for convenience, (2) immediately upon written notice for cause, as defined in the agreements, (3) on written notice given within 60 days after the end of any applicable calendar year for a performance reason, as defined in the agreements, and (4) by written notice during the 12 months following a manager change of control, as defined in the agreements. However, if we terminate a management agreement for convenience, or if RMR LLC terminates a management agreement with us for good reason, as defined in such agreement, we are obligated to pay RMR LLC a termination fee in an amount equal to the sum of the present values of the monthly future fees, as defined in the applicable agreement, payable to RMR LLC for the term that was remaining before such termination, which, depending on the time of termination, would be between 19 and 20 years. Additionally, if we terminate a management agreement for a performance reason, as defined in the agreement, we are obligated to pay RMR LLC the termination fee calculated as described above, but assuming a remaining term of 10 years. These provisions substantially increase the cost to us of terminating the management agreements without cause, which may limit our ability to end our relationship with RMR LLC as our manager. The payment of the termination fee could have a material adverse effect on our financial condition, including our ability to pay distributions to our shareholders.

Our management arrangements with RMR LLC may discourage a change of control of us.

Our management agreements with RMR LLC have continuing 20 year terms that renew annually. As noted in the preceding risk factor, if we terminate either of these management agreements other than for cause or upon a change of control of our manager, we are obligated to pay RMR LLC a substantial termination fee. For these reasons, our management agreements with RMR LLC may discourage a change of control of us, including a change of control which might result in payment of a premium for our common shares.

We are party to transactions with related parties that may increase the risk of allegations of conflicts of interest.

We are party to transactions with related parties, including with entities controlled by Adam Portnoy or to which RMR LLC or its subsidiaries provide management services. Our agreements with related parties or in respect of transactions among related parties may not be on terms as favorable to us as they would have been if they had been negotiated among unrelated parties. We are subject to the risk that our shareholders or the shareholders of RMR Inc. or other related parties may challenge any such related party transactions. If challenges to related party transactions were to be successful, we might not realize the benefits expected from the transactions being challenged. Moreover, any such challenge could result in substantial costs and a diversion of our management's attention, could have a material adverse effect on our reputation, business and growth and could adversely affect our ability to realize the benefits expected from the transactions, whether or not the allegations have merit or are substantiated.

We may be at an increased risk for dissident shareholder activities due to perceived conflicts of interest arising from our management structure and relationships.

Companies with business dealings with related persons and entities may more often be the target of dissident shareholder trustee nominations, dissident shareholder proposals and shareholder litigation alleging conflicts of interest in their business dealings. Our relationships with RMR LLC, the other companies to which RMR LLC or its subsidiaries provide management services, Adam Portnoy and other related persons of RMR LLC may precipitate such activities. Certain proxy advisory firms which have significant influence over the voting by shareholders of public companies have, in the past, recommended, and in the future may recommend, that shareholders withhold votes for the election of our incumbent Trustees, vote against other management proposals or vote for shareholder proposals that we oppose. These recommendations by proxy advisory firms have affected the outcomes of past Board of Trustees elections, and similar recommendations in the future would likely affect the outcome of future Board of Trustees elections, which may increase shareholder activism and litigation. These activities, if instituted against us, could result in substantial costs, and diversion of our management's attention and could have a material adverse impact on our reputation and business.

Risks Related to Our Organization and Structure

We may change our operational, financing and investment policies without shareholder approval.

Our Board of Trustees determines our operational, financing and investment policies and may amend or revise our policies, including our policies with respect to our intention to remain qualified for taxation as a REIT, acquisitions, dispositions, growth, operations, indebtedness, capitalization and distributions, or approve transactions that deviate from these policies, without a vote of, or notice to, our shareholders. Policy changes could adversely affect the market price of our common shares and our ability to make distributions to our shareholders. Our Board of Trustees may alter or eliminate our current policy on borrowing at any time without shareholder approval. In addition, a change in our investment policies, including the manner in which we allocate our resources across our portfolio or the types of assets in which we seek to invest, may increase our exposure to interest rate risk, real estate market fluctuations and liquidity risk.

Ownership limitations and certain provisions in our declaration of trust, bylaws and agreements, as well as certain provisions of Maryland law, may deter, delay or prevent a change in our control or unsolicited acquisition proposals.

Our declaration of trust prohibits any shareholder, other than RMR LLC and its affiliates (as defined under Maryland law) and certain persons who have been exempted by our Board of Trustees, from owning, directly and by attribution, more than 9.8% of the number or value of shares (whichever is more restrictive) of any class or series of our outstanding shares of beneficial interest, including our common shares. This provision of our declaration of trust is intended to, among other purposes, assist with our REIT compliance under the IRC and otherwise promote our orderly governance. However, this provision may also inhibit acquisitions of a significant stake in us and may deter, delay or prevent a change in control of us or unsolicited acquisition proposals that a shareholder may consider favorable. Additionally, provisions contained in our declaration of trust and bylaws or under Maryland law may have a similar impact, including, for example, provisions relating to:

- the current different terms of our Trustees, with a majority of our existing Trustees having terms expiring in 2022 and the remainder having terms expiring in 2023, which could delay a change of control of us (although beginning at our 2023 annual meeting of shareholders and thereafter, all of our Trustees will stand for election for one year terms);
- limitations on shareholder voting rights with respect to certain actions that are not approved by our Board of Trustees;

- the authority of our Board of Trustees, and not our shareholders, to adopt, amend or repeal our bylaws and to fill vacancies on our Board of Trustees;
- shareholder voting standards which require a supermajority of shares for approval of certain actions;
- the fact that only our Board of Trustees, or, if there are no Trustees, our officers, may call shareholder meetings and that shareholders are not entitled to act without a meeting;
- required qualifications for an individual to serve as a Trustee and a requirement that certain of our Trustees be "Managing Trustees" and other Trustees be "Independent Trustees," as defined in our governing documents;
- limitations on the ability of our shareholders to propose nominees for election as Trustees and propose other business to be considered at a meeting of our shareholders;
- limitations on the ability of our shareholders to remove our Trustees;
- the authority of our Board of Trustees to create and issue new classes or series of shares (including shares with voting rights and other rights and privileges that may deter a change in control) and issue additional common shares;
- restrictions on business combinations between us and an interested shareholder that have not first been approved by our Board of Trustees (including a majority of Trustees not related to the interested shareholder); and
- the authority of our Board of Trustees, without shareholder approval, to implement certain takeover defenses.

As changes occur in the marketplace for corporate governance policies, the above provisions may change, be removed, or new ones may be added.

Our rights and the rights of our shareholders to take action against our Trustees and officers are limited.

Our declaration of trust limits the liability of our Trustees and officers to us and our shareholders for money damages to the maximum extent permitted under Maryland law. Under current Maryland law, our Trustees and officers will not have any liability to us and our shareholders for money damages other than liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- active and deliberate dishonesty by the Trustee or officer that was established by a final judgment as being material to the cause of action adjudicated.

Our declaration of trust and indemnification agreements require us to indemnify to the maximum extent permitted by Maryland law, any present or former Trustee or officer who is made or threatened to be made a party to a proceeding by reason of his or her service in these and certain other capacities. In addition, we may be obligated to pay or reimburse the expenses incurred by our present and former Trustees and officers without requiring a preliminary determination of their ultimate entitlement to indemnification. As a result, we and our shareholders may have more limited rights against our present and former Trustees and officers than might otherwise exist absent the provisions in our declaration of trust and indemnification agreements or that might exist with other companies, which could limit our shareholders' recourse in the event of actions not in their best interest.

Disputes with RMR LLC may be referred to mandatory arbitration proceedings, which follow different procedures than in-court litigation and may be more restrictive to those asserting claims than in-court litigation.

Our agreements with RMR LLC provide that any dispute arising thereunder will be referred to mandatory, binding and final arbitration proceedings if we, or any other party to such dispute unilaterally so demands. As a result, we and our shareholders would not be able to pursue litigation in state or federal court against RMR LLC if we or any other parties against whom the claim is made unilaterally demands the matter be resolved by arbitration. In addition, the ability to collect attorneys' fees or other damages may be limited in the arbitration proceedings, which may discourage attorneys from agreeing to represent parties wishing to bring such litigation.

Our bylaws designate the Circuit Court for Baltimore City, Maryland as the sole and exclusive forum for certain actions and proceedings that may be initiated by our shareholders, which could limit our shareholders' ability to obtain a judicial forum they deem favorable for disputes with us or our Trustees, officers, manager or other agents.

Our bylaws currently provide that the Circuit Court for Baltimore City, Maryland will be the sole and exclusive forum for: (1) any derivative action or proceeding brought on our behalf; (2) any action asserting a claim for breach of a duty owed by any Trustee, officer, manager or other agent of ours to us or our shareholders; (3) any action asserting a claim against us or any Trustee, officer, manager, agent or employee of ours arising pursuant to Maryland law, our declaration of trust or bylaws brought by or on behalf of a shareholder, either on his, her or its own behalf, on our behalf or on behalf of any series or class of shares of beneficial interest of ours or by our shareholders against us or any Trustee, officer, manager, agent or employee of ours, including any disputes, claims or controversies relating to the meaning, interpretation, effect, validity, performance or enforcement of our declaration of trust or bylaws; or (4) any action asserting a claim against us or any Trustee, officer, manager, agent or employee of ours that is governed by the internal affairs doctrine. The exclusive forum provision of our bylaws does not apply to any action for which the Circuit Court for Baltimore City, Maryland does not have jurisdiction. The exclusive forum provision of our bylaws does not establish exclusive jurisdiction in the Circuit Court for Baltimore City, Maryland for claims that arise under the Securities Act, the Exchange Act or other federal securities laws if there is exclusive or concurrent jurisdiction in the federal courts. Any person or entity purchasing or otherwise acquiring or holding any interest in our shares of beneficial interest shall be deemed to have notice of and to have consented to these provisions of our bylaws, as they may be amended from time to time. The exclusive forum provision of our bylaws may limit a shareholder's ability to bring a claim in a judicial forum that the shareholder believes is favorable for disputes with us or our Trustees, officers, manager or other agents, which may discourage lawsuits against us and our Trustees, officers, manager or other agents.

Risks Related to Our Taxation

Our failure to remain qualified for taxation as a REIT under the IRC could have significant adverse consequences.

As a REIT, we generally do not pay federal or most state income taxes as long as we distribute all of our REIT taxable income and meet other qualifications set forth in the IRC. However, actual qualification for taxation as a REIT under the IRC depends on our satisfying complex statutory requirements, for which there are only limited judicial and administrative interpretations. We believe that we have been organized and have operated, and will continue to be organized and to operate, in a manner that qualified and will continue to qualify us to be taxed as a REIT under the IRC. However, we cannot be sure that the IRS, upon review or audit, will agree with this conclusion. Furthermore, we cannot be sure that the federal government, or any state or other taxation authority, will continue to afford favorable income tax treatment to REITs and their shareholders.

Maintaining our qualification for taxation as a REIT under the IRC will require us to continue to satisfy tests concerning, among other things, the nature of our assets, the sources of our income and the amounts we distribute to our shareholders. In order to meet these requirements, it may be necessary for us to sell or forgo attractive investments.

If we cease to qualify for taxation as a REIT under the IRC, then our ability to raise capital might be adversely affected, we will be in breach under our credit agreement, we may be subject to material amounts of federal and state income taxes, our cash available for distribution to our shareholders could be reduced, and the market price of our common shares could decline. In addition, if we lose or revoke our qualification for taxation as a REIT under the IRC for a taxable year, we will generally be prevented from requalifying for taxation as a REIT for the next four taxable years.

Distributions to shareholders generally will not qualify for reduced tax rates applicable to "qualified dividends."

Dividends payable by U.S. corporations to noncorporate shareholders, such as individuals, trusts and estates, are generally eligible for reduced federal income tax rates applicable to "qualified dividends." Distributions paid by REITs generally are not treated as "qualified dividends" under the IRC and the reduced rates applicable to such dividends do not generally apply. However, for tax years beginning before 2026, REIT dividends paid to noncorporate shareholders are generally taxed at an effective tax rate lower than applicable ordinary income tax rates due to the availability of a deduction under the IRC for specified forms of income from passthrough entities. More favorable rates will nevertheless continue to apply to regular corporate "qualified" dividends, which may cause some investors to perceive that an investment in a REIT is less attractive than an investment in a non-REIT entity that pays dividends, thereby reducing the demand and market price of our common shares.

REIT distribution requirements could adversely affect us and our shareholders.

We generally must distribute annually at least 90% of our REIT taxable income, subject to specified adjustments and excluding any net capital gain, in order to maintain our qualification for taxation as a REIT under the IRC. To the extent that we satisfy this distribution requirement, federal corporate income tax will not apply to the earnings that we distribute, but if we distribute less than 100% of our REIT taxable income, then we will be subject to federal corporate income tax on our undistributed taxable income. We intend to make distributions to our shareholders to comply with the REIT requirements of the IRC. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our shareholders in a calendar year is less than a minimum amount specified under federal tax laws.

From time to time, we may generate taxable income greater than our income for financial reporting purposes prepared in accordance with U.S. generally accepted accounting principles, or GAAP, or differences in timing between the recognition of taxable income and the actual receipt of cash may occur. If we do not have other funds available in these situations, among other things, we may borrow funds on unfavorable terms, sell investments at disadvantageous prices or distribute amounts that would otherwise be invested in future acquisitions in order to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the REIT distribution requirement and to avoid corporate income tax and the 4% excise tax in a particular year. These alternatives could increase our costs or reduce our shareholders' equity. Thus, compliance with the REIT distribution requirements may hinder our ability to grow, which could cause the market price of our common shares to decline.

Even if we remain qualified for taxation as a REIT under the IRC, we may face other tax liabilities that reduce our cash flow.

Even if we remain qualified for taxation as a REIT under the IRC, we may be subject to federal, state and local taxes on our income and assets, including taxes on any undistributed income, excise taxes, state or local income, property and transfer taxes, and other taxes. Also, our income tax expense could increase if jurisdictions in which we hold property modified their income tax treatment of REITs, such as by limiting or eliminating favorable income tax deductions (including the dividends paid deduction). In fact, the Hawaii state legislature passed a bill in 2019 that would have eliminated the dividends paid deduction afforded to REITs under Hawaii tax laws and otherwise required REITs to either file a composite tax return or pay withholding tax attributable to distributions to non-Hawaii resident shareholders. While that bill was ultimately vetoed by the governor of Hawaii, similar legislation has been reintroduced in this year's legislative session.

In addition, in order to meet the requirements for qualification and taxation as a REIT under the IRC, prevent the recognition of particular types of non-cash income, or avert the imposition of a 100% tax that applies to specified gains derived by a REIT from dealer property or inventory, we may hold or dispose of some of our assets and conduct some of our operations through our TRSs or other subsidiary corporations that will be subject to corporate level income tax at regular rates. In addition, while we intend that our transactions with our TRSs will be conducted on arm's length bases, we may be subject to a 100% excise tax on a transaction that the IRS or a court determines was not conducted at arm's length. Any of these taxes would decrease cash available for distribution to our shareholders.

We may incur adverse tax consequences if Monmouth has failed or fails to qualify for taxation as a REIT for U.S. federal income tax purposes.

As a condition of the closing of the Monmouth Transaction, Monmouth's counsel will provide us with an opinion that Monmouth has been organized and has operated in conformity with the requirements for qualification and taxation as a REIT under the IRC. If, contrary to that opinion and our expectation, Monmouth has failed or fails to qualify for taxation as a REIT for U.S. federal income tax purposes, then we may inherit significant tax liabilities in the Monmouth Transaction because, as the successor by merger to Monmouth, we would generally inherit any corporate income tax liabilities of Monmouth, including penalties and interest.

It is unclear whether the IRC provisions that are generally available to remediate REIT compliance failures will be available to us as a successor in respect of any determination that Monmouth failed to qualify for taxation as a REIT. If and to the extent the remedial provisions are available to us to address Monmouth's REIT qualification and taxation for the applicable period prior to or including the Monmouth Transaction, we may incur significant cash outlays in connection with the remediation, possibly including (a) required distribution payments to shareholders and associated interest payments to the IRS, and (b) tax and interest payments to the IRS and state and local tax authorities.

Monmouth's failure before the completion of the Monmouth Transaction to qualify for taxation as a REIT and our efforts to remedy any such failure could have an adverse effect on our results of operations and financial condition.

Legislative or other actions affecting REITs could materially and adversely affect us and our shareholders.

The rules dealing with U.S. federal, state, and local taxation are constantly under review by persons involved in the legislative process and by the IRS, the U.S. Department of the Treasury, and other taxation authorities. Changes to the tax laws, with or without retroactive application, could materially and adversely affect us and our shareholders. We cannot predict how changes in the tax laws might affect us or our shareholders. New legislation, Treasury regulations, administrative interpretations or court decisions could significantly and negatively affect our ability to remain qualified for taxation as a REIT or the tax consequences of such qualification to us and our shareholders.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2021, our portfolio was comprised of 288 wholly owned properties located in 31 states containing approximately 34.0 million rentable square feet, including 226 buildings, leasable land parcels and easements located on the island of Oahu, HI containing approximately 16.7 million rentable square feet and 62 properties located in 30 other states throughout the continental United States containing approximately 17.3 million rentable square feet. Most of our Hawaii Properties are lands leased to industrial and commercial tenants, many of which own buildings and operate their businesses on our lands.

The following table provides certain information about our wholly owned properties as of December 31, 2021 (dollars in thousands):

State	Number of Properties	Undepreciated Carrying Value(1)	Depreciated Carrying Value(1)	Annualized Rental Revenues
HI	226	$ 635,222	$ 611,925	$111,213
OH	9	137,882	119,431	11,883
IN	5	98,921	91,344	10,280
SC	4	120,870	102,919	9,665
TN	2	76,658	64,969	6,551
VA	1	71,681	60,002	6,428
MD	1	76,521	64,053	6,236
NJ	2	72,747	61,724	6,090
NH	1	49,213	45,835	4,919
CO	5	41,189	36,049	4,375
IA	3	25,372	17,648	3,314
KS	1	38,479	37,659	3,286
NV	2	36,648	32,308	2,882
NY	2	21,127	18,248	2,821
MN	2	27,440	25,155	2,819
FL	2	45,222	41,050	2,559
MI	1	43,229	36,208	2,184
CT	2	16,363	13,141	1,856
MO	3	19,484	17,938	1,850
SD	1	17,402	16,246	1,535
LA	2	15,850	13,527	1,324
NE	1	11,106	9,574	1,269
UT	1	8,433	7,233	1,096
KY	1	11,292	10,364	883
OK	1	7,400	6,521	792
IL	2	4,723	4,108	657
AR	1	4,385	3,782	475
ID	1	5,037	4,264	393
ND	1	3,923	3,366	346
NC	1	2,014	1,752	251
TX	1	3,000	3,000	—
Total	288	$1,748,833	$1,581,343	$210,232

(1) Excludes the value of real estate related intangibles.

At December 31, 2021, 186 of our properties located on the island of Oahu, HI with an aggregate undepreciated carrying value of $506.0 million were encumbered by mortgages totaling $650.0 million. For more information regarding our mortgages and our unconsolidated joint venture, see Notes 3, 5 and 6 to the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Item 3. Legal Proceedings

From time to time, we may become involved in litigation matters incidental to the ordinary course of our business. Although we are unable to predict with certainty the eventual outcome of any litigation, we are currently not a party to any litigation which we expect to have a material adverse effect on our business.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common shares are traded on Nasdaq (symbol: ILPT).

As of February 11, 2022, there were 1,884 shareholders of record of our common shares, although there is a larger number of beneficial owners.

Issuer purchases of equity securities. The following table provides information about our purchases of our equity securities during the quarter ended December 31, 2021:

Calendar Month	Number of Shares Purchased[(1)]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans of Programs	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 2021	287	$25.99	—	$—
Total	287	$25.99	—	$—

(1) These common share withholdings and purchases were made to satisfy tax withholding and payment obligations of a former employee of RMR LLC in connection with the vesting of prior awards of our common shares. We withheld and purchased these shares at their fair market value based upon the trading price of our common shares at the close of trading on Nasdaq on the purchase date.

Item 6. [*Reserved.*]

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with our consolidated financial statements and accompanying notes included in Part IV, Item 5 of this Annual Report on Form 10-K.

OVERVIEW (dollars in thousands, except per square foot data)

We are a REIT organized under Maryland law. As of December 31, 2021, our portfolio was comprised of 288 wholly owned properties containing approximately 34.0 million rentable square feet, including 226 buildings, leasable land parcels and easements containing approximately 16.7 million rentable square feet located on the island of Oahu, HI, and 62 properties containing approximately 17.3 million rentable square feet located in 30 other states. As of December 31, 2021, we also owned a 22% equity interest in an unconsolidated joint venture, which owns 18 properties located in 12 states in the mainland United States containing approximately 11.7 million rentable square feet that were 100% leased with an average (by annualized rental revenues) remaining lease term of 6.6 years.

In November 2021, we entered into the Merger Agreement related to the Monmouth Transaction, which will add 126 new, Class A, single tenant, net leased, e-commerce focused industrial properties containing over 26 million rentable square feet with a weighted average remaining lease term of approximately eight years to our portfolio. The Monmouth Transaction is subject to the satisfaction of conditions, including the receipt of requisite approval by Monmouth's stockholders, and is expected to close in the first quarter of 2022. For more information regarding the Monmouth Transaction and the associated risks, see elsewhere in this Annual Report on Form 10-K, including "Warning Concerning Forward-Looking Statements", Part I, Item I, "Business," and Part I, Item 1A, "Risk Factors."

As of December 31, 2021, our properties were approximately 99.2% leased (based on rentable square feet) to 259 different tenants with a weighted average remaining lease term (based on annualized rental revenues) of approximately 9.4 years.

Our business is focused on industrial and logistics properties. The industrial and logistics sector has fared better than some other industries thus far during the COVID-19 pandemic, including other real estate sectors, due, in part, to the demand for e-commerce. Although, to date, the COVID-19 pandemic has not had a significant adverse impact on our business, certain of our tenants requested relief from their obligations to pay rent due to us in response to the economic conditions resulting from the COVID-19 pandemic. As of December 31, 2021, we recognized $1,297 in our accounts receivable related to the remaining deferred amounts. In most cases, these tenants were obligated to pay the deferred rents in 12 equal monthly installments beginning in September 2020. These deferred amounts did not negatively impact our operating results for the year ended December 31, 2021 and will continue to be reflected in our financial results in the applicable future reporting periods, assuming these tenants continue to pay the deferred rents due to us. As of February 11, 2022, we collected approximately 99% of our granted rent deferrals.

There remains uncertainty as to the ultimate duration and severity of the COVID-19 pandemic. As a result, we are unable to determine what the ultimate impact will be on our, our tenants' and other stakeholders' businesses, operations, financial results and financial position. For more information and risks relating to the COVID-19 pandemic on us and our business, see elsewhere in this Annual Report on Form 10-K, including "Warning Concerning Forward-Looking Statements," and Part I, Item 1A, "Risk Factors."

Property Operations

Occupancy data for our properties as of December 31, 2021 and 2020 is as follows (square feet in thousands):

	All Properties As of December 31,		Comparable Properties[1] As of December 31,	
	2021	2020	2021	2020
Total properties	288	289	285	285
Total rentable square feet[2]	33,991	34,870	32,988	33,012
Percent leased[3]	99.2%	98.5%	99.2%	98.4%

(1) Consists of properties that we owned continuously since January 1, 2020 and excludes 18 properties owned by an unconsolidated joint venture in which we own a 22% equity interest.

(2) Subject to modest adjustments when space is remeasured or reconfigured for new tenants and when land leases are converted to building leases.

(3) Percent leased includes (i) space being fitted out for occupancy pursuant to existing leases as of December 31, 2021, if any, and (ii) space which is leased but is not occupied or is being offered for sublease by tenants, if any.

The average effective rental rates per square foot, as defined below, for our properties for the years ended December 31, 2021 and 2020 are as follows:

	Year Ended December 31,	
	2021	2020
Average effective rental rates per square foot leased:[1]		
All properties	$6.58	$6.06
Comparable properties[2]	$6.35	$6.20

(1) Average effective rental rates per square foot leased represents total rental income during the period specified divided by the average rentable square feet leased during the period specified.

(2) Consists of properties that we owned continuously since January 1, 2020 and excludes 18 properties owned by an unconsolidated joint venture in which we own a 22% equity interest.

During the year ended December 31, 2021, we entered into new and renewal leases as summarized in the following tables:

	Year Ended December 31, 2021		
	New Leases	Renewals	Totals
Square feet leased during the period (in thousands)	556	2,548	3,103
Weighted average rental rate change (by rentable square feet)	16.0%	13.6%	14.1%
Weighted average lease term by square feet (years)	11.0	9.3	9.6
Total leasing costs and concession commitments[1]	$3,715	$6,829	$10,544
Total leasing costs and concession commitments per square foot[1]	$ 6.69	$ 2.68	$ 3.40
Total leasing costs and concession commitments per square foot per year[1]	$ 0.61	$ 0.29	$ 0.35

(1) Includes commitments made for leasing expenditures and concessions, such as leasing commissions, tenant improvements or other tenant inducements.

During the year ended December 31, 2021, we completed rent resets for approximately 462,000 square feet of land at our Hawaii Properties at rental rates that were approximately 33.2% higher than the prior rental rates.

As shown in the table below, approximately 5.0% of our total leased square feet and approximately 5.8% of our total annualized rental revenues as of December 31, 2021 are included in leases scheduled to expire by December 31, 2022. As of December 31, 2021, our lease expirations by year are as follows (dollars and square feet in thousands):

Period / Year	Number of Tenants	Leased Square Feet Expiring[1]	% of Total Leased Square Feet Expiring[1]	Cumulative % of Total Square Feet Expiring[1]	Annualized Rental Revenues Expiring	% of Annualized Rental Revenues Expiring	Cumulative % of Annualized Rental Revenues Expiring
2022	46	1,685	5.0%	5.0%	$ 12,156	5.8%	5.8%
2023	30	2,377	7.1%	12.1%	15,592	7.4%	13.2%
2024	37	5,775	17.1%	29.2%	25,072	11.9%	25.1%
2025	15	1,733	5.1%	34.3%	9,161	4.4%	29.5%
2026	9	1,071	3.2%	37.5%	7,689	3.7%	33.2%
2027	15	4,730	14.0%	51.5%	26,033	12.4%	45.6%
2028	21	2,817	8.4%	59.9%	19,737	9.4%	55.0%
2029	9	1,853	5.5%	65.4%	6,657	3.2%	58.2%
2030	9	1,232	3.7%	69.1%	9,519	4.5%	62.7%
2031	9	1,424	4.2%	73.3%	8,401	4.0%	66.7%
Thereafter	92	9,016	26.7%	100.0%	70,215	33.3%	100.0%
Total	292	33,713	100.0%		$210,232	100.0%	
Weighted average remaining lease term (in years)		8.2			9.4		

(1) Leased square feet is pursuant to existing leases as of December 31, 2021 and includes (i) space being fitted out for occupancy, if any, and (ii) space which is leased but is not occupied or is being offered for sublease by tenants, if any.

We generally receive rents from our tenants monthly in advance. As of December 31, 2021, tenants representing 1% or more of our total annualized rental revenues were as follows (square feet in thousands):

		States	No. of Properties	Leased Sq. Ft.(1)	% of Total Leased Sq. Ft.(1)	% of Total Annualized Rental Revenues
1	Amazon.com Services, Inc./ Amazon.com Services LLC	SC, TN, VA	3	3,048	9.0%	7.7%
2	Federal Express Corporation/ FedEx Ground Package System, Inc.	AR, CO, HI, IA, ID, IL, MN, MO, NC, ND, NV, OH, OK, UT	17	952	2.8%	4.8%
3	Restoration Hardware, Inc.	MD	1	1,195	3.5%	3.0%
4	American Tire Distributors, Inc.	CO, LA, NE, NY, OH	5	722	2.1%	2.6%
5	Servco Pacific, Inc.	HI	6	590	1.8%	2.5%
6	Par Hawaii Refining, LLC	HI	3	3,148	9.3%	2.4%
7	UPS Supply Chain Solutions, Inc.	NH	1	614	1.8%	2.3%
8	EF Transit, Inc.	IN	1	535	1.6%	1.9%
9	BJ's Wholesale Club, Inc.	NJ	1	634	1.9%	1.7%
10	Coca-Cola Bottling of Hawaii, LLC	HI	4	351	1.0%	1.6%
11	Safeway Inc.	HI	2	146	0.4%	1.6%
12	ELC Distribution Center LLC	KS	1	645	1.9%	1.6%
13	Manheim Remarketing, Inc.	KS	1	338	1.0%	1.5%
14	Exel Inc.	SC	1	945	2.8%	1.4%
15	Avnet, Inc.	OH	1	581	1.7%	1.4%
16	Shurtape Technologies, LLC	OH	1	645	1.9%	1.4%
17	Warehouse Rentals Inc.	HI	5	278	0.8%	1.3%
18	YNAP Corporation	NJ	1	167	0.5%	1.2%
19	ODW Logistics, Inc.	OH	3	760	2.3%	1.1%
20	Refresco Beverages US Inc.	MO, SC	2	421	1.2%	1.1%
21	Honolulu Warehouse Co., Ltd.	HI	1	298	0.9%	1.1%
22	Hellmann Worldwide Logistics, Inc.	FL	1	240	0.7%	1.1%
23	General Mills Operations, LLC	MI	1	158	0.5%	1.0%
24	AES Hawaii, LLC	HI	2	1,242	3.7%	1.0%
	Total		65	18,653	55.1%	48.3%

(1) Leased square feet is pursuant to existing leases as of December 31, 2021 and includes (i) space being fitted out for occupancy, if any, and (ii) space which is leased but is not occupied or is being offered for sublease by tenants, if any.

Mainland Properties. As of December 31, 2021, our Mainland Properties represented approximately 47.1% of our annualized rental revenues. We generally will seek to renew or extend the terms of leases at our Mainland Properties as their expirations approach. Due to the capital many of the tenants in our Mainland Properties have invested in these properties and because many of these properties appear to be of strategic importance to the tenants' businesses, we believe that it is likely that these tenants will renew or extend their leases prior to their expirations. If we are unable to extend or renew our leases, it may be time consuming and expensive to relet some of these properties and the terms of any leases we may enter may be less favorable to us than the terms of our existing leases for those properties.

Hawaii Properties. As of December 31, 2021, our Hawaii Properties represented approximately 52.9% of our annualized rental revenues. As of December 31, 2021, certain of our Hawaii Properties are lands leased for rents that periodically reset based on fair market values, generally every ten years. Revenues from our Hawaii Properties have generally increased under our or our predecessors' ownership as rents under the leases for those properties have been reset or renewed. Lease renewals, lease extensions, new leases and rental rates for our Hawaii Properties in the future will depend on prevailing market conditions when these lease renewals, lease extensions, new leases and rental rates are set. As rent reset dates or lease expirations approach at our Hawaii Properties, we generally negotiate with existing or new tenants for new lease terms. If we are unable to reach an agreement with a tenant on a rent reset, our Hawaii Properties' leases typically provide that rent is reset based on an appraisal process. Despite our and our predecessors' prior experience with rent resets, lease extensions and new leases in Hawaii, our ability to increase rents when rents reset, leases are extended, or leases expire depends upon market conditions which are beyond our control. Accordingly, we cannot be sure that the historical increases achieved at our Hawaii Properties will continue in the future.

The following chart shows the annualized rental revenues as of December 31, 2021 scheduled to reset at our Hawaii Properties:

Scheduled Rent Resets at Hawaii Properties
(dollars in thousands)

	Annualized Rental Revenues as of December 31, 2021 Scheduled to Reset
2022	$ 1,575
2023	2,085
2024	1,266
2025	3,103
2026	1,296
2027 and thereafter	17,099
Total	$26,424

As of December 31, 2021, $12,156, or 5.8%, of our annualized rental revenues are included in leases scheduled to expire by December 31, 2022 and 0.8% of our rentable square feet are currently vacant. Rental rates for which available space may be leased in the future will depend on prevailing market conditions when lease extensions, lease renewals or new leases are negotiated. Whenever we extend, renew or enter new leases for our properties, we intend to seek rents that are equal to or higher than our historical rents for the same properties; however, our ability to maintain or increase the rents for our current properties will depend in large part upon market conditions, which are beyond our control.

Since the time, in some cases 40 to 50 years ago, certain of our Hawaii Properties' leases were originally entered into, the characteristics of the neighborhoods in the vicinity of some of those properties have changed. In such circumstances, we and our predecessors have sometimes engaged in redevelopment activities to change the character of certain properties in order to increase rents. Because our Hawaii Properties are currently experiencing strong demand for their current uses, we do not currently expect redevelopment efforts in Hawaii to become a major activity of ours in the near term; however, we may undertake such activities on a selective basis.

Tenant Review Process. Our manager, RMR LLC, employs a tenant review process on our behalf. RMR LLC assesses tenants on an individual basis based on various applicable credit criteria. In general, depending on facts and circumstances, RMR LLC evaluates the creditworthiness of a tenant based on information that is provided by the tenant and, in some cases, information that is publicly available or obtained from third party sources.

Investing and Financing Activities (dollars in thousands)

During the year ended December 31, 2021, we acquired four properties and one parcel of developable land containing 1,644,508 rentable square feet for an aggregate purchase price of $134,730, including acquisition related costs of $1,030.

As a result of an eminent domain taking during the year ended December 2021, we sold a portion of a land parcel located in Rock Hill, South Carolina for $1,400, excluding closing costs, resulting in a net gain on sale of real estate of $940.

In November 2021, we entered into the Merger Agreement related to the Monmouth Transaction, which will add 126 new, Class A, single tenant, net leased, e-commerce focused industrial properties containing over 26 million square feet with a weighted average remaining lease term of approximately eight years to our portfolio. We intend to finance the Monmouth Transaction by entering into a joint venture with one or more institutional investors for equity investments and with proceeds from new mortgage debt and the assumption of existing Monmouth mortgage debt. Depending on the ultimate amount of the joint venture equity investments, we may also use proceeds from the sale of some of Monmouth's properties to finance the Monmouth Transaction. In addition, in connection with the financing of the Monmouth Transaction, we have obtained commitments from lenders to make a bridge loan of up to $4,000,000 available to us. The Monmouth Transaction is subject to the satisfaction of conditions, including the receipt of requisite approval by Monmouth's stockholders and is expected to close in the first quarter of 2022. For more information regarding the Monmouth Transaction and the associated risks, see elsewhere in this Annual Report on Form 10-K, including "Warning Concerning Forward-Looking Statements," Part I, Item I, "Business," and Part I, Item 1A, "Risk Factors."

In the first quarter of 2020, we entered into agreements related to our joint venture for 12 of our properties in the mainland United States, or our joint venture, with an unrelated third party institutional investor and contributed those 12 properties to our joint venture. We received an aggregate amount of $108,676 which included certain costs associated with the formation of our joint venture from that investor for a 39% equity interest in our joint venture and we retained the remaining 61% equity interest in our joint venture. In November 2020, we sold an additional 39% equity interest from our then remaining 61% equity interest to a second unrelated third party institutional investor for $108,812, which included certain costs related with the formation of our joint venture, and we retained a 22% equity interest in our joint venture following this sale. Effective as of the date of the sale in November 2020, we deconsolidated our joint venture and, since that time, we account for our joint venture using the equity method of accounting under the fair value option.

We recognized a 39% noncontrolling interest in our consolidated financial statements for the year ended December 31, 2020. The portion of our joint venture's net loss not attributable to us, or $866 for the year ended December 31, 2020, is reported as noncontrolling interest in our consolidated statements of comprehensive income. During the year ended December 31, 2020, our joint venture made aggregate cash distributions of $14,049, including $5,479 to the first joint venture investor.

In December 2021, we sold six recently acquired properties to our existing joint venture for an aggregate price of approximately $205,789. We received proceeds from the investors, who own an aggregate of 78% equity interest in the joint venture, for an aggregate amount of $160,516 and recognized a net gain on sale of $11,114 on this transaction, which is included in gain on sale of real estate in our consolidated statements of comprehensive income. The sale resulted in an increase in our investment in the joint venture, in which we own a 22% equity interest, of $45,273. We used the net proceeds from this transaction to reduce outstanding borrowings under our revolving credit facility.

During the year ended December 31, 2021, we recorded an increase in the fair value of our investment in our joint venture of $40,918 as equity in earnings of investees in our consolidated statements of comprehensive income. In addition, during the year ended December 31, 2021, our joint venture made aggregate cash distributions of $2,640 to us. For more information regarding our joint venture and the use of the equity method for our joint venture, see Notes 3 and 6 to the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

In May 2020, we prepaid at par plus accrued interest a mortgage note secured by one of our properties with an outstanding principal balance of approximately $48,750, an annual interest rate of 3.48% and a maturity date in November 2020. As a result of the prepayment of this mortgage note, we recorded a gain on early extinguishment of debt of $120 for the year ended December 31, 2020 to write off unamortized premiums.

For more information regarding our investing and financing activities, see elsewhere in this Annual Report on Form 10-K, including “Business—Our Company”, “Business—Our Investment Policies” and “Business—Our Disposition Policies” in Part 1, Item 1 of this Annual Report on Form 10-K, “Liquidity and Capital Resources—Our Investing and Financing Liquidity and Resources” below and Notes 3 and 5 to the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

RESULTS OF OPERATIONS

Year Ended December 31, 2021, Compared to Year Ended December 31, 2020 (dollars and share amounts in thousands, except per share data)

	Comparable Properties Results[1] Year Ended December 31,				Non-Comparable Properties Results[2] Year Ended December 31,			Consolidated Results Year Ended December 31,			
	2021	2020	$ Change	% Change	2021	2020	$ Change	2021	2020	$ Change	% Change
Rental income	$206,802	$201,051	$5,751	2.9%	$13,072	$53,524	$(40,452)	$219,874	$254,575	$(34,701)	(13.6)%
Operating expenses:											
Real estate taxes	28,845	28,162	683	2.4%	1,289	7,023	(5,734)	30,134	35,185	(5,051)	(14.4)%
Other operating expenses	17,353	15,752	1,601	10.2%	1,325	4,997	(3,672)	18,678	20,749	(2,071)	(10.0)%
Total operating expenses	46,198	43,914	2,284	5.2%	2,614	12,020	(9,406)	48,812	55,934	(7,122)	(12.7)%
Net operating income[3]	$160,604	$157,137	$3,467	2.2%	$10,458	$41,504	$(31,046)	171,062	198,641	(27,579)	(13.9)%
Other expenses:											
Depreciation and amortization								50,598	70,518	(19,920)	(28.2)%
Acquisition and certain other transaction related costs								1,132	200	932	N/M
General and administrative								16,724	19,580	(2,856)	(14.6)%
Total other expenses								68,454	90,298	(21,844)	(24.2)%
Gain on sale of real estate								12,054	23,996	(11,942)	(49.8)%
Interest income								—	113	(113)	(100.0)%
Interest expense								(35,625)	(51,619)	15,994	(31.0)%
Gain on early extinguishment of debt								—	120	(120)	N/M
Income before income tax expense and equity in earnings of investees								79,037	80,953	(1,916)	(2.4)%
Income tax expense								(273)	(277)	4	(1.4)%
Equity in earnings of investees								40,918	529	40,389	N/M
Net income								119,682	81,205	38,477	47.4%
Net loss attributable to noncontrolling interest								—	866	(866)	N/M
Net income attributable to common shareholders								$119,682	$ 82,071	$ 37,611	45.8%
Weighted average common shares outstanding—basic								65,169	65,104	65	0.1%
Weighted average common shares outstanding—diluted								65,211	65,114	97	0.1%
Per common share data (basic and diluted):											
Net income attributable to common shareholders								$ 1.83	$ 1.26	$ 0.57	45.2%

N/M—not meaningful

(1) Consists of properties that we owned continuously since January 1, 2020 and excludes 18 properties owned by an unconsolidated joint venture in which we own a 22% equity interest.

(2) Consists of seven properties that we acquired during the period from January 1, 2020 to December 31, 2021, one property we sold in December 2020 and 12 and six properties we contributed and sold in the first quarter of 2020 and in December 2021, respectively, to our joint venture in which we currently own a 22% equity interest. Until November 2020, we consolidated the properties we then owned which were subsequently contributed to our joint venture.

(3) See our definition of NOI and our reconciliation of net income to NOI below under the heading "Non-GAAP Financial Measures."

References to changes in the income and expense categories below relate to the comparison of results for the year ended December 31, 2021, compared to the year ended December 31, 2020. For a comparison of consolidated results for the year ended December 31, 2020 compared to the year ended December 31, 2019, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Rental income. The decrease in rental income is primarily a result of our acquisition and disposition activities, which includes the contribution of 12 properties to our joint venture that was deconsolidated in November 2020 and the sale of six properties to our joint venture in December 2021, partially offset by increases from the acquisition of two properties during the 2020 period, the acquisition of five properties during the 2021 period and leasing activity and rent resets at certain of our comparable properties. Rental income includes non-cash straight line rent adjustments totaling approximately $7,263 and $9,041 for the 2021 and 2020 periods, respectively, and net amortization of acquired real estate leases and assumed real estate lease obligations totaling approximately $781 and $791 for the 2021 and 2020 periods, respectively.

Real estate taxes. The decrease in real estate taxes primarily reflects our acquisition and disposition activities, partially offset by higher tax assessments at certain of our comparable properties.

Other operating expenses. Other operating expenses primarily include repairs and maintenance, utilities, insurance, snow removal and property management fees. The decrease in other operating expenses is primarily due to our acquisition and disposition activities. The increase in other operating expenses at our comparable properties is primarily due to an increase in snow removal, repairs and maintenance costs and insurance expense in the 2021 period.

Depreciation and amortization. The decrease in depreciation and amortization primarily reflects our acquisition and disposition activities and certain leasing related assets becoming fully amortized in the 2021 period, partially offset by an increase in depreciation and amortization of improvements made to certain of our properties after January 1, 2021.

Acquisition and certain other transaction related costs. Acquisition and certain other transaction related costs consist of costs related to potential acquisitions that were not completed or other transactions.

General and administrative. General and administrative expenses primarily include fees paid under our business management agreement with RMR LLC, legal fees, audit fees, Trustee fees and expenses and equity compensation expense. The decrease in general and administrative expenses is primarily due to a decrease in business management fees as a result of our net disposition of properties since January 1, 2020.

Gain on sale of real estate. Gain on sale of real estate represents the net gain of $11,114 from the sale of six properties to our joint venture and a $940 gain from the sale of a portion of a land parcel as a result of an eminent domain taking in the 2021 period. During the 2020 period, we recorded a $23,966 aggregate gain on sale of real estate, resulting from the deconsolidation of and sale of equity interests in our joint venture and the sale of one other property.

Interest income. Interest income represents interest earned on our cash balances. The decrease in interest income is primarily due to lower returns on invested cash during the 2021 period as compared to the 2020 period.

Interest expense. The decrease in interest expense in the 2021 period is primarily due to lower average outstanding indebtedness in the 2021 period as compared to the 2020 period.

Gain on early extinguishment of debt. We recorded a gain on early extinguishment of debt in connection with our prepayment of a mortgage note during the 2020 period.

Income tax expense. Income tax expense primarily reflects state income taxes payable in certain jurisdictions.

Equity in earnings of investees. Equity in earnings of investees is the change in the fair value of our investment in our joint venture.

Net income. The increase in net income for the 2021 period compared to the 2020 period reflects the changes noted above.

Net loss attributable to noncontrolling interest. Net loss attributable to noncontrolling interest represents the net loss attributable to the 39% equity interest in our joint venture that we did not own during the 2020 period when we owned a 61% equity interest in the venture.

Net income attributable to common shareholders. The increase in net income attributable to common shareholders for the 2021 period compared to the 2020 period reflects the changes noted above.

Weighted average common shares outstanding—basic and diluted. The increase in weighted average common shares outstanding primarily reflects common shares awarded under our equity compensation plan since January 1, 2020.

Net income attributable to common shareholders per common share—basic and diluted. The increase in net income attributable to common shareholders per common share reflects the changes to net income attributable to common shareholders and weighted average common shares noted above.

Non-GAAP Financial Measures

We present certain "non-GAAP financial measures" within the meaning of the applicable SEC rules, including NOI, FFO attributable to common shareholders and Normalized FFO attributable to common shareholders. These measures do not represent cash generated by operating activities in accordance with GAAP and should not be considered alternatives to net income or net income attributable to common shareholders as indicators of our operating performance or as measures of our liquidity. These measures should be considered in conjunction with net income or net income attributable to common shareholders as presented in our consolidated statements of comprehensive income. We consider these non-GAAP measures to be appropriate supplemental measures of operating performance for a REIT, along with net income and net income attributable to common shareholders. We believe these measures provide useful information to investors because by excluding the effects of certain historical amounts, such as depreciation and amortization expense, they may facilitate a comparison of our operating performance between periods and with other REITs and, in the case of NOI, reflecting only those income and expense items that are generated and incurred at the property level may help both investors and management to understand the operations of our properties.

Net Operating Income

We calculate NOI as shown below. We define NOI as income from our rental of real estate less our property operating expenses. The calculation of NOI excludes certain components of net income in order to provide results that are more closely related to our property level results of operations. NOI excludes amortization of capitalized tenant improvement costs and leasing commissions that we record as depreciation and amortization expense. We use NOI to evaluate individual and company-wide property level performance. Other real estate companies and REITs may calculate NOI differently than we do.

The following table presents the reconciliation of net income to NOI for the years ended December 31, 2021 and 2020 (dollars in thousands):

	Year Ended December 31,	
	2021	2020
Reconciliation of Net Income to NOI:		
Net income	$119,682	$ 81,205
Equity in earnings of investees	(40,918)	(529)
Income tax expense	273	277
Income before income tax expense and equity in earnings of investees	79,037	80,953
Gain on early extinguishment of debt	—	(120)
Interest expense	35,625	51,619
Interest income	—	(113)
Gain on sale of real estate	(12,054)	(23,996)
General and administrative	16,724	19,580
Acquisition and certain other transaction related costs	1,132	200
Depreciation and amortization	50,598	70,518
NOI	$171,062	$198,641
NOI:		
Hawaii Properties	$ 82,436	$ 79,028
Mainland Properties	88,626	119,613
NOI	$171,062	$198,641

Funds From Operations Attributable to Common Shareholders and Normalized Funds From Operations Attributable to Common Shareholders

We calculate FFO attributable to common shareholders and Normalized FFO attributable to common shareholders as shown below. FFO attributable to common shareholders is calculated on the basis defined by The National Association of Real Estate Investment Trusts, which is net income attributable to common shareholders, calculated in accordance with GAAP, excluding any gain or loss on sale of real estate and equity in earnings of an unconsolidated joint venture, plus real estate depreciation and amortization of consolidated properties and our proportionate share of FFO of unconsolidated joint venture properties and minus FFO adjustments attributable to noncontrolling interest, as well as certain other adjustments currently not applicable to us. In calculating Normalized FFO attributable to common shareholders, we adjust for the items shown below including similar adjustments for our unconsolidated joint venture, if any, and include business management incentive fees, if any, only in the fourth quarter versus the quarter when they are recognized as an expense in accordance with GAAP due to their quarterly volatility not necessarily being indicative of our core operating performance and the uncertainty as to whether any such business management incentive fees will be payable when all contingencies for determining such fees are known at the end of the calendar year. FFO attributable to common shareholders and Normalized FFO attributable to common shareholders are among the factors considered by our Board of Trustees when determining the amount of distributions to our shareholders. Other factors include, but are not limited to, requirements to maintain our qualification for taxation as a REIT, limitations in the agreements governing our debt, the availability to us of debt and equity capital, our dividend yield and our dividend yield compared to the dividend yields of other industrial REITs, our expectation of our future capital requirements and operating performance and our expected needs for and availability of cash to pay our obligations. Other real estate companies and REITs may calculate FFO attributable to common shareholders and Normalized FFO attributable to common shareholders differently than we do.

The following table presents our calculation of FFO attributable to common shareholders and Normalized FFO attributable to common shareholders and reconciliations of net income attributable to common shareholders to FFO attributable to common shareholders and Normalized FFO attributable to common shareholders for the years ended December 31, 2021 and 2020 *(dollars in thousands, except per share data)*:

	Year Ended December 31,	
	2021	2020
Reconciliation of Net Income attributable to common shareholders to FFO attributable to common shareholders and Normalized FFO attributable to common shareholders:		
Net income attributable to common shareholders	$119,682	$ 82,071
Depreciation and amortization	50,598	70,518
Equity in earnings of unconsolidated joint venture	(40,918)	(529)
Share of FFO from unconsolidated joint venture	4,823	556
Gain on sale of real estate	(12,054)	(23,996)
FFO adjustments attributable to noncontrolling interest	—	(7,656)
FFO attributable to common shareholders	122,131	120,964
Acquisition and certain other transaction related costs	1,132	200
Gain on early extinguishment of debt	—	(120)
Normalized FFO attributable to common shareholders	$123,263	$121,044
Weighted average common shares outstanding—basic	65,169	65,104
Weighted average common shares outstanding—diluted	65,211	65,114
Per common share data (basic and diluted)		
FFO attributable to common shareholders	$ 1.87	$ 1.86
Normalized FFO attributable to common shareholders	$ 1.89	$ 1.86

LIQUIDITY AND CAPITAL RESOURCES

Our Operating Liquidity and Resources (dollars in thousands)

Our principal sources of funds to meet our operating and capital expenses, pay debt service obligations and make distributions to our shareholders are rents from tenants at our properties and borrowings under our revolving credit facility. With $568,000 of availability under our revolving credit facility as of February 11, 2022, 71.9% of our annualized rental revenues derived from investment grade rated tenants, subsidiaries of investment grade rated parent entities or our Hawaii land leases and only 5.8% of our annualized rental revenues as of December 31, 2021 from expiring leases over the next 12 months, we believe that these sources of funds will be sufficient to meet our current operating and capital expenses, pay debt service obligations and make distributions to our shareholders for the next 12 months and the foreseeable future thereafter. The pending Monmouth Transaction and our financing of such acquisition may adversely affect our operating liquidity and resources as further described in "Risk Factors—Risks Related to the Monmouth Transaction—If we do not enter into a joint venture with one or more institutional investors for equity investments in the amounts we currently expect, or if our committed debt financing is not available, we may be required to obtain alternative financing for the Monmouth Transaction on terms which are materially less favorable to us." in this Annual Report on Form 10-K.

Our future cash flows from operating activities will depend primarily upon our ability to:

- collect rents from our tenants when due;
- maintain the occupancy of, and maintain or increase the rental rates at, our properties;
- control our operating cost increases;

- purchase additional properties that produce cash flows in excess of our costs of acquisition capital and property operating expenses; and
- develop properties to produce cash flows in excess of our cost of capital.

The following is a summary of our sources and uses of cash flows for the periods presented, as reflected in our consolidated statements of cash flows (dollars in thousands):

	Year Ended December 31,	
	2021	2020
Cash and cash equivalents and restricted cash at beginning of period	$ 22,834	$ 34,550
Net cash provided by (used in):		
Operating activities	110,650	114,564
Investing activities	22,875	(4,522)
Financing activities	(126,962)	(121,758)
Cash and cash equivalents and restricted cash at end of period	$ 29,397	$ 22,834

The decrease in net cash provided by operating activities for the year ended December 31, 2021 compared to the prior year is primarily due to changes in our working capital. The change in net cash provided by investing activities in the 2021 period to net cash used by investing activities in the 2020 period is primarily due to the sale of six properties to our joint venture, partially offset by our acquisition of five properties in the 2021 period compared to the acquisition of two properties in the 2020 period. The increase in net cash used in financing activities in the 2021 period compared to the 2020 period was primarily due to the proceeds we received from our joint venture transactions in the 2020 period, partially offset by a prepayment of a mortgage note and higher net borrowings under our revolving credit facility in the 2020 period.

Our Investing and Financing Liquidity and Resources (dollars in thousands, except per share and per square foot data)

Except as described below with respect to the Monmouth Transaction, our future acquisition or development activity cannot be accurately projected because such activity depends upon available opportunities to, and our ability to successfully, acquire, develop and operate properties, financing available to us, our cost of capital, other commitments we have made and alternative uses for the amounts that would be required for the acquisition or development, the extent of our leverage, and the expected impact of the acquisition or development on our debt covenants and certain other financial metrics. We generally do not intend to purchase "turn around" properties, or properties that do not generate positive cash flows, but we may undertake construction or redevelopment activities on our properties. During the year ended December 31, 2021, we acquired a developable land parcel for $2,319, including acquisition costs of $119. We expect to spend approximately $14,000 to construct a building for lease on this land.

As of December 31, 2021, we had cash and cash equivalents of $29,397. To maintain our qualification for taxation as a REIT under the IRC, we generally are required to distribute at least 90% of our REIT taxable income annually, subject to specified adjustments and excluding any net capital gain. This distribution requirement limits our ability to retain earnings and thereby provide capital for our operations or acquisitions. In order to fund cash needs that may result from timing differences between our receipt of rents and our desire or need to make distributions, to pay operating or capital expenses or to fund any future property acquisitions, development or redevelopment efforts, we maintain a $750,000 unsecured revolving credit facility with a group of lenders. The maturity date of our revolving credit facility was December 29, 2021. In November 2021, we exercised our option to extend the maturity date of our revolving credit facility by six months to June 29, 2022. We have an additional option to extend the maturity date of our revolving credit facility for one six month period, subject to the payment of an extension fee and meeting other conditions. We pay interest on borrowings under our revolving credit facility at the rate of LIBOR plus a premium that varies based on our leverage ratio. We are required to pay a commitment fee on the unused portion of our revolving credit facility. At December 31, 2021, the interest rate premium on our revolving credit facility was 130 basis points and our commitment fee was 25 basis points. We can borrow, repay and reborrow funds available under our revolving credit facility until maturity, and no principal repayment is due until maturity.

As of December 31, 2021, the annual interest rate payable on borrowings under our revolving credit facility was 1.41%. As of December 31, 2021 and February 11, 2022, we had $182,000 outstanding under our revolving credit facility, and $568,000 available to borrow under our revolving credit facility.

Our credit agreement includes a feature under which the maximum borrowing availability under the facility may be increased to up to $1,500,000 in certain circumstances.

As of December 31, 2021, our debt maturities (other than revolving credit facility), consisted of mortgage notes with an aggregate principal amount of $650,000, which is secured by 186 of our properties (178 land parcels and eight buildings) containing approximately 9.6 million square feet located on the island of Oahu, HI. This non-amortizing loan matures on February 7, 2029 and requires monthly payments of interest only at a fixed rate of 4.31% per annum.

During the year ended December 31, 2021, we acquired four industrial properties and one parcel of developable land containing 1,644,508 rentable square feet for an aggregate purchase price of $134,730, including acquisition related costs of $1,030.

In November 2021, we entered into the Merger Agreement related to the Monmouth Transaction, which will add 126 new, Class A, single tenant, net leased, e-commerce focused industrial properties containing over 26 million square feet with a weighted average remaining lease term of approximately eight years to our portfolio. We intend to finance the Monmouth Transaction by entering into a joint venture with one or more institutional investors for equity investments and with proceeds from new mortgage debt and the assumption of existing Monmouth mortgage debt. Depending on the ultimate amount of the joint venture equity investments, we may also use proceeds from the sale of some of Monmouth's properties to finance the Monmouth Transaction. In addition, in connection with the financing of the Monmouth Transaction, we have obtained commitments from lenders to make a bridge loan of up to $4,000,000 available to us. The Monmouth Transaction is subject to the satisfaction of conditions, including the receipt of requisite approval by Monmouth's stockholders and is expected to close in the first quarter of 2022. For more information regarding the Monmouth Transaction and the associated risks, see elsewhere in this Annual Report on Form 10-K, including "Warning Concerning Forward-Looking Statements", Part I, Item I, "Business," and Part I, Item 1A, "Risk Factors."

In the first quarter of 2020, we entered into agreements related to our joint venture for 12 of our properties in the mainland United States with an unrelated third party institutional investor and contributed those 12 properties to our joint venture. We received an aggregate amount of $108,676, which included certain costs associated with the formation of our joint venture from that investor for a 39% equity interest in our joint venture and we retained the remaining 61% equity interest in our joint venture. In November 2020, we sold an additional 39% equity interest from our then remaining 61% equity interest to a second unrelated third party institutional investor for an additional $108,812, which included certain costs associated with the formation of our joint venture, and we retained a 22% equity interest in our joint venture following the sale. Effective as of the sale in November 2020, we deconsolidated our joint venture and, since that time, we account for our joint venture using the equity method of accounting under the fair value option.

We recognized a 39% noncontrolling interest in our consolidated financial statements for the year ended December 31, 2020. The portion of our joint venture's net loss not attributable to us, or $866 for the year ended December 31, 2020, is reported as noncontrolling interest in our consolidated statements of comprehensive income. During the year ended December 31, 2020, our joint venture made aggregate cash distributions of $14,049, including $5,479 to the first joint venture investor.

In December 2021, we sold six recently acquired properties to our joint venture for an aggregate price of approximately $205,789. We received proceeds from the investors, who own an aggregate of 78% equity interest in the joint venture, for an aggregate amount of $160,516 and recognized a net gain on sale of $11,114 on this transaction, which is included in gain on sale of real estate in our consolidated statements of comprehensive income. We used the net proceeds from this transaction to reduce outstanding borrowings under our revolving credit facility.

During the year ended December 31, 2021, we recorded an increase in the fair value of our investment in our joint venture of $45,273, as equity in earnings of investees in our consolidated statements of comprehensive income. In addition, during the year ended December 31, 2021 our joint venture made aggregate cash distributions of $2,640 to us.

For more information regarding our investing and financing activities, our joint venture, the use of the equity method for our joint venture, see Notes 2, 3 and 6 to the Notes to Consolidated Financial Statements included in Part IV, of this Annual Report on Form 10-K.

We expect to use borrowings under our revolving credit facility, proceeds we may receive from sales of properties to or equity investments in our joint venture or any future joint ventures we may enter into and net proceeds from offerings of equity or debt securities to fund any future property acquisitions, development or redevelopment efforts. We may also assume mortgage notes in connection with future acquisitions. When significant amounts are outstanding under our revolving credit facility or the maturities of our revolving credit facility or our other debt approach, we intend to explore refinancing alternatives. Such alternatives may include incurring term debt, obtaining financing secured by mortgages on properties we own, issuing new equity or debt securities, extending the maturity date of our revolving credit facility, participating in joint ventures or selling properties. We currently have an effective shelf registration statement that allows us to issue public securities on an expedited basis, but we cannot be sure that there will be purchasers for such securities. Further, any issuances of our equity securities may be dilutive to our existing shareholders. Although we cannot be sure that we will be successful in completing any particular type of financing, we believe that we will have access to financing, such as debt or equity offerings, to fund capital expenditures, future acquisitions, development, redevelopment and other activities and to pay our obligations.

The completion and the costs of any future financings will depend primarily upon our success in operating our business and upon market conditions. In particular, the feasibility and cost of any future debt financings will depend primarily on our then current credit qualities and on market conditions. We have no control over market conditions. Potential lenders in future debt transactions will evaluate our ability to fund required debt service and repay principal balances when they become due by reviewing our financial condition, results of operations, business practices and plans and our ability to maintain our earnings, to stagger our debt maturities and to balance our use of debt and equity capital so that our financial performance and leverage ratios afford us flexibility to withstand any reasonably anticipated adverse changes. We intend to conduct our business activities in a manner which will afford us reasonable access to capital for investing and financing activities. However, there remains uncertainty as to the ultimate duration and severity of the COVID-19 pandemic and its impact on the economy and public health as well as our business. A protracted and extensive economic downturn resulting from the COVID-19 pandemic or otherwise may have various negative consequences, including a decline in financing availability and increased costs for financing. Further, such conditions could also disrupt capital markets and limit our access to financing from public sources.

During the year ended December 31, 2021, we paid quarterly cash distributions to our shareholders totaling $86,236 using existing cash balances and borrowings under our revolving credit facility. For more information regarding the distributions we paid during 2020, see Note 7 to the Notes to Consolidated Financial Statements included in Part IV, of this Annual Report on Form 10-K.

On January 13, 2022, we declared a regular quarterly distribution of $0.33 per common share, or approximately $21,600, to shareholders of record on January 24, 2022. We expect to pay this distribution to our shareholders on or about February 17, 2022 using existing cash balances and borrowings under our revolving credit facility.

During the years ended December 31, 2021 and 2020, amounts capitalized for tenant improvements, leasing costs, building improvements and development and redevelopment activities were as follows:

	Year Ended December 31,	
	2021	2020
Tenant improvements and leasing costs(1)	$ 5,819	$2,880
Building improvements(2)	3,732	4,141
Development, redevelopment and other activities(3)	660	26
	$10,211	$7,047

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(1) Tenant improvements and leasing costs include capital expenditures used to improve tenants' space or amounts paid directly to tenants to improve their space and leasing related costs, such as brokerage commissions and tenant inducements.

(2) Building improvements generally include expenditures to replace obsolete building components and expenditures that extend the useful life of existing assets.

(3) Development, redevelopment and other activities generally include capital expenditure projects that reposition a property or result in new sources of revenues.

As of December 31, 2021, we had estimated unspent leasing related obligations of $2,224, of which $1,671 is expected to be spent during the next 12 months.

Debt Covenants (dollars in thousands)

Our principal debt obligations at December 31, 2021 were borrowings outstanding under our revolving credit facility and a $650,000 non-recourse, mortgage loan that is secured by 186 of our properties. The mortgage loan agreement contains certain exceptions to the general non-recourse provisions that obligate us to indemnify the lenders for certain potential environmental losses relating to hazardous materials and violations of environmental law.

Our credit agreement provides for acceleration of payment of all amounts outstanding upon the occurrence and continuation of certain events of default, such as a change of control of us, which includes RMR LLC ceasing to act as our business and property manager. Our credit agreement contains covenants, including those that restrict our ability to incur debts, including debts secured by mortgages on our properties, in excess of calculated amounts, restrict our ability to make distributions to our shareholders in certain circumstances and generally require us to maintain certain financial ratios. As of December 31, 2021, we believe we were in compliance with all the covenants and other terms under our credit agreement.

Our credit agreement does not contain provisions for acceleration which could be triggered by our leverage ratio. However, under our credit agreement, our leverage ratio is used to determine the interest rates for calculating the amount of interest payable on outstanding borrowings and the fees we pay. Accordingly, if our leverage ratio increases above the applicable thresholds, our interest expense and related costs under our credit agreement would increase.

Our revolving credit facility has cross default provisions to other indebtedness that is recourse of $25,000 or more and indebtedness that is non-recourse of $50,000 or more.

The loan agreement and related documents governing our $650,000 mortgage loan contain customary covenants, provide for acceleration of payment of all amounts due thereunder upon the occurrence and continuation of certain events of default and require us to maintain a minimum consolidated net worth of at least $250,000 and liquidity of at least $15,000. As of December 31, 2021, we believe we were in compliance with all the covenants and other terms under this loan agreement.

Related Person Transactions

We have relationships and historical and continuing transactions with RMR LLC, RMR Inc. and others related to them. For more information about these and other such relationships and related person transactions, see Notes 9 and 10 to the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K, our other filings with the SEC, including our definitive Proxy Statement for our 2022 Annual Meeting of Shareholders, or our definitive Proxy Statement, to be filed with the SEC within 120 days after the fiscal year ended December 31, 2021. For more information about the risks that may arise as a result of these and other related person transactions and relationships, see elsewhere in this Annual Report on Form 10-K, including "Warning Concerning Forward Looking Statements," Part I, Item 1, "Business" and Part I, Item 1A, "Risk Factors." We may engage in additional transactions with related persons, including businesses to which RMR LLC or its subsidiaries provide management services.

Critical Accounting Estimates

Our critical accounting policies are those that will have the most impact on the reporting of our financial condition and results of operations and those requiring significant judgments and estimates. We believe that our judgments and estimates have been and will be consistently applied and produce financial information that fairly presents our results of operations. Our most critical accounting policies involve our investments in real property. These policies affect our:

- allocation of purchase prices between various asset categories, including allocations to above and below market leases and the related impact on the recognition of rental income and depreciation and amortization expenses; and
- assessment of the carrying values and impairments of long lived assets.

We allocate the cost of each property investment to various property components such as land, buildings and improvements and intangibles based on their fair values, and each component generally has a different useful life. For acquired real estate, we record building, land and improvements, and, if applicable, the value of in-place leases, the fair market value of above or below market leases and tenant relationships at their relative fair value. We base purchase price allocations and the determination of useful lives on our estimates and, under some circumstances, studies from independent real estate appraisers to provide market information and evaluations that are relevant to our purchase price allocations and determinations of useful lives; however, our management is ultimately responsible for the purchase price allocations and determination of useful lives.

We compute depreciation expense using the straight line method over estimated useful lives of up to 40 years for buildings and improvements, and up to seven years for personal property. We do not depreciate the allocated cost of land. We amortize capitalized above market lease values as a reduction to rental income over the terms of the respective leases. We amortize capitalized below market lease values as an increase to rental income over the terms of the respective leases. We amortize the value of acquired in place leases exclusive of the value of above market and below market acquired in place leases to depreciation and amortization over the periods of the respective leases. If a lease is terminated prior to its stated expiration, all unamortized amounts relating to that lease are written off. Purchase price allocations require us to make certain assumptions and estimates. Incorrect assumptions and estimates may result in inaccurate charges to rental income and depreciation and amortization over future periods.

We periodically evaluate our properties for impairment. Impairment indicators may include declining tenant occupancy, our concerns about a tenant's financial condition (which may be affected by a rent default or other information which comes to our attention) or our decision to dispose of an asset before the end of its estimated useful life and legislative, as well as market or industry changes that could permanently reduce the value of a property. If indicators of impairment are present, we evaluate the carrying value of the related property by comparing it to the expected future undiscounted cash flows to be generated from that property. If the sum of these expected future cash flows is less than the carrying value, we reduce the net carrying value of the property to its fair value. This analysis requires us to judge whether indicators of impairment exist and to estimate likely future cash flows. The future net undiscounted cash flows are subjective and are based in part on assumptions regarding hold periods, market rents and terminal capitalization rates. If we misjudge or estimate incorrectly or if future tenant operations, market or industry factors differ from our expectations, we may record an impairment charge that is inappropriate or fail to record a charge when we should have done so, or the amount of any such charges may be inaccurate.

These accounting policies involve significant judgments made based upon our experience and the experience of our management and our Board of Trustees, including judgments about current valuations, ultimate realizable value, estimated useful lives, salvage or residual value, the ability and willingness of our tenants to perform their obligations to us, current and future economic conditions and competitive factors in the markets in which our properties are located. Competition, economic conditions and other factors may cause occupancy declines in the future. In the future, we may need to revise our carrying value assessments to incorporate information which is not now known, and such revisions could increase or decrease our depreciation expense related to properties we own or decrease the carrying values of our assets.

Impact of Climate Change

Concerns about climate change have resulted in various treaties, laws and regulations that are intended to limit carbon emissions and address other environmental concerns. These and other laws may cause energy or other costs at our properties to increase. We do not expect the direct impact of these increases to be material to our results of operations, because the increased costs either would be the responsibility of our tenants directly or in the longer term, passed through and paid by tenants of our properties. Although we do not believe it is likely in the foreseeable future, laws enacted to mitigate climate change may make some of our properties obsolete or cause us to make material investments in our properties, which could materially and adversely affect our financial condition or the financial condition of our tenants and their ability to pay rent to us.

In an effort to reduce the effects of any increased energy costs in the future, we continuously study ways to improve the energy efficiency at all of our properties. Our property manager, RMR LLC, is a member of the ENERGY STAR program, a joint program of the U.S. Environmental Protection Agency and the U.S. Department of Energy that is focused on promoting energy efficiency at commercial properties through its "ENERGY STAR" partner program, and a member of the U.S. Green Building Council, a nonprofit organization focused on promoting energy efficiency at commercial properties through its leadership in energy and environmental design, or LEED®, green building program. RMR LLC's annual Sustainability Report summarizes the ESG initiatives of RMR LLC and its client companies, including ILPT. RMR LLC's Sustainability Report may be accessed on RMR Inc.'s website at www.rmrgroup.com/corporate-sustainability/default.aspx. The information on or accessible through RMR Inc.'s website is not incorporated into this Annual Report on Form 10-K.

Some observers believe severe weather in different parts of the world over the last few years is evidence of global climate change. Severe weather may have an adverse effect on certain properties we own. Rising sea levels could cause flooding at some of our properties, including some of our Hawaii Properties, which may have an adverse effect on individual properties we own. We mitigate these risks by procuring, or requiring our tenants to procure, insurance coverage we believe adequate to protect us from material damages and losses resulting from the consequences of losses caused by climate change. However, we cannot be sure that our mitigation efforts will be sufficient or that future storms, rising sea levels or other changes that may occur due to future climate change could not have a material adverse effect on our financial results.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk (dollars in thousands, except per share data)

We are exposed to risks associated with market changes in interest rates. We manage our exposure to this market risk by monitoring available financing alternatives. Other than as described below, we do not currently expect any significant changes in our exposure to fluctuations in interest rates or in how we manage this exposure in the near future.

Fixed Rate Debt

As of December 31, 2021, our outstanding fixed rate debt consisted of the following mortgage notes:

Debt	Principal Balance(1)	Annual Interest Rate(1)	Annual Interest Expense(1)	Maturity	Interest Payments Due
Mortgage notes (186 properties in Hawaii)	$650,000	4.31%	$28,015	2029	Monthly
	$650,000		$28,015		

(1) The principal balance, annual interest rate and annual interest expense are the amounts stated in the applicable contract. In accordance with GAAP, our carrying values and recorded interest expense may differ from these amounts because of market conditions at the time we assumed or issued this debt.

These mortgage notes require interest only payments until maturity. Because our mortgage notes require interest to be paid at a fixed rate, changes in market interest rates during the terms of these mortgage notes will not affect our interest obligations. If these mortgage notes are refinanced at an interest rate which is one percentage point higher or lower than shown above, our annual interest cost would increase or decrease by approximately $6,500.

Changes in market interest rates would affect the fair value of our fixed rate debt obligations. Increases in market interest rates decrease the fair value of our fixed rate debt, while decreases in market interest rates increase the fair value of our fixed rate debt. Based on the balance outstanding at December 31, 2021 and discounted cash flow analyses through the maturity date, and assuming no other changes in factors that may affect the fair value of our fixed rate debt obligation, a hypothetical immediate one percentage point change in the interest rates would change the fair value of this obligation by approximately $42,600.

Floating Rate Debt

At December 31, 2021, our floating rate debt consisted of $182,000 outstanding under our revolving credit facility. The maturity date of our revolving credit facility is June 29, 2022, We have an option to extend the maturity date of our revolving credit facility for one six month period, subject to the payment of extension fees and satisfaction of other conditions. No principal repayments are required under our revolving credit facility prior to maturity, and prepayments may be made at any time without penalty.

Borrowings under our revolving credit facility are in U.S. dollars and require interest to be paid at LIBOR plus a premium that varies based on our leverage ratio. Accordingly, we are vulnerable to changes in the U.S. dollar based short term rates, specifically LIBOR. In addition, upon renewal or refinancing of this obligation, we are vulnerable to increases in interest rate premiums due to market conditions or our perceived credit risk. Generally, a change in interest rates would not affect the value of our floating rate debt but would affect our operating results. The following table presents the approximate impact a one percentage point increase in interest rates would have on our annual floating rate interest expense at December 31, 2021:

	Impact of an Increase in Interest Rates			
	Interest Rate Per Year	Outstanding Debt	Total Interest Expense Per Year	Annual Earnings Per Share Impact(1)
At December 31, 2021	1.41%	$182,000	$2,566	$(0.04)
One percentage point increase	2.41%	$182,000	$4,386	$(0.07)

(1) Based on the diluted weighted average common shares outstanding for the year ended December 31, 2021.

The following table presents the approximate impact a one percentage point increase in interest rates would have on our annual floating rate interest expense at December 31, 2021 if we were fully drawn on our revolving credit facility:

	Impact of an Increase in Interest Rates			
	Interest Rate Per Year	Outstanding Debt	Total Interest Expense Per Year	Annual Earnings Per Share Impact(1)
At December 31, 2021	1.41%	$750,000	$10,575	$(0.16)
One percentage point increase	2.41%	$750,000	$18,075	$(0.28)

(1) Based on the diluted weighted average common shares outstanding for the year ended December 31, 2021.

The foregoing table shows the impact of an immediate one percentage point change in floating interest rates. If interest rates were to change gradually over time, the impact would be spread over time. Our exposure to fluctuations in floating interest rates will increase or decrease in the future with increases or decreases in the outstanding amounts of our revolving credit facility and any other floating rate debt.

LIBOR Phase Out

As of December 31, 2021, LIBOR has been phased out for new contracts and is expected to be phased out for pre-existing contracts by June 30, 2023. We are required to pay interest on borrowings under our revolving credit facility at floating rates based on LIBOR and interest we may pay on any future debt that we may incur may also require that we pay interest based upon LIBOR. We currently expect that the determination of interest under our revolving credit facility will be revised as provided under our credit agreement or amended as necessary to provide for an interest rate that approximates the existing interest rate as calculated in accordance with LIBOR. Despite our current expectations, we cannot be sure that any changes to the determination of interest under our agreements would approximate the current calculation in accordance with LIBOR. We cannot be certain of what standard, if any, will replace LIBOR.

Item 8. Financial Statements and Supplementary Data

The information required by this item is included in Item 15 of this Annual Report on Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, our management carried out an evaluation, under the supervision and with the participation of our President and Chief Executive Officer and our Chief Financial Officer and Treasurer, of the effectiveness of our disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 under the Exchange Act. Based upon that evaluation, our President and Chief Executive Officer and our Chief Financial Officer and Treasurer concluded that our disclosure controls and procedures are effective.

There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management Report on Assessment of Internal Control Over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system is designed to provide reasonable assurance to our management and Board of Trustees regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2021. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework* (2013 Framework). Based on this assessment, we believe that, as of December 31, 2021, our internal control over financial reporting was effective.

Deloitte & Touche LLP, the independent registered public accounting firm that audited our 2021 Consolidated Financial Statements included in this Annual Report on Form 10-K, has issued an attestation report on our internal control over financial reporting. The report appears elsewhere herein.

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

We have a Code of Conduct that applies to our officers and Trustees, RMR Inc. and RMR LLC, senior level officers of RMR LLC, senior level officers and directors of RMR Inc. and certain other officers and employees of RMR LLC. Our Code of Conduct is posted on our website, *www.ilptreit.com*. A printed copy of our Code of Conduct is also available free of charge to any person who requests a copy by writing to Investor Relations, Industrial Logistics Properties Trust, Two Newton Place, 255 Washington Street, Suite 300, Newton, Massachusetts 02458-1634. We intend to satisfy the requirements under Item 5.05 of Form 8-K regarding disclosure of amendments to, or waivers from, provisions of our Code of Conduct that apply to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, on our website.

The remainder of the information required by Item 10 is incorporated by reference to our definitive Proxy Statement.

Item 11. Executive Compensation

The information required by Item 11 is incorporated by reference to our definitive Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Equity Compensation Plan Information. We may grant common shares to our officers and other employees of RMR LLC under our 2018 Equity Compensation Plan, or the 2018 Plan. In addition, each of our Trustees receives common shares as part of his or her annual compensation for serving as a Trustee and such shares are awarded under the 2018 Plan. The terms of awards made under the 2018 Plan are determined by the Compensation Committee of our Board of Trustees at the time of the awards. The following table is as of December 31, 2021:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plan (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by securityholders-2018 Plan	None.	None.	3,595,408[(1)]
Equity compensation plans not approved by securityholders	None.	None.	None.
Total	None.	None.	3,595,408[(1)]

(1) Consists of common shares available for issuance pursuant to the terms of the 2018 Plan. Share awards that are repurchased or forfeited will be added to the common shares available for issuance under the 2018 Plan.

Payments by us to RMR LLC employees are described in Notes 7 and 10 to the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K. The remainder of the information required by Item 12 is incorporated by reference to our definitive Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 is incorporated by reference to our definitive Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by Item 14 is incorporated by reference to our definitive Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Index to Financial Statements and Financial Statement Schedules

The following consolidated financial statements and financial statement schedules of Industrial Logistics Properties Trust are included on the pages indicated:

All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions, or are inapplicable, and therefore have been omitted.

(b) Exhibits

Exhibits to our Annual Report on Form 10-K for the year ended December 31, 2020 have been included only with the version of that Annual Report on Form 10-K filed with the SEC.

A copy of our Annual Report on Form 10-K for the year ended December 31, 2020, including a list of exhibits, is available free of charge upon written request to Investor Relations, Industrial Logistics Properties Trust, Two Newton Place, 255 Washington Street, Suite 300, Newton, MA 02458-1634, telephone (617) 219-1440.

Item 16. Form 10-K Summary

None.

Report of Independent Registered Public Accounting Firm

To the Trustees and Shareholders of Industrial Logistics Properties Trust

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Industrial Logistics Properties Trust (the "Company") as of December 31, 2021 and December 31, 2020, the related consolidated statements of comprehensive income, shareholders' equity, and cash flows, for the year then ended, and the related notes and the schedule listed in the Index at Item 15(a) (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and December 31, 2020, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 15, 2022, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Investment in Unconsolidated Joint Venture (Valuation)—Refer to Note 3 and 6 to the financial statements

Critical Audit Matter Description

The Company holds an equity interest in an unconsolidated investment that is accounted for using the equity method of accounting under the fair value option.

We identified the valuation of this investment as a critical audit matter as the fair value determination of this investment requires management to make significant estimates and assumptions related to the discount rate, exit capitalization rates, holding periods and market rents of the real estate assets underlying this investment. Each of these assumptions is sensitive to future market or industry conditions. A high degree of auditor judgment and an increased extent of effort were required to perform audit procedures that evaluated the reasonableness of management's estimates and assumptions.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the valuation of this investment included the following, among others:

- Test design and implementation of controls over valuation of real estate assets underlying this investment.
- Discuss with management the rationale for significant assumptions used in preparing the valuation to assess the reasonableness of such assumptions in light of market or other data available including evidence obtained in other areas of our audit.
- Obtain from management the documentation supporting the significant assumptions used in preparing the valuations to assess the reasonableness of such assumptions and ascertain whether the assumptions used are consistent with those market participants would use to value the real estate assets underlying this investment

We evaluated the Company's determination of fair value by performing the following:

- With the assistance of our fair value specialists, we evaluated a selection of real estate assets using a risk-based approach for the reasonableness of the (1) valuation methodologies used; and (2) significant assumptions made, including the exit capitalization rate, discount rates, holding periods and market rent rates applied.
- Testing the mathematical accuracy of the calculation.

/s/ Deloitte & Touche LLP

Boston, Massachusetts

February 15, 2022

We have served as the Company's auditor since 2020.

Report of Independent Registered Public Accounting Firm

To the Trustees and Shareholders of Industrial Logistics Properties Trust

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Industrial Logistic Properties Trust (the "Company") as of December 31, 2021, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2021, of the Company and our report dated February 15, 2022, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Boston, Massachusetts

February 15, 2022

Report of Independent Registered Public Accounting Firm

To the Trustees and Shareholders of Industrial Logistics Properties Trust

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of comprehensive income, shareholders' equity and cash flows of Industrial Logistics Properties Trust (the Company) for the year ended December 31, 2019, and the related notes and the financial statement schedule listed in the Index at item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the results of its operations and its cash flows for the year ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 24, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We served as the Company's auditor from 2017 to 2020.

Boston, Massachusetts

February 24, 2020

INDUSTRIAL LOGISTICS PROPERTIES TRUST

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share data)

	December 31, 2021	December 31, 2020
ASSETS		
Real estate properties:		
Land	$ 699,037	$ 709,099
Buildings and improvements	1,049,796	1,099,971
Total real estate properties, gross	1,748,833	1,809,070
Accumulated depreciation	(167,490)	(141,406)
Total real estate properties, net	1,581,343	1,667,664
Investment in unconsolidated joint venture	143,021	60,590
Acquired real estate leases, net	63,441	83,644
Cash and cash equivalents	29,397	22,834
Rents receivable, including straight line rents of $69,172 and $62,753, respectively	75,877	69,511
Deferred leasing costs, net	8,883	4,595
Debt issuance costs, net	804	1,477
Due from related persons	—	2,665
Other assets, net	5,792	2,765
Total assets	$1,908,558	$1,915,745
LIABILITIES AND SHAREHOLDERS' EQUITY		
Revolving credit facility	$ 182,000	$ 221,000
Mortgage notes payable, net	646,124	645,579
Assumed real estate lease obligations, net	12,435	14,630
Accounts payable and other liabilities	16,281	14,716
Rents collected in advance	8,394	7,811
Security deposits	3,097	6,540
Due to related persons	2,185	2,279
Total liabilities	870,516	912,555
Commitments and contingencies		
Shareholders' equity:		
Common shares of beneficial interest, $.01 par value: 100,000,000 shares authorized; 65,404,592 and 65,301,088 shares issued and outstanding, respectively	654	653
Additional paid in capital	1,012,224	1,010,819
Cumulative net income	343,908	224,226
Cumulative common distributions	(318,744)	(232,508)
Total shareholders' equity	1,038,042	1,003,190
Total liabilities and shareholders' equity	$1,908,558	$1,915,745

The accompanying notes are an integral part of these consolidated financial statements.

INDUSTRIAL LOGISTICS PROPERTIES TRUST

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(amounts in thousands, except per share data)

	Year Ended December 31,		
	2021	**2020**	**2019**
Rental income	$219,874	$254,575	$229,234
Expenses:			
Real estate taxes	30,134	35,185	30,367
Other operating expenses	18,678	20,749	17,643
Depreciation and amortization	50,598	70,518	61,927
Acquisition and certain other transaction related costs	1,132	200	—
General and administrative	16,724	19,580	17,189
Total expenses	117,266	146,232	127,126
Gain on sale of real estate	12,054	23,996	—
Interest income	—	113	743
Interest expense (including net amortization of debt issuance costs, premiums and discounts of $2,022, $2,481 and $2,017, respectively)	(35,625)	(51,619)	(50,848)
Gain on early extinguishment of debt	—	120	—
Income before income tax expense and equity in earnings of investees	79,037	80,953	52,003
Income tax expense	(273)	(277)	(171)
Equity in earnings of investees	40,918	529	666
Net income	$119,682	$ 81,205	$ 52,498
Net loss attributable to noncontrolling interest	—	866	—
Net income attributable to common shareholders	$119,682	$ 82,071	$ 52,498
Weighted average common shares outstanding—basic	65,169	65,104	65,049
Weighted average common shares outstanding—diluted	65,211	65,114	65,055
Per common share data (basic and diluted):			
Net income attributable to common shareholders	$ 1.83	$ 1.26	$ 0.81

The accompanying notes are an integral part of these consolidated financial statements.

INDUSTRIAL LOGISTICS PROPERTIES TRUST

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(dollars in thousands)

	Number of Common Shares	Common Shares	Additional Paid In Capital	Cumulative Net Income	Cumulative Common Distributions	Total Equity Attributable to Common Shareholders	Total Equity Attributable to Noncontrolling Interest	Total Shareholders' Equity
Balance at December 31, 2018	65,074,791	$ 651	$ 998,447	$ 89,657	$ (60,482)	$ 1,028,273	$ —	$ 1,028,273
Net income	—	—	—	52,498	—	52,498	—	52,498
Share grants	119,200	1	1,110	—	—	1,111	—	1,111
Share repurchases	(11,963)	—	(253)	—	—	(253)	—	(253)
Share forfeitures	(1,400)	—	(2)	—	—	(2)	—	(2)
Distributions to common shareholders	—	—	—	—	(85,937)	(85,937)	—	(85,937)
Balance at December 31, 2019	65,180,628	$ 652	$ 999,302	$ 142,155	$ (146,419)	$ 995,690	$ —	$ 995,690
Net income (loss)	—	—	—	82,071	—	82,071	(866)	81,205
Share grants	139,100	1	2,335	—	—	2,336	—	2,336
Share repurchases	(18,060)	—	(382)	—	—	(382)	—	(382)
Share forfeitures	(580)	—	(3)	—	—	(3)	—	(3)
Distributions to common shareholders	—	—	—	—	(86,089)	(86,089)	—	(86,089)
Contributions from noncontrolling interest	—	—	9,567	—	—	9,567	98,375	107,942
Distributions to noncontrolling interest	—	—	—	—	—	—	(5,479)	(5,479)
Sale of interest in joint venture	—	—	—	—	—	—	(92,030)	(92,030)
Balance at December 31, 2020	65,301,088	$ 653	$ 1,010,819	$ 224,226	$ (232,508)	$ 1,003,190	$ —	$ 1,003,190
Net income (loss)	—	—	—	119,682	—	119,682	—	119,682
Share grants	139,800	1	2,331	—	—	2,332	—	2,332
Share repurchases	(35,596)	—	(922)	—	—	(922)	—	(922)
Share forfeitures	(700)	—	(4)	—	—	(4)	—	(4)
Distributions to common shareholders	—	—	—	—	(86,236)	(86,236)	—	(86,236)
Balance at December 31, 2021	65,404,592	$ 654	$ 1,012,224	$ 343,908	$ (318,744)	$ 1,038,042	$ —	$ 1,038,042

The accompanying notes are an integral part of these consolidated financial statements.

INDUSTRIAL LOGISTICS PROPERTIES TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	Year Ended December 31, 2021	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 119,682	$ 81,205	$ 52,498
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	32,457	43,821	38,177
Net amortization of debt issuance costs, premiums and discounts	2,022	2,481	2,017
Amortization of acquired real estate leases and assumed real estate lease obligations	16,656	24,573	21,465
Amortization of deferred leasing costs	938	1,357	1,113
Straight line rental income	(7,263)	(9,041)	(4,345)
Gain on early extinguishment of debt	—	(120)	—
Gain on sale of real estate	(12,054)	(23,996)	—
Other non-cash expenses	2,328	2,331	1,109
Unconsolidated joint venture distributions	2,640	—	—
Equity in earnings of investees	(40,918)	(529)	(666)
Distributions of earnings from Affiliates Insurance Company	—	—	666
Change in assets and liabilities:			
Rents receivable	54	(2,907)	(1,497)
Deferred leasing costs	(4,694)	(2,443)	(1,457)
Due from related persons	2,665	(3,871)	(114)
Other assets	(3,434)	(1,068)	(594)
Accounts payable and other liabilities	2,525	2,613	3,095
Rents collected in advance	583	279	3,438
Security deposits	(3,443)	12	550
Due to related persons	(94)	(133)	845
Net cash provided by operating activities	110,650	114,564	116,300
CASH FLOWS FROM INVESTING ACTIVITIES:			
Real estate acquisitions and deposits	(134,730)	(115,813)	(884,570)
Real estate improvements	(4,911)	(5,857)	(17,157)
Proceeds from sale of properties to joint venture, net	160,506	—	—
Proceeds from sale of properties	1,206	10,578	—
Proceeds from sale of joint venture interests	804	106,283	—
Distributions in excess of earnings from Affiliates Insurance Company	—	287	8,334
Net cash provided by (used in) investing activities	22,875	(4,522)	(893,393)

The accompanying notes are an integral part of these consolidated financial statements.

INDUSTRIAL LOGISTICS PROPERTIES TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(dollars in thousands)

	Year Ended December 31, 2021	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of mortgage notes payable	—	—	1,000,000
Borrowings under revolving credit facility	301,000	234,000	744,000
Repayments of revolving credit facility	(340,000)	(323,000)	(847,000)
Repayment of mortgage note payable	—	(48,750)	—
Payment of debt issuance costs	(804)	—	(8,775)
Proceeds from noncontrolling interest, net	—	107,942	—
Distributions to noncontrolling interest	—	(5,479)	—
Distributions to common shareholders	(86,236)	(86,089)	(85,937)
Repurchase of common shares	(922)	(382)	(253)
Net cash (used in) provided by financing activities	(126,962)	(121,758)	802,035
Increase (Decrease) cash, cash equivalents and restricted cash	6,563	(11,716)	24,942
Cash, cash equivalents and restricted cash at beginning of period	22,834	34,550	9,608
Cash, cash equivalents and restricted cash at end of period	$ 29,397	$ 22,834	$ 34,550

	Year Ended December 31, 2021	2020	2019
SUPPLEMENTAL DISCLOSURES:			
Interest paid	$33,278	$ 50,433	$ 46,072
Income taxes paid	$ 485	$ 209	$ 164
Interest capitalized	$ —	$ —	$ 187
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Decrease in assets and liabilities resulting from the deconsolidation of investments that were previously consolidated:			
Real estate, net	$ —	$(631,879)	$ —
Mortgage notes, net	$ —	$ 403,160	$ —
Real estate acquired by assumption of mortgage note payable	$ —	$ —	$(56,980)
Assumption of mortgage note payable	$ —	$ —	$ 56,980

SUPPLEMENTAL DISCLOSURE OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH:

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets to the amounts shown in the consolidated statements of cash flows:

	As of December 31, 2021	2020	2019
Cash and cash equivalents	$ 29,397	$ 22,834	$ 28,415
Restricted cash	—	—	6,135
Total cash, cash equivalents and restricted cash shown in the statements of cash flows	$ 29,397	$ 22,834	$ 34,550

The accompanying notes are an integral part of these consolidated financial statements.

Note 1. Organization

Industrial Logistics Properties Trust, or, collectively with its consolidated subsidiaries, we, us or our, is a real estate investment trust, or REIT, formed under Maryland law on September 15, 2017.

As of December 31, 2021, our portfolio was comprised of 288 wholly owned properties. The 288 properties consisted of 226 buildings, leasable land parcels and easements containing approximately 16.7 million rentable square feet (all square footage amounts included within this Annual Report on Form 10-K are unaudited) that were primarily industrial lands located on the island of Oahu, HI and 62 buildings containing approximately 17.3 million rentable square feet that were industrial and logistics properties located in 30 other states.

As of December 31, 2021, we also owned a 22% equity interest in an unconsolidated joint venture that owns 18 properties located in 12 states in the mainland United States containing approximately 11.7 million rentable square feet.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation. These consolidated financial statements include the accounts of us and our subsidiaries. All intercompany transactions and balances with or among our consolidated subsidiaries have been eliminated.

Real Estate Properties. We record properties at cost. Our real estate investments in lands are not depreciated. We calculate depreciation on other real estate investments on a straight line basis over estimated useful lives generally ranging from seven to 40 years. We allocate the purchase prices of our properties to land, building and improvements based on determinations of the fair values of these assets assuming the properties are vacant. We determine the fair value of each property using methods similar to those used by independent appraisers, which may involve estimated cash flows that are based on a number of factors, including capitalization rates and discount rates, among others. In some circumstances, we engage independent real estate appraisal firms to provide market information and evaluations which are relevant to our purchase price allocations and determinations of depreciable useful lives; however, we are ultimately responsible for the purchase price allocations and determinations of useful lives. We allocate a portion of the purchase price to above market and below market leases based on the present value (using an interest rate which reflects the risks associated with acquired in place leases at the time each property was acquired by us) of the difference, if any, between (i) the contractual amounts to be paid pursuant to the acquired in place leases and (ii) our estimates of fair market lease rates for the corresponding leases, measured over a period equal to the terms of the respective leases. The terms of below market leases that include bargain renewal options, if any, are further adjusted if we determine renewal to be probable. We allocate a portion of the purchase price to acquired in place leases and tenant relationships based upon market estimates to lease up the property based on the leases in place at the time of purchase. In making these allocations, we consider factors such as estimated carrying costs during the expected lease up periods, including real estate taxes, insurance and other operating income and expenses and costs, such as leasing commissions, legal and other related expenses, to execute similar leases in current market conditions at the time a property was acquired by us. We allocate this aggregate value between acquired in place lease values and tenant relationships based on our evaluation of the specific characteristics of each tenant's lease. However, we have not separated the value of tenant relationships from the value of acquired in place leases because such value and related amortization expense is immaterial to the accompanying consolidated financial statements. If the value of tenant relationships becomes material in the future, we may separately allocate those amounts and amortize the allocated amount over the estimated life of the relationships.

We amortize capitalized above market lease values (included in acquired real estate leases in our consolidated balance sheets) and below market lease values (presented as assumed real estate lease obligations in our consolidated balance sheets) as a reduction or increase, respectively, to rental income over the terms

(dollars in thousands, except per share data)

Note 2. Summary of Significant Accounting Policies (Continued)

of the associated leases. Such amortization resulted in increases in rental income of $781, $791 and $1,195 during the years ended December 31, 2021, 2020 and 2019, respectively. We amortize the value of acquired in place leases (included in acquired real estate leases in our consolidated balance sheets), exclusive of the value of above market and below market acquired in place leases, or lease origination value, over the terms of the associated leases. Such amortization, which is included in depreciation and amortization expense, totaled $17,437, $25,364 and $22,661 during the years ended December 31, 2021, 2020 and 2019, respectively. If a lease is terminated prior to its stated expiration, we write off the unamortized amounts relating to that lease.

As of December 31, 2021 and 2020, our acquired real estate leases and assumed real estate lease obligations were as follows:

	December 31,	
	2021	2020
Acquired real estate leases:		
Capitalized above market lease values	$ 20,725	$ 27,323
Less: accumulated amortization	(13,225)	(18,400)
Capitalized above market lease values, net	7,500	8,923
Lease origination value	122,945	135,453
Less: accumulated amortization	(67,004)	(60,732)
Lease origination value, net	55,941	74,721
Acquired real estate leases, net	$ 63,441	$ 83,644
Assumed real estate lease obligations:		
Capitalized below market lease values	$ 33,674	$ 33,927
Less: accumulated amortization	(21,239)	(19,297)
Assumed real estate lease obligations, net	$ 12,435	$ 14,630

As of December 31, 2021, the weighted average amortization periods for capitalized above market lease values, lease origination value and capitalized below market lease values were 10.5 years, 6.2 years, and 11.8 years, respectively. Future amortization of net intangible acquired real estate lease assets and liabilities to be recognized over the current terms of the associated leases as of December 31, 2021 are estimated to be $12,236 in 2022, $10,891 in 2023, $7,036 in 2024, $4,570 in 2025, $4,052 in 2026 and $12,221 thereafter.

We recognize impairment losses on real estate investments when indicators of impairment are present and the estimated undiscounted cash flow from our real estate investments is less than the carrying amount of such real estate investments. Impairment indicators may include declining tenant occupancy, lack of progress releasing vacant space, tenant bankruptcies, low long term prospects for improvement in property performance, weak or declining tenant profitability, cash flow or liquidity, our decision to dispose of an asset before the end of its estimated useful life and legislative, market or industry changes that could permanently reduce the value of a property. We review our properties for impairment quarterly, or whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. If indicators of impairment are present, we evaluate the carrying value of the related property by comparing it to the expected future undiscounted cash flows expected to be generated from that property. The future net undiscounted cash flows are subjective and are based in part on assumptions regarding hold periods, market rents and terminal capitalization rates. If the sum of these expected future undiscounted cash flows is less than the carrying value, we reduce the net carrying value of the property to its estimated fair value. The determination of

Note 2. Summary of Significant Accounting Policies (Continued)

undiscounted cash flow includes consideration of many factors including income to be earned from the investment, holding costs (exclusive of interest), estimated selling prices, and prevailing economic and market conditions. No impairments exist on any of our properties as of December 31, 2021 and 2020.

Certain of our industrial lands in Hawaii may require environmental remediation, especially if the use of those lands is changed; however, we do not have any present plans to change the use of those lands or to undertake this environmental cleanup. As of both December 31, 2021 and 2020, accrued environmental remediation costs of $6,940 were included in accounts payable and other liabilities in our consolidated balance sheets. These accrued environmental remediation costs relate to maintenance of our properties for current uses, and, because of the indeterminable timing of the remediation, these amounts have not been discounted to present value. In general, we do not have any insurance designated to limit any losses that we may incur as a result of known or unknown environmental conditions which are not caused by an insured event, such as, for example, fire or flood, although some of our tenants may maintain such insurance that may benefit us. Although we do not believe that there are environmental conditions at any of our properties that will have a material adverse effect on us, we cannot be sure that such conditions are not present at our properties or that costs we incur to remediate contamination will not have a material adverse effect on our business or financial condition. Charges for environmental remediation costs, if any, are included in other operating expenses in our consolidated statements of comprehensive income.

Capitalization Policy. Costs directly related to the development of properties are capitalized. We capitalize development costs, including interest, real estate taxes, insurance, and other project costs, incurred during the period of development. Determinations of when a development project commences and capitalization begins, and when a development project is substantially complete and held available for occupancy and capitalization must cease, involve judgments. We begin the capitalization of costs during the pre-construction period, which we consider to begin when activities that are necessary to the development of the property commence. We consider a development project as substantially completed and held available for occupancy upon the completion of tenant improvements, but no later than one year from cessation of major construction activity.

Cash and Cash Equivalents. We consider highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents.

Restricted Cash. Restricted cash consists of amounts escrowed for future capital expenditures as required by certain of our mortgage notes.

Deferred Leasing Costs. Deferred leasing costs include capitalized brokerage costs and inducements associated with our entering leases. We amortize deferred leasing costs, which are included in depreciation and amortization expense, and inducements, which are included as a reduction to rental income, each on a straight line basis over the terms of the respective leases. Legal costs associated with the execution of our leases are expensed as incurred and included in general and administrative expenses in our consolidated statements of comprehensive income. Deferred leasing costs totaled $12,918 and $8,116 at December 31, 2021 and 2020, respectively, and accumulated amortization of deferred leasing costs totaled $4,035 and $3,521 at December 31, 2021 and 2020, respectively. Future amortization of deferred leasing costs to be recognized during the current terms of our existing leases as of December 31, 2021, are estimated to be $1,222 in 2022, $1,017 in 2023, $953 in 2024, $885 in 2025, $786 in 2026 and $4,020 thereafter.

Debt Issuance Costs. Debt issuance costs include capitalized issuance costs related to borrowings, which are amortized to interest expense over the terms of the respective loans. As of December 31, 2021 and 2020, we had debt issuance costs for our revolving credit facility totaling $6,711 and $5,907, respectively, and accumulated amortization of debt issuance costs for our revolving credit facility were $5,907 and $4,430, respectively. Debt issuance costs, net of accumulated amortization, for our mortgage notes payable

Note 2. Summary of Significant Accounting Policies (Continued)

are presented as a direct deduction from the associated debt liability in our consolidated balance sheets. As of December 31, 2021 and 2020, we had debt issuance costs, net of accumulated amortization, of $3,876 and $4,421, respectively, for certain of our mortgage notes payable. Future amortization of debt issuance costs to be recognized with respect to our revolving credit facility and mortgage notes payable as of December 31, 2021 are estimated to be $1,351 in 2022, $547 in 2023, $547 in 2024, $547 in 2025, $547 in 2026 and $1,141 thereafter.

Equity Method Investments. We own a 22% equity interest in an unconsolidated joint venture which owns 18 properties, or our joint venture. The properties owned by our joint venture are encumbered by an aggregate $406,980 of mortgage debts. We do not control the activities that are most significant to our joint venture and, as a result, we account for our investment in our joint venture under the equity method of accounting under the fair value option. See Notes 3 and 6 for more information regarding our joint venture.

We previously accounted for our investment in Affiliates Insurance Company, or AIC, until AIC was dissolved on February 13, 2020. Significant influence was present through common representation on the boards of trustees or directors of us and AIC. See Note 10 for more information regarding our investment in AIC.

Revenue Recognition. We are a lessor of industrial and logistics properties. Our leases provide our tenants with the contractual right to use and economically benefit from all the physical space specified in the leases; therefore, we have determined to evaluate our leases as lease arrangements.

Our leases provide for base rent payments and in addition may include variable payments. Rental income from operating leases, including any payments derived by index or market based indices, is recognized on a straight line basis over the lease term when we have determined that the collectability of substantially all the lease payments is probable. Some of our leases have options to extend or terminate the lease exercisable at the option of our tenants, which are considered when determining the lease term.

Certain of our leases contain non-lease components, such as property level operating expenses and capital expenditures reimbursed by our tenants as well as other required lease payments. We have determined that all our leases qualify for the practical expedient to not separate the lease and non-lease components because (i) the lease components are operating leases and (ii) the timing and pattern of recognition of the non-lease components are the same as those of the lease components. We apply Accounting Standards Codification, or ASC, 842, *Leases*, to the combined component. Income derived by our leases is recorded in rental income in our consolidated statements of comprehensive income.

Certain tenants are obligated to pay directly their obligations under their leases for insurance, real estate taxes and certain other expenses. These obligations, which have been assumed by the tenants under the terms of their respective leases, are not reflected in our consolidated financial statements. To the extent any tenant responsible for any such obligations under the applicable lease defaults on such lease or if it is deemed probable that the tenant will fail to pay for such obligations, we would record a liability for such obligations.

Income Taxes. We have elected to be taxed as a REIT under the United States Internal Revenue Code of 1986, as amended, and, accordingly, we generally are not, and will not be, subject to federal income taxes provided we distribute our taxable income and meet certain organization and operating requirements to qualify for taxation as a REIT. We are, however, subject to certain state and local taxes.

Use of Estimates. Preparation of these financial statements in conformity with U.S. generally accepted accounting principles, or GAAP, requires us to make estimates and assumptions that may affect the amounts reported in these consolidated financial statements and related notes.

(dollars in thousands, except per share data)

Note 2. Summary of Significant Accounting Policies (Continued)

Net Income Per Common Share. We calculate basic earnings per common share by dividing net income by the weighted average number of common shares outstanding during the period. We calculate diluted net income per share using the more dilutive of the two class method or the treasury stock method. Unvested share awards and other potentially dilutive common shares and the related impact on earnings are considered when calculating diluted earnings per share.

Segment Reporting. We operate in one business segment: ownership and leasing of properties that include industrial and logistics buildings and leased industrial lands.

Note 3. Real Estate Investments

As of December 31, 2021, our portfolio was comprised of 288 wholly owned properties containing approximately 33,991,000 rentable square feet, including 226 buildings, leasable land parcels and easements containing approximately 16,729,000 rentable square feet of primarily industrial lands located on the island of Oahu, HI, or our Hawaii Properties, and 62 properties containing approximately 17,262,000 rentable square feet of industrial properties located in 30 other states, or our Mainland Properties. As of December 31, 2021, we also owned a 22% equity interest in an unconsolidated joint venture which owns 18 properties located in 12 states in the mainland United States totaling approximately 11,726,000 rentable square feet that were 100% leased.

We operate in one business segment: ownership and leasing of properties that include industrial and logistics buildings and leased industrial lands. For the years ended December 31, 2021, 2020 and 2019, approximately 50.6%, 42.2% and 43.9%, respectively, of our rental income were from our Hawaii Properties. In addition, subsidiaries of Amazon.com, Inc. that are tenants at certain of our Mainland Properties accounted for $21,440, $38,241 and $31,623 of our rental income for the years ended December 31, 2021, 2020 and 2019, respectively.

During the year ended December 31, 2021, we committed $10,544 for expenditures related to tenant improvements and leasing costs for leases executed during the period for approximately 3,103,000 square feet. Committed, but unspent tenant related obligations based on existing leases as of December 31, 2021, were $2,224, of which $1,671 is expected to be spent during the next 12 months.

Joint Venture Investments

As of December 31, 2021, we have an equity investment in a joint venture that consists of the following:

Joint Venture	ILPT Ownership	ILPT Carrying Value of Investment at December 31, 2021	Number of Properties	Location	Square Feet
18 properties in 12 states	22%	$143,021	18	Various	11,726,000

The following table provides a summary of the mortgage debts of our joint venture:

Joint Venture	Coupon Rate(1)	Maturity Date	Principal Balance at December 31, 2021(2)
Mortgage note payable (secured by one property in Florida)	3.60%	10/1/2023	$ 56,980
Mortgage note payable (secured by 11 other properties in eight states)	3.33%	11/7/2029	350,000
Weighted Average/Total	3.37%		$406,980

(1) Includes the effect of mark to market purchase accounting.

(2) Amounts are not adjusted for our minority interest.

Note 3. Real Estate Investments (Continued)

In the first quarter of 2020, we entered into agreements related to our joint venture for 12 of our properties in the mainland United States with an unrelated third party institutional investor and contributed those 12 properties to our joint venture. We received an aggregate amount of $108,676, which includes $734 of costs associated with the formation of our joint venture from that investor for a 39% equity interest in our joint venture and we retained the remaining 61% equity interest in our joint venture. In November 2020, we sold an additional 39% equity interest from our remaining 61% equity interest in our joint venture to a second unrelated third party institutional investor for $108,812, which included certain costs associated with the formation of our joint venture. We deconsolidated the net assets of our joint venture and recognized a net gain on sale of $23,415 on this transaction for the year ended December 31, 2020, which is included in gain on sale of real estate in our consolidated statements of comprehensive income. After giving effect to the sale in November 2020, we continue to own a 22% equity interest in our joint venture, but have determined that we are no longer the primary beneficiary. Effective as of the date of such sale, we deconsolidated our joint venture and, since that time, we account for our joint venture using the equity method of accounting under the fair value option. Our initial investment amount was based on an aggregate property valuation of $680,000, less $406,980 of existing mortgage debts on the properties that our joint venture assumed. We used the net proceeds from the sale of our equity interests in the joint venture to reduce outstanding borrowings under our revolving credit facility. See Note 6 for more information regarding the use of the equity method for our joint venture.

We recognized a noncontrolling interest in our consolidated balance sheet of $98,375 as of the completion of this transaction in the first quarter of 2020, which was equal to 39% of our aggregate carrying value of the total equity of the properties immediately prior to our respective contributions of the properties to our joint venture. The difference between the net proceeds received from this transaction and the noncontrolling interest recognized, which was $9,567, has been reflected as an increase in additional paid in capital in our consolidated balance sheet. The portion of our joint venture's net loss not attributable to us, or $866 for the year ended December 31, 2020 is reported as noncontrolling interest in our consolidated statements of comprehensive income. During the year ended December 31, 2020, our joint venture made aggregate cash distributions of $14,049, $5,479 to the first joint venture investor, which was reflected as a decrease in total equity attributable to noncontrolling interest and $8,570 to us. We determined that, while we owned a 61% equity interest in our joint venture, our joint venture was a variable interest entity, or VIE, as defined under the Consolidation Topic of the Financial Accounting Standards Boards, or FASB, ASC. We concluded that we must consolidate this VIE, and we did so, until we sold an additional 39% equity interest in our joint venture in November 2020. We reached this determination because we were the entity with the power to direct the activities that most significantly impacted the VIE's economic performance and we had the obligation to absorb losses of, and the right to receive benefits from, the VIE that could be significant to the VIE, and therefore were the primary beneficiary of the VIE. The joint venture investor's interest in this consolidated entity was reflected as noncontrolling interest in our consolidated financial statements.

In December 2021, we sold six recently acquired properties to our existing joint venture for an aggregate price of approximately $205,789. We received proceeds from the investors, who own an aggregate of 78% equity interest in the joint venture, for an aggregate amount of $160,516 and recognized a net gain on sale of $11,114 on this transaction, which is included in gain on sale of real estate in our consolidated statements of comprehensive income. We used the $160,516 of proceeds from this transaction to reduce amounts outstanding under our $750,000 unsecured revolving credit facility.

During the year ended December 31, 2021, we recorded an increase in the fair value of our investment in our joint venture of $45,273 as equity in earnings of investees in our consolidated statements of comprehensive income. In addition, during the year ended December 31, 2021 our joint venture made aggregate cash distributions of $2,640 to us. See Note 6 for more information regarding our joint venture.

(dollars in thousands, except per share data)

Note 3. Real Estate Investments (Continued)

2021 Acquisitions:

During the year ended December 31, 2021, we acquired four industrial properties and one parcel of developable land containing 1,644,508 rentable square feet for an aggregate purchase price of $134,730, including acquisition related costs of $1,030. These acquisitions were accounted for as acquisitions of assets. We allocated the purchase prices for these acquisitions based on the estimated fair value of the acquired assets and assumed liabilities as follows:

Date	Market Area	Number of Properties	Rentable Square Feet	Purchase Price	Land	Buildings and Improvements	Acquired Real Estate Leases	Acquired Real Estate Lease Obligations
May 2021	Dallas, TX	1	—	$ 2,319	$2,319	$ —	$ —	$ —
June 2021	Columbus, OH	1	357,504	31,762	1,491	27,407	2,864	—
August 2021	Memphis, TN	3	1,287,004	100,649	5,922	87,600	7,192	(65)
		5	1,644,508	$134,730	$9,732	$115,007	$10,056	$(65)

Monmouth Transaction:

In November 2021, we, our wholly owned subsidiary and Monmouth Real Estate Investment Corporation, or Monmouth, entered into an Agreement and Plan of Merger, pursuant to which we have agreed to acquire all of the outstanding shares of Monmouth for $21.00 per Monmouth share in cash, in a transaction valued at approximately $4,000,000, including the assumption of existing Monmouth mortgage debt, as well as transaction costs, referred to as the Monmouth Transaction. The Monmouth Transaction will add 126 new, Class A, single tenant, net leased, e-commerce focused industrial properties containing over 26 million square feet with a weighted average remaining lease term of approximately eight years to our portfolio. The Monmouth Transaction is expected to close in the first quarter of 2022. The Monmouth Transaction is subject to the satisfaction of conditions, including the receipt of requisite approval by Monmouth's stockholders. We cannot be sure that these conditions will be satisfied. Accordingly, the Monmouth Transaction may not close when expected or at all, or the terms of the Monmouth Transaction may change.

2020 Acquisitions:

During the year ended December 31, 2020, we acquired two industrial properties containing a combined 1,465,846 rentable square feet for an aggregate purchase price of $115,813, including acquisition related costs of $332. These acquisitions were accounted for as acquisitions of assets. We allocated the purchase prices for these acquisitions based on the estimated fair value of the acquired assets and assumed liabilities as follows:

Date	Market Area	Number of Properties	Rentable Square Feet	Purchase Price	Land	Buildings and Improvements	Acquired Real Estate Leases
February 2020	Phoenix, AZ	1	820,384	$ 71,628	$11,214	$54,676	$ 5,738
December 2020	Kansas City, KS	1	645,462	44,185	5,740	32,701	5,744
		2	1,465,846	$115,813	$16,954	$87,377	$11,482

2019 Acquisitions:

During the year ended December 31, 2019, we acquired 30 industrial properties containing a combined 13,288,180 rentable square feet for an aggregate purchase price of $941,550, including acquisition related

(dollars in thousands, except per share data)

Note 3. Real Estate Investments (Continued)

costs of $4,800. These acquisitions were accounted for as acquisitions of assets. We allocated the purchase prices for these acquisitions based on the estimated fair value of the acquired assets and assumed liabilities as follows:

Date	Market Area	Number of Properties	Rentable Square Feet	Purchase Price	Land	Buildings and Improvements	Acquired Real Estate Leases	Acquired Real Estate Lease Obligations	Discount on Assumed Debt
February 2019	2 mainland states	7	3,708,343	$250,276	$19,558	$205,811	$24,907	$ —	$ —
April 2019	Indianapolis, IN	1	493,500	$ 30,517	$ 2,817	$ 24,836	$ 2,864	$ —	$ —
April 2019	12 mainland states	20	8,694,321	$628,457	$52,546	$519,829	$56,715	$(1,965)	$1,332
August 2019	Columbus, OH	2	392,016	$ 32,300	$ 2,393	$ 27,363	$ 2,544	$ —	$ —
		30	13,288,180	$941,550	$77,314	$777,839	$87,030	$(1,965)	$1,332

2021 Disposition:

As a result of an eminent domain taking in September 2021, we sold a portion of a land parcel located in Rock Hill, South Carolina for $1,400, excluding closing costs, resulting in a net gain on sale or real estate of $940.

2020 Disposition:

During the year ended December 31, 2020, we sold one property located in Virginia containing approximately 308,000 rentable square feet for a sales price of $10,775, excluding closing costs. The sale of this property, as presented in the table below, does not represent a significant disposition or a strategic shift. As a result, the results of operations of this property are included in continuing operations through the date of sale in our consolidated statements of comprehensive income.

Date of Sale	Number of Properties	Location	Square Feet	Gross Sale Price[1]	Gain on Sale of Real Estate
December 2020	1	Winchester, VA	308,217	$10,775	$581

(1) Gross sale price is the gross contract price, adjusted for purchase price adjustments, if any, and excluding closing costs.

We did not dispose of any properties during the year ended December 31, 2019.

Note 4. Leases

Rental income from operating leases, including payments derived by index or market-based indices, is recognized on a straight line basis over the lease term when we have determined that the collectability of substantially all of the lease payments is probable. We increased rental income by $7,263, $9,041 and $4,345 to record revenue on a straight line basis during the years ended December 31, 2021, 2020 and 2019, respectively.

We do not include in our measurement of our lease receivables certain variable payments, including payments determined by changes in the index or market-based indices after the inception of the lease, certain tenant reimbursements and other income until the specific events that trigger the variable payments have occurred. Such payments totaled $38,732, $45,858 and $40,898 for the years ended December 31, 2021, 2020 and 2019, respectively, of which tenant reimbursements totaled $37,379, $44,878 and $38,755, respectively.

(dollars in thousands, except per share data)

Note 4. Leases (Continued)

The following operating lease maturity analysis presents the future contractual lease payments to be received by us through 2064 as of December 31, 2021:

Year	Amount
2022	$ 168,063
2023	158,620
2024	144,767
2025	132,238
2026	126,105
Thereafter	1,031,288
	$1,761,081

Note 5. Indebtedness

As of December 31, 2021 and 2020, our outstanding indebtedness consisted of the following:

	Principal Balance as of December 31,		Interest		Net Book Value of Collateral
	2021[1]	2020[1]	Rate	Maturity	At December 31, 2021
Unsecured revolving credit facility[2]	$182,000	$221,000	1.41%	Jun 2022	$ —
Mortgage notes payable (secured by 186 properties in Hawaii)	650,000	650,000	4.31%	Feb 2029	491,235
	832,000	871,000			$491,235
Unamortized debt issuance costs	(3,876)	(4,421)			
	$828,124	$866,579			

(1) The principal balances are the amounts stated in contracts. In accordance with GAAP, our carrying values and recorded interest expense may be different because of market conditions at the time we assumed certain of these debts.

(2) The maturity date of our revolving credit facility is June 29, 2022 and we have the option to extend the maturity date for one six month period through December 29, 2022.

We have a $750,000 unsecured revolving credit facility that is available for our general business purposes, including acquisitions. The maturity date of our revolving credit facility was December 29, 2021. In November 2021, we exercised our first option to extend the maturity date of the facility by six months to June 29, 2022. We have an additional option to extend the maturity date of our revolving credit facility for one six month period, subject to payment of extension fees and satisfaction of other conditions. We may borrow, repay and reborrow funds under our revolving credit facility until maturity, and no principal repayment is due until maturity. Interest on borrowings under our revolving credit facility is calculated at floating rates based on LIBOR plus a premium that varies based on our leverage ratio. We are also required to pay a commitment fee on the unused portion of our revolving credit facility. The agreement governing our revolving credit facility, or our credit agreement, also includes a feature under which the maximum borrowing availability under our revolving credit facility may be increased to up to $1,500,000 in certain circumstances. As of December 31, 2021 and 2020, interest payable on the amount outstanding under our revolving credit facility was LIBOR plus 130 basis points and 155 basis points, respectively. As of

Note 5. Indebtedness (Continued)

December 31, 2021 and 2020, the interest rate payable on borrowings under our revolving credit facility was 1.41% and 1.70%, respectively. The weighted average interest rate for borrowings under our revolving credit facility was 1.44%, 2.36% and 3.68% for the years ended December 31, 2021, 2020 and 2019, respectively. As of December 31, 2021 and February 11, 2022, we had $182,000 outstanding under our revolving credit facility, and $568,000 available to borrow under our revolving credit facility.

Our credit agreement provides for acceleration of payment of all amounts due thereunder upon the occurrence and continuation of certain events of default, such as, a change of control of us, which includes The RMR Group LLC, or RMR LLC, ceasing to act as our business manager and property manager. Our credit agreement also contains a number of covenants, including covenants that restrict our ability to incur debts or to make distributions in certain circumstances, and generally requires us to maintain certain financial ratios. We believe we were in compliance with the terms and conditions of the covenants under our credit agreement at December 31, 2021.

In January 2019, we obtained a $650,000 mortgage loan secured by 186 of our properties located on the island of Oahu, HI containing approximately 9.6 million square feet. This non-amortizing loan matures on February 7, 2029 and requires monthly payments of interest only at a fixed rate of 4.31% per annum. We used the proceeds from this loan to reduce outstanding borrowings under our revolving credit facility and to fund acquisitions.

In connection with the acquisition of a portfolio of 20 industrial properties in April 2019, as discussed in Note 3, we assumed a $56,980 mortgage note secured by one property containing approximately 1.0 million square feet located in Ruskin, FL. This non-amortizing loan matures on October 1, 2023 and requires monthly payments of interest only at a fixed rate of 3.60% per annum. We recorded a $1,332 discount in connection with this assumed mortgage note, which increased its effective interest rate to 4.22% per annum. We recorded this discount as we believed the interest rate payable on this mortgage note was below the rate we would have had to pay for debt with the same maturity and similar other terms at the time we assumed this obligation.

In October 2019, we obtained a $350,000 mortgage loan secured by 11 of our properties located in eight states containing an aggregate of approximately 8.2 million rentable square feet. This non-amortizing loan matures in November 2029 and requires monthly payments of interest at a fixed rate of 3.33% per annum. We used the proceeds from this loan to reduce outstanding borrowings under our revolving credit facility.

We no longer include the $56,980 secured mortgage note or the $350,000 mortgage loan in our consolidated balance sheet following the deconsolidation of the net assets of our formerly majority-owned joint venture discussed in Note 3.

In May 2020, we prepaid at par plus accrued interest a mortgage note secured by one of our properties with an outstanding principal balance of approximately $48,750, an annual interest rate of 3.48% and a maturity date in November 2020. As a result of the prepayment of this mortgage note, we recorded a gain on early extinguishment of debt of $120 for the year ended December 31, 2020 to write off unamortized premiums.

(dollars in thousands, except per share data)

Note 5. Indebtedness (Continued)

The required principal payments due during the next five years and thereafter under all our outstanding debt as of December 31, 2021 are as follows:

Year	Principal Payment
2022	$182,000
2023	—
2024	—
2025	—
2026	—
Thereafter	650,000
	$832,000(1)

(1) Total debt outstanding as of December 31, 2021, including unamortized debt issuance costs of $3,876, was $828,124.

Note 6. Fair Value of Assets and Liabilities

Our financial instruments include cash and cash equivalents, restricted cash, rents receivable, our revolving credit facility, mortgage notes payable, accounts payable, security deposits, rents collected in advance and amounts due from or to related persons. At December 31, 2021 and 2020, the fair value of our financial instruments approximated their carrying values in our consolidated financial statements, due to the short term nature or floating interest rates, except as follows:

	At December 31, 2021		At December 31, 2020	
	Carrying Value(1)	Estimated Fair Value	Carrying Value(1)	Estimated Fair Value
Mortgage notes payable	$646,124	$709,198	$645,579	$730,119

(1) Includes unamortized debt issuance costs, premiums and discounts of $3,876 and $4,421 as of December 31, 2021 and 2020, respectively.

We estimate the fair value of our mortgage notes payable using discounted cash flow analyses and currently prevailing market rates as of the measurement date (Level 3 inputs). Because Level 3 inputs are unobservable, our estimated fair value may differ materially from the actual fair value.

The table below presents certain of our assets measured on a recurring basis at fair value categorized by the level of inputs as defined in the fair value hierarchy under GAAP, used in the valuation of each asset:

(dollars in thousands, except per share data)

Note 6. Fair Value of Assets and Liabilities (Continued)

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring fair value measurements				
At December 31, 2021				
Investment in unconsolidated joint venture[(1)]	$ 143,021	$ —	$ —	$ 143,021
At December 31, 2020				
Investment in unconsolidated joint venture	$ 60,590	$ —	$ —	$ 60,590

(1) We own a 22% equity interest in a joint venture that owns 18 properties and is included in investment in unconsolidated joint venture in our consolidated balance sheet, and is reported at fair value, which is based on significant unobservable inputs (Level 3 inputs). The significant unobservable inputs used in the fair value are discount rates of between 5.25% and 6.50%, exit capitalization rates of between 4.50% and 5.50%, direct capitalization rates of between 4.00% and 4.50%, holding periods of approximately 10 years and market rents. The assumptions are based on the location, type and nature of each property, and current and anticipated market conditions, which are derived from appraisers, industry publications and our experience. See Note 3 for further information regarding our joint venture.

Note 7. Shareholders' Equity

Common Share Awards:

We have common shares available for issuance under the terms of our 2018 Equity Compensation Plan, or the 2018 Plan. During the years ended December 31, 2021, 2020 and 2019, we awarded to our officers and other employees of RMR LLC annual share awards of 118,800, 108,600 and 104,200 of our common shares, respectively, valued at $3,086, $2,460 and $2,260, in aggregate, respectively. In accordance with our Trustee compensation arrangements, we awarded each of our six Trustees 3,500 of our common shares in 2021 with an aggregate value of $538 ($90 per Trustee) as part of their annual compensation. During the year ended December 31, 2020, we awarded each of our then seven Trustees 3,500 of our common shares with an aggregate value of $460 ($66 per Trustee) as part of their annual compensation. Also in 2020, in connection with the election of two of our Trustees, we awarded 3,000 of our common shares to each such Trustee with an aggregate value of $141 ($71 per Trustee) as part of their annual compensation. During 2019, we awarded each of our then five Trustees 3,000 of our common shares with an aggregate value of $281 ($56 per Trustee) as part of their annual compensation. The values of the share awards were based upon the closing price of our common shares trading on The Nasdaq Stock Market LLC, or Nasdaq, on the dates of awards. The common shares awarded to our Trustees vested immediately. The common shares awarded to our officers and certain other employees of RMR LLC vest in five equal annual installments beginning on the date of award. We recognize share forfeitures as they occur. We include the value of awarded shares in general and administrative expenses ratably over the vesting period.

A summary of shares awarded, vested and forfeited under the terms of the 2018 Plan for the years ended December 31, 2021, 2020 and 2019 is as follows:

(dollars in thousands, except per share data)

Note 7. Shareholders' Equity (Continued)

	Year Ended					
	December 31, 2021		December 31, 2020		December 31, 2019	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at beginning of year	162,200	$22.37	108,200	$22.08	43,280	$23.33
Granted	139,800	25.93	139,100	22.01	119,200	21.32
Vested	(108,920)	23.78	(84,520)	21.41	(52,880)	20.78
Forfeited	(700)	22.24	(580)	22.20	(1,400)	22.39
Unvested at end of year	192,380	$24.15	162,200	$22.37	108,200	$22.08

The 192,380 unvested shares as of December 31, 2021 are scheduled to vest as follows: 66,520 shares in 2022, 59,320 shares in 2023, 42,780 shares in 2024 and 23,760 in 2025. As of December 31, 2021, the estimated future compensation expense for the unvested shares was approximately $4,188. The weighted average period over which the compensation expense will be recorded is approximately 22 months. During the years ended December 31, 2021, 2020 and 2019, we recorded $2,329, $2,331 and $1,109 respectively, of compensation expense related to the 2018 Plan.

At December 31, 2021, 3,595,408 common shares remain available for issuance under the 2018 Plan.

Common Share Purchases:

During the years ended December 31, 2021, 2020 and 2019, we repurchased an aggregate of 35,596, 18,060 and 11,963 of our common shares, respectively, at weighted average prices of $25.91, $21.16 and $21.19 per common share, respectively, from certain of our Trustees and certain current and former officers and employees of RMR LLC in satisfaction of tax withholding and payment obligations in connection with the vesting of awards of our common shares.

Distributions:

During the years ended December 31, 2021, 2020 and 2019, we paid distributions on our common shares as follows:

			Characterization of Distribution		
Year	Annual Per Share Distribution	Total Distribution	Return of Capital	Ordinary Income	Capital Gain
2021	$1.32	$86,236	—%	93.2%	6.8%
2020	$1.32	$86,089	—%	71.0%	29.0%
2019	$1.32	$85,937	21.8%	78.2%	—%

On January 13, 2022, we declared a regular quarterly distribution of $0.33 per common share, or approximately $21,600, to shareholders of record on January 24, 2022. We expect to pay this distribution to our shareholders on or about February 17, 2022.

Note 8. Per Common Share Amounts

We calculate basic earnings per common share by dividing net income attributable to common shareholders by the weighted average number of our common shares outstanding during the period. We

(dollars in thousands, except per share data)

Note 8. Per Common Share Amounts (Continued)

calculate diluted earnings per share using the more dilutive of the two class method or the treasury stock method. Unvested common share awards and other potentially dilutive common shares, and the related impact on earnings, are considered when calculating diluted earnings per share. The calculation of basic and diluted earnings per share is as follows:

	Year Ended December 31,		
	2021	2020	2019
Numerators:			
Net income attributable to common shareholders	$119,682	$82,071	$52,498
Income attributable to unvested participating securities	(307)	(154)	(48)
Net income attributable to common shareholders used in calculating earnings per share	$119,375	$81,917	$52,450
Denominators:			
Weighted average common shares for basic earnings per share	65,169	65,104	65,049
Effect of dilutive securities: unvested share awards	42	10	6
Weighted average common shares for diluted earnings per share	65,211	65,114	65,055
Net income attributable to common shareholders per common share—basic	$ 1.83	$ 1.26	$ 0.81
Net income attributable to common shareholders per common share—diluted	$ 1.83	$ 1.26	$ 0.81

Note 9. Business and Property Management Agreements with RMR LLC

We have no employees. The personnel and various services we require to operate our business are provided to us by RMR LLC. We have two agreements with RMR LLC to provide management services to us: (1) a business management agreement, which relates to our business generally; and (2) a property management agreement, which relates to our property level operations.

Management Agreements with RMR LLC. Our management agreements with RMR LLC provide for an annual base management fee, an annual incentive management fee and property management and construction supervision fees, payable in cash, among other terms:

- *Base Management Fee*. The annual base management fee payable to RMR LLC by us for each applicable period is equal to the lesser of:
    - the sum of (i) 0.5% of the average aggregate historical cost of the real estate assets acquired from a REIT to which RMR LLC provided business management or property management services, or the Transferred Assets, plus (ii) 0.7% of the average aggregate historical cost of our real estate investments excluding the Transferred Assets up to $250,000, plus (iii) 0.5% of the average aggregate historical cost of our real estate investments excluding the Transferred Assets exceeding $250,000; and
    - the sum of (i) 0.7% of the average closing price per share of our common shares on the stock exchange on which such shares are principally traded during such period, multiplied by the average number of our common shares outstanding during such period, plus the daily weighted average of the aggregate liquidation preference of each class of our preferred shares outstanding during such period, plus the daily weighted average of the aggregate principal

Note 9. Business and Property Management Agreements with RMR LLC (Continued)

amount of our consolidated indebtedness during such period, or, together, our Average Market Capitalization, up to $250,000, plus (ii) 0.5% of our Average Market Capitalization exceeding $250,000.

The average aggregate historical cost of our real estate investments includes our consolidated assets invested, directly or indirectly, in equity interests in or loans secured by real estate and personal property owned in connection with such real estate (including acquisition related costs and costs which may be allocated to intangibles or are unallocated), all before reserves for depreciation, amortization, impairment charges or bad debts or other similar non-cash reserves.

- *Incentive Management Fee*. The incentive management fee which may be earned by RMR LLC for an annual period is calculated as follows:
  - An amount, subject to a cap, based on the value of our common shares outstanding, equal to 12.0% of the product of:
    - — if the relevant measurement period ends on or before December 31, 2020, $1,560,000 (our unadjusted equity market capitalization as calculated at our IPO) or, if the relevant measurement period ends thereafter, our equity market capitalization on the last trading day of the calendar year immediately prior to the relevant measurement period, and
    - — the amount (expressed as a percentage) by which the total return per share, as defined in the business management agreement and further described below, of our common shareholders (i.e., share price appreciation plus dividends) exceeds the total shareholder return of the applicable market index, or the benchmark return per share, for the relevant measurement period. Effective as of August 1, 2021, we and RMR LLC amended our business management agreement to replace the benchmark index used in the calculation of incentive management fees. Pursuant to the amendment, for periods beginning on and after August 1, 2021, the MSCI U.S. REIT/Industrial REIT Index replaced the discontinued SNL U.S. REIT Industrial Index and will be used to calculate benchmark returns per share for purposes of determining any incentive management fee payable by us to RMR LLC. For periods prior to August 1, 2021, the SNL U.S. REIT Industrial Index will continue to be used. Accordingly, the calculation of incentive management fees for the next two measurement periods will continue to use the SNL U.S. REIT Industrial Index in calculating the benchmark returns for periods through July 31, 2021. This change of index was due to S&P Global ceasing to publish the SNL U.S. REIT Industrial Index.

For purposes of the total return per share of our common shareholders, share price appreciation for a measurement period is determined by subtracting (i) if the measurement period ends on or before December 31, 2020, $24.00 per common share (our unadjusted initial share price, as defined under the business management agreement, based on our IPO price of our common shares) or, if the measurement period ends after December 31, 2020, the closing price of our common shares on Nasdaq on the last trading day of the year immediately before the first year of the applicable measurement period from (ii) the average closing price of our common shares on the 10 consecutive trading days having the highest average closing prices during the final 30 trading days in the last year of the measurement period.

  - The calculation of the incentive management fee (including the determinations of our equity market capitalization, initial share price and the total return per share of our common shareholders) is subject to adjustments if we issue or repurchase our common shares, or our common shares are forfeited, during the measurement period.

Note 9. Business and Property Management Agreements with RMR LLC (Continued)

- No incentive management fee is payable by us unless our total return per share during the measurement period is positive.
- The measurement periods are generally three year periods ending with the year for which the incentive management fee is being calculated, with shorter periods applicable in the case of the calculation of the incentive fee for 2020 (the period beginning on January 12, 2018, the first day our common shares began trading, and ending on December 31, 2020) and 2019 (the period beginning on January 12, 2018 and ending on December 31, 2019).
- If our total return per share exceeds 12.0% per year in any measurement period, the benchmark return per share is adjusted to be the lesser of the total shareholder return of the applicable market index for such measurement period and 12.0% per year, or the adjusted benchmark return per share. In instances where the adjusted benchmark return per share applies, the incentive management fee will be reduced if our total return per share is between 200 basis points and 500 basis points below the applicable market index in any year, by a low return factor, as defined in the business management agreement, and there will be no incentive management fee paid if, in these instances, our total return per share is more than 500 basis points below the applicable market index in any year, determined on a cumulative basis (i.e., between 200 basis points and 500 basis points per year multiplied by the number of years in the measurement period and below the applicable market index).
- The incentive management fee is subject to a cap. The cap is equal to the value of the number of our common shares which would, after issuance, represent 1.5% of the number of our common shares then outstanding multiplied by the average closing price of our common shares during the 10 consecutive trading days having the highest average closing prices during the final 30 trading days of the relevant measurement period.
- Incentive management fees we paid to RMR LLC for any period may be subject to "clawback" if our financial statements for that period are restated due to material non-compliance with any financial reporting requirements under the securities laws as a result of the bad faith, fraud, willful misconduct or gross negligence of RMR LLC and the amount of the incentive management fee we paid was greater than the amount we would have paid based on the restated financial statements.

Pursuant to our business management agreement with RMR LLC, we recognized net business management fees of $10,562, $12,983 and $11,897 for the years ended December 31, 2021, 2020 and 2019. The net business management fees we recognized for the year ended December 31, 2020 include $1,005 of management fees paid to RMR LLC by our joint venture that was a consolidated subsidiary of ours until November 2020. See Note 3 for further information regarding this joint venture and the fee payments to RMR LLC with respect to this joint venture. The net business management fees we recognized are included in general and administrative expenses in our consolidated statements of comprehensive income for the years ended December 31, 2021, 2020 and 2019. We did not incur any incentive management fee pursuant to our business management agreement for the years ended December 31, 2021, 2020 and 2019.

- *Property Management and Construction Supervision Fees*. The property management fees payable to RMR LLC by us for each applicable period are equal to 3.0% of gross collected rents and the construction supervision fees payable to RMR LLC by us for each applicable period are equal to 5.0% of construction costs. Pursuant to our property management agreement with RMR LLC, we recognized aggregate property management and construction supervision fees of $6,606, $7,472 and $7,548 for the years ended December 31, 2021, 2020 and 2019, respectively. For the years ended December 31, 2021, 2020 and 2019, $6,395, $7,267 and $6,697, respectively, of the total net property management and construction supervision fees were expensed to other operating expenses in our

Note 9. Business and Property Management Agreements with RMR LLC (Continued)

consolidated statements of comprehensive income and $211, $205 and $851, respectively, were capitalized as building improvements in our consolidated balance sheets. The amounts capitalized are being depreciated over the estimated useful lives of the related capital assets.

- *Expense Reimbursement*. We are generally responsible for all of our operating expenses, including certain expenses incurred or arranged by RMR LLC on our behalf. We are generally not responsible for payment of RMR LLC's employment, office or administrative expenses incurred to provide management services to us, except for the employment and related expenses of RMR LLC's employees assigned to work exclusively or partly at our properties, our share of the wages, benefits and other related costs of RMR LLC's centralized accounting personnel, our share of RMR LLC's costs for providing our internal audit function and as otherwise agreed. Our Audit Committee appoints our Director of Internal Audit and our Compensation Committee approves the costs of our internal audit function. Our property level operating expenses are generally incorporated into rents charged to our tenants, including certain payroll and related costs incurred by RMR LLC. We reimbursed RMR LLC $4,786, $4,948 and $4,269 for these expenses and costs for the years ended December 31, 2021, 2020 and 2019, respectively. These amounts are included in other operating expenses and general and administrative expenses, as applicable, for these periods.
- *Term*. Our management agreements with RMR LLC have terms that end on December 31, 2041, and automatically extend on December 31st of each year for an additional year, so that the terms of our management agreements thereafter end on the 20th anniversary of the date of the extension.
- *Termination Rights*. We have the right to terminate one or both of our management agreements with RMR LLC: (i) at any time on 60 days' written notice for convenience, (ii) immediately on written notice for cause, as defined therein, (iii) on written notice given within 60 days after the end of an applicable calendar year for a performance reason, as defined therein, and (iv) by written notice during the 12 months following a change of control of RMR LLC, as defined therein. RMR LLC has the right to terminate the management agreements for good reason, as defined therein.
- *Termination Fee*. If we terminate one or both of our management agreements with RMR LLC for convenience, or if RMR LLC terminates one or both of our management agreements for good reason, we have agreed to pay RMR LLC a termination fee in an amount equal to the sum of the present values of the monthly future fees, as defined therein, for the terminated management agreement(s) for the term that was remaining prior to such termination, which, depending on the time of termination would be between 19 and 20 years. If we terminate one or both of our management agreements with RMR LLC for a performance reason, we have agreed to pay RMR LLC the termination fee calculated as described above, but assuming a 10 year term was remaining prior to the termination. We are not required to pay any termination fee if we terminate our management agreements with RMR LLC for cause or as a result of a change of control of RMR LLC.
- *Transition Services*. RMR LLC has agreed to provide certain transition services to us for 120 days following an applicable termination by us or notice of termination by RMR LLC, including cooperating with us and using commercially reasonable efforts to facilitate the orderly transfer of the management and real estate investment services provided under our business management agreement and to facilitate the orderly transfer of the management of the managed properties under our property management agreement, as applicable.
- *Vendors*. Pursuant to our management agreements with RMR LLC, RMR LLC may from time to time negotiate on our behalf with certain third party vendors and suppliers for the procurement of goods and services to us. As part of this arrangement, we may enter agreements with RMR LLC and other companies to which RMR LLC or its subsidiaries provide management services for the purpose of obtaining more favorable terms from such vendors and suppliers.

Note 9. Business and Property Management Agreements with RMR LLC (Continued)

- *Investment Opportunities.* Under our business management agreement with RMR LLC, we acknowledge that RMR LLC may engage in other activities or businesses and act as the manager to any other person or entity (including other REITs) even though such person or entity has investment policies and objectives similar to ours and we are not entitled to preferential treatment in receiving information, recommendations and other services from RMR LLC.

Management Agreements between Our Joint Venture and RMR LLC. As described further in Note 3, we own a 22% equity interest in our joint venture. RMR LLC provides management services to our joint venture. Prior to November 2020, our joint venture was our consolidated subsidiary and, as such, we were obligated to pay fees under our management agreements with RMR LLC regarding our joint venture; however, any fees paid by that joint venture were credited against the fees payable by us to RMR LLC. Starting in November 2020, our joint venture is no longer our consolidated subsidiary and, as a result, we are no longer required to pay management fees to RMR LLC with respect to our joint venture and fees our joint venture pays to RMR LLC are no longer credited against amounts we owe to RMR LLC.

Note 10. Related Person Transactions

We have relationships and historical and continuing transactions with RMR LLC, The RMR Group Inc., or RMR Inc., and others related to them, including other companies to which RMR LLC or its subsidiaries provide management services and some of which have trustees, directors or officers who are also our Trustees or officers. RMR LLC is a majority owned subsidiary of RMR Inc. The Chair of our Board of Trustees and one of our Managing Trustees, Adam Portnoy, is the sole trustee, an officer and the controlling shareholder of ABP Trust, which is the controlling shareholder of RMR Inc., a managing director and the president and chief executive officer of RMR Inc. and an officer and employee of RMR LLC. John Murray, our other Managing Trustee and our President and Chief Executive Officer, also serves as an officer and employee of RMR LLC, and each of our other officers is also an officer and employee of RMR LLC. Some of our Independent Trustees also serve as independent trustees or independent directors of other public companies to which RMR LLC or its subsidiaries provide management services. Adam Portnoy serves as chair of the boards and as a managing director or managing trustee of these public companies. Other officers of RMR LLC, including Mr. Murray and certain of our other officers, serve as managing trustees, managing directors or officers of certain of these companies.

Our Manager, RMR LLC. We have two agreements with RMR LLC to provide management services to us. See Note 9 for further information regarding our management agreements with RMR LLC.

Share Awards to RMR LLC Employees. As described in Note 7, we award shares to our officers and other employees of RMR LLC annually. Generally, one fifth of these awards vest on the grant date and one fifth vests on each of the next four anniversaries of the grant dates. In certain instances, we may accelerate the vesting of an award, such as in connection with the award holder's retirement as an officer of us or an officer or employee of RMR LLC. These awards to RMR LLC employees are in addition to the share awards to our Managing Trustees, as Trustee compensation, and the fees we paid to RMR LLC. See Note 7 for information regarding our share awards and activity as well as certain share purchases we made in connection with share award recipients satisfying tax withholding obligations on the vesting of share awards.

AIC. Until its dissolution on February 13, 2020, we, ABP Trust and five other companies to which RMR LLC provides management services owned AIC in equal amounts. We and the other AIC shareholders historically participated in a combined property insurance program arranged and insured or reinsured in part by AIC until June 30, 2019. We paid aggregate annual premiums, including taxes and fees, of $266 in connection with this insurance program for the policy year ended June 30, 2019.

Note 10. Related Person Transactions (Continued)

In connection with AIC's dissolution, we and each other AIC shareholder received an initial liquidating distribution of $9,000 from AIC in December 2019, an additional liquidating distribution of approximately $287 in June 2020 and a final liquidating distribution of $12 in December 2021.

We recognized income related to our investment in AIC of $666 for the year ended December 31, 2019, which is presented as equity in earnings of investees in our consolidated statement of comprehensive income. We did not recognize any income related to our investment in AIC for the years ended December 31, 2021 or 2020. As of December 31, 2020, our investment in AIC had a carrying value of $12. This amount is included in other assets in our consolidated balance sheets.

Our Joint Venture. As of December 31, 2020, our joint venture owed to us $2,665 for post-closing adjustments relating to our sale of some of our equity interests to a second third party institutional investor in November 2020. Our joint venture paid these amounts due to us during the year ended December 31, 2021. This amount is presented as due from related persons in our consolidated balance sheet.

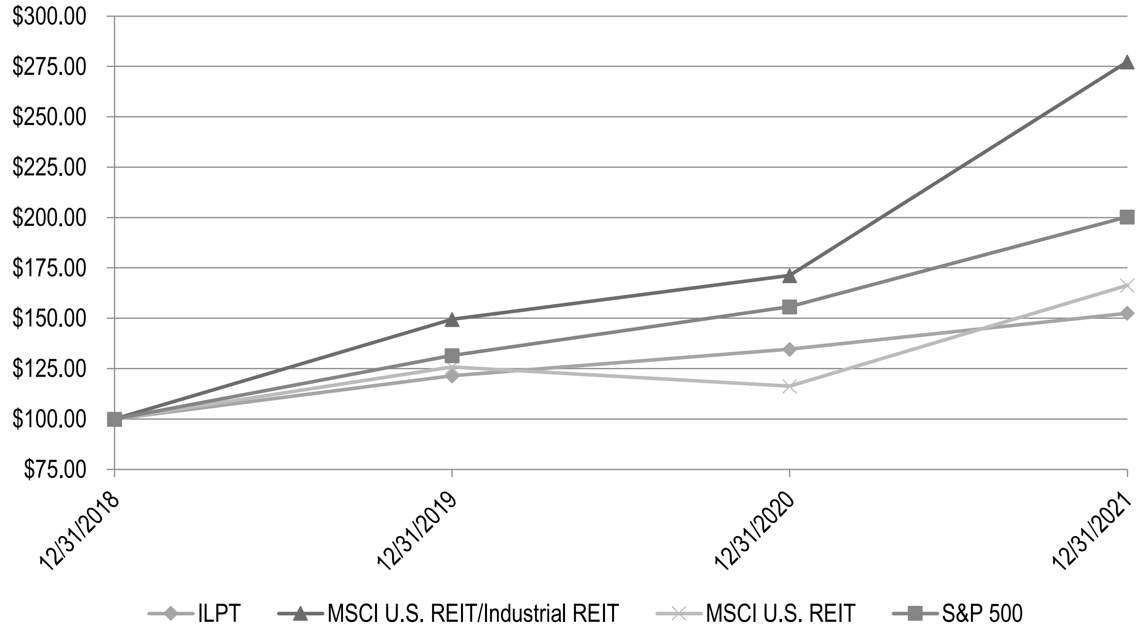
In December 2021, we sold six additional recently acquired properties to our joint venture. We received proceeds of approximately $160,516 from the other equity investors in connection with this sale. We and the other equity investors maintained our respective percentage equity interests in our joint venture following this transaction. As of December 31, 2021, we owed $225 to our joint venture for rents that we collected on the behalf of our joint venture. This amount is presented as due to related persons in our consolidated balance sheet. We paid these amounts to our joint venture in January 2022. See Note 3 for further information regarding our joint venture.

TravelCenters of America Inc. In May 2021, we acquired a property located in the Dallas, Texas market from TravelCenters of America Inc., or TA, for a purchase price of $2,319, including acquisition related costs of $119. RMR LLC provides management services to TA and Mr. Portnoy serves as the chair of the board of directors and as a managing director of TA. See Note 3 for further information regarding this acquisition.

ILPT Performance Chart

The graph below shows the cumulative total shareholder returns on our common shares (assuming a $100 investment on December 31, 2018) as compared with (a) the MSCI U.S. REIT/Industrial REIT Index, (b) the MSCI U.S. REIT Index, and (c) the Standard & Poor's 500 Index, or the S&P 500. The graph assumes reinvestment of all cash distributions.

Note: ILPT selected the MSCI U.S. REIT/Industrial REIT Index and the MSCI U.S. REIT Index to replace the SNL U.S. REIT Industrial Index and the SNL U.S. REIT Equity Index used in the preceding year's performance chart. This change was due to S&P Global ceasing to publish the SNL indices during 2021. FactSet is the data source.



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ANNUAL MEETING
Our annual meeting of shareholders will be held virtually on Wednesday, June 1, 2022 at 9:30 a.m.

AVAILABLE INFORMATION
A copy of our 2021 Annual Report on Form 10-K, including the financial statements and schedule (excluding exhibits), as filed with the Securities and Exchange Commission, can be obtained without charge through our website at www.ilptreit.com.

* *Member of Audit, Compensation, and Nominating and Governance Committees*

\+ *Member of Compensation and Nominating and Governance Committees*

% *ILPT has appointed Yael Duffy as President and Chief Operating Officer, effective April 1, 2022, succeeding John G. Murray. Mr. Murray will continue as a Managing Trustee of ILPT.*

INDUSTRIAL LOGISTICS
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