

## TO OUR SHAREHOLDERS:

In advance of the 2021 Annual Meeting, I am writing to provide an update on Gyrodyne's current status, along with some reflections on the past 12 months.

Gyrodyne, like many organizations all over the world, is now recovering from a dark period in history - the Covid-19 pandemic. We are a small company and overcame an array of challenges over the last year. We not only stayed the course to secure entitlements, but also retained and protected all of our employees and joined the effort to support our communities. Gyrodyne contributed meals for local medical staff and frontline workers during the height of the pandemic and hosted both a holiday toy drive and a food pantry drop off location on our property. I am proud to have participated in those efforts and am grateful to our Board of Directors for their guidance and support throughout this time. I must also thank our dedicated team for their efforts to serve the interests of our Company and its shareholders throughout and beyond the pandemic.

Gyrodyne's continuing goal is to enhance the value of our properties so as to position them to be sold at the highest current net values in order to maximize distributions to our shareholders. Beginning in September 2015, we conducted market research, had extensive discussions with our engineering firm and land use counsel and spoke with various national and local brokers to define a strategy with an estimated timeline to meet those objectives.

Although we have done everything possible to accelerate that process, one evolving development risk is an increasing level of scrutiny on environmentally sensitive development projects. This has resulted in a significant increase in costs and time to complete the State Environmental Quality Review ("SEQRA") process in both Cortlandt Manor and Smithtown. As community groups raised environmental, traffic and other concerns regarding our plans we did our best to address those concerns through analysis and extensive public hearings. The Town of Smithtown Planning Department requested ten alternative conceptual subdivision site plans, which is far in excess of what was anticipated by our experienced engineers and counsel.

In addition, the Covid-19 global pandemic had a range of cascading impacts on the U.S. economy, resulting in a precipitous drop in real estate transaction activity for our class of properties and a moratorium on tenant evictions. Senior assisted living companies have been prominent prospective purchasers for at least a portion of the Flowerfield property. In New York State, a rising death toll at such facilities forced the industry to refocus its efforts from a growth mindset to managing the Covid-19 crisis for residents and their families. These economic fallouts directly and indirectly affected Gyrodyne, our expected partners and pre-Covid plans.

The combined impact of these circumstances on Gyrodyne was significant:

1. Our timeline was extended to 2022;
2. Land development costs continued to climb in parallel with the escalating focus on SEQRA;
3. Property purchase agreements totaling approximately \$22.5 million were unexpectedly terminated by buyers due to Covid-19 related circumstances; and
4. Our net asset value for the quarter ending March 31, 2021 of \$15.22 per share, represented a 28% decline (\$5.28 per share) from the \$21.20 per share we reported for the quarter ending March 31, 2020 at the 2020 Annual Meeting.

Despite the challenges, Gyrodyne remained focused on executing its strategic plan. The Company took steps to ensure sufficient capital was available to finance its mission, and operated remotely at times to ensure that our entitlement efforts remained on course. Gyrodyne also took steps to ensure that our computer network did not fall victim to ransomware and other viral attacks. In addition, the Company took several proactive measures to maintain the strength of Gyrodyne's business and manage the impact of Covid-19 on the Company's operations and liquidity, including the following:

- The Company kept its properties open throughout the Covid-19 pandemic and operated in compliance with federal, state and local Covid-19 guidelines and mandates. The Company nimbly adapted its operations to protect employees, including by implementing a work from home policy, and the Company's IT systems enabled its team to work seamlessly.
- The Company secured a loan for up to \$2,500,000, under a non-revolving business line of credit agreement and promissory note on July 16, 2020 to enhance its liquidity position and maintain financial flexibility.
- We amended our working capital GSD Cortlandt loan by eliminating the condition of having signed purchase agreements to draw on the line. As a result, the bank did not call \$1,050,000 that was drawn prior to the termination of the Cortlandt Manor Purchase and Sale Agreement. We have \$1,450,000 available under the line, at the lender's discretion.
- The Company contained costs by securing agreements from certain of the Company's major service vendors to defer approximately \$717,000 of land development fees and other professional fees incurred to date plus approximately \$257,000 of forecasted land development fees and \$95,000 in other professional fees until the first post-subdivision property lot is sold. The only significant expenditures the Company plans to make on our properties at this time relate to obtaining entitlements and tenant improvements to maintain or enhance the value of the existing buildings.
- We adopted a Deferred Compensation Plan effective as of January 1, 2020, pursuant to which officers and directors may elect to defer a portion of their compensation, together with interest on such deferred payments at a fixed rate of 5%, until the earlier of December 15, 2026 or adoption of a plan of liquidation. All of our directors elected to defer 100% of their fees for 2020 and 2021.

Because of those efforts, Gyrodyne performed relatively well in 2020. Our monthly cash collections since the pandemic began averaged over 85% of billings which is a testament to our decision to shift more leased space toward Stony Brook University and its affiliates. On the leasing front, our occupancy rate remained relatively stable at 81% over the last year.

The Covid-19 pandemic has impacted the Company's operational and financial performance and our estimated net asset value. However, we are now seeing improvements in operations and communications from local government officials as they begin to refocus on advancing the business of government. Next steps in completing the entitlement process is heavily dependent on municipal approvals, making the recovery period and the rate at which local governments return to business-as-usual especially critical.

## **Cortlandt Manor:**

The Town of Cortlandt Town Board hosted its second public hearing on the Draft Generic Environmental Impact Statement (DGEIS) on January 14, 2020. Due to the pandemic, they did not hold a third public hearing until June 16, 2020 (held virtually). The Town closed the public comment period on June 30, 2020, and subsequently withdrew its support for the residential component of our Plan. However, the Town has now re-opened the door for discussion of a residential component. We anticipate that the Final GEIS will reflect the proposed uses for the Company's Cortlandt Manor property comprise 184,600 square feet of medical office space and 1,500 square feet of retail space. In addition, we are also pursuing an alternative option in which the space will be developed as mixed used medical and multi-tenant residential. It is anticipated that the Final GEIS will be accepted by the Town Board with SEQRA completed in the first quarter of 2022. We anticipate these approvals will encompass subdivision and conceptual site plan approvals, positioning the property lots to be sold at their post-entitled values.

The demographic demands for quality healthcare have only been heightened by the pandemic. As the healthcare market moves from pandemic driven operations to more profitable business lines, we believe the demand for medical office space will increase substantially. This should favorably impact the value we achieve from the sale of the Cortlandt Manor property lots. To what extent the market returns to, or exceeds, the pre-pandemic values is anyone's guess, but we are confident that the steps we have taken to pursue the respective entitlements will enhance the value substantially versus selling the lots under its current zoning.

In summary, the Town Board is expected to adopt a Medical Oriented District (MOD) designation for the property in early 2022 with subdivision approval granted by the Town Planning Board occurring in the first quarter. The Company does not plan on developing the property but rather positioning the property to be sold with all entitlements necessary to achieve maximum pre-construction value for the Company in the shortest period of time with the least amount of risk to the Company.

In 2021, we also converted several month-to-month leases with New York Presbyterian Hudson Valley Medical Center comprising 15,808 square feet, to one five-year lease for a total of 19,751 square feet. This represents an increase of 3,943 square feet which will help us market the Cortlandt property as an operating medical lot with a landlord option to replace it with a residential lot, provided that we successfully receive our entitlements.

## **Flowerfield:**

Since Gyrodyne's submission of its original subdivision application in 2017, the Company has submitted numerous drafts and revised drafts of its EIS in response to various comments. The Company filed its Final FEIS in November 2020 reflecting an eight-lot subdivision. The FEIS was accepted by the Town Planning Board on March 10, 2021, which was followed by a period for public comment that closed on March 31, 2021. The Town of Smithtown submitted a referral package inclusive of the public comments and the FEIS to the Suffolk County Planning Commission. On May 5, 2021, the Commission voted 5:4 in favor of the FEIS with comments. However, since the Commission fell short of the 11-vote minimum, the FEIS is deemed to be approved with no comments and conditions, and has reverted to the Town of Smithtown. The Town of Smithtown will review the Planning Commission's determination and the Town Planning Board will issue a Findings Statement. Preliminary Approval of the subdivision may occur simultaneously or shortly after the Findings Statement. Following Preliminary Approval, the Company will pursue technical approvals, and then apply for Final Subdivision approval.

On April 26, 2021, the Company closed on the sale of its 5.0-acre parcel of vacant land that was non-contiguous to, and not part of, the Flowerfield complex in Smithtown, New York for a purchase price of \$500,000 as per the purchase and sale agreement signed on May 11, 2020.

### **Moving Forward:**

As the recovery continues, our team at Gyrodyne is focused on securing entitlements and new contracts for our properties as expeditiously as possible. We have changed our policy, based on lessons learned, and no longer intend to provide extensions to an investigation period on future sales unless we receive a substantial deposit, or there are material factors in the investigation period that both parties conclude warrant resolution.

We have re-launched a marketing campaign with a plan that remains focused on completing our liquidation by the end of 2022. We believe we are at the tail end of the entitlement approval process. We are now focused on selling these property lots at post-entitled values absent an offer based on their current status (no contingencies) that we may find more attractive from a timing or value perspective.

We are also reevaluating our timeline, and believe the original goal underestimated the time necessary to address SEQRA. The world pivoted during our SEQRA review, and we responded by commissioning a much more in-depth Environmental Impact Study than originally anticipated. That said, we are fortunate in three respects:

1. The Cortlandt Manor project was led by the local town initiative to create a MOD. Our plans were environmentally conscious while also meeting the parameters established by the Town.
2. In Flowerfield, we included various environmental benefits, the lynchpin of which is a critically needed sewage treatment plant for the local area. Other benefits include green infrastructure improvements, mechanisms for improved traffic flow and community safety measures.
3. We continue to receive the support of both the Town of Cortlandt officials and the Town of Smithtown officials and the majority of community members. In both jurisdictions there is a small contingent that opposes the conceptual subdivision plans. However, we believe our entitlements will succeed based on our careful planning as well as our efforts to engage and satisfy the needs of local stakeholders and community members.

Although we intend to hold the Annual Meeting in person, we are sensitive to the public health and travel concerns our shareholders may have and recommendations that public health officials have issued even as more people are becoming vaccinated. As a result, we will enforce appropriate social distancing protocols and may request that all shareholders wear an appropriate face covering. We may impose additional requirements or limitations on Meeting attendees.

We look forward to seeing you at our Annual Meeting and to answering your questions regarding the last year and future plans. Most of all, we look forward to completing our mission and making distributions to our shareholders.

With best wishes,

Gary Fitlin  
President and Chief Executive Officer