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

FORM 10-K

(mark one)

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

For the fiscal year ended December 31, 2010

or

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

For the transition period from ________ to________

Commission file number 000-53673

NETREIT, Inc.

(Exact name of registrant as specified in its charter)

Maryland	**33-0841255**
(State of other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
1282 Pacific Oaks Place **Escondido, CA**	**92029-2900**
(Address of principal executive offices)	(Zip code)

(760) 471-8536
(Registrant’s telephone number, including area code)

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, Series A, no par value
(Title of class)

Indicate by check mark whether the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act. £ Yes R No

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

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in part III of this Form 10-K or any amendment to this Form 10-K. R Yes £ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). £ Yes £ No

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

Large accelerated filer £	Accelerated filer £	Non-accelerated filer £ (Do not check if a smaller reporting company)	Smaller reporting company R

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

At March 24, 2010, registrant had issued and outstanding 12,770,025 shares of its common stock, no par value.

DOCUMENTS INCORPORATED BY REFERENCE

Part III, Items 10, 11, 12, 13 and 14 incorporate by reference certain specific portions of the definitive Proxy Statement for NetREIT’s Annual Meeting currently scheduled to be held on June 9, 2011 to be filed pursuant to Regulation 14A. Only those portions of the proxy statement which are specifically incorporated by reference herein shall constitute a part of this annual report.

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PART I

CAUTIONARY LANGUAGE REGARDING FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

This Form 10-K contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties, many of which are beyond our control. Our actual results could differ materially and adversely from those anticipated in such forward-looking statements as a result of certain factors, including those set forth in this Form 10-K. Important factors that may cause actual results to differ from projections include, but are not limited to:

- specific risks that may be referred to in this Form 10-K, including those set forth in the “Risk Factors” section of the Form 10-K;
- adverse economic conditions in the real estate market;
- adverse changes in the real estate financing markets;
- our inability to raise sufficient additional capital to continue to expand our real estate investment portfolio and pay dividends on our shares;
- unexpected costs, lower than expected rents and revenues from our properties, and/or increases in our operating costs;
- inability to attract or retain qualified personnel, including real estate management personnel;
- adverse results of any legal proceedings; and
- changes in laws, rules and regulations affecting our business.

All statements, other than statements of historical facts, included in this Form 10-K regarding our strategy, future operations, financial position, estimated revenue or losses, projected costs, prospects, current expectations, forecasts, and plans and objectives of management are forward-looking statements. When used in this Form 10-K, the words “will,” “may,” “believe,” “anticipate,” “intend,” “estimate,” “expect,” “should,” “project,” “plan,” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. All forward-looking statements speak only as of the date of this Form 10-K. We do not undertake any obligation to update any forward-looking statements or other information contained in this Form 10-K, except as required by federal securities laws. You should not place undue reliance on these forward-looking statements. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements in this Form 10-K are reasonable, we cannot assure you that these plans, intentions or expectations will be achieved. We have disclosed important factors that could cause our actual results to differ materially from our expectations under the “Risk Factors” section of this Form 10-K and elsewhere in this Form 10-K. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

Information regarding market and industry statistics contained in this Form 10-K is included based on information available to us that we believe is accurate. We have not reviewed or included data from all sources, and we cannot assure you of the accuracy or completeness of the data included in this Form 10-K. Forecasts and other forward-looking information obtained from these sources are subject to the same qualifications and the additional uncertainties accompanying any estimates of future market size, revenue and market acceptance of products and services. We undertake no obligation to update forward-looking information to reflect actual results or changes in assumptions or other factors that could affect those statements. See the “Risk Factors” section of this Form 10-K for a more detailed discussion of uncertainties and risks that may have an impact on our future results.

ITEM 1. BUSINESS

Our Company, NetREIT, Inc.

NetREIT, Inc. ("we", "us" or the "Company") is a Maryland corporation which operates as a self-managed and self-administered real estate investment trust as defined under the Internal Revenue Code (a "***REIT***"). As a Maryland chartered corporation, we are governed by the Maryland General Corporation Law (the "***MGCL***"). We contract with CHG Properties, Inc. ("***CHG Properties***") to manage the day-to-day operations of our properties. We are a non-traded, publicly owned company registered under the Securities Exchange Act of 1934 (the "***1934 Act***"). Our office is located at 1282 Pacific Oaks Place, Escondido, California, 92029-2900. Our telephone number is 866-781-7721. Our e-mail address is info@netreit.com or you may visit our website at www.netreit.com.

Our investment objective is to create current income and growth for our shareholders. We seek to accomplish this objective by seeking promising financial opportunities to acquire commercial, self-storage, retail, single family residential model homes and multi-unit residential real estate located primarily in the western United States. From January 2005 through December 31, 2010, our equity capitalization has increased from approximately $660,857 to more than $73.3 million and our total assets increased during that period from $4.4 million to approximately $133.3 million. During this period, we increased our investments in real property (our "***Properties***") from 2 to 92 Properties. Our portfolio includes interests in eight office complexes ("Office Properties"), five self-storage facilities (Self-Storage Properties") one apartment complex and 74 model homes ("***Model Homes***" *or* "*(**Model Home Properties**") (combined, "***Residential Properties***"), three retail centers and a single purpose 7-Eleven retail property ("***Retail Properties***").

We own a 100% fee interest in 13 of these Properties. We also own partial interests in 5 Properties through our investments in 4 limited partnerships for which we serve as the General Partner ("GP") and one limited liability company for which we serve as managing member. Each of these 4 limited partnerships are referred to as a "***DownREIT***." In each DownREIT, we have the right, through options and put options, to require our co-investors to exchange their interests for shares of our common stock at a stated price within a definite period, generally 5 years from the date they first invested in the entity's real property.

In addition, we own an interest in 26 Model Homes through our 95% owned subsidiary, NetREIT Dubose Model Home REIT, Inc. ("NetREIT Dubose"), and interests in an additional 48 Model Homes through investments as majority limited partner in five limited partnerships, Dubose Acquisition Partners II, LTD. ("***DAP II***"), Dubose Acquisition Partners III, LTD. ("***DAP III***"), Dubose Model Home Income Fund #3, LTD. ("***DMHI Fund #3***"), Dubose Model Home Income Fund #4, LTD. ("***DMHI Fund #4***") and Dubose Model Home Income Fund #5, LTD. ("***DMHI Fund #5***").

In March 2010, we purchased certain assets and rights from Dubose Model Homes USA ("***DMHU***"), which we refer to as the "***DMHU Purchase.***" Mr. Larry Dubose was the founder, former president and former principal owner of DMHU. Pursuant to the DMHU Purchase, we were also assigned contracts to provide certain management services to 19 investment limited partnerships sponsored by DMHU and for which past or present DMHU affiliates serve as general partners. We refer to these 19 partnerships as the "***Dubose Partnerships.***" The Dubose Partnerships include DAP II, DAP III, DMHI Fund #3, DMHI Fund #4 and DMHI Fund #5. These DMHU assets purchased Model Homes from, and leased them back to, homebuilders for their use in marketing their model home developments. We hold the Model Homes for appreciation and resale. We refer to these activities as our "***Model Homes Division.***" To implement our future Model Homes Division activities, we have formed a 100% subsidiary known as NetREIT Advisors, LLC ("***NetREIT Advisors***"). Mr. Dubose, Mr. Heilbron and Mr. Elsberry serve as NetREIT Advisors' CEO, President and CFO, respectively. Through December 2010, we had invested $300,000 as member capital contributions to NetREIT Advisors.

In July 2010, we sponsored and through NetREIT Advisors, organized, and are making significant investments in, ***NetREIT Dubose***. NetREIT Dubose is a proposed private REIT whose primary business is acquiring Model Homes from third party homebuilders in sale and leaseback (*"**sale-leaseback**"*) transactions whereby a homebuilder sells the model home to NetREIT Dubose and leases back under a triple net lease (*"**NNN**"*) the model home is for use in marketing its residential development. NetREIT Dubose is currently seeking to raise up to $20 million pursuant to a private placement of its common stock. We will be the largest shareholder of NetREIT Dubose and will remain so for an indeterminate time. Our relationships with NetREIT Dubose exposes NetREIT, Inc. to additional risks (see Risk Factors section below.

NetREIT Advisors serves as external advisor to NetREIT Dubose. NetREIT Advisors also provides management services to the 19 Dubose Partnerships, pursuant to contracts DMHU assigned to us in the DMHU Purchase. For these services, NetREIT Advisors receives ongoing management fees and has the right to receive certain other fees when the respective partnership purchases, sells or otherwise disposes of its properties.

In September 2010, we commenced a tender offer to purchase outstanding limited partnership units of DMHI Fund #3, DMHI Fund #4 and DMHI Fund #5 in exchange for, at the election of each offeree limited partner, shares of our common stock valued at $10.00 per share or cash equal to 80% of the aggregate price of the shares offered. As a result of this tender offer, effective November 30, 2010 we acquired approximately 74% of DMHI Fund #3 for $475,997 in cash and 39,827 shares for a total combined cost of $874,263; approximately 71% of DMHI Fund #4 for $343,074 in cash and 49,132 shares for a total combined cost of $834,394; and approximately 67% of DMHI Fund #5 for $77,822 in cash and 23,931 shares for a total combined cost of $317,136. As a result, the Company is now the controlling partner of each of these partnerships and the financial statements of each have been included in the consolidated financial statements as of December 31, 2010 including one month of operations for the year ended December 31, 2010.

DMHI Fund #3 and DMHI Fund #4 have investments as limited partners in DAP II and DAP III. As a result of our earlier 51% investment in these two funds, our ownership interests in DAP II and III increased to 75.7% and 83.0%, respectively.

Our Management

We refer to our executive officers and any directors who are affiliated with them as our *"**management.**"* Our management is currently comprised of Jack K. Heilbron, our Chairman of the Board, chief executive officer (*"**CEO**"*) and president, and CEO and a director of NetREIT Dubose; Kenneth W. Elsberry, our chief financial officer (*"**CFO**"*) and one of our directors; and Mr. Dubose, who is the CEO and a director of NetREIT Advisors and the CFO and a director of NetREIT Dubose. Mr. Heilbron is responsible for managing our day-to-day affairs. Our property manager, CHG Properties, is a wholly owned subsidiary of CI Holding Group, Inc. (**"*CI Holding*"**). Messrs. Heilbron and Elsberry are executive officers, directors and minority shareholders of CI Holding. Mr. Dubose is responsible for managing the day-to-day activities of NetREIT Advisors and our Model Homes Division.

Our Board of Directors

Our management is subject to the direction and supervision of our board of directors (our **"*Board*"**). Among other things, our Board must approve each real property acquisition our management proposes. There are eight (8) directors comprising our Board, five of whom are independent directors, as defined (**"*Independent Directors*"**). Three of our directors, Mr. Heilbron, Mr. Elsberry and Mr. Dubose are not independent.

Our Property Manager

CHG Properties manages our properties under a Restated and Amended Property Management Agreement, dated October 14, 2010, between us and CHG Properties (the "Property Management Agreement"). The Property Management Agreement has been approved and is subject to continuing review by our directors, including a majority of our independent directors. CHG Properties is the wholly owned subsidiary of CI Holding Group, Inc. ("CI Holding"). Mr. Heilbron and Mr. Elsberry are minority shareholders of CI Holding. Also, Mr. Heilbron serves as Chairman of its board of directors and President of CHG Properties, and Mr. Elsberry serves as its CFO and Secretary and as a member of its board of directors.

Under the Property Management Agreement, we pay CHG Properties management fees in the amount of up to 5% of the gross revenues of each property managed. We believe these terms are no less favorable to NetREIT than those customary for similar services in the relevant markets and geographic areas of our properties. Depending upon the location of certain of our properties and other circumstances, we may retain property management companies which are unaffiliated with CHG Properties and CI Holdings to render property management services for some of our properties.

Our Contracts with CHG Properties

The Property Management Agreement. Under the Property Management Agreement, CHG Properties provides services in connection with the rental, leasing, operation and management of our properties in consideration for a monthly management fee in the amount of up to 5% of Gross Rental Income, as defined in the Property Management Agreement. In addition, we are required to compensate CHG Properties in the event it provides services other than those specified in the Property Management Agreement and to reimburse CHG Properties for its costs, other than its general, administrative and overhead costs, in providing services under the Property Management Agreement. We will maintain a property management agreement for each property, each of which will have an initial term ending December 31, in the year in which the property is acquired. Each Property Management Agreement will be subject to successive one-year renewals, unless we or the property manager notifies the other in writing of its intent to terminate the Property Management Agreement 60 days prior to the expiration of the initial renewal term. Our right to terminate will be limited so that the Property Management Agreement will be terminable by us only in the event of gross negligence or malfeasance on the part of CHG Properties.

Under the Property Management Agreement, CHG Properties hires, directs and establishes policies for employees who will have direct responsibility for each property's operations, including resident managers and assistant managers, as well as building and maintenance personnel. We may employ some persons who are also employed by CHG Properties or its other affiliates. CHG Properties may, as it deems necessary, engage one or more agents to perform services for us, including local property managers. In doing so, however, CHG Properties is not relieved of its duties and responsibilities to us under the Property Management Agreement~~,~~ and it must compensate any such agents without the right to any reimbursement from us or duplication of costs to us. CHG Properties also directs the purchase of equipment and supplies and supervises all maintenance activity.

Pursuant to the Property Management Agreement, CHG Properties is responsible for collection and bank deposit of rents, day-to-day maintenance of the properties, leasing and tenant relations, and the submission of approved vendor invoices to us for payment. CHG Properties also reviews and pays approved vendor invoices, monitors the payment of rents by tenants, and monitors the collection of reimbursements from tenants, where applicable, for common area maintenance, property taxes and insurance. Data relating to collections, payments and other operations of the properties is entered and maintained on a computer data bank located in CHG Properties' office. CHG Properties is responsible for monitoring and supervising any management employees on the properties, including on-site apartment building managers.

Under the Property Management Agreement, we indemnify CHG Properties and pay or reimburse reasonable expenses in advance of final disposition of any proceeding with respect to its acts or omissions. Conditions to our indemnification include: CHG Properties acted in good faith and the course of its conduct which caused the loss or liability was in our best interests; that the liability or loss to be indemnified was not the result of its willful misconduct or gross negligence; and that, in any event, such indemnification or agreement to hold harmless is recoverable only out of our assets and not from the assets of our shareholders.

Right to Acquire Property Manager's Business. During the term of the Property Management Agreement, we have the option to acquire CHG Properties' property management business, including its assets used in connection with that business. We have the right to do this without obtaining any consent from the property manager, its board, or its shareholders. We may elect to exercise this right at any time. Our board's decision to exercise this right would require the approval of a majority of our directors not otherwise interested in the transaction (including a majority of our independent directors). In the event this acquisition is consummated, CHG Properties and/or its shareholders will receive the number of shares of our common stock determined as described below. We sometimes refer to our common stock as "Shares". If the transaction is consummated, we will be obligated to pay any fees accrued under the contractual arrangements for services rendered through the closing date of the transaction.

In the event we choose to structure the transaction as a purchase of assets or a share exchange where we acquire the CHG Properties corporate entity, our articles and bylaws and the California Corporations Code permit us to do so without obtaining approval of our shareholders. We presently do not intend to seek shareholder approval if it is not then required.

The number of shares we would issue to acquire CHG Properties' business will be determined as follows. First we would send notice to the Property Manager of our election to proceed with the acquisition (the "Acquisition Notice"). Next, an independent auditor, whose costs will be borne by CHG Properties, will determine the net income of the Property Manager for the 6-month period immediately preceding the month in which the Acquisition Notice is delivered as determined in accordance with generally accepted accounting principles ("GAAP"). The net income so determined will then be annualized. The annualized net income will then be multiplied by 90% and divided by our Funds From Operations per Weighted Average Share ("FFO Per Share"), which shall equal the annualized Funds From Operations for our quarter ended immediately preceding the date the Acquisition Notice is delivered per our Weighted Average Shares during such quarter. The FFO Per Share will be based on the quarterly report we file and deliver to our shareholders for such quarter. The resulting quotient will constitute the number of shares we will issue in the transaction, which must be consummated within 90 days after the Acquisition Notice. FFO means generally net income (computed in accordance with GAAP), excluding gains or losses from debt restructuring and sales of properties, plus depreciation of real property and amortization, and extraordinary items.

Under certain circumstances, our acquisition of CHG Properties' business under this agreement can be entered into and consummated without seeking shareholder approval. Any acquisition of the Property Manager will occur, if at all, only if our board obtains a fairness opinion from a recognized financial advisor or institution providing valuation services to the effect that the consideration to be paid for the Property Manager's business is fair, from a financial point of view, to the shareholders. In the event the Property Management Agreement is terminated for any reason other than our acquisition of CHG Properties' business, all of CHG Properties' obligations and the Property Management Agreement will terminate. We have no intention to exercise our option to acquire CHG Properties' property management business at this time.

Federal Income Tax REIT Requirements

Starting in our 2000 tax year, we elected to be taxed as a REIT. As a REIT, we are generally not subject to federal income tax on income that we distribute to our shareholders. Under the Internal Revenue Code of 1986, as amended (the "Code"), to maintain our status as a REIT and receive favorable REIT income tax treatment, we must comply with certain requirements of federal income tax laws and regulations. These laws and regulations are complex and subject to continuous change and reinterpretation. We have received an opinion of special tax counsel that we will qualify as a REIT if we achieve certain of our objectives, including diversity of stock ownership and operating standards. However, there is no assurance that we will be able to achieve these goals and thus qualify or continue to qualify to be taxed as a REIT.

The principal tax consequences of our being taxed as a REIT are that our shareholders may receive dividends that are indirectly sheltered from corporate federal income taxation. In the event we fail to qualify as a REIT, we will be subject to taxation on two levels because our income will be taxed at the corporate level and we will not be able to deduct dividends we pay to our shareholders. In turn, shareholders will be taxed on dividends they receive from us.

To continue to be taxed as a REIT, we must satisfy numerous organizational and operational requirements, including a requirement that we distribute at least 90% of our Real Estate Investment Trust taxable income to our shareholders, as defined in the Code and calculated on an annual basis. If we fail to qualify for taxation as a REIT in any year, our income will be taxed at regular corporate rates and shareholders will be taxed on dividends they receive from us, and we may be precluded from qualifying for treatment as a REIT for the four-year period following our failure to qualify. Even though we qualify as a REIT for federal income tax purposes, we may still be subject to state and local taxes on our income and property and to federal income and excise taxes on our undistributed income.

Regulation

Our management will continually review our investment activity in order to prevent us from coming within the application of the Investment Company Act of 1940 (the "1940 Act"). Among other things, management will attempt to monitor the proportion of our portfolio that is placed in various investments so that we do not come within the definition of an "investment company" under the act. If at any time the character of our investments could cause us to be deemed an investment company for purposes of the 1940 Act, we will take the necessary action to ensure that we are not deemed to be an "investment company."

Various environmental laws govern certain aspects of the ongoing operation of our properties. Such environmental laws include those regulating the existence of asbestos-containing materials in buildings, management of surfaces with lead-based paint (and notices to residents about the lead-based paint) and waste-management activities. The failure to comply with such requirements could subject us to a government enforcement action and/or claims for damages by a private party.

To date, compliance with federal, state and local environmental protection regulations has not had a material effect on our capital expenditures, earnings or competitive position. All proposed acquisitions are inspected prior to acquisition. The inspections are conducted by qualified environmental consultants, and we review the issued report prior to the purchase of any property. Nevertheless, it is possible that our environmental assessments will not reveal all environmental liabilities, or that some material environmental liabilities exist of which we are unaware. In some cases, we may be required to abandon otherwise economically attractive acquisitions because the costs of removal or control of hazardous materials have been prohibitive or we have been unwilling to accept the potential risks involved. We do not believe we will be required to engage in any large-scale abatement at any of our properties. We believe that through professional environmental inspections and testing for asbestos, lead paint and other hazardous materials, coupled with a relatively conservative posture toward accepting known environmental risk, we can minimize our exposure to potential liability associated with environmental hazards.

Federal legislation requires owners and landlords of residential housing constructed prior to 1978 to disclose to potential residents or purchasers of the communities any known lead paint hazards and imposes treble damages for failure to provide such notification. In addition, lead based paint in any of the communities may result in lead poisoning in children residing in that community if chips or particles of such lead based paint are ingested, and we may be held liable under state laws for any such injuries caused by ingestion of lead based paint by children living at the communities.

We are unaware of any environmental hazards at any of our properties that individually or in the aggregate may have a material adverse impact on our operations or financial position. We have not been notified by any governmental authority, and we are not otherwise aware, of any material non-compliance, liability, or claim relating to environmental liabilities in connection with any of our properties. We do not believe that the cost of continued compliance with applicable environmental laws and regulations will have a material adverse effect on us or our financial condition or results of operations. Future environmental laws, regulations, or ordinances, however, may require additional remediation of existing conditions that are not currently actionable. Also, if more stringent requirements are imposed on us in the future, the costs of compliance could have a material adverse effect on us and our financial condition.

Competitive Factors

We compete with a number of other real estate investors, many of which own properties similar to ours in the same markets in which our properties are located. If our competitors offer space at rental rates below current market rates, or below the rental rates we currently charge our tenants, we may lose potential tenants and we may be pressured to reduce our rental rates below those we currently charge or to offer more substantial rent abatements, tenant improvements, early termination rights or below-market renewal options in order to retain tenants when our tenants' leases expire. The concentration of our properties in Southern California and Colorado makes us especially susceptible to local market conditions in these areas. For instance, our self-storage properties are located in Southern California markets containing numerous other self-storage properties. Competition with these other properties will impact the operating results of our self-storage properties, which depends materially on our ability to timely lease vacant self storage units, to actively manage unit rental rates, and our tenants' ability to make required rental payments.

To be successful, we must be able to continue to respond quickly and effectively to changes in local and regional economic conditions by adjusting rental rates of our properties as appropriate. If we are unable to respond quickly and effectively, our financial condition, results of operations, cash flow and ability to satisfy our debt service obligations and to pay dividends to you may be adversely affected.

Our Offices and Employees

Our offices are situated in approximately 12,134 square feet of space in our Pacific Oaks Plaza located at 1282 Pacific Oaks Place in Escondido, California.

As of March 15, 2011, we employed 42 full time and 5 part-time employees.

Our Policies Regarding Operating Reserves

We are not required to maintain a specified level of operating reserves nor do we have a policy to do so. Our directors continually monitor our short term cash needs for capital expenditures and property operation with a view towards maintaining cash reserves in sufficient amounts to meet our anticipated short term cash requirements in this regard. In addition, based on the nature, location, age and condition of our properties, and our requirements under our various leases, we attempt to maintain sufficient reserves to meet these obligations. However, we cannot assure our shareholders that we will have sufficient reserves at all times to meet our short term obligations, especially unforeseen obligations, such as those arising from losses suffered by reason of acts of God or unsecured casualties. In the event we encounter situations requiring expenditures exceeding our reserves, we will be forced to seek funds from other sources, including short term borrowing, which may not be available on favorable terms or at all.

Available Information

Access to copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, and other filings with the SEC, including amendments to such filings are available via a link to *http://www.sec.gov* on our website at *www.netreit.com* as soon as reasonably practicable after such materials are electronically filed with the SEC. They are also available for printing by any stockholder upon request. We maintain our own website and our principal executive offices are located at 1282 Pacific Oaks Place, Escondido, California 92029 and its telephone number is (866) 781-7721.

ITEM 1A. RISK FACTORS

Risks Relating to an Investment in Our Securities

If we are unable to find suitable investments, we may not be able to achieve our investment objectives or continue to pay dividends, which could cause us to lose our status as a REIT. Our achievement of our investment objectives and our ability to pay regular dividends is dependent upon our continued acquisition of suitable property investments, our selection of tenants, and our obtaining satisfactory financing arrangements in connection with such investments. We cannot be sure that our management will be successful in obtaining suitable investments on financially attractive terms or that, if we make investments, our objectives will be achieved. Due to current economic conditions, we have had difficulty finding suitable investments. If our management is unable to find suitable investments, we will hold the proceeds available for investment in an interest-bearing account, invest the proceeds in short-term, investment-grade investments or, ultimately, liquidate. Holding the proceeds of our offerings in such short-term investments will prevent us from making the investments necessary to allow us to generate operating income to pay dividends. As a result, we will need to raise additional capital to continue to pay dividends until such time as suitable property investments become available. In the event that we are unable to find suitable investments or obtain additional capital in future financings, our ability to pay dividends to our shareholders would be adversely affected and we may lose our qualification as a REIT.

Our continued growth depends on external sources of capital. We may not be able to acquire or develop properties when strategic opportunities exist, satisfy our debt service obligations, or make the cash distributions to our shareholders necessary to maintain our qualification as a REIT if we do not have the necessary capital. We may not be able to fund our future capital needs as they arise, including acquisition financing, from our operating cash flow because of our distribution payment requirements. To maintain our qualification as a REIT, the Internal Revenue Code requires us to annually distribute at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding income from capital gains. As a result, we must rely on outside sources to fund our capital needs. Our access to third-party sources of capital depends, in part, on the following: general market conditions, the market's perception of our growth potential, our current debt levels, our current and expected future earnings, our cash flow and cash distributions, and the market price per share of our common stock. If we are not able to raise capital for our acquisition or development of properties, it could have a material adverse effect on our prospects and growth.

We may be prevented from paying dividends by legal requirements which could impair our ability to qualify as a REIT. Under the MGCL, our directors may be personally liable for our payment of any distributions, including dividends, if at the time payment is made we do not satisfy certain solvency tests, including current assets and current liabilities ratio tests. In the event our board determines that we do not satisfy these statutory tests, we will not pay dividends on our common stock and may no longer qualify as a REIT.

We may change one or more of our investment policies. One or more of our investment policies may be changed, subject to certain investment limitations in our bylaws, or modified from time to time by our management, subject to review by our independent directors who are charged with the responsibility and authority to review our investment policies and criteria at least annually to determine that the policies we are following are in the best interests of our shareholders.

Our shareholders have a very limited right to influence our business or affairs. Our executive officers, under the direction of our board of directors, have the exclusive right to manage our day-to-day business and affairs. Except for certain major decisions (such as mergers or the sales of substantially all of our assets) which require the vote of our shareholders, our shareholders generally do not have the right to participate in our management or investment decisions. Moreover, shareholders do not have the right to remove directors except for cause.

We depend on key personnel and the loss of such personnel could impair our ability to achieve our business objectives. Our ability to achieve our investment objectives and to pay dividends is dependent to a significant degree upon the continued contributions of certain key personnel in evaluating and consummating our investments, the selection of tenants and the determination of any financing arrangements. Our key personnel include Mr. Jack K. Heilbron, Mr. Kenneth W. Elsberry and Mr. Larry G. Dubose, each of whom would be difficult to replace. If any of our key employees were to cease employment, our operating results could suffer. We also believe that our future success depends, in large part, upon our ability to hire and retain skilled and experienced managerial, operational and marketing personnel. Competition for skilled and experienced personnel is intense, and we cannot assure our shareholders that we will be successful in attracting and retaining such skilled personnel.

The availability and timing of cash dividends is uncertain. We bear all expenses incurred in our operations, which are deducted from cash funds generated by operations prior to computing the amount of cash dividends to be distributed to the shareholders. In addition, subject to the requirement that we make certain distributions to maintain our REIT qualification, the board of directors, in its discretion, may retain any portion of such funds for working capital. We cannot assure our shareholders that we will have sufficient cash to pay dividends to our shareholders.

Our bylaws may prevent our participation in certain business combinations. Provisions of our bylaws require our shareholders owning at least 66 2/3% of the Shares to approve certain business combinations. This requirement could inhibit a change in control of our Company even if the change in control was in the best interests of our shareholders.

We will not be afforded the protection of MGCL relating to business combinations. Under the MGCL, "business combinations" between a Maryland corporation and an interested shareholder or an affiliate of an interested shareholder are prohibited for five years after the most recent date on which the interested shareholder becomes an interested shareholder. These business combinations include a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities.

Our rights, and the rights of our shareholders, to recover claims against our officers and directors are limited. Our articles of incorporation eliminate the liability of our officers and directors for monetary damages to the fullest extent permissible under the MGCL. The MGCL provides that a director has no liability in that capacity if he performs his duties in good faith in a manner he reasonably believes to be in our best interest and with the care that an ordinarily prudent person in a like position would use under similar circumstances. Also, our articles of incorporation authorize us to indemnify our directors, officers, employees and agents to the maximum extent permitted under the MGCL, and the property management agreement requires us to indemnify our property manager and its affiliates for actions taken by them in good faith and without negligence or misconduct. Because of these provisions, we and our shareholders may have more limited rights to monetary damages against our directors and officers than might otherwise be available under common law. In addition, we may be obligated to fund the defense costs incurred by our directors, officers, employees and agents in any legal actions to collect damages or for other claims against our officers and directors.

Possible acquisition of our property manager's business could result in significant dilution to our shareholders. We have the option to acquire the property management business of our property manager, CHG Properties, at any time, in return for shares of our common stock, the number of which will be determined by the property manager's net income and our funds from operations per share in accordance with a prescribed formula. Under this right, we can acquire our property manager's business without a vote or the consent of our shareholders or the consent of the property manager or its shareholders. This formula is intended to result in our issuance of a number of our common shares equal to the fair value of the property manager's business, including consideration for the cancellation of its contractual relationship with us and the loss of future fees. Thus, in the event we acquire the property manager's business, the owner of the property manager, which is affiliated with our executive management, would receive payment in the form of shares of our common stock, the number of which could be substantial. There is no assurance that the value we would pay for the property manager's business and assets would not exceed the value non-related purchasers would pay in an arms-length transaction. A majority vote of our directors not otherwise interested in the transaction and by a majority of our independent directors must approve the exercise of this right.

Possible future transactions with our executive management or their affiliates could create a conflict of interest for our executive management. Under prescribed circumstances, our bylaws permit us to enter into transactions with affiliates of our management, including the borrowing and lending of funds, the purchase and sale of properties, and joint investments. Currently, our policy is not to enter into any transaction involving sales or purchases of properties or joint investments with our executive management or their affiliates, or to borrow from or lend money to such persons. However, our policies in each of these regards may change in the future.

The limit on the amount of our common stock a person may own may discourage a takeover that could otherwise result in a premium price to our shareholders. In order for us to qualify as a REIT, no more than 50% of our outstanding stock may be beneficially owned, directly or indirectly, by five or fewer individuals (including certain types of entities) at any time during the last half of each taxable year. To ensure that we do not fail to qualify as a REIT under this test, our articles of incorporation restrict, unless waived by our Board, ownership by one person or entity to no more than 9.8% in value or number, whichever is more restrictive, of any class of our outstanding stock. This restriction may have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price for holders of our common stock.

Our return to our shareholders could be reduced if we are required to register as an investment company. We are not registered as an investment company under the ***1940 Act***. If we were obligated to register under the 1940 Act, we would incur additional expenses. Also, because we would have to comply with a variety of substantive requirements of the 1940 Act, our operations could be materially altered or curtailed. We plan to continue to rely on an exemption from registration under the 1940 Act. Compliance with this exemption generally requires that our activities are primarily in the business of investing in real estate. Under this exemption, we may temporarily invest unused funds in government securities and other specified short-term investments. Also, in order to comply with these exemption requirements, we may, from time to time, acquire indirect assets or invest in sole or participatory ownership of secured loans and certain other qualifying assets. Inasmuch as our compliance with this exemption will, in large part, depend on the facts and circumstances of our operations, there is no assurance that we will be able to maintain this exemption. Moreover, our ability to invest in sufficient qualifying real estate assets and/or real estate-related assets may be impacted by future changes in the 1940 Act and regulations thereunder or by future interpretations by the Securities and Exchange Commission or the courts. Any of these future developments could cause us to lose our exemption and force us to reevaluate our portfolio and business strategy. Any such changes may materially and negatively impact our business.

Risks Relating to Private Offering Exemption and Lack of Liquidity

If we failed to comply with applicable exemption requirements in connection with our private placement offerings we may be forced to offer rescission rights to certain of our shareholders. We have and may continue to sell our shares to investors in reliance on an exemption from registration provided by Section 4(2) and Rule 506 of Regulation D under the Securities Act of 1933 (the "***1933 Act***") and applicable state securities laws. Many of these requirements are subjective and must ultimately be determined upon the specific facts and circumstances of the offering. There is no assurance that the Securities and Exchange Commission, any state securities law administrator, or a trier of fact in a court or arbitration proceeding would not determine that we failed to meet one or more of these requirements. In the event the Securities and Exchange Commission, any state securities law administrator, or a trier of fact in a court or arbitration determines that we issued shares of common stock without an exemption from registration under the 1933 Act and/or the securities laws of any state, we would likely be liable to one or more investors for rescission and possibly damages and might be required to prepare and file a registration statement for such shares with the Securities and Exchange Commission, which would require significant legal, accounting and other related fees. If a number of investors were successful in seeking rescission and/or damages, we could face severe financial demands that would adversely affect our business as a whole and our shareholders' investment in our shares.

Moreover, since 2005, we have conducted multiple private placement offerings, all in reliance upon the private placement exemptions from registration under the 1933 Act and applicable state securities laws. Under applicable law and regulations, these multiple offerings could be combined (or integrated) and treated as a single offering for federal and state securities law purposes. If so integrated, the offerings would be treated as a single offering and would be required to meet each of the requirements for the exemption relied upon. While we have structured each of these offerings individually so that if they are combined they would meet the requirements of the Rule 506 exemption, the area for application of this exemption to integrated offerings remains somewhat unclear and has not been fully defined by the Securities and Exchange Commission or the courts. Thus, there is uncertainty as to our burden of proving that we have correctly relied on one or more of these private placement exemptions.

It will be difficult for our shareholders to sell their common stock because there is currently no public market for the shares and we do not intend to list the shares on a stock exchange. If our shareholders are able to sell their shares, they will likely have to sell them at a substantial discount due to the lack of a public market for our shares. There is no public market for our common stock, and we do not expect one to develop. We currently have no plans to list our shares on a national securities exchange or over-the-counter market, or to include our shares for quotation on any national securities market. Moreover, our articles of incorporation contains restrictions on the ownership and transfer of our shares including the limitation on the maximum number of shares a single holder may hold, as described above, and these restrictions may inhibit our shareholders' ability to sell their shares. We do not have a share redemption program, nor do we plan to adopt one in the near future. Any share redemption program we may adopt will be limited in terms of the amount of shares that may be redeemed annually. Our board of directors will be able to limit, suspend or terminate any share redemption program. It will be difficult for our shareholders to sell their shares promptly or at all. If our shareholders are able to sell their shares, they likely will only be able to sell them at a substantial discount from the price they paid. We cannot assure that their shares will ever appreciate in value to equal the price our shareholders paid for their shares. Thus, our shareholders should consider the shares an illiquid and long-term investment, and they must be prepared to hold their shares for an indefinite length of time.

Risks Relating to Real Estate Investments

Unsettled conditions in the financial and equity markets could negatively affect the U.S. and world economies and could adversely affect our business and operations. The recent severe uncertainties, dislocations and disruptions in the U.S. financial markets stemming from the subprime residential mortgage loan collapse have resulted in a tightening or, in some locations, the unavailability of secured real estate financing. The collapse of the subprime mortgage market has directly impacted mortgage securities and asset-backed securities, collateralized debt obligations and derivative securities associated with those markets. These uncertainties have affected the overall U.S. and world credit markets and, indirectly, both the residential and commercial real estate markets. These events will continue to negatively affect other economic sectors, such as retail sales manufacturing and labor. As a result, the U.S. and world economies experienced an economic recession of unpredictable severity and length. Recession effects included decreasing availability of capital and credit financing, job losses, decreases in wholesale and retail sales, manufacturing and service sectors. The effect of recent legislation and governmental action intended to stabilize the U.S. credit markets is unclear at this time.

Current commercial mortgage market trends may affect the terms and conditions of our mortgage financing and make it more difficult for us to obtain mortgage financing and have an adverse effect on our ability to make suitable investments. In response to illiquidity, disruption and uncertainty in the commercial mortgage markets, lenders with whom we typically deal, such as insurance companies and national state chartered banks, have instituted more stringent underwriting requirements, increased their underwriting costs, and increased their credit spreads as the demand for higher risk premiums continues. Thus, the amount of mortgage financing available has contracted and we expect our future borrowing costs to increase. Higher costs of mortgage financing and restricted levels of borrowing may result in lower yields from our real estate investments, which may reduce our cash flow available for distribution. These restrictions could include restrictions on our ability to make distributions to our shareholders. Because of these trends, we expect the terms and conditions of our mortgage loans will be more onerous and will contain more restrictive terms favorable to the lender, and that these terms and restrictions would reduce our operating flexibility. Unavailability of mortgage financing will directly reduce our ability to purchase additional properties and thus decrease our diversification of real estate ownership. Under these volatile and uncertain circumstances, banks and other financial institutions are reluctant to loan funds to each other, thus tightening the overall liquidity of the mortgage market.

A decrease in real estate values will negatively affect our ability to refinance our properties and possibly our existing mortgage obligations. A decrease in real estate values will decrease the principal amount of secured loans we can obtain on a specific property and our ability to refinance our existing mortgage loans. In some circumstances, a decrease in the value of our existing property which secures a mortgage loan may require us to prepay or post additional security for that mortgage loan. This would occur where the lender's initial appraised value of the property decreases below the value required to maintain a loan-to-value ratio specified in the mortgage loan agreement.

We are not required to set aside and maintain specific levels of cash reserves and may have difficulty in the event of increases in existing expenses or unanticipated expenses. We do not anticipate that we will establish a permanent reserve for maintenance and repairs, lease commissions or tenant improvements of real estate properties. However, to the extent that we have insufficient funds for such purposes, we may establish reserves. To the extent that expenses increase or unanticipated expenses arise and accumulated reserves are insufficient to meet such expenses, we would be required to obtain additional funds through borrowing or the sale of additional equity, if available. Our ability to repay any indebtedness incurred in connection with the acquisition of a property or any subsequent financing or refinancing will depend in part upon the sale, refinancing or other disposition of that property prior to the date such amounts become due. There can be no assurance that any such sale or refinancing can be accomplished at a time or on such terms and conditions as will permit us to repay the outstanding principal amount of any indebtedness. In the event we are unable to sell or refinance that property prior to the anticipated repayment date of any indebtedness, we may be required to obtain the necessary funds through additional borrowings, if available. If additional funds are not available from any source, we may be subject to the risk of losing that property through foreclosure.

We may be unable to sell a property at any particular time which would limit our ability to realize a gain on our investments and decrease the value of our shares. In general, we intend to sell, exchange or otherwise dispose of the properties when we, in our sole discretion, determine such action to be in our best interests. Our shareholders should not, however, expect a sale within any specified period of time, as properties could be sold sooner because they are not performing or because we believe the maximum value can be obtained with a sale prior to the end of the anticipated holding period. Likewise, a sale may not be feasible until later than anticipated.

Some of our properties may depend upon a single tenant for all of their rental income and the loss of such tenants could have an adverse effect on our operations. We expect that a single tenant will occupy some of our properties. The success of these properties will be materially dependent on the financial stability of such tenants. Lease payment defaults by such tenants could cause us to reduce the amount of dividends we pay. A default of such a tenant on its lease payments to us would cause us to lose the revenue from the property and force us to find an alternative source of revenue to meet any mortgage payment and prevent a foreclosure if the property is subject to a mortgage. In the event of a default, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment and reletting the property. If a lease is terminated, there is no assurance that we will be able to lease the property for the rent previously received or sell the property without incurring a loss.

We may incur substantial costs in improving some of our properties which are suitable for only one use if such use is no longer possible. We expect that some of our properties will be designed for use by a particular tenant or business. If a lease on such a property terminates and the tenant does not renew, or if the tenant defaults on its lease, the property might not be marketable without substantial capital improvements. Improvements could require the use of cash that we would otherwise distribute to our shareholders. Also, our sale of the property without improvements would likely result in a lower sales price.

We may obtain only limited warranties when we purchase a property and could suffer losses resulting from significant defects in such properties which are not covered by such warranties. The seller of a property will often sell such property in its “as is” condition on a “where is” basis and “with all faults,” without any warranties of merchantability or fitness for a particular use or purpose. In addition, purchase agreements may contain only limited warranties, representations and indemnifications that will only survive for a limited period after the closing. The purchase of properties with limited warranties increases the risk that we may lose some or all of our invested capital in the property as well as the loss of rental income from that property in the event there are significant defects in the property not included within the limited scope and timeframe of such warranties, representations and indemnifications.

Our ability to operate a property may be limited by contract which could prevent us from obtaining the maximum value from such properties. Some of our properties will most likely be contiguous to other parcels of real property, for example, comprising part of the same shopping center development. In connection therewith, there will likely exist significant covenants, conditions and restrictions, known as “CC&Rs,” relating to such property and any improvements on that property, and granting easements relating to that property. The CC&Rs will restrict the operation of that property. Moreover, the operation and management of the contiguous properties may impact such property. Compliance with CC&Rs may adversely affect our operating costs and reduce the amount of funds that we have available to pay dividends.

Shorter lease terms tend to increase our maintenance costs. Leases in our multi-family residential properties are typically month-to-month. In our experience, shorter leases lead to more frequent tenant turnover which tends to increase our leasing and maintenance costs as compared to those we incur with longer leases. While we attempt to account for these anticipated higher costs in the amount of tenant deposits and rental rates we require, we are not always able to do so within a given tenant market.

A property that incurs a vacancy could be difficult to sell or re-lease and could have a material adverse effect on our operations and our ability to pay dividends. We expect our properties to periodically incur vacancies by reason of lease expirations, terminations or tenant defaults. If a tenant vacates a property, we may be unable either to re-lease the property for the rent due under the prior lease or to re-lease the property without incurring additional expenditures relating to the property. In addition, we could experience delays in enforcing our rights against the defaulting tenant and collecting rents and, in some cases, real estate taxes and insurance costs due from that tenant.
If the vacancy continues for a long period of time, we may suffer reduced revenues resulting in less cash dividends to be distributed to shareholders. In addition, the resale value of the property could be diminished because the market value of a particular property will depend principally upon the value of the leases of such property.

In order to re-lease a property, substantial renovations or remodeling could be required. The cost of construction in connection with any renovations or remodeling undertaken at a property and the time it takes to complete such renovations may be affected by factors beyond our control, including, but not limited to, the following: labor difficulties resulting in the interruption or slowdown of construction; energy shortages; material and labor shortages; changes in local climate as a result of global warming, increases in price due to inflation; adverse weather conditions; subcontractor defaults and delays; changes in federal, state or local laws; ordinances or regulations; and acts of God, which may result in uninsured losses. Also, we could incur additional delays and costs if we are required to engage substitute or additional contractors to complete any renovations in the event of delays or cost overruns. If we experience cost overruns resulting from delays or other causes in any construction, we may have to seek additional debt financing. Further, delays in the completion of any construction will cause a delay in our receipt of revenues from that property and could adversely affect our ability to attain revenue projections and meet our debt service obligations. Payment of cost overruns could impair the operational profitability of that property. Our inability to complete any construction on economically feasible terms could result in termination of construction and could significantly harm our business.

We may have to extend credit to buyers of our properties and a default by such buyers could have a material adverse effect on our operations and our ability to pay dividends. In order to sell a property, we may lend the buyer all or a portion of the purchase price by allowing the buyer to pay with its promissory note. Generally, the note would be secured by a junior lien on the property behind the primary mortgage lender. However, in circumstances we deem appropriate, we may accept an unsecured note, which may or may not be guaranteed by a principal of the buyer or a third party. Providing financing of all or a portion of the purchase price to the buyer will increase the risks that we may not receive full payment for the property sold. In addition, in the event that a property is sold in foreclosure and the proceeds are less than the amount of the senior lien, we may not receive any payment of the amounts secured by our junior liens.

We may not have funding for future tenant improvements which would make it difficult for us to lease such properties to new tenants. When a tenant at one of our commercial properties does not renew its lease or otherwise vacates its space in one of our buildings, it is likely that, in order to attract one or more new tenants, we will be required to expend substantial funds for tenant improvements and tenant refurbishments to the vacated space. We may depend on institutional lenders and/or tenants to finance our tenant improvements and tenant refurbishments in order to attract new tenants. We do not anticipate that we will maintain significant working capital reserves for these purposes. We therefore cannot assure our shareholders that we will have any sources of funding available to us for such purposes in the future.

Uninsured losses may adversely affect returns to our shareholders. Management will attempt to ensure that all of our properties are insured to cover casualty losses. However, in certain areas, insurance coverage for certain types of losses, generally losses of a catastrophic nature such as earthquakes, floods, terrorism and wars, is either unavailable or cannot be obtained at a reasonable cost. In addition, we have no source of funding to repair or reconstruct the damaged property, and we cannot assure our shareholders that any such sources of funding will be available to us for such purposes in the future.

Our policy is to obtain insurance coverage for each of our properties covering loss from liability, fire and casualty in the amounts and under the terms we deem sufficient to insure our losses. Under tenant leases on our commercial and retail properties, we require our tenants to obtain insurance for our properties to cover casualty losses and general liability in amounts and under terms customarily obtained for similar properties in the area. However, in certain areas, insurance to cover some losses, generally losses of a catastrophic nature such as earthquakes, floods, terrorism and wars is either unavailable or cannot be obtained at a reasonable cost. For example, in most earthquake-prone areas, we do not expect to obtain earthquake insurance because it is either not available or available at what we decide is too high of a cost. Also, tenants may not be able to obtain terrorism insurance in some urban areas. In the event we are unable or decide not to obtain such catastrophic coverage for a property and damage or destruction of the property occurs by reason of an uninsured disastrous event, we could lose some or all of our investment in the property.

In addition, we could lose a significant portion and possibly all of our anticipated rental income from a property if it suffers damage. Our leases generally allow the tenant to terminate the lease if the lease premises are partially or completely damaged or destroyed by fire or other casualty, unless the premises are restored to the extent of insurance proceeds we receive. These leases will also permit the tenants to partially or completely abate rental payments during the time needed to rebuild or restore the damaged premises. Loss of rental income under these circumstances would require us to obtain additional funds to meet our expenses. We generally have insurance for rental loss to cover at least some losses from ongoing operations in the event of partial or total destruction of a property.

We face possible liability if our properties contain asbestos or develop harmful mold. Federal regulations require us to identify and warn, via signs and labels, of potential hazards posed by workplace exposure to installed asbestos-containing materials ("***ACMs***"), and potential ACMs on our Properties. As a result of these regulations, we have an increased risk of personal injury lawsuits by workers and others exposed to ACMs and potential ACMs at our Properties. Also, these regulations may affect the value of any of our Properties containing ACMs and potential ACMs. Federal, state and local laws and regulations also govern the removal, encapsulation, disturbance, handling and/or disposal of ACMs and potential ACMs when such materials are in poor condition or in the event of construction, remodeling, renovation or demolition of a Property.

Our compliance with various legal requirements of real estate ownership may involve significant costs. Our properties are subject to various local, state and federal regulatory requirements, including those addressing zoning, environmental, land use, access for the handicapped and air and water quality. Compliance with these additional legal requirements could adversely affect our operating income and our ability to pay dividends. Also, the value of a property may be adversely affected by legislative, regulatory, administrative and enforcement actions at the local, state and national levels in a variety of areas, including environmental controls.

Environmental laws also may impose restrictions on the manner in which properties may be used or businesses may be operated, and these restrictions may require expenditures. Such laws may be amended so as to require compliance with stringent standards which could require us to make unexpected expenditures, some of which could be substantial. Environmental laws provide for sanctions in the event of noncompliance and may be enforced by governmental agencies or, in certain circumstances, by private parties.

Competition for properties could negatively impact our profitability. In acquiring properties, we experience substantial competition from other investors, including other REITs and real estate investment programs. Many of our competitors have greater resources than we do and, in many cases, are able to acquire greater resources, including personnel and facilities with acquisition efforts. Because of this competition, we cannot assure our shareholders that we would be able to always acquire a property we deem most desirable or that we would be able to acquire properties on favorable terms. Our inability to acquire our most desirable properties on desired terms could adversely affect our financial condition, our operations and our ability to pay dividends.

The bankruptcy or insolvency of one of our major tenants would adversely impact our operations and our ability to pay dividends. The bankruptcy or insolvency of a significant tenant or a number of smaller tenants would have an adverse impact on our income and our ability to pay dividends. Generally, under bankruptcy law, a tenant has the option of continuing or terminating any unexpired lease. If the tenant continues its current lease, the tenant must cure all defaults under the lease and provide adequate assurance of its future performance under the lease. If the tenant terminates the lease, we will lose future rent under the lease and our claim for past due amounts owing under the lease (absent collateral securing the claim) will be treated as a general unsecured claim and may be subject to certain limitations. General unsecured claims are the last claims paid in a bankruptcy and, therefore, funds may not be available to pay such claims. In addition, we may have difficulties enforcing our rights against such tenants as described above.

Discovery of previously undetected environmentally hazardous conditions may adversely affect our operating results. Under various federal, state and local environmental laws (including laws that are designed to reduce the potential effects of certain industries on global climate), ordinances and regulations, a current or previous owner or operator of real property may be liable for the cost of removal or remediation of hazardous or toxic substances on such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require expenditures. Environmental laws provide for sanctions in the event of noncompliance and may be enforced by governmental agencies or, in certain circumstances, by private parties. In connection with the acquisition and ownership of our properties, we may be potentially liable for such costs. The cost of defending against claims of liability, of compliance with environmental regulatory requirements, or of remediating any contaminated property could materially adversely affect our business, our assets and/or our results of operations, and, consequently, amounts available for distribution to our shareholders.

Although we have not been notified by any governmental authority, and are not otherwise aware, of any material noncompliance, liability or claim relating to hazardous substances, toxic substances or petroleum products in connection with any properties we currently own or manage, we may, as owner of a property, under various local, state and federal laws be required to remedy environmental contamination of one of our properties. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release of any hazardous substances. We may be liable for the costs of removing or remediating contamination. The presence of, or the failure to properly remediate, hazardous substances may adversely affect the ability of tenants to operate, may subject us to liability to third parties, and may adversely affect our ability to sell or rent such property or borrow money using such property as collateral. Moreover, persons who arrange for the disposal or treatment of hazardous or toxic substances may also be liable for the costs of removing or remediating such substances. If we are deemed to have arranged for the disposal or treatment of hazardous or toxic substances, we may be liable for removal or remediation costs, as well as other related costs, including governmental fees and injuries to persons, property and natural resources.

Also, we could incur costs to comply with comprehensive regulatory programs governing underground storage tanks used in a convenience store-tenant’s gasoline operations. Compliance with existing and future environmental laws regulating underground storage tanks may require significant capital expenditures, and the remediation costs and other costs required to clean up or treat contaminated sites could be substantial.

We cannot be sure that future laws or regulations will not impose an unanticipated material environmental liability on any of the properties that we purchase or that the tenants of the properties will not affect the environmental condition of the properties. The costs of complying with these environmental laws for our properties may adversely affect our operating costs and the value of the properties. In order to comply with the various environmental laws, we plan to obtain satisfactory Phase I environmental site assessments or have a set amount of environmental insurance in place for all of the properties that we purchase.

Recent unavailability of certain types of credit financing and stagnation of real estate prices have lead to economic slowdown and a recession. Periods of economic slowdown or recession are typically accompanied by declines in real estate sales in general. These conditions in turn can result in increases in mortgage loan delinquencies and foreclosures and declines in real estate prices and values. Any material decline in real estate values would, among other things, increase the loan-to-value ratio of any properties on which we have mortgage financing and any real estate loans we own. A significant period of increased delinquencies, foreclosures or depressions in real estate prices would likely materially and adversely affect our ability to finance our real estate investments.

Compliance with the Americans with Disabilities Act of 1990 and fire, safety, and other regulations may require us to make unintended expenditures that could adversely impact our results of operations. Our properties are generally required to comply with the Americans with Disabilities Act of 1990, or the ADA. The ADA has separate compliance requirements for "public accommodations" and "commercial facilities," but generally requires that buildings be made accessible to people with disabilities. Compliance with the ADA requirements could require removal of access barriers and non-compliance could result in imposition of fines by the U.S. government or an award of damages to private litigants. The parties to whom we lease properties are obligated by law to comply with the ADA provisions, and we believe that these parties may be obligated to cover costs associated with compliance. If required changes involve greater expenditures than anticipated, or if the changes must be made on a more accelerated basis than anticipated, the ability of these parties to cover costs could be adversely affected and we could be required to expend our own funds to comply with the provisions of the ADA, which could materially adversely affect our results of operations or financial condition and our ability to pay the principal of and interest on our debt securities and other indebtedness and to make distributions to our shareholders.

We may acquire properties in joint ventures, partnerships or through limited liability companies which could limit our ability to control or liquidate such holdings. We generally hold our investments in real property in the form of a 100% fee title interest. However, we may also purchase partial interest in property, either directly with others as co-owners (a co-tenancy interest) or indirectly through an intermediary entity such as a joint venture, partnership or limited liability company.

As discussed below, we also own 4 of our properties indirectly through limited partnerships under a DOWNREIT structure. Also, we may on occasion purchase an interest in a long-term leasehold estate (for example, a ground lease like our ground lease on World Plaza). We may also enter sale-leaseback financing transactions whereby we purchase a property and lease it back to the seller for lease payments to cover our financing costs and where the seller has the right to repurchase the property at an agreed upon price. Such ownership structures allow us to hold a more valuable property with a smaller investment, but also reduce our ability to control such properties. In addition, if our co-owner in such arrangements experiences financial difficulties or is otherwise unable or unwilling to perform on their commitments, we may be forced to find a new partner on less favorable terms or lose our interest in such property if no partner can be found.

If we invest in a DOWNREIT partnership as a general partner we would be responsible for all liabilities of such partnership. In a DOWNREIT structure, as well as some joint ventures or other investments we may make, we will employ a limited partnership as the holder of our real estate investment. We will likely acquire all or a portion of our interest in such partnership as a general partner. As a general partner, we could be liable for all the liabilities of such partnership. Additionally, we may also be required to take our interests in other investments as a general partner as in the case of our initial investment. As a general partner, we would be potentially liable for all such liabilities, even if we don't have rights of management or control over the operation of the partnership as another of the general partners may have. Therefore, we may be held responsible for all of the liabilities of an entity in which we do not have full management rights or control, and our liability may far exceed the amount or value of investment we initially made or then had in the partnership.

In a sale-leaseback transaction, we are at risk that our seller/lessee will default if its tenants default which could impair our operations and limit our ability to pay dividends. On occasion, we may lease an investment property back to the seller for a certain period of time or until we obtain stated rental income objectives. When the seller/lessee subleases space to its tenants, the seller/lessee's ability to meet any mortgage payments and its rental obligations to us will be subject to its subtenants' ability to pay their rent to the seller/lessee on a timely basis. A default by the seller/lessee or other premature termination of its leaseback agreement with us and our subsequent inability to release the property will likely cause us to suffer losses and adversely affect our financial condition and ability to pay dividends.

Uncertain market conditions and the broad discretion of management relating to the future disposition of properties could adversely affect the return on our shares. We generally will hold the various real properties in which we invest until such time as management determines that a sale or other disposition appears to achieve our investment objectives or until it appears that such objectives will not be met. Otherwise, our management, subject to approval of our board, may exercise its discretion as to whether and when to sell a property, and we will have no obligation to sell properties at any particular time. We cannot predict with any certainty the various market conditions affecting real estate investments which will exist at any particular time in the future. Due to the uncertainty of market conditions which may affect the future disposition of our properties, we cannot assure our shareholders that we will be able to sell our properties at a profit in the future. Accordingly, the extent to which our shareholders will receive cash distributions and realize potential appreciation on our real estate investments will be dependent upon fluctuating market conditions.

Regulatory changes may adversely affect our specific properties and may have adverse results on our operations and returns on our shares. Federal, state and/or local governments may adopt regulatory provisions regarding land use and zoning changes. Also, regulatory changes may permit requirements outside the control of governmental authorities at the local level, including, but not limited to special assessment districts, special zoning codes and restrictions on land development. Also, special use permits could be required. Any of these changes could affect our costs of operating our properties, prices at which we can sell or lease our properties, and our ability to finance or refinance the properties.

Changes in local conditions may adversely affect one or more of our properties. In addition to national and global market conditions, each of our properties will be sensitive to local economic conditions such as population growth rates, employment rates and the local financial markets. The deterioration in any of these local conditions could affect our ability to profitably operate a property and could adversely affect the price and terms of our sale or other disposition of the property.

Each of our properties will be subject to local supply and demand for similar or competing properties which may have an adverse effect on the amount of rent we can charge or the price we would obtain in a liquidation. Each of our properties will be affected by the number and condition of competing properties within its general location, which also will affect the supply and demand for such properties. In general, if the market for a particular type of property is profitable, additional competing properties will be constructed. As a result, the number of competing properties will at some point exceed the demand and competition among the similar properties will increase, making profitable operations of our properties more difficult and depressing the prices at which we would lease, sell or otherwise dispose of the property.

Certain Risks Relating to the Effects of Legislation

Implementation of healthcare legislation could affect our earnings and financial condition. In March 2010, the President signed into law the Patient Protection and Affordable Care Act of 2010 and the Healthcare and Education Reconciliation Act. These two Acts implement comprehensive healthcare reform in the United States which will be implemented in a phased approach through 2018. The represented intent of these laws is to reduce the number of individuals in the United States without health insurance and effect significant improvements in the way healthcare is organized, paid for and delivered in the United States. Moreover, because of the many variables involved, including the initial lack of regulations and interpretive guidance regarding these laws, the effects of healthcare reform and its impact on our business, revenues, costs and financial condition, as well as those of our tenants, is not yet known and cannot be accurately anticipated.

The effects of the recently enacted Dodd-Frank Act on our business earnings and financial condition are uncertain. On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act. We refer to this law as the Dodd-Frank Act. This Act will transform the way banks, broker-dealers, hedge funds, investment advisors, credit rating agencies, accountants, public companies and other financial institutions conduct business. The far reaching reforms to be implemented under this law include the creation of an independent bureau of consumer financial protection and other new boards and administrative bodies charged with implementing the law. Over the next two years, the administrative agencies charged with implementing this law will create regulations and procedures for exercising their authority under the law. The complexities and as yet unknown ramifications of this legislation will be significant and likely will result in substantial increases in restrictions on and costs of borrowing funds from the financial institutions covered by the legislation. Because of the many variables involved, including the lack of existing regulations or interpretive guidance, the effects of this financial reform legislation and its impact on our business, revenues, costs and financial condition, is unknown and cannot presently be accurately anticipated. Accordingly, this financial reform could adversely affect our costs of doing business, restrict our business activities and generally negatively impact our financial success, and the financial success of our tenants.

Changes to the definition of "accredited investor" under the Dodd-Frank Act may limit our ability to raise additional capital in this and other private placement offerings. Prior to enactment of the Dodd-Frank Act, a natural person could include the value of his or her primary residence in determining whether he or she met the $1.0 million net worth threshold alternative to qualify as an accredited investor under Regulation D of the 1933 Act. Effective July 22, 2010, the Dodd-Frank Act requires that, in determining whether the $1,000,000 net worth threshold has been met, the value of the natural person's primary residence cannot be included. In addition, the Act authorizes the SEC to review the accredited investor definition and to make certain changes to it over the next four years as it relates to natural persons, but may not change the net worth threshold during this time period. Beginning in July 2014, the SEC is required to review the definition at least once every four years and to make changes (including changes to the net worth threshold) based on what it feels is needed for the protection of investors, in the public interest, and in light of the economy. Many homeowners previously met the $1.0 million net worth threshold due to the value of their homes, and due to this change, will no longer be able to do so. As a result, the number of our potential investors may be significantly decreased making it more difficult for us to raise additional capital from private placement offerings.

Risks Relating to Debt Financing

The more leverage we use, the higher our operational risks will be. The more we borrow, the higher our fixed debt payment obligations will be and the risk that we will not be able to timely pay these obligations will be greater in the event we experience a decrease in rental or other revenues or an increase in our other costs. At December 31, 2010, we had a total of $49.2 million of secured financing on our properties. We intend to continue to borrow funds through secured financings to acquire additional properties.

If we fail to make our debt payments, we could lose our investment in a property. Loans obtained to fund property acquisitions will generally be secured by mortgages on our properties. If we are unable to make our debt payments as required, a lender could foreclose on the property or properties securing its debt. This could cause us to lose part or all of our investment which in turn could cause the value of our shares and the dividends payable to shareholders to be reduced.

Lenders may require us to enter into restrictive covenants relating to our operations which could impair our ability to pay dividends. In connection with obtaining certain financing, a lender could impose restrictions on us which affect our ability to incur additional debt and our distribution and operating policies. Generally, our lenders will require us to give them covenants which limit our ability to further mortgage the property or to discontinue insurance coverage which may impose other limitations.

If we enter into financing arrangements involving balloon payment obligations, it may adversely affect our ability to pay dividends. Some of our existing financing arrangements may require us to make a lump-sum or “balloon” payment at maturity. In the future, we may finance more properties in this manner. Our ability to make a balloon payment at maturity is uncertain and will depend upon our ability to obtain additional financing or our ability to sell the property. At the time the balloon payment is due, we may or may not be able to refinance the balloon payment on terms as favorable as the original loan or sell the property at a price sufficient to make the balloon payment. The effect of a refinancing or sale could affect the rate of return to shareholders and the projected time of disposition of our assets. In addition, payments of principal and interest made to service our debts may leave us with insufficient cash to pay the distributions that we are required to pay to maintain our qualification as a REIT. At December 31, 2010, without respect to the Model Home Division, we had loans that require balloon payments of $3.1 million due in 2012, $8.9 million due in 2014, $10.5 million due in 2015 and $4.4 million due in 2016. The Model Home Division pays off its mortgage loans as they sell homes out of proceeds from the sale. Any deficiency from the sale proceeds would be paid out of existing cash. NetREIT, Inc. is a guarantor of the mortgage notes entered into by NetREIT Dubose.

Our risks of losing property through a mortgage loan default will be greater where the property is cross-collateralized. In circumstances we deem appropriate, we may cross-collateralize two or more of our properties to secure a single loan or group of related loans, such as where we purchase a group of unimproved properties from a single seller or where we obtain a credit facility for general application from an institutional lender. Cross-collateralizing typically occurs where the lender requires a single loan to finance the group of properties, rather than allocating the larger loan to separate loans, each secured by a single property. We thus could default on payment of the single larger loan, even though we could pay one or more of the single loans secured by individual properties if each property was subject to a separate loan and mortgage. Our default under a cross-collateralized obligation could cause the loss of all of the properties securing the loan. In a typical financing arrangement, each property could secure a separate loan and our default under one loan generally could result only in our loss of the property securing the loan.

Due-on-sale clauses in our mortgages may prevent us from taking advantage of interest rate changes. Lenders typically require a due-on-sale clause in their mortgage loan agreements whereby, in the event of the sale of the property, the lender may call the mortgage due and payable. As a practical matter, a due-on-sale clause would require the property to be refinanced and the mortgage repaid in the event we sell the property or require us to pay a premium to the lender to waive the due-on-sale clause. If prevailing interest rates are higher than those charged on a property’s mortgage, and its mortgage did not have a due-on-sale clause, we could be able to obtain a higher sales price to reflect the lower mortgage costs we could pass on to the buyer.

Risks Associated with Making or Investing in Mortgage Loans

We do not have experienced loan underwriting personnel which may put us at a disadvantage in analyzing and negotiating mortgage loans and could have an adverse effect on our ability to pay dividends. We have made five mortgage loans to three borrowers totaling approximately $2.8 million with approximately $0.9 million outstanding from two borrowers as of December 31, 2010. We do not actively seek mortgage loan investments, but our management is open to these investment opportunities and we anticipate that we will invest in one or more mortgage loans in the future. We do not maintain any staff of experienced loan underwriting personnel. Our lack of experienced loan underwriting personnel may put us at a disadvantage in analyzing and negotiating mortgage loans and could result in our investment in poorer performing mortgage loans, which investments might have been avoided by a more experienced underwriting staff. The probability of our successfully investing in mortgage loans would be greatly enhanced by expertise in and experience with mortgage loan underwriting.

Mortgage loans may be impacted by unfavorable real estate market conditions, which could decrease the value of our mortgage investments and impair our ability to pay dividends. Our mortgage loan investments, if any, will be at risk of default caused by many conditions beyond our control, including local and other economic conditions affecting real estate values and interest rate levels. Also, we will not be able to assure that the values of the property securing our mortgage loan (the “mortgaged property”) will not decrease from the values at the time the mortgage loans were originated. If the values of the mortgaged property drop, our risk will increase and the values of our mortgage loan investments may decrease.

Mortgage loans may be subject to interest rate fluctuations that could reduce our returns as compared to market interest rates. If a mortgage loan investment bears a fixed rate for a long term and interest rates rise, the mortgage loan could yield a return lower than then-current market rates. On the other hand, should interest rates fall, we would be adversely affected if our borrower prepays the mortgage loan because we may not be able to reinvest the proceeds in mortgage loans bearing the previously higher interest rate.

Returns on mortgage loans may be limited by regulations. Any of our mortgage loan investments will be subject to regulation by federal, state and/or local authorities and subject to various laws and judicial and administrative decisions. If we invest in mortgage loans in several jurisdictions, it could reduce the amount of income we would otherwise receive.

Delays in liquidating a defaulted mortgage loan could reduce our investment returns. If one of our mortgage loans goes into default, we may not be able to quickly foreclose and sell the mortgaged property. Any delay could reduce the value of our investment in the defaulted mortgage loan. An action to foreclose on a mortgaged property is regulated by state statutes and rules and subject to many other delays and expenses. In the event of a default by our borrower, these restrictions, among other things, may impede our ability to foreclose on or sell the mortgage property or to obtain proceeds sufficient to repay all amounts due to us on the mortgage loan.

Foreclosures create additional ownership risks that could adversely impact our returns on mortgage investments. If we acquire a mortgaged property by foreclosure following default under a mortgage loan, we will have the economic and liability risks as the owner.

Risks Relating to Our Management's Conflicts of Interest

Our management faces certain conflicts of interest with respect to our operations. We rely on our management, Messrs. Heilbron, Elsberry and Dubose, for implementation of our investment policies and our day-to-day operations. Messrs. Heilbron and Elsberry are also officers and directors of CHG Properties and certain affiliated entities. Mr. Dubose, who we rely on for the day-to-day operations of NetREIT Advisors and our Model Homes Division, is also an executive officer of Dubose REIT and, like Messrs. Heilbron and Elsberry, engages in other investment and business activities in which NetREIT has no economic interest. As a result, each of these persons may experience conflicts of interest in making management decisions and allocating their time among us, our property manager, Dubose REIT and, possibly, their other real estate investment programs or business ventures. For instance, they may have conflicts of interest in making investment decisions regarding properties for us as opposed to other entities that may have similar investment objectives. Also, they may face conflicts of interest in determining when to sell properties with respect to which CHG Properties is entitled to different amounts of fees and compensation. Also, these persons may face other conflicts of interest in allocating their time between us and one or more of their other affiliated entities in meeting their obligations to us and those other entities. Their determinations in these situations may be more favorable to other entities than to us. Our shareholders must depend on our independent directors, who presently constitute five of our eight directors, to oversee, monitor and resolve any such conflicts on our behalf.

The amounts of compensation to be paid to our management, our property manager and possibly their affiliates cannot be predicted and significant changes in such compensation could adversely affect our operations and ability to pay dividends. Because our board of directors may vary the amount of fees that we will pay to our property manager and possibly their affiliates in the future and to a large extent these fees are based on the level of our business activity, it is not possible to predict the amounts of compensation that we will be required to pay these entities. In addition, because our senior management is given broad discretion to determine when to consummate a transaction, we rely on these key persons to dictate the level of our business activity. Fees paid to our affiliates will reduce funds available for payment of dividends. Our shareholders must rely on the judgment of our independent directors whose majority vote is necessary to approve such affiliate compensation. Because we cannot predict the amount of fees due to these affiliates, we cannot predict how precisely such fees will impact such payments.

Our rights, and the rights of our shareholders, to recover claims against our officers and directors are limited. Our articles of incorporation eliminate the liability of our officers and directors for monetary damages to the fullest extent permissible under California law. California law provides that a director has no liability in that capacity if he performs his duties in good faith, in a manner he reasonably believes to be in our best interest and with the care that an ordinarily prudent person in a like position would use under similar circumstances. Also, our articles of incorporation authorize us, and our bylaws require us, to indemnify our directors, officers, employees and agents to the maximum extent permitted under California law, and the property management agreement requires us to indemnify our property manager and its affiliates for actions taken by them in good faith and without negligence or misconduct. Because of these provisions, we and our shareholders may have more limited rights to monetary damages against our directors and officers than might otherwise be available under common law. In addition, we may be obligated to fund the defense costs incurred by our directors, officers, employees and agents in any legal actions to collect damages or for other claims against our officers and directors.

Risks Relating to Federal Income Taxes

REIT investments are comparatively less attractive than investments in other corporations. The tax rate applicable to qualifying corporate dividends received by individuals prior to 2013 has been reduced to a maximum rate of 15% by recent income tax legislation. However, this tax rate is generally not applicable to dividends paid by a REIT, unless those dividends represent earnings on which the REIT itself has been taxed. Consequently, dividends (other than capital gain dividends) we pay to individual investors generally will be subject to the tax rates that are otherwise applicable to ordinary income that currently are as high as 35%. This legislation may make an investment in our shares comparatively less attractive relative to an investment in the securities of other corporate entities that pay dividends and that are not formed as REITs. However, as a REIT, we generally would not be subject to federal corporate income taxes on that portion of our ordinary income or capital gain that we distribute currently to our shareholders, and we thus expect to avoid the “double taxation” that other corporations are typically subject to.

Failure to qualify as a REIT could adversely affect our operations and our ability to pay dividends. We intend to continue to operate so as to qualify as a REIT under the Internal Revenue Code of 1986, as amended (the “Code”). Qualification as a REIT provides significant tax advantages to us and our shareholders. However, in order for us to continue to qualify as a REIT, we must satisfy numerous requirements established under highly technical and complex Code provisions for which there are only limited judicial and administrative interpretations. If we fail to qualify as a REIT for any taxable year, we will be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. Unless we are entitled to relief under certain statutory provisions, we also will be disqualified from treatment as a REIT for the four taxable years following the year we ceased to qualify as a REIT. Losing our REIT status would reduce our net earnings available for investment or distribution to shareholders because of the additional tax liability. We might be required to borrow funds or liquidate some investments in order to pay the applicable tax. For any year in which we fail to qualify as a REIT, we will not be required to make distributions to our shareholders. Any distributions we do make will not be deductible by us when computing our taxable income, and will generally be taxable to our shareholders as dividends to the extent of our current and accumulated earnings and profits. Subject to certain limitations in the Code, corporate shareholders receiving such distributions may be eligible to claim the dividends received deduction. The tax rate applicable to qualifying corporate dividends received by individuals prior to 2013 has been reduced to a maximum rate of 15%.

Qualification as a REIT is subject to the satisfaction of tax requirements and various factual matters and circumstances which are not entirely within our control. New legislation, regulations, administrative interpretations or court decisions could change the tax laws with respect to qualification as a REIT or the federal income tax consequences of being a REIT. Any such changes could have an adverse effect on an investment in our shares or on the market value or the resale potential of our properties. Our shareholders are urged to consult with their own tax advisor with respect to the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in our shares.

In order to maintain our REIT status, we may be forced to borrow funds during unfavorable market conditions which could impair our long term operations. In order to maintain our REIT status or avoid the payment of income and excise taxes, we may need to borrow funds on a short-term basis to meet the REIT distribution requirements, even if the then-prevailing market conditions are not favorable for these borrowings. To qualify as a REIT we must distribute to our shareholders dividends (other than capital gain dividends) in an amount at least equal to (i) the sum of (A) 90% of our "REIT taxable income" (computed without regard to the dividends paid deduction and our "net capital gain") and (B) 90% of the after-tax net income (if any) from foreclosure property, minus (ii) the sum of certain items of non-cash income (including, among other things, cancellation of indebtedness income and original issue discount income). In general, the distributions can be paid during the taxable year to which they relate. We may also satisfy the distribution requirements with respect to a particular year provided we (1) declare a sufficient dividend before timely filing our tax return for that year and (2) pay the dividend within the 12-month period following the close of the year, and on or before the date of the first regular dividend payment after such declaration. To the extent we fail to distribute our net capital gain, and to the extent we distribute at least 90%, but less than 100%, of our "REIT taxable income" (as adjusted) we will be subject to tax at the regular corporate capital gains rates (with respect to the undistributed net capital gain) and at the regular corporate ordinary income tax rates (with respect to the undistributed REIT taxable income). Furthermore, if we fail to distribute during each calendar year at least the sum of (i) 85% of the REIT ordinary income for such year, (ii) 95% of our REIT capital gain income for such year and (iii) any undistributed taxable income from prior periods, we will be subject to a 4% excise tax on the excess of such amounts over the amounts actually distributed.

We may need short-term debt or long-term debt or proceeds from asset sales, creation of joint ventures or sales of common stock to fund required distributions as a result of differences in timing between the actual receipt of cash and inclusion of income for federal income tax purposes, or the effect of non-deductible capital expenditures, the creation of reserves or required debt or amortization payments. The inability of our cash flows to cover our distribution requirements could have an adverse impact on our ability to raise short-term debt and long-term debt or sell equity securities in order to fund distributions required to maintain our REIT status.

Qualified plans investing in our shares will be taxed on our distributions to the extent that they are unrelated business taxable income. Tax-exempt entities such as employee pension benefit trusts and individual retirement accounts generally are exempt from federal income taxation. Such entities are subject to taxation, however, on any unrelated business taxable income ("UBTI") as defined in the Code. Although passive income is generally exempt, in general, income from property that is debt financed will result in UBTI. Our payment of distributions to a tax-exempt employee pension benefit trust or other domestic tax-exempt shareholder generally will not constitute UBTI to such shareholder unless such shareholder has borrowed to acquire or carry its shares.

Even if we qualify and maintain our REIT status, we still may be required to pay federal, state, or local taxes which could have an adverse effect on our operations. Even if we qualify and maintain our status as a REIT, we may be subject to federal income taxes or state taxes. For example, if we have net income from a "prohibited transaction," such income will be subject to a 100% tax. In general, "prohibited transactions" are sales or other dispositions of property (other than foreclosure property) that we hold primarily for sale to customers in the ordinary course of business. Additionally, we may not be able to make sufficient distributions to avoid the 4% excise tax that generally applies to income retained by a REIT. We may also decide to retain proceeds we realize from the sale or other disposition of our property and pay income tax on gain recognized on the sale. In that event, we could elect to treat our shareholders as if they earned that gain and paid the tax on it directly. However, shareholders that are tax-exempt, such as charities or qualified pension plans, would derive no benefit from their deemed payment of such tax. We may also be subject to state and local taxes on our income or property, either directly or at the level of other companies through which we indirectly own our assets.

Non-U.S. shareholders selling their Securities may be subject to withholding or other tax. A sale of our shares by a non-U.S. shareholder will generally not be subject to U.S. federal income taxation unless our shares constitute a “United States real property interest” within the meaning of the Foreign Investment in Real Property Tax Act of 1980, as amended (“FIRPTA”). A United States real property interest includes securities of a U.S. corporation whose assets consist principally of United States real property interests. Our shares will not constitute a United States real property interest if we are a “domestically controlled REIT.” A “domestically controlled REIT” is a REIT that at all times during a specified testing period has less than 50% in value of its shares held directly or indirectly by non-U.S. shareholders. We currently anticipate that we will be a domestically controlled REIT. Therefore, sales of our shares should not be subject to taxation under FIRPTA. However, we do expect to sell our shares to non-U.S. shareholders and we cannot assure you that we will continue to be a domestically controlled REIT. If we were not a domestically controlled REIT, whether a non-U.S. shareholder’s sale of our shares would be subject to tax under FIRPTA as a sale of a United States real property interest would depend on whether our shares were “regularly traded” on an established securities market and on the size of the selling shareholder’s interest in us. Our shares currently are not “regularly traded” on an established securities market. Accordingly, a non-U.S. shareholder’s sale of our shares would be subject to tax under FIRPTA as a sale of a United States real property interest if we were not a domestically controlled REIT. If the gain on the sale of shares were subject to taxation under FIRPTA, a non-U.S. shareholder would be subject to the same treatment as a U.S. shareholder with respect to the gain, subject to any applicable alternative minimum tax and a special alternative minimum tax in the case of non-resident alien individuals. Under FIRPTA, the purchaser of our shares may be required to withhold 10% of the purchase price and remit this amount to the IRS.

Even if not subject to FIRPTA, capital gain dividends will be taxable to a non-U.S. shareholder if the non-U.S. shareholder is a non-resident alien individual who is present in the United States for 183 days or more during the taxable year and some other conditions apply, in which case the non-resident alien individual will be subject to a 30% tax on his U.S. source capital gains.

Non-U.S. shareholders are urged to consult their tax advisors concerning the U.S. tax effect of an investment in our shares.

Retirement Plan Risks

There are special considerations that apply to qualified plans and IRAs investing in our shares. Investors who are qualified plans, such as a pension, profit sharing, 401(k), Keogh or other qualified retirement plan, or who are IRAs should satisfy themselves that:

- their investment is consistent with their fiduciary obligations under ERISA and the Internal Revenue Code;
- their investment is made in accordance with the documents and instruments governing their Retirement Plan or IRA, including their plan’s investment policy;
- their investment satisfies the prudence and diversification requirements of Sections 404(a)(1)(B) and 404(a)(1)(C) of ERISA;
- their investment will not impair the liquidity of the plan;
- their investment will not produce Unrelated Business Taxable Income, or “UBTI” for the plan or IRA;
- they will be able to value the assets of the plan annually in accordance with ERISA requirements; and
- their investment will not constitute a prohibited transaction under Section 406 of ERISA or Section 4975 of the Internal Revenue Code

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ITEM 2. PROPERTIES

General Information

We own or have an equity interest in eighteen (18) separate properties located in three states. In addition, through our limited partnership interests, we own a total of 74 model home properties located in eleven states. The following tables provide certain additional information about our properties as of December 31, 2010.

Property/Location	*Date Acquired*	*Year Property Constructed*	*Purchase Price**	*Percent Ownership*	*Occupancy*	*Renovation or Improvement Cost.*
Office Properties:						
Havana/Parker Complex (1) Aurora, CO	6/2006	1975	$ 5,828,963	100.0%	53.2%	$ 50,000
Garden Gateway Plaza (2,6) Colorado Springs, CO	3/2007	1982	$ 15,132,624	94.0%	69.7%	—
Executive Office Park (3) Colorado Springs, CO	7/2008	2000/2001	$ 10,125,881	100.0%	89.6%	—
Pacific Oaks Plaza (4) Escondido, CA	9/2008	2005	$ 4,876,483	100.0%	100.0%	—
Morena Office Center (1) San Diego, CA	1/2009	1987	$ 6,575,000	100.0%	77.2%	—
Fontana Medical Plaza (5) Fontana, CA	2/2009	1980	$ 1,919,800	51.0%	100.0%	—
Rangewood Medical Office Building (1) Colorado Springs, CO	3/2009	1998	$ 2,630,000	100.0%	94.9%	—
Genesis Plaza (1) San Diego, CA	8/2010	1986	$ 10,000,000	100.0%	86.7%	—
Self-Storage Properties:						
Sparky's Palm Self-Storage (6) Highland, CA	11/2007	2003	$ 4,848,919	52.0%	80.7%	—
Sparky's Joshua Self-Storage (7) Hesperia, CA	12/2007	2003/2005	$ 8,007,127	100.0%	63.9%	—
Sparky's Thousand Palms Self-Storage Thousand Palms, CA	8/2009	2007	$ 6,200,000	100.0%	57.1%	—
Sparky's Hesperia East Self-Storage Hesperia, CA	12/2009	2007	$ 2,775,000	100.0%	47.0%	—
Sparky's Rialto Self-Storage Rialto, CA	5/2010	2007	$ 4,875,000	100.0%	46.7%	—
Residential Properties:						
Casa Grande Apts. (8) Cheyenne, WY	4/1999	1973	$ 1,020,000	20.1%	94.9%	—
15 Model Home Properties (9) Las Vegas, NV/Fair Oaks Ranch, CA	2/2009	2008/2009	$ 5,114,335	75.7%	100.0%	—
4 Model Home Properties (10) San Diego, CA	9/2009	2008/2009	$ 2,866,835	83.0%	100.0%	—
4 Model Home Properties (11) Arizona	10/2010	2010	$ 907,300	100.0%	100.0%	—
10 Model Home Properties (11) OR, ID, WA	10/2010	2010	$ 1,860,990	100.0%	100.0%	—
10 Model Home Properties (12) TX, OH, MI, CA, AZ, WA, NV	11/2010	2003-2008	$ 3,315,000	73.6%	100.0%	—

10 Model Home Properties (13) TX, OH, NJ, WA, CA, AZ, NV	11/2010	2004-2007	$	2,758,000	70.5%	100.0%	—
9 Model Home Properties (14) NV, TX, CA, NC, WA, OH	11/2010	2006-2008	$	3,467,000	66.6%	75.9%	—
12 Model Home Properties (11) TX	12/2010	2010	$	2,905,760	100.0%	100.0%	—
Retail Properties:							
Escondido 7-Eleven (15,6) Escondido, CA	9/2006	1980	$	1,404,864	67.6%	100.0%	—
World Plaza San Bernardino, CA	9/2007	1974	$	7,650,679	100.0%	90.2%	—
Regatta Square Denver, CO	10/2007	1996	$	2,180,166	100.0%	100.0%	—
Waterman Plaza San Bernardino, CA	8/2008	2008	$	7,164,029	100.0%	83.6%	—

*Prior to January 1, 2009, "Purchase Price" includes our acquisition related costs and expenses for the purchase of the property. After January 1, 2009, acquisition related costs and expenses were expensed when incurred.

(1) An office building leased to tenants on a gross basis where the tenant may be required to pay property related expenses in excess of the base year property related expenses.

(2) Garden Gateway Plaza is comprised of three buildings, each on a separate legal parcel. Information is for all 3 buildings in the Garden Gateway Plaza

(3) An office building leased to tenants on a gross basis where the tenant may be required to pay property related expenses in excess of the base year property related expenses.

(4) The Company, and related entities, occupies approximately 12,134 square feet, or 75.8% of this property as its corporate offices.

(5) Under single user lease to DVA Healthcare Renal Care, Inc. ("DVA") on a triple net basis, where the tenant is responsible for paying all property related expenses. DVA is a wholly-owned subsidiary of Davita, Inc., a leading provider of dialysis services in the United States for patients suffering from chronic kidney failure. The property is owned by Fontana Medical Plaza, LLC, the Company is the Managing Member and 51% owner.

(6) This property is owned by a DOWNREIT Partnership for which we serve as general partner and in which we own less than a 100% equity interest.

(7) Self-storage property with a self serve car wash on premises.

(8) An apartment building leased to tenants on a month-to-month basis.

(9) Model home properties owned by DAP II, of which the Company owns a 75.7% interest.

(10) Model home properties owned by DAP III, of which the Company owns a 83.0% interest.

(11) Model home properties owned by NetREIT Dubose, of which the Company owns a 99.0% interest.

(12) Model home properties owned by DMHI Fund #3, LTD., of which the Company owns a 73.6% interest.

(13) Model home properties owned by DMHI Fund #4, LTD., of which the Company owns a 70.5% interest.

(14) Model home properties owned by DMHI Fund #5, LTD., of which the Company owns a 66.6% interest.

(15) An apartment building leased to tenants on a month-to-month basis.

Physical Occupancy Table for Last 5 Years (1)

	Date Acquired	Percentage Occupancy as of the Year Ended December 31, 2006	2007	2008	2009	2010
Office Properties:						
Havana/Parker Complex	06/06	79.00%	74.90%	54.00%	53.00%	53.20%
Garden Gateway Plaza	03/07		85.10%	88.30%	85.10%	69.68%
Executive Office Park	07/08		94.80%	94.80%	90.70%	89.60%
Pacific Oaks Plaza (2)	09/08			100.00%	100.00%	100.00%
Morena Office Center	01/09				77.20%	77.20%
Fontana Medical Plaza	02/09				100.00%	100.00%
Rangewood Medical Office Building	03/09				94.30%	94.90%
Genesis Plaza	08/10					86.70 %
Self-Storage Properties:						
Sparky's Palm Self-Storage	11/07		85.00%	84.20%	86.70%	80.70%
Sparky's Joshua Self-Storage	12/07		77.00%	67.80%	75.40%	63.90%
Sparky's Thousand Palms Self-Storage	08/09				41.60%	57.10%
Sparky's Hesperia East Self-Storage	12/09				34.60%	47.00%
Sparky's Rialto Self-Storage	05/10					46.70%
Residential Properties:						
Casa Grande Apartments	04/99	94.20%	92.00%	96.10%	84.60%	94.90%
15 Model Home Properties	02/09					100.00%
4 Model Home Properties	09/09					100.00%
4 Model Home Properties	10/10					100.00%
4 Model Home Properties	10/10					100.00%
10 Model Home Properties	11/10					100.00%
4 Model Home Properties	11/10					100.00%
9 Model Home Properties	11/10					75.90%
12 Model Home Properties	12/10					100.00%
Retail Properties:						
Escondido 7-Eleven	09/06	100.00%	100.00%	100.00%	100.00%	100.00%
World Plaza	09/07		98.10%	94.00%	87.10%	90.20%
Regatta Square	10/07		100.00%	100.00%	100.00%	100.00%
Waterman Plaza	08/08			74.30%	83.60%	83.60%

(1) Information is provided only for the years that we owned the property.
(2) The Company, and related entities, occupies 12,134 square feet, or 75.8% of this property as its corporate offices.

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Top Ten Tenants Physical Occupancy Table

The following table sets forth certain information with respect to our top ten tenants.

Tenant	*Number of Leases*	*Annualized Base Rent as of December 31, 2010(1)*	*Percent of Total Annualized Base Rent as of December 31 2010*
County of San Bernardino	1	$ 521,496	7.08 %
Goodwill Industries of Southern California	1	$ 432,191	5.87 %
Wells Fargo Dealer Services, Inc.	1	$ 404,742	5.50 %
Community Research Foundation, Inc	3	$ 361,808	4.91 %
Marvell Semiconductor, Inc	1	$ 357,249	4.85 %
Fairchild Semiconductor	1	$ 325,842	4.43 %
Keller Williams Client's Choice Realty	4	$ 318,366	4.32 %
DVA Healthcare Renal Care	1	$ 300,319	4.08 %
Republic Indemnity of America	1	$ 220,810	3.00 %
Fidelity National Title Company	1	$ 203,872	2.77 %

(1) Includes scheduled rent increases in 2011.

Occupancy and Average Effective Annual Rent Per Square Foot

The following table presents the average effective annual rent per square foot for our properties, excluding our model home properties, as of December 31, 2010.

Property	**Square Footage**	**Annual Gross Rent(1)**	**Percentage Occupied at December 31, 2010**	**Annual Rent Per Sq Ft At Full Occupancy**
Office Properties:				
Havana/Parker Complex	114,000	$ 622,197	53.20%	$ 10.26
Garden Gateway Plaza	115,052	$ 1,253,322	69.68%	$ 15.63
Executive Office Park	65,084	$ 1,057,623	89.60%	$ 18.14
Pacific Oaks Plaza (2)	16,000		100.00%	$ (2)
Morena Office Center	26,784	$ 552,506	77.20%	$ 26.72
Fontana Medical Plaza	10,500	$ 300,319	100.00%	$ 28.60
Rangewood Medical Office Building	18,222	$ 416,604	94.90%	$ 24.09
Genesis Plaza	57,685	$ 1,450,479	86.70%	$ 29.00
Self-Storage Properties:				
Sparky’s Palm Self-Storage	50,250	$ 453,458	80.70%	$ 11.18
Sparky’s Joshua Self-Storage	149,750	$ 569,589	63.90%	$ 5.95
Sparky’s Thousand Palms Self-Storage	113,126	$ 398,067	57.10%	$ 6.16
Sparky’s Hesperia East Self-Storage	72,940	$ 198,586	47.00%	$ 5.79
Sparky's Rialto Self-Storage	101,343	$ 383,022	46.70%	$ 8.09
Residential Properties:				
Casa Grande Apts.	29,250	$ 257,462	94.90%	$ 9.28
Retail Properties:				
Escondido 7-Eleven	3,000	$ 108,000	100.00%	$ 36.00
World Plaza	55,098	$ 773,000	90.20%	$ 15.55

Regatta Square	5,983	$	196,529	100.00%	$	32.85
Waterman Plaza	21,170	$	553,320	83.60%	$	31.26

(1) Annual Gross Rent is calculated based upon contractual rents due as of December 31, 2010, determined using GAAP including CAM reimbursements and leases on a month-to-month basis.

(2) The Company, and related entities, occupies approximately 12,134 square feet, or 75.8% of this property as its corporate offices.

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Average Effective Annual Rent Per Square Foot for Last 5 Years (1)

	Average Effective Annual Rent per Square Foot For the Years Ended December 31,				
	2006	2007	2008	2009	2010
Office Properties:					
Havana/Parker Complex	$ 8.07	$ 7.38	$ 6.35	$ 5.46	$ 5.29
Garden Gateway Plaza		$ 14.40	$ 14.84	$ 14.62	$ 13.78
Executive Office Park			$ 17.90	$ 18.20	$ 16.98
Pacific Oaks Plaza(2)			$ 15.94	$ 15.94	$ 17.36
Morena Office Center				$ 23.80	$ 21.86
Fontana Medical Plaza				$ 27.07	$ 27.86
Rangewood Medical Office Building				$ 15.62	$ 25.23
Genesis Plaza					25.72
Self-Storage Properties:					
Sparky’s Palm Self-Storage		$ 9.32	$ 9.45	$ 8.02	$ 9.49
Sparky’s Joshua Self-Storage		$ 6.06	$ 4.80	$ 3.62	$ 4.39
Sparky’s Thousand Palms Self-Storage				$ 3.73	$ 3.37
Sparky’s Hesperia East Self-Storage					
Sparky's Rialto Self-Storage					4.08
Residential Properties (3):					
Casa Grande Apts.	$ 5.71	$ 6.24	$ 6.26	$ 6.05	$ 8.37
Retail Properties:					
Escondido 7-Eleven	$ 18.02	$ 18.02	$ 18.02	$ 36.00	$ 36.00
World Plaza		$ 15.49	$ 15.40	$ 14.09	$ 14.04
Regatta Square		$ 38.17	$ 38.17	$ 32.08	$ 32.97
Waterman Plaza			$ 23.32	$ 24.81	$ 26.54

(1) Annualized from date of acquisition in year acquired. Model home properties not included.
(2) The Company, and related entities, occupies 75.8% of this property as its corporate offices.

Lease Expirations Tables (1)

The following table shows lease expirations for our properties as of December 31, 2010, assuming that none of the tenants exercise renewal options.

	NetREIT, Inc. Properties			
Expiration Year	*Number of Leases Expiring*	*Square Footage*	*Annual Rental From Lease*	*Percent of Total*
2011	46	74,326	$ 1,171,026	15.2%
2012	17	57,433	$ 1,071,652	14.0%
2013	24	91,943	$ 1,880,162	24.5%
2014	7	14,520	$ 317,850	4.1%
2015	17	69,261	$ 1,464,156	19.1%
2016	4	54,472	$ 858,512	11.2%
2018	2	18,057	$ 540,191	7.0%
2019	1	10,525	$ 300,318	3.9%
2020	1	2,920	$ 75,328	1.0%
Totals	119	393,457	$ 7,679,195	100.0%

(1) Table excludes residential and self-storage properties.

	Model Home Properties			
Expiration Year	*Number of Leases Expiring*	*Square Footage*	*Annual Rental From Lease*	*Percent of Total*
2011	48	117,544	$ 1,976,028	77.7 %
2013	26	62,349	$ 567,444	22.3 %
	74	179,893	$ 2,543,472	100.0 %

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Concentration of Tenants

As of December 31, 2010, the following tenants accounted for 10% or more of our aggregate annual rental income for the specific property:

Property	Tenant	Annual Rent(1)	Rental Income
Office Properties:			
Havana/Parker Complex	None		
Garden Gateway Plaza	Marvel Semiconductor, Inc	$ 357,249	28.5%
	Fairchild Semiconductor	$ 325,842	26.0%
	The Travelers Indemnity Co.	$ 166,727	13.3%
Executive Office Park	Keller Williams Realty	$ 318,366	30.1%
	Fidelity National Title Company	$ 203,872	19.3%
Pacific Oaks Plaza (3)		—	—
Morena Office Center	Community Research Foundation	$ 361,808	65.5%
	Lloyd's Pest Control	$ 140,379	25.4%
Fontana Medical Plaza	DVA Healthcare Renal Care	$ 300,319	100.0%
Rangewood Medical Office Building	Rocky Mountain Prosthetic Dentistry	$ 99,829	24.0%
	Rangewood Orthodontics	$ 75,329	18.1%
	Dr. Ruxandra Georgescu	$ 70,240	16.9%
	Daniel G. Snow	$ 67,582	16.2%
	Diane E. Reck, D.D.S.	$ 59,083	14.2%
Genesis Plaza	Wells Fargo Dealer Services, Inc.	$ 404,742	27.9%
	Republic Indemnity of America	$ 220,810	15.2%
	Panasonic Industrial Co.	$ 185,343	12.8%
	Agilent Technologies, Inc.	$ 184,487	12.7%
	State of California	$ 178,271	12.3%
Sparky's Palm Self-Storage(2)			
Sparky's Joshua Self-Storage(2)			
Sparky's Thousand Palms Self-Storage(2)			
Sparky's Hesperia East Self-Storage(2)			
Sparky's Rialto Self-Storage(2)			
Residential Properties:			
Casa Grande Apartments (2)			
15 Model Home Properties	Pardee Homes of California (4)	$ 400,032	65.5%
	Pardee Homes of Nevada (4)	$ 210,924	34.5%
4 Model Home Properties	Pardee Homes of California (4)	$ 343,100	100.0%
26 Model Home Properties	K. Hovnanian of Houston, LP (5)	$ 489,000	63.9%
	Hayden Hayden Homes, LLC	$ 186,120	24.3%
10 Model Home Properties	Pardee Homes of California (4)	$ 167,232	48.3%
	K. Hovnanian Oster Homes, LLC (5)	$ 63,108	18.2%
	Pardee Homes of Nevada (4)	$ 60,336	17.4%
10 Model Home Properties	Pardee Homes of California (4)	$ 85,644	28.7%
	The Quadrant Corporation (4)	$ 63,456	21.2%
	K. Hovnanian Oster Homes, LLC (5)	$ 57,288	19.2%
9 Model Home Properties	Pardee Homes of Nevada (4)	$ 95,208	27.4%
	Pardee Homes of California (4)	$ 78,312	22.5%
	Parker & Orleans Homebuilders, Inc.	$ 68,604	19.7%
	K. Hovnanian Oster Homes, LLC (5)	$ 38,796	11.2%
Retail Properties:			
Escondido 7-Eleven	7-Eleven, Inc.	$ 108,000	100.0%

World Plaza		County of San Bernardino	$ 521,496	67.5%
	Citizen's Business Bank		$ 128,000	16.6%
Regatta Square		PBI, Inc.	$ 67,977	34.6%
	Pinnacle Restaurant Group		$ 45,600	23.2%
	5th Avenue Nails		$ 44,880	22.8%
	Kashdom, Inc.		$ 38,072	19.4%
Waterman Plaza		Goodwill Industries	$ 432,191	78.1%
	Alta Vista Credit Union		$ 72,420	13.1%

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(1) Annualized rent as of December 31, 2009 without considering scheduled rent increases.
(2) These properties are comprised of residential and self-storage units which are rented on a short term basis, generally on a month-to-month basis or less than 12 months.
(3) The Company, and related entities, occupies approximately 12,134 square feet, or 75.8% of this property as its corporate offices.
(4) A subsidiary of Weyerhaeuser Company.
(5) A subsidiary of K. Hovnanian Enterprises, Inc.

The following table provides certain information with respect to the leases of those tenants that occupy 10% or more of the rentable square footage in each of our properties as of December 31, 2010.

Property and Lessee	Rentable Square Feet	Lease Ends	Percentage of Property Leased	Current Base Annual Rent(1)	Renewal Options
Office Properties:					
Havana/Parker Complex	None				
Garden Gateway Plaza					
Marvell Semiconductor	20,730	1/31/2012	18.0%	$ 357,249	One 2 yr.
Fairchild Semiconductor	18,900	7/31/2013	16.4%	$ 325,842	One 5 yr.
The Travelers Indemnity Co.	15,157	2/29/2016	13.2%	$ 166,727	One 5 yr.
Executive Office Park					
Keller Williams Realty	21,192	8/31/2012	32.6%	$ 318,366	None
Security Title Guaranty Co.	9,217	7/31/2012	14.2%	$ 203,872	None
Pacific Oaks Plaza(3)	None				
Morena Office Center					
Community Research Foundation	12,582	3/31/2013	47.0%	$ 361,808	None
Lloyd’s Pest Control	6,722	1/31/2015	25.4%	$ 140,379	None
Fontana Medical Plaza					
DVA Healthcare Renal Care	10,525	11/22/2019	100.0%	$ 300,319	Three 5 yr.
Rangewood Medical Office Building					
Rocky Mountain Prosthetic Dentistry	3,717	3/31/2013	20.4%	$ 99,829	Two 5 yr.
Rangewood Orthodontics	2,920	3/31/2020	16.0%	$ 75,329	Two 5 yr.
Dr. Ruxandra Georgescu	2,920	3/31/2014	13.8%	$ 70,240	Three 5 yr.
Daniel G. Snow	2,778	3/31/2013	15.3%	$ 67,582	None
Diane E. Reck, D.D.S.	2,095	3/31/2011	11.5%	$ 59,083	Two 5 yr.
Genesis Plaza					
Wells Fargo Dealer Services, Inc.	13,520	2/28/2015	23.4%	$ 404,742	One 5 yr.
Republic Indemnity of America	8,976	6/30/2015	15.6%	$ 220,810	One 5 yr.
Panasonic Industrial Co.	6,060	7/31/2013	10.5%	$ 185,343	One 5 yr.
Agilent Technologies, Inc.	5,941	10/31/2011	10.3%	$ 184,487	One 5 yr.
State of California	5,975	12/31/2015	10.4%	$ 178,271	One 5 yr.
Self-Storage Properties:					
Sparky’s Palm Self-Storage (2)	None				
Sparky’s Joshua Self-Storage (2)	None				
Sparky’s Hesperia East Self-Storage (2)	None				

Sparky’s Thousand Palms Self-Storage (2)	None					
Sparky's Rialto Self-Storage (2)	None					
Residential Properties:						
Casa Grande Apartments (2)						
15 Model Home Properties						
Pardee Homes of California	19,804	9/15/2011	53.7%	$	400,032	None
Pardee Homes of Nevada	17,035	9/15/2011	46.3%	$	210,924	None
4 Model Home Properties						
Pardee Homes of California	10,798	9/15/2011	100%	$	343,140	None
26 Model Home Properties						
K. Hovnanian of Houston, LP	54,311	3/31/2013	66.7%	$	489,000	None
Hayden Hayden Homes, LLC	17,192	1/28/2013	21.1%	$	186,120	None
10 Model Home Properties						
Pardee Homes of California	5,871	M-T-M	30.2%	$	167,232	None
K. Hovnanian Oster Homes, LLC	4,676	M-T-M	24.1%	$	63,108	None
Pardee Homes of Nevada	4,076	M-T-M	21.0%	$	60,336	None
10 Model Home Properties						
Pardee Homes of California	2,930	M-T-M	13.5%	$	85,644	None
The Quadrant Corporation	7,158	M-T-M	33.2%	$	63,456	None
K. Hovnanian Oster Homes, LLC	4,753	M-T-M	22.0%	$	57,288	None
9 Model Home Properties						
Pardee Homes of Nevada	7,049	M-T-M	26.5%	$	95,208	None
Pardee Homes of California	2,734	M-T-M	10.3%	$	78,312	None
Parker and Orleans Homebuilders, Inc.	8,034	M-T-M	30.2%	$	68,604	None
K. Hovnanian Oster Homes, LLC	2,923	M-T-M	11.0%	$	38,796	None
Retail Properties:						
Escondido 7-Eleven						
7-Eleven	3,000	12/31/2018	100.0%	$	108,000	Two 5 yr.
World Plaza						
County of San Bernardino	29,942	2/28/2011	54.3%	$	521,496	Two 1 yr. & One 5 yr.
Citizen's Business Bank	5,227	7/2/2016	9.5%	$	128,000	None
Regatta Square						
PBI, Inc.	1,851	5/31/2013	30.9%	$	67,977	None
Pinnacle Restaurant Group	2,300	4/30/2011	38.4%	$	45,600	None
5th Avenue Nails	1,032	8/31/2012	17.3%	$	44,880	One 5 yr.
Fancy, Inc.	800	5/31/2012	13.4%	$	38,072	One 5 yr.
Waterman Plaza						
Goodwill Industries	14,503	9/24/2018	68.5%	$	432,191	Two 5 yr.
Alta Vista Credit Union	1,974	5/14/2014	9.3%	$	72,420	Three 5 yr.

(1) Annualized rent as of December 31, 2010 without considering scheduled rent increases.
(2) Self-storage or residential units rented on a short term basis.
(3) The Company, and related entities, occupies approximately 12,134 square feet, or 75.8% of this property as its corporate offices.

Geographic Diversification Table

The following table shows a list of properties we owned as of December 31, 2010, grouped by the state where each of our investments is located.

NetREIT, Inc. Properties

State	No. of Properties	Aggregate Square Feet	Approximate % of Square Feet	Current Base Annual Rent(1)	Approximate % of Aggregate Annual Rent
California	12	677,646	66.1%	$ 3,815,073	51.8%

Colorado	5	318,341	31.1%	3,546,276	48.2%
Wyoming	1	29,250	2.8%	-	-%
	18	1,025,237	100.0%	$ 7,361,349	100.0%

(1) Annualized rent as of December 31, 2010 without considering scheduled rent increases. Current base rent does not include residential and self-storage properties.

Model Home Properties

State	No. of Properties	Aggregate Square Feet	Approximate % of Square Feet	Current Base Annual Rent(2)	Approximate % of Aggregate Annual Rent
California	15	42,137	23.4%	$ 1,074,360	42.3%
Texas	16	42,731	23.8%	364,080	14.3%
Nevada	13	29,525	16.4%	395,412	15.5%
Ohio	5	12,352	6.9%	159,192	6.3%
Washington	8	16,673	9.3%	180,624	7.1%
Arizona	6	13,415	7.5%	136,512	5.4%
Oregon	5	8,487	4.7%	96,660	3.8%
North Carolina	2	8,034	4.5%	68,604	2.7%
Idaho	2	3,175	1.8%	28,668	1.1%
New Jersey	1	2,096	1.2%	27,960	1.1%
Michigan	1	1,268	0.5%	11,400	0.4%
	74	179,893	100.0%	2,543,472	100.0%

(2) Information is for Model Home Properties included in NetREIT Dubose Model Home REIT, Inc., DAP II, DAP III and Dubose Model Income Funds 3, 4 and 5.

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Indebtedness

Mortgage Debt

The following table presents information as of December 31, 2010 on indebtedness encumbering our properties. The Company is current with respect to it's payments on each of these loans.

	NetREIT, Inc. Properties			
Property	Principal Amount	Current Interest Rate	Maturity Date	Balance at Maturity
Havana/Parker Complex	$ 3,323,714	6.51%	July 2016	$ 2,844,980
Garden Gateway Plaza (1)	9,823,854	6.08%	April 2014	$ 8,893,175
World Plaza	3,231,661	5.31%	February 2012	$ 3,060,931
Waterman Plaza	3,700,953	6.50%	September 2015	$ 3,304,952
Sparky's Thousand Palms Self-Storage (2)	4,539,478	5.50%	March 2034	$ -
Sparky's Hesperia East Self-Storage(3)	1,717,059	5.00%	December 2016	$ 1,564,200
Sparky's Riato Self-Storage	2,887,597	5.00%	May 2015	$ 2,643,350
Genesis Plaza	4,973,365	4.65%	September 2015	$ 4,415,000
	$ 34,197,681			

	Model Home Properties		
Borrower	Principal Amount	Current Interest Rate	Maturity Date
Dubose Acquisition Partners II, LP (4)	$ 2,937,316	5.50%	Various 2012
Dubose Acquisition Partners III, LP (5)	1,873,193	6.50%	Various 2012
NetREIT Dubose Model Home REIT, Inc. (6,10)	2,822,703	5.75%	Various 2015
NetREIT Dubose Model Home Income Fund #3, LTD. (7)	2,583,323	2.55-7.20%	Various 2011
NetREIT Dubose Model Home Income Fund #4, LTD. (8)	1,994,260	2.42-7.12%	Various 2011
NetREIT Dubose Model Home Income Fund #5, LTD. (9)	2,836,311	4.14-7.21%	Various 2011
	15,047,106		
Total mortgage notes payable	$ 49,244,787		

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(1) Mortgage is cross-collateralized by all three buildings comprising the Garden Gateway Plaza. Mortgage has release clause for each building.
(2) Interest rate is variable with a floor of 5.50% and a ceiling of 10.5%. The variable interest rate is calculated using the lowest New York prime rate in effect on the first day of the month as published in the money rate section of the West Coast edition of the Wall Street Journal added to the margin of 0.50%.
(3) Interest rate is fixed at 5.00% for the first 24 months and 6.25% for the remaining 60 months of the loan.
(4) Consists of 15 mortgage notes payable secured by 15 model home properties.
(5) Consists of 4 mortgage notes payable secured by 4 model home properties.
(6) Consists of 26 mortgage notes payable secured by 26 model home properties.
(7) Consists of 9 mortgage notes payable secured by 9 model home properties.
(8) Consists of 10 mortgage notes payable secured by 10 model home properties.
(9) Consists of 10 mortgage notes payable secured by 10 model home properties.
(10) These mortgages are guaranteed by NetREIT, Inc.

Description of Properties

Office Properties:

Havana/Parker Complex

In June 2006, we purchased the Havana/Parker Complex which consists of 7 attached three story office buildings located in Aurora, Colorado. This property is located at the intersection of Parker Road and Havana Street which is one of the busiest intersections in Aurora. The property consists of approximately 114,000 square feet and is approximately 53.2% occupied as of December 31, 2010. The property is surrounded by newer Class A buildings. Our buildings are an alternative to the higher priced buildings in the area. We purchased the building for $5.8 million and invested approximately an additional $776,000 in renovating the property to attract quality and larger tenants. We borrowed $3.6 million to finance this purchase at the date of acquisition. In December 2010, through the course of the Company's annual review of property values for possible permanent impairment of value, we determined that the Havana/Parker Complex value had been impaired and, as a result, recorded an impairment of $1 million.

Garden Gateway Plaza

In March 2007, we acquired Garden Gateway Plaza for $15.1 million, including transaction costs. This property is located in Colorado Springs Colorado and consists of three individual buildings situated on three separate properties within a multi-property campus. Included is a multi-tenant two-story office/flex building and two single-story office/flex buildings. The property is comprised of 115,052 sq. ft. on 12.0 acres.

The property has 15 tenants and is approximately 70% occupied as of December 31, 2010. The major tenants include Marvell Semiconductors, Fairchild Semiconductors, and The Travelers Indemnity Company.

In 2008, the Company sold a 5.99% interest in the Garden Gateway Plaza to an unrelated tenant in common. In March 2010, NetREIT and the other investor in this property contributed each of our interests in this property to a California limited partnership (the "Garden Gateway LP Partnership) for which we serve as general partner and own a 94.01 % equity interest. In connection with the formation of the Garden Gateway LP Partnership, we gave the limited partner the right to exchange its interest in the Garden Gateway LP Partnership for shares of our common stock.

Executive Office Park

In July 2008, we purchased the Executive Office Plaza located in Colorado Springs, Colorado. Our purchase price for the property was approximately $10.1 million, of which $6.6 million was paid from a fixed rate revolving line of credit loan in the amount of $6,597,500 from a regional bank in Colorado (the "Credit Facility"). The Credit Facility matured in 2009. The maturity of the Credit Facility did not have a significant impact on our cash or liquidity.

Executive Office Park is comprised of a condominium development consisting of four (4) separate buildings situated on four (4) legal parcels. The property is developed as an office condominium complex. The property consists of a total of 65,084 square feet situated on a total of 4.57 acres. The property is approximately 7 years old. This property is approximately 89.6% occupied as of December 31, 2010.

Pacific Oaks Plaza

In September 2008, we acquired the Pacific Oaks Plaza and related personal property located in Escondido, California. Our purchase price for the property was $4.9 million, all of which we paid in cash.
Pacific Oaks Plaza consists of a two story office building of approximately 16,000 square feet. The building was completed in 2005 and has been owner occupied since its construction. As of December 31, 2010 the part of the building not occupied by the Company and related parties was 100% leased.

Our principal corporate offices occupy 75.80%, or the remainder of the building.

The Pacific Oaks Plaza property is located in the City of Escondido, the fourth largest of the 18 incorporated cities in San Diego County. It lies in the northern part of the County bordering the City of San Diego to the south, San Marcos to the west and unincorporated areas of San Diego County to the north and east.

Morena Office Center

In January 2009, the Company acquired the Morena Office Center, an office building located in San Diego, California. The purchase price for the property was $6.6 million which we paid with $3.4 million in cash and with $3.2 million in loan proceeds from a draw on our Credit Facility. This property consists of approximately 26,784 square foot building on approximately 0.62 acres.

The property was constructed in 1987. The major tenants on the property include the Community Research Foundation and Lloyd's Pest Control. As of December 31, 2010, the property was 77.2% occupied.

Fontana Medical Plaza

In February 2009, we formed Fontana Medical Plaza, LLC ("FMP") with Fontana Dialysis Building, LLC, which we are the Managing Member and 51% owner. FMP assumed an agreement to purchase the Fontana Medical Plaza located in Fontana, California. The purchase price for the property was $1,900,000, before transaction costs, all payable in cash. The property consists of approximately 10,500 square feet. FMP also assumed a lease agreement for a single tenant to occupy 100% of the building for ten (10) years with three five (5) year renewal options. The lease agreement requires annual rent payments during the first five years of $300,319 increasing by 12.5% on the fifth year anniversary and each five year anniversary thereafter.

The tenant is DVA Healthcare Renal Care, Inc. ("DVA") and the property is leased on a triple net basis. DVA is a wholly-owned subsidiary of Davita, Inc., a leading provider of dialysis services in the United States for patients suffering from chronic kidney failure.

Rangewood Medical Office Building

In March 2009, we acquired The Rangewood Medical Office Building ("Rangewood") located in Colorado Springs, Colorado. The purchase price for the property was $2.6 million, before transaction costs. We purchased the property with $200,000 cash and a $2,430,000 draw on the Credit Facility. Rangewood is a 3-story, Class A medical office building of approximately 18,222 rentable square feet. The building was constructed in 1998. As of December 31, 2010, the property was 94.9% occupied.

Genesis Plaza

In August, 2010, the Company completed the acquisition of Genesis Plaza. The purchase price was $10.0 million The Company paid the purchase price through a cash payment of $5.0 million and a new mortgage loan with an insurance company secured by the Property of $5.0 million. The loan bears interest at 4.65% with a 25 year amortization schedule and a maturity date of August, 24, 2015 that may be extended for an additional 5 years at the lender's discretion subject to a change in the interest rates and other terms of the agreement. The Property is a four-story suburban office building built in 1988 and located in the Kearny Mesa submarket of San Diego, California, consisting of 57,685 rentable square feet. As of December 31, 2010, the property was 86.7% occupied.

Self-Storage Properties:

Sparky's Palm Self-Storage

In November 2007, we acquired the Sparky's Palm Self-Storage property located in Highland, California. Our purchase price was $4.8 million, all of which we paid in cash. Sparky's Palm Self-Storage is comprised of ten single story buildings and one two-story building, totaling approximately 50,250 rentable square feet, located on approximately 2.81 acres of land. The buildings comprise approximately 494 self-storage rental units and 29 recreational vehicle (RV) rental spaces. The buildings are of framed stucco and modular construction completed in 2003. The property is approximately 80.7% occupied as of December 31, 2010.

In 2008, the Company sold approximately 48.1% of its interests in Sparky's Palm Self-Storage. In 2009, the Company and the other tenants in common in the property contributed their respective interests in Sparky's Palm Self-Storage into a DOWNREIT Partnership for which we serve as general partner and in which we own an approximate 51.97% equity interest.

Sparky's Joshua Self-Storage

In December 2007, the Company acquired the Sparky's Joshua Self-Storage property located in Hesperia, California. We purchased this property for approximately $8 million, including transaction costs. We purchased the property for cash and by assuming an existing loan. We repaid the assumed loan of $4.4 million in full in January 2008.

Sparky's Joshua Self-Storage was constructed in 2003 and 2005 and is comprised of four single level storage buildings with approximately 149,750 rentable square feet, a three bedroom residence building, and a six bay self-serve coin operated car wash facility located on approximately 9.5 acres of land. The property consists of approximately 789 self-storage units and 72 recreational vehicle (RV) rental spaces. The property is approximately 63.9% occupied as of December 31, 2010.

Sparky's Thousand Palms Self-Storage

In August 2009, we completed the acquisition of Sparky's Thousand Palms Self-Storage, formerly known as Monterey Palms Self-Storage, located in Thousand Palms, California. The purchase price for the property was $6.2 million. We paid the purchase price through a cash payment of $1.5 million, which was applied to closing costs and fees and to an existing loan secured by Thousand Palms, and assumed a nonrecourse, variable interest rate, promissory note with a principal balance after the closing of $4.7 million.

Sparky's Thousand Palms Self-Storage consists of nine (9) single story, Class A buildings, constructed of reinforced concrete masonry and metal construction with 113,126 rentable square feet comprised of 549 storage units which range in size from 25 to 300 square feet, and 94 enclosed RV and boat storage units that range in size from 150 to 600 square feet. The Property was built in 2007 and sits on approximately 5.5 acres or 238,273 square feet of land. The Property is located in the Palm Desert/Thousand Palms area adjacent to the Interstate 10 freeway in Riverside County, California. The property is approximately 57.1% occupied as of December 31, 2010.

Sparky's Hesperia East Self-Storage

In December 2009, We completed the acquisition of Sparky's Hesperia East Self-Storage, formerly known as St. Thomas Self-Storage located in Hesperia, California. The purchase price for the property was $2.8 million. We paid the purchase price through a cash payment of $1.1 million and a promissory note in the amount of $1.7 million.

Sparky's Hesperia East Self-Storage was constructed in 2007 and is comprised of fifteen single level storage buildings, a management office and a three bedroom residence building. The property consists of approximately 5.8 acres of land, 72,940 rentable square feet and approximately 479 self-storage units. The property is approximately 47% occupied as of December 31, 2010.

Sparky's Rialto Self-Storage

In May 2010, the Company completed the acquisition of Sparky's Rialto Self Storage, formerly known as Las Colinas Self-Storage, located in Rialto, California. The purchase price was $4.9 million. The Company paid the purchase price through a cash payment of approximately $2.0 million and a promissory note in the amount of approximately $2.9 million. The property consists of approximately 7.5 acres of land, 101,343 rentable square feet and approximately 771 self storage units. The property is approximately 46.7% occupied as of December 31, 2010.

Residential Properties:

Casa Grande Apartments

This is a 39-unit apartment complex, including related improvements, on approximately 1.2 acres. The property is located in Cheyenne, Wyoming. The complex contains a total of twenty (20) two-bedroom apartments, and nineteen (19) single-bedroom apartments. The enclosed living areas aggregate approximately 29,250 square feet. The property was constructed in 1973.

Cheyenne, which is located in the southeast corner of the state, has a population of approximately 82,000. The property is located at 921 E. 17th Street, which is in the city's downtown area in an established residential neighborhood next to Holiday Park, the city's largest public park. The neighborhood is comprised of approximately 70% single family residences, 10% multi-family housing, 15% commercial uses and 5% industrial uses.

We lease the property to tenants on a month-to-month basis. The roof of the property was replaced in 1996. We plan no major renovations to the property within the next 36 months. As of December 31, 2010, the property is 94.9% occupied. Current rental rates are $575 for single bedroom units and $630 for the 2-bedroom units. The property competes for tenants with comparable multi-unit properties and single family residences in its area. We believe the property is comparable or superior to other multi-unit properties in the area considering its location and close proximity to Holiday Park, one of the more desirable areas of the city.

The complex is constructed of wood frame with stucco exterior and wood facing and trim. The complex includes paved parking for approximately sixty cars (1.5 places per apartment unit). The grounds of the building contain approximately 20,000 square feet of open area, which is fully landscaped with concrete walks throughout the site. The property was constructed in 1973.

In 2008, the Company sold approximately 79.93% of its interests in Casa Grande. In 2009, the Company and the other tenants in common in the property contributed their respective interests in Casa Grande into a DOWNREIT Partnership for which we serve as general partner and in which we own a 20.07% equity interest.

Model Home Investments

In February 2009, DMHU and the Company entered into an agreement to form DAP II and in May 2009, they formed DAP III. NetREIT is a 75.7% limited partner in DAP II and an 83.0% limited partner in DAP III. The partnerships have invested in 19 Model Homes which were leased back to the developers.

The purpose of both partnerships was to acquire Model Homes from developers for long term investment by acquiring them at a discount to their appraised value, leasing them back to the seller for 1 to 3 years, and seeking to sell them thereafter for a profit.

Model Home Properties

The Company, through NetREIT Dubose, began making investments in model home purchases and lease backs to the developers. The three transactions completed in 2010 are described below.

In October 2010, NetREIT Dubose acquired four model home properties in Arizona and leased them back to the developer. The purchase price for the properties was $0.9 million. NetREIT Dubose paid the purchase price through a cash payment of $0.45 million and four promissory notes totaling $0.45 million.

In October 2010, NetREIT Dubose acquired ten model home properties in Oregon, Idaho and Washington and leased them back to the developer. The purchase price for the properties was $6.1 million. NetREIT Dubose paid the purchase price through a cash payment of $3.05 million and ten promissory notes totaling $3.05 million.

In December 2010, NetREIT Dubose acquired twelve model home properties in Texas and leased them back to the developer. The purchase price for the properties was $2.9 million. NetREIT Dubose paid the purchase price through a cash payment of $1.45 million and ten promissory notes totaling $1.45 million.

The DMHI Funds

As described above in Item 1, the Company acquired significant interests in each of DMHI Fund #3, DMHI Fund #4 and DMHI Fund #5 (collectively, the “DMHI Funds”)

At the time we acquired the DMHI Funds, the three funds had a total 29 model home properties under lease to their respective developers under NNN leases in 10 different states.

Retail Properties:

Escondido 7-Eleven

In September 2006, we acquired a stand-alone single use retail property located at 850 West Mission Road, Escondido, California. This property consists of a 3,000 sq. ft. retail building situated on an approximately 12,000 sq. ft. corner lot. The property consists of a one-story, brick and wood constructed building with a cement stucco exterior and an asphalt-paved parking lot The building is currently under lease to 7-Eleven, Inc. and is operated as a convenience store. The lease provides for minimum monthly rent of $9,000. The lease, which was originally terminable on December 31, 2008, has been extended to December 31, 2018 with minimum monthly rent of $9,000 during the first 5 years and $10,350 during the second 5 years. The lease is not subject to any renewal options. The lease is a triple net lease requiring the tenant to pay all property related operating costs including property taxes, insurance and maintenance costs.

In June 2007, we sold a 48.6% undivided interest in the property to the family trust of Mr. William H. Allen, for which he serves as trustee. The sales price was $680,425, which equaled the pro rata share of agreed upon fair value for the property, including most of our acquisition costs and expenses. As a condition to the transaction, the parties, among other things, agreed to engage CHG Properties, Inc. to manage the property.

In April 2008, we and our co-owner contributed our respective interests in this property to a newly formed California limited partnership (the “NetREIT 01 LP Partnership). We serve as general partner of, and own a 51.4% equity interest in, the partnership. In October 2009, under his right to do so granted upon the formation of the partnership, the trust elected to convert a 33.3% equity interest in the partnership into 25,790 shares of our common stock at a price of $9.30 per share for a total of $239,844. Mr. Allen was elected to our Board at our annual shareholder meeting on October 16, 2009. Following this conversion, NetREIT’s equity interest in the partnership increased to 67.6%.

World Plaza

In September 2007, we completed our purchase of the World Plaza Retail Center, a multi-tenant neighborhood retail center located in San Bernardino, California. The property consists of approximately 55,098 square feet of gross leaseable area situated on approximately 4.48 acres used pursuant to a lease covering the land only (the “Ground Lease”). The purchase price of $7.7 million was with cash and by assumption of an existing loan in the principal amount of $3.7 million secured by a first deed of trust on the Ground Lease. The Ground Lease requires us to pay current annual rentals of $20,040 with scheduled increases over the life of the lease and expires on June 31, 2062. The Ground lease includes an option to purchase the property at the price of $181,710 in 2062. This property is approximately 90.2% occupied as of December 31, 2010.

The property was constructed in 1974. The major tenants on the property include the County of San Bernardino and Citizens Business Bank.

Regatta Square

In October 2007, we completed our purchase of the Regatta Square, a neighborhood retail center located in Denver, Colorado. The purchase price was $2.2 million including transaction costs, all payable in cash. This property is comprised of approximately 5,983 square feet of gross leasable space situated on 0.4 acres of land. The property is 100% occupied as of December 31, 2010.

Waterman Plaza

In August 2008, we purchased the Waterman Plaza located in San Bernardino, California. We paid the $7.2 million purchase price for the property with cash and a fixed rate promissory note in the amount of $3.8 million (the "Promissory Note"). The Promissory Note bears a fixed interest rate of 6.5% per annum and is due in September 2015. The Promissory Note is secured by a first deed of trust on the property. The Promissory Note requires regular monthly payments of principal and interest commencing in September 2008.

Waterman Plaza was a newly constructed retail/office building of approximately 21,170 gross leaseable area and approvals to construct an additional 2,300 square foot building. The property consists of a total of 2.7 acres. The property is approximately 83.6% occupied as of December 31, 2010.

Our Real Estate Loan Investments

Mortgage loan investments have been a very minor source of our revenue since our inception. As a general policy, we are not in the business of originating mortgage loans.

During 2008, we sold undivided interests in the Garden Gateway Plaza and Sparky's Palm Self-Storage properties. In connection with these sales, we took back notes from the buyers in the aggregate amount of approximately $0.9 million. The notes are secured by the buyers' interests in these properties.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. MARKET PRICE FOR REGISTRANT’S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUERS PURCHASES OF EQUITY SECURITIES

To date, there is no public market for any of our securities.

We pay quarterly cash distributions computed on a monthly basis to our common shareholders. The following is a summary of monthly distributions paid per common share for the years:

Month	2010	2009	
	Cash Dividend	Stock Dividend(1)	Cash Dividend
January	0.0475		$ 0.050
February	0.0475		0.050
March	0.0475		0.050
April	0.0475		0.050
May	0.0475		0.050
June	0.0475		0.050
July	0.0475		0.050
August	0.0475		0.050
September	0.0475		0.050
October	0.0475		0.050
November	0.0475		0.050
December	0.0475	5 %	0.050
Total	$ 0.5700		$ 0.600

(1) On January 2, 2010, the Company issued a stock dividend of 5%, or 482,027 common shares, to shareholders of record on December 31, 2009.

At December 31, 2010, a cash distribution of $0.1425 per common share was payable and was paid in January 2011. At December 31, 2009, a cash distribution of $0.15 per common share was payable and was paid in February 2010.

We paid dividends on our shares of Series AA Preferred Stock at a quarterly rate of $0.437 per share until the shares were redeemed in May 2010 for an aggregate distribution of $34,447. In addition we made distributions on our shares of AA Preferred Stock outstanding in 2009 at a quarterly rate of $0.437 per share, resulting in aggregate distributions on these shares of $87,850.

Market Information

Our common stock is not currently traded on any stock exchange or electronic quotation system. We do not expect that our common stock will be traded on any stock exchange or electronic quotation system.

Dividend Policy

We plan to pay at least 90% of our annual REIT Taxable Income to our shareholders in order to maintain our status as a REIT. We have paid dividends to our shareholders at least quarterly since the first quarter we commenced operations on April 1, 1999.

We intend to continue to declare quarterly distributions. However, we cannot provide any assurance as to the amount or timing of future distributions. Although we eventually intend to make cash dividend distributions out of our operating cash flow and proceeds from the sale of properties, we do not presently have sufficient operating cash flow to do so, and we do not anticipate generating sufficient cash flow from operations to do so in the near future. Therefore, to fund our future dividends, we expect that we will continue to rely on proceeds from additional borrowings of secured or unsecured debt, proceeds from the sale of properties owned and from proceeds of the ongoing private placement of common stock until such time that our cash flow from operations exceeds the amount of cash dividends paid to shareholders. In the event that we are unable to make distributions out of cash flow from operations, or cannot secure additional equity or debt financing, our ability to declare and pay a cash dividend on our common stock may be materially limited.

To the extent that we make distributions in excess of our earnings and profits, as computed for federal income tax purposes, these distributions will represent a return of capital, rather than a dividend, for federal income tax purposes. Distributions that are treated as a return of capital for federal income tax purposes generally will not be taxable as a dividend to a U.S. shareholder, but will reduce the shareholder's basis in its shares (but not below zero) and therefore can result in the shareholder having a higher gain upon a subsequent sale of such shares. Return of capital distributions in excess of a shareholder's basis generally will be treated as gain from the sale of such shares for federal income tax purposes.

Annually, we provide each of our shareholders a statement detailing distributions paid during the preceding year and their characterization as ordinary income, capital gain or return of capital. During the years ended December 31, 2010 and 2009, all distributions were non-taxable as they were considered return of capital to the shareholders.

Number of Holders of Each Class of Stock

As of March 9, 2011, there were 2,650 holders of our Series A common stock.

Securities Issued Under our 1999 Flexible Incentive Plan

The following table provides information as of December 31, 2010 regarding securities awarded under our only securities compensation plan, the 1999 Flexible Incentive Plan (the "Plan")

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 plans (excluding securities reflected in column (a)) **(c)**
Equity compensation plans approved by security holders	None	None	(1)
Equity compensation plans not approved by security holders	None	None	None
Totals			(1)

(1) The stock option compensation was issued under the Plan by our Board which administers the Plan provides that no more than 10% of the outstanding shares can be issued under the Plan. At December 31, 2010 the maximum number of shares that could be issued under the Plan was 1,242,988 shares. Excluding the non-vested restricted stock described in note (2) below, the number of securities remaining available for future issuance under equity compensation plans is 1,236,815 shares at December 31, 2010.

(2) In addition to the stock options awarded under the Plan, the Compensation Committee of the Board of Directors adopted a restricted stock compensation plan under the Plan in December 2006. A table of non-vested restricted shares granted and vested since December 31, 2007 is as follows:

Balance, December 31, 2007	10,847
Granted	29,265
Vested	(12,751)
Cancelled	(134)
Balance, December 31, 2008	27,227
Granted	43,984
Vested	(24,787)
Cancelled	(566)
Balance, December 31, 2009	45,858
Granted	53,617
Vested	(37,547)
Cancelled	(286)
Balance, December 31, 2010	61,642

See Note 8 of the Notes to Financial Statements for further description of the employee retirement and share-based incentive plans. All shares issuable under the Plan are Series A common stock.

Issuer Purchases of Equity Securities

	(c) Total	**(d) Maximum Number (or Approximate**

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (1)	Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (1)
July 1 — July 31, 2010	7,854	$8.00		
Total	7,854	$8.00		

(1) We do not have a repurchase program or a formal policy regarding repurchases of our common stock. Our repurchase of our common stock in 2010 was made at the request of the shareholder and was due to financial hardship of the selling shareholder or other considerations.

During the period starting on October 1, 2010 and ending on March 9, 2011, we sold an aggregate of 839,779 shares of our common stock resulting in aggregate net proceeds of approximately $6,986,966. These shares were sold at a price of $10.00 per share in a private placement offering to a total of 345 accredited investors. Each issuee purchased its shares for investment and the shares are subject to appropriate transfer restrictions. The offering was made by us through selected FINRA member broker-dealer firms. The sales were made in reliance on the exemptions from registration under the Securities Act of 1933 and applicable state securities laws contained in Section 4(2) of the Act and Rule 506 promulgated thereunder.

During the period starting on October 1, 2010 and ending on March 9, 2011, we also issued 188,060 shares of our common stock to certain of our existing shareholders under our dividend reinvestment plan. The shares were issued directly by us without underwriters to a total of 1,450 persons participating in the plan. We sold these shares in reliance on the exemptions from registration under the Securities Act of 1933 and applicable state securities laws set forth in Section 4(2) of the Act and Rule 506 promulgated thereunder. Each issuee purchased the shares for investment and the shares are subject to appropriate transfer restrictions.

All shares issued in these offerings were sold for cash consideration.

ITEM 6. SELECTED FINANCIAL DATA

Not required.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion relates to our financial statements and should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. Statements contained in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" that are not historical facts may be forward-looking statements. Such statements are subject to certain risks and uncertainties, which could cause actual results to materially differ from those projected. Some of the information presented is forward-looking in nature, including information concerning projected future occupancy rates, rental rate increases, project development timing and investment amounts. Although the information is based on our current expectations, actual results could vary from expectations stated in this report. Numerous factors will affect our actual results, some of which are beyond our control. These include the timing and strength of national and regional economic growth, the strength of commercial and residential markets, competitive market conditions, fluctuations in availability and cost of construction materials and labor resulting from the effects of worldwide demand, future interest rate levels and capital market conditions. You are cautioned not to place undue reliance on this information, which speaks only as of the date of this report. We assume no obligation to update publicly any forward-looking information, whether as a result of new information, future events or otherwise, except to the extent we are required to do so in connection with our ongoing requirements under federal securities laws to disclose material information. For a discussion of important risks related to our business, and an investment in our securities, including risks that could cause actual results and events to differ materially from results and events referred to in the forward-looking information. See Item 1A for a discussion of material risks.

OVERVIEW AND BACKGROUND

We operate as a self-administered real estate investment trust ("REIT") headquartered in San Diego County, California, formed to own, operate and acquire income producing real estate properties. During the last three years, we have completed the acquisition of ten income producing properties and invested in five income producing real estate partnerships. We built our operational and administrative infrastructure, including hiring a staff of quality employees, to give us the capability to become a large real estate investing company as well as having the resources to deal with the additional burden of compliance with the U.S. Securities and Exchange Commission ("SEC") rules and regulations. On March 1, 2010, NetREIT Advisors began managing and serving as external advisor to NetREIT Dubose. NetREIT Advisors' general and administrative expenses are currently approximately $50,000 per month. NetREIT Advisors did not generate any acquisition fees from unrelated parties until the fourth quarter 2010. We expect its fee revenue to exceed the expenses commencing in 2011. Our general and administrative expenses, including those of NetREIT Advisors, which we finance, have increased at a greater rate than our operating income, resulting in net losses of $2,989,349 and $2,533,527 in 2010 and 2009, respectively. NetREIT Dubose will continue to make additional property acquisitions and we expect revenues less rental operating costs to increase at a far greater rate than our general and administrative costs. Therefore, we anticipate that our net loss will decline in the future.

During the last three years we experienced rapid growth, having increased capital by approximately 150.9% to $73.3 million at December 31, 2010 from $65.8 million at December 31, 2009 from $29.3 million at December 31, 2007. Our investment portfolio, consisting of real estate assets, lease intangibles, investment in real estate ventures, land purchase option and mortgages receivable, have increased by approximately 158.5% to $120.7 million at December 31, 2010 from $87.0 million at December 31, 2009 from $46.7 million at December 31, 2007. The primary source of the growth in the portfolio during these three years was attributable to increase in capital from the net proceeds of approximately $58.8 million from the sale of additional equity securities. The increase in our investment portfolio was also funded from proceeds from mortgage notes payable, net of principal repayments, of approximately $37.0 million.

Economic Outlook

Over the last few years, the United States and global economy have been in a recession and although during 2010 there were indications of improvement and stabilization, we believe the United States remains in a recession. The current economic environment is characterized by a residential housing foreclosures and oversupply of homes, depressed commercial real estate valuations, weak consumer spending, employment anxiety and concerns of inflation and higher interest rates. Business profits and investment seem to be improving generally. However, the housing sector and finance have so far not significantly improved. We believe that the pace of this recovery will likely be slow and disjointed. Recovery will start with increasing job growth, but it will not be consistent across industries, geographies or periods of the year causing an uneven tempo of growth.

There has been an improvement in the liquidity to the real estate mortgage markets, largely due to renewed life insurance company lending and, to a lesser degree, the reemergence of the collateralized mortgage backed securities ("CMBS"). However, the market is "two tiered" with favorable lending terms for the best properties in prioritized locations and a second tier for distressed properties or loans in less desirable locations. In addition, the lenders' underwriting terms are much more stringent than prior to the financial crisis. We believe that there will be opportunities from the debt markets in the form of low interest rates for property buyers in 2011, but also for lenders willing to fill the void for smaller deals and borrowers, and for mezzanine lenders filling the equity gap on expiring loans that were made before the financial crisis.

In addition, this difficult economic environment may also make it difficult for our tenants to continue to meet their obligations to us. We have been successful maintaining relatively even levels of occupancy at our stabilized properties; however, overall progress to date in the office leasing velocity and pricing has been inconsistent both regionally and across assets of differing quality. Vacancy rates in our markets appear to have reached the top and are starting to descend at a slow pace. Substantial job gains and the completion of office tenant downsizing will be needed to bolster occupancy and allow landlords to regain a measure of pricing power. Several years may be required before vacancy rates decline sufficiently to support meaningful growth in rents.

Our involvement in retail properties has been limited. Retail demand for space in 2011 is expected to be positive for the first time since 2007. However, the increase is expected to be modest and availability rates will remain high, keeping downward pressure on rents. Although retail sales are coming back online, sales are a continued challenge to the need for expanding "brick and mortar" and with the availability rates across retail types are so high we believe that the retail investment arena could be five years before strong rent growth is imminent.

Economic growth rates have shown trends of stabilizing in recent periods and inflation rates in the United States has remained low. Changes in inflation/deflation are sometimes associated with changes in long-term interest rates, which may have a negative impact on the value of the portfolio we own. To mitigate this risk, we will continue to seek to lease our properties with fixed rent increases and/or with scheduled rent increases based on formulas indexed to increases in the Consumer Price Index ("CPI") or other indices for the jurisdiction in which the property is located. To the extent that the CPI increases, additional rental income streams may be generated from these leases and thereby mitigate the impact of inflation.

Management Evaluation of Results of Operations

Management evaluates our results of operations with a primary focus on increasing and enhancing the value, quality and quantity of properties and seeking to increase value in our real estate. Management focuses its efforts on improving underperforming assets through re-leasing efforts, including negotiation of lease renewals, or selectively selling assets in order to increase value in our real estate portfolio. The ability to increase assets under management is affected by our ability to raise capital and our ability to identify appropriate investments.

Management's evaluation of operating results includes an assessment of our ability to generate cash flow necessary to fund distributions to our shareholders. As a result, management's assessment of operating results gives less emphasis to the effects of unrealized gains and losses and other non-cash charges such as depreciation and amortization and impairment charges, which may cause fluctuations in net income for comparable periods but have no impact on cash flows. Management's evaluation of our potential for generating cash flow includes assessments of our recently acquired properties, our unstabilized properties, the long-term sustainability of our real estate portfolio, our future operating cash flow from anticipated acquisitions, and the proceeds of sales of our real estate.

During the three-year period ended December 31, 2010, our cash flow from operations ($2.4 million) and our net proceeds from sales of real estate ($4.7 million) exceeded the aggregate dividends we paid out to our shareholders ($6.6 million). Our cash flow from operations of $0.6 million and no proceeds from sales of real estate during the year ended 2010 was less than our aggregate dividends paid to our shareholders of $3.0 million. During 2010, the excess dividends were paid from the proceeds from our ongoing common stock offering. As we cannot predict when our sales of real estate will occur, and as such sales are subject to various factors, many of which are not in our control, our cash flow from such sales will likely fluctuate significantly. In light of the highly distressed nature of the commercial real estate economy in 2009 and 2010, we exercised extreme caution with respect to potential property acquisitions, and consequently we consummated fewer property acquisitions which resulted in the accumulation of significant cash balances that provided a very low yield. In addition, our current cash flow from operating activities has been significantly impacted by the increase in general and administrative expenses required to facilitate our growth and the start up expenses of the new model home business. We anticipate that as our existing properties are stabilized and fully reflected in the annual cash flow, and as we acquire additional properties, our revenues will increase at a faster rate than our general and administrative expenses due to efficiencies of scale. We therefore believe that when all properties are operating at stabilized rates and when excess cash on hand is fully invested with continued funds from raising capital, we will be able to fund future distributions to our shareholders from cash flow from operations.

Management focuses on measures of cash flows from investing activities and cash flows from financing activities in its evaluation of our capital resources. Investing activities typically consist of the acquisition or disposition of investments in real property or mortgage receivables and the funding of capital expenditures with respect to real properties. Financing activities primarily consist of raising proceeds from sale of common stock, borrowings and repayments of mortgage debt and the payment of distributions to our shareholders.

As of December 31, 2010, we owned or had an equity interest in eight Office Properties which total approximately 423,000 rentable square feet, four Retail Properties which total approximately 85,000 rentable square feet, five Self Storage Properties which total approximately 487,000 rentable square feet, and one Residential Property. In 2009, we acquired ownership interests in DAP II and DAP III which own an aggregate of 19 Model Home Properties. During the last quarter of 2010, we acquired a significant interest in the three DMHI Funds which own in the aggregate 29 Model Home Properties. In addition, NetREIT Dubose has acquired 26 Model Home Properties

Our properties, except for the model home properties, are located primarily in Southern California and Colorado with a single property in Wyoming. Except for Southern California, these areas have above average population growth. We do not develop properties but acquire properties that are stabilized or that we anticipate will be stabilized within one year for office and retail and three years for self storage facilities of acquisition. We consider a property to be stabilized once it has achieved an 80% occupancy rate for a full year as of January 1 of such year, or has been operating for three years. Our geographical clustering of assets enables us to reduce our operating costs through economies of scale by servicing a number of properties with less staff, but it also makes us more susceptible to changing market conditions in these discrete geographic areas. We actively seek potential acquisitions through regular communications with real estate brokers and other third parties. Most of our office and retail properties are leased to a variety of tenants ranging from small businesses to large public companies, many of which do not have publicly rated debt. We have in the past entered into, and intend in the future to enter into, purchase agreements for real estate having net leases that require the tenant to pay all of the operating expense (Net, Net, Net Leases) or pay increases in operating expenses over specific base years.

Most of our leases are for terms of 3 to 5 years with annual rental increases built into such leases. The Residential Properties and Self-Storage Properties are rented pursuant to a rental agreement that is for no longer than 6 months. The Self-Storage Properties are located in markets having other self-storage properties. Competition with these other properties will impact our operating results of these properties, which depends materially on our ability to timely lease vacant self storage units, to actively manage unit rental rates, and our tenants' ability to make required rental payments. To be successful, we must be able to continue to respond quickly and effectively to changes in local and regional economic conditions by adjusting rental rates of these properties within their regional market in Southern California. We depend on advertisements, flyers, websites, etc. to secure new tenants to fill any vacancies.

CRITICAL ACCOUNTING POLICIES

The presentation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Certain accounting policies are considered to be critical accounting policies, as they require management to make assumptions about matters that are highly uncertain at the time the estimate is made, and changes in the accounting estimate are reasonably likely to occur from period to period. As a company primarily involved in owning income generating real estate assets, management believes the following critical accounting policies reflect our more significant judgments and estimates used in the preparation of our financial statements. For a summary of all of our significant accounting policies, see note 2 to our financial statements included elsewhere in this report.

Federal Income Taxes. We have elected to be taxed as a Real Estate Investment Trust ("REIT") under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"), for federal income tax purposes. To qualify as a REIT, we must distribute annually at least 90% of adjusted taxable income, as defined in the Code, to our shareholders and satisfy certain other organizational and operating requirements. As a REIT, no provision will be made for federal income taxes on income resulting from those sales of real estate investments which have or will be distributed to shareholders within the prescribed limits. However, taxes will be provided for those gains which are not anticipated to be distributed to shareholders unless such gains are deferred pursuant to Section 1031. In addition, the Company will be subject to a federal excise tax which equals 4% of the excess, if any, of 85% of the Company's ordinary income plus 95% of the Company's capital gain net income over cash distributions.

Earnings and profits that determine the taxability of distributions to shareholders differ from net income reported for financial reporting purposes due to differences in estimated useful lives and methods used to compute depreciation and the carrying value (basis) on the investments in properties for tax purposes, among other things. During the years ended December 31, 2010 and 2009, all distributions were considered return of capital to the shareholders and therefore non-taxable.

We believe that we have met all of the REIT distribution and technical requirements for the years ended December 31, 2010 and 2009.

REAL ESTATE ASSETS

Property Acquisitions. We account for our acquisitions of real estate in accordance with accounting principles generally accepted in the United States of America ("GAAP") requiring that the purchase price of acquired properties be allocated to the acquired tangible assets and liabilities, consisting of land, building, tenant improvements, a land purchase option, long-term debt and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, the value of in-place leases, unamortized lease origination costs and tenant relationships, based in each case on their fair values.

We allocate the purchase price to tangible assets of an acquired property (which includes land, building and tenant improvements) based on the estimated fair values of those tangible assets, assuming the building was vacant. Estimates of fair value for land, building and building improvements are based on many factors including, but not limited to, comparisons to other properties sold in the same geographic area and independent third party valuations. We also consider information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair values of the tangible and intangible assets and liabilities acquired.

The total value allocable to intangible assets acquired, which consists of unamortized lease origination costs, in-place leases and tenant relationships, are allocated based on management's evaluation of the specific characteristics of each tenant's lease and our overall relationship with that respective tenant. Characteristics considered by management in allocating these values include the nature and extent of the existing business relationships with the tenant, growth prospects for developing new business with the tenant, the remaining term of the lease and the tenant's credit quality, among other factors.

The value allocable to above or below market component of an acquired in-place lease is determined based upon the present value (using a market discount rate) of the difference between (i) the contractual rents to be paid pursuant to the lease over its remaining term, and (ii) management's estimate of rents that would be paid using fair market rates over the remaining term of the lease. The amounts allocated to above or below market leases are included in lease intangibles, net in the accompanying balance sheets and are amortized on a straight-line basis as an increase or reduction of rental income over the remaining non-cancelable term of the respective leases.

The land lease acquired with the World Plaza acquisition in 2007 has a fixed purchase price option cost of $181,710 at the termination of the lease in 2062. Management valued the land option at its residual value of $1,370,000, based upon comparable land sales adjusted to present value. The difference between the strike price of the option and the recorded cost of the land purchase option is approximately $1.2 million. Accordingly, management has determined that exercise of the option is considered probable. The land purchase option was determined to be a contract based intangible asset associated with the land. As a result, this asset has an indefinite life and is treated as a non-amortizable asset. The amount is included as land purchase option in the accompanying balance sheets.

The value of in-place leases, unamortized lease origination costs and tenant relationships are amortized to expense over the remaining term of the respective leases, which range from less than a year to ten years. The amount allocated to acquire in-place leases is determined based on management's assessment of lost revenue and costs incurred for the period required to lease the "assumed vacant" property to the occupancy level when purchased. The amount allocated to unamortized lease origination costs is determined by what the Company would have paid to a third party to recruit a new tenant reduced by the expired term of the respective lease. The amount allocated to tenant relationships is the benefit resulting from the likelihood of a tenant renewing its lease. Amortization expense related to these assets was $343,205 and $389,267 for the years ended December 31, 2010 and 2009, respectively.

Estimates of the fair values of the tangible and intangible assets require us to estimate market lease rates, property-operating expenses, carrying costs during lease-up periods, discount rates, market absorption periods, and the number of years the property will be held for investment. The use of inappropriate estimates would result in an incorrect assessment of our purchase price allocation, which would impact the amount of our net income.

Sales of Real Estate Assets. Gains from the sale of real estate assets will not be recognized under the full accrual method until certain criteria are met. Gain or loss (the difference between the sales value and the cost of the real estate sold) shall be recognized at the date of sale if a sale has been consummated and the following criteria are met:

a. The buyer is independent of the seller.

b. Collection of the sales price is reasonably assured.

c. The seller will not be required to support the operations of the property or its related obligations to an extent greater than its proportionate interest.

Gains relating to transactions which do not meet the criteria for full accrual method of accounting are deferred and recognized when the full accrual method of accounting criteria are met or by using the installment or deposit methods of profit recognition, as appropriate in the circumstances.

As of December 31, 2010 and 2009, we did not classify any properties as held for sale.

Depreciation and Amortization of Buildings and Improvements. Land, buildings and improvements are recorded at cost. Major replacements and betterments, which improve or extend the life of the asset, are capitalized and depreciated over their estimated useful lives, while ordinary repairs and maintenance are expensed as incurred. The cost of buildings and improvements are depreciated using the straight-line method over estimated useful lives ranging from 30 to 55 years for buildings, improvements are amortized over the shorter of the estimated life of the asset or term of the tenant lease which range from 1 to 10 years, and 4 to 5 years for furniture, fixtures and equipment. Depreciation expense for buildings and improvements for the years ended December 31, 2010 and 2009, was $3,014,603 and $1,758,125, respectively.

Intangible Assets. Lease intangibles represents the allocation of a portion of the purchase price of a property acquisition representing the estimated value of in-place leases, unamortized lease origination costs, tenant relationships and a land purchase option. Intangible assets are comprised of finite-lived and indefinite-lived assets. Indefinite-lived assets are not amortized. Finite-lived intangibles are amortized over their expected useful lives. We assess our intangible assets for impairment at least annually.

We are required to perform a test for impairment of other definite and indefinite lived intangible assets at least annually, and more frequently as circumstances warrant. Our testing date is the end of our calendar year. Based on our current reviews, no impairment was deemed necessary at December 31, 2010 or 2009.

Other intangible assets that are not deemed to have an indefinite useful life are amortized over their estimated useful lives. The carrying amount of intangible assets that are not deemed to have an indefinite useful life is regularly reviewed for indicators of impairments in value. Impairment is recognized only if the carrying amount of the intangible asset is considered to be unrecoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and the estimated fair value of the asset. Based on the review, no impairment was deemed necessary at December 31, 2010 or 2009.

Impairment. The Company reviews the carrying value of each property to determine if circumstances that indicate impairment in the carrying value of the investment exist or that depreciation periods should be modified. If circumstances support the possibility of impairment, the Company prepares a projection of the undiscounted future cash flows, without interest charges, of the specific property and determines if the investment in such property is recoverable. If impairment is indicated, the carrying value of the property is written down to its estimated fair value based on the Company’s best estimate of the property’s discounted future cash flows.

Impairment of Real Estate Assets. The Company continually monitors events and changes in circumstances that could indicate that the carrying amounts of our real estate assets may not be recoverable as required by generally accepted accounting principles. If circumstances support the possibility of impairment, the Company prepares a projection of the undiscounted future cash flows, without interest charges, for the identified property and determines if the investment in such property is recoverable. If impairment is indicated, the carrying value of the property is written down to its estimated fair value based on the Company's best estimate of the property's discounted future cash flows. As of December 31, 2010, based on a review of each of our properties to determine if circumstances indicate impairment in the carrying value of the property exist, we determined that one of our properties was impairment. That property is the Havana Parker Office complex in Aurora, Colorado, a part of our office segment which had a carrying value of approximately $6.5 million at December 31, 2010. This property consists of 114,100 square feet of office space divided up into units ranging from 178 to 4,100 square feet and averaging 1,400 square feet. Due to many factors, including the general economy and rental competition from nearby office buildings, this property’s occupancy had decreased to 51% and rental rates had also declined. Based on these and other factors, we concluded that the property was impaired and required adjustment to fair value. Fair value of the property was based on our analysis of future discounted cash flows using new lease move-ins and rent rates starting with the new tenant results achieved in 2009 and 2010. After 2011, the rent rates were increased approximately 5% and the absorption rate remained constant until a 15% vacancy rate was achieved. We believe the assumptions are reasonable but we cannot give any assurance that they will, in fact, be realized. Based on this analysis, we determined a $1.0 million write-down of the carrying value of this property was appropriate. The mortgage note payable on the property of approximately $3.3 million is payable in monthly installments of through July 1, 2016. The mortgage note payable does not have any debt covenants that would likely to be violated as a result of this impairment and the building’s performance.

There were no impairments recognized on the Company’s real estate assets at December 31, 2009.

Investments in Real Estate Ventures. The Company analyzes its investments in joint ventures including any investments held as tenants in common to determine whether the investment should be accounted for under the equity method of accounting or consolidated into the financial statements. The Company has determined that the investments held as a tenant in common interest should be accounted under the equity method. Under the equity method, the Company’s investment in real estate ventures is stated at cost and adjusted for the Company’s share of net earnings or losses and reduced by distributions. Equity in earnings of real estate ventures is generally recognized based on the Company’s ownership interest in the earnings of each of the unconsolidated real estate ventures. For the purposes of presentation in the statement of cash flows, the Company follows the “look through” approach for classification of distributions from joint ventures. Under this approach, distributions are reported under operating cash flow unless the facts and circumstances of a specific distribution clearly indicate that it is a return of capital (e.g., a liquidating dividend or distribution of the proceeds from the joint venture’s sale of assets) in which case it is reported as an investing activity. Management assesses whether there are any indicators that the value of the Company’s investments in unconsolidated real estate ventures may be impaired when events or circumstances indicate that there may be an impairment. An investment is impaired if management’s estimate of the fair value of the investment is less than its carrying value. To the extent impairment has occurred, and is considered to be other than temporary, the loss is measured as the excess of the carrying amount of the investment over the fair value of the investment. As of December 31, 2010, the Company did not have any investments in real estate ventures. There were no impairment charges recognized for the year ended December 31, 2009.

Revenue Recognition. We recognize revenue from rent, tenant reimbursements, and other revenue once all of the following criteria are met:

- persuasive evidence of an arrangement exists;
- delivery has occurred or services have been rendered;
- the amount is fixed or determinable; and
- the collectability of the amount is reasonably assured.

Annual rental revenue is recognized in rental revenues on a straight-line basis over the term of the related lease. Estimated recoveries from certain tenants for their pro rata share of real estate taxes, insurance and other operating expenses are recognized as revenues in the period the applicable expenses are incurred or as specified in the leases. Other tenants pay a fixed rate and these tenant recoveries are recognized as revenue on a straight-line basis over the term of the related leases.

Certain of our leases currently contain rental increases at specified intervals. We record as an asset, and include in revenues, deferred rent receivable that will be received if the tenant makes all rent payments required through the expiration of the initial term of the lease. Deferred rent receivable in the accompanying balance sheets includes the cumulative difference between rental revenue recorded on a straight-line basis and rents received from the tenants in accordance with the lease terms. Accordingly, we determine, in our judgment, to what extent the deferred rent receivable applicable to each specific tenant is collectible. We review material deferred rent receivable, as it relates to straight-line rents, on a quarterly basis and take into consideration the tenant's payment history, the financial condition of the tenant, business conditions in the industry in which the tenant operates and economic conditions in the area in which the property is located. In the event that the collectability of deferred rent with respect to any given tenant is in doubt, we record an increase in the allowance for uncollectible accounts, we record a direct write-off of the specific rent receivable. No such reserves related to deferred rent receivables have been recorded as of December 31, 2010 or 2009.

Interest income on mortgages receivable is accrued as it is earned. The Company stops accruing interest income on a loan if it is past due for more than 90 days or there is doubt regarding collectability of the loan principal and/or accrued interest receivable.

New Accounting Pronouncements. In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* ("ASU No. 2010-06"). ASU No. 2010-06 requires additional disclosures regarding significant transfers in and out of Level 1 and Level 2 fair value measurements, including a description of the reasons for the transfers. Further, this ASU requires additional disclosures about purchases, sales, issuances and settlements relating to the activity in Level 3 fair value measurements. ASU No. 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements relating to the activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The adoption of ASU No. 2010-06 did not have a material impact on the Company's consolidated financial statements.

In July 2010, the FASB issued ASU No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* ("ASU No. 2010-20"). ASU No. 2010-20 requires the Company to provide a greater level of disaggregated information about the credit quality of its financing receivables and its allowance for credit losses. This ASU also requires the Company to disclose additional information related to credit quality indicators, past due information, information related to loans modified in a troubled debt restructuring and significant purchases and sales of financing receivables disaggregated by portfolio segment. ASU No. 2010-20 was initially effective for interim and annual periods ending on or after December 15, 2010. As this ASU amends only the disclosure requirements for loans and the allowance for credit losses, the adoption of ASU No. 2010-20 is not expected to have a significant impact on the Company's financial statements. In January 2011, the FASB issued ASU No. 2011-01, *Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20* ("ASU No. 2011-01"). ASU No. 2011-01 announced that it was deferring the effective date of new disclosure requirements for troubled debt restructurings prescribed by ASU No. 2010-20. The effective date for those disclosures will be concurrent with the effective date for proposed ASU No. 2010-20. Currently, that guidance is anticipated to be effective for interim and annual periods ending after June 15, 2011. The adoption of ASU No. 2010-20 may require additional disclosures, but the Company does not expect the adoption to have a material impact to its consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-29, *Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations (a consensus of the FASB Emerging Issues Task Force)* ("ASU No. 2010-29"). ASU No. 2010-29 updated accounting guidance to clarify that pro forma disclosures should be presented as if a business combination occurred at the beginning of the prior annual period for purposes of preparing both the current reporting period and the prior reporting period pro forma financial information. These disclosures should be accompanied by a narrative description about the nature and amount of material, nonrecurring pro forma adjustments. The new accounting guidance is effective for business combinations consummated in periods beginning after December 15, 2010, and should be applied prospectively as of the date of adoption. Early adoption is permitted. The Company adopted ASU No. 2010-29 for the year ended December 31, 2010 and the adoption of this ASU did not have a material impact to the Company's consolidated financial statements.

THE FOLLOWING IS A COMPARISON OF OUR RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Our results of operations for the years ended December 31, 2010 and 2009 are not indicative of those expected in future periods as we expect that rental income, interest expense, rental operating expense, general and administrative expense and depreciation and amortization will significantly increase in future periods as a result of the assets acquired over the last four years and as a result of anticipated growth through future acquisitions of real estate related investments.

RECENT EVENTS HAVING SIGNIFICANT EFFECT ON RESULTS OF OPERATIONS COMPARISONS

Property Acquisitions

In January 2009, we acquired the Morena Office Center, an office building located in San Diego, California. The purchase price for the property was $6.6 million. We purchased the property with $3.4 million cash and a $3.2 million draw on our line of credit facility. This property consists of approximately 26,784 square foot building on approximately 0.62 acres.

In February 2009, we formed FMP with Fontana Dialysis LLC. We are the Managing Member and 51% owner of FMP. On February 19, 2009, FMP assumed an agreement to purchase the Fontana Medical Plaza located in Fontana, California. The purchase price for the property was $1,900,000. We purchased the property with $800,000 cash and a $1,100,000 draw on our line of credit facility. The property consists of approximately 10,500 square feet and is currently unoccupied. The FMP has also assumed a lease agreement for a tenant to occupy 100% of the building for ten years with three five year renewal options. The new tenant commenced paying rent in November 2009. The lease agreement requires annual rent payments during the first five years of $259,973 increasing by 12.5% on the fifth year anniversary and on each five year anniversary thereafter. There are approximately 3 months results of operations for this property included for the year ended December 31, 2009 compared to inclusion of a full year for the year ended December 31, 2010.

In March 2009, we acquired Rangewood located in Colorado Springs, Colorado. The purchase price for the property was $2.6 million. We purchased the property with $200,000 cash and a $2,430,000 draw on our line of credit facility. Rangewood is a 3-story, Class A medical office building of approximately 18,222 rentable square feet. There are approximately nine months results of operations for this property included for the year ended December 31, 2009 compared to inclusion of a full year for the year ended December 31, 2010.

In August 2009, we acquired Sparky's Thousand Palms located in Thousand Palms, California. The purchase price for the Property was $6.2 million. We paid the purchase price through a cash payment of $1.5 million which was applied to closing costs and fees and to an existing loan secured by the property, and assumed a nonrecourse, variable interest rate, promissory note with a principal balance after the closing of $4.7 million. The property consists of nine (9) single story, Class A buildings, constructed of reinforced concrete masonry and metal construction with 113,126 rentable square feet comprised of 549 storage units which range in size from 25 to 300 square feet, and 94 enclosed RV and boat storage units that range in size from 150 to 600 square feet. There are approximately four months results of operations for this property included for the year ended December 31, 2009 compared to inclusion of operations for the full year ended December 31, 2010.

In December 2009, we completed the acquisition of Sparky's Hesperia East located in Hesperia California. The purchase price for the property was $2.8 million. We paid the purchase price through a cash payment of $1.1 million and a promissory note in the amount of $1.7 million. The property consists of sixteen (16) single story, Class A buildings, constructed of reinforced concrete masonry and metal construction with 72,940 rentable square feet comprised of 479 storage units which range in size from 25 to 300 square feet. The property also includes an onsite lobby and management offices as well as a manager's living quarter. There is inclusion of less than one month operations during the year ended December 31, 2009 compared to inclusion of a full year the year ended December 31, 2010.

In March 2010, the Company purchased certain tangible and intangible personal property from DMHU, including rights to certain names, trademarks and trade secrets, title to certain business equipment, furnishings and related personal property. DMHU had used these assets in its previous business of purchasing model homes for investment in new residential housing tracts and initially leasing the model homes back to their developer. In addition, the Company also acquired DMHU's rights under certain contracts, including contracts to provide management services to 19 limited partnerships sponsored by DMHU and for which a DMHU affiliate serves as general partner (the "Model Home Partnerships"). These partnerships include DAP II and DAP III in each of which the Company was a 51% limited partner. In the DMHU Purchase, the Company paid the owners of DMHU $300,000 cash and agreed to issue up to 120,000 shares of the Company's common stock, depending on the levels of production the Company achieves from its newly formed Model Homes Division over the next three years. The Company also agreed to continue to employ three former DMHU employees and to pay certain obligations of DMHU, including its office lease which expired on September 30, 2010. As Mr. Dubose is a Company director and was the founder and former president and principal owner of DMHU and certain of its affiliates, this transaction was completed in compliance with the Company's Board's Related Party Transaction Policy. The transaction has been accounted for as a business combination. Management performed an analysis of intangible assets acquired with the assistance of an independent valuation specialist and it was determined that $209,000 of the purchase price is attributable to customer relationships and will be amortized over 10 years. The Company also estimated a liability of $1,032,000 associated with the 120,000 shares that it believes will be issued in the future. As a result of the acquisition, the total purchase price of $1,332,000 was allocated between goodwill of$1,123,000 and intangible assets of $209,000. As a result of the transaction, the Company's investment in DAP II and DAP III are consolidated into the financial statements of NetREIT effective March 1, 2010.

The Company has formed its Model Homes Division which will pursue investment activities based on DMHU's business model. The Model Homes Division's activities will initially include the purchase and leaseback of Model Homes in new residential housing tract developments and providing management services to the 19 Dubose Partnerships. To pursue this business, the Company formed a new subsidiary, NetREIT Advisors and is sponsoring the formation of NetREIT Dubose. NetREIT Dubose will invest in Model Homes it purchases from developers in transactions where the developer leases back the Model Home under a short term lease, typically one to three years in length. Upon expiration of the lease, NetREIT Dubose will seek to re-lease the Model Home until such time as it is able to sell the property. NetREIT Dubose will own substantially all of its assets and conduct its operations through the Operating Partnership. NetREIT Advisors serves as the advisor to NetREIT Dubose.

NetREIT Advisors will also provide management services to the 19 Dubose Partnerships, pursuant to the rights under the management contracts assigned to it by DMHU. For these services, NetREIT Advisors receives ongoing management fees and has the right to receive certain other fees when the respective partnership sells or otherwise disposes of its properties.

In May 2010, the Company completed the acquisition of Sparky's Rialto located in Rialto, California. The purchase price was $4.9 million. The Company paid the purchase price through a cash payment of approximately $2.0 million and a promissory note in the amount of approximately $2.9 million. The property consists of approximately 7.5 acres of land, 101,343 rentable square feet and approximately 771 self storage units. There are no results of operations included for the year ended December 31, 2009 and approximately seven months operations in the year ended December 31, 2010.

In July 2010, the Company capitalized NetREIT Dubose with a cash contribution of $1.2 million in return for a convertible promissory note, which was subsequently converted to NetREIT Dubose common stock on September 30, 2010. NetREIT Dubose has also commenced raising outside investor capital pursuant to a private offering. NetREIT Dubose seeks to sell up to 2.0 million shares of its common stock at $10.00 per share, or $20.0 million in this private placement.

In August, 2010, the Company completed the acquisition of Genesis Plaza. The purchase price was $10.0 million The Company paid the purchase price through a cash payment of $5.0 million and a new mortgage loan with an insurance company secured by the Property of $5.0 million. The loan bears interest at 4.65% with a 25 year amortization schedule and a maturity date of August, 24, 2015 that may be extended for an additional 5 years at the lender's discretion subject to a change in the interest rates and other terms of the agreement. The Property is a four-story suburban office building built in 1988 and located in the Kearny Mesa submarket of San Diego, California, consisting of 57,685 rentable square feet. There are no results of operations included for the year ended December 31, 2009 and approximately four months operations in the year ended December 31, 2010.

In October 2010, NetREIT Dubose acquired four model home properties in Arizona and leased them back to the developer. The purchase price for the properties was $0.9 million. The Company paid the purchase price through a cash payment of $0.45 million and four promissory notes totaling $0.45 million. There are no results of operations included for the year ended December 31, 2009 and approximately three months operations in the year ended December 31, 2010.

In October 2010, NetREIT Dubose acquired ten model home properties in Oregon, Idaho and Washington and leased them back to the developer. The purchase price for the properties was $6.1 million. The Company paid the purchase price through a cash payment of $3.05 million and ten promissory notes totaling $3.05 million. There are no results of operations included for the year ended December 31, 2009 and approximately two months operations in the year ended December 31, 2010.

In December 2010, NetREIT Dubose acquired twelve model home properties in Texas and leased them back to the developer. The purchase price for the properties was $2.9 million. The Company paid the purchase price through a cash payment of $1.45 million and ten promissory notes totaling $1.45 million. There are no results of operations included for the year ended December 31, 2009 and less than one month operations in the year ended December 31, 2010.

In November 2010, the Company completed its tender offer for the purchase of outstanding partnership units of the three DMHI Funds. The tender resulted in the Company acquiring 73.6%, 70.5% and 66.6% of the outstanding units of DMHI Fund #3, DMHI Fund #4 and DMHI Fund #5, respectively through the issuance of 112,890 shares of common stock and $896,893 in cash. These funds own a total of 29 model home properties. There are no results of operations included for the year ended December 31, 2009 and approximately one month operations in the year ended December 31, 2010.

Sales of Undivided Interests in Properties.

Casa Grande Apartments

In March 2008, we sold an undivided 54.92% interest in the Casa Grande Apartments located in Cheyenne, Wyoming. The purchasers paid $1.0 million, net of transaction costs, in cash. For financial reporting purposes, a gain of $0.6 million was recognized during the year ended December 31, 2008.

In December 2008, we sold an additional undivided 25.0% interest in the Casa Grande Apartments. The purchaser paid $0.5 million, net of transaction costs, in cash. For financial reporting purposes, the gain of $0.3 million was recognized during the year ended December 31, 2008.

In 2009, the Company and the other tenants in common in the property contributed their respective interests in Casa Grande into a DOWNREIT Partnership for which we serve as general partner and in which we own a 20.07% equity interest.

Sparky's Palm Self-Storage

In October 2008, we sold an undivided 25.3% interest in the Sparky's Palm Self Storage. The purchaser paid $1.4 million, net of transaction costs, in cash. For financial reporting purposes, the gain of $0.1 million was recognized during the year ended December 31, 2008.

In December 2008, we sold an additional undivided 9.33% interest in the Sparky's Palm Self Storage. The purchaser paid $0.5 million, net of transactions costs in cash. For financial reporting purposes, the gain of $0.04 million was recognized during the year ended December 31, 2008.

In December 2008, we sold a further undivided 13.4% interest in the Sparky's Palm Self Storage. The purchaser paid $0.7 million, of which $0.4 million was paid in cash and a $0.3 million promissory note was issued secured by the interest in the property. For financial reporting purposes, the gain of $0.1 million was recognized during the year ended December 31, 2008.

In 2009, the Company and the other tenants in common in the property contributed their respective interests in Sparky's Palm Self-Storage into a DOWNREIT Partnership for which we serve as general partner and in which we own an approximate 51.97% equity interest.

Garden Gateway Plaza

In October 2008, we sold an undivided 5.99% interest in the Garden Gateway Plaza. The purchaser paid $1.0 million, of which $0.4 million was paid in cash and a $0.6 million promissory note was issued secured by the interest in the property. For financial reporting purposes, the gain of $0.1 million was recognized during the year ended December 31, 2008.

The Garden Gateway Plaza property was held as tenants in common with the other investors at December 31, 2009 and accounted for under the equity method of accounting. Effective February 1, 2010, the tenants in common exchanged their interests in the property into a partnership. As a result, the Company has consolidated this partnership as its activity as the general partner.

Financing

In February 2005, we commenced a private placement offering of up to $50 million of (i) Series AA Preferred Stock and (ii) units, each unit consisting of two shares of our common stock and a warrant to purchase one share of our common stock at an exercise price of $12.00 (now $9.87, as adjusted for stock dividends) exercisable as of the date of issuance and expiring if not exercised on or prior to March 31, 2010. Each Unit was priced at $20.00 and the Series AA Preferred Stock was priced at $25.00 per share. A total of 433,204 Units were sold in this offering comprising an aggregate of 433,204 warrants to purchase common stock and 866,408 shares of common stock, and a total of 50,200 shares of the Series AA Preferred Stock were sold in this offering. Each share of Series AA Preferred Stock (i) is non-voting, except under certain circumstances as provided in our Articles of Incorporation; (ii) is entitled to annual cash dividends of 7% which are cumulative and which we pay on a quarterly basis; (iii) ranks senior, as to the payment of dividends and distributions of assets upon liquidation, to common stock or any other series of preferred stock that is not senior to or on parity with the Series AA Preferred Stock; (iv) is entitled to receive $25.00 plus accrued and unpaid dividends upon liquidation; (v) may be redeemed by us prior to the mandatory conversion date at a price of $25.00 plus accrued dividends, (vi) may be converted into two shares of common stock at the option of the holder prior to the mandatory conversion date, and, (vii) if not previously redeemed or converted, shall be converted automatically into two shares of common stock on the fourth Friday of December 2015. The conversion price is subject to certain anti dilution adjustments. The Company redeemed all of the shares outstanding in May 2010 at their face or book value.

In October 2006 we terminated our offering of Series AA Preferred Stock and Units, and we commenced a new offering of up to $200 million in shares of our common stock at a price of $10.00 per share. Net proceeds received from these offerings, after commissions, due diligence fees, and syndication expenses, were approximately $13.3 million in 2010 and $22.5 million in 2009. The net proceeds were primarily used to acquire properties and to expand our administrative staff and support capabilities to levels commensurate with our increasing assets and staff requirements.

During 2010, the net cash used in investing activities was $22.6 million. During 2010, we purchased two properties for approximately $13.3 million and completed three transactions for the purchase and leaseback of model home properties totaling $5.7 million. We also acquired the assets of NetREIT Dubose Model Homes, USA for $0.3 million and acquired controlling interests in three model home limited partnerships for approximately $0.9 million. These purchases were financed primarily from proceeds from the private placement offering and $10.8 million in new long term debt representing approximately 50% of the total acquisitions. In 2009, the net cash used in investing activities was $21.1 million.. During 2009, we purchased five properties and made two real estate related investments for a total of $22.5 million. These purchases were financed primarily from proceeds from the private placement offering and $6.4 million in new long term debt representing only 31.9% of the total acquisitions.

Mortgage Loan Receivables

Mortgage loan receivables have been a very minor source of revenue to us since our inception. No mortgage loan receivables were originated over the last two years and as a general policy, we are not in the business of originating mortgage loans.

In connection with the sale of two properties to unrelated tenants in common during 2008, we received mortgage notes receivable totaling $920,216 with interest rates ranging from 6.25% to 6.50% and due dates of October 1, 2013. The loans call for interest only payments and both were current as of December 31, 2010. Both notes are secured by the mortgagee’s interest in the property.

As of December 31, 2010 and 2009, the aggregate total of mortgage notes receivable outstanding is $920,216, or less than 1% of total assets.

Revenues

Non-GAAP Supplemental Financial Measure: Rental Income and Rental Operating Costs before net down for Properties Accounted for Under the Equity Method.

We currently have one property that we sold partial interests in and the investor has certain protective and participating rights of ownership that prevents us from reporting the results of operations from the property on a gross rental income and rental operating cost basis. Instead, under the equity method used for GAAP purposes, we report only its share of net income based upon its pro rate share of its investment in the less than wholly owned property. For the first nine months of 2009 and beginning at various periods in 2008, we had five properties accounted for in this manner.

Management has chosen to provide an integrated analysis that includes a non-GAAP supplemental measure because we manage our real estate portfolio in this manner and we consider this computation to be an appropriate supplemental measure of comparable period to period rental income and rental operating costs. Accounting for rental income and rental operating costs changed to the equity method at the point in time that we sold partial undivided interests in the properties discussed above under the caption “***Sales of Undivided Interests in Properties”***.

Three of these properties went back to full inclusion on our balance sheet and income statement at the time that all the investors contributed their interests in the property originally held as a tenant in common into a limited partnership where we are the general partner.

Our calculations of “grossed-up” rental income and rental operating costs may be different from calculations used by other companies. This information should not be considered as an alternative to the equity method under GAAP.

The following table reflects the adjustments made to reconcile from the equity method used to the actual results had we reported based on total gross rental income and rental operating costs of all properties including properties less than 100% owned.

	Twelve months ended December 31, 2010			Twelve months ended December 31, 2009		
	As Reported	Equity Method Adjustments	Grossed-up	As Reported	Equity Method Adjustments	Grossed-up
Rental income	$ 9,669,561	$ 138,746	$ 9,808,307	$ 5,295,134	$ 2,341,969	$ 7,637,103
Rental operating costs	4,312,021	58,635	4,370,656	2,671,173	1,024,018	3,695,191
Net operating income	$ 5,357,540	$ 80,111	$ 5,437,651	$ 2,623,961	$ 1,317,951	$ 3,941,912

As discussed above, in 2008, we sold interests in Casa Grande Apartments, Sparky’s Palm Self-Storage and Garden Gateway Plaza properties. Following the sale of each of the properties, and up to the time the other investors converted their tenant in common holding into limited partnerships, the properties were accounted for under the equity method. Under the equity method, we reported only our share of earnings or losses based upon our percentage ownership of the property. Rental income and rental operating expenses are no longer included in the statements of operations from the date of sale and forward through the effective date of the limited partnership agreements. As of October 1, 2009, the only property still held as tenants in common, and continuing to be accounted for under the equity method, was our Garden Gateway Plaza property. As a result of this accounting methodology, our year to year comparability has been affected.

Rental income as reported, was $9,669,561 for 2010, compared to $5,295,134 for 2009, an increase of $4,374,427, or 82.6%. However, on a “grossed-up” basis, rental income increased to $9,808,307 for the twelve months ended December 31, 2010, compared to $7,637,103 for the same period in 2009, an increase of $2,171,204, or 29.5%. Fee and other income, consisting primarily of acquisition fees charged to the seller of model home properties increased to $525,506 in 2010, compared to $184,649 in 2009. The overall increase in rental, fee and other income of $4,715,284 in 2010 compared to 2009 is primarily attributable to:

- The addition of nine properties and new entities for the model home business in 2010 including entities purchased in 2009 and formerly accounted for under the equity method which generated an additional $1,988,568 of income in 2010 compared to 2009;

- The increase in revenues from properties purchased in 2009 which contributed $665,275 in income in 2010;

- Offset by a decrease in income for the twelve properties acquired prior to 2009 which decreased by $140,541. This decrease was primarily due to decreases at Garden Gateway Plaza and Executive Office Park, which declined approximately by $212,125 in 2010 compared to 2009. The decline at these two properties was primarily attributable to a decline in occupancy.

- Rental income was $2,201,982 higher in 2010 for properties that had sales of undivided interests in 2007 and 2009 and converted back to full consolidation in 2010.

Rental, fee and other income are expected to continue to increase in future periods, as compared to historical periods, as a result of adding the new model home entities and from owning the assets acquired during 2010 and 2009 for an entire year and future acquisitions of real estate assets.

Interest income was $101,885 in 2010, compared to $85,840 in 2009, an increase of $16,045, or 18.7%. The increase was primarily attributable to a small increase in the rates earned on our available funds in 2010.

Rental Operating Expenses

Rental operating expenses were $4,312,021for 2010 compared to $2,671,173 for 2009, an increase of $1,640,848, or 61.4%. The increase in operating expense year over year is primarily attributable to the same reasons that rental revenue increased. Due to the partial sales of undivided interests in four of the properties, rental operating costs of $58,635 were excluded for the year ended December 31, 2010 compared to $1,024,018 excluded in the same period in 2009. Rental operating costs on a “grossed-up” basis as a percentage of “grossed-up” rental income was 44.6% and 48.4% for the years ended December 31, 2010 and 2009, respectively.

Rental operating costs are expected to continue to increase in future periods, as compared to historical periods, as a result of owning recently acquired assets for entire periods and anticipated future acquisitions of real estate assets.

Interest Expense

Interest expense, including amortization of deferred finance charges, increased by $1,046,043 in 2010 to $2,044,394, from $998,351 in 2009, an increase of 104.8%. The most significant reason for the increase in interest expense in the current year was due to the accounting for the interest on Garden Gateway Plaza. In 2009, the property was accounted for under the equity method of accounting and, as a result, interest expense of $633,882 was included in the statement of operations in the line item “equity in earnings (losses) of real estate ventures. In 2010, only $51,535 was included in this line item. The Company gained significant influence and control over the property in February 2010 resulting in the full consolidation of the property and the inclusion of interest expense related to the property in the line item interest expense in the statement of operations. In addition, the Company’s loan balances increased by $22.2 million, or 82.4% in 2010 due to the acquisition of an office building, a self-storage facility and 26 model home properties.

The following is a summary of our interest expense on loans by property for the years ended December 31, 2010 and 2009:

	Date Acquired	2010	2009
Havana/Parker Complex	June 2006	$ 221,505	$ 225,993
World Plaza	September 2007	175,265	182,995
Executive Office Park	July 2008	—	105,162
Waterman Plaza	August 2008	242,640	246,990
Sparky’s Thousand Palms Self-Storage	August 2009	252,072	93,638
Sparky’s Hesperia East Self-Storage	December 2009	88,131	3,146
Garden Gateway Plaza(1)	March 2007	553,425	—
Sparky’s Rialto Self-Storage	May 2010	95,611	—
Genesis Plaza	August 2010	82,390	—
Dubose Acquisition Partners II, LP (2)	March 2010	145,544	—
Dubose Acquisition Partners III, LP (3)	March 2010	106,296	—
Dubose Model Home Income Fund #3, LTD (4)	December 2010	1,956	—
Dubose Model Home Income Fund #4, LTD (5)	December 2010	7,456	—
Dubose Model Home Income Fund #5, LTD (6)	December 2010	10,660	—
NetREIT Dubose Model Home REIT, Inc. (7)	October 2010	17,791	—
Amortization of deferred financing costs		43,652	140,427
		$ 2,044,394	$ 998,351

(1) Interest expense for Garden Gateway Plaza of $51,535 and $633,882 for the years ended December 31, 2010 and 2009, respectively, are included in the consolidated statement of operations in the line item “equity in losses of real estate ventures”.
(2) Consists of 15 mortgage notes payable secured by 15 model home properties.
(3) Consists of 4 mortgage notes payable secured by 4 model home properties.
(4) Consists of 10 mortgage notes payable secured by 10 model home properties.
(5) Consists of 10 mortgage notes payable secured by 10 model home properties.
(6) Consists of 9 mortgage notes payable secured by 9 model home properties.
(7) Consists of 26 mortgage notes payable secured by 26 model home properties. These mortgages are guaranteed by NetREIT, Inc.

General and Administrative Expenses

General and administrative expenses increased by $1,085,845 to $3,411,691 for the year ended December 31, 2010, compared to $2,325,846 in 2009. As a percentage of rental income, including rental income from joint ventures, general and administrative expenses were 34.8% and 30.5% for the years ended December 31, 2010 and 2009, respectively. In comparing our general and administrative expenses with other REITs that typically do not have employees, you should take into consideration that we are a self administered REIT, which means such expenses are greater for us.

The increase in general and administrative expenses in 2010 was primarily due to the addition of six new employees at the time we purchased the assets of Dubose Model Homes USA in February 2010 and the start-up costs related to the NetREIT Dubose Model Home REIT, Inc. This new subsidiary began to contribute revenues to the Company in October 2010. In 2010, there was approximately $740,000 in additional general and administrative expenses related to this expansion of the business. The increased general and administrative expenses during in 2009 resulted from increased employee related costs and increases in legal costs related to reincorporating in Maryland and the formation of several new entities. Accounting costs decreased in 2010 as the costs in 2009 were higher than normal due to new requirements to comply with the rules and regulations of the SEC, including the Sarbanes-Oxley Act of 2002.

In 2010, our salaries and employee related expenses increased $966,493 to $2,105,117 compared to $1,138,624 in 2009. The increase in salary and employee expenses in 2010 was primarily attributable to the additional personnel related to the acquisition discussed in the paragraph above. Further, non-cash compensation related to restricted stock grants to employees was approximately $71,000 greater for the year ended December 31, 2010 compared to the same period in 2009. We anticipate an increase in staff and compensation costs as our capital and portfolio continue to increase. However, we anticipate that these costs as a percentage of total revenue will decline in future years.

Insurance expenses increased by approximately $20,000 for the year ended December 31, 2010 compared to the same period in 2009 primarily due to Staff increases and general premium increases.

Legal, accounting and public company related expenses and decreased by approximately $5,000, to $518,000 for the year ended December 31, 2010, compared to $523,000 during the same period in 2009. However, legal expenses were approximately $132,000 higher in 2010 due to the Company reincorporating from California to Maryland and also due to the formation of several new legal entities to launch our efforts in the purchase and leaseback of model homes.

Directors’ compensation expense that consisted of non-cash amortization of restricted stock grants was approximately $33,000 higher for the year ended December 31, 2010 over 2009.

Bargain Purchase Gain from Tender Offer

In 2010, the Company conducted a tender offer for the purchase of three limited partnerships. As a result of revaluing the assets and liabilities of the acquired entities to market value, the Company recorded $872,152 in other income.

Asset Impairment

As part of our review of long-lived assets in accordance with generally accepted accounting principles, during the quarter ending December 31, 2010, management identified indicators of impairment related to our Havana Parker Office complex located in Aurora, Colorado. As a result, management analyzed the undiscounted cash flows expected to result from the use and eventual disposition of the asset and determined that such amounts did not exceed the carrying amount of the property, confirming that the property was likely impaired. Based on an internally-prepared fair value evaluation of the property, management determined that an impairment charge of $1,000,000 was required. No such impairment charge was required in 2009.

Other Income/Expense

The Company performs an annual review of its real estate portfolio for indications of impairment in value. In the current year, the Company identified one property where there was an indication of an impairment. As a result, there was a $1.0 million write-down on the Havana Parker Plaza property.

Net Loss Available to Common Shareholders

Net loss available to common shareholders in 2010 increased by $402,419 to $3,023,796, or $0.27 loss per share as compared to net loss available to common shareholders of $2,621,377, or $0.31 loss per share in 2009. The year ended 2010 was another year of substantial growth where we acquired two new properties, majority interests in three limited partnerships and the new NetREIT Dubose Model Home REIT, Inc. that acquired 26 model home properties and leased them back to the developers in the fourth quarter of 2010.

LIQUIDITY AND CAPITAL RESOURCES

As discussed above under Economic Outlook, credit and real estate financing markets have experienced significant deterioration and liquidity disruptions that have caused the spreads on prospective debt financings and the amount of financing in relation to the property values to widen considerably. These circumstances have materially impacted liquidity in the debt markets, making financing terms for borrowers like us less attractive, and in certain cases have resulted in the unavailability of certain types of debt financing. During 2010, there have been indications of economic improvement and stabilization in the equity markets, however, we expect the market turbulence could continue in the commercial real estate arena as mortgage financing originated over the past three to seven years mature.

We believe that as a result of these negative trends, new mortgage financing will continue to be difficult to obtain, which may negatively impact our ability to finance future acquisitions. Long-term interest rates remain relatively low by historical standards. On the other hand, we believe the negative trends in the mortgage markets for smaller properties and in some geographic locations will reduce property prices and may, in certain cases, reduce competition for those properties.

Cash and Cash Equivalents

At December 31, 2010, we had approximately $7.0 million in cash and cash equivalents compared to $9.3 million at December 31, 2009. We intend to use this cash to make additional acquisitions and for general corporate purposes.

Our cash and cash equivalents are held in bank accounts at third party institutions and consist of invested cash and cash in our operating accounts. During 2010, we did not experience any loss or lack of access to our cash or cash equivalents.

Our liquidity needs consist primarily of cash distributions to shareholders, facility improvements, property acquisitions, principal payments under our borrowings and non-recurring expenditures. We do not expect that our operating cash flow will be sufficient to fund our liquidity needs, including the payment of cash dividends to our shareholders, and instead expect to fund such needs out of additional borrowings of secured or unsecured indebtedness, and from proceeds of the ongoing private placement of common stock. We expect to obtain additional mortgages and assumption of existing debt collateralized by some or all of our real property in the future. In addition, if necessary, we may obtain additional mortgages collateralized by some or all of the nine unencumbered existing properties. During 2010 we received approximately $13.3 million of cash out of net proceeds in connection with our private placement offering and we anticipate raising at least an equivalent amount of additional capital in 2011.

Operating Activities

Net cash provided by operating activities during the year ended December 31, 2010 was approximately $621,000 compared to net cash provided by operating activities of approximately $211,000 for the year ended December 31, 2009, an increase of approximately $410,000. The increase in cash provided by operating activities was due to an increase in net operating income of our properties of $3 million offset by increased general and administrative expenses.

Investing Activities

Net cash used in investing activities was approximately $22.6 million in 2010 consisting primarily of $21.4 million to purchase an office building, a self-storage facility and 26 model home properties. Net cash used in investing activities during the year ended December 31, 2009 was approximately $21.1 million, which consisted of the purchase of five properties and improvements totaling $20.8 million. and the investment in two real estate limited partnerships.

Financing Activities

Net cash provided by financing activities for the year ended December 31, 2010 was approximately $18.6 million, which primarily consisted of $13.3 million net proceeds from the sale and issuance of our common stock and net increase of mortgage notes payable of $9.8 million, offset by dividend payments of $2.8 million and the redemption of our Series AA Preferred Stock of approximately $1.3 million.

Net cash provided by financing activities for the year ended December 31, 2009 was approximately $25.4 million, which primarily consisted of $22.5 million net proceeds from the sale and issuance of our common stock and net increase of mortgage notes payable of $5.5 million, offset by dividend payments of $2.4 million and repurchase of approximately $0.4 million of common stock.

Contractual Obligations

The following table provides information with respect to the maturities and scheduled principal repayments of our secured debt and interest payments on our fixed-rate debt at December 31, 2010 and provides information about the minimum commitments due in connection with our ground lease obligation. Our secured debt agreements contain covenants and restrictions requiring us to meet certain financial ratios and reporting requirements. Non-compliance with one or more of the covenants or restrictions could result in the full or partial principal balance of such debt becoming immediately due and payable.

We are in compliance with all conditions and covenants of our loans.

	Less than a year 2011	1-3 Years (2012-2013)	3-5 Years (2014-2015)	More than 5 Years (After 2015)	Total
Principal payments - secured debt	$ 869,775	$ 4,599,766	$ 20,260,322	$ 8,467,818	$ 34,197,681
Interest payments - fixed rate debt	477,465	3,014,131	1,776,253	210,803	5,478,652
Interest payments - variable rate debt	241,411	476,916	451,942	2,335,246	3,505,515
Model home properties - secured debt	7,800,102	4,806,675	2,440,329	-	15,047,106
Model home properties - interest payments	718,876	418,470	267,461	-	1,404,807
Ground lease obligation (1)	20,040	41,194	43,820	1,095,254	1,200,308
	$ 10,127,669	$ 13,357,152	$ 25,240,127	$ 12,109,121	$ 60,834,069

(1) Ground lease obligation represents the ground lease payments due on our World Plaza Property.

Other Liquidity Needs

We are required to distribute 90% of our REIT taxable income (excluding capital gains) on an annual basis in order to qualify and maintain our qualification as a REIT for federal income tax purposes. Accordingly, we intend to continue to make regular quarterly distributions to our common shareholders from cash flow from operating activities. We are not contractually bound to make regular quarterly dividend distributions to our common stock holders. We may be required to use borrowings or other sources of capital, if necessary, to meet REIT distribution requirements and maintain our REIT status. In the past, as noted above, we have distributed cash amounts in excess of our taxable income resulting in a return of capital to our shareholders, and we currently have the ability to refrain from increasing our distributions while still meeting our REIT requirement for 2011. If our net cash provided by operating activities and gains on sale of real estate (assuming we are successful in selling any of our properties) do not exceed our intended distributions to our common shareholders, we would have to borrow funds or use proceeds of our ongoing common stock offering to pay the distribution or reduce or eliminate the distribution. We consider market factors and our historical and anticipated performance in addition to REIT requirements in determining our distribution levels.

Until proceeds from our offering are fully invested and our acquired properties are generating operating cash flow sufficient to fully cover distributions to our shareholders, we intend to pay a portion of the distributions to our shareholders from the proceeds of our ongoing common stock private placement offering or from borrowings in anticipation of future cash flows, as deemed appropriate.

Capitalization

As of December 31, 2010, our consolidated total debt as a percentage of total capitalization was 28.38 and our total debt as a percentage of total capitalization excluding the model home properties was 19.71, which was calculated based on the offering price per share of our common stock of $10.00 under our ongoing current private placement of our common stock..

	Shares at December 31, 2010	Aggregate Principal Amount or $ Value Equivalent	% of Total Market Capitalization
Debt:			
NetREIT, Inc debt		$ 34,197,681	19.71%
Model home properties debt		15,047,106	8.67%
Total Debt		$ 49,244,787	28.38%
Equity:			
Common stock outstanding	12,429,878	124,298,780	71.62%
Total Market Capitalization (1)		$ 173,543,567	

(1) Value based on $10.00 per share the current price of shares being sold under the current private placement offering.

Off-Balance Sheet Arrangements

As of December 31, 2010 and 2009, we do not have any off-balance sheet arrangements or obligations, including contingent obligations.

Capital Expenditures, Tenant Improvements and Leasing Costs

We currently project that during 2011 we could spend an additional $200,000 to $800,000 in capital improvements, tenant improvements, and leasing costs for properties within our portfolio. Capital expenditures may fluctuate in any given period subject to the nature, extent, and timing of improvements required to the properties. We may spend more on gross capital expenditures during 2011 compared to 2010 due to rising construction costs and the anticipated increase in property acquisitions in 2011. Tenant improvements and leasing costs may also fluctuate in any given year depending upon factors such as the property, the term of the lease, the type of lease, the involvement of external leasing agents and overall market conditions.

Non-GAAP Supplemental Financial Measure: Funds From Operations (“FFO”)

Management believes that FFO is a useful supplemental measure of our operating performance. We compute FFO using the definition outlined by the National Association of Real Estate Investment Trusts (“NAREIT”). NAREIT defines FFO as net income (loss) in accordance with GAAP, plus depreciation and amortization of real estate assets (excluding amortization of deferred financing costs and depreciation of non-real estate assets) reduced by gains and losses from sales of depreciable operating property and extraordinary items, as defined by GAAP. Other REITs may use different methodologies for calculating FFO and, accordingly, our FFO may not be comparable to other REITs. Because FFO excludes depreciation and amortization, gains and losses from property dispositions that are available for distribution to shareholders and extraordinary items, it provides a performance measure that, when compared year over year, reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, development activities, general and administrative expenses and interest costs, providing a perspective not immediately apparent from net income. In addition, management believes that FFO provides useful information to the investment community about our financial performance when compared to other REITs since FFO is generally recognized as the industry standard for reporting the operations of REITs. However, FFO should not be viewed as an alternative measure of our operating performance since it does not reflect either depreciation and amortization costs or the level of capital expenditures and leasing costs necessary to maintain the operating performance of our properties which are significant economic costs and could materially impact our results from operations.

The following table presents our FFO for the years ended December 31, 2010 and 2009. FFO should not be considered an alternative to net income (loss), as an indication of our performance, nor is FFO indicative of funds available to fund our cash needs or our ability to make distributions to our shareholders. In addition, FFO may be used to fund all or a portion of certain capitalizable items that are excluded from FFO, such as capital expenditures and payments of debt, each of which may impact the amount of cash available for distribution to our shareholders.

	Year ended December 31,	
	2010	2009
Net loss	$ (2,989,349)	$ (2,533,527)
Adjustments:		
Asset impairment	1,000,000	-
Bargain purchase gain from tender offer	(872,152)	-
Preferred stock dividends	(34,447)	(87,850)
Income attributable to noncontrolling interests	(139,145)	23,679
Depreciation and amortization	3,531,261	2,186,303
Joint venture real estate depreciation and amortization	99,908	849,654
Gain from sale of real estate	-	(219,449)
Funds from operations	$ 596,076	$ 218,810

FFO for 2010 increased by $377,266, or 172.42%, to $596,076 as compared to $218,810 in 2009.

For the year December 31, 2009, FFO was materially affected by the larger increase in general and administrative expenses of approximately $0.6 million, a 38% increase. FFO has also been affected by lower yields on our investment of excess cash balances. We anticipate FFO to improve as we continue to acquire properties and earn rental revenues on properties recently acquired without substantial increases in general and administrative expenses.

Inflation

Since the majority of our leases require tenants to pay most operating expenses, including real estate taxes, utilities, insurance and increases in common area maintenance expenses, we do not believe our exposure to increases in costs and operating expenses resulting from inflation would be material.

Segments Disclosure

Our reportable segments consist of mortgage activities and the four types of commercial real estate properties for which our decision-makers internally evaluate operating performance and financial results: Residential Properties, Office Properties, Retail Properties and Self-Storage Properties. We also have certain corporate level activities including accounting, finance, legal administration and management information systems which are not considered separate operating segments.

Our chief operating decision maker evaluates the performance of our segments based upon net operating income. Net operating income is defined as operating revenues (rental income, tenant reimbursements and other property income) less property and related expenses (property expenses, real estate taxes, ground leases and provisions for bad debts) and excludes other non-property income and expenses, interest expense, depreciation and amortization, and general and administrative expenses. There is no intersegment activity.

See the accompanying financial statements for a Schedule of the Segment Reconciliation to Net Income Available to Common Shareholders.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required by this item are filed with this report as described under Item 15.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-14(c). In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control — Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2010.

This annual report on Form 10-K does not include an attestation report of the Company's independent registered public accounting firm regarding our internal control over financial reporting as such report is not required for non-accelerated filers such as the Company pursuant to certain federal legislation enacted in July 2010.

ITEM 9B. OTHER MATTERS

None.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is set forth under the captions “Board of Directors” and “Executive Officers of the Company” and “Section 16(a) Beneficial Ownership Reporting Compliance” in our definitive Proxy Statement for the 2010 Annual Meeting of Shareholders, to be filed pursuant to Regulation 14A, and is incorporated herein by reference. The Annual Meeting of Shareholders is presently scheduled to be held on June 9, 2011.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is set forth under the caption “Executive Compensation” in our definitive Proxy Statement for the 2011 Annual Meeting of Shareholders, to be filed pursuant to Regulation 14A, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The information required by this item is set forth under the caption “Security Ownership of Certain Beneficial Owners and Management” in our definitive Proxy Statement for the 2011 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item is set forth under the caption “Related Party Transactions” in our definitive Proxy Statement for the 2011 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is set forth under the caption “Independent Registered Public Accounting Firm Fees and Services” in our definitive Proxy Statement for the 2011 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A, and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents Filed. The following documents are filed as part of this report:

(1) Financial Statements. The following reports of Squar, Milner, Peterson, Miranda and Williamson, LLP and financial statements:

- **Report of Squar, Milner, Peterson, Miranda and Williamson, LLP, Independent Registered Public** Accounting Firm
- **Consolidated Balance Sheets as of December 31, 2010 and 2009**
- **Consolidated Statements of Operations for the years ended December 31, 2010 and 2009**
- **Consolidated Statements of Shareholders' Equity for the years ended December 31, 2010 and 2009**
- **Consolidated Statements of Cash Flows for the years ended December 31, 2010 and 2009**
- **Notes to Consolidated Financial Statements**

(2) Financial Statement Schedules.

Financial statement schedules have been omitted for the reason that the required information is presented in financial statements or notes thereto, the amounts involved are not significant or the schedules are not applicable.

(3) Exhibits. See subsection (b) below.

(b) Exhibits.

An Index to the Exhibits as filed as part of this Form 10-K is set forth below:

Exhibit Number	Description
2.01	Plan and Agreement of Merger, by and between NetREIT, Inc., a Maryland corporation, and NetREIT, a California corporation, dated as of July 30, 2010. (A)
2.1	Agreement of Purchase & Sale, between NetREIT, Inc. and Mullrock 3 Murphy Canyon, LLC, dated as of July 12, 2010. (B)
3.01	Articles of Amendment and Restatement of the Articles of Incorporation of NetREIT, dated as of July 30, 2010. (A)
3.02	Amended and Restated Bylaws of NetREIT, Inc. (A)
3.03	Articles of Merger filed with the Maryland State Department of Assessments and Taxation and the California Secretary of State on August 4, 2010. (A)
3.1	Articles of Incorporation filed January 28, 1999 (C)
3.2	Certificate of Determination of Series AA Preferred Stock filed April 4, 2005 (C)
3.3	Bylaws of NetREIT (C)
3.4	Audit Committee Charter (C)
3.5	Compensation and Benefits Committee Charter (C)
3.6	Nominating and Corporate Governance Committee Charter (C)
3.7	Principles of Corporate Governance of NetREIT (C)
4.1	Form of Common Stock Certificate (C)
4.2	Form of Series AA Preferred Stock Certificate (C)
4.3	Registration Rights Agreement 2005 (C)
4.4	Registration Rights Agreement 2007 (C)
10.1	1999 Flexible Incentive Plan (C)
10.2	NetREIT Dividend Reinvestment Plan (C)
10.3	Form of Property Management Agreement (C)
10.4	Option Agreement to acquire CHG Properties (C)
10.5	Employment Agreement as of April 20, 1999 by and between the Company and Jack K. Heilbron (D)
10.6	Employment Agreement as of April 20, 1999 by and between the Company and Kenneth W. Elsberry (D)
10.7	Lease Agreement by and between Philip Elghanian and DVA Healthcare Renal Care, Inc. dated February 6, 2009 (1)
10.8	Assignment and Assumption of Lease by and between Philip Elghanian and Fontana Medical Plaza, LLC. and Fontana Medical Plaza, LLC. dated February 19, 2009 (2)
10.9	Standard Offer, Agreement and Escrow Instructions for Purchase of Real Estate between Philip Elghanian and Hovic Perian and Rima Perian dated September 8, 2008 (3)
10.1	Assignment and Assumption of Purchase Agreement Philip Elghanian and Fontana Medical Plaza, LLC. dated February 19,2009 (4)
10.11	Additional and/OR Amendment to Escrow Instructions between Fontana Medical Plaza, LLC and Hovic Perian and Rima Perian dated February 18, 2009 (5)
10.12	Buyer Final Closing Statement dated February 20, 2009 (6)
10.13	Loan Assumption and Security Agreement, and Note Modification Agreement (7)

10.14	Promissory Note (8)
10.15	Loan Agreement by and Between Jackson National Life Insurance Company and NetREIT Inc. (E)
10.16	Fixed Rate Promissory Note Between Jackson National Life Insurance Company and NetREIT Inc. (E)
10.17	Employment Agreement for Mr. Heilbron Effective as of January 1, 2011 (10)
10.18	Employment Agreement for Mr. Elsberry Effective as of January 1, 2011 (11)
10.19	Employment Agreement for Mr. Dubose Effective as of January 1, 2011 (12)
10.20	Purchase & Sale Agreement and Joint Escrow Instructions to acquire Dakota Bank Building (13)
20.1	Notice of Adjournment of Annual Meeting of Shareholders to be held October 16, 2009 (9)
21.1	Subsidiaries of the Registrant
31.1	Certificate of the Company's Chief Executive Officer (Principal Executive Officer) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Annual Report on Form 10-K for the year ended December 31, 2010.
31.2	Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Annual Report on Form 10-K for the year ended December 31, 2010.
31.3	Certification of the Company's Vice President Finance (Principal Financial and Accounting Officer) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Annual Report on Form 10-K for the year ended December 31, 2010.
32.1	Certification of principal Chief Executive Officer, Chief Financial Officer and Principal Financial and Accounting Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(A) Previously filed as an exhibit to the Form 8-K filed August 10, 2010
(b) Previously filed as an exhibit to the Form 8-K filed August 10, 2010
(C) Previously filed as an exhibit to the Form 10 for the year ended December 31, 2007.
(D) Previously filed as an exhibit to the amended Form 10 for the year ended December 31, 2007 filed June 26, 2009.
(E) Previously filed as an exhibit to the Form 8-K filed August 27, 2010
1 Originally filed as Exhibit 10.1 on Form 8-K filed February 25, 2009.
2 Originally filed as Exhibit 10.2 on Form 8-K filed February 25, 2009.
3 Originally filed as Exhibit 10.3 on Form 8-K/A filed on March 2, 2009.
4 Originally filed as Exhibit 10.4 on Form 8-K filed February 25, 2009.
5 Originally filed as Exhibit 10.5 on Form 8-K filed February 25, 2009.
6 Originally filed as Exhibit 10.6 on Form 8-K filed February 25, 2009.
7 Originally filed as Exhibit 10.7 on Form 8-K filed August 27, 2009.
8 Originally filed as Exhibit 10.8 on Form 8-K filed August 27, 2009.
9 Originally filed as Exhibit 20.1 on Form 8-K filed October 2, 2009.
10 Originally filed as Exhibit 10.15 on Form 8-K filed January 2, 2011.
11 Originally filed as Exhibit 10.16 on Form 8-K filed January 24, 2011.
12 Originally filed as Exhibit 10.17 on Form 8-K filed January 24, 2011.
13 Originally filed as Exhibit 10.18 on Form 8-K filed February 3, 2011.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Jack K. Heilbron Jack K. Heilbron	Director, Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 28, 2011
/s/ Kenneth W. Elsberry Kenneth W. Elsberry	Director, Chief Financial Officer	March 28, 2011
/s/ J. Bradford Hanson J. Bradford Hanson	Vice President Finance (Principal Financial and Accounting Officer)	March 28, 2011
/s/ Larry G. Dubose Larry G. Dubose	Director, Executive Vice President – Model Homes Division	March 28, 2011
/s/ David T. Bruen David T. Bruen	Director	March 28, 2011
Sumner J. Rollings	Director	March 28, 2011
/s/Thomas E. Schwartz Thomas E. Schwartz	Director	March 28, 2011
/s/Bruce A. Staller Bruce A. Staller	Director	March 28, 2011
/s/William H. Allen William H. Allen	Director	March 28, 2011

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Shareholders of NetREIT, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of NetREIT, Inc. and Subsidiaries (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the two years in the period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company was not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting accordingly. Accordingly we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NetREIT, Inc. and Subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

/s/ Squar, Milner, Peterson, Miranda & Williamson, LLP
San Diego, California
March 31, 2011

NetREIT, Inc. and Subsidiaries
Consolidated Balance Sheets

	December 31, 2010	December 31, 2009
ASSETS		
Real estate assets, net	$ 117,125,419	$ 69,829,603
Lease intangibles, net	1,289,607	719,857
Investments in real estate ventures	-	14,192,629
Land purchase option	1,370,000	1,370,000
Mortgages receivable and interest	920,216	920,216
Cash and cash equivalents	7,028,090	9,298,523
Restricted cash	299,042	296,395
Other real estate owned	2,178,532	2,141,944
Other assets, net	3,105,056	1,222,670
TOTAL ASSETS	$ 133,315,962	$ 99,991,837
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Mortgage notes payable	$ 49,244,787	$ 26,995,502
Accounts payable and accrued liabilities	3,499,118	2,182,266
Dividends payable	816,782	649,008
Total liabilities	$ 53,560,687	$ 29,826,776
Commitments and contingencies		
Shareholders' equity:		
Convertible series AA preferred stock, no par value, $25 liquidating preference, shares authorized: 1,000,000; no shares outstanding at December 31, 2010 and 50,200 shares issued and outstanding December 31, 2009, liquidating value of $1,255,000	-	1,028,916
Common stock series A, $0.01 par value, shares authorized: 100,000,000; 12,429,878 and 10,224,262 shares issued and outstanding at December 31, 2010 and 2009, respectively	124,298	85,445,674
Common stock series B, no par value, shares authorized: 1,000; no shares issued		
Additional paid-in capital	104,462,606	433,204
Dividends in excess of accumulated losses	(31,304,801)	(21,104,741)
Total shareholders' equity before noncontrolling interest	73,282,103	65,803,053
Noncontrolling interest	6,473,172	4,362,008
Total shareholders' equity	79,755,275	70,165,061
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 133,315,962	$ 99,991,837

See notes to consolidated financial statements.

NetREIT, Inc. and Subsidiaries
Consolidated Statements of Operations
Years ended December 31, 2010 and 2009

	Year Ended December 31, 2010	*Year Ended December 31, 2009*
Rental income	$ 9,669,561	$ 5,295,134
Fee and other income	525,506	184,649
	10,195,067	5,479,783
Costs and expenses:		
Interest	2,044,394	998,351
Rental operating costs	4,312,021	2,671,173
General and administrative	3,411,691	2,325,846
Depreciation and amortization	3,531,261	2,186,303
Asset impairment	1,000,000	-
Total costs and expenses	14,299,367	8,181,673
Other income (expense):		
Interest income	101,885	85,840
Gain on sale of real estate	-	219,449
Bargain purchase gain from tender offer	872,152	-
Equity in earnings (losses) of real estate ventures	1,769	(112,958)
Other expense	-	(289)
Total other income, net	975,806	192,042
Net loss before noncontrolling interests	(3,128,494)	(2,509,848)
Loss (income) attributable to noncontrolling interests	(139,145)	23,679
Net loss	(2,989,349)	(2,533,527)
Preferred stock dividends	(34,447)	(87,850)
Net loss attributable to common shareholders	$ (3,023,796)	$ (2,621,377)
Loss per common share - basic and diluted:	$ (0.27)	$ (0.31)
Weighted average number of common shares outstanding		
- basic and diluted (1)	11,210,975	8,344,054

(1) Data is adjusted for a 5% stock dividend declared in December 2009.

See notes to consolidated financial statements.

NetREIT, Inc. and Subsidiaries
Consolidated Statements of Shareholders' Equity
Years ended December 31, 2010 and 2009

	Convertible Series AA Preferred Stock Shares	Convertible Series AA Preferred Stock Amount	Netreit, Inc. Common Stock Shares	Netreit, Inc. Common Stock Amount	Addit-ional Paid-in Capital	Dividends in Excess of Accum-ulated Losses	Total NetREIT, Inc. Share-holders' Equity	Non-cont-rolling Interests	Total
Balance, December 31, 2008	50,200	$ 1,028,916	6,766,472	$ 56,222,663	$ 433,204	$ (9,462,132)	$48,222,651	$	$48,222,651
Sale of common stock and warrants at $10 per share			2,707,381	27,055,384			27,055,384		27,055,384
Stock issuance costs				(4,520,490)			(4,520,490)		(4,520,490)
Repurchase of common stock			(50,011)	(439,842)			(439,842)		(439,842)
Exercise of stock options			13,528	110,202			110,202		110,202
Exercise of warrants			60	630			630		630
Issuance of vested restricted stock			23,807	202,000			202,000		202,000
Contributed capital of noncontrolling interests								4,338,329	4,338,329
Net loss						(2,533,527)	(2,533,527)	23,679	(2,509,848)
Dividends paid/reinvested			201,998	1,919,811		(3,564,758)	(1,644,947)		(1,644,947)
Stock dividend declared			482,027	4,145,432		(4,145,432)			
Dividends (declared)/ reinvested			79,000	749,884		(1,398,892)	(649,008)		(649,008)
Balance, December 31, 2009	50,200	1,028,916	10,224,262	85,445,674	433,204	(21,104,741)	65,803,053	4,362,008	70,165,061
Preferred stock redemption	(50,200)	(1,028,916)				(226,084)	(1,255,000)		(1,255,000)
Maryland reincorporation (Note 1)				(85,343,431)	85,343,431				
Sale of common stock			1,637,620	16,376	16,359,830		16,376,206		16,376,206
Stock issuance costs					(3,040,437)		(3,040,437)		(3,040,437)
Repurchase of common stock			(13,464)	(79)	(118,855)		(118,934)		(118,934)
Stock issued pursuant to tender offer			112,890	1,129	1,127,772		1,128,901		1,128,901
Exercise of stock options			7,062	15	58,085		58,100		58,100
Warrants expiration			52,778	528	453,361	(453,889)			
Exercise of warrants			195	2	1,888		1,890		1,890
Issuance of vested restricted			37,547	375	322,067		322,442		322,442

stock									
Contributed capital less distributions of noncontrolling interests								1,972,019	1,972,019
Net loss						(2,989,349)	(2,989,349)	139,145	(2,850,204)
Dividends paid/reinvested			274,873	2,748	2,607,130	(4,797,865)	(2,187,987)		(2,187,987)
Dividends (declared)/ reinvested			96,115	961	915,130	(1,732,873)	(816,782)		(816,782)
Balance, December 31, 2010	-	$ -	12,429,878	$ 124,298	$ 104,462,606	$ (31,304,801)	$ 73,282,103	$ 6,473,172	$ 79,755,275

See notes to consolidated financial statements.

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NetREIT, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years ended December 31, 2010 and 2009

	Year Ended December 31, 2010	*Year Ended December 31, 2009*
Cash flows from operating activities:		
Net loss	$ (2,989,349)	$ (2,533,527)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	3,531,261	2,186,303
Asset impairment	1,000,000	-
Stock compensation	322,442	202,000
Bargain purchase gain from tender offer	(872,862)	-
Gain on sale of real estate	-	(219,449)
Bad debt expense	147,459	132,964
(Contributions to) distributions from real estate ventures	(87,315)	419,782
Equity in losses (earnings) of real estate ventures	(1,769)	112,958
(Income) loss attributable to noncontrolling interests	(139,145)	23,679
Other assets	(572,950)	(368,507)
Accounts payable and accrued liabilities	283,426	254,611
Net cash provided by operating activities	621,198	210,814
Cash flows from investing activities:		
Real estate investments	(21,434,271)	(20,843,599)
Dubose Model Home USA acquisition	(300,000)	-
Investment in model home limited partnerships	(896,893)	-
Investments in real estate ventures	-	(1,695,894)
Proceeds received from sale of real estate	-	739,449
Deposits on potential acquisitions	-	367,498
Restricted cash	(2,647)	377,112
Net cash used in investing activities	(22,633,811)	(21,055,434)
Cash flows from financing activities:		
Proceeds from mortgage notes payable	10,762,025	15,794,117
Repayment of mortgage notes payable	(1,003,887)	(10,305,572)
Net proceeds from issuance of common stock	13,335,769	22,534,896
Repurchase of common stock	(62,834)	(439,844)
Repurchase of preferred stock	(1,255,000)	-
Exercise of stock options	2,000	110,202
Exercise of warrants	1,890	630
Deferred stock issuance costs	(317,533)	69,476
Dividends paid	(2,836,995)	(2,399,523)
Net cash provided by financing activities	18,625,435	25,364,382
Net (decrease) increase in cash and cash equivalents	(3,387,178)	4,519,762
Cash and cash equivalents:		
Beginning of year	9,298,523	4,778,761
Additions to cash from consolidation of joint venture and investments in model home limited partnerships	1,116,745	-
End of year	$ 7,028,090	$ 9,298,523
Supplemental disclosure of cash flow information:		
Interest paid	$ 2,017,961	842,888
Non-cash investing activities:		
Reclassification of investment in real estate ventures to real estate assets	$ 21,188,400	$ -
Reclassification of real estate ventures to real estate assets	$ -	$ 4,594,053
Acquistion of goodwill and intangible assets	$ 1,032,000	$ -
Non-cash financing activities:		
Stock issued for partnership units of limited partnerships	$ 1,128,901	$ -
Stock dividend declared	$ -	$ 4,145,132
Reinvestment of cash dividend	$ 3,525,969	$ 2,669,695
Accrual of dividends payable	$ 816,782	$ 649,008
Change in par value of Maryland Corporation common stock	$ 85,343,431	$ -
Common stock shares issued upon expiration of warrants	$ 453,889	$ -

See notes to consolidated financial statements.

NetREIT, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

1. ORGANIZATION

NetREIT (the "Company") was incorporated in the State of California on January 28, 1999 for the purpose of investing in real estate properties. Effective August 4, 2010, NetREIT, a California Corporation, merged into NetREIT, Inc., a Maryland Corporation with NetREIT, Inc. becoming the surviving Corporation. As a result of the merger, NetREIT is now incorporated in the State of Maryland. As a California Corporation, the Company's common stock had no par value. As a Maryland Corporation, the Company's common stock now has a par value of $0.01 per share which resulted in the transfer of $85,343,431 from common stock to additional paid in capital. The Company qualifies and operates as a self-administered real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended, (the "Code") and commenced operations with capital provided by its private placement offering of its equity securities in 1999.

The Company invests in a diverse portfolio of real estate assets. The primary types of properties the Company invests in include office, retail, self-storage and residential properties located in the western United States. As of December 31, 2010, the Company owned or had an equity interest in eight office buildings ("Office Properties") which total approximately 423,000 rentable square feet, three retail shopping centers and a 7-Eleven property ("Retail Properties") which total approximately 85,000 rentable square feet, five self-storage facilities ("Self-Storage Properties") which total approximately 487,000 rentable square feet, one 39 unit apartment building and 74 model homes investments owned by six limited partnerships ("Residential Properties").

The Company is a General Partner in four limited partnerships (NetREIT 01 LP, NetREIT Palm Self-Storage LP, NetREIT Casa Grande LP and NetREIT Garden Gateway LP) and is the sole Managing Member in one limited liability company (Fontana Medical Plaza, LLC) all with ownership in real estate income producing properties. In addition, the Company is a limited partner in six partnerships that purchase and leaseback model homes from developers (Dubose Acquisition Partners II and III or "DAP II and DAP III," "Dubose Model Home Income Fund #3, LTD.,", "Dubose Model Home Income Fund #4, LTD.," "Dubose Model Home Income Fund #5, LTD." and NetREIT Dubose Model Home REIT, LP). We refer to these entities collectively, as the "Partnerships".

In March 2010, the Company purchased certain tangible and intangible personal property from Dubose Model Homes USA ("DMHU"), including rights to certain names, trademarks and trade secrets, title to certain business equipment, furnishings and related personal property. DMHU had used these assets in its previous business of purchasing model homes for investment in new residential housing tracts and initially leasing the model homes back to their developer. In addition, the Company also acquired DMHU's rights under certain contracts, including contracts to provide management services to 19 limited partnerships sponsored by DMHU and for which a DMHU affiliate serves as general partner (the "Model Home Partnerships"). These partnerships included DAP II and DAP III of which the Company was a 51% limited partner in each. The Company paid the owners of DMHU $300,000 cash and agreed to issue up to 120,000 shares of the Company's common stock, depending on the levels of production the Company achieves from its newly formed Model Home REIT over the next three years. The Company also agreed to employ three former DMHU employees and to pay certain obligations of DMHU, including its office lease which expired on September 30, 2010. As Mr. Dubose is a Company director and was the founder and former president and principal owner of DMHU and certain of its affiliates, this transaction was completed in compliance with the Company's Board's Related Party Transaction Policy. The transaction has been accounted for as a business combination. Management performed an analysis of intangible assets acquired with the assistance of an independent valuation specialist and it was determined that $209,000 of the purchase price is attributable to customer relationships which will be amortized over 10 years. The Company also estimated a liability of $1,032,000 associated with the 120,000 shares that it believes will be issued in the future. As a result of the acquisition, the total purchase price of $1,332,000 was allocated between goodwill of $1,123,000 and intangible assets of $209,000. As a result of the transaction, the Company's investment in DAP II and DAP III have been consolidated in the accompanying financial statements of NetREIT effective March 1, 2010.

In 2010, the Company formed a new subsidiary, NetREIT Advisors, LLC, a wholly-owned Delaware limited liability company, and sponsored the formation of NetREIT Dubose Model Home REIT, Inc. ("NetREIT Dubose"), a Maryland corporation. NetREIT Dubose, a proposed REIT, invests in Model Homes it purchases from developers in transactions whereby the developer leases back the Model Home under a short term lease, typically one to three years in length. Upon expiration of the lease, NetREIT Dubose will seek to re-lease the Model Home until such time as it is able to sell the property. NetREIT Dubose will own substantially all of its assets and conduct its operations through a newly formed operating partnership called NetREIT Dubose Model Home REIT, LP ("Operating Partnership") which is a wholly-owned Delaware limited partnership. NetREIT Advisors, LLC will serve as advisor to NetREIT Dubose.

The Company capitalized NetREIT Dubose with $1.2 million cash in exchange for a convertible promissory note, which was converted to NetREIT Dubose common stock on September 30, 2010. NetREIT Dubose has also commenced raising outside investor capital through a Private Placement Memorandum ("PPM"). NetREIT Dubose intends to sell 1 million shares of its common stock at $10.00 per share, or $10 million under the initial offering. The Company also has the option to increase the maximum offering amount to 2 million shares or $20 million.

NetREIT Dubose is authorized to issue up to 25 million shares of $0.01 shares of stock. Of these authorized shares, 20 million are common stock and 5 million are preferred stock. As of December 31, 2010, there were approximately 163,000 shares outstanding of which 24,000 have been issued to parties other than NetREIT, Inc.

NetREIT Advisors, LLC will also provide management services to the 19 Model Home Partnerships, pursuant to rights under the management contracts assigned to it by DMHU. For these services, NetREIT Advisors, LLC receives ongoing management fees and has the right to receive certain other fees when the respective partnership sells or otherwise disposes of its properties.

In September 2010, the Company commenced three tender offers for the purchase of outstanding limited partnerships units of Dubose Model Home Income Funds #3, 4 & 5. The offerings closed effective November 30, 2010. The Company acquired approximately 74% of Income Fund #3 for $475,997 in cash and 39,827 shares for a total combined cost of $874,263. The Company acquired approximately 71% of Income Fund #4 for $343,074 in cash and 49,132 shares for a total combined cost of $834,394. The Company acquired approximately 67% of Income Fund #5 for $77,822 in cash and 23,931 shares for a total combined cost of $317,136. As a result of the Company acquiring control of these three limited partnerships, their financial statements have been included in the consolidated financial statements of the Company as of December 31, 2010 including one month of operations for the year ended December 31, 2010.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation. The accompanying consolidated financial statements include the accounts of NetREIT and its subsidiaries, Fontana Medical Plaza, LLC ("FMP"), NetREIT 01 LP Partnership, NetREIT Casa Grande LP Partnership, NetREIT Palm Self-Storage LP Partnership, NetREIT Garden Gateway, LP and Dubose Acquisition Partners II and III ("the Partnerships") NetREIT Advisors, LLC ("Advisors"), NetREIT Dubose Model Home REIT, Inc. and its subsidiary, NetREIT Dubose Model Home LP and Dubose Model Home Income Funds 3, 4 & 5 LTD ("Income Funds"). As used herein, the "Company" refers to NetREIT, FMP, Advisors and the Partnerships and the Income Funds, collectively. All significant intercompany balances and transactions have been eliminated in consolidation.

Prior to formation of the Partnerships, the properties owned by those partnerships were held as tenants in common ("TIC") with the other investors and accounted for using the equity method due to substantive participation rights of the TIC (Note 4). Upon formation of the Partnerships, NetREIT became the sole general partner in each of these partnerships and the rights of the other partners were limited to certain protective rights. As a result of the change in the Company's ability to influence and control the Partnerships, they are now accounted for as subsidiaries of the Company and are fully consolidated in the Company's financial statements.

The Company classifies the noncontrolling interests in FMP, the Partnerships, and the Income Funds as part of consolidated net loss in 2010 and 2009 and includes the accumulated amount of noncontrolling interests as part of Shareholders' equity from the Partnerships inception in 2009 and 2010, the effective date that the Company assumed significant control of DAP II and III in February 2010 and the Income Funds acquisition in November 2010. If a change in ownership of a consolidated subsidiary results in loss of control and deconsolidation, any retained ownership interest will be remeasured with the gain or loss reported in the statement of operations. Management has evaluated the noncontrolling interests and determined that they do not contain any redemption features.

Federal Income Taxes. The Company has elected to be taxed as a Real Estate Investment Trust ("REIT") under Sections 856 through 860 of the Code, for federal income tax purposes. To qualify as a REIT, the Company must distribute annually at least 90% of adjusted taxable income, as defined in the Code, to its shareholders and satisfy certain other organizational and operating requirements. As a REIT, no provision will be made for federal income taxes on income resulting from those sales of real estate investments which have or will be distributed to shareholders within the prescribed limits. However, taxes will be provided for those gains which are not anticipated to be distributed to shareholders unless such gains are deferred pursuant to Section 1031. In addition, the Company will be subject to a federal excise tax which equals 4% of the excess, if any, of 85% of the Company's ordinary income plus 95% of the Company's capital gain net income over cash distributions, as defined.

Earnings and profits that determine the taxability of distributions to shareholders differ from net income reported for financial reporting purposes due to differences in estimated useful lives and methods used to compute depreciation and the carrying value (basis) on the investments in properties for tax purposes, among other things. During the years ended December 31, 2010 and 2009, all distributions were considered return of capital to the shareholders and therefore non-taxable.

The Company believes that it has met all of the REIT distribution and technical requirements for the years ended December 31, 2010 and 2009.

The Company has concluded that there are no significant uncertain tax positions requiring recognition in its financial statements. Neither the Company nor its subsidiaries have been assessed interest or penalties by any major tax jurisdictions.

Stock Dividend. In December 2009, the Company declared a 5% dividend payable in Company common stock on January 1, 2010 to shareholders of record on December 31, 2009. All loss per share calculations are based on adjusted shares for the stock dividend as if the shares were issued at the beginning of the first period presented.

Property Acquisitions. The Company accounts for its acquisitions of real estate in accordance with accounting principles generally accepted in the United States of America ("GAAP") which require the purchase price of acquired properties to be allocated to the acquired tangible assets and liabilities, consisting of land, building, tenant improvements, a land purchase option, long-term debt and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, the value of in-place leases, unamortized lease origination costs and tenant relationships, based in each case on their fair values.

The Company allocates the purchase price to tangible assets of an acquired property (which includes land, building and tenant improvements) based on the estimated fair values of those tangible assets, assuming the building was vacant. Estimates of fair value for land, building and building improvements are based on many factors including, but not limited to, comparisons to other properties sold in the same geographic area and independent third party valuations. The Company also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair values of the tangible and intangible assets and liabilities acquired.

The total value allocable to intangible assets acquired, which consists of unamortized lease origination costs, in-place leases and tenant relationships, are allocated based on management's evaluation of the specific characteristics of each tenant's lease and the Company's overall relationship with that respective tenant. Characteristics considered by management in allocating these values include the nature and extent of the existing business relationships with the tenant, growth prospects for developing new business with the tenant, the remaining term of the lease and the tenant's credit quality, among other factors.

The value allocable to above or below market component of an acquired in-place lease is determined based upon the present value (using a market discount rate) of the difference between (i) the contractual rents to be paid pursuant to the lease over its remaining term, and (ii) management's estimate of rents that would be paid using fair market rates over the remaining term of the lease. The amounts allocated to above or below market leases are included in lease intangibles, net in the accompanying balance sheets and are amortized on a straight-line basis as an increase or reduction of rental income over the remaining non-cancelable term of the respective leases.

Estimates of the fair values of the tangible assets, identifiable intangibles and assumed liabilities require us to make significant assumptions to estimate market lease rates, property-operating expenses, carrying costs during lease-up periods, discount rates, market absorption periods, and the number of years the property will be held for investment.

The use of inappropriate assumptions would result in an incorrect valuation of our acquired tangible assets, identifiable intangibles and assumed liabilities, which would impact the amount of our net income.

The value of in-place leases, unamortized lease origination costs and tenant relationships are amortized to expense over the remaining term of the respective leases, which range from less than a year to ten years. The amount allocated to acquire in-place leases is determined based on management's assessment of lost revenue and costs incurred for the period required to lease the "assumed vacant" property to the occupancy level when purchased. The amount allocated to unamortized lease origination costs is determined by what the Company would have paid to a third party to secure a new tenant reduced by the expired term of the respective lease. The amount allocated to tenant relationships is the benefit resulting from the likelihood of a tenant renewing its lease. Amortization expense related to these assets was $343,205 and $389,267 for the years ended December 31, 2010 and 2009, respectively.

Land Purchase Option. The land lease acquired as a part of the World Plaza acquisition in 2007 has a fixed purchase price option cost of $181,710 at the termination of the lease in 2062. Management valued the land option at its residual value of $1,370,000, based upon comparable land sales adjusted to present value. The difference between the strike price of the option and the recorded cost of the land purchase option is approximately $1.2 million. Management has determined that exercise of the option is considered probable. The land purchase option was determined to be a contract based intangible asset associated with the land. As a result, this asset has an indefinite life and is treated as a non-amortizable asset. The amount is included as land purchase option on the accompanying balance sheets.

Acquisition of Dubose Model Home Income Fund #3 LTD, Dubose Model Home Income Fund #4 LTD and Dubose Model Income Fund #5 LTD ("MH Income Funds"). In November 2010, the Company acquired a significant ownership interest in the MH Income Funds for a combination of cash and Company stock. The Company recognized bargain purchase gain of $872,152 based on an assessment of the fair value of the assets acquired and liabilities assumed.

Sales of Real Estate Assets. Gains from the sale of real estate assets will not be recognized under the full accrual method by the Company until certain criteria are met. Gain or loss (the difference between the sales value and the cost of the real estate sold) shall be recognized at the date of sale if a sale has been consummated and the following criteria are met:

a. The buyer is independent of the seller.

b. Collection of the sales price is reasonably assured.

c. The seller will not be required to support the operations of the property or its related obligations to an extent greater than its proportionate interest.

Gains relating to transactions which do not meet the criteria for full accrual method of accounting are deferred and recognized when the full accrual method of accounting criteria are met or by using the installment or deposit methods of profit recognition, as appropriate in the circumstances.

As of December 31, 2010 and 2009, the Company did not classify any properties as held for sale.

New Accounting Pronouncements. In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* ("ASU No. 2010-06"). ASU No. 2010-06 requires additional disclosures regarding significant transfers in and out of Level 1 and Level 2 fair value measurements, including a description of the reasons for the transfers. Further, this ASU requires additional disclosures about purchases, sales, issuances and settlements relating to the activity in Level 3 fair value measurements. ASU No. 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements relating to the activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The adoption of ASU No. 2010-06 did not have a material impact on the Company's consolidated financial statements.

In July 2010, the FASB issued ASU No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* ("ASU No. 2010-20"). ASU No. 2010-20 requires the Company to provide a greater level of disaggregated information about the credit quality of its financing receivables and its allowance for credit losses. This ASU also requires the Company to disclose additional information related to credit quality indicators, past due information, information related to loans modified in a troubled debt restructuring and significant purchases and sales of financing receivables disaggregated by portfolio segment. ASU No. 2010-20 was initially effective for interim and annual periods ending on or after December 15, 2010. As this ASU amends only the disclosure requirements for loans and the allowance for credit losses, the adoption of ASU No. 2010-20 is not expected to have a significant impact on the Company's financial statements. In January 2011, the FASB issued ASU No. 2011-01, *Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20* ("ASU No. 2011-01"). ASU No. 2011-01 announced that it was deferring the effective date of new disclosure requirements for troubled debt restructurings prescribed by ASU No. 2010-20. The effective date for those disclosures will be concurrent with the effective date for proposed ASU No. 2010-20. Currently, that guidance is anticipated to be effective for interim and annual periods ending after June 15, 2011. The adoption of ASU No. 2010-20 may require additional disclosures, but the Company does not expect the adoption to have a material impact to its consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-29, *Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations (a consensus of the FASB Emerging Issues Task Force)* ("ASU No. 2010-29"). ASU No. 2010-29 updated accounting guidance to clarify that pro forma disclosures should be presented as if a business combination occurred at the beginning of the prior annual period for purposes of preparing both the current reporting period and the prior reporting period pro forma financial information. These disclosures should be accompanied by a narrative description about the nature and amount of material, nonrecurring pro forma adjustments. The new accounting guidance is effective for business combinations consummated in periods beginning after December 15, 2010, and should be applied prospectively as of the date of adoption. Early adoption is permitted. The Company adopted ASU No. 2010-29 for the year ended December 31, 2010 and the adoption of this ASU did not have a material impact to the Company's consolidated financial statements.

Depreciation and Amortization of Buildings and Improvements. Land, buildings and improvements are recorded at cost. Major replacements and betterments, which improve or extend the life of the asset, are capitalized and depreciated over their estimated useful lives, while ordinary repairs and maintenance are expensed as incurred. The cost of buildings and improvements are depreciated using the straight-line method over estimated useful lives ranging from 30 to 55 years for buildings, improvements are amortized over the shorter of the estimated life of the asset or term of the tenant lease which range from 1 to 10 years, and 4 to 5 years for furniture, fixtures and equipment. Depreciation expense for buildings and improvements for the years ended December 31, 2010 and 2009, was $3,014,603 and $1,758,125, respectively.

Intangible Assets. Lease intangibles represents the allocation of a portion of the purchase price of a property acquisition representing the estimated value of in-place leases, unamortized lease origination costs, tenant relationships and a land purchase option. Intangible assets are comprised of finite-lived and indefinite-lived assets. Indefinite-lived assets are not amortized. Finite-lived intangibles are amortized over their expected useful lives.

The Company is required to perform a test for impairment of goodwill and other definite and indefinite lived assets at least annually, and more frequently as circumstances warrant. Based on the review, no impairment was deemed necessary at December 31, 2010 and 2009.

Other intangible assets that are not deemed to have an indefinite useful life are amortized over their estimated useful lives. The carrying amount of intangible assets that are not deemed to have an indefinite useful life is regularly reviewed for indicators of impairments in value. Impairment is recognized only if the carrying amount of the intangible asset is considered to be unrecoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and the estimated fair value of the asset. Based on the review, no impairment was deemed necessary at December 31, 2010 and 2009.

Impairment. The Company reviews the carrying value of each property to determine if circumstances that indicate impairment in the carrying value of the investment exist or that depreciation periods should be modified. If circumstances support the possibility of impairment, the Company prepares a projection of the undiscounted future cash flows, without interest charges, of the specific property and determines if the investment in such property is recoverable. If impairment is indicated, the carrying value of the property is written down to its estimated fair value based on the Company’s best estimate of the property’s discounted future cash flows. For the year ended December 31, 2010 the Company determined that an impairment existed with respect to its Havana Parker Complex property and, as a result, recorded an asset impairment of $1 million. There were no impairments recognized on the Company’s real estate assets at December 31, 2009.

Investments in Real Estate Ventures. The Company analyzes its investments in joint ventures including any investments held as tenants in common to determine whether the investment should be accounted for under the equity method of accounting or consolidated into the financial statements. The Company has determined that the investments held as a tenant in common interest should be accounted under the equity method. Under the equity method, the Company’s investment in real estate ventures is stated at cost and adjusted for the Company’s share of net earnings or losses and reduced by distributions. Equity in earnings of real estate ventures is generally recognized based on the Company’s ownership interest in the earnings of each of the unconsolidated real estate ventures. For the purposes of presentation in the statement of cash flows, the Company follows the “look through” approach for classification of distributions from joint ventures. Under this approach, distributions are reported under operating cash flow unless the facts and circumstances of a specific distribution clearly indicate that it is a return of capital (e.g., a liquidating dividend or distribution of the proceeds from the joint venture’s sale of assets) in which case it is reported as an investing activity. Management assesses whether there are any indicators that the value of the Company’s investments in unconsolidated real estate ventures may be impaired when events or circumstances indicate that there may be an impairment. An investment is impaired if management’s estimate of the fair value of the investment is less than its carrying value. To the extent impairment has occurred, and is considered to be other than temporary, the loss is measured as the excess of the carrying amount of the investment over the fair value of the investment. As of December 31, 2010, the Company did not have any investments in real estate ventures. There were no impairment charges recognized for the year ended December 31, 2009.

Provision for Mortgage Loan Losses. The accounting policies require the Company to maintain an allowance for estimated credit losses with respect to mortgage loans it has made based upon its evaluation of known and inherent risks associated with its lending activities. Management reflects provisions for loan losses based upon its assessment of general market conditions, its internal risk management policies and credit risk rating system, industry loss experience, its assessment of the likelihood of delinquencies or defaults, and the value of the collateral underlying its investments. Actual losses, if any, could ultimately differ from these estimates. There have been no provisions for loan losses at December 31, 2010 and 2009.

Cash and Cash Equivalents. The Company considers all short-term, highly liquid investments that are both readily convertible to cash and have an original maturity of three months or less at the date of purchase to be cash equivalents. Items classified as cash equivalents include money market funds. At December 31, 2010, the Company had approximately $6.3 million in deposits in financial institutions that were above the federally insurable limits.

Restricted Cash. Restricted cash consists of funds held in escrow for Company lenders for properties held as collateral by the lenders. The funds in escrow are primarily for escrow funds for payment of property taxes.

Other Real Estate Owned. The Company acquired a property in Escondido, CA through foreclosure proceedings in May 2009. At the time we acquired title to the property we entered into an exclusive option with the borrower to sell the property back at our investment plus additional expenditures and interest charges through the date the original borrower purchased back the property. The option expired in late 2010 and the borrower has requested an extension of time to purchase the property. While the extension was not formally granted, the Company has not actively engaged in the attempted sale of the property while management studies the best use options for the property.

Deferred Common Stock Issuance Costs. Common stock issuance costs including distribution fees, due diligence fees, syndication and wholesaling costs, legal and accounting fees, and printing are capitalized before sale of the related stock and then netted against gross proceeds when the stock is sold.

Tenant Receivables. The Company periodically evaluates the collectability of amounts due from tenants and maintains an allowance for doubtful accounts for estimated losses resulting from the inability of tenants to make required payments under lease agreements. In addition, the Company maintains an allowance for deferred rent receivable that arises from straight-lining of rents. The Company exercises judgment in establishing these allowances and considers payment history and current credit status of its tenants in developing these estimates. At December 31, 2010 and 2009, the balance of allowance for possible uncollectible tenant receivables included in other assets, net was $277,000 and $135,000, respectively.

Deferred Leasing Costs. Costs incurred in connection with successful property leases are capitalized as deferred leasing costs and amortized to leasing commission expense on a straight-line basis over the terms of the related leases which generally range from one to five years. Deferred leasing costs consist of third party leasing commissions. Management re-evaluates the remaining useful lives of leasing costs as the creditworthiness of the tenants and economic and market conditions change. If management determines the estimated remaining life of the respective lease has changed, the amortization period is adjusted. At December 31, 2010 and 2009, the Company had net deferred leasing costs of approximately $406,000 and $416,000, respectively, which are included in other assets, net in the accompanying consolidated balance sheets. Total amortization expense for the year ended December 31, 2010 and 2009 was approximately $181,000 and $39,000, respectively.

Deferred Financing Costs. Costs incurred, including legal fees, origination fees, and administrative fees, in connection with debt financing are capitalized as deferred financing costs and are amortized using the straight-line method, which approximates the effective interest method, over the contractual term of the respective loans. At December 31, 2010 and 2009, deferred financing costs were approximately $196,000 and $116,000, respectively, which are included in other assets, net in the accompanying consolidated balance sheets. Amortization of deferred financing costs is included in interest expense in the accompanying consolidated statements of operations.

Revenue Recognition. The Company recognizes revenue from rent, tenant reimbursements, and other revenue once all of the following criteria are met:

- persuasive evidence of an arrangement exists;
- delivery has occurred or services have been rendered;
- the amount is fixed or determinable; and
- the collectability of the amount is reasonably assured.

Annual rental revenue is recognized in rental revenues on a straight-line basis over the term of the related lease. Estimated recoveries from certain tenants for their pro rata share of real estate taxes, insurance and other operating expenses are recognized as revenues in the period the applicable expenses are incurred or as specified in the leases.

Certain of the Company's leases currently contain rental increases at specified intervals. The Company records as an asset, and includes in revenues, deferred rent receivable that will be received if the tenant makes all rent payments required through the expiration of the initial term of the lease. Deferred rent receivable in the accompanying balance sheets includes the cumulative difference between rental revenue recorded on a straight-line basis and rents received from the tenants in accordance with the lease terms. Accordingly, the Company determines, in its judgment, to what extent the deferred rent receivable applicable to each specific tenant is collectible. The Company reviews material deferred rent receivable, as it relates to straight-line rents, on a quarterly basis and takes into consideration the tenant's payment history, the financial condition of the tenant, business conditions in the industry in which the tenant operates and economic conditions in the area in which the property is located. In the event that the collectability of deferred rent with respect to any given tenant is in doubt, the Company records an increase in the allowance for uncollectible accounts or records a direct write-off of the specific rent receivable. No such reserves have been recorded as of December 31, 2010 and 2009.

Interest income on mortgages receivable is accrued as it is earned. The Company stops accruing interest income on a loan if it is past due for more than 90 days or there is doubt regarding collectability of the loan principal and/or accrued interest receivable.

Loss Per Common Share. Basic loss per common share ("Basic EPS") is computed by dividing net loss available to common shareholders (the "numerator") by the weighted average number of common shares outstanding (the "denominator") during the period. Diluted loss per common share ("Diluted EPS") is similar to the computation of Basic EPS except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. In addition, in computing the dilutive effect of convertible securities, the numerator is adjusted to add back the after-tax amount of interest recognized in the period associated with any convertible debt. The computation of Diluted EPS does not assume exercise or conversion of securities that would have an anti-dilutive effect on net earnings per share.

The following is a reconciliation of the denominator of the basic loss per common share computation to the denominator of the diluted loss per common share computations, for the years ended December 31:

	2010	2009
Weighted average shares used for Basic EPS	11,210,975	8,344,054
Effect of dilutive securities:		
Incremental shares from share-based compensation	—	—
Incremental shares from conversion of NetREIT 01 LP Partnership	—	—
Incremental shares from conversion of NetREIT Casa Grande LP Partnership	—	—
Incremental shares from conversion of NetREIT Palm LP Partnership	—	—
Incremental shares from convertible preferred stock and warrants	—	—
Adjusted weighted average shares used for diluted EPS	11,210,975	8,344,054

Weighted average shares from share based compensation, shares from conversion of NetREIT 01 LP Partnership, Casa Grande LP Partnership, NetREIT Palm Self-Storage LP Partnership and shares from convertible preferred stock and warrants with respect to a total of 992,888 and 1,406,691 shares of common stock for the years ended December 31, 2010 and 2009, respectively, were excluded from the computation of diluted earnings per share as their effect was anti-dilutive.

Fair Value of Financial Instruments and Certain Other Assets/Liabilities. The Company calculates the fair value of financial instruments using available market information and appropriate present value or other valuation techniques such as discounted cash flow analyses. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The derived fair value estimates cannot always be substantiated by comparison to independent markets and in many cases, could not be realized in immediate settlement of the instruments. Management believes that the carrying values reflected in the accompanying balance sheets reasonably approximate the fair values for financial instruments.

The Company does not have any assets or liabilities that are measured at fair value on a recurring basis and, as of December 31, 2010, does not have any assets or liabilities that were measured at fair value on a nonrecurring basis.

In the opinion of management, the fair value of related parties transactions cannot be estimated without incurring excessive costs; for that reason, the Company has not provided such disclosure. Other information about related-party transactions are provided, where applicable, elsewhere in these notes to the consolidated financial statements.

The Company does not have any assets or liabilities that are measured at fair value on a recurring basis and, as of December 31, 2010, does not have any assets or liabilities that were measured at fair value on a nonrecurring basis, except as discussed under Impairment above.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant estimates include the allocation of purchase price paid for property acquisitions between land, building and intangible assets acquired including their useful lives; valuation of long-lived assets, and the allowance for doubtful accounts, which is based on an evaluation of the tenants' ability to pay and the provision for possible loan losses with respect to mortgages receivable and interest. Actual results may differ from those estimates.

Segments. The Company acquires and operates income producing properties including office properties, residential properties, retail properties and self storage properties and invests in real estate assets, including real estate loans and, as a result, the Company operates in five business segments. See Note 11 "Segment Information".

Reclassifications. Certain reclassifications have been made to prior years consolidated financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of consolidated operations or stockholders' equity.

3. REAL ESTATE ASSETS AND LEASE INTANGIBLES

A summary of the eighteen properties and model home properties owned by the Company as of December 31, 2010 is as follows:

Property Name	Date Acquired	Location	Square Footage	Property Description	Real estate assets, net (in thousands)
Casa Grande Apartments	April 1999	Cheyenne, Wyoming	29,250	Residential	$ 1,500.0
Havana/Parker Complex	June 2006	Aurora, Colorado	114,000	Office	5,469.8
7-Eleven	September 2006	Escondido, California	3,000	Retail	1,304.0
Garden Gateway Plaza	March 2007	Colorado Springs, Colorado	115,052	Office	13,088.5
World Plaza	September 2007	San Bernardino, California	55,098	Retail	5,716.8
Regatta Square	October 2007	Denver, Colorado	5,983	Retail	1,989.2
Sparky's Palm Self-Storage	November 2007	Highland, California	50,250	Self Storage	4,712.2
Sparky's Joshua Self-Storage	December 2007	Hesperia, California	149,750	Self Storage	7,322.7
Executive Office Park	July 2008	Colorado Springs, Colorado	65,084	Office	8,849.0
Waterman Plaza	August 2008	San Bernardino, California	21,170	Retail	6,592.5
Pacific Oaks Plaza	September 2008	Escondido, California	16,000	Office	4,623.5
Morena Office Center	January 2009	San Diego, California	26,784	Office	6,069.7
Fontana Medical Plaza	February 2009	Fontana, California	10,500	Office	2,170.6
Rangewood Medical Office Building	March 2009	Colorado Springs, Colorado	18,222	Office	2,451.9
Sparky's Thousand Palms Self-Storage	August 2009	Thousand Palms, California	113,126	Self Storage	5,976.1
Sparky's Hesperia East Self-Storage	December 2009	Hesperia, California	72,940	Self Storage	2,755.6
Sparky's Rialto Self-Storage	May 2010	Rialto, California	101,343	Self Storage	4,830.3
Genesis Plaza	August 2010	San Diego, California	57,685	Office	9,053.6
NetREIT, Inc properties					94,476.0
19 model home properties	Various in 2009	CA and NV	47,637	Residential	7,483.8
26 model home properties	Various in 2010	CA, AZ, OR, WA and TX	62,349	Residential	5,654.9
29 model home properties, held in income fund properties	Various 2003-2008	TX, AZ, WA, OH, NC, NV, NJ and MI	69,907	Residential	9,510.7
Model home properties					22,649.4
		Total real estate assets, net			$ 117,125.4

A summary of the fifteen properties owned by the Company as of December 31, 2009 is as follows:

Property Name	Date Acquired	Location	Square Footage	Property Description	Real estate assets, net (in thousands)
Casa Grande Apartments	April 1999	Cheyenne, Wyoming	29,250	Residential	$ 1,571.9
Havana/Parker Complex	June 2006	Aurora, Colorado	114,000	Office	6,587.6
7-Eleven	September 2006	Escondido, California	3,000	Retail	1,325.6
World Plaza	September 2007	San Bernardino, California	55,098	Retail	5,810.5
Regatta Square	October 2007	Denver, Colorado	5,983	Retail	2,030.2
Sparky's Palm Self-Storage	November 2007	Highland, California	50,250	Self Storage	4,819.4
Sparky's Joshua Self-Storage	December 2007	Hesperia, California	149,750	Self Storage	7,491.5
Executive Office Park	July 2008	Colorado Springs, Colorado	65,084	Office	9,180.5
Waterman Plaza	August 2008	San Bernardino, California	21,170	Retail	6,699.2
Pacific Oaks Plaza	September 2008	Escondido, California	16,000	Office	4,725.3
Morena Office Center	January 2009	San Diego, California	26,784	Office	6,247.7
Fontana Medical Plaza	February 2009	Fontana, California	10,500	Office	1,929.2
Rangewood Medical Office Building	March 2009	Colorado Springs, Colorado	18,222	Office	2,513.8
Sparky's Thousand Palms Self-Storage	August 2009	Thousand Palms, California	113,126	Self Storage	6,112.9
Sparky's Hesperia East Self-Storage	December 2009	Hesperia, California	72,940	Self Storage	2,784.3
NetREIT, Inc properties					$ 69,829.6

The following table sets forth the components of the Company's real estate assets:

	December 31, 2010	***December 31, 2009***

Land	$ 22,413,950	$ 13,820,313
Buildings and other	98,639,739	57,269,228
Tenant improvements	4,147,535	2,061,107
	125,201,224	73,150,648
Less:		
Accumulated depreciation and amortization	(8,075,805)	(3,321,045)
Real estate assets, net	$ 117,125,419	$ 69,829,603

Operations from each property are included in the Company's financial statements from the date of acquisition.

The Company acquired the following properties in 2010:

In May 2010, the Company completed the acquisition of Sparky's Rialto Self Storage (Formerly known as Las Colinas Self Storage) located in Rialto, California. The purchase price was $4.9 million. The Company paid the purchase price through a cash payment of approximately $2.0 million and a promissory note in the amount of approximately $2.9 million. The property consists of approximately 7.5 acres of land, 101,343 rentable square feet and approximately 771 self storage units. Rental revenue earned by the Company from the operations of this property in 2010 was approximately $233,000.

In August, 2010, the Company completed the acquisition of Genesis Plaza. The purchase price was $10.0 million The Company paid the purchase price through a cash payment of $5.0 million and a new mortgage loan with an insurance company secured by the Property of $5.0 million. The loan bears interest at 4.65% with a 25 year amortization schedule and a maturity date of August, 24, 2015 that may be extended for an additional 5 years at the lender's discretion subject to a change in the interest rates and other terms of the agreement. The Property is a four-story suburban office building built in 1988 and located in the Kearny Mesa submarket of San Diego, California, consisting of 57,685 rentable square feet. Rental revenue earned by the Company from the operations of this property in 2010 was approximately $482,000.

In October 2010, the Company acquired four model home properties in Arizona and leased them back to the home builder. The purchase price for the properties was $0.9 million. The Company paid the purchase price through a cash payment of $0.45 million and four promissory notes totaling $0.45 million. Rental revenue and fee income earned by the Company from the operations of these properties in 2010 was approximately $60,000.

In October 2010, the Company acquired ten model home properties in Oregon, Idaho and Washington and leased them back to the home builder. The purchase price for the properties was $6.1 million. The Company paid the purchase price through a cash payment of $3.05 million and ten promissory notes totaling $3.05 million. Rental revenue and fee income earned by the Company from the operations of these properties in 2010 was approximately $87,000.

In November 2010, the Company completed its tender offer for the purchase of outstanding partnership units of the three DMHI Funds. The tender resulted in the Company acquiring 73.6%, 70.5% and 66.6% of the outstanding units of DMHI Fund #3, DMHI Fund #4 and DMHI Fund #5, respectively through the issuance of 112,890 shares of common stock and $896,893 in cash. These funds own a total of 29 model home properties. Rental revenue earned by the Company from the operations of these properties in 2010 was approximately $88,000.

In December 2010, the Company acquired twelve model home properties in Texas and leased them back to the home builder. The purchase price for the properties was $2.9 million. The Company paid the purchase price through a cash payment of $1.45 million and ten promissory notes totaling $1.45 million. Rental revenue and fee income earned by the Company from the operations of these properties in 2010 was approximately $116,000.

The Company acquired the following properties in 2009:

In January 2009, the Company acquired the Morena Office Center, an office building located in San Diego, California. The purchase price for the property was $6.6 million, including transaction costs. The Company purchased the property with $3.4 million cash and a $3.2 million draw on its line of credit facility. This property consists of a building of approximately 26,784 rentable square feet. Rental revenue earned by the Company from the operations of this property in 2009 was approximately $652,000.

In February 2009, the Company and Fontana Dialysis Building, LLC formed Fontana Medical Plaza, LLC ("FMP") which the Company is Managing Member and 51% owner. FMP assumed an agreement to purchase the Fontana Medical Plaza located in Fontana, California. The purchase price for the property was $1.9 million. The Company purchased the property with $800,000 cash and a $1,100,000 draw on its line of credit facility. The property consists of approximately 10,500 rentable square feet. Rental revenue earned by the Company from the operations of this property in 2009 was approximately $29,000.

In March 2009, the Company acquired The Rangewood Medical Office Building ("Rangewood") located in Colorado Springs, Colorado. The purchase price for the property was $2.6 million, including transaction costs. The Company purchased the property with $200,000 cash and a $2,430,000 draw on its line of credit facility. Rangewood is a 3-story, Class A medical office building of approximately 18,222 rentable square feet. Rental revenue earned by the Company from the operations of this property in 2009 was approximately $210,000.

In August 2009, the Company completed the acquisition of Sparky's Thousand Palms Self-Storage (Formerly known as Monterey Palms Self-Storage) ("Thousand Palms") located in Thousand Palms, California. The purchase price for the Property was $6.2 million. The Company paid the purchase price through a cash payment of $1.5 million which was applied to closing costs and fees and to an existing loan secured by Thousand Palms, and assumed a nonrecourse, variable interest rate, promissory note with a principal balance after the closing of $4.7 million. Thousand Palms consists of 113,126 rentable square feet comprised of 549 storage units. Rental revenue earned by the Company from the operations of this property in 2009 was approximately $126,000.

In December 2009, the Company completed the acquisition of Sparky's Hesperia East Self-Storage East (Formerly known as St. Thomas Self-Storage) located in Hesperia California. The purchase price for the Property was $2.8 million. The Company paid the purchase price through a cash payment of $1.1 million and a promissory note in the amount of $1.7 million. The property consists of approximately 5.8 acres of land, 72,940 rentable square feet and approximately 479 self-storage units. Rental revenue earned by the Company from the operations of this property in 2009 was approximately $3,000.

The Company allocated the purchase price of the properties acquired during the years ended December 31, 2010 and 2009 as follows:

	Land	Buildings and other	Tenant Improvements	In-place Leases	Leasing Costs	Tenant Relation-ships	Above Market Leases	Total Purchase Price
Morena Office Center	$ 1,333,000	$ 4,833,141	$ 242,324	$ 80,861	$ 85,674	$	$	$ 6,575,000
Fontana Medical Plaza	556,858	1,362,942						1,919,800
Rangewood Medical Office Building	572,000	1,750,732	152,683	41,043	113,542			2,630,000
Sparky's Thousand Palms Self-Storage	620,000	5,530,000				50,000		6,200,000
Sparky's Joshua Self-Storage East	1,470,000	1,305,000						2,775,000
Sparky's Rialto Self-Storage	1,055,000	3,820,000						4,875,000
Genesis Plaza	1,400,000	7,543,510	200,954	219,070	247,774		388,692	10,000,000
Model Home Properties	1,043,097	4,630,953						5,674,050

Pro Forma Information for Property Acquisitions

The following table summarizes, on an unaudited pro forma basis, the combined results of operations of the Company for the year ended December 31, 2010 as if the acquisitions had occurred on January 1, 2009. The Company acquired two income producing properties and three limited partnerships properties that owned and leased to homebuilders 29 model properties during the year ended December 31, 2010. These acquisitions were accounted for as business combinations. The following unaudited pro forma information for the years ended December 31, 2010 and 2009 have been prepared to give effect to the acquisition of Genesis Plaza, Sparky's Rialto Self-Storage, and Dubose Model Home Income Funds #3, 4, 5 as if these acquisitions occurred on January 1, 2009. Management has not presented pro forma information for NetREIT Dubose Model Home REIT, Inc. as this company was a newly formed entity.. This pro forma information does not purport to represent what the actual results of operations of the Company would have been had this acquisition occurred on these dates, nor do they purport to predict the results of operations for future periods.

	For the year ended December 31, 2010	For the year ended December 31, 2009
Revenues	$ 12,207,000	$ 8,306,000
Depreciation and amortization	4,106,000	2,952,000
Net loss	(3,446,000)	(1,300,000)
Net loss per common share,		
basic and diluted	$ (0.31)	$ (0.16)
Weighted-average number of common		
shares outstanding, basic and diluted (1)	11,210,975	8,344,054

(1) - Data adjusted for a 5% stock dividend declared in December 2009

The pro forma information for the year ended December 31, 2010 was adjusted to exclude $97,000 of acquisition costs and revenue of $872,000 for the bargain purchase gain from tender offer which occurred in 2010. These 2010 costs and revenues were recognized in the pro forma information for the year ended December 31, 2009.

Lease Intangibles

The following table summarizes the net value of other intangible assets and the accumulated amortization for each class of intangible asset:

	December 31, 2010			December 31, 2009		
	Lease intangibles	Accumulated Amortization	Lease intangibles, net	Lease intangibles	Accumulated Amortization	Lease intangibles, net
In-place leases	$ 1,031,792	$ (558,854)	$ 472,938	$ 643,630	$ (255,127)	$ 388,503
Leasing costs	894,487	(423,738)	470,749	508,621	(188,100)	320,521
Tenant relationships	332,721	(332,721)	-	332,721	(299,388)	33,333
Below-market leases	-	-	-	(40,160)	17,660	(22,500)
Above-market leases	388,692	(42,772)	345,920			
	$ 2,647,692	$ (1,358,085)	$ 1,289,607	$ 1,444,812	$ (724,955)	$ 719,857

The estimated aggregate amortization expense for each of the five succeeding fiscal years and thereafter is as follows:

	Estimated Aggregate Amortization Expense
2011	$ 393,921
2012	323,843
2013	227,311
2014	153,279
2015	106,577
Thereafter	84,676
	$ 1,289,607

The weighted average amortization period for the intangible assets, in-place leases, leasing costs, tenant relationships and below-market leases acquired as of December 31, 2010 was 6.6 years.

4. INVESTMENT IN REAL ESTATE VENTURES

The following table sets forth the components of the Company's investment in real estate ventures as of December 31, 2009:

	Equity Percentage	Investment balance at: December 31, 2009
Garden Gateway Plaza	94.0%	$ 12,665,799
Dubose Acquisition Partners II, LTD & III, LTD	51.0	1,526,830
		$ 14,192,629

In 2008, when the Company sold a partial interest in Garden Gateway Plaza, it was originally held as a tenant in common with the other investors. In March 2010, NetREIT and the other tenant in common in the property contributed their respective interests in the property into NetREIT Garden LP with the Company as the sole general partner. Since the formation of the partnership and the contribution of assets to the partnership, the Company acquired controlling interests in the investment and has accounted for the investment as a consolidated subsidiary.

The Dubose Acquisition Partners II, LTD and III, LTD are investments in limited partnerships that acquired model homes from homebuilders and leased them back to the seller. In February 2010, NetREIT acquired a controlling interest in the limited partnerships through the acquisition of DMHU.

Condensed balance sheets of all entities included in investment in real estate ventures as of December 31, 2009 are as follows:

	2009
Real estate assets and lease intangibles	$ 20,791,102
Total assets	$ 20,791,102
Mortgage notes payable	$ 5,131,516
Owner's equity	15,659,586
Total liabilities and owners' equity	$ 20,791,102

Condensed statements of operations of all entities included in investment in real estate ventures for the years ended December 31, 2010 and 2009 are as follows:

	December 31, 2010	December 31, 2009
Rental income	$ 297,762	$ 2,975,110
Costs and expenses:		
Rental operating costs	62,055	1,078,650
Interest expense	106,030	818,533
Depreciation and amortization	99,908	849,654
Partner's share of net operating income	28,000	341,231
Equity in earnings (losses) of real estate ventures	$ 1,769	$ (112,958)

5. MORTGAGES RECEIVABLE

In connection with the sale of two properties in the fourth quarter of 2008 to unrelated tenants in common, the Company received mortgage notes receivable totaling $920,216 with interest rates of 6.25% and 6.50% and due dates of October 1, 2013 for both notes. The loans call for interest only payments and both loans were current as of December 31, 2010. Both notes are secured by the mortgagee's interest in the property.

6. MORTGAGE NOTES PAYABLE

Mortgage notes payable as of December 31, 2010 and 2009 consisted of the following:

	December 31,	
	2010	2009
Mortgage note payable in monthly installments of $24,330 through July 1, 2016, including interest at a fixed rate of 6.51%, collateralized by the Havana/Parker Complex property.	$ 3,323,714	$ 3,393,776
Mortgage note payable in monthly installments of $71,412 through April 5, 2014, including interest at a fixed rate of 6.08%; collateralized by the leases and office buildings of the Garden Gateway Plaza property. Certain obligations under the note are guaranteed by the executive officers.	9,823,854	10,075,155
Mortgage note payable in monthly installments of $27,088 through February 1, 2012, including interest at a fixed rate of 5.31%; collateralized by the World Plaza property.	3,231,661	3,380,792
Mortgage note payable in monthly installments of $25,995 through September 1, 2015, including interest at a fixed rate of 6.5%; collateralized by the Waterman Plaza property.	3,700,953	3,769,886
Mortgage note payable in monthly installments of $28,842 through March 1, 2034, including interest at a variable rate ranging from 5.5% to 10.5%; with a current rate of 5.5% collateralized by the Sparky's Thousand Palms Self-Storage property.	4,539,478	4,633,393
Mortgage note payable in monthly installments of $9,432 through December 18, 2016, including interest at a fixed rate of 5.00%; collateralized by the Sparky's Hesperia East Self-Storage property.	1,717,059	1,742,500
Mortgage note payable in monthly installments of $17,226 through May 3, 2015, including interest at a fixed rate of 5.00%; monthly installments of $19,323 from June 3, 2012, including interest at 6.25% to maturity, collateralized by the Sparky's Rialto Self-Storage property …………………	2,887,597	-
Mortgage note payable in monthly installments of $28,219 through September 1, 2015, including interest at a fixed rate of 4.65%; collateralized by the Genesis Plaza property …………………	4,973,365	-
Subtotal, NetREIT, Inc. properties	34,197,681	26,995,502
Mortgage notes payable in monthly installments of $31,443 through February 10, 2012, including interest at a fixed rate of 5.50%; collateralized by 15 model home properties	2,937,316	-
Mortgage notes payable in monthly installments of $20,153 through September 18, 2012, including interest at a fixed rate of 6.50%; collateralized by 4 model home properties.	1,873,193	-
Mortgage notes payable in monthly installments of $3,767 through September 15, 2012, including interest at a fixed rate of 5.75%; collateralized by 4 model home properties.	447,822	-
Mortgage notes payable in monthly installments of $19,792 through October 15, 2012, including interest at a fixed rate of 5.75%; collateralized by 22 model home properties.	2,374,881	-
Mortgage notes payable in monthly installments of $17,556 maturities varying from January 1, 2011 to October 5, 2011, including interest at fixed rates from 2.55%, to 7.20%; collateralized by 9 model home properties.	2,583,323	-
Mortgage notes payable in monthly installments of $14,396 maturities varying from January 10, 2011 to November 5, 2011, including interest at fixed rates from 2.42%, to 7.12%; collateralized by 10 model home properties.	1,994,260	-

Mortgage notes payable in monthly installments of $16,429 maturities varying from March 5, 2011 to December 31, 2012, including interest at fixed rates from 4.14%, to 7.21%; collateralized by 10 model home properties.	2,836,311	-
Subtotal, model home properties	15,047,106	-
	$ 49,244,787	$ 26,995,502

The Company is in compliance with all conditions and covenants of its mortgage notes payable.

Scheduled principal payments of mortgage notes payable as of December 31, 2010 are as follows:

Years Ending:	NetREIT, Inc. Principal Payments	Model Home Properties Principal Payments	Scheduled Principal Payments
2011	$ 869,775	$ 7,800,102	$ 8,669,877
2012	3,816,168	4,672,028	8,488,196
2013	783,598	134,647	918,245
2014	9,482,494	142,389	9,624,883
2015	10,777,828	2,297,940	13,075,768
Thereafter	8,467,818	-	8,467,818
Total	$ 34,197,681	$ 15,047,106	$ 49,244,787

7. RELATED PARTY TRANSACTIONS

The Company leases a portion of its corporate headquarters at Pacific Oaks Plaza in Escondido, California to C.I. Holding Group, Inc. and Subsidiaries (“CI”), a small shareholder in the Company that is approximately 35% owned by the Company’s executive management and to other affiliates. Total rents charged and paid by these affiliates was approximately $51,000 and $50,000 for the years ended December 31, 2010 and 2009, respectively.

The Company has entered into a property management agreement with CHG Properties, Inc. (“CHG”), a wholly-owned subsidiary of CI, to manage all of its properties at rates up to 5% of gross income. During the years ended December 31, 2010 and 2009, the Company paid CHG total management fees of $389,700 and $354,540, respectively.

During the term of the property management agreement, the Company has an option to acquire the business conducted by CHG. The option is exercisable, with the approval of a majority of the Company’s directors not otherwise interested in the transaction, without any consent of the property manager, its board or its shareholders,. The option price is shares of the Company to be determined by a predefined formula based on the net income of CHG during the 6-month period immediately preceding the month in which the acquisition notice is delivered.

In October 2009, William H. Allen, as trustee for the Allen Trust, authorized the conversion of 33.3% of the Allen Trust's interest in the NetREIT LP 01 partnership into 25,790 shares of NetREIT common stock. In November 2009, the Company purchased these shares from the Allen Trust for $9.30 per share for a total of $239,844. Mr. Allen was elected to the Board of Directors at our annual shareholder meeting on October 16, 2009.

In February 2010, the Company completed the DMHU acquisition as described in Note 1. Larry Dubose, a director of the Company since 2005, was founder, owner, chief executive officer and Chairman of DMHU and certain of its affiliates. Mr. Dubose will continue to serve as a director, officer and employee of the Company and certain of its affiliates.

8. SHAREHOLDERS’ EQUITY

In September 2005, the Company commenced a private placement offering of Units and Convertible Series AA Preferred Stock. The Units consisted of 2 shares of common stock and a warrant to purchase 1 share of common stock at $12 ($9.87 per share adjusted for stock dividends). In October 2006, the Company closed that offering and commenced a private placement offering of only its common stock. The Company is currently self-underwriting a private placement offering and sale of 20,000,000 shares of its common stock at a price of $10 per share. This offering is being made only to accredited investors and up to thirty-five non-accredited investors pursuant to an exemption from registration provided by Section 4(2) and Rule 506 of Regulation D under the Securities Act of 1933, as amended. No public or private market exists for the securities and no public market is expected to develop for the securities after the completion of the offering. During the years ended December 31, 2010 and 2009, the Company received gross proceeds from the sale of common shares and warrants of $16,376,206 and $27,055,384, respectively.

Common Stock. The Company is authorized to issue up to 100,000,000 shares of Series A Common Stock (“Common Stock”) $0.01 par value and 1,000 shares of Series B Common Stock $0.01 par value. The Common Stock and the Series B Common Stock have identical rights, preferences, terms and conditions except that the Series B Common Shareholders are not entitled to receive any portion of Company assets in the event of Company liquidation. There have been no Series B Common Stock shares issued. Each share of Common Stock entitles the holder to one vote. The Common Stock is not subject to redemption and it does not have any preference, conversion, exchange or preemptive rights. The articles of incorporation contain a restriction on ownership of the Common Stock that prevents one person from owning more than 9.8% of the outstanding shares of common stock. At December 31, 2010 and 2009, there were 12,429,878 and 10,224,262 shares, respectively, of the Common Stock outstanding.

Undesignated Preferred Stock. The Company is authorized to issue up to 8,995,000 shares of preferred stock. The preferred stock may be issued from time to time in one or more series. The Board of Directors is authorized to fix the number of shares of any series of preferred stock, to determine the designation of any such series, and to determine or alter the rights granted to or imposed upon any wholly unissued series of preferred stock including the dividend rights, dividend rate, conversion rights, voting rights, redemption rights (including sinking fund provisions), redemption price, and liquidation preference. The Company has not issued any shares of this preferred stock.

Series A Preferred Stock. The Board of Directors authorized 5,000 shares of the preferred stock as Series A ("Series A"). Each share of Series A (i) shall be entitled to receive, in event of any liquidation, dissolution or winding up of the affairs of the Company, an amount equal to nine dollars and 10/100 plus an amount equal to all accrued and unpaid dividends and no more before any distribution shall be made to the holders of Common Stock or any other class of shares or series ranking junior and subordinated to the Series A; (ii) is entitled to, when and if declared by the board of directors, annual dividends at the rate of $0.65 which are cumulative and payable quarterly; (iii) ranks senior, to the payment of dividends and distributions of assets upon liquidation, to common stock or any other series of preferred stock that is not senior to or on parity with the Series A Preferred Stock; (iv) is entitled to receive $9.10 plus accrued dividends upon liquidation; (v) shall have no voting rights except under certain circumstances as provided by the Articles of Incorporation; (vi) so long as any Series A is outstanding, the corporation shall not; (a) without the affirmative vote of the holders of at least two-thirds of the shares of Series A Preferred Stock amend, alter or repeal the Articles of Incorporation; (b) authorize or issue or increase any additional class or series of stock ranking senior to or on a parity with the Series A; and (c) affect any reclassification of the Series A. There were no Series A shares issued and outstanding at December 31, 2010 or 2009.

Convertible Series AA Preferred Stock. The Board of Directors authorized the original issuance of 1,000,000 shares of the Preferred Stock as Series AA ("Series AA"). Each share of Series AA (i) is non-voting, except under certain circumstances as provided in the Articles of Incorporation; (ii) is entitled to annual cash dividends of 7% which are cumulative and payable quarterly; (iii) ranks senior, as to the payment of dividends and distributions of assets upon liquidation, to common stock or any other series of preferred stock that is not senior to or on parity with the Series AA; (iv) is entitled to receive $25.00 plus accrued dividends upon liquidation; (v) may be redeemed by the Company prior to the mandatory conversion date at a price of $25.00 plus accrued dividends, (vi) may be converted into two shares of common stock at the option of the holder prior to the mandatory conversion date, and (vii) shall be converted into two shares of common stock on the fourth Friday of December 2015. The conversion price is subject to certain anti-dilution adjustments. All of the preferred stock was redeemed at liquidation value in May 2010. At December 31, 2009 there were 50,200 shares of Series AA outstanding.

Shareholder Warrants. Warrants were issued in connection with private placements of common stock Units during 2005 and 2006 pursuant to the terms of the respective subscription agreements. Each warrant entitles the registered holder to purchase one share of Series A common stock at the exercise price of $12 per share ($9.87 per share adjusted for stock dividends) during the period commencing upon issuance and continuing through the close of business on March 31, 2010. In the event a warrant is not exercised by its expiration date, it will be automatically converted into a one-tenth share of common stock. The warrants are redeemable at the Company's election at any time upon prior written notice of at least 30 days of the date so noticed for redemption. In payment of such redemption, the Company must issue to each holder of a Warrant so redeemed one-tenth common share on the redemption date. These warrants expired on March 31, 2010 resulting in the issuance of 52,778 shares of common stock.

Broker Dealer Warrants. Warrants will be issued pursuant to the terms of the respective $10.50 broker agreement and the Participating Broker Dealer Agreement in connection with the on-going private placement offering at its closing. Each Warrant entitles the registered holder to purchase one share of common stock at the exercise price of $10.50 per share for a period of three years from the date of issuance. The exercise price, the number and kind of securities issuable on exercise of any Warrant, and the number of Warrants are subject to adjustment in the event the Company pays stock dividends or makes stock distributions with respect to its common stock. Adjustments will also be made upon any reclassification of the Company's common shares or in the event the Company makes certain pro rata distributions of options or warrants to its common shareholders. The warrant agreements also provide for adjustments in the event the Company consummates certain consolidation or merger transactions, and in the event the Company sells all, or substantially all, of its assets. Warrant holders do not have any voting or other rights of the Company's shareholders and are not entitled to receive dividends or other distributions. During the years ended December 31, 2010 and 2009, Warrants for the purchase of 67,845 and 128,311 shares of common stock, respectively, were earned in connection with the current private placement offering. Management has determined that such Warrants had no value at the time they were earned. At December 31, 2010 and 2009 there were Warrants issuable for 341,517 shares of common stock at exercise prices ranging from $9.52 to $10.50 due to the adjustments for stock dividends issued.

Limited Partnerships. In 2008, the Company and the other tenant in common contributed their respective equity ownership in the Escondido 7-Eleven to NetREIT 01 LP, a California limited partnership. Initially, the limited partner had an option to exchange its equity interest in the property into shares of NetREIT common stock at a conversion price equal to $9.30 per share up to 77,369 shares. In 2009, the partner exchanged one third of its interests in the partnership into 25,790 shares of Company common stock. Adjusted for stock dividends, the partner has the rights to exchange interests in the partnership for up to 54,158 shares of Company common stock. The Company has a put option to convert the partner's equity interests in NetREIT 01 LP into shares of Company common stock at $8.86 per share for up to 54,158 common shares upon the earlier of April 21, 2013 or the completion of an initial public offering of shares to be registered under the Securities Act of 1933.

In October 2009, NetREIT and five former tenants in common of Casa Grande Apartments and Palm Self-Storage contributed their respective ownership interests in these properties into NetREIT Casa Grande LP and NetREIT Palm LP. In exchange for the contribution of property, the owners became limited partners of these partnerships and NetREIT became the general partner. The partners have an option to exchange their equity interest in the partnership for up to 353,139 shares of Company common stock at a conversion price equal to $8.86 per share. The Company has a put option to convert the partner's equity interests in these limited partnerships to shares of Company common stock at $8.86 per share for up to 353,139 shares.

In February 2010, NetREIT and a former tenants in common of Garden Gateway Plaza contributed their respective ownership interests in these properties into NetREIT Garden Gateway LP. In exchange for the contribution of property, the owners became a limited partner of this partnerships and NetREIT became the general partner. The partner has an option to exchange their equity interest in the partnership for up to 100,000 shares of Company common stock at a conversion price equal to $10.00 per share. The Company has a put option to convert the partner's equity interests in these limited partnerships to shares of Company common stock at $10.00 per share for up to 100,000 shares.

Employee Retirement and Share-Based Incentive Plans

Stock Options. The following table summarizes the stock option activity.

	Shares		Weighted Average Exercise Price
Balance, December 31, 2008	21,266	$	8.23
Options exercised	(14,204)	$	8.23
Options outstanding and exercisable, December 31, 2009	7,062	$	8.64
Options exercised	(7,062)	$	8.64
Options outstanding and exercisable, December 31, 2010	-		-

Share-Based Incentive Plan. An incentive award plan has been established for the purpose of attracting and retaining officers, key employees and non-employee board members. The Compensation Committee of the Board of Directors adopted a Restricted Stock plan (“Restricted Stock”) in December 2006 and granted nonvested shares of restricted common stock on January 1, 2007, 2008, 2009 and 2010. The nonvested shares have voting rights and are eligible for any dividends paid to common shares. The share awards vest in equal annual installments over a three or five year period from date of issuance. The Company recognized compensation cost for these fixed awards over the service vesting period, which represents the requisite service period, using the straight-line attribution expense method.

The value of the nonvested shares was calculated based on the offering price of the shares in the most recent private placement offering of $10 adjusted for stock dividends since granted and assumed selling costs. The value of granted nonvested restricted stock issued during 2010 totalled $461,100.The value of granted nonvested restricted stock issued during 2009 totaled $360,300. During the year ended December 31, 2010, 37,547 shares vested and $322,067 was recorded as compensation expense. During the year ended December 31, 2009, 23,607 shares vested and $202,000 was recorded as compensation expense. The remaining 61,642 nonvested restricted shares will vest in equal installments over the next two to four years.

A table of non-vested restricted shares granted and vested since December 31, 2008 is as follows:

Balance, December 31, 2008	27,227
Granted	43,984
Vested	(24,787)
Cancelled	(566)
Balance, December 31, 2009	45,858
Granted	53,617
Vested	(37,547)
Cancelled	(286)
Balance, December 31, 2010	61,642

Stock Dividends. The Company's Board of Directors declared stock dividends on common shares to all Shareholders of record and at rates shown in the table below:

		Stock	Common Stock		
Date of Declaration	Record Date	Dividend Rate	Value	Shares	Amount
December 4, 2009	January 1, 2010	5%	$ 8.60	482,027	$ 4,145,432

The stock dividend was issued on January 2, 2010.

Cash Dividends. During 2010 and 2009, the Company paid cash dividends of $2,836,516 and $2,399,523, respectively. As the Company reported net losses in both 2010 and 2009, these cash dividends represent a return of capital to the stockholders rather than a distribution of earnings. Cash dividends declared per common share for the years ended December 31, 2010 and 2009 were $0.57 and $0.60, respectively. The Company paid cash dividends on the Series AA Preferred Stock of $34,447 through May 2010 when the Series AA shares were redeemed. Dividends paid per share of Series AA Preferred Stock for the year ended December 31, 2009 was $1.75 per share, or $87,850.

9. COMMITMENTS AND CONTINGENCIES

Operating Leases. The Company has operating leases with tenants that expire at various dates through 2020 and are either subject to scheduled fixed increases or adjustments based on the Consumer Price Index. Generally, the leases grant tenants renewal options. Leases also provide for additional rents based on certain operating expenses. Future contractual minimum rent due the Company under operating leases as of December 31, 2010 for five years and thereafter are summarized as follows:

Years Ending:	Scheduled Payments
2011	$ 6,541,422
2012	5,698,686
2013	4,152,310
2014	3,079,940
2015	2,377,436
Thereafter	2,998,245
Total	$ 24,848,039

The Company has a noncancelable ground lease obligation on World Plaza expiring in June 1, 2062. The current annual rent of $20,040 is subject to adjustment every ten years based on the Cost of Living Index for the Los Angeles area compared to the base month of June 1963 which was 107.4. At the termination of the lease the Company has an option to purchase the property for a total purchase price of $181,710. In September 2007, when World Plaza was acquired, the option was determined to have a fair value of $1,370,000 based upon comparable land sales adjusted to present value (Note 3).

Scheduled payments due on the lease obligation as of December 31, 2010 are as follows:

Years Ending:	Scheduled Payments
2011	$ 20,040
2012	21,154
2013	21,910
2014	21,910
2015	21,910
Thereafter	1,093,384
Total	$ 1,200,308

Litigation. Neither the Company nor any of the Company's properties are presently subject to any material litigation nor, to the Company's knowledge, is there any material threatened litigation.

Environmental Matters. The Company monitors its properties for the presence of hazardous or toxic substances. While there can be no assurance that a material environmental liability does not exist, the Company is not currently aware of any environmental liability with respect to the properties that would have a material effect on the Company's financial condition, results of operations and cash flow. Further, the Company is not aware of any environmental liability or any unasserted claim or assessment with respect to an environmental liability that the Company believes would require additional disclosure or recording of a loss contingency.

10. CONCENTRATION OF CREDIT RISKS

Concentration of credit risk with respect to accounts receivable is limited due to the large number of tenants comprising the Company's rental revenue. No single tenant accounted for 10% or more of total rental income for the year ended December 31, 2010 and 2009.

11. SEGMENTS

The Company's reportable segments consist of the four types of commercial real estate properties for which the Company's decision-makers internally evaluate operating performance and financial results: Residential Properties, Office Properties, Retail Properties, Self-Storage Properties and Mortgage Loans. The Company also has certain corporate level activities including accounting, finance, legal administration and management information systems which are not considered separate operating segments.

The Company's chief operating decision maker evaluates the performance of its segments based upon net operating income. Net operating income is defined as operating revenues (rental income, tenant reimbursements and other property income) less property and related expenses (property expenses, real estate taxes, ground leases and provisions for bad debts) and excludes other non-property income and expenses, interest expense, depreciation and amortization, and general and administrative expenses. The accounting policies of the reportable segments are the same as those described in the Company's significant accounting policies (see Note 2). There is no intersegment activity.

The following tables reconcile the Company's segment activity to its results of operations and financial position as of and for the years ended December 31, 2010 and 2009.

	Year Ended December 31,	
	2010	2009
Office Properties:		
Rental income	$ 5,098,989	$ 2,939,624
Property and related expenses	2,333,494	1,650,855
Asset impairment	1,000,000	-
Net operating income, as defined	1,765,495	1,288,769
Equity in earnings from real estate ventures	(22,378)	(309,967)
Residential Properties:		
Rental income	1,497,714	54,525
Property and related expenses	186,979	32,086
Net operating income, as defined	1,310,735	22,439
Equity in earnings from real estate ventures	24,147	119,409
Retail Properties:		
Rental income	1,657,010	1,554,562
Property and related expenses	521,894	455,999
Net operating income, as defined	1,135,116	1,098,563
Equity in earnings from real estate ventures	-	30,424
Self Storage Properties:		
Rental income	1,941,354	931,072
Property and related expenses	1,269,654	532,233
Net operating income, as defined	671,700	398,839
Equity in earnings from real estate ventures	-	47,176
Mortgage loan activity:		
Interest income	59,276	59,114
Reconciliation to Net Income Available to Common Shareholders:		
Total net operating income, as defined, for reportable segments	4,944,091	2,754,766
Unallocated other income:		
Total other income	42,609	26,437
Gain on sale of real estate	-	219,449
General and administrative expenses	3,411,691	2,325,846
Interest expense	2,044,394	998,351
Depreciation and amortization	3,531,261	2,186,303
Bargain purchase gain from tender offer	872,152	-
Net loss before noncontrolling interests	(3,128,494)	(2,509,848)
Noncontrolling interests	(139,145)	23,679
Net loss	(2,989,349)	(2,533,527)
Preferred dividends	(34,447)	(87,850)
Net loss available for common shareholders	$ (3,023,796)	$ (2,621,377)

	December 31,	
	2010	2009
Assets:		
Office Properties:		
Land, buildings and improvements, net (1)	$ 52,809,840	$ 31,531,989
Total assets (2)	53,999,471	32,652,322
Investment in real estate ventures	-	12,665,799
Residential Property:		
Land, buildings and improvements, net	24,149,325	1,571,935
Total assets	25,922,496	1,594,248
Investment in real estate ventures	-	1,526,830
Retail Properties:		
Land, buildings and improvements, net (1)	17,228,980	17,574,262
Total assets (2)	17,467,113	17,746,702
Self Storage Properties:		
Land, buildings and improvements, net (1)	25,596,880	21,241,275
Total assets (2)	25,876,852	21,364,770

Mortgage loan activity:		
Mortgage receivable and accrued interest	920,216	920,216
Total assets	920,216	920,216
Reconciliation to Total Assets:		
Total assets for reportable segments	124,186,148	88,470,887
Other unallocated assets:		
Cash and cash equivalents	7,028,090	9,298,523
Prepaid expenses and other assets, net	2,101,724	2,222,427
Total Assets	$ 133,315,962	$ 99,991,837

(1) Includes lease intangibles and the land purchase option related to property acquisitions.

(2) Includes land, buildings and improvements, current receivables, deferred rent receivables and deferred leasing costs and other related intangible assets, all shown on a net basis.

	Years ended December 31, 2010	2009
Capital Expenditures:(1)		
Office Properties:		
Acquisition of operating properties	$ 10,000,000	$ 11,149,618
Capital expenditures and tenant improvements	726,905	678,932
Residential Property:		
Acquisition of operating properties	5,674,050	-
Retail Properties:		
Capital expenditures and tenant improvements	109,059	4,290
Self Storage Properties:		
Acquisition of operating properties	4,875,000	8,975,000
Capital expenditures and tenant improvements	49,257	35,759
Acquisition of operating properties	20,549,050	20,124,618
Capital expenditures and tenant improvements	885,221	718,981
Total real estate investments	$ 21,434,271	$ 20,843,599

(1) Total consolidated capital expenditures are equal to the same amounts disclosed for total reportable segments.

Exhibit 21.1

Subsidiaries of the Registrant

Subsidiary	State or other jurisdiction of incorporation or organization
NetREIT 01 LP Partnership	California
Fontana Medical Plaza, LLC	California
NetREIT Casa Grande LP Partnership	California
NetREIT Palm LP Partnership	California
NetREIT Garden Gateway LP Partnership	California
NetREIT Advisors, LLC	Delaware
NetREIT Model Home REIT, Inc.	Maryland
NetREIT Model Home REIT, LP	Delaware
Dubose Acquisition Partners II	Texas
Dubose Acquisition Partners III	Texas
Dubose Model Home Income Fund #3 LTD.	Texas
Dubose Model Home Income Fund #4 LTD.	Texas
Dubose Model Home Income Fund #5 LTD.	Texas

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY
ACT OF 2002

I, Jack K. Heilbron, certify that:

1. I have reviewed this Annual Report on Form 10-K of NetREIT;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has material affected, or is reasonably likely to materially effect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2011

By: */s/ Jack K. Heilbron*
Jack K. Heilbron,
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL
OFFICER PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Kenneth W. Elsberry, certify that:

1. I have reviewed this Annual Report on Form 10-K of NetREIT, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has material affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2011

By: */s/ Kenneth W. Elsberry*
Kenneth W. Elsberry,
Chief Financial Officer

EXHIBIT 31.3

CERTIFICATION OF PRINCIPAL FINANCIAL
AND ACCOUNTING OFFICER PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, J. Bradford Hanson, certify that:

1. I have reviewed this Annual Report on Form 10-K of NetREIT, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has material affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2011

By: */s/ J. Bradford Hanson*
J. Bradford Hanson,
Principal Financial and Accounting Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

Each of the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, in their capacities as CEO, CFO and Principal Financial and Accounting Officer, respectively, of NetREIT, Inc. (the "**Company**") that, to the best of his knowledge:

(i) the Annual Report for the year ended December 31, 2010 of the Company on Form 10-K (the "**Report**") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and the results of operations of the Company.

Date: March 31, 2011	By: */s/ Jack K. Heilbron* Jack K. Heilbron, Chief Executive Officer
Date: March 31, 2011	By: */s/ Kenneth W. Elsberry* Kenneth W. Elsberry, Chief Financial Officer
Date: March 31, 2011	By: */s/ J. Bradford Hanson* J. Bradford Hanson Principal Financial and Accounting Officer