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, 2012

or

o **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. o Yes ☑ No

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the 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. o Yes ☑ 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. ☑ Yes o 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). o Yes o 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 o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company ☑

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

At March 15, 2013, registrant had issued and outstanding 15,967,418 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 May 18, 2012 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.

Table of Contents

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", "our", "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 formerly contracted with CHG Properties, Inc. (***"CHG Properties"***) to manage the day-to-day operations of our Properties (See Note 10, "Subsequent Events" for further discussion). 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 stockholders. We seek to accomplish this objective by seeking to acquire commercial, industrial, self-storage, retail, single family residential model homes and multi-unit residential real estate with promising financial opportunities located primarily in the western United States. From January 2005 through December 31, 2012 we have been in a high growth mode. Our equity capitalization has increased from approximately $660,857 to approximately $76.7 million and our total assets increased during that period from $4.4 million to approximately $185.1 million. During this period, we increased our investments in real property (our ***"Properties"***) from 2 to 114 properties, including 92 model home properties. Our portfolio includes interests in twelve commercial and one industrial office properties ("Office Properties"), six self-storage facilities (Self-Storage Properties") one apartment complex and 92 model homes (***"Model Homes" or "(Model Home Properties"***) (combined, "***Residential Properties***") and four retail centers.

We own a 100% fee interest in 18 of these Properties. We also own partial interests in 6 Properties through our investments in 5 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 5 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.

We own an interest in 67 Model Homes through our majority owned subsidiary, NetREIT Dubose Model Home REIT, Inc. ("NetREIT Dubose"), and interests in an additional 25 Model Homes through investments as majority limited partner in five limited partnerships, Dubose Acquisition Partners II, LTD. (***"DAP II"***), Dubose Model Home Income Fund #3, LTD. (***"DMHI Fund #3"***), Dubose Model Home Income Fund #4, LTD. (***"DMHI Fund #4"***), Dubose Model Home Investors Fund #113 LP (***"DMHI Fund #113"***) and Dubose Model Home Investors #201 LP (***"DMHI #201"***). , Dubose Acquisition Partners III, LTD. (***"DAP III"***) and Dubose Model Home Income Fund #5, LTD. (***"DMHI Fund #5"***) sold their last homes in 2012 and liquidated the partnerships. DMHI Fund #3 and DMHI Fund #4 also sold their last model homes in 2012 but still have one remaining asset – an investment interest in DAP II.

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, DMHI Fund #5 and DMHI Fund #113. 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 formed a 100% owned subsidiary known as NetREIT Advisors, LLC (*"**NetREIT Advisors**"*) to manage NetREIT Dubose and all the Model Home partnerships except DMHI#201 which is managed by another 100% owned subsidiary known as Dubose Advisors, LLC (*"**Dubose Advisors**"*) and collectively referred to as the "Advisors"). Mr. Dubose, Mr. Heilbron and Mr. Elsberry serve as NetREIT Advisors' and Dubose Advisors' CEO, President and CFO, respectively. In 2010, we invested $300,000 as member capital contributions to NetREIT Advisors. In 2011, we invested $25,000 as member capital contributions to Dubose Advisors and $250,000 as a limited partner investment in DMHI #201.

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 are a majority stockholder 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. As of December 31, 2012, The Company has invested $2.6 million through the purchase of common stock and has cumulatively loaned approximately $4.2 million through the issuance of convertible promissory notes. The Company owned approximately 41% of NetREIT Dubose as of December 31, 2012.

NetREIT Advisors serves as external advisor to NetREIT Dubose. NetREIT Advisors also provides Management services to the 1 remaining unaffiliated Dubose Partnership, pursuant to a contract DMHU assigned to us in the DMHU Purchase. At the time of the DMHU Purchase there were 19 unaffiliated partnerships under NetREIT Dubose Management. For these services, NetREIT Advisors receives ongoing Management fees and has the right to receive certain other fees when the partnership 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 since the acquisition. As of December 31, 2012, DMHI Fund #5 has sold all of their models homes and has been liquidated. DMHI Fund #3 and DMHI Fund #4 have also sold all of their model homes and, as described below, the only remaining asset in these two Partnerships is an investment interest in DAP II.

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

In August 2011, we sponsored and through Dubose Advisors, organized DMHI #201 LP for the purpose of raising private equity to also invest in model home properties and lease them back to the homebuilders. This partnership was formed to raise up to $3.0 million through the sale of units. The Company invested in 5 of the 60 partnership units to be sold for $250,000. The partnership has raised the $3.0 million it had sought.

In November 2011, DMHI #201 completed a tender offer where it converted investors in DMHI #113 into investors of DMHI #201and cashed out one investor. After completing the transaction, DMHI #201 became a 65% owner of DMHI #113. DMHI #113 also had investments in DAP II and DAP III. As a result, the Company now beneficially owns a 77.7% interest in DAP II and 86.3% interest in DAP III.

In December 2011, the Company filed Supplementary Articles to its articles of incorporation by adding the authorization to issue up to 10,000 shares of Series 6.3% convertible preferred stock out of the previously authorized undesignated preferred stock discussed above. Each share of 6.3% preferred stock has a $1,000 liquidation preference.

In December 2011, the Company issued approximately 1,649 shares of its Series 6.3% Preferred Stock to the NetREIT National City Partnership, LP, an entity that is consolidated into the financial statements of the Company. The terms of the preferred stock provide for a liquidation preference of $1,000 per share and cumulative dividends from the date of original issue at a rate of 6.3% per annum (equal to an annual rate of $63.00 per share), subject to adjustment in certain circumstances. The liquidation preference on these shares is $1,649,000. Dividends on the preferred stock are payable quarterly in arrears subject to declaration by the Board of Directors and compliance with applicable law. All the shares issued to the partnership are subject to an option for the limited partner to exchange his interest in the partnership to equity in NetREIT.

The Series 6.3% preferred stock is convertible at any time at the holder's option into common stock of the Company at an initial conversion rate of 116.28 shares of NetREIT's common stock per share of preferred stock, which is equivalent to an initial conversion price of approximately $8.60 per share. Based on the initial conversion rate, approximately 191,756 shares of common stock would be issuable upon conversion of all of the outstanding shares of preferred stock.

The Company may also elect to mandatorily redeem some or all of the preferred stock at any time upon proper notice at the liquidation preference amount plus any unpaid accrued dividends.

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**"*) President and a Director of NetREIT Dubose and Dubose Advisors; Kenneth W. Elsberry, our Chief Financial Officer (*"**CFO**"*) and one of our Directors; Mr. Dubose, who is the CEO and a Director of the Company as well as NetREIT Advisors, Dubose Advisors and the CFO and a Director of NetREIT Dubose; and Mr. J. Bradford Hanson, Chief Accounting Officer. Mr. Heilbron is responsible for managing our day-to-day affairs. Our property manager through January 31, 2013, CHG Properties, was a wholly owned subsidiary of CI Holding Group, Inc. (**"*CI Holding*"**) (See note 10, "Subsequent Events" for further discussion). Messrs. Heilbron and Elsberry were executive officers, directors and minority stockholders 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 nine directors comprising our Board, six of whom are independent directors, as defined (**"*Independent Directors*"**). Three of our directors, Mr. Heilbron, Mr. Elsberry and Mr. Dubose are not independent directors.

Our Property Manager

Through January 31, 2013, CHG Properties managed our Properties under a Restated and Amended Property Management Agreement, dated October 14, 2010, between us and CHG Properties (the "Property Management Agreement") (see footnote 10, "Subsequent Events", to the consolidated financial statement.). 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 was the wholly owned subsidiary of CI Holding Group, Inc. ("CI Holding"). Mr. Heilbron and Mr. Elsberry were minority shareholders of CI Holding. Also, Mr. Heilbron served as Chairman of its board of directors and President of CHG Properties, and Mr. Elsberry served as its CFO and Secretary and as a member of its Board of Directors.

Under the Property Management Agreement, we were paying 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 have retained property management companies in Wyoming, Colorado and North Dakota 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. Until January 31, 2013 (See note 10, "Subsequent Events", to the consolidated financial statements for further discussion), under the Property Management Agreement, CHG Properties provided 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 were 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 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 is 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 was terminable by us only in the event of gross negligence or malfeasance on the part of the property manager.

Until January 31, 2013 (See Note 10, "Subsequent Events", to the consolidated financial statements for further discussion), under the Property Management Agreement, CHG Properties hired, directed and established 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 have employed some persons who were also employed by CHG Properties or its other affiliates. CHG Properties was able to, as it deemed necessary, engage one or more agents to perform services for us, including local property managers. In doing so, however, CHG Properties was 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.

Until January 31, 2013 (See Note 10, "Subsequent Events", to the consolidated financial statements for further discussion), pursuant to the Property Management Agreement, CHG Properties was 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 reviewed and paid approved vendor invoices, monitored the payment of rents by tenants, and monitored the collection of reimbursements from tenants, where applicable, for common area maintenance, property taxes and insurance.

Right to Acquire Property Manager's Business. During the term of the Property Management Agreement, we had the option to acquire CHG Properties' property management business, including its assets used in connection with that business. Our right to exercise this option did not require obtaining consent from the property manager, its board, or its stockholders. We elected to exercise this right effective January 31, 2013. Our board's decision to exercise this right required the approval of a majority of our directors not otherwise interested in the transaction (including a majority of our independent directors). As a result of the Company exercising its right to acquire CHG Properties, existing stockholders of C I Holding Group, Inc. received 200,000 shares of our common stock determined as prescribed under the agreement. The value of CHG was determined to be $1.9 million and, at $9.50 per share, 200,000 shares have been issued to the stockholders of C I Holding Group, Inc. As a result of the acquisition, we formed a 100% owned subsidiary, "NTR Property Management, Inc." to continue to perform the property management services previously performed by CHG Properties, Inc. (See note 10, "Subsequent Events" to the consolidated financial statements for further discussion).

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 stockholders. 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 stockholders 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 stockholders. In turn, stockholders 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 stockholders, 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 stockholders 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. Competitors include other REITs, pension funds, insurance companies, investment funds and companies, partnerships, and developers. Many of these entities have substantially greater financial resources than we do and may be able to accept more risk than we can prudently manage, including risks with respect to the creditworthiness of a tenant or the geographic location of its investments. In addition, many of these entities have capital structures that allow them to make investments at higher prices than what we can prudently offer while still generating a return to their investors that is commensurate with the return we are seeking to provide our investors. 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.

Industry 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, Industrial and Commercial Office Properties, Retail Properties, Self-Storage Properties and Mortgage Loans. For financial data by segment, see Note 9 "Segments" in the notes to our consolidated financial statements filed herewith.

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, 2013, we have 31 full time employees and 8 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 stockholders 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 our telephone number is (866) 781-7721.

ITEM 1A. RISK FACTORS

Risks Relating to Our Status and an Investment in Our Securities

Our long term growth and achieving our full potential may ultimately depend on our obtaining additional equity capital. In the past we have relied on cash from the sale of our equity securities to fund the implementation of our business plan, including property acquisitions, building of our staff and internal Management and administrative capabilities, and funding in substantial part our business operations. We terminated our private placement for common stock on December 31, 2011. Our ability to continue to fund property acquisitions, fund our operations, and fund payment of regular dividends to our stockholders over the long term is likely dependent upon our obtaining additional funds through the additional sales of our equity and/or debt securities. Without additional capital, we may not be able to grow our asset base to a size that is sufficient to support our current level of operations and/or our payment of dividends to our stockholders at current rates (or even at levels required by the REIT provisions, which generally require us to annually pay dividends to our stockholders equal to at least 90% of our REIT taxable income). There is no assurance as to when and under what terms we can successfully obtain additional funding through the sale of our equity and/or debt securities. Our access to additional equity or debt capital depends on a number of factors, including general market conditions, the market's perception of our growth potential, our expected future earnings, and our debt levels.

We currently are wholly dependent upon our internal cash from operations and debt financing for future property acquisitions and the payment of our operational costs and to fund distributions to our stockholders. To the extent our cash from internal sources and/or debt financing of unencumbered properties is not sufficient to pay our costs of operations, our acquisition of additional properties, and/or our payment of dividends to our stockholders, we would be required to take one or more measures, including decreasing our operational costs through reductions in personnel and/or facilities, reducing or suspending our acquisition of additional properties, and/or suspending dividends to our stockholders. Our reduction of our operational costs and/or our reduction or suspension of property acquisitions would inhibit our growth and prevent us from fully implementing our business plan and reaching our investment objectives. Our reduction or suspension in our payment of dividends to our stockholders would reduce our stockholders' return on their investment and possibly prevent us from satisfying the minimum distribution requirements of the REIT provisions. Any of these measures would likely have a substantial adverse effect on our financial condition, the value of our common stock, and our ability to raise additional capital.

If we are unable to find suitable investments, we may not be able to achieve our investment objectives or continue to pay dividends. 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. If our Management is unable to find suitable investments, we will hold the proceeds available for investment in an interest-bearing account, or invest the proceeds in short-term, investment-grade investments. Holding 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 at the current level 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 stockholders would be adversely affected and we may lose our qualification as a REIT.

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 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 stockholders 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 stockholders. 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 stockholders that we will have sufficient cash to pay dividends to our stockholders.

We may change one or more of our investment policies. One or more of our investment policies may be changed 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 stockholders.

Our stockholders have a very limited right to influence our business or affairs. Our Management, 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 stockholders, our stockholders generally do not have the right to participate in our Management or investment decisions. Moreover, stockholders do not have the right to remove directors except for cause.

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 stockholders. 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.

If we failed to comply with applicable exemption requirements in connection with our private placement offerings, we may have liability for damages to certain of our stockholders. In the past we sold our securities 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 various exemptions from registration under applicable state securities laws. Many requirements and conditions of these exemptions are subject to factual circumstances and subjective interpretation. There is no assurance that the Securities and Exchange Commission (the "SEC"), 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 SEC, any state securities law administrator, or a trier of fact in a court or arbitration determines that we sold our securities without an applicable exemption from registration under the 1933 Act and/or the applicable state securities laws, we could be liable to the purchasers of our securities in that offering for rescission and possibly monetary damages. If a number of investors were successful in seeking one or more of these remedies, we could face severe financial demands that would adversely affect our business and financial condition.

From 2005 until 2012, we 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 stockholders to sell their common stock because there is currently no public market for the shares. If our stockholders 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. Moreover, our articles of incorporation contain 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 stockholders' 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 stockholders to sell their shares promptly or at all. If our stockholders 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 stockholders paid for their shares. Thus, our stockholders 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.

Certain conditions will challenge our ability to establish a stable secondary market for our common stock and our ability to make some future offerings of our equity securities. Should we seek to establish a public market for our common stock by listing on a national securities exchange, we may experience a number of conditions and factors that will present challenges to establishing a stable secondary market for our common stock.

- As of March 15, 2013, we had 15,967,418 shares of our common stock outstanding. Substantially all of these shares would be freely tradable (subject to restrictions on the shares held by our directors, officers and other affiliates). Also, we intend to issue additional shares of our common stock in the future under our employee and agent incentive plans and possibly in one or more private offerings. Neither we nor any of our affiliates have any control, contractually or otherwise, on the amounts or frequency of trades the holders of these shares may make. Also, institutions and other professional investors could seek to take advantage of this condition through short sales of our common stock, which could exert a downward pressure on the trading price of our common stock.

- The sale and potential sale of a large number of outstanding freely tradable common stock in a secondary market may adversely affect the market price of our common stock in that market.

- A large amount of outstanding freely tradable common stock could discourage potential underwriters from participating in a public offering of our common stock and would place us at a disadvantage in negotiating a public offering price with underwriters who do choose to participate.

- Generally, a large amount of outstanding freely tradable stock would impair our ability to raise additional capital by selling additional equity securities in an underwritten offering where we seek to establish a secondary market for our common stock in connection with that offering.

The prices at which we have sold our common stock in the past were, in the absence of a public market, determined by us based on a number of objective and subjective factors. Accordingly, there is no assurance that the trading price of our common stock in a subsequent public market will correspond with our prior offering prices of the stock or that the trading price of our stock in a public market will reflect our financial condition or performance.

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. Uncertainties, dislocations and disruptions in the U.S. financial markets have resulted in a tightening or, in some locations, the unavailability of secured real estate financing. Mortgage securities and asset-backed securities, collateralized debt obligations and derivative securities associated with those markets are directly impacted. 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 legislation and governmental action intended to stabilize the U.S. credit markets is unclear at this time.

Unavailability of certain types of credit financing and stagnation of real estate prices have led 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 can, in turn, 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.

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, and increased their credit spreads as the demand for higher risk premiums continues. Thus, the amount of mortgage financing available has contracted and future borrowing costs may 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 stockholders. 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.

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 stockholders 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, property taxes, insurance, and other operating expenses 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.

The bankruptcy or insolvency of one of our major tenants could adversely impact our operations and our ability to pay dividends. The bankruptcy or insolvency of a significant tenant or a number of smaller tenants could 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.

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 and self-storage 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 stockholders. 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 stockholders 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 stockholders. 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 have no source of funding to repair or reconstruct the damaged property, and we cannot assure our stockholders that any such sources of funding will be available to us for such purposes in the future.

If any of our insurance carriers become insolvent, we could be adversely affected. We carry several different lines of insurance, placed with several large insurance carriers. If any one of these large insurance carriers were to become insolvent, we would be forced to replace the existing insurance coverage with another suitable carrier, and any outstanding claims would be at risk for collection. In such an event, we cannot be certain that we would be able to replace the coverage at similar or otherwise favorable terms. Replacing insurance coverage at unfavorable rates and the potential of uncollectible claims due to carrier insolvency could adversely affect our results of operations and cash flows.

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.

Deficiencies in our established internal controls over our financial reporting, including disclosure controls, could adversely impact our business. Under current accounting standards and requirements, we have established various accounting and disclosure controls and procedures which provide us with internal control over our determination and reporting of financial matters. We have established these controls and procedures by reviewing those established by other real estate companies with businesses similar to ours and by consultation with outside accountants and advisors. However, there is no assurance that the internal controls and procedures we have established will prevent errors, misstatements or misrepresentations regarding our operations and financial status. While our Management continues to review the effectiveness of our internal controls, disclosure controls, and procedures regarding our financial reporting, there is no assurance they will always accomplish our objectives with respect to all our activities. Errors, misstatements or misrepresentations in connection with our results of operations by reason of deficiencies or material weaknesses in our internal financial reporting controls could result in having to restate our financial statements and other material costs for remediation, any of which could materially adversely affect our business, results of operations, financial condition, or liquidity.

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 disabled persons, 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.

We may be required under applicable accounting procedures and standards to make impairment charges against one or more of our Properties. Under current accounting standards, requirements, and procedures, we are required to periodically evaluate our real estate investments for impairment as a result of a number of indicators. Impairment indicators may include such factors as prevailing real estate markets, leasing rates, occupancy levels, mortgage loan status, and other relevant factors which directly or indirectly affect the value of a particular property. For example, a tenant's default under a lease, the impending termination of a long-term lease, the pending maturity of a mortgage loan secured by the property, and the availability and prevailing interest rates of replacement financing are all impairment indicators. The presence of any of these indicators may require us to make a material impairment charge against the property so affected. In the event that we determine an impairment has occurred, we are required to make an adjustment to the net carrying value of the property. To the extent we make a material charge against the net carrying value of a property, it could have a material adverse effect on our results of operations and financial condition for the period in which the impairment charge is recorded.

We face system security risks as we depend upon automated processes and the Internet. We are increasingly dependent on automated information technology processes. While we attempt to mitigate this risk through offsite backup procedures and contracted data centers that include, in some cases, redundant operations, we could still be severely impacted by a catastrophic occurrence, such as a natural disaster or a terrorist attack. In addition, an increasing portion of our business operations are conducted over the Internet, increasing the risk of viruses that could cause system failures and disruptions of operations despite our deployment of anti-virus measures. Experienced computer programmers may be able to penetrate our network security and misappropriate our confidential information, create system disruptions, or cause shutdowns.

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 stockholders 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.

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 stockholders.

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.

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.

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 stockholders.

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 5 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 stockholders that we will be able to sell our Properties at a profit in the future. Accordingly, the extent to which our stockholders 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 Dodd-Frank Wall Street Reform and Consumer Protection Act on our business earnings and financial condition are uncertain. This Act transforms 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 under this law included the creation of an independent bureau of consumer financial protection and other boards and administrative bodies charged with implementing the law. 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.

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, 2012, we had a total of approximately $92.5 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 stockholders 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 which affect our ability to incur additional debt and our distribution and operating policies. Generally, our lenders will require 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 stockholders 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, 2012, without respect to the Model Home Division, we had loans that require balloon payments of $9.2 million in 2013, $9.2 million due in 2014, $15.4 million due in 2015, $6.9 million due in 2016 and no balloon payments due in 2017. In February 2013, the balloon payments of $18.4 due in 2013 and 2014 were financed and are now scheduled to mature in 2020. 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 on Model Homes entered into by NetREIT Dubose in the amount of approximately $13.5 million.

Our risk of losing property through a mortgage loan default is greater when 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 typical 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. At December 31, 2012, we have one (1) cross-collateralized mortgage between the self-storage properties of Sparky's Palm, Joshua, and Sunrise which terms contain a release clause for each property.

Due-on-sale, prepayment penalty, or defeasance clauses in our mortgages may prevent us from taking advantage of interest rate changes. Lenders typically require a due-on-sale, prepayment penalty, or defeasance in their mortgage loan agreements whereby in the event of the refinance or sale of the property, the lender must be paid a prepayment penalty, a defeasance, or 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 such as a prepayment penalty or defeasance 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 such a clause, we could obtain a higher sales price to reflect the lower mortgage costs we could pass on to the buyer.

Risks Related to Our Corporate Structure

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 stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the stockholder becomes an interested stockholder. 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.

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 NTR 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 NTR Properties is entitled to different amounts of fees and compensation. Also, they 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 stockholders must depend on our independent directors, who presently constitute six of our nine directors, to oversee, monitor and resolve any such conflicts on our behalf.

The amounts of compensation to be paid to our management, the 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 the property manager and possibly their affiliates in the future (these fees are mostly based on the level of our business activity), it is not possible to predict the amount of compensation that we will be required to pay these entities. In addition, because our Management is given broad discretion to determine when to consummate a transaction, we rely on them to dictate the level of our business activity. Fees paid to our affiliates will reduce funds available for payment of dividends. Our stockholders 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 stockholders, 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 Maryland law. Maryland 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 Maryland 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 stockholders 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 future transactions with our executive Management or their affiliates could create a conflict of interest for our Management. Under prescribed circumstances, we may 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 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.

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 stockholders, 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 stockholders. 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 stockholders 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 stockholders. Any distributions we do make will not be deductible by us when computing our taxable income, and will generally be taxable to our stockholders as dividends to the extent of our current and accumulated earnings and profits. Subject to certain limitations in the Code, corporate stockholders 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 stockholders 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 stockholders 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 stockholder generally will not constitute UBTI to such stockholder unless such stockholder 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 stockholders as if they earned that gain and paid the tax on it directly. However, stockholders 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. stockholders selling their Securities may be subject to withholding or other tax. A sale of our shares by a non-U.S. stockholder 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. stockholders. 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. stockholders 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. stockholder'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 stockholder's interest in us. Our shares currently are not "regularly traded" on an established securities market. Accordingly, a non-U.S. stockholder'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. stockholder would be subject to the same treatment as a U.S. stockholder 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. stockholder if the non-U.S. stockholder 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. stockholders 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 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.

ITEM 2. PROPERTIES

General Information

We own or have an equity interest in twenty-three (23) separate properties located in four states. In addition, through our model home subsidiary and our investments limited partnership interests, we own a total of 92 Model Home properties located in eleven states. The following tables provide certain additional information about our Properties as of December 31, 2012.

Property/Location	*Note*	*Date Acquired*	*Year Property Constructed*	*Purchase Price**	*Percent Ownership*	*Occupancy*	*Renovation or Improvement Cost.*
Industrial/Office Properties:							
Havana/Parker Complex Aurora, CO	1	06/06	1975	$ 5,828,963	100%	59%	$ 150,000
Garden Gateway Plaza Colorado Springs, CO	2, 6	03/07	1982	$ 15,132,624	94%	83%	—
Executive Office Park Colorado Springs, CO	3	07/08	2000	$ 10,125,881	100%	85%	—
Pacific Oaks Plaza Escondido, CA	4	09/08	2005	$ 4,876,483	100%	100%	—
Morena Office Center San Diego, CA	1	01/09	1987	$ 6,575,000	100%	92%	—
Fontana Medical Plaza Fontana, CA	5	02/09	1980	$ 1,919,800	51%	100%	—
Rangewood Medical Office Building Colorado Springs, CO	1	03/09	1998	$ 2,630,000	100%	68%	—
Genesis Plaza San Diego, CA	1	08/10	1986	$ 10,000,000	100%	90%	—
Dakota Bank Buildings Fargo, ND	3	05/11	1982	$ 9,575,000	100%	98%	1,200,000
Port of San Diego Complex National City, CA	3	12/11	1971/2008	$ 14,500,000	73%	52%	—
Shoreline Medical Center Half Moon Bay, CA	1	05/12	1980	$ 6,350,000	100%	100%	—
The Presidio Colorado Springs, CO	3	11/12	1988	$ 7,275,000	77%	66%	—
Self-Storage Properties:							
Sparky's Palm Self-Storage Highland, CA	6	11/07	2003	$ 4,848,919	52%	83%	—
Sparky's Joshua Self-Storage Hesperia, CA	7	12/07	2003/2005	$ 8,007,127	100%	68%	—
Sparky's Thousand Palms Self-Storage Thousand Palms, CA		08/09	2007	$ 6,200,000	100%	74%	—
Sparky's Hesperia East Self-Storage Hesperia, CA		12/09	2007	$ 2,775,000	100%	42%	—
Sparky's Rialto Self-Storage Rialto, CA		05/10	2007	$ 5,290,000	100%	50%	95,000
Sparky's Sunrise Self-Storage Hesperia, CA		12/11	1985/1989	$ 2,200,000	100%	67%	—
***Residential Properties:* (9)**							
Casa Grande Apts. Cheyenne, WY	6, 8, 10	04/99	1973	$ 1,020,000	20%	95%	—
Retail Properties:							
World Plaza San Bernardino, CA	3	09/07	1974	$ 7,650,679	100%	83%	—
							—

Regatta Square Denver, CO	3	10/07	1996	$	2,180,166	100%	100%	—
Waterman Plaza San Bernardino, CA	3	08/08	2008	$	7,164,029	100%	100%	—
Yucca Valley Retail Center Yucca Valley	3, 11	9/11 & 5/12	1978	$	7,801,700	92.9%	95.5%	—

* 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 three buildings in the Garden Gateway Plaza
(3) Leased primarily on a triple net basis or property related expenses in excess of the base year property related expenses.
(4) Approximately 12,134 square feet, or 75.8% of this property, is occupied by the Company and related parties as its corporate offices.
(5) Under a 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 short term basis.
(9) Does not include Model Home properties.
(10) Property held for sale as of December 31, 2012.
(11) In May 2012, the Company purchased a parcel within the Center that was previously owned by an unrelated party. The parcel, with a building consisting of approximately 17,600 rentable square feet was unoccupied but under lease until May, 2017. In January 2013, the lessee and the Company agreed to terminate the lease in exchange for a payment from the lessee of $365,000. The Company is in the final stages of negotiation to re-lease the space on a long term basis.

Physical Occupancy Table for Last 5 Years (1)

	Date Acquired	Percentage Occupancy as of the Year Ended December 31,				
		2008	2009	2010	2011	2012
Industrial/Office Properties:						
Havana/Parker Complex	06/06	54.00%	53.00%	53.20%	57.40%	59.20%
Garden Gateway Plaza	03/07	88.30%	85.10%	69.68%	83.50%	82.80%
Executive Office Park	07/08	94.80%	90.70%	89.60%	88.80%	84.50%
Pacific Oaks Plaza (2)	09/08	100.00%	100.00%	100.00%	100.00%	100.00%
Morena Office Center	01/09		77.20%	77.20%	92.40%	92.40%
Fontana Medical Plaza	02/09		100.00%	100.00%	100.00%	100.00%
Rangewood Medical Office Building	03/09		94.30%	94.90%	83.40%	68.20%
Genesis Plaza	08/10			86.70%	76.40%	89.70%
Dakota Bank Buildings	05/11				98.30%	98.30%
Port of San Diego Complex	12/11				51.70%	51.70%
Shoreline Medical Building	05/12					100.00%
The Presidio	11/12					65.50%
Self-Storage Properties:						
Sparky’s Palm Self-Storage	11/07	84.20%	86.70%	80.70%	82.10%	83.00%
Sparky’s Joshua Self-Storage	12/07	67.80%	75.40%	63.90%	69.50%	67.50%
Sparky’s Thousand Palms Self-Storage	08/09		41.60%	57.10%	76.50%	73.50%
Sparky’s Hesperia East Self-Storage	12/09		34.60%	47.00%	43.60%	42.00%
Sparky's Rialto Self-Storage	05/10			46.70%	53.00%	49.70%
Sparky's Sunrise Self-Storage	12/11				65.40%	67.40%
Residential Properties:						
Casa Grande Apartments	04/99	96.10%	84.60%	94.90%	92.30%	94.90%
Retail Properties:						
World Plaza	09/07	94.00%	87.10%	90.20%	87.10%	83.00%
Regatta Square	10/07	100.00%	100.00%	100.00%	100.00%	100.00%
Waterman Plaza	08/08	74.30%	83.60%	83.60%	95.30%	100.00%
Yucca Valley Retail Center	09/11				92.90%	95.50%

(1) Information is provided only for the years that we owned the property.
(2) Approximately 12,134 square feet, or 75.8% of this property, is occupied by the Company and related parties as its corporate offices.
(3) Does not include Model Home properties.

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, 2012 (1)*	*Percent of Total Annualized Base Rent as of December 31, 2012*
Restaurant Technology Services LLC	1	$ 621,400	5.07%
County of San Mateo	1	$ 572,700	4.70%
County of San Bernardino	1	$ 550,600	4.50%
Epsilon Systems Solutions, Inc.	1	$ 500,700	4.10%
Goodwill Industries	1	$ 449,500	3.70%
Caliber Bodyworks, Inc.	1	$ 445,300	3.60%
Wells Fargo Dealer Services, Inc.	1	$ 429,500	3.50%
Aeroflex Colorado Springs, Inc.	1	$ 287,200	2.30%
Waddell & Reed	1	$ 287,000	2.30%
Acosta, Inc.	1	$ 282,300	2.30%

(1) Includes scheduled rent increases in 2013.

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, 2012.

Property	Square Footage		Annual Gross Rent (1)	Percentage Occupied at December 31, 2012		Annual Rent Per Sq Ft At Full Occupancy
Industrial/Office Properties:						
Havana/Parker Complex	114,000	$	718,100	59.20%	$	10.64
Garden Gateway Plaza	115,052	$	1,690,100	82.80%	$	17.74
Executive Office Park	65,084	$	978,500	84.50%	$	17.79
Pacific Oaks Plaza **(2)**	16,000	$	71,200	100.00%	$	(3)
Morena Office Center	26,784	$	492,500	92.40%	$	19.90
Fontana Medical Plaza	10,500	$	272,800	100.00%	$	25.98
Rangewood Medical Office Building	18,222	$	305,400	68.20%	$	24.57
Genesis Plaza	57,685	$	1,288,600	89.70%	$	24.90
Dakota Bank Buildings	119,749	$	1,380,800	98.30%	$	11.73
Port of San Diego Complex	146,700	$	938,100	51.70%	$	12.37
Shoreline Medical Building	15,335	$	559,700	100.00%	$	36.50
The Presidio	80,800	$	1,317,200	65.50%	$	24.89
Self-Storage Properties (2):						
Sparky’s Palm Self-Storage	50,250	$	500,100	83.00%	$	11.99
Sparky’s Joshua Self-Storage	149,750	$	682,800	67.50%	$	6.75
Sparky’s Thousand Palms Self-Storage	113,126	$	598,000	83.00%	$	6.37
Sparky’s Hesperia East Self-Storage	72,940	$	203,800	67.50%	$	4.14
Sparky's Rialto Self-Storage	101,343	$	456,900	49.70%	$	9.07
Sparky's Sunrise Self-Storage	93,851	$	448,400	67.40%	$	7.09
Residential Properties (2):						
Casa Grande Apartments	29,250	$	281,000	92.30%	$	10.41
Retail Properties:						
World Plaza	55,098	$	732,100	83.00%	$	16.01
Regatta Square	5,983	$	236,900	100.00%	$	39.60
Waterman Plaza	21,170	$	640,000	95.30%	$	31.72
Yucca Valley Retail Center	103,596	$	993,300	95.50%	$	10.04

(1) Annual Gross Rent is calculated based upon contractual rents due as of December 31, 2012, determined using GAAP including CAM reimbursements and leases.
(2) Used 2012 actual rents for the year.
(3) The Company, and related entities, occupy approximately 12,134 square feet, or 75.8% of this property as its corporate offices.

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,				
	2008	2009	2010	2011	2012
Industrial/Office Properties:					
Havana/Parker Complex	$ 6.35	$ 5.46	$ 5.29	$ 5.39	$ 5.82
Garden Gateway Plaza	$ 14.84	$ 14.62	$ 13.78	$ 13.01	$ 12.86
Executive Office Park	$ 17.90	$ 18.20	$ 16.98	$ 16.50	$ 16.09
Pacific Oaks Plaza **(2)**	$ 15.94	$ 15.94	$ 17.36	$ 17.36	$ 17.36
Morena Office Center		$ 23.80	$ 21.86	$ 21.39	$ 23.82
Fontana Medical Plaza		$ 27.07	$ 27.86	$ 27.91	$ 27.51
Rangewood Medical Office Building		$ 20.82	$ 25.23	$ 19.96	$ 19.20
Genesis Plaza			$ 25.72	$ 23.05	$ 21.95
Dakota Bank Buildings				$ 12.43	$ 12.07
Port of San Diego Complex				$ 6.13	$ 5.68
Shoreline Medical Building					$ 37.92
The Presidio					$ 16.60
Self-Storage Properties:					
Sparky’s Palm Self-Storage	$ 9.45	$ 8.02	$ 9.49	$ 9.37	$ 9.95
Sparky’s Joshua Self-Storage	$ 4.80	$ 3.62	$ 4.39	$ 3.70	$ 4.56
Sparky’s Thousand Palms Self-Storage		$ 3.73	$ 3.37	$ 4.08	$ 5.29
Sparky’s Hesperia East Self-Storage			$ 2.72	$ 2.67	$ 2.79
Sparky's Rialto Self-Storage			$ 4.08	$ 4.01	$ 4.51
Sparky's Sunrise Self-Storage				$ 4.50	$ 4.78
Residential Properties (3):					
Casa Grande Apts.	$ 6.26	$ 6.05	$ 8.37	$ 8.80	$ 9.61
Retail Properties:					
World Plaza	$ 15.40	$ 14.09	$ 14.04	$ 14.55	$ 14.32
Regatta Square	$ 38.17	$ 32.08	$ 32.97	$ 33.00	$ 42.40
Waterman Plaza	$ 23.32	$ 24.81	$ 26.54	$ 28.31	$ 29.87
Yucca Valley Retail Center				$ 11.35	$ 9.43

(1) Annualized from date of acquisition in year acquired.
(2) The Company, and related entities, occupy 75.8% of this property as its corporate offices.
(3) Does not include Model Home properties.

Lease Expirations Tables (1)

The following table shows lease expirations for our Properties as of December 31, 2012, 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***
2013	46	164,277	$ 2,393,958	21.6%
2014	33	63,442	895,299	8.1
2015	32	158,993	2,350,290	21.2
2016	22	181,886	2,192,931	19.8
2017	14	63,669	810,195	7.3
2018	5	23,559	533,702	4.8
2019	2	11,400	311,863	2.8
2020	5	53,655	1,115,735	10.2
2021	3	6,100	164,443	1.5
2022	2	17,191	235,000	2.1
2023	1	4,117	63,813	0.6
Totals	165	748,289	$ 11,067,229	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***
2013	54	115,300	$ 1,449,606	58.0%
2014	33	91,137	913,782	36.5
2015	5	15,900	137,418	5.5
	92	222,337	$ 2,500,806	100.0%

Concentration of Tenants

As of December 31, 2012, the following tenants accounted for 10% or more of our aggregate annual rental income for the specific property:

Property	Tenant	Current Annual Rent (1)	% of Total Rental Income by Respective Property
Industrial/Office Properties:			
Havana/Parker Complex	Arapahoe House, Inc.	$ 70,800	10.2%
Garden Gateway Plaza	Fairchild Semiconductor Corporation	$ 255,100	25.9%
	Aeroflex Colorado Springs, Inc.	$ 176,300	17.9%
	The Travelers Indemnity Co.	$ 137,200	13.9%
Executive Office Park	Keller Williams Client's Choice Realty	$ 190,200	30.6%
	Fidelity National Title Company	$ 63,900	10.3%
Pacific Oaks Plaza (3)	Pro Logic	$ 71,200	24.2
Morena Office Center	Community Research Foundation	$ 377,900	81.2%
	Integrated Communication Solutions, Inc.	$ 69,200	14.9%
Fontana Medical Plaza	DVA Healthcare Renal Care	$ 259,000	100.0%
Rangewood Medical Office Building	Rocky Mountain Prosthetic Denistry, PC	$ 66,900	31.3%
	Rangewood Orthodontics, PC	$ 50,400	23.6%
	Dr. Ruxandra Georgescu, DDS	$ 48,000	22.5%
	The Therapy Cottage, Inc.	$ 29,900	14.0%
Genesis Plaza	State of California	$ 195,000	14.9%
	Panasonic Corporation of America	$ 192,000	14.7%
Dakota Bank Buildings	Restaurant Technology Services, LLC	$ 403,800	47.4%
	Merril Lynch	$ 121,400	14.3%
	Frederikson & Byron P.A.	$ 110,800	13.0%
	U.S. Bank	$ 105,600	12.4%
Port of San Diego Complex	Epsilon Systems Solutions, Inc	$ 419,900	40.3%
	Caliber Bodyworks, Inc	$ 380,500	36.5%
	Acosta, Inc.	$ 242,100	23.2%
The Presidio	Executive Systems, Inc.	$ 103,800	12.6%
	Taeus International Corporation	$ 102,700	12.4%
Shoreline Medical Building	County of San Mateo	$ 599,700	100.0%
***Self-Storage Properties:* (2)**			
Residential Properties:			
Casa Grande Apartments (2)			
Model home properties (4)			
Retail Properties:			
World Plaza	County of San Bernardino	$ 537,100	76.0%
	Citizen's Business Bank	$ 87,200	12.3%
Regatta Square	Little H Burger, LLC	$ 59,800	36.0%
	PBI, Inc.	$ 53,700	32.2%
		$ 30,000	18.0%
	Nail Zone	$ 30,000	18.0%
	Papa Rick's Pizza	$ 22,800	13.8%
Waterman Plaza	Goodwill Industries	$ 358,500	70.4%
	Alta Vista Credit Union	$ 59,220	11.6%
Yucca Valley Retail Center	The Vons Companies, Inc.	$ 206,700	23.9%
	Rite Aid (5)	$ 120,000	13.9%
	Angel View, Inc.	$ 96,500	11.2%

(1) Annualized base rent as of December 31, 2012 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) Approximately 12,134 square feet, or 75.8% of this property, is occupied by the Company and related parties as its corporate offices.
(4) Excluded from this detail
(5) In January 2013, the Company agreed to terminate its lease with Rite Aid in return for a cash payment of $365,000. The Company is in negotiations to lease the space on a long term basis with a major retail chain.

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, 2012.

Property and Lessee	Rentable Square Feet	Lease Ends	Percentage of Property Leased	Current Base Annual Rent (1)	Renewal Options
Industrial/Office Properties:					
Havana/Parker Complex	None				
Garden Gateway Plaza					
Aeroflex Colorado Springs, Inc.	25,530	11/30/2016	22.2%	$ 176,300	One 5 yr.
Fairchild Semiconductor Corporation	18,900	7/31/2013	16.4%	$ 255,100	One 5 yr.
The Travelers Indemnity Co.	13,066	2/29/2016	11.4%	$ 137,200	One 5 yr.
Executive Office Park					
Keller Williams Client's Choice Realty	16,543	9/30/2013	25.4%	$ 190,200	None
Pacific Oaks Plaza (3)	3,866	7/21/13	24.2%	$ 71,200	None
Morena Office Center					
Community Research Foundation	12,582	3/31/2013	47.0%	$ 377,900	None
Integrated Communication Solutions, Inc.	3,611	4/30/2016	13.5%	$ 69,200	One 4 yr.
Fontana Medical Plaza					
DVA Healthcare Renal Care	10,525	11/22/2019	100.0%	$ 258,900	Three 5 yr.
Rangewood Medical Office Building					
Rocky Mountain Prosthetic Dentistry P.C.	3,717	5/31/2018	20.4%	$ 66,900	One 5 yr.
Rangewood Orthodontics	2,920	3/31/2020	16.0%	$ 50,400	One 5 yr.
Dr. Ruxandra Georgescu, DDS	2,512	3/31/2014	13.8%	$ 48,000	Three 5 yr.
The Therapy Cottage	2,134	2/28/2014	11.7%	$ 28,800	One 5 yr.
Genesis Plaza					
Wells Fargo Dealer Services, Inc.	13,520	2/28/2015	23.4%	$ 428,300	One 5 yr.
Republic Indemnity of America	8,976	6/30/2015	15.6%	$ 233,700	One 5 yr.
Panasonic Corporation of America	6,060	7/31/2013	10.5%	$ 192,000	One 5 yr.
State of California	5,975	12/31/2015	10.4%	$ 195,000	None
Dakota Bank Buildings					
Restaurant Technology Services, LLC	30,732	12/31/2012	25.7%	$ 403,824	None
U.S. Bank National Association	16,244	12/31/2012	13.6%	$ 105,600	None
Port of San Diego Complex					
Epsilon Systems Solutions	40,700	7/18/2015	27.7%	$ 419,900	One 5 yr.
Caliber Bodyworks, Inc.	35,200	7/18/2015	24.0%	$ 380,500	Two 5 yr.
Shoreline Medical Building					
County of San Mateo	15,335	6/30/2020	100.0%	$ 559,700	Two 5 yr.
The Presidio					
Taeus International Corporation	8,387	10/31/2016	10.4%	$ 102,700	None
Executive Systems, Inc.	7,690	10/31/2016	9.5%	$ 103,800	None
Self-Storage Properties: (2)					
Residential Properties: (2) (4)					
Retail Properties:					
World Plaza					
County of San Bernardino	29,942	2/29/2016	54.3%	$ 537,100	One 1 yr. & Two 5 yr.
Citizen's Business Bank	5,227	7/2/2016	14.0%	$ 84,700	One 5 yr.
Regatta Square					
Little H Burger, LLC	2,300	12/31/2021	38.4%	$ 60,000	Two 5 yr.
PBI, Inc.	1,851	5/31/2013	30.9%	$ 53,700	One 5 yr.
Nail Zone	1,032	8/31/2017	17.2%	$ 30,000	none
Papa Rick's Pizza	800	2/23/2015	13.4%	$ 22,800	One 5 yr.
Waterman Plaza					
Goodwill Industries	14,503	9/24/2018	68.5%	$ 358,500	Two 5 yr.
Dr. Laura Nguyen O.D., Inc.	2,461	6/30/2016	11.6%	$ 33,500	One 5 yr.
Yucca Valley Retail Center					
The Vons Companies, Inc.	40,000	2/29/2016	38.6%	$ 206,700	Five 5 yr.
Rite Aid (5)	17,600	5/31/2017	17.0%	$ 120,000	N/A

(1) Annualized rent as of December 31, 2012 without considering scheduled rent increases.
(2) Self-storage or residential units rented on a short term basis.
(3) Approximately 12,134 square feet, or 75.8% of this property, is occupied by the Company and related parties as its corporate offices.
(4) See schedule of Concentration of Tenants
(5) The lessee of the 17,600 rentable square feet had moved to a different location but was under obligation to pay under the agreement through May 2017. In January 2013, the lessee and the company agreed to terminate the lease in exchange for a payment from the lessee of $365,000. The Company is in the final stages of negotiation to re-lease the space on a long term basis.

Geographic Diversification Table

The following table shows a list of Properties we owned as of December 31, 2012, 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	15	1,034,128	65.4%	$ 6,307,772	48.9%
Colorado	6	399,141	25.2%	5,135,777	39.8%
North Dakota	1	119,749	7.6%	1,445,272	11.3%
Wyoming	1	29,250	1.8%	-	-%
	23	1,582,268	100.0%	$ 12,888,821	100.0%

(1) Annualized base rent as of December 31, 2012 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	Approximate % of Aggregate Annual Rent
Texas	35	107,172	42.6%	$ 707,655	28.7%
California	28	75,488	29.9%	1,075,102	43.6%
New Jersey	14	33,196	13.2%	421,677	17.1%
Arizona	7	18,997	7.5%	136,829	5.5%
Oregon	1	1,580	0.6%	5,007	0.2%
Florida	2	4,570	1.8%	35,667	1.4%
South Carolina	1	3,120	1.2%	32,556	1.3%
Pennsylvania	1	2,000	0.8%	24,036	1.0%
Washington	1	1,540	0.6%	5,935	0.2%
North Carolina	1	2,929	1.2%	16,200	0.7%
Idaho	1	1,583	0.6%	6,195	0.3%
	92	252,175	100.0%	$ 2,466,859	100.0%

Indebtedness

Mortgage Debt

The following table presents information as of December 31, 2012 on indebtedness encumbering our properties. The Company is current with respect to its payments on each of these loans.

NetREIT, Inc. Properties

Property	Principal Amount	Current Interest Rate	Maturity Date	Balance at Maturity
Havana/Parker Complex	$ 3,163,018	6.51%	July 2016	$ 2,844,980
Garden Gateway Plaza (1) (4)	9,248,703	5.00%	April 2020	$ 8,893,175
Waterman Plaza	3,542,157	6.50%	September 2015	$ 3,304,952
Sparky’s Thousand Palms Self-Storage (2)	4,326,536	5.50%	May 2034	$ -
Sparky’s Hesperia East Self-Storage	1,666,713	6.25%	December 2016	$ 1,564,200
Sparky's Rialto Self-Storage	2,512,003	6.25%	May 2015	$ 2,643,350
Genesis Plaza	4,738,967	4.65%	September 2015	$ 4,415,000
Casa Grande Apartments	1,020,943	5.80%	July 2018	$ 890,921
Executive Office Park	4,511,736	5.79%	July 2018	$ 3,380,902
Dakota Bank Buildings (3)	5,532,953	5.75%	May 2016	$ 5,130,129
Yucca Valley Retail Center	3,203,262	5.62%	April 2016	$ 2,942,580
Rangewood Medical Office Building	1,214,819	4.95%	January 2019	$ 645,026
Regatta Square	1,272,994	4.95%	January 2019	$ 1,082,824
Port of San Diego Complex (4)	9,185,400	4.75%	March 2020	$ 8,847,736
Shoreline Medical Office Building	4,067,514	5.10%	June 2022	$ 2,814,421
Morena Office Center	2,468,148	4.50%	June 2021	$ 1,906,157
Pacific Oaks Plaza	1,678,335	4.50%	June 2021	$ 1,239,866
The Presidio	5,617,671	5.60%	January 2015	$ 5,359,875
Sparky's Palm, Josuha and Sunrise Self-Storage	8,250,000	4.70%	December 2022	$ 6,667,631
	$ 77,221,872			

Model Home Properties

Borrower	Principal Amount	Current Interest Rate	Maturity Date
Dubose Acquisition Partners II, LP (5)	$ 1,628,170	5.5000%	February 2012
NetREIT Dubose Model Home REIT, Inc. (6,8)	9,774,997	5.00-6.30%	Various 2015 & 2016
Dubose Model Home Investors #201, LP (7,8)	3,677,746	5.50%	December 2016
NetREIT Dubose Model Home Investment Fund #113, LP (9)	177,578	5.84%	June 2012
	15,258,491		
Total mortgage notes payable	$ 92,480,363		

(1) Mortgage is cross-collateralized by all three buildings comprising the Garden Gateway Plaza. Mortgage has release clause for each building. The loan was modified in February 2013. As part of the loan modification, the Company paid the principal balance down by $2.0 million. The modification resulted in an extension of the maturity date from April 2014 to February 2020, a reduction in the interest rate from 6.08% to 5.00% and a decrease in the payment from $71,412 to $42,382.
(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 variable with a floor of 5.75% and a ceiling of 9.75%. The interest rate is calculated using the one month labor rate plus 3%, adjustable monthly using the rate in effect on the first day of each month.
(4) All data, with the exception of principal outstanding reflects terms under refinancing's completed in February 2013
(5) Consists of 7 mortgage notes payable secured by 7 Model Home properties.
(6) Consists of 47 mortgage notes payable secured by 47 Model Home properties.
(7) Consists of 17 mortgage notes payable secured by 17 Model Home properties.
(8) These mortgages are guaranteed by NetREIT, Inc.
(9) Consists of 1 mortgage notes payable secured by 1 Model Home property

Description of Properties

Industrial/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 59.2% occupied as of December 31, 2012. 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 is approximately 82.8% occupied as of December 31, 2012.

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 84.5% occupied as of December 31, 2012.

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, 2012 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.

As of December 31, 2012, the property was 92.4% 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, in all cash transaction. 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 $258,900 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. 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, 2012, the property was 68.2% 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, 2012, the property was 89.7% occupied.

Dakota Bank Buildings

In May 2011, the Company acquired the Dakota Bank Buildings for the purchase price of approximately $9.6 million. The Property is a six-story, two building office complex built in 1981 and 1986 located on 1.58 acres and consists of approximately120,000 rentable square feet in downtown Fargo, North Dakota. The Company made a down payment of approximately $3.875 million and financed the remainder of the purchase price through a monthly adjustable rate mortgage with interest at 3.0% over the one month Libor with an interest rate floor of 5.75% and ceiling of 9.75%. As of December 31, 2012, the property was 98.3% occupied.

Port of San Diego Complex

In December 2011, the Company completed the formation of a California limited partnership, NetREIT National City Partners, LP, ("NCP") whereby a limited partner contributed its fee interest in two adjacent multi-tenant industrial properties located in National City, California. The Company contributed approximately $0.5 million cash and 1,649.266 shares of $1,000 liquidation value, 6.3% convertible preferred stock to capitalize the limited partnership. The agreed upon value of the Property was $14.5 million. The Company also contributed $2.9 million cash which was used to pay down the mortgage loan assumed by NCP to a balance of $9.5 million. After completing the transactions, NetREIT has an approximate 75% interest in the NCP and a single unrelated limited partner has an approximate 25% interest. The property, referred to by the Company as the "Port of San Diego Complex", consists of two adjacent multi-tenant light industrial buildings built in 1971 and was renovated in 2008. The Property is comprised of 6.13 acres and the buildings have 146,700 rentable square feet. As of December 31, 2012, the property was 51.7% occupied.

Shoreline Medical Building

In June 2012, the Company acquired the Shoreline Medical Building for the purchase price of approximately $6.4 million. The Property is a two-story medical office building under a single tenant lease that was built in 1980. The land consists of approximately 38,600 square feet with a building on it of approximately15,335 rentable square feet in Half Moon Bay, California. Half Moon Bay is approximately 25 miles south of San Francisco and 10 miles west of San Mateo. The Company made a down payment of approximately $2.3 million and financed the remainder of the purchase price through a fixed rate mortgage with interest at 5.1%. The interest rate is subject to change at the third and sixth year anniversaries of the loan. As of December 31, 2012, the property was 100% occupied.

The Presidio

In November 2012, NetREIT 01 LP (see 7-Eleven under retail properties below) acquired The Presidio for the purchase price of approximately $7.3 million. The Property is a four-story office building with approximately 80,800 rentable square feet located in Colorado Springs, Colorado. The Company made a down payment of approximately $1.6 million and financed the remainder of the purchase price through a fixed rate mortgage with interest at 5.6%. As of December 31, 2012, the property was 65.5% occupied.

Self-Storage Properties:

Sparky's Palm Self-Storage

In November 2007, the Company 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 83% occupied as of December 31, 2012.

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 67.5% occupied as of December 31, 2012.

Sparky's Thousand Palms Self-Storage

In August 2009, the Company 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 73.5% occupied as of December 31, 2012.

Sparky's Hesperia East Self-Storage

In December 2009, The Company 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 42% occupied as of December 31, 2012.

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 49.7% occupied as of December 31, 2012.

Sparky's Sunrise Self-Storage

In December 2011, the Company acquired the Sunrise Self-Storage facility for the purchase price of $2.2 million. The Company paid the purchase price in an all cash transaction. The Property is located within a mixed commercial and industrial area of Hesperia, California. The Property was built in 1985 and 1989 and consists of fourteen (14) one and two-story buildings comprising approximately 93,851 square feet on a 4.93 acre parcel. The property is approximately 67.4% occupied as of December 31, 2012.

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.

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, 2012, 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.

This property is held for sale as of December 31, 2012.

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 77.7% limited partner in DAP II and an 86.3% limited partner in DAP III. The partnerships invested in a total of 19 Model Homes which were leased back to the home builders. During the year ended December 31, 2012, DAP III sold all of its homes and the partnership was dissolved. As of December 31, 2012 DAP II is in the process of winding down its operations and owned a total of 7 Model Homes.

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 home builders. The transactions completed since 2010 are described below.

In October 2010, NetREIT Dubose 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. NetREIT Dubose paid the purchase price through a cash payment of $0.45 million and four promissory notes totaling $0.45 million. Two of the four homes are held for sale at December 31, 2012 with the other two still under a lease agreement.

In October 2010, NetREIT Dubose 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. NetREIT Dubose paid the purchase price through a cash payment of $3.05 million and ten promissory notes totaling $3.05 million. At December 31, 2012, there are 3 homes remaining in each of the three states referred to above.

In December 2010, NetREIT Dubose 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. NetREIT Dubose paid the purchase price through a cash payment of $1.45 million and ten promissory notes totaling $1.45 million. At December 31, 2012, NetREIT Dubose owned the twelve homes originally purchased.

In January 2011, NetREIT Dubose acquired two Model Home properties in Texas and leased them back to the home builder. The purchase price for the properties was $0.45 million. NetREIT Dubose paid the purchase price through a cash payment of $0.23 million and two promissory notes totaling $0.22 million. At December 31, 2012, NetREIT Dubose owned the two homes originally purchased

In February 2011, NetREIT Dubose acquired five Model Home properties in California and leased them back to the home builder. The purchase price for the properties was $1.5 million. NetREIT Dubose paid the purchase price through a cash payment of $0.75 million and five promissory notes totaling $0.75 million. At December 31, 2012, there are 4 homes remaining.

In March 2011, NetREIT Dubose acquired four Model Home properties in South Carolina, Florida and Texas and leased them back to the home builder. The purchase price for the properties was $1.0 million. NetREIT Dubose paid the purchase price through a cash payment of $0.50 million and four promissory notes totaling $0.50 million. At December 31, 2012, there are 2 homes remaining in Florida and Texas.

In June 2011, NetREIT Dubose acquired three Model Home properties in Texas and leased them back to the home builder. The purchase price for the properties was approximately $0.60 million. NetREIT Dubose paid the purchase price through a cash payment of approximately $0.30 million and three promissory notes totaling approximately $0.30 million. At December 31, 2012, NetREIT Dubose owns the three homes originally purchased.

In August 2011, NetREIT Dubose acquired eight Model Home properties in Texas, Florida, North Carolina and South Carolina and leased them back to the home builder. The purchase price for the properties was approximately $1.9 million. NetREIT Dubose paid the purchase price through a cash payment of approximately $1.0 million and eight promissory notes totaling approximately $0.90 million. At December 31, 2012, there are 3 homes remaining in Texas, Florida and North Carolina.

In December 2011, Dubose Model Home Investor Fund #201, LP acquired one Model Home properties in South Carolina and leased it back to the home builder. The purchase price for the property was approximately $0.3 million. NetREIT Dubose paid the purchase price through a cash payment of approximately $0.1 million and promissory note for the balance of the purchase price. At December 31, 2012, the Model Home is under lease contract.

In January 2012, Dubose Model Home Investors #201 LP acquired one Model Home property in Texas and leased it back to the home builder. The purchase price for the property was $0.38 million. The purchase price paid was through a cash payment of $0.15 million and a promissory note $0.23 million. At December 31, 2012, the Model Home is under lease contract.

In April 2012, NetREIT Dubose and Dubose Model Home Investors #201 LP acquired 19 Model Home properties in California and Arizona and leased them back to the home builder. The purchase price for the properties was approximately $8.2 million. The purchase price paid was through a cash payment of approximately $3.7 million and promissory notes totaling approximately $4.5 million. At December 31, 2012, these 19 Model Homes are under lease contract.

In May 2012, the Company acquired the former Rite Aid building in Yucca Valley, California, The building adjoins the Company's Yucca Valley Retail Center purchased in September 2011. The building was purchased vacant as a result of the relocation of Rite Aid. However, the property remains under lease to the tenant for several more years. The purchase price was approximately $1.1 million all paid in cash. The building consists of approximately 17,600 rentable square feet. In January 2013, the Company and Rite Aid agreed to a termination of the contract in echange for $365,000 paid to the Company.

In October 2012, Dubose Model Home Investors #201 LP acquired 1 Model Home property in Texas and leased it back to the home builder. The purchase price for the property was approximately $365,000. The purchase price paid was through a cash payment of approximately $146,000 and a promissory note of approximately $219,000. At December 31, 2012, this 1 Model Home is under lease contract.

In December 2012, NetREIT Dubose and Dubose Model Home Investors #201 LP acquired 14 Model Home properties in Texas and leased them back to the home builder. The purchase price for the properties was approximately $3.9 million. The purchase price paid was through a cash payment of approximately $2.0 million and promissory notes totaling approximately $1.9 million. At December 31, 2012, these 14 Model Homes are under lease contract.

As of December 31, 2012, NetREIT Dubose and Dubose Model Home Investor Fund #201, LP owned a total of 84 Model Homes. Including homes owned in other entities, we own a total of 92 Model Homes.

The DMHI Funds

As described above in Item 1, the Company acquired significant interests in each of DMHI Fund #3, DMHI Fund #4, DMHI Fund #5 and DMHI Fund #113 (collectively, the "DMHI Funds")

At the time we acquired the DMHI Funds #3,#4 and #5 in 2010, the three funds had a total of 29 Model Home properties under lease to their respective developers under NNN leases in 10 different states. At the time we acquired DMHI Fund #113, it had two homes under NNN leases in 2 states. DMHI Funds #3, #4 and #5 sold its 17 remaining homes. DMHI Funds #3 and #4 each have an investment in DAP II as its only remaining asset DMHI #5 sold their remaining homes in 2012 and was dissolved before the end of the year. As of December 31, 2012, DMHI Fund #113 owned 1 Model Home and DAP II owned 7 Model Homes.

Model Home Properties Sold

During the year ended December 31, 2012, NetREIT Dubose and the other Model Home entities disposed of thirty-five Model Home properties. The sales price, net of selling costs, aggregated approximately $8.9 million and approximately $1.5 million in mortgage notes payable were retired in connection with these sales. The Company recognized a gain of $260,360 related to the sale of these Model Homes.

During the year ended December 31, 2011, NetREIT Dubose and the other Model Home entities disposed of twenty-two Model Home properties. The sales price, net of selling costs, aggregated approximately $8.5 million and approximately $5.7 million in mortgage notes payable were retired in connection with these sales.

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 stockholder meeting on October 16, 2009. In 2012, the trust elected to convert an additional 17,060 shares at $8.03, after adjusting for stock dividends, or approximately $144,000. Following these conversions, NetREIT's equity interest in the partnership increased to 77.3%.

This property was sold in October 2012 for a gross selling price of approximately $1.9 million and resulted in a gain of approximately $0.6 million. The Company completed a 1031 exchange of the 7-Eleven for the purchase of The Presidio and, as a result, The Presidio is owned by the NetREIT 01 LP Partnership.

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 leasable 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 83.0% occupied as of December 31, 2012.

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, 2012.

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 leasable 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 100.0% occupied as of December 31, 2012.

During 2012, the Waterman Plaza was listed for sale. At the time, the Company recorded an impairment of $300,000 based on the sales price compared to the net book value. The Company has since pulled the Waterman Plaza off of the market.

Yucca Valley Retail Center

In September 2011, the Company acquired the Yucca Valley Retail Center for the purchase price of approximately $6.8 million. The Property is a neighborhood shopping center complex built in approximately 1978 consisting of five separate parcels. The Property consists of approximately 86,000 rentable square feet and is currently 93% leased and anchored by a national chain grocery store. The Company paid the purchase price through a cash payment of approximately $3.5 million and assumed a loan secured by the property of approximately $3.3 million with an interest rate of 5.62%.

In 2012, the Company added approximately 17,600 square foot through the purchase of an empty building under lease contract through May 2017 with the Rite Aid pharmacy chain. In January 2013, the Company agreed to terminate the contract in exchange for a lump sum payment of $365,000. The Company is in advanced negotiations with a major retail chain to take over this portion of the Yucca Valley Retail Center.

The property is approximately 95.5% occupied as of December 31, 2012.

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. MINE SAFETY DISCLOSURES

None.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER 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 stockholders. The following is a summary of monthly distributions paid per common share for the years:

Month	2012	2011	
	Cash Dividend	Stock Dividend (1)	Cash Dividend
January	$ 0.0451	$	$ 0.0475
February	0.0451		0.0475
March	0.0451		0.0475
April	0.0451		0.0475
May	0.0451		0.0475
June	0.0451		0.0475
July	0.0451		0.0475
August	0.0451		0.0475
September	0.0451		0.0475
October	0.0451		0.0475
November	0.0451		0.0475
December	0.0451	5%	0.0451
Total	$ 0.541		$ 0.5676

(1) The Company issued a stock dividend of 5%, or 720,366 common shares, to stockholders of record on December 2, 2011.

At December 31, 2012, a cash distribution of $0.13575 per common share was payable and was paid in January 2013.

In December 2011, the Company issued approximately 1,649 shares of its Convertible Series 6.3% Preferred Stock. The Company paid approximately $105,000 in dividends in 2012. There were no dividends paid on these shares in 2011.

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 stockholders in order to maintain our status as a REIT. We have paid dividends to our stockholders 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 and from proceeds from the sale of properties until such time that our cash flow from operations exceeds the amount of cash dividends paid to stockholders. 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. stockholder, but will reduce the stockholder’s basis in its shares (but not below zero) and therefore can result in the stockholder having a higher gain upon a subsequent sale of such shares. Return of capital distributions in excess of a stockholder’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 stockholders 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, 2012 and 2011, all distributions were non-taxable as they were considered return of capital to the stockholders.

Number of Holders of Each Class of Stock

As of March 15, 2013, there were 2,976 holders of our Series A common stock and a single holder of our Convertible Series 6.3% preferred stock.

Securities Issued Under our 1999 Flexible Incentive Plan

The Company established the 1999 Flexible Incentive Plan (the “Plan”) for the purpose of attracting and retaining employees. The Plan provides that no more than 10% of the outstanding shares of common stock can be issued under the Plan. At December 31, 2011, the maximum number of shares that could be issued under the plan was approximately 1,576,700 shares. Prior to 2006, the Company awarded approximately 56,000 stock options. In 2006, the Compensation Committee of the Board of Directors adopted a restricted stock compensation plan under the Plan. There have been approximately 254,000 restricted shares granted since adopting the restricted stock compensation plan. At December 31, 2012, the amount of common shares available for future grants under the Plan is approximately 1,266,700 shares.

The following table provides information as of December 31, 2012 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)

A table of non-vested restricted shares granted and vested since December 31, 2010 is as follows:

Balance, December 31, 2010	61,642
Granted	52,139
Vested	(49,805)
Cancelled	(5,504)
Stock dividend	5,305
Balance, December 31, 2011	63,777
Granted	57,016
Vested	(57,577)
Cancelled	(411)
Balance, December 31, 2012	62,805

See Note 6 of the Notes to the Consolidated 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

Period	(a) Total Number of Shares Purchased		(b) Average Price Paid per Share	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (1)
January 1 — January 31, 2012 (Related Parties)	17,060	$	8.44		
April 1 — April 30, 2012 (Related Parties) **(2)**	1,395		8.60		
April 1 — April 30, 2012	1,955		8.00		
Total	20,410	$	8.41		

1. The Company does not have a formal policy with respect to a stock repurchase program and typically restricts repurchases to hardship cases only.

2. In April 2012, the Company purchased 1,395 shares of its vested restricted common stock from an independent member of its Board of Directors for a total of $12,000. The shares purchased were ultimately transferred from the Director's personal account to an Individual Retirement Account following acceptance of the transaction by the custodian.

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

Growth in Capital Resources. During the last five years our stockholders' equity has increased approximately 162%, from approximately$29.3 to $76.7 million at December 31, 2012. Our investment portfolio, consisting of real estate assets, lease intangibles, land purchase option and mortgages receivable, have increased by 287% to approximately $185.1 million at December 31, 2012 from $47.9 million at December 31, 2007. The primary source of funds for the growth in the portfolio during these five years was attributable to the issuance of common stock of approximately $72.8 million under two offerings and from proceeds from mortgage notes payable.

Expansion of Business Model. In March 2010, the Company acquired the assets and six employees of DMHU. Later that year, the Company formed NetREIT Advisors and transferred the four remaining DMHU employees to this newly formed LLC.

In 2010, NetREIT Advisors was formed to manage and serve as external advisor to NetREIT Dubose. In 2011, Dubose Advisers was formed to manage and serve as external advisors to Dubose Model Home Partnership #201. These advisors generated fees of approximately $405,000 and $888,000 during the years ended December 31, 2011 and 2012, respectively. Our operating expenses associated with the Advisors are primarily employee costs and are semi-fixed in nature. For the years ended December 31, 2012 and 2011, the operating loss of the two Advisor entities was $243,050 and $469,400, respectively.

During the earlier years this business was hampered by the slow recovery of the residential building and its effect on the home builders. However, housing starts and building permits rose in September 2012 to the highest level in four years and there are signs that the surplus in housing supply is dwindling. During late 2012 we saw increasing activity by residential developers. For the year ended December 31, 2012 there were 49 Model Homes acquired for approximately $17.1 million and, in 2011 there were 23 Model Homes acquired for approximately $9.8 million. NetREIT Dubose will continue to make additional property acquisitions that will increase revenues of 2012 and 2011, the advisors and with the semi-fixed expenses they will generate net income.

Economic Environment

The United States appears to be making a slow recovery from the recession that began in 2008. The current economic environment has shown decreases in residential housing foreclosures and a shadow inventory and a decreasing supply of homes available for purchase, continuing depressed commercial real estate valuations, slow improving consumer spending, unemployment that has decreased over the last several months although the level of unemployment still remains higher than pre-recessionary levels. In general, net income from U.S. corporations and stock market investments and activity has shown improvement. The housing sector has been the bright spot in the economy with increases in home sales and prices. We believe that the pace of the overall recovery will likely be slow and disjointed. Full recovery will need increasing job growth and the economic situation in Europe will need to stabilize, but even then it will not be consistent across industries, geographies or periods of the year causing an uneven tempo of growth.

Recent increases in the size of the U.S. debt, slow economic recovery concerns, and signs of deteriorating sovereign debt conditions in Europe, have increased the possibility of additional credit-rating downgrades and economic slowdowns. The possibility of further downgrades to the U.S. government's sovereign credit rating, or its perceived creditworthiness, and/or the impact of the current crisis in Europe with respect to the ability of certain European Union countries to continue to service their sovereign debt obligations are inherently unpredictable and could adversely affect the U.S. and global financial markets and economic conditions. There can be no assurance that governmental or other measures to aid economic recovery will be effective. Although the United States Federal Reserve Bank announced a Q3 stimulus plan and the intent to keep interest rates low through 2015, the above mentioned concerns could cause interest rates and borrowing costs to eventually rise, which may negatively impact our ability to access the debt markets on favorable terms. Continued adverse economic conditions could have a material adverse effect on our business, financial condition and results of operations

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 in our real estate holdings. Properties that have reached goals in occupancy and rental rates are evaluated for potential added value appreciation and, if lacking such potential, are sold with the equity reinvested in properties that have better potential without foregoing cash flow. Management focuses its efforts on improving underperforming assets through re-leasing efforts, including negotiation of lease renewals and rental rates. The ability to increase assets under management is affected by our ability to raise borrowings and/or capital coupled with our ability to identify appropriate investments.

Management's evaluation of operating results includes an assessment of our ability to generate cash flow necessary to pay debt service and to fund distributions to our Stockholders. 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 non-stabilized properties, the long-term sustainability of our real estate portfolio, our future operating cash flow from anticipated acquisitions, and the proceeds from the sales of our real estate assets.

We are pleased that net operating income from our existing Properties, our newly acquired properties and from the Model Home division growth, is increasing at a faster rate, approximately 26%, than our general and administrative expenses (24%) due to efficiencies of scale. During the year ended December 31, 2012, general and administrative expense represented approximately 26% of total revenue compared to 27% during the same period in 2011. We believe that when all of our Properties are operating at stabilized rates, the general and administrative percentage of revenues will further decrease.

We seek to diversify our portfolio by commercial real estate segments to reduce the adverse effect of a single under-performing segment, geographic market and tenant industry.

As of December 31, 2012, the Company owned or had an equity interest in twelve office buildings and one industrial building ("Office Properties") which total approximately 786,000 rentable square feet, four retail shopping centers ("Retail Properties") which total approximately 186,000 rentable square feet, six self-storage facilities ("Self-Storage Properties") which total approximately 581,000 rentable square feet, one 39 unit apartment building and 92 Model Homes owned by six limited partnerships ("Residential Properties").

NetREIT's office, retail and industrial properties are located primarily in Southern California and Colorado, with a single property located in both North Dakota and Wyoming. Our Model Home properties are located in twelve states throughout the United States. We do not develop properties but acquire properties that are stabilized or that we anticipate will be stabilized within two or three years 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, especially in the self-storage segment, 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.

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 office leases are for terms of 3 to 5 years with annual rental increases built into such leases. In general, we have experienced decreases in rental rates in many of our submarkets due to recessionary conditions and other related factors when leases expire and are extended. However, during 2012 the change in rental rates has not materially affected our operating results. We cannot give any assurance that as the older leases expire or as we add new tenants that rental rates will be equal to or above the current market rates. Also, decreased demand and other negative trends or unforeseeable events that impair our ability to timely renew or re-lease space could have a negative effect on our future financial condition, results of operations and cash flow.

Our residential apartment property typically leases on a six month term and on a month-to-month basis thereafter and typically 2 to 3 years for our Model Home leases. The Model Homes are leased to the developer on a triple net lease. Under a triple net lease the tenant is required to pay all operating, maintenance and insurance costs and real estate taxes with respect to the leased property.

The self-storage properties are rented pursuant to rental agreements that are 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 the 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 websites, advertisements, flyers, 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. NetREIT, Inc. has 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 stockholders 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 stockholders within the prescribed limits. However, taxes will be provided for those gains which are not anticipated to be distributed to stockholders 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 stockholders 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, 2012 and 2011, all distributions were considered return of capital to the stockholders and therefore non-taxable.

We believe that we have met all of the REIT distribution and technical requirements for the years ended December 31, 2012 and 2011.

REAL ESTATE ASSETS

Real Estate 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 requires 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. Amortization of above and below market rents market rents resulted in a net reduction of rental income of approximately $446,000 and $295,000 for the years ended December 31, 2012 and 2011, respectively.

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 approximately $604,000 and $451,000 for the years ended December 31, 2012 and 2011, 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; and

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, 2012, Management has concluded that there are 7 Model Home properties aggregating approximately $1.6 million which are considered as held for sale and are included in real estate assets. These homes have mortgage notes payable of approximately $0.8 million. Management has also estimated that, of the homes held for sale, 2 home sales would result in a loss of approximately $54,000 and has recorded the estimated loss included in asset impairment in the accompanying statement of operations for the year ended December 31, 2012. In addition, the Company has listed for sale its Casa Grande apartments in Cheyenne, WY. As of December 31, 2012, the net book value of Casa Grande is approximately $1.4 million with a mortgage note payable balance of approximately $1.0 million.

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, 2012 and 2011, was $4.0 million and $3.6 million, 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 to exist at December 31, 2012 and 2011.

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, 2012 and 2011.

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. During the quarter ended September 30, 2012, the Company listed for sale its Waterman Plaza property. In the process, the Company determined that an impairment existed and, as a result, recorded an asset impairment of $300,000. The Company took the Waterman Plaza property off of the market. The Company also determined that its real estate owned had declined in value and recorded an impairment charge of approximately $1.3 million. For the year ended December 31, 2011 the Company determined that an impairment existed with respect to its Model Home properties not held for sale and, as a result, recorded an asset impairment of $30,000.

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

a. persuasive evidence of an arrangement exists;

b. delivery has occurred or services have been rendered;

c. the amount is fixed or determinable; and

d. 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, 2012 or 2011.

Fair Value Measurements. Certain assets and liabilities are required to be carried at fair value, or if long-lived assets are deemed to be impaired, to be adjusted to reflect this condition. The guidance requires disclosure of fair values calculated under each level of inputs within the following hierarchy:

Level 1 - Quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for the asset or liability.

Fair value is defined as the price at which an asset or liability is exchanged between market participants in an orderly transaction at the reporting date. The Company's cash equivalents, mortgage notes receivable, accounts receivable and payables and accrued liabilities all approximate fair value due to their short term nature. Management believes that the recorded and fair value of notes payable are approximately the same as of December 31, 2012 and 2011.

Subsequent Events. We evaluate subsequent events up until the date the consolidated financial statements are issued.

New Accounting Pronouncements. In October 2012, the FASB issued Accounting Standards Update 2012-04, Technical Corrections and Improvements ("ASU 2012-04"), which makes certain technical corrections and "conforming fair value amendments" to the FASB Accounting Standards Codification. The amendments affect various Codification topics and apply to all reporting entities within the scope of those topics. These provisions of the amendment are effective upon issuance, except for amendments that are subject to transition guidance, which will be effective for fiscal periods beginning after December 15, 2012. The provisions of ASU 2012-04 are not expected to have a material impact on our consolidated financial statements.

Effective January 1, 2012, we adopted the provisions of ASU No. 2011-04, Amendment to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs ("ASU 2011-04"), which amended ASC Topic 820, Fair Value Measurement. The objective of this guidance is to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and International Financial Reporting Standards. The guidance also requires expanded fair value disclosures related to Level 3 financial instruments and Level 3 financial instrument transfers. The guidance does not require any new fair value measurements. The adoption of this guidance did not have a material impact on our consolidated financial statements or notes to our consolidated financial statements.

Financing

Beginning in October 2007 we commenced a new offering of up to $200 million in shares of our common stock at a price of $10.00 per share. The Company terminated its capital raising activities under the private placement offering effective December 31, 2011. Net proceeds received from this offering, after commissions, due diligence fees, and syndication expenses, were approximately $66 million. 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.

THE FOLLOWING IS A COMPARISON OF OUR RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011.

Our results of operations for the years ended December 31, 2012 and 2011 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

Property Acquisitions and Dispositions in the Last Two Years

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 had agreed to issue up to 120,000 shares of the Company's common stock, depending on the levels of production the Company achieved from its newly formed Model Homes Division over a three year period which ended February 28, 2012.While the Company originally anticipated that the earn-out would be fully achieved, the actual earn-out was approximately 39,000 shares resulting in a reduction in the liability of approximately $691,000. This reduction is reflected in the results of operations for the year ended December 31, 2012. The Company also agreed to continue to employ three former DMHU employees. 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. The limited partnerships have been consolidated into the financial statements of the Company in accordance with guidelines attributable to variable interests entities.

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 then existing 19 Model Home Partnerships. To pursue this business, the Company formed a new subsidiary, NetREIT Advisors and sponsored the formation of NetREIT Dubose. NetREIT Dubose invests in Model Homes it purchases from home builders in transactions where the selling home builder 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 vacant Model Home to the home builder until such time as it is able to sell the property. NetREIT Dubose owns substantially all of its assets and conducts its operations through the Operating Partnership. NetREIT Advisors serves as the advisor to NetREIT Dubose.

NetREIT Advisors also provides management services to the 1 remaining unaffiliated Model Home 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 partnership sells or otherwise disposes of its properties.

Below is a chronological listing of the acquisitions and dispositions of properties in the last two years. Operating results are included in the consolidated financial statements from the date of acquisition.

The Company acquired the following properties in the year ended December 31, 2012:

In January 2012, Dubose Model Home Investors #201 LP acquired one Model Home property in Texas and leased it back to the home builder. The purchase price for the property was $0.38 million. The purchase price paid was through a cash payment of $0.15 million and a promissory note $0.23 million.

In April 2012, NetREIT Dubose and Dubose Model Home Investors #201 LP acquired 19 Model Home properties in California and Arizona and leased them back to the home builder. The purchase price for the properties was approximately $8.2 million. The purchase price paid was through a cash payment of approximately $3.7 million and promissory notes totaling approximately $4.5 million.

In May 2012, the Company acquired the former Rite Aid building in Yucca Valley, California, The building adjoins the Company's Yucca Valley Retail Center purchased in September 2011. The building was purchased vacant as a result of the relocation of Rite Aid. However, the property remains under lease to the tenant for several more years. The purchase price was approximately $1.1 million all paid in cash. The building consists of approximately 17,600 rentable square feet.

In June 2012, the Company acquired the Shoreline Medical Building for the purchase price of approximately $6.4 million. The Property is a two-story medical office building under a single tenant lease that was built in 1980. The land consists of approximately 38,600 square feet with a building on it of approximately15,335 rentable square feet in Half Moon Bay, California. Half Moon Bay is approximately 25 miles south of San Francisco and 10 miles west of San Mateo. The Company made a down payment of approximately $2.3 million and financed the remainder of the purchase price through a fixed rate mortgage with interest at 5.1%. The interest rate is subject to change at the 3 and 6 year anniversaries of the loan.

In June 2012, NetREIT Dubose and Dubose Model Home Investors #201 LP acquired 14 Model Home properties in New Jersey and Pennsylvania and leased them back to the home builder. The purchase price for the properties was approximately $5.0 million. The purchase price paid was through a cash payment of approximately $2.0 million and promissory notes totaling approximately $3.0 million.

In October 2012, Dubose Model Home Investors #201 LP acquired 1 Model Home property in Texas and leased it back to the home builder. The purchase price for the property was approximately $365,000. The purchase price paid was through a cash payment of approximately $146,000 and a promissory note of approximately $219,000. At December 31, 2012, this 14 Model Home is under lease contract.

In November 2012, NetREIT 01 LP acquired The Presidio for the purchase price of approximately $7.3 million. The Property is a four-story office building with of approximately 80,800 rentable square feet. The building is approximately 80,800 rentable square feet located in Colorado Springs, Colorado. The Company made a down payment of approximately $1.6 million and financed the remainder of the purchase price through a fixed rate mortgage with interest at 5.6%.

In December 2012, NetREIT Dubose and Dubose Model Home Investors #201 LP acquired 14 Model Home properties in Texas and leased them back to the home builder. The purchase price for the properties was approximately $3.9 million. The purchase price paid was through a cash payment of approximately $2.0 million and promissory notes totaling approximately $1.9 million. At December 31, 2012, these 14 Model Homes are under lease contract.

The Company disposed of the following properties in 2012:

During the year ended December 31, 2012, NetREIT Dubose and the other Model Home entities disposed of thirty-five Model Home properties. The sales price, net of selling costs, aggregated approximately $8.9 million and approximately $1.5 million in mortgage notes payable were retired in connection with these sales. The Company recognized a gain of $260,360 related to the sale of these Model Homes.

In October 2012, the Company sold approximately 40.0% of land adjacent to the Sparky's Rialto Self-Storage. The sales price was $290,000 and after selling costs and the cost of the land, the Company recognized a gain of approximately $103,500.

In October 2012, NetREIT 01 LP the 7-Eleven located in Escondido, California. The sales price was Approximately $1.9 Million and after selling costs and the net book value of the land and building, the Company recognized a gain of approximately $534,360.

The Company acquired the following properties in the year ended December 31, 2011:

In January 2011, the Company acquired two Model Home properties in Texas and leased them back to the home builder. The purchase price for the properties was $0.45 million. The Company paid the purchase price through a cash payment of $.23 million and two promissory notes totaling $0.22 million.

In February 2011, the Company acquired five Model Home properties in California and leased them back to the home builder. The purchase price for the properties was $1.5 million. The Company paid the purchase price through a cash payment of $0.75 million and five promissory notes totaling $0.75 million.

In March 2011, the Company acquired four Model Home properties in South Carolina, Florida and Texas and leased them back to the home builder. The purchase price for the properties was $1.0 million. The Company paid the purchase price through a cash payment of $0.50 million and four promissory notes totaling $0.50 million.

In May 2011, the Company acquired vacant land consisting of approximately 3 acres adjacent to its Sparky's Rialto Self-Storage facility for approximately $0.4 million paid in cash. The Company sold a portion of the land and intends to use the remainder for additional motor home parking or for other purposes.

In May 2011, the Company acquired the Dakota Bank Buildings for the purchase price of approximately $9.6 million. The Property is a six-story, two building office complex built in 1981 and 1986 located on 1.58 acres and consists of approximately120,000 rentable square feet in downtown Fargo, North Dakota. The Company made a down payment of approximately $3.875 million and financed the remainder of the purchase price through a monthly adjustable rate mortgage with interest at 3.0% over the one month Libor with an interest rate floor of 5.75% and ceiling of 9.75%.

In June 2011, NetREIT Dubose acquired three Model Home properties in Texas and leased them back to the home builder. The purchase price for the properties was approximately $0.60 million. NetREIT Dubose paid the purchase price through a cash payment of approximately $0.30 million and three promissory notes totaling approximately $0.30 million.

In August 2011, NetREIT Dubose acquired eight Model Home properties in Texas, Florida, North Carolina and South Carolina and leased them back to the home builder. The purchase price for the properties was approximately $1.9 million. NetREIT Dubose paid the purchase price through a cash payment of approximately $1.0 million and eight promissory notes totaling approximately $0.90 million.

In September 2011, the Company acquired the Yucca Valley Retail Center for the purchase price of approximately $6.8 million. The Property is a neighborhood shopping center complex built in approximately 1978 consisting of five separate parcels. The Property consists of approximately 86,000 rentable square feet and is currently 93% leased and anchored by a national chain grocery store. The Company paid the purchase price through a cash payment of approximately $3.5 million and assumed a loan secured by the property of approximately $3.3 million with an interest rate of 5.62%.

In December 2011, the Company acquired the Sunrise Self-Storage facility for the purchase price of $2.2 million. The Company paid the purchase price in an all cash transaction. The Property is located within a mixed commercial and industrial area of Hesperia, California. The Property was built in 1985 and 1989 and consists of fourteen (14) one and two-story buildings comprising approximately 93,851 square feet on a 4.93 acre parcel.

In December 2011, the Company completed the formation of a California limited partnership, NetREIT National City Partners, LP, ("NCP") whereby a limited partner contributed its fee interest in two adjacent multi-tenant industrial properties located in National City, California. The Company contributed approximately $0.5 million cash and 1,649.266 shares of $1,000 liquidation value, 6.3% convertible preferred stock to capitalize the limited partnership. The agreed upon value of the Property was $14.5 million. The Company also contributed $2.9 million cash which was used to pay down the mortgage loan assumed by NCP to a balance of $9.5 million. After completing the transactions, NetREIT has an approximate 75% interest in the NCP and a single unrelated limited partner has an approximate 25% interest. The property, referred to by the Company as the "Port of San Diego Complex", consists of two adjacent multi-tenant light industrial buildings built in 1971 and was renovated in 2008. The Property is comprised of 6.13 acres and the buildings have 146,700 rentable square feet. As of the date of acquisition, the Property was 51.7% occupied.

In December 2011, Dubose Model Home Investor Funds #201, LP acquired one Model Home properties in South Carolina and leased it back to the home builder. The purchase price for the property was approximately $0.3 million. Dubose Model Home Investor Funds #201, LP paid the purchase price through a cash payment of approximately $0.1 million and promissory note for the balance of the purchase price.

The Company disposed of the following properties in 2011:

During the twelve months ended December 31, 2011, NetREIT Dubose and the other Model Home entities disposed of twenty-two Model Home properties. The sales price, net of selling costs, aggregated approximately $8.5 million and approximately $5.7 million in mortgage notes payable were retired in connection with these sales. The Company recognized a gain of $119,925 related to the sale of these Model Homes.

Revenues

Total revenue was $17,668,967 for the year ended December 31, 2012, compared to $14,077,105 for the same period in 2011, an increase of $3,591,862, or 25.5%. The increase in rental income as reported in 2012 compared to 2011 is primarily attributable to:

- The addition of the seven properties acquired in 2011 and 2012 and the addition of the model home properties which generated an additional $3,555,386 of rent and fee income in the year ended December 31, 2012 compared to the same period in 2011; and

- An increase of rental income of approximately $201,934 for properties owned for the full years ended December 31, 2012 and 2011.

- A decrease of approximately $500,289 in model home rental and fee income as the older partnerships that are winding down operations have sold a majority of their model home properties..

- The partial recovery of an amount written off as uncollectible in 2008 of $334,831.

Overall rental and fee revenues are expected to continue to increase in future periods, as compared to historical periods, as a result of owning the assets acquired during 2011 and 2012 for an entire year and future acquisitions of real estate assets.

Interest income was $80,427 for the year ended December 31, 2012, compared to $125,662 for the same period in 2011, a decrease of $45,235, or 36.0%. The decrease was primarily attributable to a decrease in 2012 cash balances invested in interest bearing accounts.

Rental Operating Expenses

Rental operating expenses were $5,554,937 for the year ended December 31, 2012 compared to $4,944,010 for the same period in 2011, an increase of $610,927, or 12.4%. The increase in operating expense year over year is primarily attributable to the same reasons that rental revenue increased. Rental operating costs as a percentage of rental and fee income was 31.4% and 35.1% for the years ended December 31, 2012 and 2011, respectively. The decrease in operating costs as a percentage of revenue is primarily due to one-time property tax expense reductions resulting from the positive outcome of appealing assessed values.

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 $1,298,671, to $4,493,558 during the year ended December 31, 2012 compared to $3,194,887 for the same period in 2011. The primary reason for the increase is the mortgage debt additions related to the acquisitions after June 30, 2011 of Yucca Valley Retail Center, the Port of San Diego Complex, the Shoreline Medical Building, The Presidio and additional model home properties. In addition, the Company refinanced its Rangewood Medical Office Property, Regatta Square, Morena Office Center, Pacific Oaks Plaza and three of the self-storage properties to raise additional cash for anticipated acquisitions.

The weighted average interest rate as of December 31, 2012 was 5.54% compared to 5.64% as of December 31, 2011.

The following is a summary of our interest expense on mortgage loans by property for the years ended December 31, 2012 and 2011:

	Date Acquired or Funded	2012	2011
Havana/Parker Complex	June 2006	$ 212,210	$ 216,711
World Plaza	September 2007	-	166,662
Waterman Plaza	August 2008	232,592	237,998
Sparky’s Thousand Palms Self-Storage	August 2009	241,133	246,745
Sparky’s Hesperia East Self-Storage	December 2009	108,425	86,317
Garden Gateway Plaza	March 2007	571,799	588,578
Sparky’s Rialto Self-Storage	May 2010	162,938	144,700
Genesis Plaza	August 2010	223,288	228,518
Dubose Acquisition Partners II, LP	March 2010	100,561	140,862
Dubose Acquisition Partners III, LP	March 2010	-	96,224
Dubose Model Home Income Fund #3, LTD	December 2010	1,308	53,316
Dubose Model Home Income Fund #4, LTD	December 2010	2,771	42,649
Dubose Model Home Income Fund #5, LTD	December 2010	349	101,011
NetREIT Dubose Model Home REIT, Inc. (1)	October 2010	429,559	264,218
Dakota Bank Buildings	May 2011	326,856	199,422
Casa Grande Apartments	June 2011	59,834	33,426
Executive Office Park	June 2011	263,120	144,148
Yucca Valley Retail Center	September 2011	186,176	53,927
Regatta Square	December 2011	63,738	882
Rangewood Medical Office Building	December 2011	58,115	780
Dubose Model Home Investor Fund #113, LP	December 2011	27,044	4,326
Dubose Model Home Investors #201, LP (1)	December 2011	129,485	119
Port of San Diego Complex	December 2011	564,787	6,246
Morena Office Building	May 2012	74,334	-
Pacific Oaks Plaza	May 2012	50,547	-
Shoreline Medical Building	May 2012	123,465	-
The Presidio	November 2012	32,340	-
Sparky's Joshua, Palm and Sunrise self-storage facilities	December 2012	54,932	-
Amortization of deferred financing costs		191,852	137,102
		$ 4,493,558	$ 3,194,887

(1) Consists of 84 mortgage notes payable secured by 84 Model Home properties. These mortgages are guaranteed by NetREIT, Inc. As of 2012, the aggregate amount outstanding relates to these notes is approximately $13.5 million.

General and Administrative Expenses

General and administrative expenses increased by $906,282 to $4,752,459 for the year ended December 31, 2012, compared to $3,846,177 for the same period in 2011. As a percentage of rental and fee income, general and administrative expenses were 26.9% and 27.3% for the years ended December 31, 2012 and 2011, respectively. In comparing our general and administrative expenses with other REITs, you should take into consideration that we are a self- administered REIT, which means such expenses are greater for us than an advisory administered REIT.

For the year ended December 31, 2012, our salaries and employee related expenses increased $387,359 to $2,547,248 compared to $2,159,889 for the year ended December 31, 2011, an increase of 18.0%. The increase in salary and employee expenses in 2012 was primarily attributable to the inclusion of marketing staff in 2012 whereas in 2011, our marketing staff and related costs were capitalized and amortized against stock issuance costs. These costs include a one-time charge for a marketing staff reduction of $57,000 for severance costs. This change is the result of NetREIT terminating its capital raising activities through its private placement at the end of 2011. In addition, the Company annually grants salary increases to employees effective January 1 each year. Further, on an annual basis, effective January 1 of each year, the Company grants shares of restricted stock that vest over 3 to 5 years. In the year ended December 31, 2012, amortization expense related to an increase in the awards increased by $147,589 to $503,741, compared to $356,152 in the same period last year this is due to the addition of a new director as well as the additional grants to executives hired in prior years.

Legal, accounting and public company related expenses and increased by $57,566 to $451,514 for the year ended December 31, 2012, compared to $393,948 during the same period in 2011. The increase is due to our completion of an acquisition audit filing with the SEC and additional professional services for tax compliance for several of our partnerships.

Insurance related expenses increased by $75,226 to $362,474 for the year ended December 31, 2012 compared to $287,248 for the same period in 2011. The increase is primarily due to increased Directors and Officer liability premiums as well as increases in group health benefits.

Other increases to general and administrative costs are also attributable to formerly capitalized costs associated with capital raising activities that are treated as expenses in the current period where they were capitalized and amortized as stock issuance costs in the prior year.

Gain/Loss on Sale of Real Estate Assets

For the year ended December 31, 2012, the Company had a net gain on the including the sale of a portion of land in Rialto, the 7-Eleven property and the sale of Model Home properties of $898,220 compared to a net gain of $119,925 for the year ended December 31, 2011.

Gain on Dissolution of Partnership Interests

DAP III and Income Fund #5 has sold its last Model Homes in the period and are in the process of liquidation. The Company received $372,089 in excess of the original investment and has recognized this as income in the year ended December 31, 2012.

Gain on extinguishment of a liability

The Company had anticipated paying out the equivalent $1,032,000 in Company common stock related to earn-out provisions under the DMHU acquisition. The earn-period of three years has expired and the actual payout was $691,487 less than anticipated. The reduction in the liability recorded in March 2010 is reflected as income in the current year.

Asset Impairments

As part of our annual review of long-lived assets in accordance with generally accepted accounting principles, during the quarter ending December 31, 2012, Management obtained an appraisal of its real estate owned properties. As a result of re-zoning and declines in the market, the Company reduced the carrying value of real estate owned through foreclosure by approximately $1.3 million. In addition, the Company had placed the Waterman Plaza property up for sale and, at the time, recognized a $300,000 write-down of the net book value of the property. The Company has pulled the Waterman Plaza property off of the market in late 2012.

There were several Model Home properties that were up for sale at the end of the last two quarters where the Company estimated the realizable value of the properties to be less than the net book value. As a result, $98,000 was recognized as asset impairment charges in 2012.

In 2011 Management identified indicators of impairment related to our Model Home properties, primarily properties that were held for sale at a realizable value less than net book value and recorded an impairment of approximately $30,000 and potential losses on sales of Model Homes of $399,000.

Net Loss Available to Common Stockholders

Net loss for the year ended December 31, 2012 was $2,133,474, or $0.14 loss per share, compared to a net loss for the year ended December 31, 2011 of $2,616,903, or $0.19 loss per share. Before depreciation and non-cash asset impairment charges, net income was $4,412,524 for the year ended December 31, 2012, compared to $1,982,723 for the same period a year ago, an increase of $2,429,801, or an improvement of approximately 123%.

LIQUIDITY AND CAPITAL RESOURCES

As discussed above under Economic Environment, during 2012, there have been signs 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 financings originated over the past five to seven years mature.

We believe that as a result of the trends, new mortgage financing will continue remain less favorable in terms of loan amount to value as pre-recession days, which may negatively impact our ability to finance future acquisitions. Long-term interest rates remain relatively low by historical standards but we anticipate that interest rates will increase when the US Government stops suppressing the rates with stimulus programs. On the other hand, we believe the negative trends in the mortgage markets for smaller properties and in some geographic locations have reduced property prices and may, in certain cases, reduce competition for those properties.

Overview

We actively seek investments that are likely to produce income in order to pay distributions as well as long-term gains for our stockholders. Our future sources of liquidity include cash and cash equivalents, cash flows from operations, new mortgages on our unencumbered properties, refinancing of existing mortgages and the possible sale of additional equity securities. Our available liquidity at December 31, 2012 was approximately $19.7 million, including $10.7 million in cash and cash equivalents and an estimated borrowing capacity of approximately $9.0 million from potential mortgages on unencumbered properties. We do not have any arrangement with any financial institution to borrow any amount and therefore we cannot be certain a financial institution would loan that amount on the unencumbered properties or the timing of such borrowings. However, NetREIT, excluding the Model Home entities, was able to raise approximately $12.6 million in debt financing on properties that were previously unencumbered during 2012.

At the current time we do not have a revolving line of credit but we have been exploring the possibilities of obtaining such a line of credit. We cannot guarantee that we will be able to consummate a line of credit in the near future.

Our future capital needs include the acquisition of additional properties as we as expand our investment portfolio, pay down existing borrowings, maintain our existing properties, fund tenant improvement, pay lease commissions and the payment of a competitive distribution to our stockholders. To ensure that we are able to effectively execute these objectives, we routinely review our liquidity requirements and continually evaluate all potential sources of liquidity. Our short term liquidity needs include proceeds necessary to pay the debt service on existing mortgages, fund our current operating costs and fund our distribution to stockholders. Our long-term liquidity needs include proceeds necessary to grow and maintain our portfolio of investments.

We believe that our cash flow from our existing portfolio and anticipated acquisitions when operational for the full term will be sufficient to fund the debt service costs on our existing mortgages, fund our operating costs in the near term and fund the cash portion of distribution to stockholders at the current rate. During the year ended December 31, 2012 our net cash provided by operating activities was approximately $3.9 million and our cash portion of stockholder distributions was approximately $4.2 million. In the future, if our cash flow from operating activities is not sufficient to fund our short term liquidity needs, including the payment of cash dividends at current rates to our stockholders, we will fund a portion of these needs from additional borrowings of secured or unsecured indebtedness or we will reduce the rate of distribution to the stockholders.

We further believe that our cash flow from operations along with the potential financing capital available to us in the future is sufficient to fund our long-term liquidity needs. We are continually reviewing our existing portfolio for properties that have met maximized short and long term potential with the intent of selling those properties and reinvesting the proceeds in properties that have equivalent or better short term benefits and better long term potential. In October 2012, we closed the sale of our 7-Eleven property located in Escondido at a gain of approximately $534,000 with cash proceeds of approximately $1.8 million. We invested the proceeds of the sale into The Presidio office building through a 1031 exchange. We sold 35 Model Homes for an aggregate gain of approximately $260,000 and net proceeds from the sale of approximately $6.2 million. We have also identified 7 Model Home properties held for sale in the normal course of business. We expect to obtain additional mortgages and assumption of existing debt collateralized by some or all of our real property in the future to meet our long-term liquidity needs. If we are unable to arrange a line of credit, borrow on unencumbered properties, or sell securities to the public we may not be able to acquire additional properties to meet our long-term objectives.

Equity Capital

On December 31, 2011 NetREIT, Inc. terminated its ongoing private placement offering. On December 28, 2011, we issued $1.6 million of 6.3% Convertible Preferred equity in connection with the acquisition of a $14.5 million property in a DownREIT acquisition. The Company is currently in the process of exploring alternatives to raise additional equity. Our ability to access equity markets will be dependent on a number of factors including general market conditions for the REIT industry and market perception of our Company.

Debt Capital

We obtained approximately $12.6 million in 2012 from the proceeds of financing five previously unencumbered properties through mortgage notes with interest rates ranging from 4.50% to 4.95% interest rate. Further, in early 2013, the Company was able to refinance two of the largest mortgage notes outstanding. The two notes had a balance outstanding at December 31, 2012 of $18.4 million with approximately half the amount outstanding was due to mature in June 2013 and the other half maturing April 2014. The new loans are approximately $400,000 less than the balances outstanding at December 31, 2012. However, our weighted average interest rate went down from approximately 6% to 4.9% and our monthly payments have decreased from approximately $154,000 to approximately $104,000, an annual cash savings of approximately $600,000. We anticipate raising additional capital by obtaining loans on our other unencumbered properties without a material increase to our leverage percentage to the company as a whole.

However, our ability to incur additional debt will be dependent on a number of factors, including our degree of leverage, the underwriting value of our unencumbered properties and borrowing restrictions that may be imposed by a lender.

Cash and Cash Equivalents

At December 31, 2012, we had approximately $10.7 million in cash and cash equivalents compared to approximately $4.9 million at December 31, 2011. Approximately $1 million of the cash balance is intended for capital expenditures on existing Properties and $1 million was used in February 2013 for a principal pay-down in connection with our refinancings. We intend to use the remainder of this cash for additional acquisitions, general corporate purposes and distributions to our stockholders.

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 2012 or 2011, we did not experience any loss or lack of access to our cash or cash equivalents.

Debt

As of December 31, 2012, NetREIT had mortgage notes payable in the aggregate principal amount of $77.2 million, collateralized by a total of 19 non Model Home properties with terms at issuance ranging from 3 to 30 years. The weighted-average interest rate on the mortgage notes payable as of December 31, 2012 was approximately 5.54%. Our debt to book value on these properties is approximately 59.5%. After refinancing the Port of San Diego and our Garden Gateway mortgage loans in February 2013, we do not have any significant mortgage debt balloon principal payments on our mortgage loans payable during 2013 or 2014.

As of December 31, 2012, NetREIT Dubose, and related entities, had 67 fixed-rate mortgage notes payable in the aggregate principal amount of $9.8 million, collateralized by a total of 67 Model Home properties, an average of approximately $146,000 per home. These loans generally have a term at issuance of five years. The weighted-average interest rate on these mortgage notes payable as of December 31, 2012 was 5.55%. Our debt to net book value on these properties is approximately 21%. The Company has guaranteed these promissory notes. The balloon principal payments on the notes payable are in 2015 and 2017 and are typically tied to the end of the lease and sale of the Model Home securing the debt.

As of December 31, 2012, limited partnerships that the Company has a limited partnership interest in had 25 fixed-rate mortgage note payables in the aggregate principal amount of $5.5 million, collateralized by a total of 25 Model Home properties, an average of approximately $220,000 per home. The debt to book value on these properties is approximately 58.6%. All of the free cash flow on these limited partnerships is being held or applied to the loan balances with no distribution to the partners until all homes have been sold. All of the properties will be sold at the end of the lease agreements and we believe that all properties will be sold for more than the mortgage debt balloon amount.

Despite the disruptions in the debt market discussed in “Overview” above, we have been able to refinance our significant maturing debts before scheduled maturity dates and we have not experienced any unusual difficulties financing our acquisitions.

Operating Activities

Net cash provided by operating activities for the year ended December 31, 2012 was approximately $3.9 million compared to net cash provided by operating activities of approximately $1.3 million for the same period ended December 31, 2011. The increase of approximately $2.6 million was primarily due to an increase in net operating cash flow of our Properties of approximately $1.8 million primarily due to the acquisitions acquired during the last nine months of 2011 and a $0.8 million decrease in cash used for working capital. We anticipate that with the inclusion of the recent acquisitions and the anticipated acquisitions, the cash provided by operating activities will cover the cash portion of our distribution to stockholders in the future.

Investing Activities

Net cash used in investing activities was approximately $22.5 million during the year ended December 31, 2012, compared to $31.7 million in the same period in 2011. Net cash used in investing activities to acquire properties by NetREIT was approximately $14.8 million during the year 2012. The Company acquired the Yucca Valley Rite Aid property for $1.1 million, the Shoreline Medical building for $6.4 million and the Presidio Office building for $7.3 million. In addition the Model Home entities acquired Model Homes for $17.1 million. During 2012 the Company sold the 7-Eleven property for $1.8 million net of selling costs and the Model Home entities sold Model Homes net of selling costs for approximately $8.6 million.

During the year 2011 NetREIT acquired 4 properties for approximately $33.5 million and the Model Home entities acquired Model Homes for approximately $5.6 million. The Model Home entities sold Model Homes during 2011 for $8.5 million.

Future acquisitions by the Company will depend on proceeds from sale of existing properties and funds available from cash on hand and the sale of equity securities. Future acquisitions by the Model Home entities will depend on cash available on hand, proceeds from the sale of Model Homes as the leases expire, the sale of NetREIT Dubose common shares via its private placement and additional funds raised through limited partnerships or other activities.

Financing Activities

Net cash provided by financing activities in 2012 of approximately $24.5 million which was less than the net cash provided by financing activities in 2011 by approximately $3.0 million. During 2012, the Company did not have proceeds from the sale of common stock compared to the $14.0 million in net proceeds raised in 2011. This was the result of our terminating the private placement offering effective December 31, 2011. Offsetting that source of cash in 2012, we placed mortgages of $12.4 million on properties that were unencumbered at the beginning of the year and, in addition, contributions received from non-controlling interests in excess of distributions paid increased by approximately $1.7 million for the year ended December 31, 2012 over the same period in 2011. In 2012 we generated $2.2 million less proceeds in mortgages from property acquisitions and we paid out approximately $0.7 more in distributions to stockholders.

We do not anticipate the distributions from investments in real estate partnerships to be as high as last year. We could place mortgages on our three unencumbered properties in the future. These properties have an estimated market value of approximately $12.0 million giving us approximately $9.0 million in borrowing capacity. We anticipate acquiring properties by assuming existing loans or obtaining new mortgage loans and with cash available from operations or the sale of existing properties. We are pursuing other sources of capital, either through a line of credit facility and the possible sale of additional equity securities to provide resources to pursue future acquisitions.

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 and variable rate debt at December 31, 2012 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 2013	1-3 Years (2014-2015)	3-5 Years (2016-2017)	More than 5 Years (After 2017)	Total
Principal payments - secured debt	$ 1,889,054	$ 21,741,842	$ 11,572,953	$ 42,018,023	$ 77,221,872
Interest payments - fixed rate debt	3,681,818	7,009,515	3,111,048	13,197,230	26,999,611
Interest payments - variable rate debt	551,047	243,609	800,775	609,714	2,205,145
Model home properties - secured debt	979,903	4,469,975	2,117,593	7,691,020	15,258,491
Model home properties - interest payments	780,274	1,377,829	884,470	-	3,042,573
Ground lease obligation (1)	21,910	43,820	43,820	1,249,310	1,358,860
	$ 7,904,006	$ 34,886,590	$ 18,530,659	$ 64,765,297	$ 126,086,552

Maturity schedule reflects the refinancing of the Port of San Diego and Garden Gateway loans refinanced in February 2013.
(1) Ground lease obligation represents the ground lease payments due on our World Plaza Property.

Capital Expenditures, Tenant Improvements and Leasing Costs

We currently project that during 2012 we could spend $500,000 to $1,000,000 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 2012 compared to 2011 due to rising construction costs and the anticipated increase in property acquisitions in 2012. 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 stockholders 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, 2012 and 2011. 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 stockholders. 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 stockholders.

	Year Ended December 31,	
	2012	2011
Net loss	$ (2,133,474)	$ (2,616,903)
Adjustments:		
Income attributable to noncontrolling interests	(497,712)	(354,895)
Depreciation and amortization	5,168,682	4,219,950
Asset impairments	1,676,531	429,000
Gain on dissolution of partnership interests	(372,089)	-
(Gain) on sale of real estate assets	(898,220)	(119,925)
Funds from Operations	$ 2,943,718	$ 1,557,227

FFO increased in the year ended December 31, 2012 by $1,386,491, or 89.0%, to 2,943,718 compared to 1,557,227 for the same period in 2011. The increase in FFO is due to the increase in the Company's real estate portfolio and improving performance at some of the existing properties.

On a GAAP basis, cash flow provided by operating activities was $3,878,056 and $1,314,595 for the years ended December 31, 2012 and 2011, respectively.

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.

We define MFFO, a non-GAAP measure, consistent with the Investment Program Association's ("IPA") Guideline 2010-01, *Supplemental Performance Measure for Publicly Registered, Non-Listed REIT* ***Modified Funds From Operations,*** or the Practice Guideline, issued by the IPA in November 2010. The Practice Guideline defines MFFO as FFO further adjusted for the following items, as applicable, included in the determination of GAAP net income: acquisition fees and expenses; amounts relating to deferred rent receivables and amortization of above and below market leases and liabilities (which are adjusted in order to reflect such payments from a GAAP accrual basis to a cash basis of disclosing the rent and lease payments); accretion of discounts and amortization of premiums on debt investments; nonrecurring impairments of real estate-related investments (i.e., infrequent or unusual, not reasonably likely to recur in the ordinary course of business); mark-to-market adjustments included in net income; nonrecurring gains or losses included in net income from the extinguishment or sale of debt, hedges, foreign exchange, derivatives or securities holdings where trading of such holdings is not a fundamental attribute of the business plan, unrealized gains or losses resulting from consolidation from, or deconsolidation to, equity accounting, and after adjustments for consolidated and unconsolidated partnerships and joint ventures, with such adjustments calculated to reflect MFFO on the same basis. The accretion of discounts and amortization of premiums on debt investments, nonrecurring unrealized gains and losses on hedges, foreign exchange, derivatives or securities holdings, unrealized gains and losses resulting from consolidations, as well as other listed cash flow adjustments are adjustments made to net income in calculating the cash flows provided by operating activities and, in some cases, reflect gains or losses which are unrealized and may not ultimately be realized.

Our MFFO calculation complies with the IPA's Practice Guideline described above. In calculating MFFO, we exclude acquisition related expenses, amortization of above and below market leases, deferred rent receivables and the adjustments of such items related to noncontrolling interests. Under GAAP, acquisition fees and expenses are characterized as operating expenses in determining operating net income. These expenses are paid in cash by us. All paid and accrued acquisition fees and expenses will have negative effects on returns to investors, the potential for future distributions, and cash flows generated by us, unless earnings from operations or net sales proceeds from the disposition of other properties are generated to cover the purchase price of the property, these fees and expenses and other costs related to such property. The acquisition of properties, and the corresponding acquisition fees and expenses, is the key operational feature of our business plan to generate operational income and cash flow to fund distributions to our stockholders. Further, under GAAP, certain contemplated non-cash fair value and other non-cash adjustments are considered operating non-cash adjustments to net income in determining cash flow from operating activities. In addition, we view fair value adjustments of impairment charges and gains and losses from dispositions of assets as non-recurring items or items which are unrealized and may not ultimately be realized, and which are not reflective of on-going operations and are therefore typically adjusted for when assessing operating performance. In particular, we believe it is appropriate to disregard impairment charges, as this is a fair value adjustment that is largely based on market fluctuations and assessments regarding general market conditions which can change over time. An asset will only be evaluated for impairment if certain impairment indications exist and if the carrying, or book value, exceeds the total estimated undiscounted future cash flows (including net rental and lease revenues, net proceeds on the sale of the property, and any other ancillary cash flows at a property or group level under GAAP) from such asset. Investors should note, however, that determinations of whether impairment charges have been incurred are based partly on anticipated operating performance, because estimated undiscounted future cash flows from a property, including estimated future net rental and lease revenues, net proceeds on the sale of the property, and certain other ancillary cash flows, are taken into account in determining whether an impairment charge has been incurred. While impairment charges are excluded from the calculation of MFFO as described above, investors are cautioned that due to the fact that impairments are based on estimated future undiscounted cash flows and the relatively limited term of our operations, it could be difficult to recover any impairment charges.

The following table presents our MFFO for the years ended December 31, 2012 and 2011.

	Year Ended December 31,	
	2012	**2011**
Funds from operations	$ 2,943,718	$ 1,557,227
Adjustments:		
Straight line rent adjustment	(339,148)	(395,376)
Above and below market rents	446,522	295,248
Lease commission amortization	225,265	147,396
Finance charge amortization	191,852	137,102
Acquisition costs	109,861	156,859
Modified Funds from Operations	$ 3,578,070	$ 1,898,456

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, 2012 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, 2012.

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 INFORMATION

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 2013 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A, and is incorporated herein by reference. The Annual Meeting of Stockholders is presently scheduled to be held on June 7, 2013.

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 2013 Annual Meeting of Stockholders, 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 STOCKHOLDER 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 2013 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 2013 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 2013 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 & Williamson, LLP and financial statements:

- Report of Squar, Milner, Peterson, Miranda & Williamson, LLP, Independent Registered Public Accounting Firm
- Consolidated Balance Sheets as of December 31, 2012 and 2011
- Consolidated Statements of Operations for the years ended December 31, 2012 and 2011
- Consolidated Statements of Shareholders' Equity for the years ended December 31, 2012 and 2011
- Consolidated Statements of Cash Flows for the years ended December 31, 2012 and 2011
- 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 (D)
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 (E)
10.6	Employment Agreement as of April 20, 1999 by and between the Company and Kenneth W. Elsberry (E)
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)
10.10	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. (F)

10.16	Fixed Rate Promissory Note Between Jackson National Life Insurance Company and NetREIT Inc. (F)
10.17	Employment Agreement for Mr. Heilbron Effective as of January 1, 2011. (9)
10.18	Employment Agreement for Mr. Elsberry Effective as of January 1, 2011. (10)
10.19	Employment Agreement for Mr. Dubose Effective as of January 1, 2011. (11)
10.20	Purchase & Sale Agreement and Joint Escrow Instructions to acquire Dakota Bank Building (12)
10.21	Promissory Note - Dakota Bank Buildings (13)
10.22	Mortgage, Security Agreement and Fixture Financing Statement - Dakota Bank Buildings (14)
10.23	Partnership Contribution Agreement - Port of San Diego Complex (15)
10.24	First Amended and Restated NetREIT National City Partners, LP Partnership Agreement (16)
10.25	Assumption Agreement - NetREIT National City Partners, LP (17)
10.26	Promissory Note - NetREIT National City Partners, LP (18)
10.27	Deed of Trust - NetREIT National City Partners, LP (19)
10.29	Loan Agreement by and between Barclay's Bank, as lender and the Company (20)
10.30	Agreement and Plan of Merger between the Company and C I Holding Group, Inc. (21)
10.31	NetREIT National City Partners LP Promissory Note (22)
10.32	NetREIT National City Partners LP Deed of Trust (23)
10.33	NetREIT National City Partners LP Promissory Note (24)
10.34	NetREIT National City Partners LP Deed of Trust (25)
21.1	Subsidiaries of the Registrant *
23.1	Consent of Independent Registered Public Accounting Firm *
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, 2011. *
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, 2011. *
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, 2011. *
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. *
101.INS	Instance Document @
101.SCH	XBRL Taxonomy Extension Schema Document @
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document @
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document @
101.LAB	XBRL Taxonomy Extension Label Linkbase Document @
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document @

(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 Registration Statement on Form S-3 filed January 17, 2012.
(E) Previously filed as an exhibit to the amended Form 10 for the year ended December 31, 2007 filed June 26, 2009.
(F) 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 10.15 on Form 8-K filed January 2, 2011.
10 Originally filed as Exhibit 10.16 on Form 8-K filed January 24, 2011.
11 Originally filed as Exhibit 10.17 on Form 8-K filed January 24, 2011.
12 Originally filed as Exhibit 10.18 on Form 8-K filed February 3, 2011.
13 Originally filed as Exhibit 10.19 on Form 8-K filed May 31, 2011.
14 Originally filed as Exhibit 10.20 on Form 8-K filed May 31, 2011.
15 Originally filed as Exhibit 10.21 on Form 8-K filed September 12, 2012.
16 Originally filed as Exhibit 10.25 on Form 8-K filed December 30, 2011.
17 Originally filed as Exhibit 10.26 on Form 8-K filed December 30, 2011.
18 Originally filed as Exhibit 10.27 on Form 8-K filed December 30, 2011.
19 Originally filed as Exhibit 10.28 on Form 8-K filed December 30, 2011.
20 Originally filed as Exhibit 10.29 on Form 8-K filed November 28, 2012.
21 Originally filed as Exhibit 10.30 on Form 8-K filed February 6, 2013.
22 Originally filed as Exhibit 10.31 on Form 8-K filed March 5, 2013.
23 Originally filed as Exhibit 10.32 on Form 8-K filed March 5, 2013.
24 Originally filed as Exhibit 10.33 on Form 8-K filed March 5, 2013.
24 Originally filed as Exhibit 10.34 on Form 8-K filed March 5, 2013.
* FILED HEREWITH
@ To be filed on or before April 1, 2013.

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, 2013
/s/ Kenneth W. Elsberry Kenneth W. Elsberry	Director, Chief Financial Officer	March 28, 2013
/s/ J. Bradford Hanson J. Bradford Hanson	Vice President Finance (Principal Financial and Accounting Officer)	March 28, 2013
/s/ Larry G. Dubose Larry G. Dubose	Director, Executive Vice President – Model Homes Division	March 28, 2013
/s/ David T. Bruen David T. Bruen	Director	March 28, 2013
/s/ Sumner J. Rollings Sumner J. Rollings	Director	March 28, 2013
/s/ Thomas E. Schwartz Thomas E. Schwartz	Director	March 28, 2013
/s/ Bruce A. Staller Bruce A. Staller	Director	March 28, 2013
/s/ William H. Allen William H. Allen	Director	March 28, 2013
/s/ Shirley Y. Bullard Shirley Y. Bullard	Director	March 28, 2013

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, 2012 and 2011, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2012. 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, 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, 2012 and 2011, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

/s/ Squar, Milner, Peterson, Miranda & Williamson, LLP
San Diego, California
March 28, 2013

NetREIT, Inc. and Subsidiaries
Consolidated Balance Sheets

	December 31, 2012	December 31, 2011
ASSETS		
Real estate assets and lease intangibles, net	$ 165,638,719	$ 147,754,887
Mortgages receivable and interest	920,216	1,032,082
Cash and cash equivalents	10,746,536	4,872,081
Restricted cash	1,113,123	966,687
Other real estate owned	900,000	2,178,531
Other assets, net	5,813,399	4,847,663
TOTAL ASSETS	$ 185,131,993	$ 161,651,931
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Mortgage notes payable	$ 92,480,363	$ 65,929,797
Accounts payable and accrued liabilities	4,126,771	4,001,055
Dividends payable	1,142,191	1,008,699
Total liabilities	97,749,325	70,939,551
Commitments and contingencies		
Stockholders' equity:		
Convertible series AA preferred stock, $0.01 par value, $25 liquidating preference, shares authorized: 1,000,000; no shares issued and outstanding at December 31, 2012 and December 31, 2011, respectively	—	—
Convertible series 6.3% preferred stock, $0.01 par value, $1,000 liquidating preference, shares authorized: 10,000; 1,649 shares issued and outstanding at December 31, 2012 and December 31, 2011, respectively	16	16
Common stock series A, $0.01 par value, shares authorized: 100,000,000; 15,767,418 and 15,287,998 shares issued and outstanding at December 31, 2012 and December 31, 2011, respectively	157,674	152,881
Common stock series B, $0.01 par value, shares authorized: 1,000; no shares issued and outstanding at December 31, 2012 and December 31, 2011, respectively	—	—
Additional paid-in capital	134,884,312	130,416,731
Dividends in excess of accumulated losses	(58,337,457)	(47,777,886)
Total stockholders' equity before noncontrolling interest	76,704,545	82,791,742
Noncontrolling interest	10,678,123	7,920,638
Total stockholders' equity	87,382,668	90,712,380
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 185,131,993	$ 161,651,931

See Notes to Consolidated Financial Statements

NetREIT, Inc. and Subsidiaries
Consolidated Statements of Operations
See Notes to Consolidated Financial Statements

	Year Ended December 31, 2012	*Year Ended December 31, 2011*
Rental income	$ 16,970,747	$ 13,504,489
Fee and other income	698,220	572,616
	17,668,967	14,077,105
Costs and expenses:		
Rental operating costs	5,554,937	4,944,010
General and administrative	4,752,459	3,846,177
Depreciation and amortization	4,869,467	4,170,626
Asset impairments	1,676,531	429,000
Total costs and expenses	16,853,394	13,389,813
Income from operations	815,573	687,292
Other income (expense):		
Interest expense	(4,493,558)	(3,194,887)
Interest income	80,427	125,662
Gain on sale of real estate	898,220	119,925
Gain on extinguishment of a liability	691,487	—
Gain on dissolution of partnership interests	372,089	—
Total other expense, net	(2,451,335)	(2,949,300)
Loss from continuing operations	(1,635,762)	(2,262,008)
Income attributable to noncontrolling interests	497,712	354,895
Net loss	$ (2,133,474)	$ (2,616,903)
Basic and diluted loss per common share:		
Loss per share - basic and diluted	$ (0.14)	$ (0.19)
Weighted average number of common shares outstanding - basic and diluted (1)	15,479,474	13,678,716

(1) Data is adjusted for a 5% stock dividend declared in December 2011.

See Notes to Consolidated Financial Statements".

NetREIT, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2012 and 2011

	Convertible Series 6.3% Preferred Stock		Common Stock		Addit-ional Paid-in	Dividends In Excess of Accumlated	Total NetREIT, Inc Stockholders'	Non-cont-rolling	
	Shares	**Amount**	**Shares**	**Amount**	**Capital**	**Losses**	**Equity**	**Interests**	**Total**
Balance, December 31, 2010	—	$ —	12,429,878	$ 124,298	$ 104,462,606	$ (31,304,801)	$ 73,282,103	$ 6,473,172	$ 79,755,275
Net loss						(2,616,903)	(2,616,903)	354,895	(2,262,008)
Sale of common stock			1,727,612	17,276	17,221,866		17,239,142		17,239,142
Stock issuance costs					(2,990,744)		(2,990,744)		(2,990,744)
Repurchase of common stock			(39,004)	(390)	(301,685)		(302,075)		(302,075)
Repurchase of common stock - related parties			(9,560)	(95)	(82,425)		(82,520)		(82,520)
Dividends paid/reinvested			301,997	3,020	2,864,221	(5,632,711)	(2,765,470)		(2,765,470)
Dividends (declared)/reinvested			106,904	1,069	1,018,555	(2,028,323)	(1,008,699)		(1,008,699)
Issuance of vested restricted stock			49,805	499	387,143		387,642		387,642
Contributed capital less distributions of noncontrolling interests								1,092,571	1,092,571
Stock dividend paid			720,366	7,204	6,187,944	(6,195,148)	—		
Preferred stock issued to NetREIT National City Partners, LP	1,649	16			1,649,250		1,649,266		1,649,266
Balance, December 31, 2011	1,649	$ 16	15,287,998	$ 152,881	$ 130,416,731	$ (47,777,886)	$ 82,791,742	$ 7,920,638	$ 90,712,380
Net (loss) income						(2,133,474)	(2,133,474)	497,712	(1,635,762)
Conversion of partnership interests to common stock			17,060	171	143,734		143,905	(143,905)	—
Repurchase of common stock - related parties			(17,060)	(171)	(143,734)		(143,905)		(143,905)
Repurchase of common stock			(1,955)	(20)	(15,640)		(15,660)		(15,660)
Dividends paid			319,673	3,196	3,032,999	(6,297,986)	(3,261,791)		(3,261,791)
Dividends declared			104,124	1,040	984,880	(2,128,111)	(1,142,191)		(1,142,191)
Issuance of vested restricted stock			57,577	577	484,237		484,814		484,814
Contributions received from noncontrolling interests net of distributions paid								2,403,678	2,403,678
Stock issuance costs					(18,895)		(18,895)		(18,895)
Balance, December 31, 2012	1,649	$ 16	15,767,417	$ 157,674	$ 134,884,312	$ (58,337,457)	$ 76,704,545	$ 10,678,123	$ 87,382,668

See notes to consolidated financial statements.

NetREIT, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	Year Ended December 31, 2012	Year Ended December 31, 2011
Cash flows from operating activities:		
Net loss	$ (2,133,474)	$ (2,616,903)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	5,168,682	4,219,950
Stock compensation	484,814	387,642
Gain on extinguishment of a liability	(691,487)	—
Gain on dissolution of partnership interests	(372,089)	—
Gain on sale of real estate assets	(898,220)	(119,925)
Bad debt expense	83,280	66,609
Asset impairments	1,676,531	429,000
Income attributable to noncontrolling interests	497,712	354,895
Other assets	(754,896)	(1,908,519)
Accounts payable and accrued liabilities	817,203	501,846
Net cash provided by operating activities	3,878,056	1,314,595
Cash flows from investing activities:		
Real estate acquisitions	(31,888,295)	(37,780,414)
Building and tenant improvements	(1,029,816)	(1,212,196)
Investment in Model Home limited partnerships	—	(442,825)
Proceeds received sale of real estate assets	10,443,786	8,547,290
Net repayments (purchase) of notes receivable	111,866	(111,865)
Restricted cash	(146,436)	(667,645)
Net cash used in investing activities	(22,508,895)	(31,667,655)
Cash flows from financing activities:		
Proceeds from mortgage notes payable	32,146,471	29,647,255
Repayment of mortgage notes payable	(5,595,905)	(13,343,466)
Net proceeds from issuance of common stock	—	14,248,398
Repurchase of common stock	(15,660)	(302,075)
Repurchase of common stock - related parties	(143,905)	(82,520)
Deferred stock issuance costs	—	228,640
Stock issuance costs	(18,895)	—
Contributions received from noncontrolling interests in excess of distributions paid	2,403,678	748,225
Dividends paid	(4,270,490)	(3,582,252)
Net cash provided by financing activities	24,505,294	27,562,205
Net increase (decrease) in cash and cash equivalents	5,874,455	(2,790,855)
Cash and cash equivalents:		
Beginning of year	4,872,081	7,028,090
Additions to cash from investments in model home limited partnerships	—	634,846
End of period	$ 10,746,536	$ 4,872,081
Supplemental disclosure of cash flow information:		
Interest paid	$ 4,428,869	$ 2,444,793
Non-cash financing activities:		
Conversion of partnership interests into common stock	$ 143,905	$ —
Reinvestment of cash dividend	$ 4,022,115	$ 3,886,865
Accrual of dividends payable	$ 1,142,191	$ 1,008,699
Preferred stock issued for partnership interest	$ —	$ 1,649,266

See Notes to Consolidated Financial Statements.

1. ORGANIZATION AND BASIS OF PRESENTATION

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. 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, 2012, including properties held for sale, the Company owned or had an equity interest in eleven office buildings and one industrial building ("Office Properties") which total approximately 786,000 rentable square feet, four retail shopping centers ("Retail Properties") which total approximately 186,000 rentable square feet, six self-storage facilities ("Self-Storage Properties") which total approximately 581,000 rentable square feet, one 39 unit apartment building and 92 Model Homes owned by four limited partnerships ("Residential Properties").

The Company is the sole General Partner in five limited partnerships (NetREIT 01 LP, NetREIT Palm Self-Storage LP, NetREIT Casa Grande LP, NetREIT Garden Gateway LP and NetREIT National City Partners, 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.," "Dubose Model Home Investors Fund #113, LP," "Dubose Model Home Investors #201, LP," and "NetREIT Dubose Model Home REIT, LP"). We refer to these entities collectively, as the "Partnerships". During 2012, DAP III, Dubose Model Home Income Fund #3, Dubose Model Home Income Fund #4 and Dubose Model Home Income Fund #5 sold all their model home assets. DAP III and Dubose Model Home Income Fund #5 were dissolved before the end of 2012. Dubose Model Home Income Fund #3 and Dubose Model Home Income Fund #4 each has an investment in DAP II, its one remaining asset. Dubose Model Home Investors Fund #113, LP has one model home remaining as of December 31, 2012. The limited partnerships have been consolidated into the financial statements of the Company in accordance with guidelines attributable to variable interest entities.

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 used 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, at acquisition, 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 at the time of the acquisition. 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. As Mr. Dubose is a Company director and was the founder, 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 estimated a liability of $1,032,000 associated with the 120,000 shares that would be issuable under the earn-out. The actual earn-out resulted in 39,595 shares issued or to be issued as of December 31, 2012. As a result of this acquisition, total goodwill of $1,123,000 was recorded. The value of the shares issued and issuable, valued at $8.60 per share, is approximately $341,000, resulting in a reversal of a liability of approximately $691,000. The Company's investment in DAP II and DAP III have been consolidated in the accompanying financial statements of NetREIT since 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 seeks to re-lease the Model Home until such time as it is able to sell the property. NetREIT Dubose owns substantially all of its assets and conduct its operations through a its operating partnership called NetREIT Dubose Model Home REIT, LP ("Operating Partnership") which is a wholly-owned Delaware limited partnership. NetREIT Advisors, LLC serves as advisor to NetREIT Dubose.

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. 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. Through December 31, 2012, NetREIT Dubose has raised approximately $3.8 million from outside investors. As of December 31, 2012, there were approximately 786,000 shares outstanding of which approximately 463,000 have been issued to parties other than NetREIT, Inc. However, NetREIT Dubose is consolidated into the financial statements of the Company in accordance with guidelines attributable to variable interest entities.

NetREIT Advisors, LLC also provides management services to one remaining Model Home Partnership, pursuant to rights under the management contracts assigned to it by DMHU. This partnership is in the process of liquidating assets towards an end of life. 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. 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 beginning in December 2010. Income Fund #5 sold its last model home in 2012 and the partnership was liquidated. Income Funds #3 and #4 have also sold all of its model homes by the end of 2012. These two funds only remaining asset is a minority ownership of DAP II.

In August 2011, the Company formed Dubose Advisors, LLC ("**Dubose Advisors**") a wholly-owned Delaware limited liability company, and sponsored the formation of Dubose Model Home Investors #201, LP. ("**201 Partnership**"), a California limited partnership. Dubose Advisors is the sole general partner and advisor to the 201 partnership. The 201 Partnership 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 similar to NetREIT Dubose. The Company has initially invested $250,000 to capitalize the 201 Partnership and has commenced raising $3,000,000 in outside investor capital through the sale of 60 limited partner units at $50,000 per unit. As of December 31, 2012, the 201 Partnership has raised the maximum $3.0 million from outside investors.

In December 2011, the Company completed the formation of a California limited partnership, NetREIT National City Partners, LP ("National City Partnership"), whereby an unrelated limited partner contributed its fee interest in two adjacent multi-tenant industrial properties located in National City, California. The Company refers to the property as the Port of San Diego Complex. The Company contributed $465,975 cash and 1,649.266 shares of $1,000 liquidation value, 6.3% convertible preferred stock to capitalize the limited partnership. In addition, the Company contributed $2.9 million cash which was used to pay down the mortgage loan assumed by the Partnership to a balance of $9.5 million after the paydown. After completing the transactions discussed above, NetREIT has an approximate 75% interest in the National City Partnership as the sole general partner and, as a result, the National City Partnership is included in the consolidated financial statements of the Company.

The Company has determined that the entities described above, where it owns less than 100%, meets the tests to be considered variable interest entities ("VIE's"), as defined and, as a result all of these entities have been consolidated into the consolidated financial statements of the Company from the point that it was determined to be VIE. In addition, the Company believes that it has significant control of these limited partnerships and directs the significant activities of the limited partnerships through NetREIT, the Parent Company.

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 (collectively "the Partnerships") NetREIT Advisors, LLC ("Advisors"), NetREIT Dubose Model Home REIT, Inc. and its subsidiary, NetREIT Dubose Model Home LP, Dubose Advisors LLC, Model Home Income Funds 3, 4, 113 LTD and Dubose Model Home Investors #201 LP (collectively, the "Income Funds") and NetREIT National City Partners, LP. As used herein, the "Company" refers to NetREIT, FMP, Advisors and the Partnerships, Income Funds, and the NetREIT National City Partners, LP, collectively. Dubose Acquisition Partners III and Model Home Income Fund 5 had operations in 2012 although they sold all of their assets and liquidated before the end of the year. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company classifies the noncontrolling interests in FMP, the Partnerships, and the Income Funds as part of consolidated net loss in 2012 and 2011 and includes the accumulated amount of noncontrolling interests as part of stockholders' 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, the Income Funds acquisitions in November 2010 and November 2011 as well as NetREIT National City Partners, LP in December 2011. 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 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 stockholders 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 stockholders within the prescribed limits. However, taxes will be provided for those gains which are not anticipated to be distributed to stockholders 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 stockholders 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, 2012 and 2011, because of net losses, all distributions were considered return of capital to the stockholders 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, 2012 and 2011, respectively.

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 for tax positions by any major tax jurisdictions.

Stock Dividend. In September 2011, the Board of Directors declared a 5% dividend payable in Company common to stockholders of record on December 2, 2011. The shares were issued in December 2011. 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.

Real Estate Asset 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 requires 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 real estate assets and 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. Amortization of above and below market rents resulted in a net reduction in rental income of approximately $446,000 and $295,000 for the years ended December 31, 2012 and 2011, respectively.

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 approximately $604,000 and $451,000 for years ended December 31, 2012 and 2011, respectively.

Capitalization Policy. The Company capitalizes any expenditure that replace, improve, or otherwise extend the economic life of an asset in excess of $5,000 for any given project. This includes tenant improvements and lease acquisition costs (leasing commissions, space planning fees, legal fees, etc) that are in excess of $5,000.

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, 2012, Management has concluded that there are 7 Model Home properties aggregating approximately $1.6 million which are considered as held for sale and are included in real estate assets. These homes have mortgage notes payable of approximately $0.8 million. Management has also estimated that, of the homes held for sale, 2 home sales would result in a loss of approximately $54,000 and has recorded the estimated loss included in asset impairment in the accompanying statement of operations for the year ended December 31, 2012. In addition, the Company has listed for sale its Casa Grande apartments in Cheyenne, WY. As of December 31, 2012, the net book value of Casa Grande is approximately $1.4 million with a mortgage note payable balance of approximately $1.0 million.

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, 2012 and 2011, was $4.0 million and $3.6 million, 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 to exist at December 31, 2012 and 2011.

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, 2012 and 2011.

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. In the quarter ended September 30, 2012, the Company determined that an impairment existed in its Waterman Plaza property and, as a result, recorded an asset impairment of $300,000. The Company also determined that its "other" real estate owned, acquired through foreclosure in 2009, had declined in value and recorded an impairment charge of approximately $1.3 million in December 2012. For the year ended December 31, 2011 the Company determined that an impairment existed with respect to its Model Home properties not held for sale and, as a result, recorded an asset impairment of $30,000.

Provision for Mortgage Loan Losses. 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 the mortgage loans it has made in the past. 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, 2012 and 2011.

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, 2012, the Company had approximately $8.6 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.

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, 2012 and 2011, the balance of allowance for possible uncollectible tenant receivables included in other assets, net was $69,000 and $124,000, 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, 2012 and 2011, the Company had net deferred leasing costs of approximately $1,059,000 and $843,000, respectively, which are included in other assets, net in the accompanying consolidated balance sheets. Total amortization expense for the year ended December 31, 2012 and 2011 was approximately $204,000 and $126,000, 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, 2012 and 2011, deferred financing costs were approximately $1,065,000 and $554,000, respectively, which are included in other assets, net in the accompanying consolidated balance sheets. Total amortization expense for the year ended December 31, 2012 and 2011 was approximately $192,000 and $137,000, respectively. 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:

a. persuasive evidence of an arrangement exists;

b. delivery has occurred or services have been rendered;

c. the amount is fixed or determinable; and

d. 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. Tenant recoveries are recognized as revenue on a straight-line basis over the term of the related leases.

Certain of the Company's leases currently contain rental increases at specified intervals. The Company records as an asset, and includes in rental income, 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, included in other assets, in the accompanying consolidated 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. As of December 31, 2012 and 2011, deferred rent receivable totaled approximately $1,054,400 and $756,900, respectively. 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, 2012 and 2011.

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 stockholders (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:

	Year Ended December 31,	
	2012	2011
Weighted average shares used for Basic EPS	15,479,474	13,027,349
Add:		
5% stock dividend issued in December 2011	—	651,367
Shares used for basic EPS	15,479,474	13,678,716
Effect of dilutive securities:		
Adjusted weighted average shares used for diluted EPS	15,479,474	13,678,716

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, NetREIT Garden Gateway LP Partnership, NetREIT National City Partners LP Partnership and shares from stock purchase warrants with respect to a total of 1,307,649 shares of common stock for the year ended December 31, 2012 and 1,373,372 shares of common stock for the year ended December 31, 2011, were excluded from the computation of diluted earnings per share as their effect was anti-dilutive.

Fair Value Measurements. Certain assets and liabilities are required to be carried at fair value, or if long-lived assets are deemed to be impaired, to be adjusted to reflect this condition. The guidance requires disclosure of fair values calculated under each level of inputs within the following hierarchy:

Level 1 - Quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for the asset or liability.

Fair value is defined as the price at which an asset or liability is exchanged between market participants in an orderly transaction at the reporting date. The Company's cash equivalents, mortgage notes receivable, accounts receivable and payables and accrued liabilities all approximate fair value due to their short term nature. Management believes that the recorded and fair value of notes payable are approximately the same as of December 31, 2012 and 2011.

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 consolidated 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 10 "Segment Information".

Square Footage, Occupancy and Other Measures. Square footage, occupancy and other measures used to describe real estate and real estate-related investments included in the Notes to Consolidated Financial Statements are presented on an unaudited basis.

Recently Issued Accounting Standards Updates. In October 2012, the FASB issued Accounting Standards Update 2012-04, Technical Corrections and Improvements ("ASU 2012-04"), which makes certain technical corrections and "conforming fair value amendments" to the FASB Accounting Standards Codification. The amendments affect various Codification topics and apply to all reporting entities within the scope of those topics. These provisions of the amendment are effective upon issuance, except for amendments that are subject to transition guidance, which will be effective for fiscal periods beginning after December 15, 2012. The provisions of ASU 2012-04 are not expected to have a material impact on our consolidated financial statements.

Effective January 1, 2012, we adopted the provisions of ASU No. 2011-04, Amendment to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs ("ASU 2011-04"), which amended ASC Topic 820, Fair Value Measurement. The objective of this guidance is to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and International Financial Reporting Standards. The guidance also requires expanded fair value disclosures related to Level 3 financial instruments and Level 3 financial instrument transfers. The guidance does not require any new fair value measurements. The adoption of this guidance did not have a material impact on our consolidated financial statements or notes to our consolidated financial statements.

Subsequent Events. Management has evaluated subsequent events through the date that the accompanying financial statements were filed with the SEC for transactions and other events which may require adjustment of and/or disclosure in such financial statements.

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 properties owned by the Company as of December 31, 2012 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	$ 1,381.4
Havana/Parker Complex	June 2006	Aurora, Colorado	114,000	Office	5,262.9
Garden Gateway Plaza	March 2007	Colorado Springs, Colorado	115,052	Office	12,507.2
World Plaza	September 2007	San Bernardino, California	55,098	Retail	6,852.5
Regatta Square	October 2007	Denver, Colorado	5,983	Retail	1,977.6
Sparky's Palm Self-Storage	November 2007	Highland, California	50,250	Self-Storage	4,486.8
Sparky's Joshua Self-Storage	December 2007	Hesperia, California	149,750	Self-Storage	6,983.5
Executive Office Park	July 2008	Colorado Springs, Colorado	65,084	Office	8,544.2
Waterman Plaza	August 2008	San Bernardino, California	21,170	Retail	6,280.3
Pacific Oaks Plaza	September 2008	Escondido, California	16,000	Office	4,430.2
Morena Office Center	January 2009	San Diego, California	26,784	Office	5,887.0
Fontana Medical Plaza	February 2009	Fontana, California	10,500	Office	2,052.5
Rangewood Medical Office Building	March 2009	Colorado Springs, Colorado	18,222	Office	2,335.1
Sparky's Thousand Palms Self-Storage	August 2009	Thousand Palms, California	113,126	Self-Storage	5,688.7
Sparky's Hesperia East Self-Storage	December 2009	Hesperia, California	72,940	Self-Storage	2,693.6
Sparky's Rialto Self-Storage	May 2010	Rialto, California	101,343	Self-Storage	4,882.0
Genesis Plaza	August 2010	San Diego, California	57,685	Office	9,161.5
Dakota Bank Buildings	May 2011	Fargo, North Dakota	119,749	Office	8,732.6
Yucca Valley Retail Center	September 2011	Yucca Valley, California	103,596	Retail	7,503.1
Sparky's Sunrise Self-Storage	December 2011	Hesperia, California	93,851	Self-Storage	2,195.8
Port of San Diego Complex	December 2011	San Diego, California	146,700	Industrial	14,275.1
Shoreline Medical Building	May 2012	Half Moon Bay, California	15,335	Office	6,269.6
The Presidio	November 2012	Aurora, Colorado	80,800	Office	7,237.8
NetREIT, Inc properties					137,621.0
			Homes		
Model Home properties held in limited partnerships	Various in 2009-2012	CA, AZ, WA, TX, SC, NC and NJ	74	Residential	21,552.2
Model Home properties held in income and investment funds	Various in 2003-2008, 2010 & 2011	CA, AZ, TX, SC, PA, NJ	18	Residential	6,465.5
Model Home properties					28,017.7
		Total real estate assets and lease intangibles, net			$ 165,638.7

A summary of the properties owned by the Company as of December 31, 2011 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	$ 1,428.5
Havana/Parker Complex	June 2006	Aurora, Colorado	114,000	Office	5,399.5
7-Eleven	September 2006	Escondido, California	3,000	Retail	1,282.4
Garden Gateway Plaza	March 2007	Colorado Springs, Colorado	115,052	Office	13,008.6
World Plaza	September 2007	San Bernardino, California	55,098	Retail	6,933.7
Regatta Square	October 2007	Denver, Colorado	5,983	Retail	2,027.6
Sparky's Palm Self-Storage	November 2007	Highland, California	50,250	Self-Storage	4,598.9
Sparky's Joshua Self-Storage	December 2007	Hesperia, California	149,750	Self-Storage	7,155.8
Executive Office Park	July 2008	Colorado Springs, Colorado	65,084	Office	8,710.1
Waterman Plaza	August 2008	San Bernardino, California	21,100	Retail	6,716.3
Pacific Oaks Plaza	September 2008	Escondido, California	16,000	Office	4,536.2
Morena Office Center	January 2009	San Diego, California	26,784	Office	5,918.8
Fontana Medical Plaza	February 2009	Fontana, California	10,500	Office	2,118.4
Rangewood Medical Office Building	March 2009	Colorado Springs, Colorado	18,222	Office	2,407.3
Sparky's Thousand Palms Self-Storage	August 2009	Thousand Palms, California	113,126	Self-Storage	5,832.4
Sparky's Hesperia East Self-Storage	December 2009	Hesperia, California	72,940	Self-Storage	2,724.8
Sparky's Rialto Self-Storage	May 2010	Rialto, California	101,343	Self-Storage	5,144.7
Genesis Plaza	August 2010	San Diego, California	57,685	Office	9,428.2
Dakota Bank Buildings	May 2011	Fargo, North Dakota	119,749	Office	9,287.0
Yucca Valley Retail Center	September 2011	Yucca Valley, California	85,996	Retail	6,687.6
Sparky's Sunrise Self-Storage	December 2011	Hesperia, California	93,851	Self-Storage	2,207.2
Port of San Diego Complex	December 2011	San Diego, California	146,700	Industrial	14,500.0
NetREIT, Inc properties					128,054.0
Model Home properties held in limited partnerships	Various in 2005, 2010 2010, 2011 & 2012	CA, AZ, OR, WA, TX, SC, NC, ID and FL	Homes 59	Residential	15,019.4
Model Home properties held in income and investment funds	Various in 2003-2008, 2010 & 2011	TX, WA, OH, NC, NV, CA, NJ and MI	19	Residential	4,681.5
Model Home properties					19,700.9
		Total real estate assets and lease intangibles, net			$ 147,754.9

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

	December 31, 2012	December 31, 2011
Land	$ 41,617,925	$ 38,109,616
Buildings and other	130,471,526	113,238,188
Tenant improvements	7,112,494	5,766,096
Lease intangibles	4,569,854	4,186,764
	183,771,799	161,300,664
Less:		
Accumulated depreciation and amortization	(18,133,080)	(13,545,777)
Real estate assets, net	$ 165,638,719	$ 147,754,887

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

The Company acquired the following properties in the year ended December 31, 2012:

In January 2012, Dubose Model Home Investors #201 LP acquired one Model Home property in Texas and leased it back to the home builder. The purchase price for the property was $0.38 million. The purchase price paid was through a cash payment of $0.15 million and a promissory note $0.23 million.

In April 2012, NetREIT Dubose and Dubose Model Home Investors #201 LP acquired 19 Model Home properties in California and Arizona and leased them back to the home builder. The purchase price for the properties was approximately $8.2 million. The purchase price paid was through a cash payment of approximately $3.7 million and promissory notes totaling approximately $4.5 million.

In May 2012, the Company acquired the former Rite Aid building in Yucca Valley, California, The building adjoins the Company's Yucca Valley Retail Center purchased in September 2011. The building was purchased vacant as a result of the relocation of Rite Aid. However, the property remains under lease to the tenant for several more years. The purchase price was approximately $1.1 million all paid in cash. The building consists of approximately 17,600 rentable square feet.

In June 2012, the Company acquired the Shoreline Medical Building for the purchase price of approximately $6.4 million. The Property is a two-story medical office building under a single tenant lease that was built in 1980. The land consists of approximately 38,600 square feet with a building on it of approximately15,335 rentable square feet in Half Moon Bay, California. Half Moon Bay is approximately 25 miles south of San Francisco and 10 miles west of San Mateo. The Company made a down payment of approximately $2.3 million and financed the remainder of the purchase price through a fixed rate mortgage with interest at 5.1%. The interest rate is subject to change at the third and sixth year anniversaries of the loan.

In June 2012, NetREIT Dubose and Dubose Model Home Investors #201 LP acquired 14 Model Home properties in New Jersey and Pennsylvania and leased them back to the home builder. The purchase price for the properties was approximately $5.0 million. The purchase price paid was through a cash payment of approximately $2.0 million and promissory notes totaling approximately $3.0 million.

In October 2012, Dubose Model Home Investors #201 LP acquired 1 Model Home property in Texas and leased it back to the home builder. The purchase price for the property was approximately $365,000. The purchase price paid was through a cash payment of approximately $146,000 and a promissory note of approximately $219,000. At December 31, 2012, this 1 Model Home is under lease contract.

In November 2012, NetREIT 01 LP acquired The Presidio for the purchase price of approximately $7.3 million. The Property is a four-story office building with of approximately 80,800 rentable square feet. The building is approximately 80,800 rentable square feet located in Colorado Springs, Colorado. The Company made a down payment of approximately $1.6 million and financed the remainder of the purchase price through a fixed rate mortgage with interest at 5.6%.

In December 2012, NetREIT Dubose and Dubose Model Home Investors #201 LP acquired 14 Model Home properties in Texas and leased them back to the home builder. The purchase price for the properties was approximately $3.9 million. The purchase price paid was through a cash payment of approximately $2.0 million and promissory notes totaling approximately $1.9 million. At December 31, 2012, these 14 Model Homes are under lease contract.

The Company disposed of the following properties in 2012:

During the year ended December 31, 2012, NetREIT Dubose and the other Model Home entities disposed of thirty-five Model Home properties. The sales price, net of selling costs, aggregated approximately $8.9 million and approximately $1.5 million in mortgage notes payable were retired in connection with these sales. The Company recognized a gain of $260,360 related to the sale of these Model Homes.

In October 2012, the Company sold approximately 40.0% of land adjacent to the Sparky's Rialto Self-Storage. The sales price was $290,000 and after selling costs and the cost of the land, the Company recognized a gain of approximately $103,500.

In October 2012, NetREIT 01 LP sold the 7-Eleven located in Escondido, California. The sales price was approximately $1.9 Million and after selling costs and the net book value of the land and building, the Company recognized a gain of approximately $637,900.

The Company acquired the following properties in 2011:

In January 2011, NetREIT Dubose acquired two Model Home properties in Texas and leased them back to the home builder. The purchase price for the properties was $0.45 million. NetREIT Dubose paid the purchase price through a cash payment of $0.23 million and two promissory notes totaling $0.22 million.

In February 2011, NetREIT Dubose acquired five Model Home properties in California and leased them back to the home builder. The purchase price for the properties was $1.5 million. NetREIT Dubose paid the purchase price through a cash payment of $0.75 million and five promissory notes totaling $0.75 million.

In March 2011, NetREIT Dubose acquired four Model Home properties in South Carolina, Florida and Texas and leased them back to the home builder. The purchase price for the properties was $1.0 million. NetREIT Dubose paid the purchase price through a cash payment of $0.50 million and four promissory notes totaling $0.50 million.

In May 2011, the Company acquired vacant land consisting of approximately 3 acres adjacent to its Sparky's Rialto Self-Storage facility for approximately $0.4 million paid in cash. The Company intends to use the land for additional motor home parking or for other purposes.

In May 2011, the Company acquired the Dakota Bank Buildings for the purchase price of approximately $9.6 million. The Property is a six-story, two building office complex built in 1981 and 1986 located on 1.58 acres and consists of approximately120,000 rentable square feet in downtown Fargo, North Dakota. The Company made a down payment of approximately $3.875 million and financed the remainder of the purchase price through a monthly adjustable rate mortgage with interest at 3.0% over the one month Libor with an interest rate floor of 5.75% and ceiling of 9.75%.

In June 2011, NetREIT Dubose acquired three Model Home properties in Texas and leased them back to the home builder. The purchase price for the properties was approximately $0.60 million. NetREIT Dubose paid the purchase price through a cash payment of approximately $0.30 million and three promissory notes totaling approximately $0.30 million.

In August 2011, NetREIT Dubose acquired eight Model Home properties in Texas, Florida, North Carolina and South Carolina and leased them back to the home builder. The purchase price for the properties was approximately $1.9 million. NetREIT Dubose paid the purchase price through a cash payment of approximately $1.0 million and eight promissory notes totaling approximately $0.90 million.

In September 2011, the Company acquired the Yucca Valley Retail Center for the purchase price of approximately $6.8 million. The Property is a neighborhood shopping center complex built in approximately 1978 consisting of five separate parcels. The Property consists of approximately 86,000 rentable square feet and is currently 93% leased and anchored by a national chain grocery store. The Company paid the purchase price through a cash payment of approximately $3.5 million and assumed a loan secured by the property of approximately $3.3 million with an interest rate of 5.62%.

In December 2011, the Company acquired the Sunrise Self-Storage facility for the purchase price of $2.2 million. The Company paid the purchase price in an all cash transaction. The Property is located within a mixed commercial and industrial area of Hesperia, California. The Property was built in 1985 and 1989 and consists of fourteen (14) one and two-story buildings comprising approximately 93,851 square feet with approximately 737 storage units on a 4.93 acre parcel.

In December 2011, the Company completed the formation of a California limited partnership, NetREIT National City Partners, LP, ("NCP") whereby a limited partner contributed its fee interest in two adjacent multi-tenant industrial properties located in National City, California. The Company contributed approximately $0.5 million cash and 1,649.266 shares of $1,000 liquidation value, 6.3% convertible preferred stock to capitalize the limited partnership. The agreed upon value of the Property was $14.5 million. The Company also contributed $2.9 million cash which was used to pay down the mortgage loan assumed by NCP to a balance of $9.5 million. After completing the transactions, NetREIT has an approximate 75% interest in the NCP and a single unrelated limited partner has an approximate 25% interest. The property, referred to by the Company as the "Port of San Diego Complex", consists of two adjacent multi-tenant light industrial buildings built in 1971 and was renovated in 2008. The Property is comprised of 6.13 acres and the buildings have 146,700 rentable square feet. As of the date of acquisition, the Property was 51.7% occupied.

In December 2011, Dubose Model Home Investor Funds #201, LP acquired one Model Home property in South Carolina and leased it back to the home builder. The purchase price for the property was approximately $0.3 million. NetREIT Dubose paid the purchase price through a cash payment of approximately $0.1 million and a promissory note for the balance of the purchase price.

The Company disposed of the following properties in 2011:

During the twelve months ended December 31, 2011, NetREIT Dubose and the other Model Home entities disposed of twenty-two Model Home properties. The sales price, net of selling costs, aggregated approximately $8.5 million and approximately $5.7 million in mortgage notes payable were retired in connection with these sales.

The Company allocated the purchase price of the properties acquired during the year ended December 31, 2012 as follows:

	Land	Buildings and other	Tenant Improve-ments	In-place Leases	Leasing Costs	Total Purchase Price
Rite Aid	$ 366,000	$ 759,000	—	$ —	$ —	$ 1,125,000
Shoreline Medical Building	1,820,000	4,311,000	—	83,000	136,000	6,350,000
The Presidio	1,325,000	4,969,400	816,500	27,400	136,700	7,275,000
Model Home Properties	1,923,852	15,214,443	—	—	—	17,138,295

The Company allocation of the properties sold during the year ended December 31, 2012 is as follows:

	Land	Buildings and other	Total Cost
Model Home Properties	$ 1,213,417	$ 8,196,975	$ 9,410,392
Rialto land	159,775		159,775
7-Eleven	553,359	714,680	1,268,039

The Company allocated the purchase price of the properties acquired during the year ended December 31, 2011 as follows:

	Land	Buildings and other	Tenant Improve-ments	In-place Leases	Leasing Costs	Above and Below Market Leases	Total Purchase Price
Dakota Bank Buildings	$ 832,000	$ 8,123,461	$ —	$ 131,982	$ 45,186	$ 442,371	$ 9,575,000
Yucca Valley Retail Center	2,445,331	3,549,162	520,485	819,979	—	(567,257)	6,767,700
Sparky's Sunrise Self-Storage	1,123,000	1,077,000	—	—	—	—	2,200,000
Port of San Diego Complex	9,613,000	4,078,816	141,373	29,470	128,448	508,893	14,500,000
Model Home Properties	2,012,217	9,633,813	—	—	—	—	11,646,030

The Company allocation of the properties sold during the year ended December 31, 2011 is as follows:

	Land	Buildings and other	Total Cost
Model Home Properties	$ 1,094,267	$ 7,331,915	$ 8,426,182

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, 2012			December 31, 2011		
	Lease intangibles	Accumulated amortization	Lease intangibles, net	Lease intangibles	Accumulated amortization	Lease intangibles, net
In-place leases	$ 2,015,459	$ (1,229,792)	$ 785,667	$ 1,905,059	$ (838,512)	$ 1,066,547
Leasing costs	1,448,985	(807,816)	641,169	1,176,285	(595,386)	580,899
Tenant relationships	332,721	(332,721)	—	332,721	(332,721)	—
Below-market leases	(841,425)	37,415	(804,010)	(841,425)	9,296	(832,129)
Above-market leases	1,614,114	(821,947)	792,167	1,614,124	(347,317)	1,266,807
	$ 4,569,854	$ (3,154,861)	$ 1,414,993	$ 4,186,764	$ (2,104,640)	$ 2,082,124

As of December 31, 2012, the estimated aggregate amortization expense for each of the five succeeding fiscal years and thereafter is as follows:

	Estimated Aggregate Amortization Expense
2013	$ 624,182
2014	532,314
2015	388,282
2016	157,215
2017	53,591
Thereafter (principally below market rent amortization)	(340,591)
	$ 1,414,993

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, 2012 was 19.5 years.

4. MORTGAGE NOTES PAYABLE

Mortgage notes payable as of December 31, 2012 and December 31, 2011 consisted of the following:

	December 31, 2012	*December 31, 2011*
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.	$ 3,163,018	$ 3,242,767
Mortgage note payable in monthly installments of $42,383 through April 5, 2020, including interest at a fixed rate of 5.00%; collateralized by the leases and office buildings of the Garden Gateway Plaza property.	9,248,703	9,533,849
Mortgage note payable in monthly installments of $25,995 through September 1, 2015, including interest at a fixed rate of 6.50%; collateralized by the Waterman Plaza Property	3,542,157	3,621,057
Mortgage note payable in monthly installments of $28,865 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.	4,326,536	4,431,783
Mortgage note payable in monthly installments of $10,764 through December 18, 2016, including interest at a fixed rate of 6.25%; collateralized by the Sparky's Hesperia East Self-Storage property.	1,666,713	1,690,301
Mortgage note payable in monthly installments of $17,226 through May 3, 2012, 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, or May 15, 2015; collateralized by the Sparky's Rialto Self-Storage property.	2,512,003	2,820,793
Mortgage note payable in monthly installments of $6,638 through July 1, 2018, including interest at a fixed rate of 5.80%; collateralized by the Casa Grande Apartment property (1).	1,020,943	1,040,762
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.	4,738,967	4,854,307
Mortgage note payable in monthly installments of $26,962 through July 1, 2025, including interest at a fixed rate of 5.79% through July 1, 2018; collateralized by the Executive Office Park property.	4,511,736	4,572,161
Mortgage note payable in monthly installments sufficient to amortize the note on a 25 year schedule and the current month interest charge (currently, approximately $36,200), interest at a variable rate of 3.0% over the one month libor with a floor of 5.75% (current rate) and a ceiling of 9.75% through May 31, 2016; collateralized by the Dakota Bank Building property.	5,532,953	5,640,568
Mortgage note payable in monthly installments of $23,919 through April 11, 2015, including interest at a fixed rate of 5.62%; collateralized by the Yucca Valley Retail Center.	3,203,262	3,304,120
Mortgage note payable in monthly installments of $9,858 through January 1, 2019, including interest at a fixed rate of 4.95%; collateralized by the Rangewood Medical Office Building.	1,214,819	1,150,000
Mortgage note payable in monthly installments of $7,562 through January 1, 2019, including interest at a fixed rate of 4.95%; collateralized by Regatta Square.	1,272,994	1,300,000

Mortgage note payable in monthly installments of $61,573 through March 5, 2020, including interest at a fixed rate of 4.75%; collateralized by the Port of San Diego Complex.	9,185,400	9,500,000
Mortgage note payable in monthly installments of $13,896 through June 1, 2021, including interest at a fixed rate of 4.5% subject to reseting at the 3rd and 6th anniversary to the lender's current rate on similar loans; collateralized by the Morena Office Center.	2,468,148	—
Mortgage note payable in monthly installments of $9,450 through June 1, 2021, including interest at a fixed rate of 4.5% subject to reseting at the 3rd and 6th anniversary to the lender's current rate on similar loans; collateralized by the Pacific Oaks Plaza.	1,678,335	—
Mortgage note payable in monthly installments of $26,043 through June 1, 2021, including interest at a fixed rate of 5.1% subject to reseting at the 3rd and 6th anniversary to the lender's current rate on similar loans; collateralized by the Shoreline Medical Office Building.	4,067,514	—
Mortgage note payable in monthly installments of $42,788 through December 6, 2022, including interest at a fixed rate of 4.7%; collateralized by Sparky's Palm, Joshua and Sunrise Self-Storage properties.	8,250,000	—
Mortgage note payable in monthly installments of $36,701 through January 6, 2015, including interest at a fixed rate of 5.6%; collateralized by The Presidio.	5,617,671	—
Subtotal, NetREIT, Inc. properties	77,221,872	56,702,468
Mortgage notes payable in monthly installments of $20,588; maturity date of February 10, 2014, including interest at a fixed rate of 5.50%; collateralized by 7 Model Home properties.	1,628,170	2,088,868
Mortgage notes payable in monthly installments of $3,767; maturity date of September 15, 2012, including interest at a fixed rate of 5.75%; collateralized by 4 Model Home properties. (1)	407,480	428,203
Mortgage notes payable in monthly installments of $14,104 maturity date of December 15, 2015, including interest at a fixed rate of 5.75%; collateralized by 15 Model Home properties.	1,545,578	2,205,798
Mortgage notes payable in monthly installments of $4,308; maturity date of October 5, 2011; including interest at fixed rate of 2.38%; collateralized by 1 Model Home property.	—	420,830
Mortgage notes payable in monthly installments of $1,357; maturity date of March 5, 2012; including interest at fixed rate of 2.55%; collateralized by 1 Model Home property.	—	670,207
Mortgage notes payable in monthly installments of $1,798 with a maturity December 5, 2011, including interest at 7.16%; collateralized by collateralized by 1 Model Home property.	—	89,811
Mortgage notes payable in monthly installments of $20,507 maturities varying from February 15, 2016 to December 15, 2017, including interest at fixed rates from 5.00%, to 5.50%; collateralized by 15 Model Home properties.	1,723,047	2,747,709
Mortgage notes payable in monthly installments of $50,327, maturities varying from April 15, 2017 to December 15, 2017, including interest at fixed rates from 5.00%, to 5.50%; collateralized by 33 Model Home properties.	6,098,892	575,903
Mortgage notes payable in monthly installments of $33,298, maturities varying from June 30, 2012 to December 15, 2017, including interest at fixed rates of 5.50%-5.84%; collateralized by 18 Model Home properties. (1)	3,855,324	-
Subtotal, Model Home properties	15,258,491	9,227,329
	$ 92,480,363	$ 65,929,797

(1) The Company is working with the lender to extend the maturity dates of these loans. The Company anticipates that the lender will extend the due dates of these loans until such time as the Model Homes securing them are sold.

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, 2012 is as follows:

Years Ending:	NetREIT, Inc. Principal Payments (1)	Model Home Properties Principal Payments	Scheduled Principal Payments
2013	$ 1,889,054	$ 979,903	$ 2,868,957
2014	1,796,979	2,137,894	3,934,873
2015	19,944,863	2,332,082	22,276,945
2016	10,797,199	2,117,541	12,914,740
2017	775,754	7,691,071	8,466,825
Thereafter	42,018,023	—	42,018,023
Total	$ 77,221,872	$ 15,258,491	$ 92,480,363

(1) Maturities are scheduled as if the refinancing of the Port of San Diego and Garden Gateway mortgage were completed as of December 31, 2012. See also note 10 for more details.

5. RELATED PARTY TRANSACTIONS

The Company had 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, 2012 and 2011, the Company paid CHG total management fees of approximately $610,000 and $514,000, respectively.

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. Total rents charged and paid by these affiliates was approximately $60,000 and $57,000 for the years ended December 31, 2012 and 2011, 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. The Company has elected to exercise its option to purchase CHG. See note 10, "Subsequent Events" for further discussion.

In March 2011, the Company purchased 9,560 shares of its vested restricted common stock from an independent member of its Board of Directors for a total of $82,520. The purchase price of approximately $8.60 per share was determined using the same value for the shares as reported as income to state and Federal income tax authorities.

In January 2012, the limited partner of NetREIT 01, LP (the "Partnership") that owns the 7-Eleven property exercised its option to convert approximately 30.0% of its ownership interests in the Partnership in exchange for approximately 17,060 shares of Company common stock. In March 2012, the Company bought back all of these shares from the limited partner at a price per share that was determined when the partnership was formed, which, adjusted for stock dividends, was $8.44 per share. After conversion, our interest in the Partnership increased to approximately 77%. The stock buy-back transaction was subjected to the Company's related party transaction policy which requires a review of the transaction by the uninterested parties of the Audit Committee and a subsequent vote by the Company's Board of Directors. In 2012, the 7-Eleven property was sold and the partnership acquired The Presidio property.

The limited partner of NetREIT 01, LP is the Allen Trust DTD 7-9-1999. William H. Allen, a Director of the Company and Chairman of the Audit Committee, is a beneficiary and a trustee of the trust. The Partnership was formed approximately one year before Mr. Allen became a Board Member.

6. STOCKHOLDERS' 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. Through December 31, 2011, when the offering was closed, the Company was conducting a self-underwriting private placement offering and sale of 20,000,000 shares of its common stock at a price of $10 per share. This offering was 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 currently exists for the securities sold under this offering. There currently is no plan to initiate a market for the stock. The Company ceased raising capital under this private placement offering effective December 31, 2011. During the year ended December 31, 2011, the Company received gross proceeds from the sale of common shares of $17,214,142.

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 Stockholders 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, 2012 and 2011, there were 15,767,418 and 15,287,998 shares, respectively, of the Common Stock outstanding.

Undesignated Preferred Stock. The Company is authorized to issue up to 8,990,000 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.

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, and (vi) may be converted into two shares of common stock at the option of the holder prior to the mandatory conversion date. The conversion price is subject to certain anti-dilution adjustments. The Company has not issued any shares of this preferred stock.

Convertible Series 6.3% Preferred Stock. In December 2011, the Company filed Supplementary Articles to its articles of incorporation by adding the authorization to issue up to 10,000 shares of Series 6.3% convertible preferred stock out of the previously authorized undesignated preferred stock discussed above. Each share of 6.3% preferred stock has a $1,000 liquidation preference.

In December 2011, the Company issued approximately 1,649 shares of its Series 6.3% Preferred Stock to the NetREIT National City Partnership, LP, an entity that is consolidated into the financial statements of the Company. The terms of the preferred stock provide for a liquidation preference of $1,000 per share and cumulative dividends from the date of original issue at a rate of 6.3% per annum (equal to an annual rate of $63.00 per share), subject to adjustment in certain circumstances. As of December 31, 2012, the liquidation preference would have been $1,649,000. Dividends on the preferred stock are payable quarterly in arrears subject to declaration by the Board of Directors and compliance with applicable law. All the shares issued to the partnership are subject to an option for the limited partner to exchange his interest in the partnership to equity in NetREIT.

The Series 6.3% preferred stock is convertible at any time at the holder's option into common stock of the Company at an initial conversion rate of 116.28 shares of NetREIT's common stock per share of preferred stock, which is equivalent to an initial conversion price of approximately $8.60 per share. Based on the initial conversion rate, approximately 191,756 shares of common stock would be issuable upon conversion of all of the outstanding shares of preferred stock.

The Company may also elect to mandatorily redeem some or all of the preferred stock at any time upon proper notice at the liquidation preference amount plus any unpaid accrued dividends.

Broker Dealer Warrants. Warrants have been issued pursuant to the terms of the respective $10.50 broker agreement and the Participating Broker Dealer Agreement in connection with the private placement offering that closed on December 31, 2011. 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 stockholders. 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 stockholders and are not entitled to receive dividends or other distributions. As of the close of the private placement, a total of 451,235 warrants to purchase NetREIT common stock were earned. These warrants have an exercise price ranging from $9.52 to $10.50 with a weighted average exercise price of $9.63. All warrants expire on December 31, 2014.

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. In 2012, the partner exchanged approximately 30% of its interests in the partnership for 17,060 shares of Company common stock. Adjusted for stock dividends, the partner has the rights to exchange interests in the partnership for up to 39,806 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 $8.44 per share for up to 39,806 common shares upon 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 457,028 shares of Company common stock at a conversion price equal to $8.44 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 $8.44 per share for up to 457,028 shares.

In February 2010, NetREIT and a former tenant 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 partnership and NetREIT became the general partner. The partner has an option to exchange their equity interest in the partnership for up to 105,000 shares of Company common stock at a conversion price equal to $9.52 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 $9.52 per share for up to 105,000 shares.

In June 2011, the Company formed Dubose Model Home Investors #201, LP for the purpose of raising capital for the acquisition of Model Homes to be leased back to the builder/seller.

In December 2011, the Company and an unrelated party formed NetREIT National City Partnership, LP. In exchange for the contribution of property, the owner became a limited partner of this partnership. The Company is the sole general partner. The limited partner has the option to exchange its partnership units into approximately 1,649 shares of convertible series 6.3% preferred stock. The shares of the convertible series 6.3% preferred stock can be converted into 191,775 shares of NetREIT Series A common stock.

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 effective January 1 since the year of adoption. The nonvested shares have voting rights and are eligible for any dividends paid to common shares. The share awards vest in equal annual instalments 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 the year ended December 31, 2012 totalled approximately $490,000 which is calculated using the most recent private placement offering of $10 adjusted for estimated selling costs. The value of granted nonvested restricted stock issued during the year ended December 31, 2011 totalled approximately $448,000. Compensation expense recorded was approximately $478,000 and $388,000 in the years ended December 31, 2012 and 2011, respectively. The 62,805 nonvested restricted shares as of December 31, 2012 will vest in equal instalments over the next two to four years.

A table of non-vested restricted shares granted and vested since December 31, 2010 is as follows:

Balance, December 31, 2010	61,642
Granted	52,139
Vested	(49,805)
Cancelled	(5,504)
Stock dividend	5,305
Balance, December 31, 2011	63,777
Granted	57,016
Vested	(57,577)
Cancelled	(411)
Balance, December 31, 2012	62,805

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

Date of Declaration	Record Date	Stock Dividend Rate	Common Stock Value	Common Stock Shares	Common Stock Amount
September 9, 2011	December 2, 2011	5%	$ 8.60	720,366	$ 6,195,148

Cash Dividends. During the years ended December 31, 2012 and 2011, the Company paid cash dividends, net of reinvested stock dividends, of $4,262,000, and $3,600,000, respectively, or at an annualized rate $0.543 and $0.572 per share, respectively per share on an annualized basis. As the Company reported net losses in both of these periods, and on a cumulative basis, these cash dividends represent a return of capital to the stockholders rather than a distribution of earnings. There were no dividends paid on the Convertible 6.3% stock in 2011. The Company paid cash dividends on the Convertible Series 6.3% Preferred Stock of approximately $105,000 in the year ended December 31, 2012. The dividends were paid to a subsidiary that is consolidated into the condensed consolidated financial statements of the Company and, as a result, have been eliminated in consolidation.

Dividend Reinvestment Plan. The Company has adopted a distribution reinvestment plan that allows stockholders to have dividends and other distributions otherwise distributable to them invested in additional shares of Company common stock. The Company has registered 1,500,000 shares of common stock pursuant to the dividend reinvestment plan. The dividend reinvestment plan became effective on January 23, 2012 just after the close of our private placement offering discussed above. The purchase price per share 95% of the price the Company was formerly selling its shares or $9.50 per share. No sales commission or dealer manager fee will be paid on shares sold through the dividend reinvestment plan. The Company We may amend, suspend or terminate the Plan at any time. Any such amendment, suspension or termination will be effective upon a designated dividend record date and notice of such amendment, suspension or termination will be sent to all Participants at least thirty (30) days prior to such record date. As of December 31, 2012, the first year under the plan, approximately $4.1 million, or approximately 422,000 shares of common stock were issued under the dividend reinvestment plan.

7. 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, 2012 for five years and thereafter are summarized as follows:

Years Ending:	**Scheduled Payments**
2013	$ 11,131,765
2014	8,580,441
2015	6,492,595
2016	3,854,614
2017	2,778,214
Thereafter	5,046,475
Total	$ 37,884,104

The Company has a noncancelable ground lease obligation on World Plaza expiring in June 1, 2062. The current annual rent of $21,910 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.

Scheduled payments due on the lease obligation as of December 31, 2012 are as follows:

Years Ending:	**Scheduled Payments**
2013	$ 21,910
2014	21,910
2015	21,910
2016	21,910
2017	21,910
Thereafter	1,050,319
Total	$ 1,159,869

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.

8. 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, 2012 and 2011.

9. 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, Industrial and 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, 2012 and 2011, respectively.

	Year Ended December 31, 2012	Year Ended December 31, 2011
Industrial/Office Properties:		
Rental income	$ 8,994,345	$ 6,790,869
Property and related expenses	2,979,251	2,660,482
Net operating income, as defined	6,015,094	4,130,387
Residential Properties:		
Rental income	2,921,813	2,982,300
Property and related expenses	354,655	317,924
Asset impairment	98,000	429,000
Net operating income, as defined	2,469,158	2,235,376
Retail Properties:		
Rental income	2,862,846	2,001,405
Property and related expenses	767,677	587,938
Asset impairment	300,000	—
Net operating income, as defined	1,795,169	1,413,467
Self-Storage Properties:		
Rental income	2,889,963	2,302,531
Property and related expenses	1,453,354	1,377,666
Net operating income, as defined	1,436,609	924,865
Mortgage loan activity:		
Interest income	72,433	97,448
Reconciliation to Net Income Available to Common Stockholders:		
Total net operating income, as defined, for reportable segments	11,788,463	8,801,543
Unallocated other income:		
Total other income	7,994	28,214
Gain on sale of real estate	898,220	119,925
Gain on dissolution of partnership interests	372,089	—
General and administrative expenses	4,752,459	3,846,177
Interest expense	4,493,558	3,194,887
Depreciation and amortization	4,869,467	4,170,626
Impairment of real estate owned	1,278,531	—
Gain on extinguishment of a liability	691,487	—
Net loss before noncontrolling interests	(1,635,762)	(2,262,008)
Noncontrolling interests	497,712	354,895
Net loss	$ (2,133,474)	$ (2,616,903)

	December 31, 2012	December 31, 2011
Assets:		
Industrial/Office Properties:		
Land, buildings and improvements, net (1)	$ 86,695,553	$ 75,314,093
Total assets (2)	90,286,093	77,563,998
Residential Property:		
Land, buildings and improvements, net (1)	29,399,405	21,129,410
Total assets (2)	31,869,016	22,434,205
Retail Properties:		
Land, buildings and improvements, net (1)	22,613,528	23,647,629
Total assets (2)	23,913,305	24,893,157
Self Storage Properties:		
Land, buildings and improvements, net (1)	26,930,233	27,663,755
Total assets (2)	27,384,412	27,832,381
Mortgage loan activity:		
Mortgage receivable and accrued interest	920,216	1,032,082
Total assets	920,216	1,032,082
Reconciliation to Total Assets:		
Total assets for reportable segments	174,373,042	153,755,823
Other unallocated assets:		
Cash and cash equivalents	10,746,536	4,872,081
Other assets, net	12,415	3,024,027
Total Assets	$ 185,131,993	$ 161,651,931

(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.

	Year Ended December 31,	
	2012	2011
Capital Expenditures:(1)		
Industrial/Office Properties:		
Acquisition of operating properties	$ 13,625,000	$ 24,075,000
Non-cash portion of acquisitions	—	(1,649,266)
Capital expenditures and tenant improvements	850,847	1,070,498
Residential Property:		
Acquisition of operating properties	17,138,295	5,971,980
Retail Properties:		
Acquisition of operating properties	1,125,000	6,767,700
Capital expenditures and tenant improvements	158,005	119,746
Self Storage Properties:		
Acquisition of operating properties	—	2,615,000
Capital expenditures and tenant improvements	20,964	21,952
Acquisition of operating properties, net	31,888,295	37,780,414
Capital expenditures and tenant improvements	1,029,816	1,212,196
Total real estate investments	$ 32,918,111	$ 38,992,610

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

10. SUBSEQUENT EVENTS

Effective January 31, 2013, the Company entered into an Agreement and Plan of Merger to consummate the merger acquisition of CHG Properties, Inc. ("CHG"), a California corporation. The Company had the option to purchase CHG pursuant to a February 15, 2005, option agreement. The Company delivered the option exercise notice provided for in the option agreement to C I Holding Group, Inc. ("CIH"), the parent company of CHG, in November 2012. The President of CIH is Jack K. Heilbron and the Secretary of CIH is Mary Limoges. Mr. Heilbron is President and CEO of the Company, and Ms. Limoges is Mr. Heilbron's spouse.

Pursuant to the terms and conditions of the Agreement and Plan of Merger, the Company formed NTR Property Management, Inc. ("NTR"), a California corporation. The Company is NTR's sole shareholder, and as such, owns one hundred percent (100%) of all of the issued and outstanding shares of NTR. The Agreement of Merger was executed by and among NTR, CIH, and the Company and provides that the outstanding shares of CIH will be cancelled upon the receipt by CIH shareholders of 200,000 shares of common stock of the Company using an agreed upon value of $9.50 per share for a total value of $1.9 million . NTR shall function as the sole in-house property manager for the Company after the merger, reducing the Company's property management expense by the marked-up charges previously paid to CHG. The Company is acquiring the existing infrastructure, experienced personnel, and computer systems which will be assigned to and assumed by NTR.

In February 2013, the Company refinanced two of its mortgage notes payable with a cumulative balance at December 31, 2012 of $18.4 million. Each loan had a balance of approximately $9.2 million as of December 31, 2012.

The loan secured by the Port of San Diego property had a monthly payment of approximately $87,000 with a variable interest rate that was 6.00% at payoff and a maturity date of June 2013. The new mortgage loan secured by the Port of San Diego property is $10.8 million, a fixed interest rate at 4.75%, a monthly payment of approximately $62,000 and a maturity date in March 2020.

The loan secured by the Garden Gateway property had a monthly payment of approximately $71,000 with a fixed interest rate 6.08% at payoff and a maturity date of April 2014. The new mortgage loan secured by the Garden Gateway property is $7.5 million with a fixed interest rate at 5.00%, a monthly payment of approximately $43,000 and a maturity date in February 2020.

EXHIBIT 21.1

Subsidiaries of the Registrant

Subsidiary	State or other jurisdiction of incorporation or organization
NetREIT, Inc.	Maryland
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 Dubose Model Home REIT, Inc.	Maryland
NetREIT Dubose 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
NetREIT Broadway, Inc.	Maryland
Dubose Advisors, LLC	Delaware
Dubose Model Home Investors #201, LP	California
NetREIT Yucca Valley, LLC	Delaware
NetREIT National City Partners, LP	California
Presidio Springing LLC	Delaware
NetREIT Presidio LLC	Delaware
NetREIT Highland LLC	Delaware
NetREIT Sunrise LLC	Delaware
NetREIT Joshua LLC	Delaware
NTR Property Management, Inc.	California
Puppy Toes, Inc.	California

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-179029 and 333-179030 on Form S-3 and Form S-8, respectively, of our report dated March 28, 2013 relating to our audits of the consolidated financial statements of NetREIT, Inc. and Subsidiaries (collectively the "Company") as of and for the years ended December 31, 2012 and 2011 appearing in this Annual Report on Form 10-K of the Company for the year ended December 31, 2012.

/s/ Squar, Milner, Peterson, Miranda & Williamson, LLP
San Diego, California
March 28, 2013

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, 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 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; and

   (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; and

   (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; and

   (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 28, 2013

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; and

   (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

   (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(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 28, 2013

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

EXHIBIT 31.3

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; and

   (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

   (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(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 28, 2013

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, 2011 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 28, 2013

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

Date: March 28, 2013

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

Date: March 28, 2013

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