

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES ACT OF 1934
For the fiscal year ended December 31, 2014

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 000-53673

NETREIT, Inc.

(Exact name of registrant as specified in its charter)

Maryland

(State of other jurisdiction of incorporation or organization)

1282 Pacific Oaks Place
Escondido, CA

(Address of principal executive offices)

33-0841255

(IRS Employer Identification Number)

92029-2900

(Zip code)

(760) 471-8536

(Registrant's telephone number, including area code)

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

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes 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 has been subject to such filing requirements for the past 90 days. 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 this Form 10-K or any amendment to this Form 10-K. Yes No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

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

At March 15, 2015, registrant had issued and outstanding 16,877,377 shares of its common stock, no par value.

DOCUMENTS INCORPORATED BY REFERENCE

Part III, Items 10, 11, 12, 13 and 14 incorporate by reference certain specific portions of the definitive Proxy Statement for NetREIT's Annual Meeting currently scheduled to be held on June 12, 2015 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

| | <u>Page</u> |
|--|-------------|
| <u>Part I</u> | |
| ITEM 1. BUSINESS | 2 |
| ITEM 1A. RISK FACTORS | 7 |
| ITEM 1B. UNRESOLVED STAFF COMMENTS | 20 |
| ITEM 2. PROPERTIES | 21 |
| ITEM 3. LEGAL PROCEEDINGS | 27 |
| ITEM 4. MINE SAFETY DISCLOSURES | 27 |
| <u>Part II</u> | |
| ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUERS PURCHASES OF EQUITY SECURITIES | 27 |
| ITEM 6. SELECTED FINANCIAL DATA | 28 |
| ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS | 29 |
| ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK | 41 |
| ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA | 41 |
| ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE | 41 |
| ITEM 9A. CONTROLS AND PROCEDURES | 41 |
| ITEM 9B. OTHER INFORMATION | 41 |
| <u>Part III</u> | |
| ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE | 41 |
| ITEM 11. EXECUTIVE COMPENSATION | 42 |
| ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS | 42 |
| ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE | 42 |
| ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES | 42 |
| <u>Part IV</u> | |
| ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES | 42 |

**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 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, 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 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 identified important factors that could cause our actual results to differ materially from our expectations under the “Risk Factors” section 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 guarantee 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 associated with 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 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.

OVERVIEW

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 chartered corporation, we are governed by the Maryland General Corporation Law (the “**MGCL**”). We have approximately 16.9 million shares of voting common stock outstanding with approximately 3,000 shareholders none own more than 5.0% of the outstanding shares. We are a non-traded, publicly owned company registered under the Securities Exchange Act of 1934 (the “**1934 Act**”).

RECENT DEVELOPMENTS

During 2014, the Company acquired:

- One office building consisting of 93,000 rentable square feet located in Bismarck, North Dakota for \$5.4 million plus closing costs;
- One office building consisting of 84,000 rentable square feet located in Lakewood, Colorado for \$9.4 million plus closing costs;
- One office building consisting of 110,000 rentable square feet located in Colorado Springs, Colorado for \$15.5 million plus closing costs;
- One office building consisting of 79,000 rentable square feet located in Colorado Springs, Colorado for \$11.8 million plus closing costs;
- One retail property consisting of 44,000 rentable square feet located in Colorado Springs, Colorado for \$11.2 million plus closing costs; and
- Eighteen Model Homes located in various states for \$5.7 million plus closing costs.

During 2014, the Company sold one office property consisting of 10,525 rentable square feet located in Fontana, California for \$4.1 million and a small parcel of land located in Hesperia, California for \$87,500.

In August 2014, the Company closed on an offering of our Series B Preferred Stock. Proceeds of \$16.6 million were received during 2014, and we expect to receive a total capital contribution of \$40.0 million from this financing conclusion of the funding period.

CORPORATE STRUCTURE

We were incorporated in the State of California on September 28, 1999, and in August 2010, we reincorporated as a Maryland chartered corporation. During the last five years, we have increased our investments in real property (“**Properties**”) from 13 to 27 properties. Through NetREIT, Inc., its subsidiaries and its partnerships, we own 24 properties in fee interest and have partial interests in three properties through our investments in limited partnerships which we serve as the General Partner. Each of the limited partnerships is 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 in shares of our common stock at a stated price within a definite period, generally five years from the date they first invested in the entity’s real property. Through NetREIT Dubose Model Home REIT, Inc., we also own an interest in model home properties (the “**Model Homes**”).

MARKET AND BUSINESS STRATEGY

The Company invests in a diverse portfolio of real estate assets. The Company seeks four types of commercial real estate properties primarily located in the western United States for which the Company’s decision-makers evaluate operating performance and financial results: commercial office properties and industrial (“**Office/Industrial Properties**”), retail properties (“**Retail Properties**”), self-storage properties (“**Self-Storage Properties**”) and properties, including Model Homes (“**Residential Properties**”).

Our investment objective is to create current income and growth for our stockholders to fund our continuing operations and to pay out monthly cash distributions to our stockholders. Our primary strategy to achieve our objective is to invest in and own a diversified portfolio of income producing commercial real estate that will produce a stable cash flow and increase value. In the past, we have acquired commercial office, industrial, self-storage, retail, and residential Model Homes, and multi-unit residential real estate with promising financial opportunities located primarily in the western United States. Over a quarter of our net operating income is generated

from our self-storage assets and the Model Home business, providing a hedge to longer-term traditional commercial leases.

Investment – Commercial properties

NetREIT's Office, Retail, and Self-Storage Properties are located primarily in Southern California and Colorado, with two properties located in North Dakota. As of December 31, 2014, we owned or had an equity interest in six Properties which total approximately 1,152,000 rentable square feet, five Retail Properties which total approximately 230,000 rentable square feet, and seven Self-Storage Properties which total approximately 652,000 square feet. The tenant list of the non-Model Home portfolio is highly diversified consisting of over 200 individual commercial tenants with an average remaining lease term of approximately five years. No single commercial tenant represents 5.0% of revenue, while the Company's ten largest tenants represent approximately 30.0% of rent revenue. In addition, the rent rolls have limited exposure to any single industry. Our Commercial properties had a net book value of approximately \$183.6 million as of December 31, 2014.

On February 6, 2015, we entered into an Agreement of Purchase and Sale and Joint Escrow Instructions (the "Purchase Agreement") to sell 100% of our Sparky's Self-Storage Portfolio, as defined in the Purchase Agreement, for a price of approximately \$36.3 million to an unaffiliated third party purchaser (the "Buyer"). The Self-Storage Portfolio is a portfolio of seven self-storage properties located in San Bernardino County, California. The Buyer is conducting due diligence on the Self-Storage Portfolio during an initial 55-day inspection period. Initially, the Buyer made an escrow deposit in the amount of \$500,000. At the expiration of the due diligence period, an \$500,000 deposit will be due, and the total deposit will become non-refundable and will be applied to the purchase price at closing. The sale of the Self-Storage Portfolio is subject to the fulfillment of certain closing conditions and conditions customary for real estate transactions. There can be no assurance that any or all of the conditions will be satisfied or, if satisfied, that the Self-Storage Portfolio will be sold. Assuming that outstanding conditions are satisfied, we anticipate that the closing of the Self-Storage Portfolio sale will take place in the second quarter of 2015.

Investment - Model Home properties

Our Model Home business is conducted through our wholly-owned subsidiary, NetREIT Dubose Model Home REIT, Inc., and three limited partnerships, Dubose Model Home Investors #201, LP Dubose Model Home Investors and NetREIT Dubose Model Home REIT, LP. Our Model Home properties are located in seven states throughout the United States in Arizona, California, New Jersey, North Carolina, Pennsylvania, South Carolina and Texas. As of December 31, 2014, we owned 54 Model Homes with a net book value of approximately \$13.6 million through three limited partnerships.

NetREIT Dubose Model Home REIT, Inc. ("**NetREIT Dubose**") is primarily engaged in the business of acquiring Model Homes from third party homebuilders in sale-leaseback transactions whereby a homebuilder sells the Model Home to NetREIT Dubose and leases back the Model Home under a triple net lease ("**NNN**") for use in marketing its residential development. Our Model Home business was started in March 2010 through the acquisition of certain rights from Dubose Model Homes USA ("**DMHU**"), which we refer to as the "**DMHU Purchase**." Subsequent to its formation, NetREIT Dubose raised \$10.6 million pursuant to a private placement of its common stock (the placement was terminated on December 31, 2013). As of December 31, 2014, NetREIT has invested \$2.6 million in NetREIT Dubose through the purchase of common stock. We owned approximately 27.2% of NetREIT Dubose as of December 31, 2014.

We operate three limited partnerships in connection with NetREIT Dubose, Dubose Model Home Investors #201, LP ("**DMHI #201**"), Dubose Model Home Investors #202, LP ("**DMHI #202**") and NetREIT Dubose Model Home LP ("**NetREIT LP**"). The limited partnerships typically raise private equity to invest in Model Home properties and lease them back to the homebuilders.

- We owned 8.3% of DMHI #201 LP as of December 31, 2014. DMHI #201 raised \$3.0 million through the sale of partnership units. We invested in five of the 60 partnership units to be sold for \$250,000.
- We owned 20.0% of DMHI #202 as of December 31, 2014. The partnership had raised \$1.5 million, including our investment, through December 31, 2014. This partnership was formed to raise up to \$5.0 million through the sale of units. We invested in two of the 50 partnership units to be sold for \$300,000.
- NetREIT Dubose owned 100.0% of NetREIT LP as of December 31, 2014.

We provide management services to our various limited partnerships through NetREIT Advisors, LLC (“*NetREIT Advisors*”) and Dubose Advisors LLC (“*Dubose Advisors*”). These entities are 100% owned subsidiaries and are collectively referred to as the “*Advisors*”. For their services, each of the Advisors receives ongoing management fees, acquisition fees and has the right to receive certain other fees when a partnership sells or otherwise disposes of a MoNetREIT. NetREIT Advisors manages NetREIT Dubose, and Dubose Advisors manages DMHI #201 and DMHI #202.

Use of Leverage

We use mortgage loans secured by the individual properties in maximizing the return for our stockholders. Normally these loans would be for terms ranging from 5 to 10 years. Currently the majority of our mortgage loans are as non-recourse to us with the limited exceptions that would cause a recourse nature only upon occurrence of certain fraud, misconduct, environmental, or bankruptcy events. The non-recourse financing limits the exposure to the equity invested in each property pledged as collateral thereby protecting the equity in the other assets. We can provide no assurance that the non-recourse financing will be available on terms acceptable to us, or at all and the circumstances where lenders have recourse to our other assets. To a lesser extent, we use recourse financing or a cross collateral pledge of certain properties. At December 31, 2014, \$2.1 million of our total mortgage financing was recourse to the Company.

We use both fixed and variable interest rate debt to finance our properties. Wherever possible, we prefer to obtain fixed rate mortgage financing as it provides better cost predictability. As of December 31, 2014, 4.0% of our obligations include variable interest rate provisions.

PROPERTY MANAGEMENT

The Company’s 100% owned subsidiary, NTR Property Management, Inc., or NTR, is the property manager for the Company’s properties. Under the NTR Property Management Agreement, we are paying NTR management fees of 1.0% 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 on the terms of certain of our Properties and other circumstances, NTR has retained third party property management companies in Colorado and North Dakota which are unaffiliated with NTR to render property the on-site management services.

COMPETITION

Our principal factors of competition is our focus on contrarian, immediate yield, value-driven acquisitions by seeking unique properties with identifiable value-creation opportunities without the need for significant structural improvements or other costly renovations. We operate in niche geographies, targeting \$5.0-\$20.0 million acquisitions of properties or small portfolios in order to limit competition from both larger and well capitalized buyers focused on core markets.

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 the risk of non-payment of rent, 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 pay, which may still generate 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, 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, Colorado and North Dakota makes us especially susceptible to local market conditions in those 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 may be adversely affected.

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 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 would be required to comply with the operating restrictions of the 1940 Act which are generally inconsistent with our typical operations. As such, 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 surface water, 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 government enforcement action and/or claims for damages from 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 proper 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 environmental hazards associated with environmental hazards.

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.

MANAGEMENT OF THE COMPANY

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, Chairman of the Board, Chief Executive Officer ("**CEO**"), and President of NetREIT, Inc., President and Director of NetREIT Dubose, and President of NetREIT Advisors;
- Kenneth W. Elsberry, Chief Financial Officer ("**CFO**") and Director of NetREIT, Inc., and CFO of Dubose Advisors and Chief Accounting Officer of NetREIT, Inc.;
- Larry G. Dubose, Director of NetREIT, Inc., CFO and Director of NetREIT Dubose, and CEO of the Advisors;
- Gary Katz, Senior Vice President-Asset Management; of NetREIT, Inc.

Mr. Heilbron is responsible for managing our day-to-day affairs. Mr. Dubose is responsible for managing the day-to-

day activities of the Advisors and our Model Homes Division, including Model Home acquisitions. Mr. Katz, is responsible for managing the day-to-day affairs for Properties except for the Model Homes. Messrs. Heilbron, El Katz are responsible for all Company property acquisitions.

Our Board of Directors

Our Management is subject to the direction and supervision of our board of directors (our **"Board"**). Among other things, our Board must approve each real property acquisition our Management proposes. There are eight comprising our Board, five of whom are independent directors, as defined by the New York and NASDQ Stock Exchanges (**"Independent Directors"**). Three of our directors, Mr. Heilbron, Mr. Elsberry, and Mr. Dubo independent directors.

TAX STATUS

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 ("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 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. 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 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 deduct the 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 REIT taxable income to our stockholders, as defined in the Code, 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 to federal income and excise taxes on our undistributed income.

OFFICES AND EMPLOYEES

Our offices are situated in approximately 12,134 square feet of space in Escondido, California.

As of March 15, 2015, we have a total of 36 full-time and 6 part-time employees.

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.

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.

Item 1A. RISK FACTORS

Risks Related to our Operations and an Investment in our Securities

Our long term growth may depend on obtaining additional equity capital.

In the past we relied on cash from the sale of our equity securities to fund the implementation of our business plan, including property acquisitions and building our staff and internal management and administrative capabilities. We terminated our private placement for common stock on December 31, 2011 and closed on a preferred stock financing in August 2014. Our continued ability to fund real estate investments, our operations, and payment of regular dividends to our stockholders will likely be dependent upon our obtaining additional capital 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 level sufficient to support our planned growth, current operations, or to pay dividends to our stockholders at current rates or at the levels required to maintain our REIT status (see risk factor titled “*We may be forced to borrow funds on a short-term basis, to sell assets or to issue securities to meet the REIT minimum distribution requirement or for working capital purposes*”). There is no assurance as to when and under what terms we could successfully obtain additional capital 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 earnings, and our debt levels.

We currently are wholly dependent on internal cash from our operations and debt financing to fund future property acquisitions, meet our operational costs and pay distributions to our stockholders.

To the extent the cash we receive from our real estate investments, preferred stock financing, and debt financing of unencumbered properties is not sufficient to pay our costs of operations, our acquisition of additional property, and payment of dividends to our stockholders, we would be required to seek capital through additional measures. In addition, our debt and preferred stock require that we generate significant cash flow to satisfy the payment obligations under the terms of our debt and these securities. We may incur additional debt or issue additional preferred stock for various purposes, including, without limitation, to fund future acquisition and development activities and operational needs. Other measures of seeking capital could include decreasing our operational costs through reductions in personnel or facilities, reducing or suspending our acquisition of real estate, and reducing or suspending our payment of dividends to our stockholders. See *Risks Related to Our Debt and Preferred Stock*.

Reducing or suspending our property acquisition program would prevent us from fully implementing our business plan and reaching our investment objectives. Reducing or suspending the payment of dividends to our stockholders would decrease our stockholders’ return on their investment and possibly prevent us from satisfying the minimum distribution requirements of the REIT provisions (see risk factor titled “*We may be forced to borrow funds on a short-term basis, to sell assets or to issue securities to meet the REIT minimum distribution requirement or for working capital purposes*”). 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.

There can be no assurance that dividends will be paid or increase over time.

There are many factors that can affect the availability and timing of cash dividends to our stockholders. Dividends will be based principally on cash available from our real estate investments. The amount of cash available for dividends will be affected by many factors, such as our ability to acquire profitable real estate investments and successfully manage our real estate properties and our operating expenses. We can provide no assurance that we will be able to maintain dividends or that dividends will increase over time.

If we are unable to find suitable investments, we may not be able to achieve our investment objectives or continue to pay dividends.

Our ability to achieve our investment objectives and to pay regular dividends is dependent upon our acquisition of suitable property investments and obtaining satisfactory financing arrangements. We cannot be sure that our management will be successful in finding suitable properties on financially attractive terms. If our management is unable to find such investments, we will hold the proceeds available for investment in an interest-bearing account or invest them in short-term, investment-grade investments. Holding such short-term investments will prevent us from making the long-term investments necessary 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 (see risk factor titled “*We may be forced to borrow funds on a short-term*”).

basis, to sell assets or to issue securities to meet the REIT minimum distribution requirement or for working capital purposes”). In the event that we are unable to do so, our ability to pay dividends to our stockholders will be affected.

We depend on key personnel, and the loss of such persons could impair our ability to achieve our business objectives.

Our success substantially depends upon the continued contributions of certain key personnel in evaluating and consummating our investments, selecting tenants and determining financing arrangements. Our key personnel include 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 their association with us, the implementation of our investment strategies could be delayed or hindered, and 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 professionals and we cannot assure our stockholders that we will be successful in attracting and retaining such persons.

We may change our investment and business policies without stockholder consent, and such changes could increase our exposure to operational risks.

Our board of directors may change NetREIT’s investment and business policies, including our policies with respect to investments, acquisitions, growth, operations, indebtedness, capitalization and distributions, at any time without the consent of our stockholders. Although our independent directors review our investment policies at least annually to determine that the policies we are following are in the best interests of our stockholders, a change in such policies could result in our making investments different from, and possibly riskier than, investments made in the past. A change in our investment policies may, among other things, increase our exposure to interest rate risk, default risk and market fluctuations, all of which could materially affect our ability to achieve our investment objectives.

The absence of a public market or redemption program for our common stock will make it difficult for our stockholders to sell their shares, which may have to be held for an indefinite period.

There is no public market for our common stock, and we have no plans to cause our common stock to be listed on any securities exchange or quoted on any market system. Additionally, our articles of incorporation contain restrictions on the ownership and transfer of our common stock (see risk factor titled “*The stock ownership limit imposed by the Internal Revenue Code for REITs and our articles of incorporation may discourage a takeover that could otherwise result in a premium price to our stockholders*”). Further, we do not have a share redemption program, nor do we plan to adopt one in the near future, and any share redemption program we do adopt will be limited in terms of the amount that may be annually redeemed. As a result, 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 to the price they paid. Thus, our stockholders should consider their shares to be an illiquid and long-term investment, and they should be prepared to hold their shares for an indefinite length of time.

Certain conditions may challenge our ability to establish a stable secondary market for our common stock and to make future offerings of our equity securities.

As of December 31, 2014, we had 16,887,377 shares of our common stock outstanding. Substantially all of these shares are freely tradable (subject to restrictions on the shares held by our directors, officers and other affiliates). Additionally, 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 contractual or other restrictions, on the amounts or frequency of trades the holders of these shares may make. The sale of a large amount of common stock in the secondary market could adversely affect the price of our stock in that it could create further downward pressure on the trading price. Additionally, institutions and other professional investors could seek to take advantage of this condition through short sales of our common stock, which could create further downward pressure on the trading price.

If we seek to establish a public market for our common stock by listing on a national securities exchange, we may experience a number of challenges related to the secondary market for our shares. The presence of a large amount of outstanding freely tradable shares of our common stock in the secondary market could discourage underwriters from

participating in a public offering of our common stock and could place us at a disadvantage in negotiating a public offering price with underwriters who do choose to participate. The prices at which we have sold our common stock in the past were, in the absence of a public market, determined 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 would reflect our prior offering prices of common stock or that the trading price of our stock in a public market would reflect our financial condition or performance.

If we failed to comply with applicable exemption requirements in connection with our private placement offerings, we may be liable for damages to certain of our stockholders.

Since 2005, we have conducted multiple private placement offerings in reliance upon the private placement exemptions from registration under Section 4(2) and Rule 506 of Regulation D under the Securities Act of 1933 and 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 SEC 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 that we are found to have sold our securities without an exemption from registration, 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.

Further, under applicable laws and regulations, our multiple offerings could be combined (or integrated) and treated as a single offering for federal and state securities law purposes. While we have structured each of our offerings individually so that if they are combined they would meet exemption requirements, the law related to integrated offerings remains somewhat unclear and has not been fully defined by the SEC 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.

If we are deemed to be an investment company under the Investment Company Act, our stockholders' investment return may be reduced.

We are not registered as an investment company under the Investment Company Act of 1940, as amended ("Investment Company Act") based on exceptions we believe are available to us. If we were obligated to register as an investment company, we would have to comply with a variety of substantive requirements under the Investment Company Act that impose, among other things, limitations on capital structure, restrictions on specified investments, prohibitions on transactions with affiliates, and compliance with reporting, record keeping, voting, proxy disclosure and other rules and regulations that would significantly increase our operating expenses.

Our articles of incorporation permit our board of directors to issue stock with terms that may subordinate the rights of existing stockholders or discourage a third party from acquiring us in a manner that could result in a premium price to our stockholders.

Our board of directors has the authority to establish more than one series of preferred stock and to fix the relative preferences and rights regarding conversion, voting powers, restrictions, limitations as to dividends and other distributions and terms of redemption without shareholder approval. Thus, our board could authorize the issuance of a series of preferred stock with terms and conditions that are more favorable than those of our outstanding common or preferred stock. Such series of stock could also have the effect of delaying, deferring or preventing a change in control, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that would otherwise provide a premium price to holders of our stock, even if it would be in the best interest of our stockholders.

In August 2014, we completed a preferred stock financing with PFP III Sub II, LLC, an affiliate of Prime Finance Partners III, Inc. (collectively, "Prime") in which we issued 16,600 shares of Series B Preferred Stock, which rank ahead of our common stock with respect to dividend rights and rights upon the Company's liquidation, dissolution or winding up. See *Risks Related to Our Preferred Stock Offering*.

Maryland law prohibits certain business combinations, which may make it more difficult for us to be acquired.

Under Maryland law, "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 holder

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 security. Our business combination statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer, including potential acquisitions that might involve a premium price for our common stock, which otherwise be in the best interest of our stockholders.

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. Our articles of incorporation and our bylaws authorize us, and our bylaws require us, to indemnify our directors, officers, employees and agents to the maximum extent permitted under Maryland law. Because of these provisions, we and our stockholders may have more limited recourse 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 legal actions to collect damages against them.

Our management faces certain conflicts of interest with respect to their positions and/or interests in NetREIT and its affiliates, which could hinder our ability to implement our business strategy and to generate returns for our stockholders.

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, 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, is involved in other investment and business activities in which NetREIT has no economic interest. Their loyalties to these other entities could result in action or inaction that is detrimental to our business, which could harm the implementation of our business strategy. For instance, they may have conflicts of interest in making investment decisions regarding properties for us as opposed to other entities with similar investment objectives or in determining when to sell properties in which NTR Properties are entitled to different amounts of fees and compensation. Additionally, they may face conflicts of interest in allocating their time among us, our property manager, Dubose REIT and their other investment programs or business ventures and in meeting their obligations to us and those other entities. Their determinations in these situations may be more favorable to other entities than to NetREIT.

Possible future transactions with our executive management or their affiliates could create a conflict of interest, which could result in actions that are not in the long-term best interest of our stockholders.

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 policies prohibit us from entering 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.

We face system security risks as we depend on 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, our operations could 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, putting us at risk from cybersecurity attacks, including attempts to gain unauthorized access to our confidential data and other electronic information. Such cyber-attacks can range from individual attempts to gain unauthorized access to our information technology systems to more sophisticated security threats. While we employ a number of measures to prevent, detect and mitigate these threats, there is no guarantee such efforts will be successful at preventing a cyber-attack. Cybersecurity incidents could compromise confidential information of our tenants, employees and vendors and cause system outages and disruptions of operations.

Risks Related to Investments in Real Estate

Unsettled conditions in the financial markets could affect our ability to obtain financing on reasonable terms and have other adverse effects on our operations.

Uncertainties, dislocations, and disruptions in the financial markets have resulted in a tightening of secured real estate financing. Lenders with whom we typically deal have instituted more stringent underwriting requirements and their credit spreads as the demand for higher risk premiums continues. Thus, the amount of mortgage financing available has contracted and borrowing costs have increased. Higher costs of mortgage financing and restricted borrowing may result in lower yields from our real estate investments, which may reduce our cash flow available for distribution to our stockholders. Reduced cash flow could also diminish our ability to purchase additional properties, thus decrease our diversification of real estate ownership.

Further disruptions in the financial markets and continued uncertain economic conditions could adversely affect the value of our real estate investments.

Further disruptions in the financial markets and continued uncertain economic conditions could adversely affect the value of our real estate investments. Such conditions could impact commercial real estate fundamentals and result in lower occupancy, lower rental rates and declining values in our real estate portfolio and in the collateral securing our loan investments. As a result, the value of our property investments could decrease below the amounts paid for such investments, the value of collateral securing our loan investments could decrease below the outstanding principal amounts of such loans, and revenues from our properties could decrease due to fewer tenants or lower rental rates. Such factors would significantly harm our revenues, results of operations, financial condition, business prospects and our ability to make distributions.

A decrease in real estate values could negatively affect our ability to refinance our properties and our existing mortgage obligations.

A decrease in real estate values would 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 an 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. Thus, any sustained period of depressions in real estate prices would likely adversely affect our ability to finance our real estate investments.

We may be adversely affected by unfavorable economic changes in the geographic areas where our properties are located.

Adverse economic conditions in the areas where the properties securing or otherwise underlying our investments are located (including business layoffs or downsizing, industry slowdowns, changing demographics and other factors) and local real estate conditions (such as oversupply or reduced demand) may have an adverse effect on the value of the properties underlying our investments. The deterioration of any of these local conditions could hinder our ability to profitably operate a property and adversely affect the price and terms of a sale or other disposition of the property.

Competition for properties could negatively impact our profitability.

In acquiring real properties, we experience substantial competition from other investors, including other REITs and real estate investment programs. Many of these competitors are larger than we are and have access to greater resources. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments. Because of this competition, we may be limited in our ability to take advantage of attractive investment opportunities that are consistent with our objectives. Our inability to acquire the most desirable properties on favorable terms could adversely affect our financial condition, our operating results and our ability to pay dividends.

Our inability to sell a property at the time and on the terms we desire could limit our ability to realize a gain on our investments and pay distributions to our stockholders.

Generally, we seek to sell, exchange or otherwise dispose of our properties when we determine such action to be in our best interests. Many factors beyond our control affect the real estate market and could affect our ability to sell

properties for the price, on the terms or within the time frame that we desire. These factors include general economic conditions, the availability of financing, interest rates and supply and demand. Because real estate invests relatively illiquid, we have a limited ability to vary our portfolio in response to changes in economic or other conditions. Therefore, our inability to sell properties at the time and on the terms we want could reduce our cash flow and our ability to make distributions to our stockholders.

Lease default or termination by one of our major tenants could adversely impact our operations and our ability to pay dividends.

The success of our real estate investments materially depends on the financial stability of our tenants. A default or termination by a significant tenant on its lease payments would cause us to lose the revenue associated with such lease and could require us to find an alternative source of revenue to meet mortgage payments and prevent a foreclosure, if the property is subject to a mortgage. In the event of a tenant default or bankruptcy, we may experience delays in our rights as landlord and may incur substantial costs in protecting our investment. Additionally, we may be unable to lease the property for the rent previously received or sell the property without incurring a loss. These events could result in us to reduce the amount of distributions to our stockholders.

A property that incurs a vacancy could be difficult to sell or re-lease and could have a material adverse effect on our operations.

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 to re-lease the property without incurring additional expenses at all. If the vacancy continues for a long period of time, if the rental rates upon such re-lease are significantly lower than expected, or if our reserves for these purposes prove inadequate, we will experience a reduction in net income. We may be required to reduce or eliminate distributions to our stockholders. In addition, because a property's market value depends principally upon the value of the leases associated with that property, the resale value of a property with or without prolonged vacancies could suffer, which could further reduce our returns.

Shorter lease terms tend to increase our maintenance costs.

Leases in our 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 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.

We may incur substantial costs in improving our properties.

In order to re-lease a property, substantial renovations or remodeling could be required. For instance, we expect that some of our properties will be designed for use by a particular tenant or business. Upon default or termination of a lease by such a tenant, the property might not be marketable without substantial capital improvements. The cost of construction in connection with any renovations and the time it takes to complete such renovations may be affected beyond our control, including material and labor shortages, subcontractor defaults and delays, weather conditions, and changes in federal, state and local laws. If we experience cost overruns resulting from delays or other causes in a construction project, we may have to seek additional debt financing. Further, delays in construction will cause a delay in our receipt of revenues from that property and could adversely affect our ability to meet our debt service obligations.

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 retail properties, we require our tenants to obtain insurance 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 coverage, generally losses of a catastrophic nature such as earthquakes, floods, terrorism and wars, is either unavailable or cannot be obtained at a reasonable cost. Consequently, we may not have adequate coverage for such losses. If one of our properties incurs a casualty loss that is not fully insured, we could lose some or all of our investment in the property. In addition, other than any working capital reserve or other reserves we may establish, we likely would not have a source of funding to repair or reconstruct any uninsured property.

Because we are not required to maintain specific levels of cash reserves, we may have difficulty in the event of increased or unanticipated expenses.

We do not currently have, nor do we anticipate that we will establish in the future, a permanent reserve for maintenance and repairs, lease commissions, or tenant improvements of real estate properties. To the extent that existing 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 property. There can be no guarantee additional funds will be available on favorable terms, or at all.

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. When we provide financing to a purchaser, we bear the risk that the purchaser may default or that we may not receive full payment for the property sold. Even in the absence of a purchaser default, the distribution of the proceeds of the sale to our stockholders, or the reinvestment of the proceeds in other assets, will be delayed until the promissory note or other property we rely upon a sale are actually paid, sold, refinanced or otherwise disposed.

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 a property, either directly with others as co-owners (a co-tenancy interest) or indirect through an intermediary entity such as a joint venture, partnership or limited liability company. Also, we may on occasion purchase an interest in a long-term leasehold estate or we may enter into a sale-leaseback financing transaction. In a sale-leaseback transaction, we are at risk that our seller/lessee will default, which could impair our operations and limit our ability to pay dividends. 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 fulfill its obligations, 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.

As a general partner in DOWREIT partnerships, we could be responsible for all liabilities of such partnership.

We own four of our properties indirectly through limited partnerships under a DOWREIT structure. In a DOWREIT structure, as well as some joint ventures or other investments we may make, we will employ a limited partner as the holder of our real estate investment. We will likely acquire all or a portion of the interest in such investment as a general partner. As a general partner, we would be potentially liable for all of the liabilities of the partnership, even if we don't have rights of management or control over its operation. Therefore, our liability could far exceed the amount or value of investment we initially made, or then had, in the partnership.

We are subject to risks and uncertainties associated with the internalization of management of our properties.

NTR Property Management, Inc., our wholly owned subsidiary serves as our property manager. Prior to the internalization of our management, we were externally managed by CHG Properties, Inc. Effective as of January 31, 2011, we acquired CHG Properties, Inc. and thereby became internally managed. Realizing our business objectives depends in large part on the ability of NTR Property Management, Inc. to effectively manage the day-to-day operations of our properties. We cannot assure you that our past performance with external management will be indicative of internal management's ability to function effectively and successfully operate our company. We do not have an extensive history with internal management and do not know if we will be able to successfully integrate our former external management. If NTR Property Management, Inc. is not successful in managing our properties to achieve the returns we anticipate, our operations may be adversely impacted.

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 likely be contiguous to other parcels of real property, for example, comprising part of the same shopping center development. In some cases, there could exist significant covenants, conditions and restrictions known as CC&Rs, relating to such property and any improvements or easements related to that property. The CC&Rs would restrict our operation of that property which could adversely affect our operating costs

and reduce the amount of funds that we have available to pay dividends.

We may acquire properties "AS IS," which increases the risk that we will have to remedy defects or costs without recourse to the prior owner.

We may acquire real estate properties "as is," with only limited representations and warranties from the property seller regarding matters affecting the condition, use and ownership of the property. If defects in the property or otherwise adversely affecting the property are discovered, we may not be able to pursue a claim for any or all damage against the seller. Therefore we could lose some or all of our invested capital in the property as well as rental income situation could negatively affect our results of operations.

In a sale-leaseback transaction, we are at risk that our seller/lessee will 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. When the seller/lessee subleases space to its tenants, the seller/lessee's ability to meet any mortgage payments and its rental obligations will likely be subject to its subtenants' ability to pay their rent 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 could cause us to suffer losses and adversely affect our financial condition and ability to pay dividends.

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 based on a number of indicators. Impairment indicators include real estate leasing rates, occupancy levels, mortgage loan status, and other factors which directly or indirectly affect the value of a particular property. The properties acquired prior to the recession that started in 2007 are more susceptible to impairment indicators. For example, a tenant's default under a lease, the upcoming termination of a long-term lease, the pending maturity of a mortgage loan secured by a property, and the unavailability of replacement financing are all indicators. The presence of any of these indicators may require us to make a material impairment charge against the property so affected. If we determine an impairment has occurred, we are required to make an adjustment to the carrying value of the property which could have a material adverse effect on our results of operations and financial condition for the period in which the impairment charge is recorded.

Discovery of toxic mold on our properties may adversely affect our results of operation.

Litigation and concern about indoor exposure to certain types of toxic molds have been increasing as the public becomes aware that exposure to mold can cause a variety of health effects and symptoms, including allergic reactions. Molds can be found almost anywhere; when excessive moisture accumulates in buildings or on building materials, mold growth will often occur, particularly if the moisture problem remains undiscovered or unaddressed. We acquire properties where there is no toxic mold or where there has not been any proceeding or litigation with respect to the presence of toxic mold. However, we cannot provide assurances that toxic mold will not exist on our properties at acquisition or will not subsequently develop. The presence of significant mold at any of our properties could require us to undertake a costly remediation program to contain or remove the mold from the affected property. In addition, the presence of significant mold could expose us to liability from our tenants, employees of our tenants, and others if property damage or health concerns arise.

Risks Related to Debt and our Preferred Stock Financing

We have outstanding indebtedness and preferred stock, which requires that we generate significant cash flow to satisfy the payment and other obligations under the terms of our debt and these securities, and exposes us to default under the terms of our debt and these securities.

Our total indebtedness as of December 31, 2014 was \$123.9 million. As of December 31, 2014, we also had outstanding, in the aggregate, \$16.6 million of mandatorily redeemable Series B Preferred Stock. We may incur additional debt or issue additional preferred stock for various purposes, including, without limitation, to fund future acquisition and development activities and operational needs.

The terms of our outstanding indebtedness and preferred stock provide for significant interest and dividend

payments. Our ability to meet these and other ongoing payment obligations of our debt and preferred stock depends on our ability to generate significant cash flow in the future. Our ability to generate cash flow, to some extent, to general economic, financial, competitive, legislative and regulatory factors, as well as other factors that are beyond our control. We cannot assure you that our business will generate cash flow from operations, or that capital available to us, in amounts sufficient to enable us to meet our payment obligations under our loan agreements and our outstanding preferred stock and to fund our other liquidity needs. If we are not able to generate sufficient cash to service these obligations, we may need to refinance or restructure our debt, sell assets (which we may be limited in doing in light of the relatively illiquid nature of our properties), reduce or delay capital investments, or seek additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet these payment obligations, which could materially and adversely affect our liquidity. Our outstanding indebtedness and the limitations imposed on us by the agreements that govern our outstanding indebtedness, and the debt to equity ratio obligations under our outstanding preferred stock, could have significant adverse consequences, including the following:

- make it more difficult for us to satisfy our obligations;
- limit our ability to obtain additional financing to fund future working capital, capital expenditures and other general corporate requirements, or to carry out other aspects of our business plan;
- limit our ability to refinance our indebtedness at maturity or impose refinancing terms that may be less favorable than the terms of the original indebtedness;
- require us to dedicate a substantial portion of our cash flow from operations to payments on obligations under our outstanding indebtedness and preferred stock, thereby reducing the availability of such cash flow to fund our working capital, capital expenditures and other general corporate requirements, or adversely affect our ability to meet REIT distribution requirements imposed by the Internal Revenue Code;
- cause us to violate restrictive covenants in the documents that govern our indebtedness, which would entitle our lenders to accelerate our debt obligations;
- cause us to default on our obligations, causing lenders or mortgagees to foreclose on properties that secure our loans and receive an assignment of our rents and leases;
- force us to dispose of one or more of our properties, possibly on unfavorable terms or in violation of certain covenants to which we may be subject; and
- limit our ability to make material acquisitions or take advantage of business opportunities that may arise and limit our flexibility in planning for, or reacting to, changes in our business and industry, thereby limiting our ability to compete effectively or operate successfully.

If any one of these events was to occur, our business, results of operations and financial condition would be materially adversely affected.

The documents that govern our outstanding indebtedness restrict our ability to engage in some business activities, which could materially adversely affect our business, results of operations and financial condition.

The documents that govern our outstanding indebtedness contain negative covenants and other financial and operating covenants that place restrictions on the Company and subsidiaries. The Investor Agreement with Prime entered as part of the Series B Preferred Stock financing, grants to Prime, among other rights, certain board designation and observer rights, negative control rights, information rights and rights to indemnification for certain liabilities. The Investor Agreement provides that Prime will have the right to consent to certain material actions by the Company, its affiliates and its subsidiaries, including, among others, the decision to:

- Settle any proceeding for which monetary damages exceed \$250,000;
- Approve the annual budget for any properties and the Company;
- Commence an insolvency proceeding or adopt a plan of liquidation or other reorganization with respect to the Company or any of its subsidiaries;
- Enter into a transaction for the purchase of any additional property or stock or assets of any corporation or other business organization;
- Enter into any transaction involving the sale or mortgage of any property that is not on arms'-length terms or provides for non-market terms or conditions;
- Enter into certain financing or refinancing transactions or material amendments to the Company's senior loans;
- Select or replace a property manager;
- Enter into or modify a major contract or material lease;
- Authorize for issuance any shares of stock or other equity interests of the Company other than common

- stock of the Company;
- Amend the charter or Bylaws of the Company;
- Enter into any merger, consolidation, recapitalization or other business combination to which the Company or any of its subsidiaries is a party, or effectuate a sale of all or substantially all of its assets;
- Take any action that would constitute a default under the Company's senior loans or related loan documents;
- Change the size of the Board of Directors of the Company; and
- Remove or replace any of the Company's officers or other senior management personnel.

In addition, covenants contained in the documents that govern our outstanding indebtedness require the Company and/or its subsidiaries to meet certain financial performance tests.

These restrictive operational and financial covenants reduce our flexibility in conducting our operations, limit our flexibility in planning for, or reacting to, changes in our business and industry, and limit our ability to engage in that may be in our long-term best interest, including the ability to make acquisitions or take advantage of other business opportunities that may arise, any of which could materially adversely affect our growth prospects, future results and financial condition.

Our failure to comply with these restrictive covenants could result in an event of default that, if not cured or waived, could result in the acceleration of all or a substantial portion of our outstanding debt. The documents that govern our outstanding indebtedness require that we maintain certain financial ratios and, if we fail to do so, we would be in default under the applicable debt instrument.

Under the terms of our Series B Preferred Stock financing, if there is an event of default, the investor may exercise various remedies, including a change of control via replacing a majority of the Board of Directors.

If we fail to comply with the payment obligations, financial covenants, or restrictive covenants of the agreements governing our debt and our preferred stock, then we may trigger an event of default. The terms of our Series B Preferred Stock financing provide that, upon the occurrence of an event of default, the investor will have the right to take the unilateral action to, or cause the Company to, among other things:

- Replace property managers and leasing agents;
- Following 180 days after the mandatory redemption date of August 1, 2017 for the Series B Preferred Stock (as may be extended), sell any property of the Company, except as otherwise required under applicable law;
- Implement all major decisions listed above and in the Investor Agreement, except as otherwise required under applicable law;
- Refinance, repay or prepay any senior loans of the Company;
- Cure any default under any senior loans of the Company; and
- Elect six individuals to serve as members of the Board of Directors of the Company.

The ability of our investor to replace a majority of our board of directors upon an event of default would give control of the Company to the investor. Such a change of control, or the exercise of other rights upon an event of default, could result in a material adverse effect on us, including our business, results of operations and financial condition.

Mortgage indebtedness and other borrowings increase our operational risks.

Loans obtained to fund property acquisitions will generally be secured by mortgages on our properties. The more we borrow, the higher our fixed debt payment obligations will be and the greater the risk that we will not be able to meet these payment obligations. At December 31, 2014, we had a total of approximately \$123.9 million of secured financing on our properties and we intend to continue to borrow funds through secured financings to acquire properties. If we are unable to make our debt payments as required, due to a decrease in rental or other revenues or an increase in our other costs, a lender could foreclose on the property or properties securing its debt. This could result in the loss of part or all of our investment, diminishing the value of our real estate portfolio.

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. In such cases, 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. Our default under a cross-collateralized obligation could result in the loss of all of the properties securing the loan. At December 31, 2014, we had one (1) cross-collateralized mortgage between the self-storage properties of Sparky's Palm, Joshua, and Sunrise which terms contain a release clause for the property.

Lenders may require restrictive covenants relating to our operations, which may adversely affect our flexibility and our ability to achieve our investment objectives.

Some of our mortgage loans may impose restrictions that affect our distribution and operating policies, our ability to incur additional debt and our ability to resell interests in the property. Loan documents may contain covenants that restrict our ability to further mortgage the property, discontinue insurance coverage, replace the property manager, or terminate certain operating or lease agreements related to the property. Such restrictions may limit our ability to achieve our investment objectives.

Financing arrangements involving balloon payment obligations may adversely affect our ability to pay dividends.

Some of our mortgage loans require us to make a lump-sum or "balloon" payment at maturity. And in the future, we may finance more properties in this manner. Our ability to make a balloon payment at maturity could be limited and may depend upon our ability to obtain additional financing, to refinance the debt or to sell the property. At the time the balloon payment is due, we may not be able to refinance debt on terms as favorable as the original loan property at a sufficient price. 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, making a balloon payment may leave us with insufficient cash to pay the distributions that are required to maintain our qualification as a REIT. At December 31, 2014, excluding our Model Home Division, we had mortgage loans with balloon payments of \$7.5 million due in 2015 and \$5.6 million due in 2016. The Model Home Division pays off its mortgage loans out of proceeds from the sale of homes. Any deficiency in the sale proceeds would have to be made up out of existing cash, diminishing the amount available for dividends.

Risks Related to our Status as a REIT and Related Federal Income Tax Matters

Failure to qualify as a REIT could adversely affect our operations and our ability to pay dividends.

We expect to operate in a manner that will allow us to continue to qualify as a REIT for federal income tax purposes. However the federal income tax laws governing REITs are extremely complex, and interpretations of the federal income tax laws governing qualification as a REIT are limited. Qualifying as a REIT requires us to meet various tests regarding the nature of our assets and our income, the ownership of our outstanding stock, and the amount of our distributions on an ongoing basis. In the Series B Preferred Stock financing, the Company granted a limited waiver to Prime from the 9.8% aggregate stock ownership limit under the Company's charter to permit Prime to purchase up to 40% of Series B Preferred Stock, subject to the accuracy of certain representations by Prime designed to ensure the Company's qualification as a REIT. While we believe the investment by Prime does not change our status as a REIT, we intend to continue to operate so that we will qualify as a REIT, given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, including the tax treatment of certain investments we make, and the possibility of future changes in our circumstances, no assurance can be given that we will qualify for any particular year. If we lose our REIT qualification, we would be subject to federal corporate income tax on our taxable income. Additionally we would not be allowed a deduction for dividends paid to shareholders. And, unless we are entitled to relief under applicable statutory provisions, we could not elect to be taxed as a REIT for five years following the year during which we were disqualified. The income tax consequences could be substantial and would reduce our cash available for distribution to stockholders and investments in additional assets. Further, we may be required to borrow funds or liquidate some investments in order to pay the applicable tax.

As a REIT, we may be subject to tax liabilities that reduce our cash flow.

Even if we continue to qualify as a REIT for federal income tax purposes, we may be subject to federal and state taxes on our income or property, including the following:

- To continue to qualify as a REIT, we must distribute annually at least 90% of our REIT taxable income (which is determined without regard to the dividends-paid deduction or net capital gains) to our

shareholders. If we satisfy the distribution requirement but distribute less than 100% of our REIT taxable income, we will be subject to corporate income tax on the undistributed income.

- We will be subject to a 4% nondeductible excise tax on the amount, if any, by which the distributions that we pay in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net in 100% of our undistributed income from prior years.
- If we have net income from the sale of foreclosure property that we hold primarily for sale to customers in the ordinary course of business or other non-qualifying income from foreclosure property, we must pay a tax on that income at the highest corporate income tax rate.
- If we sell a property, other than foreclosure property, that we hold primarily for sale to customers in the ordinary course of business, our gain will be subject to the 100% "prohibited transaction" tax.
- We may be subject to state and local taxes on our income or property, either directly or indirectly, because of the taxation of our operating partnership or of other entities through which we indirectly own our assets.

We may be forced to borrow funds on a short-term basis, to sell assets, or to issue securities to meet the REIT minimum distribution requirement or for working capital purposes.

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 favorable for these borrowings. To qualify as a REIT, in general, we must distribute to our stockholders at least 90% of our net taxable income each year, excluding capital gains. We have and intend to continue to make distributions to our stockholders, however, our ability to make distributions may be adversely affected by the risk factors described elsewhere in this Item 1A. In the event of a decline in our operating results and financial performance or in the value of our asset portfolio, we may not have cash sufficient for distribution. Therefore, to preserve our REIT status or avoid taxation, we may need to borrow funds, sell assets or issue additional securities, even if the then-prevailing market conditions are not favorable.

In addition, we require a minimum amount of cash to fund our daily operations. Due to the REIT distribution requirements, we may be forced to make distributions when we otherwise would use the cash to fund our working capital needs. Therefore, we may be forced to borrow funds, to sell assets or to issue additional securities at certain times for our working capital needs.

The stock ownership limit imposed by the Internal Revenue Code for REITs and our articles of incorporation may discourage a takeover that could otherwise result in a premium price for our stockholders.

In order for us to maintain our qualification as a REIT, no more than 50.0% 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 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, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all assets) that might provide a premium price for holders of our common stock.

Ordinary dividends payable by REITs generally are taxed at the higher ordinary income rate, which could reduce the net cash received by stockholders and may be detrimental to our ability to raise additional funds through the future sale of our common shares.

The maximum U.S. federal income tax rate for "qualifying dividends" payable by U.S. corporations to individual U.S. shareholders currently is 15.0%. However, ordinary dividends payable by REITs to its shareholders generally are not eligible for the reduced rates for qualifying dividends and are taxed at ordinary income rates (the maximum individual income tax rate currently is 35.0%). This could reduce the net cash received by our stockholders as a result of the investment and could be detrimental to our ability to raise additional funds through the future sale of our common stock.

Tax-exempt stockholders will be taxed on our distributions to the extent such distributions are unrelated business taxable income.

Generally, neither ordinary nor capital gain distributions should constitute unrelated business taxable income (“UBTI”) to tax-exempt entities, such as such as employee pension benefit trusts and individual retirement accounts. Payment of distributions to a tax-exempt stockholder will constitute UBTI, however, if the tax-exempt stockholder has incurred debt to acquire its shares. Therefore, tax-exempt shareholders are not assured all dividends received will be tax-free.

Our common stock may not be a suitable investment for qualified retirement plans.

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.

We have not evaluated and will not evaluate whether an investment in our common stock is suitable for any particular plan.

Risks Related to Legal and Regulatory Requirements

Costs of complying with governmental laws and regulations may reduce our net income and the cash available for distributions to our stockholders.

Our properties are subject to various local, state and federal regulatory requirements, including those addressing zoning, environmental and land use, access for disabled persons, and air and water quality. These laws and regulations impose restrictions on the manner in which our properties may be used or business may be operated, and compliance with these standards may require us to make unexpected expenditures, some of which could be substantial. Additionally, we could be subject to liability in the form of fines, penalties or damages for noncompliance, and any enforcement actions could reduce the value of a property. Any material expenditures, penalties, or decrease in property value could adversely affect our operating income and our ability to pay dividends to our stockholders.

The costs of complying with environmental regulatory requirements, of remediating any contaminated property, or of defending against claims of environmental liability could adversely affect our operating results.

Under various federal, state and local environmental laws, ordinances and regulations, an owner or operator of real property is responsible for the cost of removal or remediation of hazardous or toxic substances on its property. Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated.

For instance, 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. State, and local laws and regulations also govern the removal, encapsulation, disturbance, handling and disposal of ACMs and potential ACMs, when such materials are in poor condition or in the event of construction, renovation or demolition of a property. There are or may be ACMs at certain of our properties. As a result, we may face liability for a release of ACMs and may be subject to personal injury lawsuits by workers and others at our properties. Additionally, the value of any of our properties containing ACMs and potential ACMs may be decreased.

There are comprehensive regulatory programs governing underground storage tanks used in a convenience store-tenant’s gasoline operations. Compliance with existing and future 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.

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 in connection with our properties, we may be noncompliant in the future. Environmental laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release of any hazardous substances. Therefore, we may be liable for the cost of removing or remediating contamination of which we had no knowledge. Additionally, future laws or regulations could impose an unanticipated material environmental liability on any of the properties that we purchase.

The presence of contamination, or our failure to properly remediate contamination of our properties, may adversely affect the ability of our tenants to operate the contaminated property, may subject us to liability to third parties, and may inhibit our ability to sell or rent such property or borrow money using such property as collateral. Any of these occurrences would adversely affect our operating income.

Compliance with the Americans with Disabilities Act 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 also requires that buildings be made accessible to people with disabilities. Compliance with ADA requirements could require removal of access barriers and non-compliance could result in imposition of fines by the U.S. government or 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 to our properties involve greater expenditures than anticipated, or if the changes must be made on a more accelerated basis than anticipated, our tenants may not be able to cover the costs and we could be required to use our own funds to comply with the provisions of the ADA. Any funds used for ADA compliance will reduce our net income and the amount of cash available for distributions to our stockholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have no unresolved staff comments.

ITEM 2. PROPERTIES

General Information

We invest in a diverse portfolio of real estate assets primarily consisting of office, retail, self-storage and residential properties located in the western United States. As of December 31, 2014, we owned or had an equity interest in office and one industrial buildings ("Office/ Industrial Properties") totaling approximately 1,152,000 rentable square feet, five retail shopping centers ("Retail Properties") totaling approximately 230,000 rentable square feet, and storage facilities ("Self-Storage Properties") totaling approximately 652,000 rentable square feet. In addition, through our Model Home subsidiary and our investments in three limited partnership, we own a total of 54 Mc properties ("Residential Properties") located in seven states. We directly manage the operations and leasing of our properties. Substantially all of our revenues consist of base rents received under leases that generally have terms from less than one year to up to 5 years. We estimate that at least 50.0% of our existing leases as of December 31, 2014 contain "step up" rental clauses that provide for increases in the base rental payments. Our tenants consist of regional and national businesses. Our properties generally attract a mix of diversified tenants creating lower risk in periods of economic fluctuations. Our largest tenant represented less than 5.0% of our total revenues for the year ended December 31, 2014.

The following tables provide certain additional information about our Properties as of December 31, 2014.

Geographic Diversification Table

The following table shows a list of properties we owned as of December 31, 2014, 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 | Approximate % of Aggregate Annual Rent |
|--------------|-------------------|-----------------------|------------------------------|--------------------------|--|
| California | 15 | 1,108,000 | 54.3 % | \$ 5,360,000 | 3 |
| Colorado | 10 | 717,000 | 35.2 % | 7,156,000 | 4 |
| North Dakota | 2 | 213,000 | 10.5 % | 2,132,000 | 1 |
| Total | 27 | 2,038,000 | 100.0% | \$ 14,648,000 | 10 |

Model Home properties:

| State | No. of Properties | Aggregate Square Feet | Approximate % of Square Feet | Current Base Annual Rent | Approximate % of Aggregate Annual Rent |
|----------------|-------------------|-----------------------|------------------------------|--------------------------|--|
| Texas | 20 | 61,321 | 42.0% | \$ 491,808 | 3 |
| California | 2 | 4,563 | 3.0% | 42,456 | |
| New Jersey | 5 | 12,336 | 8.0% | 141,876 | 1 |
| Pennsylvania | 22 | 56,322 | 38.0% | 564,264 | 4 |
| Arizona | 3 | 7,889 | 5.0% | 91,632 | |
| South Carolina | 1 | 3,120 | 2.0% | 32,556 | |
| North Carolina | 1 | 2,929 | 2.0% | 16,200 | |
| Total | 54 | 148,480 | 100.0% | \$ 1,380,792 | 10 |

The following table summarizes information relating to our properties (excluding Model Homes) at December 31, 2014:

| Property Summary | | Date | Year | Purchase | Occu- | Percent | Mortgage | Estimate |
|--|---------|------------|-------------|------------|--------|---------|-------------|--------------|
| Property/Location | Sq. Ft. | Acquired | Property | Price* | pancy | Owner- | On property | Renovatio |
| | | | Constructed | (in 000's) | | Ship | (in 000's) | Improvem |
| | | | | | | | | Cost (1) (2) |
| Office/ Industrial Properties: | | | | | | | | |
| Havana/Parker Complex, Aurora, CO (2) | 114,000 | 06/06 | 1975 | \$ 5,829 | 53.0% | 100.0% | \$ 2,500 | |
| Garden Gateway, CO Springs, CO (3)(6) | 115,052 | 03/07 | 1982 | \$ 1,513 | 83.3% | 94.0% | \$ 6,963 | |
| Executive Office Park, CO Springs, CO (4) | 65,084 | 07/08 | 2000 | \$ 10,126 | 83.4% | 100.0% | \$ 4,379 | |
| Pacific Oaks Plaza, Escondido, CA (5) | 16,000 | 09/08 | 2005 | \$ 4,877 | 100.0 | 100.0% | \$ 1,599 | |
| Morena Office Center, San Diego, CA (2) | 26,784 | 01/09 | 1987 | \$ 6,575 | 86.8% | 100.0% | \$ 2,351 | |
| Rangewood Medical Bldg., CO Springs, CO (2) | 18,222 | 03/09 | 1998 | \$ 2,630 | 70.1% | 100.0% | \$ 1,093 | |
| Genesis Plaza, San Diego, CA (2) | 57,685 | 08/10 | 1986 | \$ 10,000 | 83.3% | 100.0% | \$ 4,491 | |
| Dakota Center, Fargo, ND (4) | 119,749 | 05/11 | 1982 | \$ 9,575 | 82.1% | 100.0% | \$ 10,993 | |
| Port of San Diego Complex, National City, CA (4) | 146,700 | 12/11 | 1971/2008 | \$ 14,500 | 75.9% | 73.3% | \$ 10,368 | |
| Shoreline Medical Center, Half Moon Bay, CA (2) | 15,335 | 05/12 | 1980 | \$ 6,350 | 100.0% | 100.0% | \$ 3,847 | |
| The Presidio, Colorado Springs, CO (4) | 80,800 | 11/12 | 1988 | \$ 7,275 | 76.7% | 77.3% | \$ 6,000 | |
| Bismarck Office Building, Bismarck, ND | 93,058 | 03/14 | 1976 | \$ 5,350 | 85.7% | 100.0% | \$ 3,321 | |
| Union Terrace, Lakewood, CO | 84,145 | 08/14 | 1982 | \$ 9,400 | 87.6% | 100.0% | \$ 6,600 | |
| Centennial Tech Center, CO Springs, CO | 110,405 | 12/14 | 1999 | \$ 15,500 | 97.0% | 100.0% | \$ 10,250 | |
| Arapahoe Service Center, CO Springs, CO | 79,023 | 12/14 | 2000 | \$ 11,850 | 100.0% | 100.0% | \$ 8,500 | |
| Retail Properties: | | | | | | | | |
| World Plaza, San Bernardino, CA (4) | 55,098 | 09/07 | 1974 | \$ 7,650 | 81.8% | 100.0% | \$ — | |
| Regatta Square, Denver, CO (4) | 5,983 | 10/07 | 1996 | \$ 2,180 | 100.0% | 100.0% | \$ 1,215 | |
| Waterman Plaza, San Bernardino, CA (4) | 21,170 | 08/08 | 2008 | \$ 7,164 | 100.0% | 100.0% | \$ 3,368 | |
| Yucca Valley Retail Center, CA (4) (7) | 103,596 | 9/11, 5/12 | 1978 | \$ 7,802 | 95.5% | 92.9% | \$ 2,982 | |
| Union Town Center, Colorado Springs, CO | 44,042 | 12/14 | 2,003 | \$ 11,212 | 95 % | 100.0 % | \$ 8,440 | |
| Sparky's Self-Storage Properties: | | | | | | | | |
| Palm Self-Storage, Highland, CA (6) (8) | 50,250 | 11/07 | 2003 | \$ 4,849 | 86.4% | 52.0% | \$ 8,116 | |
| Joshua Self-Storage, Hesperia, CA (8) | 149,750 | 12/07 | 2003/2005 | \$ 8,007 | 77.0% | 100.0% | \$ — | |
| Thousand Palms Self-Storage, CA | 113,126 | 08/09 | 2007 | \$ 6,200 | 69.0% | 100.0% | \$ 4,092 | |
| Hesperia East Self-Storage, Hesperia, CA | 72,940 | 12/09 | 2007 | \$ 2,775 | 44.8% | 100.0% | \$ 830 | |
| Rialto Self-Storage, Rialto, CA | 101,343 | 05/10 | 2007 | \$ 5,290 | 55.0% | 100.0% | \$ 2,119 | |
| Sunrise Self-Storage, Hesperia, CA (8) | 93,851 | 12/11 | 1985/1989 | \$ 2,200 | 65.9% | 100.0% | \$ — | |
| Lancaster Self-Storage, Lancaster, CA | 71,000 | 05/13 | 1990/2002 | \$ 3,650 | 60.7 % | 20.8 % | \$ 1,903 | |

* 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) Expected capital expenditures over the next 12 months.
- (2) Office building leased to tenants on a gross basis where tenants may be required to pay property related expenses in excess of base year cost.
- (3) Garden Gateway Plaza is comprised of three buildings, each on a separate legal parcel.
- (4) Leased on either a triple net basis, or on a pro-rata share of expenses in excess of base year property related expenses basis.
- (5) Approximately 12,134 square feet, or 75.8% of this property, is occupied by the Company and related parties as its corporate offices.
- (6) This property is owned by a Partnership for which we serve as general partner and in which we own less than 100% equity interest.
- (7) In May 2012, the Company purchased a parcel (of approximately 17,600 square feet) within the Center that was owned by an unrelated party.
- (8) This loan is cross-collateralized by the Sparky's Palm, Joshua and Sunrise Self-Storage facilities.

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, 2014 | (1) | % of Total Annualized Base Rent as of December 31, 2014 |
|-------------------------------------|------------------|--|-----|---|
| County of San Mateo | 1 | \$ 766,017 | | 5 |
| County of San Bernardino | 1 | \$ 586,956 | | 3 |
| Epsilon Systems Solutions, Inc. | 1 | \$ 454,140 | | 3 |
| Wells Fargo Dealer Services, Inc. | 1 | \$ 416,551 | | 2 |
| Community Research Foundation, Inc. | 4 | \$ 412,464 | | 2 |
| Goodwill Industries | 1 | \$ 402,023 | | 2 |
| Restaurant Technology Services LLC | 1 | \$ 389,128 | | 2 |
| Wells Fargo Bank | 1 | \$ 334,026 | | 2 |
| Vala Properties LLC | 1 | \$ 291,279 | | 1 |
| Acosta, Inc | 1 | \$ 289,128 | | 1 |

(1) Includes scheduled rent increases in 2015.

Lease Expirations Tables

The following table sets forth lease expirations for our properties, excluding our Self-Storage properties, as of December 31, 2014, assuming that none of the tenants exercise their renewal options.

NetREIT, Inc. properties:

| Expiration Year | Number of Leases Expiring | Square Footage | Annual Rental From Lease | Percent of Total |
|-----------------|---------------------------|----------------|--------------------------|------------------|
| 2015 | 56 | 170,986 | \$ 2,489,000 | 1 |
| 2016 | 57 | 258,163 | 3,665,000 | 2 |
| 2017 | 46 | 127,797 | 1,859,000 | 1 |
| 2018 | 36 | 146,943 | 2,363,000 | 1 |
| 2019 | 19 | 54,422 | 1,079,000 | |
| 2020 | 22 | 145,495 | 5,309,000 | 3 |
| Totals | 236 | 903,806 | \$ 16,764,000 | 10 |

Model Home properties:

| Expiration Year | Number of Leases Expiring | Square Footage | Annual Rental From Lease | Percent of Total |
|-----------------|---------------------------|----------------|--------------------------|------------------|
| 2015 | 36 | 101,430 | \$ 873,144 | 8 |
| 2016 | 18 | 48,333 | 507,648 | 1 |
| | 54 | 149,763 | \$ 1,380,792 | 10 |

Physical Occupancy Table for Last 5 Years (1)

The following table presents the percentage occupancy for each of our properties, excluding our Model Home properties, as of December 31 for each of the last five years.

| | Date Acquired | Percentage Occupancy as of the Year Ended December 31, | | | | |
|--|------------------|--|---------|---------|---------|------|
| | | 2010 | 2011 | 2012 | 2013 | 2014 |
| Office/ Industrial Properties: | | | | | | |
| Havana/Parker Complex | 06/06 | 53.0% | 57.4% | 57.4% | 59.2% | |
| Garden Gateway Plaza | 03/07 | 85.1% | 83.5% | 83.5% | 82.8% | |
| Executive Office Park | 07/08 | 90.7% | 88.8% | 88.8% | 84.5% | |
| Pacific Oaks Plaza (2) | 09/08 | 100.0% | 100.0% | 100.0% | 100.0% | |
| Morena Office Center | 01/09 | 77.2% | 92.4% | 92.4% | 92.4% | |
| Rangewood Medical Office Building | 03/09 | 94.3% | 83.4% | 83.4% | 68.2% | |
| Genesis Plaza | 08/10 | N/A | 76.4% | 76.4% | 89.7% | |
| Dakota Bank Buildings | 05/11 | N/A | 98.3% | 98.3% | 98.3% | |
| Port of San Diego Complex | 12/11 | N/A | 51.7% | 51.7% | 51.7% | |
| Shoreline Medical Building | 05/12 | N/A | N/A | N/A | 100.0% | |
| The Presidio | 11/12 | N/A | N/A | N/A | 65.5% | |
| Bismarck Office | 03/14 | N/A | N/A | N/A | N/A | |
| Union Terrace | 08/14 | N/A | N/A | N/A | N/A | |
| Centennial Tech Center | 12/14 | N/A | N/A | N/A | N/A | |
| Arapahoe Service Center | 12/14 | N/A | N/A | N/A | N/A | |
| Retail Properties: | | | | | | |
| World Plaza | 09/07 | 87.1% | 87.1% | 87.1% | 83.0% | |
| Regatta Square | 10/07 | 100.00% | 100.00% | 100.00% | 100.00% | |
| Waterman Plaza | 08/08 | 83.60% | 95.30% | 95.30% | 100.00% | |
| Yucca Valley Retail Center | 09/11 | N/A | 92.90% | 92.90% | 95.50% | |
| Union Town Center | 12/15 | N/A | N/A | N/A | N/A | |
| Sparky's Self-Storage Properties: | | | | | | |
| Palm Self-Storage | 11/07 | 86.7% | 82.1% | 82.1% | 83.0% | |
| Joshua Self-Storage | 12/07 | 75.4% | 69.5% | 69.5% | 67.5% | |
| Thousand Palms Self- Storage | 08/09 | 41.6% | 76.5% | 76.5% | 73.5% | |
| Hesperia East Self-Storage | 12/09 | 34.6% | 43.6% | 43.6% | 42.0% | |
| Rialto Self-Storage | 05/10 | N/A | 53.0% | 53.0% | 49.7% | |
| Sunrise Self-Storage | 12/11 | N/A | 65.4% | 65.4% | 67.4% | |
| Lancaster Self-Storage | 05/13 | N/A | N/A | N/A | 61.9% | |

(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.

Occupancy and Average Effective Annual Rent Per Square Foot

The following table presents the average effective annual rent per square foot at full occupancy for each of our properties, excluding our Model Home properties, as of December 31, 2014.

| Property | Square Footage | Annual Gross Rent (1) | % occupied at December 31, 2014 | Annual Rent Per Sq. Ft At Full Occupancy |
|--|----------------|-----------------------|---------------------------------|--|
| Office/ Industrial Properties: | | | | |
| Havana/Parker Complex | 114,000 | \$ 685,000 | 53.00 % | \$ |
| Garden Gateway Plaza | 115,052 | \$ 919,000 | 83.30 % | \$ |
| Executive Office Park | 65,084 | \$ 589,000 | 83.40 % | \$ |
| Pacific Oaks Plaza (3) | 16,000 | \$ 103,000 | 100.00 % | \$ |
| Morena Office Center | 26,784 | \$ 468,000 | 86.80 % | \$ |
| Rangewood Medical Office Building | 18,222 | \$ 170,000 | 70.10 % | \$ |
| Genesis Plaza | 57,685 | \$ 1,166,000 | 83.30 % | \$ |
| Dakota Bank Buildings | 119,749 | \$ 1,096,000 | 98.30 % | \$ |
| Port of San Diego Complex | 146,700 | \$ 1,096,000 | 75.90 % | \$ |
| Shoreline Medical Building | 15,335 | \$ 595,000 | 100.00 % | \$ |
| The Presidio | 80,800 | \$ 847,000 | 76.70 % | \$ |
| Bismarck Office | 93,058 | \$ 671,000 | 83.40 % | \$ |
| Union Terrace | 84,145 | \$ 560,000 | 87.60 % | \$ |
| Centennial Tech Center | 110,405 | N/A | 100.00 % | |
| Arapahoe Center | 79,023 | N/A | 82.00 % | |
| Retail Properties: | | | | |
| World Plaza | 55,098 | \$ 732,100 | 83.00 % | \$ |
| Regatta Square | 5,983 | \$ 236,900 | 100.00 % | \$ |
| Waterman Plaza | 21,170 | \$ 640,000 | 95.30 % | \$ |
| Yucca Valley Retail Center | 103,596 | \$ 993,300 | 95.50 % | \$ |
| Union Town Center | 44,042 | N/A | 97.00 % | |
| Sparky's Self-Storage Properties (2): | | | | |
| Palm Self-Storage | 50,250 | \$ 499,000 | 86.40 % | \$ |
| Joshua Self-Storage | 149,750 | \$ 756,000 | 77.00 % | \$ |
| Thousand Palms Self-Storage | 113,126 | \$ 641,000 | 86.40 % | \$ |
| Hesperia East Self-Storage | 72,940 | \$ 223,000 | 77.00 % | \$ |
| Rialto Self-Storage | 101,343 | \$ 485,000 | 55.00 % | \$ |
| Sunrise Self-Storage | 93,851 | \$ 420,000 | 65.90 % | \$ |
| Lancaster Self-Storage | 71,000 | \$ 405,000 | 60.70 % | \$ |

(1) Annual Gross Rent is based upon actual rents due as of December 31, 2014, determined using GAAP including CAM reimbursements.

(2) Used 2014 actual rents for the year.

(3) Approximately 12,134 square feet, or 75.8% of this property, is occupied by the Company and related parties as its corporate offices.

Average Effective Annual Rent Per Square Foot for Last 5 Years

The following table presents the average effective annual rent per square foot for each of our properties, excluding our Model Home properties, as of December 31, 2014.

| | Average Effective Annual Rent per Square Foot (2) | | | | | | | | | |
|--|---|-------|------|-------|------|-------|------|-------|------|------|
| | For the Years Ended December 31, | | | | | | | | | |
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2010 | 2011 | 2012 | 2013 | 2014 |
| Office/ Industrial Properties: | | | | | | | | | | |
| Havana/Parker Complex | \$ | 10.26 | \$ | 9.40 | \$ | 10.64 | \$ | 10.55 | \$ | |
| Garden Gateway Plaza | \$ | 15.63 | \$ | 15.58 | \$ | 17.74 | \$ | 15.39 | \$ | |
| Executive Office Park | \$ | 18.14 | \$ | 18.14 | \$ | 17.79 | \$ | 18.73 | \$ | |
| Pacific Oaks Plaza (1) | \$ | 17.36 | \$ | 17.36 | \$ | 17.36 | \$ | 17.36 | \$ | |
| Morena Office Center | \$ | 26.72 | \$ | 26.72 | \$ | 19.90 | \$ | 21.37 | \$ | |
| Rangewood Medical Office Building | \$ | 24.09 | \$ | 24.09 | \$ | 24.57 | \$ | 23.20 | \$ | |
| Genesis Plaza | | N/A | | N/A | \$ | 24.90 | \$ | 24.33 | \$ | |
| Dakota Center | | N/A | | N/A | \$ | 11.73 | \$ | 17.91 | \$ | |
| Port of San Diego Complex | | N/A | | N/A | \$ | 12.37 | \$ | 9.92 | \$ | |
| Shoreline Medical Building | | N/A | | N/A | \$ | 36.50 | \$ | 46.86 | \$ | |
| The Presidio | | N/A | | N/A | \$ | 24.89 | \$ | 21.12 | \$ | |
| Bismarck | | N/A | | N/A | | N/A | | N/A | \$ | |
| Union Terrace | | N/A | | N/A | | N/A | | N/A | \$ | |
| Centennial Tech Center | | N/A | | N/A | | N/A | | N/A | \$ | |
| Arapahoe Center | | N/A | | N/A | | N/A | | N/A | \$ | |
| Retail Properties: | | | | | | | | | | |
| World Plaza | \$ | 14.09 | \$ | 14.09 | \$ | 14.55 | \$ | 14.32 | \$ | |
| Regatta Square | \$ | 32.08 | \$ | 32.08 | \$ | 33.00 | \$ | 42.40 | \$ | |
| Waterman Plaza | \$ | 24.81 | \$ | 24.81 | \$ | 28.31 | \$ | 29.87 | \$ | |
| Yucca Valley Retail Center | | N/A | | N/A | \$ | 11.35 | \$ | 9.30 | \$ | |
| Union Town Center | | N/A | | N/A | | N/A | | N/A | \$ | |
| Sparky's Self-Storage Properties: | | | | | | | | | | |
| Palm Self-Storage | \$ | 11.18 | \$ | 11.18 | \$ | 11.99 | \$ | 11.62 | \$ | |
| Joshua Self-Storage | \$ | 5.95 | \$ | 5.95 | \$ | 6.75 | \$ | 5.66 | \$ | |
| Thousand Palms Self-Storage | \$ | 6.16 | \$ | 5.34 | \$ | 6.37 | \$ | 7.18 | \$ | |
| Hesperia East Self-Storage | \$ | 5.79 | \$ | 5.79 | \$ | 4.14 | \$ | 5.76 | \$ | |
| Rialto Self-Storage | | N/A | | N/A | \$ | 9.07 | \$ | 7.73 | \$ | |
| Sunrise Self-Storage | | N/A | | N/A | \$ | 7.09 | \$ | 6.00 | \$ | |
| Lancaster Self-Storage | | N/A | | N/A | | N/A | \$ | 9.12 | \$ | |

- (1) Approximately 12,134 square feet, or 75.8% of this property, is occupied by the Company and related parties as its corporate offices.
(2) Calculated by taking gross rents divided by the percentage occupied divided by square feet.

ITEM 3. LEGAL PROCEEDINGS

We are subject to various legal proceedings and claims that arise in the ordinary course of business. While the resolution of these matters cannot be predicted with certainty, management believes the final outcome of such matters will not have a material adverse effect on our financial position, results of operation or liquidity.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUERS PURCHASES OF EQUITY SECURITIES**Market Information**

To date, there is no public market for any of our securities. Our common stock is not currently traded on any stock exchange or electronic quotation system, and we do not expect that our securities will be publicly traded in the near future.

Number of Holders of Each Class of Stock

As of March 15, 2015 there were 2,988 holders of our Series A common stock and a single holder of our Mandatorily Redeemable Series B Preferred Stock.

Dividend Payments

We pay quarterly cash distributions computed on a monthly basis to our common stockholders. The following is a summary of cash payment amount per share for the years ended December 31, 2014 and 2013:

| Month | 2014 | | 2013 | |
|--------------|-----------|---------------|-----------|---------------|
| | | Cash Dividend | | Cash Dividend |
| January | \$ | 0.0451 | \$ | 0.0451 |
| February | | 0.0451 | | 0.0451 |
| March | | 0.0451 | | 0.0451 |
| April | | 0.0451 | | 0.0451 |
| May | | 0.0451 | | 0.0451 |
| June | | 0.0451 | | 0.0451 |
| July | | 0.0334 | | 0.0334 |
| August | | 0.0334 | | 0.0334 |
| September | | 0.0334 | | 0.0334 |
| October | | 0.0334 | | 0.0334 |
| November | | 0.0334 | | 0.0334 |
| December | | 0.0334 | | 0.0334 |
| Total | \$ | 0.4710 | \$ | 0.5000 |

The December 31, 2014, quarterly cash distribution of \$0.10 per common share was paid in February 2015.

In December 2011, the Company issued approximately 1,649 shares of its Convertible Series 6.3% Preferred Stock. The Company paid approximately \$65,000 and \$105,000 in dividends in the years ended December 31, 2014 and 2013. The Company repurchased all of the shares of its convertible Series 6.3% Preferred Stock in August 2014.

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. We eventually intend to make cash dividend distributions out of our operating cash flow and proceeds from the sale of properties. During 2014, we declared dividends of \$8.8 million and approximately \$3.3 million of these dividends were reinvested and paid back to the Company by the amount of the dividend. The net cash paid out with respect to dividends during the year ended December 31, 2014 was approximately \$4.8 million and flow from operations for the year was \$4.2 million. 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 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 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 the 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.

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 annually. During the years ended December 31, 2013, all distributions were non-taxable as they were considered a return of capital to the stockholders.

Equity Compensation Plan Information

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 1,648,000 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 386,000 restricted shares granted since adopting the restricted stock compensation plan. At December 31, 2014, the amount of common shares available for future grants under the Plan is approximately 1,262,000 shares.

Issuer Purchases of Equity Securities

Not applicable.

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 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. 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 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 publicly disclose material 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. 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 in the forward-looking information. See Item 1A for a discussion of material risks.

OVERVIEW

The Company operates as a self-managed and self-administered real estate investment trust, or REIT. The Company invests in a diverse portfolio of real estate assets including industrial, office, residential, retail, self-storage and home leased residential properties located primarily in the western United States. As of December 31, 2014, including properties held for sale, the Company owned or had an equity interest in:

- Fourteen office buildings and one industrial building ("Office Properties") which total approximately 1,152,000 rentable square feet,
- Five retail shopping centers ("Retail Properties") which total approximately 230,000 rentable square feet,
- Seven self-storage facilities ("Self-Storage Properties") which total approximately 652,000 rentable square feet, and
- Fifty-four Model Homes owned by three affiliated limited partnerships ("Residential Properties").

NetREIT's office, retail and industrial properties are located primarily in Southern California and Colorado, with two properties located in North Dakota. Our Model Home properties are located in seven states. We do not 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 January 1 of such year, or has been operating for three years. Our geographical clustering of assets enables us to reduce our operating costs through economies of scale by servicing a number of properties with less staff, but it also makes us more susceptible to changing market conditions in these discrete geographic areas.

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 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 are extended. During 2013 and 2012, the changes in rental rates have affected our operating results due to the older leases being extended at market rates lower than the old rates. 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 Model Homes are typically leased for 2 to 3 years to the home 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.

Our self-storage properties are rented pursuant to rental agreements that are typically for no longer than six months in duration. The self-storage properties are located in markets having other self-storage properties. Competition in other markets 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 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 California. We depend on websites, advertisements, flyers, etc. to secure new tenants to fill any vacancies.

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/or tenant. We further supplement this at the tenant level through our tenant review process, which varies by tenant class. For example, our commercial and industrial tenants tend to be corporations or individual owned businesses. In these cases, we typically obtain financial records, including financial statements and tax returns (depending on the circumstance), and run credit reports for any prospective tenant to support our decision to enter into a rental arrangement. We also typically obtain security deposits from these commercial and industrial tenants. Model Home business partners are also typically substantial home developers with established credit histories. These tenants are subjected to financial review and analysis prior to us entering into a sales-leaseback transaction. Ownership of the underlying property provides a further means to avoiding significant credit losses. Our self-storage tenants, on the other hand, are typically individuals or smaller businesses, and the underlying transaction size is smaller due to the short-term nature of the rental agreements. We do not perform credit reviews for this customer class, instead relying on the small transaction size to avoid significant credit losses. Our agreements also give us the right to auction off the storage locker contents in instances in which payment has not been forthcoming.

SIGNIFICANT TRANSACTIONS IN 2014

Preferred Stock Financing - In August 2014, we closed on an offering of our Series B Preferred Stock. The financing, which will be funded in installments, should be completed no later than the one-year anniversary of the offering. We issued 16,600 shares of our Series B Preferred Stock for \$16.6 million during 2014. These shares have a \$0.01 par value and a \$1,000 per share liquidation preference. The Series B Preferred Stock shall be redeemed through a cash payment equal to the face value of the shares outstanding at redemption. The return on these funds is 14% - 10% to be paid on a monthly basis, and the remaining 4% shall accrue and compound monthly and be due at the redemption date. We expect to receive a total capital contribution of \$40.0 million from this financing by the conclusion of the funding period. The proceeds of this financing are to be used for Series B Preferred Stock investments and property acquisitions. The Series B Preferred Stock is scheduled to be redeemed by the third anniversary of the closing date; however, we can extend the redemption date by up to two additional years.

Acquisitions - we acquired the following properties during 2014:

- A 93,000 square foot, multi-tenant office building located in Bismarck, ND for \$5.4 million dollars in May (through a cash payment of \$2.0 million and the assumption of the existing loan on the property of \$3.4 million). The property was 85% occupied at acquisition.
- An 84,000 square foot, multi-tenant office building located in Lakewood, Colorado for \$9.4 million in August (through a cash payment of \$2.8 million and a promissory note totaling \$6.6 million). The property was 82% occupied at acquisition.
- A 110,000 square foot, multi-tenant office property located in Colorado Springs, Colorado for \$15.5 million in December (through a cash payment of \$5.2 million and a promissory note of \$10.3 million). The property comprised of two buildings, and was 97% occupied at acquisition.
- A 79,000 square foot, multi-tenant office property located in Centennial, Colorado was also acquired in December for \$11.8 million (through a cash payment of \$3.3 million and a promissory note of \$8.5 million). The property was 100% occupied at acquisition.
- Also in December, a 44,000 square foot, multi-tenant retail property located in Colorado Springs, Colorado for \$11.2 million (through a cash payment of \$2.4 million, a promissory note of \$8.4 million and \$400,000 termination fee). The property was 97% occupied at acquisition.

NetREIT Dubose, Dubose Model Home Investors #201 LP and Dubose Model Home Investors #202 LP acquired eighteen (18) Model Home properties in Pennsylvania and Arizona at various times during the year (them back to the home builders). The purchase price for the properties totaled \$4.2 million, consisting of cash payments of \$1.7 million and promissory notes of \$2.5 million.

Dispositions - We review our portfolio of investment properties for value appreciation potential on an on-going basis, and dispose of any properties that no longer satisfy our requirements in this regard. The proceeds from property sale, after repayment of any associated mortgage, are available for investing in properties that we believe will have a much greater likelihood of future price appreciation.

During 2014, we sold our Fontana Medical Plaza property for \$4.1 million (this was a single tenant property acquired by us in 2009 in a joint venture in which we held a 51% interest), while NetREIT Dubose and our limited partner (DMHI #201 and DMHI #202) sold forty-five Model Home properties (upon the maturity of leases) for \$20.9 million.

Debt transactions - During 2014, the Company originated approximately \$36.4 million of promissory notes payable and assumed one promissory note of \$3.4 million in connection with property acquisitions. The originated interest at interest rates ranging from 4.3 to 4.5%. During 2014, the Company also refinanced approximately \$10.9 million of existing debt with new debt of approximately \$17.1 million, providing additional cash to investments in property acquisitions. The new debt bears interest at an average rate of 4.7%, compared to 5.7% on the old debt, and, due to a four year interest-only provision, we were able to reduce our debt service costs on the refinanced obligations by approximately \$67,000 per year. Although our aggregate debt outstanding increased due to acquisitions of new properties and the refinancing of existing debt, the weighted average interest rate of our non-Model Home property debt decreased to 4.9% at December 31, 2014 from 5.4% at December 31, 2013.

ECONOMIC ENVIRONMENT

The United States continues to be the path of a slow recovery from the recession that began in 2008. The current economic environment has shown decreases in residential housing foreclosures and shadow inventory and a supply of homes available for purchase resulting in an increase in single-family home prices, housing starts and building permits. In addition, unemployment rates have decreased over the last several years. On the commercial side, rates have decreased but are still higher than pre-recessionary levels. U.S. corporations, earnings and stock market investments and activity have rebounded. We believe that the pace of the overall recovery will likely continue and disjointed as many sections of the country have not seen job growth. Full recovery will need increasing job growth, but even then it will not be consistent across industries, geographies or periods of the year causing an uneven recovery.

Increases in the size of the U.S. debt, slow economic recovery concerns, and uncertainty surrounding the continued raising of the U.S. Government federal debt ceiling raise the possibility of additional credit-rating downgrades by agencies. 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 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. Although the United States Federal Reserve started to scale back the quantitative easing and their intent is to keep interest rates low through 2015, these credit ratings concerns could cause interest rates and borrowing costs to rise, which may have a negative effect on our access to both the debt and equity markets on favorable terms. Continued adverse economic conditions could have a material adverse effect on our business, financial condition and results of operations.

Our ability to make new investments is highly dependent upon our ability to procure external financing. Our principal source of external financing includes the issuance of equity securities and mortgages secured by properties. The availability for mortgages has improved although the interest rates increase during 2014 but are still low compared to pre-recessionary rates. We continue to obtain mortgages from the CMBS market, life insurance companies and regional banks.

MANAGEMENT EVALUATION OF RESULTS OF OPERATIONS

Management's evaluation of operating results includes an assessment of our ability to generate cash flow necessary to pay operating expenses, general and administrative expenses, 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, long-term sustainability of our real estate portfolio, our future operating cash flow from acquisitions, and the proceeds from the sales of our real estate assets.

In addition, Management evaluates our portfolio and individual properties 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 not 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. 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.

CRITICAL ACCOUNTING POLICIES

As a company primarily involved in owning income generating real estate assets, management considers the following accounting policies critical as they reflect our more significant judgments and estimates used in the preparation of our financial statements and because they are important for understanding and evaluating our reported financial results. These judgments affect the reported amounts of assets and liabilities and our disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. With different estimates or assumptions, materially different amounts could be reported in our financial statements. Additionally, other companies may utilize different estimates that may impact the comparability of our results of operations to those of companies in similar businesses.

Real Estate Assets and Lease Intangibles. Land, buildings and improvements are recorded at cost, including tenant improvements and lease acquisition costs (including leasing commissions, space planning fees, and legal fees). Management capitalizes any expenditure that replaces, improves, or otherwise extends the economic life of an asset, while ordinary repairs and maintenance are expensed as incurred. We allocate the purchase price of acquired properties between acquired tangible assets and liabilities (consisting of land, building, tenant improvements, land purchase options, and long-term debt) and identified intangible assets and liabilities (including 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 respective fair values.

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

The value allocated to acquired lease intangibles is based on management's evaluation of the specific characteristics of each tenant's lease. Characteristics considered by management in allocating these values include the nature 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 the above-market or below-market 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 payments 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 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 of unamortized lease origination costs is determined by what we would have paid to a third party to secure a new tenant reduced by the expired term of the respective lease.

Impairment of Real Estate Assets. We review 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, we prepare a projection of the undiscounted future cash flows, without interest charges, of the specific property and determine if the investment in such property is impaired. If impairment is indicated, the carrying value of the property is written down to its estimated fair value based on our best estimate of the property's discounted future cash flows.

Goodwill and Intangible Assets. Intangible assets, including goodwill and lease intangibles, are comprised of finite-lived and indefinite-lived assets. Lease intangibles represents the allocation of a portion of the purchase price of property acquisition representing the estimated value of in-place leases, unamortized lease origination costs, tenant relationships and land purchase options. Intangible assets that are not deemed to have an indefinite useful life are amortized over their estimated useful lives. Indefinite-lived assets are not amortized.

We test for impairment of goodwill and other definite and indefinite lived assets at least annually, and more frequently as circumstances warrant. Impairment is recognized only if the carrying amount of the intangible asset is not recoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and the estimated fair value of the asset.

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 asset) 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 method of profit recognition, as appropriate in the circumstances.

Revenue Recognition. We recognize 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 term 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, Management determines 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, and consider 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 the collectability of deferred rent with respect to any given tenant is in doubt, we record an increase in the allowance for uncollectible accounts, and write-off of the specific rent receivable. No such reserves related to deferred rent receivable have been recorded as of December 31, 2014 or 2013.

Income Taxes. We have 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, 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 to Section 1031. In addition, we will be subject to a federal excise tax which equals 4% of the excess, if any, of 85% of ordinary income plus 95% of any capital gain net income over cash distributions, as defined. We believe that we have met all of the REIT distribution and technical requirements for the years ended December 31, 2014 and 2013, respectively.

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 amortization on the investments in properties for tax purposes, among other things. During the years ended December 31, 2014 and 2013, all distributions were considered return of capital to the stockholders and therefore not taxable because of our operating losses.

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 value measurements 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. Our cash equivalents, mortgage notes receivable, accounts receivable and payable, and accrued liabilities all approximate fair value due to their short term nature. Management believes that the recorded and fair values of notes payable are approximately the same as of December 31, 2014 and 2013.

Depreciation and Amortization. The Company records depreciation and amortization expense using the straight-line method over the useful lives of the respective assets. The cost of buildings are depreciated over estimated useful lives of 39 years, the costs of 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 the cost of furniture, fixtures and equipment are depreciated over their useful lives of 3 to 7 years.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

Our results of operations for 2014 and 2013 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 two years and as a result of anticipated growth through future acquisitions of real estate related investments.

Same-Property Operating Results

The table below presents the 2014 and 2013 operating results for the Company's rental properties owned as of January 1, 2013 (with the exception noted below), thereby excluding the impact on our results of operations from the properties acquired during 2014. The Company believes that this type of non-GAAP financial measure, when considered with our financial statements prepared in accordance with GAAP, is useful to investors to better understand the Company's operating results. Properties are included in this analysis if they were owned and operated for the entirety of both periods being compared, except for our Lancaster and Casa Grande properties. These properties were sold by the Company for one-another in a like-kind exchange in the second quarter of 2013, and so have both been included in the following analysis. Same-property operating results should not be considered as an alternative to net income per share as determined in accordance with GAAP or as a measure of liquidity. Further, same-property operating results is a measure for which there is no standard definition and, as such, it is not consistently defined or reported on among the Company's peers. Thus, this measure may not provide an adequate basis for comparison between REITs.

The following table summarizes certain components of same-property operating results for the years ended December 31, 2014 and 2013.

| | Year Ended December 31, | | Variance | |
|--|-------------------------|--------------|----------------|---|
| | 2014 | 2013 | \$ | % |
| Same - property operating results: | | | | |
| Rental revenues - Commercial properties | \$16,242,554 | \$16,598,873 | \$ (356,319) | |
| Rental revenues - Model Homes | 2,075,839 | 2,964,248 | \$ (888,410) | |
| Rental operating costs - Commercial properties | 6,687,159 | 6,186,831 | \$ 500,328 | |
| Rental operating costs - Model Homes | 185,476 | 195,590 | \$ (10,114) | |
| General and administrative - Commercial properties | 3,879,237 | 3,700,635 | \$ 178,602 | |
| General and administrative - Model Homes | 1,676,696 | 1,743,021 | \$ (66,325) | |
| Net operating income | \$ 691,858 | 2,427,486 | \$ (1,735,627) | |

Revenues. Total revenue was \$19.9 million for the year ended December 31, 2014, compared to \$19.6 for the same period in 2013, an increase of \$339,000 or 1.7%. The increase in rental income as reported in 2014 as compared to 2013 reflects:

- A net increase in industrial and office properties rental income of \$1.0 million as a result of the five property acquisitions we made during 2014. The resulting \$1.3 million increase in rental revenues arising from properties more than compensated for the decline in rental income owing to a non-recurring lease cancellation fee of \$345,000 received in 2013.
- Revenues from rentals of Model Homes decreased to \$2.0 million in 2014 from \$2.9 million in the prior year. The 30.0% decrease in rental revenues arose as a result of a reduction in the number of Model Homes that in 2014 compared to the prior year. We owned 54 Model Homes at December 31, 2014 compared to 77 homes at December 31, 2013.
- Self-storage revenue increased \$140,000 during 2014, primarily as a result of additional revenues of approximately \$95,000 generated from our Lancaster self-storage facility. This facility was acquired in May 2013; the 2014 results reflect a full year of site revenue compared to eight months of site revenue included in our results of operations in 2013.

Rental Operating Costs. Rental operating costs were \$7.5 million for the year ended December 31, 2014 compared to \$6.4 million for the same period in 2013, an increase of \$1.1 million or 17.0%. Costs associated with acquired during 2014 accounted for \$593,000 of this increase. Additionally, we experienced an increase in our costs at properties we owned during all of 2014 and 2013 due to an increase in third party on-site management fees (including additional repairs and maintenance costs (\$95,000), an increase in janitorial expenses (\$60,000), additional legal and accounting fees (\$68,000) and an increase in the cost of unreimbursed utilities (\$66,000).

Rental operating costs as a percentage of rental and fee income was 37.5% and 32.6% for the years ended December 31, 2014 and 2013, respectively, primarily due to the decline in Model Home rental revenues. Model Home rental operating costs as a percentage of rental and fee income was 8.9% and 6.6% for the years ended December 31, 2014 and 2013, respectively. Model Home rental operating costs are typically low as the leasees pay for all of the costs related to the homes, including taxes and insurance. Although Model Home operating costs remained relatively consistent as a percentage of revenues, the decrease in the scope of Model Home business translated into an increase in overall rental operating costs as a percentage of rental and fee income.

General and Administrative Expenses. General and administrative ("G&A") expenses were \$5.6 million for the year ended December 31, 2014, compared to \$5.4 for the same period in 2013, representing an increase of \$112,000. While our overall G&A costs remained relatively unchanged, our federal income taxes increased by \$430,000 at our taxable REIT subsidiaries due to the gains on the sales of model homes, which increase was partially offset by an increase in compensation costs of \$295,000 due to the reassignment of certain of our personnel to NTR Property Management, our in-house property management company (the costs of which are included in rental operating expenses).

Depreciation and Amortization. Depreciation and amortization expenses were \$6.0 million for the year ended December 31, 2014, compared to \$5.3 million for the same period in 2013, representing an increase of \$740,000. Depreciation costs associated with properties acquired during 2014 accounted for all of this increase.

Asset Impairments. We review the carrying value of each of our real estate properties annually to determine if circumstances indicate an impairment in the carrying value of these investments exists. During fiscal 2013, we recognized impairment charges on our Havana Parker and Morena Office Centre properties of \$1.5 million and

\$500,000, respectively. During fiscal 2014, we recognized an additional impairment charge of \$950,000 for our Havana Parker property. These impairment charges reflect management's estimate of the fair market value base comps of like property in the same geographical area.

Interest Expense. Interest expense, including amortization of deferred finance charges, increased by \$1.4 million, or 28.0%, to \$6.5 million for the year ended December 31, 2014 compared to \$5.1 million for the same period in 2013. The increase in interest expense was primarily the result of the preferred return on the Series B Preferred Stock issued in August 2014 of \$776,000, and amortization of the deferred offering costs associated with that transaction. Additionally, we incurred interest costs of \$269,000 as a result of our 2014 acquisitions of the Bismarck and Union Terrace properties. The interest expense for our other 2014 acquisitions was minimal due to the timing of the closing (they were completed in late-December 2014). The weighted average interest rate on our outstanding debt was 4.9% as of December 31, 2014 compared to 5.1% as of December 31, 2013.

Gain on Sale of Real Estate Assets and Partnerships, net. For the year ended December 31, 2014, we had a gain on the sale of our Fontana Medical Center of \$1.7 million, gains from the sales of Model Homes of \$3.5 million on the sale of a land parcel of \$0.1 million. For the year ended December 31, 2013, the Company had a net gain on the sale of the Casa Grande Apartments totaling \$322,000 and gains from the sales of Model Homes totaling \$1.1 million. In addition, in 2013 the Company also recognized gains from the liquidation of its interests in the two limited partnerships totaling \$372,000.

Gain on Extinguishment of Debt. In December 2014, the Company and the lender for the Havana Parker Complex entered into a loan modification agreement pursuant to which the lender agreed to reduce the outstanding loan on the property by \$537,000 (from \$3,037,000 to \$2,500,000) and also agreed to defer a portion of the monthly interest on the loan until loan maturity. Under the modified agreement, interest only payments (at 2.5%) are due until July 1, 2016, at which time all principal and the deferred interest are due. The Company has the option to extend the loan maturity date for one additional year in exchange for making a one-time payment of \$100,000 (which will be applied to outstanding principal).

LIQUIDITY AND CAPITAL RESOURCES

Overview

As discussed above under Economic Environment, during 2014, there have been signs of economic improvement and stabilization in the equity markets. We expect the market turbulence could continue in the commercial real estate market due to the uncertainties previously discussed. 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 during the next couple years. On the other hand, we believe the negative impact on 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.

Our future sources of liquidity include existing cash and cash equivalents, cash flows from operations, new mortgages on our unencumbered properties, refinancing of existing mortgages, future sales of our Series B Preferred Stock (as described below) and the possible sale of additional equity/debt securities. Our available liquidity at December 31, 2014 included cash and cash equivalents of \$5.6 million, as well as our potential borrowing capacity under potential facilities such as a revolving line of credit or from mortgages on unencumbered properties and refinancing of mortgages with low debt to value. We do not have a revolving line of credit at the current time, and we cannot guarantee we will be able to consummate a line of credit in the near future, but we have been exploring the possibilities of obtaining such a line of credit. We also do not have any commitments or other arrangements with any financial institution to borrow any amounts in the form of mortgages on currently unencumbered properties or through refinancing existing mortgages and we cannot be certain that a financial institution would ultimately provide such financing, but we do believe that such borrowings represent additional borrowing capacity of approximately \$12.5 million. During 2014, for example, we refinanced approximately \$10.9 million of existing debt with new debt of approximately \$17.1 million. The new debt bears interest at an average rate of 4.7% compared to 5.7% on the old debt and, due to a four year interest-only provision, our annual debt service costs decreased by \$67,000 as a result of this transaction. We are currently in the process of refinancing an existing mortgage with an outstanding principal balance of approximately \$3.0 million with interest at 5.6% with a new mortgage of \$6.0 million with interest at 4.5%. We expect this refinancing to be completed in the next quarter.

Our future capital needs include paying down existing borrowings, maintaining our existing properties, funding tenant improvement, paying lease commissions and the payment of a competitive distribution to our stockholders. We actively seek investments that are likely to produce income in order to pay distributions as well as long-term gains for our stockholders. To ensure that we are able to effectively execute these objectives, we routinely review our requirements and continually evaluate all potential sources of liquidity.

Our short term liquidity needs include paying our current operating costs, satisfying the debt service requirements of our existing mortgages and funding for our distributions to stockholders. During the year ended December 31, principal debt service and the cash portion of the distributions to our shareholders was \$8.6 million, while the net cash provided by our operating activities totaled \$4.0 million. The remainder of the distribution was covered by sales of real estate assets. We believe that the cash flow from our existing portfolio, distributions from joint ventures in Model Home partnerships and our anticipated acquisitions (when operational for the full term) will be sufficient to fund our near term operating costs, fund the debt service costs on our existing mortgages, and fund the cash portion of distribution to stockholders at the current rate. However, 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.

Our long-term liquidity needs include proceeds necessary to grow and maintain our portfolio of investments. We believe that the \$23.4 million available from the sale of preferred stock as discussed below along with the potential 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 such properties and reinvesting the proceeds in properties that have equivalent or better short term benefits and better long term potential. We expect to obtain additional cash in connection with refinancing of maturing mortgage 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 publicly we may not be able to acquire additional properties to meet our long-term objectives.

Cash and Cash Equivalents

At December 31, 2014, we had approximately \$5.6 million in cash and cash equivalents compared to approximately \$10.2 million at December 31, 2013. 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 2014 and 2013, we did not experience any loss or lack of access to our cash or cash equivalents. Approximately \$3.0 million of our cash balance is in restricted capital expenditures on existing Properties. We intend to use the remainder of our existing cash and cash equivalents for acquisitions, general corporate purposes and distributions to our stockholders.

Series B Preferred Stock

In August 2014, the Company closed on an offering of our Series B Preferred Stock. We expect to receive a total capital contribution of \$40.0 million from this financing by the conclusion of the funding period. An initial investment of \$16.6 million was made at the close of the transaction, and an additional investment of \$23.4 million will be made on or before the one year anniversary of the initial investment. We believe that the remaining proceeds from this offering will allow us to increase the size of our property portfolio by approximately \$78.0 million. We will continue to seek acquisitions or properties for equity in a DownREIT structure. Our ability to access equity markets is dependent on a number of factors including general market conditions for the REIT industry and market perception of our Company.

Secured Debt

As of December 31, 2014, NetREIT had mortgage notes payable in the aggregate principal amount of \$116.2 million, collateralized by a total of 26 properties with loan terms at issuance ranging from 3 to 30 years. The weighted average interest rate on the mortgage notes payable as of December 31, 2014 was approximately 5.0%, and our debt to book value on these properties was approximately 63.0%.

As of December 31, 2014, NetREIT Dubose, and related entities, had 54 fixed-rate mortgage notes payable in the aggregate principal amount of \$7.7 million, collateralized by a total of 54 Model Home properties. These loans have a term at issuance of three to five years. The average balance outstanding and the weighted-average interest rate on these mortgage loans are \$321,000 and 5.2%, respectively, as of December 31, 2014. Our debt to net book value on these properties is approximately 57.0%. The Company has guaranteed these promissory notes. The

balloon principal payments on the notes payable are in 2016 and 2019, and are typically tied to the end of the lease and the sale of the Model Home properties securing the debt.

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

Cash Flows for the Years Ended December 31, 2014 and 2013

Operating Activities: Net cash provided by operating activities was essentially unchanged in comparison to the prior year – cash flow from operations of \$4.4 million for 2014 compared to cash flow from operations of \$4.1 million in 2013. We anticipate that with the recent acquisitions and the future anticipated acquisitions, the cash provided by operating activities will cover the cash portion of our distributions to stockholders in the future.

Investing Activities: Net cash used in investing activities was \$42.3 million for the year ended December 31, 2014, compared to net cash used of \$0.2 million during the same period in 2013. The increase in net cash used in the current year was primarily due to the acquisitions of the five properties for \$53.3 million and the acquisition of 18 Model Homes for an aggregate purchase price of \$5.7 million. Results for 2013 include the acquisition of our Lancaster properties for five Model Homes for \$5.3 million. During 2013, our investment activities were curtailed due to the time we spent on a very large portfolio of office buildings, only to lose out on the opportunity after six months of due diligence negotiations. Hence, we only acquired one non-Model Home property for \$3.6 million. These uses of funds were offset by the proceeds received on sales of real estate of \$22.3 million from the sale of the Fontana Medical Plaza and 34 Model Homes in 2014, compared to proceeds received on sales of real estate of \$11.5 million from the sale of the Casa Grande apartments and 31 Model Homes in 2013.

We anticipate that the acquisitions of both the non-Model Home properties and of Model Homes will increase during 2015 and thereafter. Future acquisitions by the Company will depend on funds available from cash on hand and proceeds from the issuance of our Series B Preferred Stock and from the sale of existing properties. Future acquisitions of Model Homes will depend on the availability of Model Homes from developers at acceptable prices.

We currently project that we could spend up to \$3.0 million on capital improvements, tenant improvements and leasing costs for properties within our portfolio during 2015. Capital expenditures may fluctuate in any given period depending on the nature, extent, and timing of improvements required to the properties. We may spend more on gross capital expenditures during 2015 as compared to 2014 due to rising construction costs and the anticipated increase in acquisitions in 2015. 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 market conditions.

Financing Activities: Net cash provided by financing activities in 2014 was \$33.7 million compared to cash used of \$4.5 million for the comparable prior year period. The increase in cash flow in the current year was primarily due to a net inflow of \$36.4 million from new mortgage and debt refinancing activity and the net cash inflow of \$13.9 million from the sale of Series B Preferred Stock, offset by the net cash outflow of \$1.6 million used to redeem shares. Net cash flows associated with noncontrolling interests also adversely impacted our operations by \$11.1 million (a net cash outflow of \$7.5 million during 2014 (primarily due to special distributions of stemming from two high Model Home sales activity) compared to a net cash inflow of \$3.6 million in 2013 (due to capital raising activities of the Model Home entities).

We anticipate mortgaging one unencumbered property and increasing mortgage balances in connection with refinancing debt maturing in 2015 on several other properties (during the next two years) to provide additional financing activities. These properties have an estimated market value of approximately \$33.3 million and mortgage obligations of \$10.8 million, which we believe will allow us to increase our net borrowings by approximately \$22.5 million. In addition, we expect that we will generate approximately \$23.4 million from the planned issuance of Series B Preferred Stock. We anticipate using the cash so provided to acquire approximately \$120.0 million of new properties. We are also pursuing other sources of capital either through a line of credit facility or the possible sale of additional equity/debt securities to provide resources to pursue future acquisitions.

On February 6, 2015, we entered into an Agreement of Purchase and Sale and Joint Escrow Instructions to sell 100% of our Sparky's Self-Storage Portfolio, as defined in the Purchase Agreement, for a purchase price of approximately \$36.3 million to an unaffiliated third party purchaser. The Self-Storage Portfolio is a portfolio of seven self-storage properties located in San Bernardino County, California. The Buyer is currently conducting due

diligence on the Self-Storage Portfolio during an initial 55-day inspection period. Initially, the Buyer escrowed a deposit in the amount of \$500,000. At the expiration of the due diligence period, an additional \$500,000 deposit was made and the total deposit will become non-refundable and will be applied to the purchase price at closing. The sale of the Self-Storage Portfolio is subject to the fulfillment of certain closing conditions and other terms and conditions for real estate transactions. There can be no assurance that any or all of the conditions will be satisfied or, if satisfied, that the Self-Storage Portfolio will be sold. Assuming that outstanding contingencies are satisfied, we anticipate closing of the Self-Storage Portfolio sale will take place in the second quarter of 2015. We expect that the net proceeds from this transaction will be redeployed into our property portfolio.

Off-Balance Sheet Arrangements

As of December 31, 2014, we do not have any off-balance sheet arrangements or obligations, including contingent obligations.

Non-GAAP Supplemental Financial Measures:

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 on the 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, does not reflect 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 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 investments 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, 2014 and 2013.

| Year Ended December 31, | 2014 | 2013 |
|---|---------------------|---------------------|
| Net loss | \$ (4,045,683) | \$ (4,045,683) |
| Adjustments: | | |
| Income attributable to noncontrolling interests | 3,192,082 | 3,192,082 |
| Depreciation and amortization | 6,049,385 | 6,049,385 |
| Asset impairments | 950,000 | 950,000 |
| Gain on sale of real estate assets | (5,120,699) | (5,120,699) |
| FFO | \$ 1,025,085 | \$ 1,025,085 |

No conclusion or comparisons should be made from the presentation of these figures.

Modified Funds From Operations ("MFFO")

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-market and below-market leases and liabilities (which are adjusted in order to reflect such payments from a GAAP accrual 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 reason 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 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 in 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 in 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-market and below-market leases, deferred rent receivable 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 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, are an 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 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 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 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. 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 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, 2014 and 2013.

| Years ended December 31, | 2014 | | 2013 | |
|-------------------------------------|-----------|--------------------|-----------|-----------|
| Funds from operations | \$ | \$1,025,085 | \$ | \$ |
| Adjustments: | | | | |
| Straight line rent adjustment | | 376,661 | | |
| Above-market and below-market rents | | (156,257) | | |
| Lease commission amortization | | 393,322 | | |
| Finance charge amortization | | 417,723 | | |
| Acquisition costs | | 163,429 | | |
| MFFO | \$ | \$2,219,963 | \$ | \$ |

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 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 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 any disclosure 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, 2014 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 (2013 Framework). 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, 2014.

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 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 2015 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 12, 2015.

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 2015 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 2015 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 2015 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 2015 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

(1) Financial Statements - the following documents are filed as part of this report:

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets as of December 31, 2014 and 2013
- Consolidated Statements of Operations for the years ended December 31, 2014 and 2013
- Consolidated Statements of Equity for the years ended December 31, 2014 and 2013
- Consolidated Statements of Cash Flows for the years ended December 31, 2014 and 2013
- Notes to Consolidated Financial Statements

(2) Financial Statement Schedules - the following documents are filed as part of this report:

- Schedule III - Real Estate Assets and Accumulated Depreciation and Amortization as of December 31, 2014

All other 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 - an index to the Exhibits as filed as part of this Form 10-K is set forth below.

| Number | Description |
|--------|---|
| 2.1 | Plan and Agreement of Merger, by and between NetREIT, Inc., a Maryland corporation, and NetREIT, a California corporation, dated as of July 30, 2010 (incorporated by reference to Exhibit 2.01 to NetREIT's Report on Form 8-K filed August 10, 2010). |
| 2.2 | Agreement of Purchase & Sale, between NetREIT, Inc. and Mullrock 3 Murphy Canyon, LLC, dated as of July 12, 2010 (incorporated by reference to Exhibit 2.1 to NetREIT's Report on Form 8-K filed August 13, 2010). |
| 3.1 | Articles of Amendment and Restatement of the Articles of Incorporation of NetREIT, dated as of July 30, 2010 (incorporated by reference to Exhibit 3.01 to NetREIT's Report on Form 8-K filed August 10, 2010). |
| 3.2 | Amended and Restated Bylaws of NetREIT, Inc. (incorporated by reference to Exhibit 3.02 to NetREIT's Report on Form 8-K filed August 10, 2010). |
| 3.3 | Articles of Merger filed with the Maryland State Department of Assessments and Taxation and the California Secretary of State on August 4, 2010 (incorporated by reference to Exhibit 3.03 to NetREIT's Report on Form 8-K filed August 10, 2010). |
| 3.4 | Articles of Incorporation filed January 28, 1999 (incorporated by reference to Exhibit 3.1 to NetREIT's Report on Form 10-12B, file no. 001-34049, filed May 6, 2008). |
| 3.5 | Certificate of Determination of Series AA Preferred Stock filed April 4, 2005 (incorporated by reference to Exhibit 3.2 to NetREIT's Report on Form 10-12B, file no. 001-34049, filed May 6, 2008). |
| 3.6 | Bylaws of NetREIT (incorporated by reference to Exhibit 3.3 to NetREIT's Report on Form 10-12B, file no. 001-34049, filed May 6, 2008). |
| 3.7 | Audit Committee Charter (incorporated by reference to Exhibit 3.4 to NetREIT's Report on Form 10-12B, file no. 001-34049, filed May 6, 2008). |
| 3.8 | Compensation and Benefits Committee Charter (incorporated by reference to Exhibit 3.5 to NetREIT's Report on Form 10-12B, file no. 001-34049, filed May 6, 2008). |
| 3.9 | Nominating and Corporate Governance Committee Charter (incorporated by reference to Exhibit 3.6 to NetREIT's Report on Form 10-12B, file no. 001-34049, filed May 6, 2008). |
| 3.10 | Principles of Corporate Governance of NetREIT (incorporated by reference to Exhibit 3.7 to NetREIT's Report on Form 10-12B, file no. 001-34049, filed May 6, 2008). |
| 4.1 | Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to NetREIT's Report on Form 10-12B, file no. 001-34049, filed May 6, 2008). |
| 4.2 | Form of Series AA Preferred Stock Certificate (incorporated by reference to Exhibit 4.2 to NetREIT's Report on Form 10-12B, file no. 001-34049, filed May 6, 2008). |
| 4.3 | Registration Rights Agreement 2005 (incorporated by reference to Exhibit 4.3 to NetREIT's Report on Form 10-12B, file no. 001-34049, filed September 5, 2008). |
| 4.4 | Registration Rights Agreement 2007 (incorporated by reference to Exhibit 4.4 to NetREIT's Report on Form 10-12B, file no. 001-34049, filed September 5, 2008). |
| 10.1 | 1999 Flexible Incentive Plan (incorporated by reference to Exhibit 10.1 to NetREIT's Report on Form 10-12B, file no. 001-34049, filed May 6, 2008). |
| 10.2 | NetREIT Dividend Reinvestment Plan (incorporated by reference to Exhibit 10.2 to NetREIT's Report on Form 10-12B, file no. 001-34049, filed May 6, 2008). |
| 10.3 | Form of Property Management Agreement (incorporated by reference to Exhibit 10.3 to NetREIT's Report on Form 10-12B, file no. 001-34049, filed May 6, 2008). |
| 10.4 | Option Agreement to acquire CHG Properties (incorporated by reference to Exhibit 10.4 to NetREIT's Report on Form 10-12B, file no. 001-34049, filed May 6, 2008). |
| 10.5 | Employment Agreement as of April 20, 1999 by and between the Company and Jack K. Heilbron (incorporated by reference to Exhibit 10.5 to NetREIT's Report on Form 10-12G/A filed June 26, 2009). |
| 10.6 | Employment Agreement as of April 20, 1999 by and between the Company and Kenneth W. Elsberry (incorporated by reference to Exhibit 10.6 to NetREIT's Report on Form 10-12G/A filed June 26, 2009). |
| 10.7 | Loan Assumption and Security Agreement, and Note Modification Agreement (incorporated by reference to Exhibit 10.7 to NetREIT's Report on Form 8-K filed August 27, 2009). |
| 10.8 | Promissory Note (incorporated by reference to Exhibit 10.8 to NetREIT's Report on Form 8-K filed August 27, 2009). |
| 10.9 | Loan Agreement by and Between Jackson National Life Insurance Company and NetREIT Inc. (incorporated by reference to Exhibit 10.9 to NetREIT's Report on Form 8-K filed August 27, 2010). |
| 10.10 | Fixed Rate Promissory Note Between Jackson National Life Insurance Company and NetREIT Inc. (incorporated by reference to Exhibit 10.10 to NetREIT's Report on Form 8-K filed August 27, 2010). |

| | |
|---------|---|
| 10.11 | Employment Agreement for Mr. Heilbron Effective as of January 1, 2011 (incorporated by reference to Exhibit 10.11 to NetREIT's Report on Form 8-K filed January 24, 2011). |
| 10.12 | Employment Agreement for Mr. Elsberry Effective as of January 1, 2011 (incorporated by reference to Exhibit 10.12 to NetREIT's Report on Form 8-K filed January 24, 2011). |
| 10.13 | Employment Agreement for Mr. Dubose Effective as of January 1, 2011 (incorporated by reference to Exhibit 10.13 to NetREIT's Report on Form 8-K filed January 24, 2011). |
| 10.14 | Purchase & Sale Agreement and Joint Escrow Instructions to acquire Dakota Bank Building (incorporated by reference to Exhibit 10.14 to NetREIT's Report on Form 8-K filed February 3, 2011) |
| 10.15 | Promissory Note - Dakota Bank Buildings (incorporated by reference to Exhibit 10.15 to NetREIT's Report on Form 8-K/A filed May 31, 2011). |
| 10.16 | Mortgage, Security Agreement and Fixture Financing Statement - Dakota Bank Buildings (incorporated by reference to Exhibit 10.16 to NetREIT's Report on Form 8-K/A filed May 31, 2011). |
| 10.17 | Property Contribution Agreement and Joint Escrow Instructions- Port of San Diego Complex (incorporated by reference to Exhibit 10.17 to NetREIT's Report on Form 8-K filed September 12, 2011). |
| 10.18 | First Amended and Restated NetREIT National City Partners, LP Limited Partnership Agreement (incorporated by reference to Exhibit 10.18 to NetREIT's Report on Form 8-K filed December 30, 2011) |
| 10.19 | Assumption Agreement - NetREIT National City Partners, LP (incorporated by reference to Exhibit 10.19 to NetREIT's Report on Form 8-K filed December 30, 2011). |
| 10.20 | Agreement and Plan of Merger between the Company and C I Holding Group, Inc. (incorporated by reference to Exhibit 10.23 to NetREIT's Report on Form 8-K filed February 6, 2013). |
| 10.21 | NetREIT National City Partners LP Promissory Note (incorporated by reference to Exhibit 10.24 to NetREIT's Report on Form 8-K filed March 5, 2013). |
| 10.22 | NetREIT National City Partners LP Deed of Trust (incorporated by reference to Exhibit 10.25 to NetREIT's Report on Form 8-K filed March 5, 2013). |
| 10.23 | Preferred Stock Purchase Agreement dated as of August 4, 2014, by and between NetREIT, Inc., and PFP III Sub II, LLC (incorporated by reference to Exhibit 10.23 to NetREIT's Report on Form 8-K filed August 8, 2014). |
| 10.24 | Investor Agreement dated as of August 4, 2014, by and between NetREIT, Inc., and PFP III Sub II, LLC (incorporated by reference to Exhibit 10.24 to NetREIT's Report on Form 8-K filed August 8, 2014). |
| 10.25 | Articles Supplementary filed on August 4, 2014 (incorporated by reference to Exhibit 10.26 to NetREIT's Report on Form 8-K filed August 8, 2014). |
| 10.26 | Amendment No. 1 to Amended and Restated Bylaws of NetREIT, Inc. effective as of August 8, 2014 (incorporated by reference to Exhibit 10.27 to NetREIT's Report on Form 8-K filed August 8, 2014). |
| 10.27 | Specimen Certificate for NetREIT, Inc. Series B Preferred Stock (incorporated by reference to Exhibit 10.28 to NetREIT's Report on Form 8-K filed August 8, 2014). |
| 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 Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. * |
| 31.2 | Certification of the Company's Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. * |
| 31.3 | Certification of principal Chief Executive Officer and Chief Financial 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 * |

* FILED HEREWITH

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 |
|---|--|----------------|
| <u>/s/ Jack K. Heilbron</u> Jack K. Heilbron | Director, Chairman of the Board and Chief Executive Officer (Principal Executive Officer) | March 30, 2015 |
| <u>/s/ Kenneth W. Elsberry</u> Kenneth W. Elsberry | Director and Chief Financial Officer (Principal Accounting Officer) | March 30, 2015 |
| <u>/s/ William H. Allen</u> William H. Allen | Director, | March 30, 2015 |
| <u>/s/ David T. Bruen</u> David T. Bruen | Director | March 30, 2015 |
| <u>/s/ Shirley Y. Bullard</u> Shirley Y. Bullard | Director | March 30, 2015 |
| <u>/s/ Larry G. Dubose</u> Larry G. Dubose | Director, Executive Vice President – Model Homes Division | March 30, 2015 |
| <u>/s/ Sumner J. Rollins</u> Sumner J. Rollings | Director | March 30, 2015 |
| <u>/s/ ThomasE. Schwartz</u> Thomas E. Schwartz | Director | March 30, 2015 |

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

| | <u>Page</u> |
|---|-------------|
| REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM | F-1 |
| FINANCIAL STATEMENTS: | |
| Consolidated Balance Sheets | F-2 |
| Consolidated Statements of Operations | F-3 |
| Consolidated Statements of Equity | F-4 |
| Consolidated Statements of Cash Flows | F-5 |
| Notes to Consolidated Financial Statements | F-6 |
| Schedule III | F-21 |

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, 2014 and 2013, and the related consolidated statements of operations, equity and cash flow of the two years in the period ended December 31, 2014. Our audits also included the financial statement schedule in Item 15 (a), Schedule III – Real Estate and Accumulated Depreciation and Amortization. These consolidated statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule 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 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, 2014 and 2013, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Squar, Milner, Peterson, Miranda & Williamson, LLP
Newport Beach, California
March 30, 2015

NetREIT, Inc. and Subsidiaries
Consolidated Balance Sheets

| | Decem 20 |
|--|---------------------------|
| ASSETS | |
| Real estate assets and lease intangibles: | |
| Land | \$47.6 |
| Buildings and improvements | 154.0 |
| Tenant improvements | 13.1 |
| Lease intangibles | 9.7 |
| Real estate assets and lease intangibles, cost | 224.7 |
| Accumulated depreciation and amortization | (26.5) |
| Real estate assets and lease intangibles, net | 198.1 |
| Cash and cash equivalents | 5.6 |
| Restricted cash | 4.0 |
| Deferred leasing and financing costs, net | 3.0 |
| Goodwill | 2.4 |
| Other assets, net | 7.2 |
| TOTAL ASSETS | <u>\$220.6</u> |
| LIABILITIES AND EQUITY | |
| Liabilities: | |
| Mortgage notes payable | \$123.8 |
| Accounts payable and accrued liabilities | 6.6 |
| Dividends payable | 9 |
| Below-market rent, net | 9 |
| | |
| Mandatorily redeemable Series B Preferred Stock, \$0.01 par value, \$1,000 liquidating preference; shares authorized: 40,000; shares issued and outstanding at December 31, 2014 and 2013: 16,600 and none, respectively | 16.6 |
| Total liabilities | 149.0 |
| | |
| Commitments and contingencies | |
| | |
| 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, 2014 and December 31, 2013, respectively | |
| Redeemable convertible Series 6.3% preferred stock, \$0.01 par value, \$1,000 liquidating preference; shares authorized: 10,000; shares issued and outstanding at December 31, 2014 and 2013: none and 1,649, respectively | |
| Common stock - Series A, \$0.01 par value; shares authorized: 100,000,000; shares issued and outstanding at December 31, 2014 and 2013: 16,887,377 and 16,473,674, respectively | 1 |
| Additional paid-in capital | 143.7 |
| Dividends in excess of accumulated losses | (83.1) |
| Total stockholders' equity before noncontrolling interest | 60.7 |
| Noncontrolling interest | 10.8 |
| Total equity | 71.5 |
| TOTAL LIABILITIES AND EQUITY | <u>\$220.6</u> |

See Notes to Consolidated Financial Statements

NetREIT, Inc. and Subsidiaries
Consolidated Statements of Operations

| | Year ended December 31, | |
|--|-------------------------|-----------------------|
| | 2014 | 2013 |
| Revenues: | | |
| Rental income | \$ 19,458,581 | \$ 19,458,581 |
| Fee and other income | 443,829 | 443,829 |
| Total revenues | <u>19,902,410</u> | <u>19,902,410</u> |
| Costs and expenses: | | |
| Rental operating costs | 7,465,658 | 7,465,658 |
| General and administrative | 5,555,449 | 5,555,449 |
| Depreciation and amortization | 6,049,385 | 6,049,385 |
| Real estate asset impairments | 950,000 | 950,000 |
| Total costs and expenses | <u>20,020,492</u> | <u>20,020,492</u> |
| (Loss) income from operations | (118,082) | (118,082) |
| Other income (expense): | | |
| Interest expense | (6,478,976) | (6,478,976) |
| Interest income | 85,806 | 85,806 |
| Gain on sales of real estate and partnerships, net | 5,120,699 | 5,120,699 |
| Gain on extinguishment of debt | 536,952 | 536,952 |
| Total other expense, net | <u>(735,519)</u> | <u>(735,519)</u> |
| Net loss | (853,601) | (853,601) |
| Less: Income attributable to noncontrolling interests | (3,192,082) | (3,192,082) |
| Net loss attributable to common shareholders | <u>\$ (4,045,683)</u> | <u>\$ (4,045,683)</u> |
| Basic and diluted net loss per common share | <u>\$ (0.24)</u> | <u>\$ (0.24)</u> |
| Weighted average common shares outstanding - basic and diluted | <u>16,798,232</u> | <u>16,798,232</u> |

See Notes to Consolidated Financial Statements
F-1

NetREIT, Inc. and Subsidiaries
Consolidated Statements of Equity

| | Series 6.3% Preferred Stock Shares | Common Stock Shares | Additional Paid-in Capital | In Excess of Accumulated Losses | Total Stockholders' Equity | Non- Controlling Interest | Total Equity | | |
|---|--|------------------------|----------------------------------|---------------------------------------|----------------------------------|---------------------------------|-----------------|--------------|------|
| Balance at December 31, 2012 | 1,649 | \$16 | \$15,767,417 | \$157,674 | \$134,884,312 | \$(58,337,457) | \$76,704,545 | \$10,678,123 | \$87 |
| Net income (loss) | - | - | - | - | - | (4,089,094) | (4,089,094) | 1,566,023 | (2) |
| Vesting of restricted stock | - | - | 56,038 | 560 | 481,370 | - | 481,930 | - | 481 |
| Stock issued for acquisition of CHG | - | - | 200,000 | 2,000 | 1,898,000 | - | 1,900,000 | - | 1 |
| Stock issued for acquisition of DMHU | - | - | 38,752 | 388 | 332,881 | - | 333,269 | - | - |
| Repurchase of common stock | - | - | (4,882) | (48) | (34,124) | - | (34,172) | - | - |
| Dividends paid/reinvested | - | - | 313,017 | 3,130 | 2,951,827 | (6,578,318) | (3,623,361) | - | (3) |
| Dividends declared/reinvested | - | - | 103,332 | 1,033 | 980,617 | (2,222,105) | (1,240,455) | - | (1) |
| Contributions from noncontrolling interest, net of distributions paid | - | - | - | - | - | - | - | 3,191,275 | 3 |
| Balance at December 31, 2013 | 1,649 | 16 | 16,473,674 | \$164,737 | \$141,494,883 | \$(71,226,974) | \$70,432,662 | \$15,435,421 | \$85 |
| Net income (loss) | - | - | - | - | - | (4,045,683) | (4,045,683) | 3,192,082 | - |
| Vesting of restricted stock | - | - | 51,115 | 511 | 455,308 | - | 455,819 | - | - |
| Repurchase of preferred stock | - | - | - | - | - | - | - | - | - |
| from related parties | (1,649) | (16) | - | - | (1,649,250) | - | (1,649,266) | - | (1) |
| Common stock issued to related party | - | - | 39,806 | 398 | 312,394 | - | 312,792 | - | - |
| Repurchase of common stock | - | - | (6,579) | (66) | (47,128) | - | (47,194) | - | - |
| Repurchase of common stock | - | - | - | - | - | - | - | - | - |
| from related parties | - | - | (21,000) | (210) | (164,008) | - | (165,018) | - | - |
| Dividends paid/reinvested | - | - | 277,660 | 2,777 | 2,624,536 | (6,190,366) | (3,563,053) | - | (3) |
| Dividends declared/reinvested | - | - | 72,701 | 727 | 689,941 | (1,687,843) | (997,175) | - | - |
| Contributions from noncontrolling interest, net of distributions paid | - | - | - | - | - | - | - | (7,825,054) | (7) |
| Balance at December 31, 2014 | - | - | 16,887,377 | \$168,874 | \$143,715,876 | \$(83,150,866) | \$60,733,884 | \$10,802,449 | \$71 |

See Notes to Consolidated Financial Statements.

NetREIT, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

| | Year Ended December 31, | |
|---|-------------------------|---------------------|
| | 2014 | 2013 |
| Cash flows from operating activities: | | |
| Net loss | \$ | (853,601) \$ |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | | 6,049,385 |
| Stock compensation | | 455,819 |
| Bad debt expense | | 122,121 |
| Real estate asset impairments | | 950,000 |
| Gain on sales of real estate assets and partnerships, net | | (5,120,699) |
| Gain on extinguishment of debt | | (536,952) |
| Amortization of financing costs | | 417,724 |
| Changes in operating assets and liabilities: | | |
| Other assets | | 674,338 |
| Accounts payable and accrued liabilities | | 2,046,684 |
| Below-market rent | | 184,366 |
| Net cash provided by operating activities | | <u>4,389,185</u> |
| Cash flows from investing activities: | | |
| Real estate acquisitions | | (59,275,783) |
| Building and tenant improvements | | (2,567,027) |
| Deferred leasing costs | | (407,261) |
| Proceeds from sales of real estate assets | | 22,287,463 |
| Increase in restricted cash | | (2,731,221) |
| Net cash used in investing activities | | <u>(42,693,829)</u> |
| Cash flows from financing activities: | | |
| Proceeds from mortgage notes payable, net of issuance costs | | 56,859,919 |
| Repayment of mortgage notes payable | | (22,811,129) |
| Proceeds from issuance of mandatorily redeemable preferred stock, net of offering costs | | 13,862,103 |
| Repurchase of common stock | | (212,212) |
| Redemption of Series 6.3% preferred stock | | (1,649,266) |
| Contributions received from noncontrolling interests in excess of distributions paid | | (7,512,262) |
| Dividends paid | | (4,803,508) |
| Net cash provided by (used in) financing activities | | <u>33,733,645</u> |
| Net decrease in cash and cash equivalents | | (4,570,999) |
| Cash and cash equivalents - beginning of year | | 10,207,001 |
| Cash and cash equivalents - end of year | \$ | <u>5,636,002</u> \$ |
| Supplemental disclosure of cash flow information: | | |
| Interest paid -mortgage notes payable | \$ | 6,477,096 \$ |
| Non-cash financing activities: | | |
| Reinvestment of cash dividend | \$ | 3,314,477 \$ |
| Accrual of dividend payable | \$ | 997,175 \$ |
| Conversion of partnership interests into common stock | \$ | 165,018 \$ |
| Stock issued for acquisition of CHG Properties | \$ | - \$ |

See Notes to Consolidated Financial Statements

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization. NetREIT (the "Company") was incorporated in the State of California in January 1999 for the purpose of investing in real estate properties. Effective August 2010, NetREIT merged into NetREIT, Inc., a 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 following partnership activity occurred during the periods covered by these consolidated financial statements:

- The Company is the sole General Partner in three limited partnerships (NetREIT Palm Self-Storage LP, NetREIT Casa Grande LP and NetREIT Garden Gateway LP), all with ownership in real estate income producing properties. The Company refers to these entities collectively, as the "NetREIT Partnerships".
- The Company is a limited partner in three partnerships that purchase and leaseback Model Homes from developers ("Dubose Model Home Investors #201, LP", "Dubose Model Homes Investors #202, LP", and "NetREIT Model Home REIT, LP"). The Company refers to these entities collectively, as the "Model Home Partnerships".
- The Company had previously been a limited partner in a number of Model Home partnerships, the last of which (Dubose Acquisition Partners II, Dubose Model Home Income Fund #3, LTD., Dubose Model Home Income Fund #4, LTD., and Dubose Model Home Investors Fund #113, LP) sold all of their Model Home assets and were dissolved before the end of 2014. These entities were referred to as the "Income Funds".

The Company has determined that the entities described above, where it owns less than 100%, should be included in the Company's consolidated financial statements as the Company directs their activities and believes that it has significant control over these limited partnerships through NetREIT, the Parent Company.

Unit-based information used herein (such as references to square footage or property occupancy rates) is unaudited.

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. As a result, the Company operates in five business segments. See Note 12 "Segments".

Customer Concentration. 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 years ended December 31, 2014 and 2013.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation. The accompanying consolidated financial statements include the accounts of NetREIT and its subsidiaries, NetREIT Advisors, LLC and Dubose Advisors LLC (collectively, the "Advisors"), and Dubose Model Home REIT, Inc. The consolidated financial statements also include the results of the NetREIT Partnerships, the Model Home Partnerships, NetREIT National City Partners, LP, and for 2013, the Income Funds herein, references to the "Company" include references to NetREIT, its subsidiaries, the Advisors, the Partnerships and the Income Funds. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company classifies the noncontrolling interests in the NetREIT Partnerships as part of consolidated net loss in 2014 and 2013, and includes the accumulated amount of noncontrolling interests as part of equity from the Partnerships inception in February 2010. If a change in ownership of a consolidated subsidiary results in loss of control and deconsolidation, any retained ownership interest will be remeasured, with the gain or loss reported in the statement of operations. Management has evaluated the noncontrolling interests and determined that they do not contain any redemption features.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant items 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. Actual results may differ from those estimates.

Real Estate Assets and Lease Intangibles. Land, buildings and improvements are recorded at cost, including tenant improvements and lease acquisition costs (including leasing commissions, space planning fees, and legal fees). The Company capitalizes any expenditure that replaces, improves, or otherwise extends the economic life of an asset, while ordinary repairs and maintenance are expensed as incurred. The Company allocates the purchase price of acquired properties between the acquired tangible assets and liabilities (consisting of land, building, tenant improvements, land purchase options, and long-term debt) and identified intangible assets and liabilities (including 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 respective fair values.

The Company allocates the purchase price to tangible assets of an acquired property based on the estimated fair values of those tangible assets assuming the building was vacant. Estimates of fair value for land, building and 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 from independent appraisers 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 value allocated to acquired lease intangibles is based on management’s evaluation of the specific characteristics of each tenant’s lease. Characteristics considered by management in allocating these values include the nature 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 the above-market 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 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 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 \$156,000 and \$197,000 for the years ended December 31, 2014 and 2013, 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 based on the likelihood of a tenant renewing its lease. Amortization expense related to these assets was approximately \$362,000 and \$456,000 for years ended December 31, 2014 and 2013, respectively.

Impairment of Real Estate Assets. 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 fiscal 2013, the Company determined that an impairment existed in two of its properties and, as a result, recorded asset impairment charges of \$2.0 million. During fiscal 2014, the Company determined that an additional impairment existed in one of its properties and, as a result, recorded an asset impairment of \$950,000.

Intangible Assets. Intangible assets, including goodwill and lease intangibles, are comprised of finite-lived and indefinite-lived assets. Lease intangibles represents the allocation of a portion of the purchase price of a property representing the estimated value of in-place leases, unamortized lease origination costs, tenant relationships and land purchase options. Intangible assets that are not deemed to have an indefinite useful life are amortized over their estimated useful lives. Indefinite-lived assets are not amortized. Amortization expense of intangible assets that are not deemed to have an indefinite useful life was approximately \$608,000 and \$531,000, respectively, for the years ended December 31, 2014 and 2013 and is included in depreciation and amortization in the accompanying consolidated statements of operation.

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. Impairment is recognized only if the carrying 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 to exist at December 31, 2014 and 2013.

Depreciation and Amortization. The Company records depreciation and amortization expense using the straight-line method over the useful lives of the respective assets. The cost of buildings are depreciated over estimated useful lives of 39 years, the costs of 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 the cost of furniture, fixtures and equipment are depreciated over estimated useful lives of 3 to 7 years. Depreciation expense for the years ended December 31, 2014 and 2013 was approximately \$5.0 million and \$4.5 million, respectively, and is included in depreciation and amortization in the accompanying consolidated statements of operations.

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, 2014, the Company had approximately \$2.7 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 lease 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 payment history and current credit status of its tenants in developing these estimates. At December 31, 2014 and 2013, the balance of allowance for possible uncollectible tenant receivables included in other assets, net in the accompanying consolidated balance sheets was approximately \$66,000 and \$115,000, 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 conditions change. If management determines the estimated remaining life of the respective lease has changed, the amortization period is adjusted. At December 31, 2014 and 2013, the Company had net deferred leasing costs of approximately \$1,333,000 and \$1,465,000, respectively, which are included in deferred leasing and financing costs, net in the accompanying consolidated balance sheets. Total amortization expense for the year ended December 31, 2014 and 2013 was approximately \$393,000 and \$321,000, respectively and is included in interest expense in the accompanying consolidated statements of operations.

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 over the term of the respective loans. This method approximates the effective interest method, over the contractual term of the respective loans. At December 31, 2014 and 2013, deferred financing costs were approximately \$1,748,000 and \$1,148,000, respectively, which are included in deferred leasing and financing costs, net in the accompanying consolidated balance sheets. Total amortization expense for the year ended December 31, 2014 and 2013 was approximately \$417,000 and \$192,000, respectively and is included in interest expense in the accompanying consolidated statements of operations.

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 its adjusted taxable income, as defined in the Code, to its stockholders and satisfy certain other organizational and operating requirements. As a REIT, no provision is made for federal income taxes on income resulting from those sales of investments which have or will be distributed to stockholders within the prescribed limits. However, taxes are 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 is 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 defined. The Company believes that it has met all of the REIT distribution and technical requirements for the years ended December 31, 2014 and 2013, respectively.

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 amortization on the carrying value (basis) on the investments in properties for tax purposes, among other things. During the years ended December 31, 2014 and 2013, because of net losses, all distributions were considered return of capital to stockholders and therefore non-taxable.

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 any significant interest or penalty positions by any major tax jurisdictions.

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 value 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. Cash equivalents, mortgage notes receivable, accounts receivable and payable, and accrued liabilities all approximate fair value due to their short term nature. Management believes that the recorded and fair values of notes payable are approximately the same as of December 31, 2014 and 2013.

Sales of Real Estate Assets. Gains from the sale of real estate assets are not 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) 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 is not 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 method of profit recognition, as appropriate in the circumstances.

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 the Company's leases currently contain rental increases at specified intervals. The Company records 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, Management determines to what extent the deferred rent receivable applicable to each specific tenant is collectible. The Company reviews material deferred rent receivable 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. If there is doubt as to the collectability of deferred rent with respect to any given tenant, we record an increase in the allowance for uncollectible accounts, the Company records a direct write-off of the specific rent receivable. No such adjustments related to deferred rent receivables have been recorded as of December 31, 2014 or 2013.

Loss per common share. Basic loss per common share (Basic EPS) is computed by dividing net loss available to common shareholders (Numerator) by the weighted average number of common shares outstanding (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 all 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 the 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.

Basic and diluted net loss per share are equivalent because the Company has incurred a net loss in all periods presented causing any potentially dilutive securities to be anti-dilutive. Dilutive securities include non-vested restricted stock issued under the Company's share-based incentive plan, shares issuable under certain of the Company's partnership arrangements and (for 2013) shares issuable under stock purchase warrants. The calculation of net loss per share for diluted securities totaling 101,940 and 1,325,339 shares for the years ended December 31, 2014 and 2013, respectively.

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

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

Recently Issued Accounting Pronouncements. In February 2015, the Financial Accounting Standards Board or "FASB" issued an Accounting Standards Update "ASU" which modifies the guidance for consolidations. The standard is effective for the Company's fiscal year beginning January 1, 2017. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company does not believe the adoption of this standard will have a material impact on its financial position, results of operations or related financial statement disclosures.

In January 2015, the FASB issued an ASU which eliminates the concept of extraordinary items. Extraordinary items are events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence. Eliminating the extraordinary classification simplifies income statement presentation by altogether removing the concept of extraordinary items from consideration. The standard is effective for the Company's fiscal year beginning January 1, 2016. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company does not believe the adoption of this standard will have a material impact on its financial position, results of operations or related financial statement disclosures.

In August 2014, the FASB issued an ASU which requires management to evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern, and to provide disclosures when it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. Since this guidance is primarily around certain disclosures, the Company anticipates no impact on its financial position, results of operations or cash flows from adopting this standard. Management is currently assessing the additional disclosure requirements, if any, that will be required if an ASU is effective for the Company's fiscal year beginning January 1, 2017, with early adoption permitted.

In May 2014, the FASB issued an ASU which supersedes or replaces nearly all GAAP revenue recognition guidance. The new guidance establishes a new control-based revenue recognition model, changes the basis for determining when revenue is recognized over time or at a point in time and will expand disclosures about revenue. The Company is assessing the impact of this ASU which is effective for the Company's reporting period beginning January 1, 2015. Early adoption is not permitted.

In April 2014, the FASB issued an ASU which modifies the accounting and reporting for discontinued operations. Under this revised guidance, only disposals representing a strategic shift in operations, such as a disposal of a geographic area, a major line of business or a major equity method investment, will be presented as discontinued operations. This standard is effective for the Company's fiscal year beginning January 1, 2015.

3. RECENT REAL ESTATE TRANSACTIONS

During 2014, the Company acquired the following properties:

- In May, an approximately 93,000 square foot, multi-tenant office building located in Bismarck, ND for \$5.4 million (through a cash payment of \$2.0 million and the assumption of the existing loan on the property of \$3.4 million), plus closing costs. The property was 85% occupied at acquisition.
- In August, an approximately 84,000 square foot, multi-tenant office building located in Lakewood, Colorado for \$9.4 million (through a cash payment of \$2.8 million and a promissory note totaling \$6.6 million), plus closing costs. The property was 82% occupied at acquisition.
- In December, an approximately 110,000 square foot, multi-tenant office property located in Colorado Springs, Colorado for \$15.5 million (through a cash payment of \$5.2 million and a promissory note of \$10.3 million), plus closing costs. The property is comprised of two buildings, and was 97% occupied at acquisition.

- In December, an approximately 44,000 square foot, multi-tenant retail property located in Colorado Springs, Colorado for \$11.2 million (through a cash payment of \$2.4 million and a promissory note of \$8.4 million) plus closing costs. The property was 97% occupied at acquisition.
- In December, an approximately 79,000 square foot, multi-tenant office property located in Centennial, Colorado for \$11.8 million (through a cash payment of \$3.3 million and a promissory note of \$8.5 million), plus closing costs. The property was 100% occupied at acquisition.

The Model Home Partnerships acquired eighteen Model Home properties in Pennsylvania and Arizona and leased them back to the home builders. The purchase price for the properties totaled \$5.7 million (consisting of cash payment of \$2.3 million and a promissory note of \$3.4 million), plus closing costs.

The Company allocated the purchase price of the properties acquired during 2014 as follows:

| | Land | Buildings and other | Tenant Improvements | In-place Leases | Leasing Costs | Purchase Price |
|-------------------------|---------------------|----------------------|---------------------|---------------------|---------------------|----------------------|
| Bismarck | \$ 413,000 | \$ 4,233,700 | \$ 474,400 | \$ 164,300 | \$ 64,600 | \$ 5,350,000 |
| Union Terrace | 1,717,000 | 5,267,900 | 1,643,300 | 370,100 | 426,700 | 9,425,000 |
| Centennial Tech Center | 2,025,000 | 10,417,901 | 1,583,869 | 762,875 | 710,355 | 15,500,000 |
| Union Town Center | 1,750,000 | 8,890,316 | 153,392 | 124,974 | 292,987 | 11,011,669 |
| Arapahoe Service Center | 1,420,000 | 8,766,628 | 385,332 | 993,252 | 284,788 | 11,869,990 |
| Model Homes (18) | 1,023,830 | 4,702,870 | - | - | - | 5,726,700 |
| Total | \$ 8,348,830 | \$ 42,279,315 | \$ 4,240,293 | \$ 2,415,501 | \$ 1,779,430 | \$ 55,063,369 |

During the year ended December 31, 2014, the Company sold the following properties:

| | Land | Buildings and other | Total Cost | Total Gain |
|---------------------------|---------------------|----------------------|----------------------|---------------------|
| Model Homes (1) | \$ 2,169,560 | \$ 13,887,961 | \$ 16,057,521 | \$ 3,371,031 |
| Fontana Medical Plaza (2) | 556,858 | 1,709,576 | 2,266,434 | 1,749,668 |
| Total | \$ 2,726,418 | \$ 15,597,537 | \$ 18,323,955 | \$ 5,120,699 |

- (1) NetREIT Dubose, Dubose Model Home Investors #201 LP and Dubose Model Home Investors #202 LP sold forty-five (45) model home properties upon maturity of the leases for an aggregate sales price of \$20.9 million.
- (2) The Fontana Medical Plaza property was acquired in 2009 in a joint venture that the Company had a 51% controlling interest. The property was sold for \$4.1 million.

4. REAL ESTATE ASSETS

The Company owns a diverse portfolio of real estate assets. The primary types of properties the Company invests in are office, retail, self-storage and NNN leased residential properties located primarily in Southern California, with two properties located in North Dakota. Our model home properties are located in seven states. As of December 31, 2014, including properties held for sale, the Company owned or had an equity interest in:

- o Fourteen office buildings and one industrial building ("Office Properties") which total approximately 1,142,000 rentable square feet,
- o Five retail shopping centers ("Retail Properties") which total approximately 230,000 rentable square feet,
- o Seven self-storage facilities ("Self-Storage Properties") which total approximately 666,000 rentable square feet, and
- o Fifty-four model homes owned by three affiliated limited partnerships ("Residential Properties").

The Company's real estate assets consisted of the following as of December 31, 2014 and 2013:

| Property Name | Date Acquired | Location | Real Estate Assets Owned (000s) | |
|---|----------------|----------------------------|---------------------------------|------|
| | | | 2014 | 2013 |
| Havana/Parker Complex | June 2006 | Aurora, CO | \$ 2,269 | |
| Garden Gateway Plaza | March 2007 | Colorado Springs, CO | 12,120 | |
| World Plaza | September 2007 | San Bernardino, CA | 6,834 | |
| Regatta Square | October 2007 | Denver, CO | 1,897 | |
| Sparky's Palm Self-Storage | November 2007 | Highland, CA | 4,266 | |
| Sparky's Joshua Self-Storage | December 2007 | Hesperia, CA | 6,661 | |
| Executive Office Park | July 2008 | Colorado Springs, CO | 8,274 | |
| Waterman Plaza | August 2008 | San Bernardino, CA | 5,995 | |
| Pacific Oaks Plaza | September 2008 | Escondido, CA | 4,291 | |
| Morena Office Center | January 2009 | San Diego, CA | 5,461 | |
| Fontana Medical Center | February 2009 | Fontana, CA | - | |
| Rangewood Medical Office Building | March 2009 | Colorado Springs, CO | 2,361 | |
| Sparky's Thousand Palms Self-Storage | August 2009 | Thousand Palms, CA | 5,365 | |
| Sparky's Hesperia East Self-Storage | December 2009 | Hesperia, CA | 2,376 | |
| Sparky's Rialto Self-Storage | May 2010 | Rialto, CA | 4,681 | |
| Genesis Plaza | August 2010 | San Diego, CA | 8,613 | |
| Dakota Bank Buildings | May 2011 | Fargo, ND | 10,027 | |
| Yucca Valley Retail Center | September 2011 | Yucca Valley, CA | 8,044 | |
| Sparky's Sunrise Self-Storage | December 2011 | Hesperia, CA | 2,142 | |
| Port of San Diego Complex | December 2011 | San Diego, CA | 13,954 | |
| Shoreline Medical Building | May 2012 | Half Moon Bay, CA | 5,994 | |
| The Presidio | November 2012 | Colorado Springs, CO | 6,684 | |
| Sparky's Lancaster Self-Storage | May 2013 | Lancaster, CA | 3,616 | |
| Bismarck Office Building | March 2014 | Fargo, ND | 4,970 | |
| Union Terrace Building | August 2014 | Lakewood, CO | 9,032 | |
| Centennial Tech Center | December 2014 | Colorado Springs, CO | 15,540 | |
| Arapahoe Service Center | December 2014 | Centennial, CO | 11,873 | |
| Union Town Center | December 2014 | Colorado Springs, CO | 11,268 | |
| Subtotal - NetREIT, Inc. properties | | | 184,608 | |
| Model Home properties (54 homes) | 2009-2014 | AZ, CA, NC, NJ, PA, SC, TX | 13,589 | |
| Real estate assets and lease intangibles, net | | | \$ 198,197 | |

5. LEASE INTANGIBLES

Lease intangibles consist of the following:

| | As of December 31, 2014 | | | As of December 31, 2013 | | |
|----------------------|-------------------------|--------------------------|------------------------|-------------------------|--------------------------|-------------------|
| | Lease Intangibles | Accumulated Amortization | Lease Intangibles, net | Lease Intangibles | Accumulated Amortization | Lease Intangibles |
| In-place leases | \$ 4,255,565 | \$ (1,842,782) | \$ 2,412,783 | \$ 2,015,459 | \$ (1,493,808) | \$ 521,651 |
| Leasing costs | 3,228,415 | (1,214,967) | 2,013,448 | 1,448,985 | (999,444) | 449,541 |
| Above-market leases | 1,977,113 | (1,202,821) | 774,292 | 1,614,114 | (1,018,516) | 595,598 |
| Tenant relationships | 332,721 | (332,721) | - | 332,721 | (332,721) | - |
| Total | \$ 9,793,814 | \$ (4,593,291) | \$ 5,200,523 | \$ 5,411,279 | \$ (3,844,489) | \$ 1,566,790 |

Aggregate amortization expense for the Company's other intangible assets is as follows: \$673,000 (2015), \$314,000 (2016), \$169,000 (2017), \$132,000 (2018), \$93,000 (2019) and \$3,819,000 (thereafter). The weighted amortization period for the intangible assets as of December 31, 2014 was 5.6 years.

6. MORTGAGE NOTES PAYABLE

Mortgage notes payable consisted of the following:

| Mortgage note property | Notes | Principal as of December 31, | | Loan Type | Interest Rate (1) |
|---|-------|------------------------------|---------------------|---------------|-------------------|
| | | 2014 | 2013 | | |
| Havana/Parker Complex | | \$2,500,000 | \$3,098,780 | Fixed | 6.51% |
| Garden Gateway Plaza | | 6,963,381 | 7,119,544 | Fixed | 5.00% |
| Waterman Plaza | | 3,368,146 | 3,457,973 | Fixed | 6.50% |
| Sparky's Thousand Palms | (2) | 4,092,100 | 4,215,349 | Variable | 5.50% |
| Sparky's Hesperia East | (3) | 830,883 | 890,774 | Variable | 4.75% |
| Sparky's Rialto | (4) | 2,119,037 | 2,166,791 | Fixed (reset) | 4.75% |
| Genesis Plaza | | 4,491,588 | 4,618,147 | Fixed | 4.65% |
| Executive Office Park | (5) | 4,379,854 | 4,447,699 | Fixed (reset) | 5.80% |
| Dakota Bank Buildings | | 10,993,386 | 5,417,950 | Fixed | 4.74% |
| Yucca Valley Retail Center | | 2,982,411 | 3,095,974 | Fixed | 5.62% |
| Rangewood Medical Office Building | | 1,092,778 | 1,155,305 | Fixed | 4.95% |
| Regatta Square | | 1,214,799 | 1,244,615 | Fixed | 4.95% |
| Port of San Diego Complex | | 10,368,228 | 10,608,385 | Fixed | 4.75% |
| Morena Office Center | (6) | 2,351,805 | 2,411,282 | Fixed (reset) | 4.50% |
| Pacific Oaks Plaza | (6) | 1,599,204 | 1,639,658 | Fixed (reset) | 4.50% |
| Shoreline Medical Building | (6) | 3,846,697 | 3,959,914 | Fixed (reset) | 5.10% |
| Sparky's Palm, Joshua and Sunrise | | 7,986,522 | 8,116,028 | Fixed | 4.70% |
| The Presidio | | 6,000,000 | 5,492,375 | Fixed | 4.54% |
| Sparky's Lancaster | | 1,903,982 | 1,965,504 | Fixed | 5.00% |
| Fontana Medical Plaza | | - | 1,990,880 | Fixed | 4.75% |
| Bismarck Office Building | | 3,321,198 | - | Fixed | 6.12% |
| Union Terrace Building | | 6,600,000 | - | Fixed | 4.50% |
| Centennial Tech Center | | 10,250,000 | - | Fixed | 4.34% |
| Arapahoe Service Center | | 8,500,000 | - | Fixed | 4.34% |
| Union Town Center | | 8,440,000 | - | Fixed | 4.28% |
| Subtotal, NetREIT, Inc. properties | | 116,195,999 | 77,112,927 | | |
| Model Home mortgage notes | | 7,703,299 | 12,438,797 | Fixed | (7) |
| Mortgage Notes Payable, total | | \$123,899,298 | \$89,551,724 | | |

(1) Interest rates as of December 31, 2014

(2) Interest at variable rate ranging from 5.50%-10.50%.

(3) Interest at a variable rate indexed to the 5 year interest rate swap.

(4) Interest subject to reset; thereafter, monthly payments of \$11,982, including interest at rate indexed to 5-year Treasury Rate + 3%.

(5) Interest rate is subject to reset on July 1, 2018.

(6) Interest rate subject to resetting on the 3rd and 6th loan anniversary.

(7) Each Model Home has a standalone mortgage note at interest rates ranging from 4.9% to 5.8% (at December 31, 2014).

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

Scheduled principal payments of mortgage notes payable are as follows:

| Years Ending December 31: | Principal Payments | | Scheduled Principal Payments |
|---------------------------|--------------------------------|------------------------------|------------------------------------|
| | NetREIT, Inc. Notes Payable | Model Homes Notes Payable | |
| 2015 | \$ 12,383,176 | \$ 410,603 | \$ 12,793,779 |
| 2016 | 7,085,079 | 1,122,737 | 8,207,816 |
| 2017 | 1,501,774 | 2,210,768 | 3,712,542 |
| 2018 | 5,641,001 | 1,546,748 | 7,187,749 |
| 2019 | 2,413,466 | 2,412,442 | 4,825,908 |
| Thereafter | 87,171,504 | - | 87,171,504 |
| Total | \$ 116,196,000 | \$ 7,703,298 | \$ 123,900,000 |

In December 2014, the Company and the lender for the Company's Havana Parker Complex entered into a loan modification agreement pursuant to which the lender agreed to reduce the outstanding loan balance from \$3,025,000, and also agreed to defer a portion of the monthly interest until loan maturity. Under the modified agreement, interest only payments (at 2.5%) are due through July 1, 2016, at which time all principal and deferred interest is due. The Company has the option to defer loan maturity for one additional year in exchange for making a one-time payment of \$100,000 (which will be applied to outstanding principal).

7. SERIES B MANDATORILY REDEEMABLE PREFERRED STOCK

In August 2014, the Company closed on a private placement offering of its mandatorily redeemable Series B Preferred Stock. The financing, which will be funded in installments, should be completed no later than the one year anniversary of the initial investment. At the conclusion of the funding period, the Company expects to generate a total capital contribution of \$40.0 million which is to be used for Series B Preferred investor approved property acquisition. Specified management decisions must be approved in advance by the Series B Preferred investor and upon the occurrence of an event of default, the Preferred Stock investor has certain additional rights. As of December 31, 2014, the Company had issued 16,600 shares of its Series B Preferred Stock. The Company has classified the Series B Preferred Stock as a liability in accordance with FASB Accounting Standards Codification ("ASC") Topic "Distinguishing Liabilities from Equity," which states that mandatorily redeemable financial instruments should be classified as liabilities and therefore the related dividend payments are treated as a component of interest expense in the accompanying consolidated statements of operations.

The Series B preferred stock has a \$0.01 par value and a \$1,000 liquidation preference. The Series B preferred stock shall be redeemed through a cash payment of the face value of the shares outstanding at redemption. The preferred stock on the funds invested is 14% (10% shall be paid on a monthly basis and the remaining 4% shall accrue and compound monthly payable at the redemption date). The Series B Preferred Stock is scheduled to be redeemed by the Company on the anniversary of the closing date; however, the Company has the right to extend the redemption for up to two additional years. The Company incurred approximately \$2.7 million in legal and underwriting costs related to this offering. These costs have been recorded as deferred financing costs on the accompanying consolidated balance sheets and will be amortized over the term of the agreement. Amortization expense totaling approximately \$380,000 was recorded as interest expense for the year ended December 31, 2014 in the accompanying consolidated statement of operations.

8. COMMITMENTS AND CONTINGENCIES

Operating Leases. The Company has operating leases with tenants that expire at various dates through 2021 and are either subject to scheduled fixed increases or adjustments based on the Consumer Price Index. Generally, the leases contain tenant renewal options. Leases also provide for additional rents based on certain operating expenses. Future contractual minimum rent due to the Company under operating leases as summarized as follows:

| Years Ending December 31: | |
|---------------------------|-------------|
| 2015 | \$ 1 |
| 2016 | 1 |
| 2017 | 1 |
| 2018 | 1 |
| 2019 | 1 |
| Thereafter | 1 |
| Total | \$ 7 |

Litigation. From time to time, we may become involved in various lawsuits or legal proceedings which arise in the ordinary course of business. 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 with respect to an environmental liability that the Company believes would require additional disclosure or recording of a loss contingency.

9. STOCKHOLDERS' EQUITY

Preferred Stock. The Company is authorized to issue up to 8,990,000 shares of preferred stock (the "Preferred Stock"). The Preferred Stock may be issued from time to time in one or more series. The Board of Directors is authorized to determine the number of shares of any series of the 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 rights, dividend rate, conversion rights, voting rights, redemption rights (including sinking fund provisions), redemption price, and liquidation preference.

The Board of Directors authorized the original issuance of 1,000,000 shares of the Preferred Stock as Series AA Convertible Preferred Stock ("Series AA"). Each share of Series AA (i) is non-voting, except under certain circumstances 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 any 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 dilution adjustments. The Company has not issued any shares of this preferred stock.

Convertible 6.3% Preferred Stock. In December 2011, the Company issued 1,649 shares of Series 6.3% Convertible Preferred Stock to the NetREIT National City Partnership, LP (an entity that was included in the consolidated financial statements). The terms of this stock provided for cumulative dividends at the rate of 6.3% per annum, payable on a quarterly basis in arrears subject to declaration by the Board of Directors. The convertible series 6.3% preferred stock was redeemed at its \$1.6 million face value in August 2014.

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 Series A and 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 participation 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.

In October 2006, the Company commenced a private placement offering of its common stock. Through December 31, 2011 when the offering was closed, the Company conducted a self-underwritten private placement offering of 20,000,000 shares of its common stock at a price of \$10 per share. This offering was 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. The Company ceased raising capital under this private placement offering effective December 31, 2011.

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 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 the developer. In connection with a purchase agreement, the Company issued approximately 39,000 shares of common stock to the selling shareholders of DMHU in February 2013.

Cash Dividends. During the years ended December 31, 2014 and 2013, the Company paid cash dividends, net of reinvested stock dividends, of \$4,803,000, and \$4,765,000, respectively, or at a rate \$0.471 per share on an annual 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.

The Company paid cash dividends on its Convertible Series 6.3% Preferred Stock of approximately \$65,000 and \$105,000 during the years ended December 31, 2014 and 2013, respectively. The dividends were paid to a subsidiary that was consolidated into the condensed consolidated financial statements of the Company and, as a result, have been eliminated in consolidation. The Company redeemed these shares during 2014.

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 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. The purchase price per share is 95% of the Company was formerly selling its shares for \$9.50 per share. No sales commission or dealer manager fee will be paid on shares sold through the dividend reinvestment plan. The Company 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 the record date. As of December 31, 2014, the second year under the plan, approximately \$7.6 million, or approximately 836,000 shares of common stock have been issued under the dividend reinvestment plan to date.

Limited Partnerships. 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 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 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 limited partners of this partnership, and NetREIT became the general partner. The partner has an option to exchange its 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 this limited partnership to shares of Company common stock at \$9.52 per share for up to 105,000 shares.

10. SHARE-BASED INCENTIVE PLAN

The Company established a Restricted Stock plan ("Restricted Stock") in December 2006 for the purpose of attracting and retaining officers, key employees and non-employee board members. Share awards vest in equal annual installments over a three or five year period from date of issuance. Non-vested shares have voting rights and are eligible for any dividends paid to common shares. The Company recognized compensation cost for these fixed awards over the vesting period, which represents the requisite service period, using the straight-line method. The value of non-vested shares was calculated based on the offering price of the shares in the most recent private placement offering adjusted for stock dividends since granted and assumed selling costs (currently \$8.60), which management believes approximates fair market value as of the date of grant.

A summary of the activity for the Company's restricted shares was as follows:

| Outstanding shares: | Common Share |
|------------------------------|--------------|
| Balance at December 31, 2013 | |
| Granted | |
| Vested | |
| Cancelled | |
| Balance at December 31, 2014 | |

The non-vested restricted shares outstanding as of December 31, 2014 will vest over the next two to nine years.

The value of non-vested Restricted Stock granted during the years ended December 31, 2014 and 2013 was approximately \$876,000 and \$656,000, respectively.

Share-based compensation expense for the years ended December 31, 2014 and 2013 was approximately \$456,000 and \$482,000, respectively.

11. RELATED PARTY TRANSACTIONS

Through January 31, 2013, the Company had a property management agreement with CHG to manage all of its properties at rates up to 5% of gross income. The Company paid CHG management fees of \$113,000 during 2013.

Effective January 31, 2013, the Company entered into an Agreement and Plan of Merger to consummate the acquisition of CHG Properties, Inc. (CHG), a subsidiary of C I Holding Group, Inc. (CIH). At the time of its acquisition, the Company was the property manager for all of NetREIT's properties. The President and CEO of the Company (Jack K. Heilbron) also was the President of CIH. In connection with its acquisition, the Company acquired all of its infrastructure and computer systems previously owned by CHG. The Company has accounted for the transaction as a business combination. Of the \$1.9 million purchase price, \$600,000 has been allocated to customer contracts and relationships. This asset is being amortized over a ten year period. The remaining purchase price of approximately \$1.3 million has been attributed to goodwill. Pursuant to the terms and conditions of the Agreement and Plan with CHG, the Company formed NTR Property Management, Inc., which has operated as the Company's sole in house property manager subsequent to the acquisition of CHG.

The Company leases a portion of its corporate headquarters at Pacific Oaks Plaza in Escondido, California to an entity 100% owned by the Company's Chairman and Chief Executive Officer and another related party. Total rent and paid by these affiliates was approximately \$36,000 and \$43,000 for the years ended December 31, 2014 and 2013, respectively.

In January 2014, the former limited partner of NetREIT 01, LP, a consolidated subsidiary of the Company (the "Partnership") that owns the Presidio, exercised its option to convert approximately 52.8% of its ownership interest in the Partnership in exchange for approximately 21,000 shares of Company common stock. After conversion, the Company's interest in the Partnership increased to approximately 89%. The Company purchased these shares from the former limited partner at a price that was determined when the Partnership was formed, which, adjusted for stock dividends, was \$7.858 per share. The stock purchase transaction was subject to the Company's related party transaction policy. The transaction required a review of the transaction by the non-interested parties of the Audit Committee and a subsequent vote by the Company's Board of Directors (and was formally approved in December 2013). Effective April 2014, the former limited partner elected to convert all of its remaining interest in the Partnership in exchange for 18,807 shares of Company common stock. The Company bought these shares back in January 2015 for an aggregate purchase price of approximately \$148,000.

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.

12. SEGMENTS

The Company's reportable segments consist of the four types of commercial real estate properties for which the Company's decision-makers internally evaluate operating performance and financial results: Residential Properties, Office Properties, Retail Properties; and Self-Storage Properties. The Company also has certain corporate level activities including accounting, finance, legal administration and management information systems which are considered separate operating segments. The accounting policies of the reportable segments are the same as those described in Note 2. There is no intersegment activity.

The Company evaluates the performance of its segments based upon net operating income ("NOI"), which is a non-GAAP supplemental financial measure. The Company defines NOI for its segments as operating revenues (rent and other income) less property and related expenses (property operating expenses, real estate taxes, insurance, asset management fees, impairments and provision for bad debt) less interest expense. NOI excludes certain items that are not considered to be controllable in connection with the management of an asset such as non-property income and expenses, depreciation and amortization, real estate acquisition fees and expenses, and corporate general and administrative expenses. The Company uses NOI to evaluate the operating performance of the Company's real estate investments and to make decisions about resource allocations.

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, 2014 and 2013, respectively.

| | Year Ended December 31, | |
|---|-------------------------|---------------|
| | 2014 | 2013 |
| Office/ Industrial Properties: | | |
| Rental income | \$ 11,800,819 | \$ 10,811,100 |
| Property and related expenses | (4,769,364) | (5,000,000) |
| Asset impairment | (950,000) | (2,000,000) |
| Net operating income, as defined | 6,081,455 | 3,811,100 |
| Residential Properties: | | |
| Rental income | 2,065,327 | 2,065,327 |
| Property and related expenses | (102,082) | (102,082) |
| Net operating income, as defined | 1,963,245 | 1,963,245 |
| Retail Properties: | | |
| Rental income | 2,607,744 | 2,607,744 |
| Property and related expenses | (877,620) | (877,620) |
| Net operating income, as defined | 1,730,124 | 1,730,124 |
| Self-Storage Properties: | | |
| Rental income | 3,428,503 | 3,428,503 |
| Property and related expenses | (1,716,379) | (1,716,379) |
| Net operating income, as defined | 1,712,124 | 1,712,124 |
| Reconciliation to net loss: | | |
| Total net operating income, as defined, for reportable segments | 11,486,948 | 11,234,597 |
| Unallocated other income (expense): | | |
| General and administrative expenses | (5,555,449) | (5,555,449) |
| Depreciation and amortization | (6,049,385) | (6,049,385) |
| Interest expense | (6,478,976) | (6,478,976) |
| Interest income | 85,806 | 85,806 |
| Gain on sales of real estate and partnerships, net | 5,120,699 | 5,120,699 |
| Gain on extinguishment of debt | 536,952 | 536,952 |
| Net loss | \$ (853,601) | \$ (853,601) |

Assets by Reportable Segment:

| | As of December 31, | |
|---|--------------------|-------|
| | 2014 | 2013 |
| Office/ Industrial Properties: | | |
| Land, buildings and improvements, net (1) | \$ 122,351,316 | \$ 8 |
| Total assets (2) | \$ 130,184,998 | \$ 9 |
| Residential Properties: | | |
| Land, buildings and improvements, net (1) | \$ 13,133,827 | \$ 2 |
| Total assets (2) | \$ 13,588,922 | \$ 2 |
| Retail Properties: | | |
| Land, buildings and improvements, net (1) | \$ 33,141,294 | \$ 2 |
| Total assets (2) | \$ 34,712,223 | \$ 2 |
| Self-Storage Properties: | | |
| Land, buildings and improvements, net (1) | \$ 29,107,675 | \$ 12 |
| Total assets (2) | \$ 30,003,506 | \$ 3 |
| Reconciliation to total assets: | | |
| Total assets for reportable segments | \$ 208,489,649 | \$ 17 |
| Other unallocated assets: | | |
| Cash and cash equivalents | 5,636,002 | 1 |
| Other assets, net | 6,499,287 | |
| Total assets | \$ 220,624,938 | \$ 18 |

(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.

Capital expenditures by Reportable Segment:(1)

| | Year Ended December 31, | |
|--|-------------------------|------|
| | 2014 | 2013 |
| Office/Industrial Properties: | | |
| Acquisition of operating properties | \$ 42,337,414 | \$ |
| Capital expenditures and tenant improvements | \$ 2,123,438 | \$ |
| Residential Properties: | | |
| Acquisition of operating properties | \$ 5,726,700 | \$ |
| Retail Properties: | | |
| Acquisition of operating properties | \$ 11,211,669 | \$ |
| Capital expenditures and tenant improvements | \$ 359,473 | \$ |
| Self Storage Properties: | | |
| Capital expenditures and tenant improvements | \$ 84,116 | \$ |
| Totals: | | |
| Acquisition of operating properties, net | \$ 59,275,783 | \$ |
| Capital expenditures and tenant improvements | 2,567,027 | |
| Total real estate investments | \$ 61,842,810 | \$ 1 |

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

13. SUBSEQUENT EVENTS

On December 31, 2014 the Company's Board of Directors declared a distribution in the amount of \$0.10 per common share of common stock to stockholders of record as of the close of business on December 31, 2014. The Company completed this distribution on February 14, 2015.

On February 6, 2015, the Company entered into an Agreement of Purchase and Sale and Joint Escrow Instructions (the "Purchase Agreement") to sell 100% of its Sparky's Self-Storage Portfolio, as defined in the Purchase Agreement, to an unaffiliated third party purchaser (the "Buyer") for a purchase price of approximately \$36.3 million. The Self-Storage Portfolio is a portfolio of seven self-storage properties located in San Bernardino County, California. The Buyer is currently conducting due diligence on the Self-Storage Portfolio during an initial 55-day inspection period. Initially, the Buyer escrowed a deposit in the amount of \$500,000. At the expiration of the due diligence period, an additional \$500,000 deposit will be due, and the total deposit will become non-refundable and will be applied to the purchase price at closing. The sale of the Self-Storage Portfolio is subject to the fulfillment of certain closing conditions and conditions customary for real estate transactions. There can be no assurance that any or all of the conditions will be satisfied or, if satisfied, that the Self-Storage Portfolio will be sold. Assuming that outstanding conditions are satisfied, management anticipates that the closing of the Self-Storage Portfolio sale will take place in the second quarter of 2015.

NetREIT, Inc. and Subsidiaries
Schedule III - Real Estate and Accumulated Depreciation - as of December 31, 2014

| Property Name/ Location | Loan Balance | Initial Cost | | | Capitalized Improvements | Total Cost | | | Accumulated Depreciation | Reserve for Impairment | Real |
|--|------------------|-----------------|---------------------------|-------------------|--------------------------|-----------------|-------------------------|------------------|--------------------------|------------------------|------|
| | | Land Cost | Building and Improvements | Acquisition Price | | Land Cost | Building & Improvements | Total Cost | | | |
| Havana Park, Aurora, CO | \$2,500 | \$1,023 | \$4,806 | \$5,829 | \$2,454 | \$1,023 | \$7,260 | \$8,282 | \$2,564 | \$3,450 | - |
| Garden Gateway, CO Springs, CO | 6,964 | 3,035 | 12,091 | 15,126 | 1,240 | 3,035 | 13,331 | 16,365 | 4,245 | - | - |
| Executive Park, CO Springs, CO | 4,380 | 1,266 | 8,815 | 10,080 | 252 | 1,266 | 9,066 | 10,332 | 2,059 | - | - |
| Pacific Oaks Plaza, Escondido, CA | 1,599 | 980 | 3,868 | 4,848 | 124 | 980 | 3,993 | 4,973 | 682 | - | - |
| Morena Centre, San Diego, CA | 2,352 | 1,333 | 5,203 | 6,536 | 688 | 1,333 | 5,891 | 7,224 | 1,263 | 500 | - |
| Genesis Plaza, San Diego, CA | 4,492 | 1,400 | 8,600 | 10,000 | 663 | 1,400 | 9,263 | 10,663 | 2,050 | - | - |
| Dakota Center, Fargo, ND | 10,993 | 832 | 8,743 | 9,575 | 1,971 | 832 | 10,714 | 11,546 | 1,519 | - | - |
| Rangewood Medical, CO Springs | 1,092 | 572 | 2,058 | 2,630 | 356 | 572 | 2,414 | 2,986 | 625 | - | - |
| Shoreline Medical, Half Moon Bay | 3,847 | 1,820 | 4,530 | 6,350 | - | 1,820 | 4,530 | 6,350 | 356 | - | - |
| Port of San Diego Complex, SD, CA | 10,368 | 9,613 | 4,887 | 14,500 | 401 | 9,613 | 5,288 | 14,901 | 947 | - | - |
| The Presidio, CO Springs, CO | 6,000 | 1,325 | 5,950 | 7,275 | 276 | 1,325 | 6,226 | 7,551 | 867 | - | - |
| Bismarck Building, Bismarck, ND | 3,321 | 413 | 4,926 | 5,339 | 70 | 413 | 4,996 | 5,409 | 439 | - | - |
| Union Terrace, Lakewood, CO | 6,600 | 1,717 | 7,708 | 9,425 | 17 | 1,717 | 7,725 | 9,442 | 410 | - | - |
| Centennial Tech Center, CO | 10,250 | 2,025 | 13,475 | 15,500 | - | 2,025 | 13,515 | 15,540 | - | - | - |
| Arapahoe Service Center, CO Springs | 8,500 | 1,420 | 10,430 | 11,850 | - | 1,420 | 10,453 | 11,873 | - | - | - |
| Total Office/ Industrial properties | \$83,258 | \$28,774 | \$106,090 | \$134,863 | \$8,512 | \$28,774 | \$114,665 | \$143,437 | \$18,026 | \$3,950 | |
| World Plaza, San Bernardino, CA | - | 1,698 | 6,232 | 7,930 | 627 | 1,698 | 6,858 | 8,557 | 1,723 | - | - |
| Regatta Square, Denver, CO | 1,215 | 811 | 1,369 | 2,180 | 71 | 811 | 1,440 | 2,251 | 353 | - | - |
| Waterman Plaza, San Bernardino, CA | 3,368 | 2,350 | 4,814 | 7,164 | 62 | 2,350 | 4,875 | 7,226 | 930 | 300 | - |
| Yucca Retail Ctr, Yucca Valley, CA | 2,982 | 2,811 | 5,175 | 7,986 | 400 | 2,811 | 6,323 | 9,134 | 1,183 | - | - |
| Union Town Center, CO Springs, CO | 8,440 | 1,750 | 9,462 | 11,212 | - | 1,750 | 9,610 | 11,360 | - | - | - |
| Total Retail properties | \$16,005 | \$9,420 | \$27,052 | \$36,472 | \$1,160 | \$9,420 | \$29,106 | \$38,528 | \$4,189 | \$300 | |
| Sparky's Palm, Highland, CA | 2,400 | 784 | 4,242 | 5,026 | 17 | 784 | 4,260 | 5,044 | 778 | - | - |
| Sparky's Joshua, Hesperia, CA | 3,318 | 1,281 | 6,726 | 8,007 | 57 | 1,281 | 6,783 | 8,065 | 1,404 | - | - |
| Sparky's 1000 Palms, 1000 Palms, CA | 4,118 | 584 | 5,580 | 6,164 | 17 | 584 | 5,597 | 6,181 | 815 | - | - |
| Sparky's Hesperia East, Hesperia, CA | 834 | 1,227 | 1,305 | 2,532 | 31 | 1,227 | 1,336 | 2,563 | 187 | - | - |
| Sparky's Rialto, Rialto, CA | 2,127 | 1,310 | 3,820 | 5,130 | 30 | 1,310 | 3,850 | 5,160 | 479 | - | - |
| Sparky's Lancaster, Lancaster, CA | 1,914 | 949 | 2,701 | 3,650 | 76 | 949 | 2,777 | 3,726 | 110 | - | - |
| Sparky's Sunrise, Hesperia, CA | 2,291 | 1,123 | 1,077 | 2,200 | 32 | 1,123 | 1,109 | 2,232 | 90 | - | - |
| Total Self Storage facilities | \$17,002 | \$7,258 | \$25,451 | \$32,709 | \$260 | \$7,258 | \$25,712 | \$32,971 | \$3,863 | \$- | |
| Model Homes -NDMHR, LP | 5,171 | 1,451 | 8,188 | 9,639 | - | 1,451 | 8,188 | 9,639 | 366 | - | - |
| Model Homes -DMH LP #201 | 1,100 | 376 | 1,624 | 2,000 | - | 376 | 1,624 | 2,000 | 81 | - | - |
| Model Homes-DMH LP #202 | 1,432 | 403 | 2,010 | 2,413 | - | 403 | 2,014 | 2,417 | 15 | - | - |
| Total Model Home properties | 7,703 | 2,230 | 11,822 | 14,052 | - | 2,230 | 11,826 | 14,056 | 462 | - | |
| CONSOLIDATED TOTALS: | \$132,408 | \$47,682 | \$170,414 | \$229,308 | \$9,932 | \$47,682 | \$181,311 | \$228,988 | \$26,540 | \$4,250 | |

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements (No. 333-179029) on Form S-3 and (No. 333-179030) on Form S-8 of NetREIT, Inc. and Subsidiaries of our report dated March 30, 2015, relating to our audited consolidated financial statements, which appears in this Annual Report on Form 10-K of NetREIT, Inc. and Subsidiaries as of and for the years ended December 31, 2014 and 2013.

/s/ **SQUAR, MILNER, PETERSON, MIRANDA & WILLIAMSON, LLP**
Newport Beach, California
March 30, 2015

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;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, 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 30, 2015

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

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

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 materially affected, or is reasonably likely to materially affect, 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 30, 2015

By: /s/ Kenneth W. Elsberry
Kenneth W. Elsberry,
Chief Financial Officer
(Principal Financial Officer)

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 and CFO, respectively, of NetREIT, Inc. (the "**Company**") that, to the best of his knowledge:

- (i) the Annual Report for the year ended December 31, 2014 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 30, 2015

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

Date: March 30, 2015

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

(Principal Accounting and Financial Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written required by Section 906, has been provided to NetREIT, Inc. and will be retained by NetREIT, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

