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

FORM 10-Q

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

For the quarterly period ended September 30, 2016

OR

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

For the period from _____ to _____

000-53673
(Commission file No.)

NetREIT, Inc.
(Exact name of registrant as specified in its charter)

Maryland	**33-0841255**
(State or other jurisdiction of incorporation or organization	**(I.R.S. employer identification no.)**

1282 Pacific Oaks Place, Escondido, California 92029
(Address of principal executive offices)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" 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 November 8, 2016, registrant had issued and outstanding 17,382,264 shares of its common stock, $0.01 par value.

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CAUTIONARY STATEMENTS

Statements contained in this quarterly report on Form 10-Q that are not historical facts may be forward-looking statements. Such statements are subject to certain risks and uncertainties, which could cause actual results to materially differ from those projected. Some of the information presented is forward-looking in nature, including information concerning projected future occupancy rates, rental rate increases, project development timing and investment amounts. Although the information is based on our current expectations, actual results could vary from expectations stated in this report. Numerous factors will affect our actual results, some of which are beyond our control. These include the timing and strength of national and regional economic growth, the strength of commercial and residential markets, competitive market conditions, fluctuations in availability and cost of construction materials and labor resulting from the effects of worldwide demand, future interest rate levels and capital market conditions. You are cautioned not to place undue reliance on this information, which speaks only as of the date of this report. We assume no obligation to update publicly any forward-looking information, whether as a result of new information, future events or otherwise, except to the extent we are required to do so in connection with our ongoing requirements under federal securities laws to disclose material information. For a discussion of important risks related to our business, and an investment in our securities, including risks that could cause actual results and events to differ materially from results and events referred to in the forward-looking information.

NetREIT, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

	September 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Real estate assets and lease intangibles:		
Land	$ 50,122,792	$ 49,965,418
Buildings and improvements	184,971,050	177,360,584
Tenant improvements	21,063,947	19,876,549
Lease intangibles	13,811,291	13,845,100
Real estate assets and lease intangibles, cost	269,969,080	261,047,651
Accumulated depreciation and amortization	(33,966,257)	(29,961,472)
Real estate assets and lease intangibles, net	236,002,823	231,086,179
Cash and cash equivalents	4,703,000	6,626,423
Restricted cash	3,766,913	6,759,786
Deferred leasing costs, net	1,824,555	1,483,014
Goodwill	2,423,000	2,423,000
Other assets, net	5,550,102	5,895,991
TOTAL ASSETS	$ 254,270,393	$ 254,274,393
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage notes payable, net	$ 152,721,661	$ 142,638,401
Accounts payable and accrued liabilities	6,838,627	7,458,761
Accrued real estate taxes	1,927,884	2,401,770
Dividends payable	1,155,498	1,063,454
Below-market leases, net	1,808,531	2,154,479
Mandatorily redeemable Series B Preferred Stock, net, $0.01 par value, $1,000 liquidating preference; shares authorized: 35,000; 32,700 and 35,000 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively, net	31,854,669	33,393,871
Total liabilities	196,306,870	189,110,736
Commitments and contingencies		
Equity:		
Common stock series A, $0.01 par value, shares authorized: 100,000,000; 17,382,264 and 17,202,228 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	173,823	172,023
Additional paid-in capital	148,451,070	146,712,853
Dividends in excess of accumulated losses	(103,061,517)	(93,821,328)
Total stockholders' equity before noncontrolling interest	45,563,376	53,063,548
Noncontrolling interest	12,400,147	12,100,109
Total equity	57,963,523	65,163,657
TOTAL LIABILITIES AND EQUITY	$ 254,270,393	$ 254,274,393

See Notes to Condensed Consolidated Financial Statements

NetREIT, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

	For the Three Months Ended September 30, 2016	For the Three Months Ended September 30, 2015	For the Nine Months Ended September 30, 2016	For the Nine Months Ended September 30, 2015
Revenues:				
Rental income	$ 7,693,017	$ 6,007,567	$ 23,602,360	$ 16,747,951
Fee and other income	160,616	104,035	489,565	327,745
	7,853,633	6,111,602	24,091,925	17,075,696
Costs and expenses:				
Rental operating costs	2,576,781	1,902,454	7,635,145	5,742,548
General and administrative	1,252,299	1,167,374	3,715,029	3,308,560
Depreciation and amortization	2,564,211	1,884,193	7,723,372	5,560,525
Total costs and expenses	6,393,291	4,954,021	19,073,546	14,611,633
Other income (expense):				
Interest expense-Series B preferred stock	(1,443,960)	(1,160,106)	(4,546,687)	(2,924,697)
Interest expense-mortgage notes	(1,879,780)	(1,470,631)	(5,641,296)	(4,361,654)
Interest and other income	9,892	26,220	78,224	61,976
Gain on sales of real estate	732,908	10,858	2,121,453	1,205,612
Impairment of real estate asset	(700,000)	-	(700,000)	-
Income tax expense	(87,898)	(14,340)	(232,598)	(167,068)
Total other expense, net	(3,368,838)	(2,607,999)	(8,920,904)	(6,185,831)
Loss from continuing operations	(1,908,496)	(1,450,418)	(3,902,525)	(3,721,768)
Discontinued operations				
Gain on the sale of real estate	-	-	-	4,730,398
Loss from discontinued operations, net	-	-	-	(131,375)
Income from discontinued operations	-	-	-	4,599,023
Net (loss) income	(1,908,496)	(1,450,418)	(3,902,525)	877,255
Less: Income attributable to noncontrolling interests	(81,534)	(96,116)	(102,890)	(1,414,642)
Net loss attributable to NetREIT, Inc. common stockholders	$ (1,990,030)	$ (1,546,534)	$ (4,005,415)	$ (537,387)
Basic and diluted loss per common share				
Continuing operations	$ (0.11)	$ (0.08)	$ (0.23)	$ (0.22)
Discontinued operations	$ -	$ -	$ -	$ 0.27
Loss per common share	$ (0.11)	$ (0.09)	$ (0.23)	$ (0.03)
Weighted average number of common shares outstanding - basic and diluted	17,353,033	17,073,986	17,286,439	16,979,533

See Notes to Condensed Consolidated Financial Statements

NetREIT, Inc. and Subsidiaries
Condensed Consolidated Statement of Changes in Equity
For the Nine months Ended September 30, 2016
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Dividends In Excess of Accumulated Losses	Total Stockholders' Equity	Non-controlling Interests	Total Equity
Balance, December 31, 2015	17,202,228	$ 172,023	$ 146,712,853	$ (93,821,328)	$ 53,063,548	$ 12,100,109	$ 65,163,657
Net loss	-	-	-	(4,005,415)	(4,005,415)	102,890	(3,902,525)
Dividends declared/reinvested	190,661	1,906	1,793,134	(5,234,774)	(3,439,734)	-	(3,439,734)
Common stock repurchased	(10,625)	(106)	(54,917)	-	(55,023)	-	(55,023)
Contributions received from noncontrolling interests, net of distributions paid	-	-	-	-	-	197,148	197,148
Balance, September 30, 2016	17,382,264	$ 173,823	$ 148,451,070	$ (103,061,517)	$ 45,563,376	$ 12,400,147	$ 57,963,523

See Notes to Condensed Consolidated Financial Statements

NetREIT, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

	For the Nine Months Ended September 30, 2016	For the Nine Months Ended September 30, 2015
Cash flows from operating activities:		
Net (loss) income	$ (3,902,525)	$ 877,255
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization from continuing operations	7,723,372	5,560,525
Depreciation and amortization from discontinued operations	-	165,646
Stock compensation	388,602	350,014
Bad debt expense	(54,405)	-
Gain on sale of real estate assets, net	(2,121,453)	(5,936,010)
Impairment of real estate asset	700,000	-
Amortization of financing costs	1,081,520	941,836
Amortization of above-market leases	139,417	161,163
Amortization of below-market leases	(345,948)	(94,196)
Changes in operating assets and liabilities:		
Other assets	339,618	(696,214)
Accounts payable and accrued liabilities	303,042	495,730
Accrued real estate taxes	(473,886)	217,193
Net cash provided by operating activities	3,777,354	2,042,942
Cash flows from investing activities:		
Real estate acquisitions	(15,774,855)	(42,528,263)
Buildings and tenant improvements	(3,713,626)	(2,354,988)
Additions to deferred leasing costs	(710,721)	(332,927)
Proceeds received from sale of real estate assets	8,560,357	37,101,304
Restricted cash	2,992,873	(2,502,108)
Net cash used in investing activities	(8,645,972)	(10,616,982)
Cash flows from financing activities:		
Proceeds from mortgage notes payable, net of issuance costs	18,979,585	33,277,918
Repayment of mortgage notes payable	(9,217,047)	(29,723,904)
Repayment of mandatorily redeemable preferred stock	(2,300,000)	-
Proceeds from issuance of common stock	-	49,999
Proceeds from issuance of mandatorily redeemable preferred stock, net of offering costs	-	13,400,000
Contributions received from noncontrolling interests in excess of distributions paid	197,148	(63,359)
Repurchase of common stock	(55,023)	(147,774)
Series B accrued interest	(1,311,778)	583,189
Dividends paid to stockholders	(3,347,690)	(3,291,978)
Net cash provided by financing activities	2,945,195	14,084,091
Net (decrease) increase in cash and cash equivalents	(1,923,423)	5,510,051
Cash and cash equivalents - beginning of period	6,626,423	5,636,002
Cash and cash equivalents - end of period	$ 4,703,000	$ 11,146,053
Supplemental disclosure of cash flow information:		
Interest paid Series B preferred stock	$ 5,080,417	$ 2,244,411
Interest paid-mortgage notes payable	$ 5,449,481	$ 4,542,269
Non-cash investing and financing activities:		
Reinvestment of cash dividends	$ 1,795,040	$ 2,009,916
Accrual of dividends payable	$ 1,155,498	$ 1,063,454

See Notes to Condensed Consolidated Financial Statements

1. ORGANIZATION

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 Maryland Corporation, with NetREIT, Inc. becoming the surviving Corporation. As a result of the merger, NetREIT is now incorporated in the State of Maryland. The Company qualifies and operates as a self-administered real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"), and commenced operations with capital provided by its private placement offering of its equity securities in 1999. The Company's portfolio includes the following properties:

- Seventeen office buildings and two industrial properties ("Office/Industrial Properties") which total approximately 1,500,000 rentable square feet,
- Six retail shopping centers ("Retail Properties") which total approximately 236,000 rentable square feet, and
- Ninety-three Model Homes owned by four affiliated limited partnerships and one limited liability company ("Residential Properties").

The following partnership activity occurred during the periods covered by these condensed consolidated financial statements:

- The Company is the sole General Partner in two limited partnerships (NetREIT Palm Self-Storage LP and NetREIT Casa Grande LP), all with ownership in real estate income producing properties. The Company refers to these entities collectively, as the "NetREIT Partnerships". In June 2016, the Company purchased the 5.99% outside interest in NetREIT Garden Gateway LP.
- The Company is a limited partner in four partnerships that purchase and leaseback Model Homes from developers ("Dubose Model Home Investors #201, LP", "Dubose Model Homes Investors #202, LP", "Dubose Model Homes Investors #203, LP"and "NetREIT Dubose Model Home REIT, LP"). The Company refers to these entities collectively, as the "Model Home Partnerships".

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 controls these limited partnerships through NetREIT, the Parent Company.

The Company has elected to be taxed as a REIT under Sections 856 through 860 of the Code, for federal income tax purposes. To qualify as a REIT, the Company must distribute annually at least 90% of adjusted taxable income, as defined in the Code, to its stockholders and satisfy certain other organizational and operating requirements. As a REIT, no provision is 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 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, as defined. The Company believes that it has met all of the REIT distribution and technical requirements for the three and nine months ending September 30, 2016.

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 tax deprecation methods used to compute the carrying value (basis) on the investments in properties for tax purposes, among other things. During the nine months ended September 30, 2016 and 2015, all distributions paid were considered return of capital to the stockholders as we reported a taxable net loss during the period.

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 penalties for tax positions by any major tax jurisdictions.

2. SIGNIFICANT ACCOUNTING POLICIES

There have been no significant changes to the Company's accounting policies since it filed its audited financial statements in its Annual Report on Form 10-K for the year ended December 31, 2015. During the nine months ended September 30, 2016 we adopted guidance for reporting debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. For further information about the Company's accounting policies, refer to the

Company’s consolidated financial statements and notes thereto for the year ended December 31, 2015 included in the Company’s Annual Report on Form 10-K filed with the Securities Exchange Commission (“SEC”).

Basis of Presentation. The accompanying condensed consolidated financial statements have been prepared by the Company's management in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial statement and the instructions to Form 10-Q and Article 8 of Regulation S-X. Certain information and footnote disclosures required for annual consolidated financial statements have been condensed or excluded pursuant to rules and regulations of the SEC. In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments of a normal and recurring nature that are considered necessary for a fair presentation of our financial position, results of our operations, and cash flows as of and for the nine months ended September 30, 2016 and 2015, respectively. However, the results of operations for the interim periods are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. These condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. The condensed consolidated balance sheet at year ended December 31, 2015 has been derived from the audited consolidated financial statements included in the Form 10-K filed with the SEC on March 18, 2016.

Principles of Consolidation. The accompanying condensed consolidated financial statements include the accounts of the Company and its direct and indirect wholly-owned subsidiaries and entities the Company controls or of which it is the primary beneficiary. All significant intercompany balances and transactions have been eliminated in consolidation.

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

Asset Impairments. We review the carrying value of each of our real estate properties quarterly to determine if circumstances indicate an impairment in the carrying value of these investments exists. During the three months ended September 30, 2016, management estimated that the fair market value of World Plaza property was below the carrying value and an impairment of approximately $700,000 was recorded.

Reclassifications. Certain reclassifications have been made to the previously presented consolidated financial statements and condensed consolidated financial statements to conform to the current period presentation. These reclassifications had no effect on previously reported results of consolidated operations or equity.

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

Recently Issued Accounting Pronouncements. In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (“ASU No. 2016-02”). The amendments in ASU No. 2016 -02 changes the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU No. 2016-02 is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption of ASU No. 2016-02 as of its issuance is permitted. The new leases standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company is currently evaluating the impact of adopting the new leases standard on its consolidated financial statements.

3. RECENT REAL ESTATE TRANSACTIONS

During the nine months ended September 30, 2016, the Company acquired forty-six Model Home properties in Texas, Utah and Florida and leased them back to the homebuilders. The purchase price for the properties was $15.8 million. The purchase price was paid through cash payments of $4.8 million and promissory notes of $11.0 million.

The Company allocated the purchase price of the properties acquired during the nine months ended September 30, 2016 as follows:

	Land	Buildings and Other	Total Purchase Price
Model Homes Properties	$ 2,142,195	$ 13,632,660	$ 15,774,855

During the nine months ended September 30, 2016, the Company disposed of seventeen Model Home properties. The sales price aggregated to approximately $5.1 million and approximately $1.8 million in mortgage notes payable were repaid in connection with these sales. The Company recognized a gain of $622,000 related to the sale of these Model Homes.

On July 15, 2016, the Company sold the Havana Parker Complex for approximately $3.3 million and recognized a gain of approximately $668,000.

On June 7, 2016, the Company sold a parcel of land and its building at the Yucca Valley Retail Center for approximately $1.3 million and recognized a gain of approximately $831,000.

During the nine months ended September 30, 2015, the Company disposed of five Model Home properties. The sales price aggregated to approximately $1.5 million and approximately $702,000 in mortgage notes payable were repaid in connection with these sales. The Company recognized a gain of $156,000 related to the sale of these Model Homes.

On April 10, 2015, the Company sold 100% of the Sparky's Self-Storage Portfolio. The net sales price was approximately $34 million and approximately $16.9 million in mortgage notes payable were repaid in connection the sale. The Company recognized a gain on sale of approximately $4.7 million.

On April 24, 2015, the Company sold a parcel of land and its building at the Yucca Valley Retail Center for approximately $1.5 million and recognized a gain of approximately $1.0 million.

4. REAL ESTATE ASSETS

A summary of the properties owned by the Company as of September 30, 2016 is as follows:

Property Name	Date Acquired	Location	Real estate assets, net (in thousands)
Garden Gateway Plaza	March 2007	Colorado Springs, Colorado	11,608
World Plaza	September 2007	San Bernardino, California	5,805
Regatta Square	October 2007	Denver, Colorado	1,832
Executive Office Park	July 2008	Colorado Springs, Colorado	8,210
Waterman Plaza	August 2008	San Bernardino, California	5,786
Pacific Oaks Plaza	September 2008	Escondido, California	4,170
Morena Office Center	January 2009	San Diego, California	5,132
Rangewood Medical Office Building	March 2009	Colorado Springs, Colorado	2,302
Genesis Plaza	August 2010	San Diego, California	8,764
Dakota Bank Buildings	May 2011	Fargo, North Dakota	10,237
Yucca Valley Retail Center	September 2011	Yucca Valley, California	6,790
Port of San Diego Complex	December 2011	San Diego, California	14,205
Shoreline Medical Building	May 2012	Half Moon Bay, California	5,821
The Presidio	November 2012	Aurora, Colorado	6,669
Bismarck	March 2014	Fargo, ND	5,298
Union Terrace Building	August 2014	Lakewood, Colorado	8,520
Centennial Tech Center	December 2014	Colorado Springs, Colorado	14,361
Arapahoe Service Center	December 2014	Centennial, Colorado	11,352
Union Town Center	December 2014	Colorado Springs, Colorado	10,639
West Fargo Industrial	August 2015	Fargo, North Dakota	7,677
300 N.P.	August 2015	Fargo, North Dakota	3,791
Research Parkway	August 2015	Colorado Springs, Colorado	2,801
One Parke Center	August 2015	Westminster, Colorado	8,583
Highland Court	August 2015	Centennial, Colorado	12,679
Shea Center II	December 2015	Highlands Ranch, Colorado	24,726
NetREIT, Inc properties			207,758
Model Home properties	2011-2016	AZ, CA, FL, IL, NC, NJ, PA, SC, TX, UT, WI	28,245
	Total real estate assets and lease intangibles, net		$ 236,003

Geographic Diversification Table

The following tables show a list of properties owned as of September 30, 2016, grouped by state where each 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	8	436,022	25.1 %	$ 6,673,885	29.5 %
Colorado	13	897,083	51.7 %	12,352,413	54.6 %
North Dakota	4	401,461	23.1 %	3,593,589	15.9 %
Total	25	1,734,566	100.0 %	$22,619,887	100.0 %

Model Home properties:

State	No. of Properties	Aggregate Square Feet	Approximate % of Square Feet	Current Base Annual Rent	Approximate of Aggregate % Annual Rent
Arizona	2	4,618	1.7 %	$ 50,220	2.0 %
California	2	4,563	1.7 %	42,456	1.7 %
Florida	12	35,183	12.9 %	394,800	15.8 %
Illinois	4	11,876	4.4 %	130,476	5.2 %
New Jersey	4	10,379	3.8 %	101,820	4.1 %
North Carolina	1	2,929	1.1 %	16,200	0.7 %
Pennsylvania	19	53,194	19.6 %	572,772	23.0 %
South Carolina	2	5,193	1.9 %	38,832	1.6 %
Texas	42	128,949	47.4 %	987,624	39.6 %
Utah	3	9,918	3.6 %	99,816	4.0 %
Wisconsin	2	5,016	1.8 %	55,992	2.2 %
Total	93	271,818	100.0 %	$2,491,008	100.0 %

5. LEASE INTANGIBLES

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

	September 30, 2016			December 31, 2015		
	Lease Intangibles	Accumulated Amortization	Lease Intangibles, net	Lease Intangibles	Accumulated Amortization	Lease Intangibles, net
In-place leases	$ 6,872,980	$ (3,557,650)	$ 3,315,330	$ 6,903,882	$ (2,647,002)	$ 4,256,880
Leasing costs	4,813,951	(2,346,219)	2,467,732	4,816,858	(1,766,578)	3,050,280
Above-market leases	2,124,360	(1,555,179)	569,181	2,124,360	(1,415,762)	708,598
	$ 13,811,291	$ (7,459,048)	$ 6,352,243	$ 13,845,100	$ (5,829,342)	$ 8,015,758

The net value of acquired intangible liabilities was $1,808,531 and $2,154,479 relating to below-market leases as of September 30, 2016 and December 31, 2015, respectively.

Aggregate approximate amortization expense for the Company's lease intangible assets is as follows:

Three months remaining in 2016	$ 490,377
Years ending December 31:	
2017	1,652,598
2018	1,132,151
2019	913,421
2020	708,769
Thereafter	1,454,927
Total	$ 6,352,243

The weighted average amortization of the intangible assets as of September 30, 2016 is 4.0 years.

6. OTHER ASSETS

Other assets consist of the following:

	September 30, 2016	December 31, 2015
Deferred rent receivable	$ 2,711,652	$ 2,097,623
Raw land	900,000	900,000
Prepaid expenses, deposits and other	724,199	758,173
Other intangibles, net	475,857	536,533
Accounts receivable, net	422,020	683,446
Notes receivable	316,374	920,216
Total other assets	$ 5,550,102	$ 5,895,991

7. MORTGAGE NOTES PAYABLE

Mortgage notes payable consisted of the following:

Mortgage note property	Notes	Principal as of September 30, 2016	Principal as of December 31, 2015	Loan Type	Interest Rate (1)	Maturity
Havana/Parker Complex		$ -	$ 2,500,000	Fixed	6.51%	7/1/2016
Rangewood Medical Office Building		975,614	1,027,085	Fixed	4.95%	1/1/2019
Regatta Square		1,158,867	1,183,473	Fixed	4.95%	1/1/2019
Port of San Diego Complex		9,919,557	10,097,726	Fixed	4.75%	3/5/2020
Garden Gateway Plaza		6,670,627	6,799,229	Fixed	5.00%	4/5/2020
West Fargo Industrial		4,451,585	4,500,000	Fixed	4.79%	8/4/2020
Morena Office Center	(2)	2,241,241	2,289,899	Fixed	4.50%	1/1/2021
Waterman Plaza		3,961,980	-	Fixed	4.25%	4/29/2021
Pacific Oaks Plaza	(4)	1,523,796	1,556,891	Fixed	4.50%	6/1/2021
Shoreline Medical Building	(2)	3,633,916	3,727,569	Fixed	5.10%	6/1/2022
Highland Court		6,862,009	6,958,147	Fixed	3.82%	8/28/2022
Dakota Bank Buildings		10,721,583	10,825,201	Fixed	4.74%	7/6/2024
Union Terrace Building		6,583,413	6,600,000	Fixed	4.50%	9/5/2024
The Presidio		6,000,000	6,000,000	Fixed	4.54%	12/1/2024
Centennial Tech Center		10,117,383	10,237,591	Fixed	4.34%	1/5/2025
Arapahoe Service Center		8,500,000	8,500,000	Fixed	4.34%	1/5/2025
Union Town Center		8,440,000	8,440,000	Fixed	4.28%	1/5/2025
Yucca Valley Retail Center		6,000,000	6,000,000	Fixed	4.30%	4/11/2025
Executive Office Park	(3)	4,250,951	4,307,975	Fixed	5.80%	7/1/2025
Genesis Plaza		6,500,000	6,500,000	Fixed	4.65%	8/25/2025
One Parke Centre		6,610,000	6,610,000	Fixed	4.77%	9/5/2025
Shea Center II		17,727,500	17,727,500	Fixed	4.92%	1/5/2026
Bismarck Office Building	(6)	4,183,681	3,252,016	Fixed	4.02%	8/1/2037
Subtotal, NetREIT, Inc. properties		137,033,703	135,640,302		4.71%	
Model Home mortgage notes		17,645,554	9,050,268	Fixed	(5)	2016-2020
Mortgage Notes Payable		$154,679,257	$144,690,570			
Unamortized loan costs		(1,957,596)	(2,052,169)			
Mortgage Notes Payable, net		$152,721,661	$142,638,401			

(1) Interest rates as of September 30, 2016.
(2) Interest rate subject to resetting on the 6th loan anniversary.
(3) Interest rate is subject to reset on July 1, 2018.
(4) Interest rate is subject to reset on April 28, 2017.
(5) Each Model Home has a standalone mortgage note at interest rates ranging from 3.8% to 5.8% per annum (at September 30, 2016).
(6) Interest rate is subject to reset on September 1, 2023 and on September 1, 2030.

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

Scheduled principal payments of mortgage notes payable were as follows as of September 30, 2016:

	NetREIT, Inc. Notes Payable	Model Homes Notes Payable	Principal Payments
Three months remaining in 2016	$ 468,710	$ 195,219	$ 663,929
Years ending December 31:			
2017	1,988,406	1,683,267	$ 3,671,673
2018	6,205,722	1,257,511	$ 7,463,233
2019	3,120,199	12,015,181	$ 15,135,380
2020	2,536,094	2,494,376	$ 5,030,470
Thereafter	122,714,572	-	$122,714,572
Total	$ 137,033,703	$ 17,645,554	$154,679,257

8. 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, was funded in installments and completed on December 24, 2015. As of December 31, 2015, the Company had issued 35,000 shares of its Series B Preferred Stock. The Company has classified the Series B Preferred Stock as a liability in accordance with ASC Topic No. 480, "*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 return on the funds invested is 14% and shall be paid on a monthly basis. The Series B Preferred Stock is scheduled to be redeemed by the third anniversary of the closing dates; however, the Company has two one year options to extend the redemption date. The Company incurred approximately $3.1 million in legal and underwriting costs related to this transaction. These costs have been recorded as deferred financing costs on the accompanying consolidated balance sheets as a direct deduction from the carrying amount of that debt liability and are being amortized over the term of the agreement. Amortization expense totaling approximately $254,000 and $241,000 was included in interest expense for the three months ended September 30, 2016 and 2015, respectively, and amortization expense totaling $508,000 and $700,000 was included in interest expense for the nine months ended September 30, 2016 and 2015, in the accompanying consolidated statement of operations. The unamortized deferred stock costs totaled $845,000 and $1.6 million as of September 30, 2016 and December 31, 2015, respectively.

During the nine months ending September 30, 2016, the Company redeemed 2,300 shares of its Series B preferred stock for $2.3 million. As of September 30, 2016, the remaining outstanding share balance was 32,700. Scheduled payments of $14.3 million are due in 2017 with two one year options to extend the redemption date. Scheduled payments of $18.4 million are due in 2018 with two one year options to extend the redemption date.

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 fix 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 dividend rights, dividend rate, conversion rights, voting rights, redemption rights (including sinking fund provisions), redemption price, and liquidation preference.

Common Stock. The Company is authorized to issue up to 100,000,000 shares of Series A Common Stock ("Common Stock") $0.01 par value and 1,000 shares of Series B Common Stock $0.01 par value. The Common Stock and the Series B Common Stock have identical rights, preferences, terms and conditions except that the Series B Common Stockholders are not entitled to receive any portion of Company assets in the event of Company liquidation. There have been no Series B Common Stock shares issued. Each share of Common Stock entitles the holder to one vote. The Common Stock is not subject to redemption and it does not have any preference, conversion, exchange or pre-emptive 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 and sale 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.

Cash Dividends. During the nine months ended September 30, 2016 and 2015 the Company paid cash dividends, net of reinvested stock dividends, of approximately $3,348,000 and $3,292,000, respectively, or at a rate of $0.40 per share on an annualized basis. As the Company reported net taxable losses in both of these periods, and on a cumulative basis, the cash dividends paid are expected to be a return of capital to the stockholders rather than a distribution of earnings.

Dividend Reinvestment Plan. The Company has adopted a distribution reinvestment plan that allows stockholders to have dividends and other distributions otherwise distributable to them invested in additional shares of Company common stock. The Company has registered 3,000,000 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 price the Company was formerly selling its shares or $9.50 per share. No sales commission or dealer manager fee will be paid on shares sold through the dividend reinvestment plan. The Company may amend, suspend or terminate the Plan at any time. Any such amendment, suspension or termination will be effective upon a designated dividend record date and notice of such amendment, suspension or termination will be sent to all Participants at least thirty (30) days prior to such record date. As of September 30, 2016 approximately $15.7 million or approximately 1,657,454 shares of common stock have been issued under the dividend reinvestment plan to date.

10. RELATED PARTY TRANSACTIONS

The Company leases a portion of its corporate headquarters at Pacific Oaks Plaza in Escondido, California to entities 100% owned by the Company's Chairman and Chief Executive Officer. Rental income recorded for the three months ended September 30, 2016 and 2015 totaled $7,000 and $7,000, respectively. Rental income recorded for the nine months ended September 30, 2016 and 2015 totaled $21,000 and $21,000, respectively.

11. SEGMENTS

The Company's reportable segments consist of the four types of commercial real estate properties for which the Company's decision-makers internally evaluate operating performance and financial results: Residential Properties, Industrial and Office Properties, Retail Properties; and Self-Storage Properties (sold on April 10, 2015). The Company also has certain corporate level activities including accounting, finance, legal administration and management information systems which are not considered separate operating segments. The accounting policies of the reportable segments are the same as those described in Note 2. There is no inter segment 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 (rental income, tenant reimbursements and other operating income) less property and related expenses (property operating expenses, real estate taxes, insurance, asset management fees, impairments and provision for bad debt). 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 three and nine months ended September 30, 2016 and 2015.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Office/Industrial Properties:				
Rental income	$ 6,135,845	$ 4,715,807	$ 19,166,498	$13,075,111
Property and related expenses	(2,151,461)	(1,679,926)	(6,510,789)	(4,885,154)
Net operating income, as defined	3,984,384	3,035,881	12,655,709	8,189,957
Residential Properties:				
Rental income	548,260	414,286	1,555,405	1,117,616
Property and related expenses	(25,061)	(15,530)	(94,142)	(50,377)
Net operating income, as defined	523,199	398,756	1,461,263	1,067,239
Retail Properties:				
Rental income	1,100,623	981,509	3,277,619	2,952,646
Property and related expenses	(331,354)	(206,998)	(937,811)	(876,694)
Net operating income, as defined	769,269	774,511	2,339,808	2,075,952
Self-Storage Properties (discontinued operations):				
Rental income	-	-	-	1,052,266
Property and related expenses	-	-	-	(1,183,641)
Net operating income, as defined	-	-	-	(131,375)
Reconciliation to net (loss) income:				
Total net operating income, as defined, for reportable segments	5,276,852	4,209,148	16,456,780	11,201,773
General and administrative expenses	(1,340,197)	(1,181,714)	(3,947,627)	(3,475,628)
Depreciation and amortization	(2,564,211)	(1,884,193)	(7,723,372)	(5,560,525)
Interest expense	(3,323,740)	(2,630,737)	(10,187,983)	(7,286,351)
Interest income	9,892	26,220	78,224	61,976
Gain on sale of real estate	732,908	10,858	2,121,453	5,936,010
Impairment of real estate	(700,000)	-	(700,000)	-
Net (loss) income	$(1,908,496)	$(1,450,418)	$ (3,902,525)	$ 877,255

Assets by Reportable Segment:	September 30, 2016	December 31, 2015
Office/Industrial Properties:		
Land, buildings and improvements, net (1)	$ 174,104,070	$ 181,776,776
Total assets (2)	$ 179,906,501	$ 187,198,961
Residential Properties:		
Land, buildings and improvements, net (1)	$ 28,245,137	$ 13,914,168
Total assets (2)	$ 28,562,498	$ 14,395,904
Retail Properties:		
Land, buildings and improvements, net (1)	$ 33,653,616	$ 35,395,235
Total assets (2)	$ 34,573,877	$ 36,747,069
Reconciliation to Total Assets:		
Total assets for reportable segments	$ 243,042,876	$ 238,341,934
Other unallocated assets:		
Cash and cash equivalents	4,703,000	6,626,423
Other assets, net	6,524,517	9,306,036
Total Assets	$ 254,270,393	$ 254,274,393

(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

	For the Nine Months Ended September 30, 2016	For the Nine Months Ended September 30, 2015
Office/Industrial Properties:		
Acquisition of operating properties	$ -	$ 33,958,263
Capital expenditures and tenant improvements	3,629,586	2,313,655
Residential Properties:		
Acquisition of operating properties	15,774,855	5,720,000
Retail Properties:		
Acquisition of retail properties	-	2,850,000
Capital expenditures and tenant improvements	84,040	41,333
Totals:		
Acquisition of operating properties, net	15,774,855	42,528,263
Capital expenditures and tenant improvements	3,713,626	2,354,988
Total real estate investments	$ 19,488,481	$ 44,883,251

12. SUBSEQUENT EVENTS

On October 26, 2016, the Company entered into a purchase and sell agreement to sell its Shoreline Medical Building for $8.2 million. The sale is expected to close during the first quarter of 2017.

On November 4, 2016 the Company closed on a mortgage note on the Research Parkway Building located in Colorado Springs, CO. The principal balance on the loan is $2.0 million and will mature on January 5, 2025. The note bears interest at a fixed rate of 3.94%.

ITEM 2. 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, footnotes and to Cautionary Statements appearing elsewhere in this report.

OVERVIEW

The Company operates as a self-managed and self-administered real estate investment trust, or REIT. The Company acquires, owns and manages a geographically diversified portfolio of real estate assets including industrial, office, retail and model home leased residential properties located throughout the United States. As of September 30, 2016, the Company owned or had an equity interest in:

- Seventeen multi-tenant office buildings and two industrial properties ("Office Properties") which total approximately 1,500,000 rentable square feet,
- Six retail shopping centers ("Retail Properties") which total approximately 236,000 rentable square feet, and
- Ninety-three Model Homes owned by four affiliated limited partnerships and one limited liability company ("Residential Properties").

NetREIT's office, retail and industrial properties are located primarily in Southern California and Colorado, with four properties located in North Dakota. Our geographical clustering of assets enables us to reduce our operating costs through economies of scale by servicing a number of properties with less staff, but it also makes us more susceptible to changing market conditions in these discrete geographic areas. We do not develop properties but acquire properties that are stabilized or that we anticipate will be stabilized within two or three years of acquisition. We consider a property to be stabilized once it has achieved an 80% occupancy rate for a full year as of January 1 of such year, or has been operating for three years.

Most of our office and retail properties are leased to a variety of tenants ranging from small businesses to large public companies, many of which do not have publicly rated debt. We have in the past entered into, and intend in the future to enter into, purchase agreements for real estate having net leases that require the tenant to pay all of the operating expense (NNN Leases) or pay increases in operating expenses over specific base years. 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. 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 credit 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, 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 entities. Our Model Home business tenants are typically substantial home developers with established credit histories. These tenants are subject to financial review and analysis prior to entering into a sale-leaseback transaction. Our ownership of the underlying property provides a further means to avoiding significant credit losses.

SIGNIFICANT TRANSACTIONS IN 2016 AND 2015

Preferred Stock Financing - In August 2014, we entered into an offering of our Series B Preferred Stock. The financing was funded in installments with the last installment on December 24, 2015. We issued 35,000 shares of our Series B Preferred Stock for $35 million during 2014 and 2015. 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 dividend rate on these funds is 14% and is paid on a monthly basis. The Company redeemed 2,300 shares during the nine months ending September 30, 2016 for $2.3 million. As of September 30, 2016, the remaining outstanding share balance was 32,700. The proceeds of this financing were used for property acquisitions approved by the Series B Preferred investor. The Series B Preferred Stock is scheduled to be redeemed by the third anniversary of the issuance date; however, we can extend the redemption date by up to two additional years. Due to the redeemable requirement of the stock, the dividends paid are treated as interest expense for GAAP reporting.

Acquisitions - We acquired the following properties during the nine months ended September 30, 2016 and the year ended December 31, 2015:

- During the nine months ended September 30, 2016, the Company acquired forty-six Model Home properties in Texas, Utah and Florida and leased them back to the homebuilders. The purchase price for the properties was $15.8 million. The purchase price paid was through cash payments of $4.8 million and promissory notes of $11.0 million.
- On December 24, 2015, the Company acquired a four story, 121,399 square foot office building located in Highlands Ranch, Colorado for a purchase price of approximately $25.3 million. The building was 100% occupied at the date of acquisition. The acquisition was financed with a down payment of $7.6 million and a ten year secured mortgage of $17.7 with an interest rate of 4.9%.
- On August 28, 2015, the Company acquired a four story, 69,200 square foot office building located in Westminster, Colorado for a purchase price of approximately $9.1 million. The building was approximately 96% occupied at the date of acquisition. The acquisition was financed with a down payment of $2.6 million and a ten year secured mortgage of $6.6 million with an interest rate of 4.7%.
- On August 26, 2015, the Company acquired a four story 93,000 square foot office building located in Centennial, Colorado for a purchase price of approximately $13.1 million. The building was approximately 97% occupied on the date of acquisition. The acquisition was financed with a down payment of $6.1 million and a seven year secured mortgage of $7 million with an interest rate of 3.8%.
- On August 13, 2015, the Company acquired a single story 10,700 square foot retail building located adjacent to the Union Town Center building already owned by the Company in Colorado Springs, Colorado for a purchase price of approximately $2.9 million. The acquisition was paid in cash.
- On August 8, 2015, the Company acquired a two story 36,500 square foot office building in Fargo, North Dakota for a purchase price of $3.9 million. The acquisition was paid in cash.
- On August 8, 2015, the Company acquired single story 152,154 square foot industrial/flex buildings in West Fargo, North Dakota for a purchase price of approximately $7.9 million. The acquisition was financed with a down payment of $3.4 million and a five year secured mortgage of $4.5 million with interest rate of 4.8%.
- During the nine months ended September 30, 2015, the Company acquired seventeen Model Home properties in Illinois, Florida, South Carolina and Pennsylvania and leased them back to the homebuilders. The purchase price for the properties was $5.7 million. The purchase price paid was through cash payments of $2.3 million and promissory notes of $3.4 million.

Dispositions - We review our portfolio of investment properties for value appreciation potential on an ongoing basis, and dispose of any properties that no longer satisfy our requirements in this regard. The proceeds from any such 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 the nine months ended September 30, 2016, the Company disposed of seventeen Model Home properties. The sales price aggregated to approximately $5.1 million and approximately $1.8 million in mortgage notes payable were repaid in connection with these sales. The Company recognized a gain of approximately $622,000 related to the sale of these Model Homes.
- On July 15, 2016, the Company sold the Havana Parker Complex for approximately $3.3 million and recognized a gain of approximately $668,000.
- On June 7, 2016, the Company sold a parcel of land and its building at the Yucca Valley Retail Center for approximately $1.3 million and recognized a gain of approximately $831,000.
- During the nine months ended September 30, 2015, the Company disposed of five Model Home properties. The sales price, net of selling costs, aggregated to approximately $1.5 million and approximately $702,000 in mortgage notes payable were repaid in connection with these sales. The Company recognized a gain of $156,000 related to the sale of these Model Homes.
- On April 10, 2015, the Company sold all seven of the Sparky's Self Storage facilities as a package for a net sales price of $34 million that had been acquired during 2007 through 2013, resulting in a gain on sale of approximately $4.7 million. These properties were presented as discontinued operations on the condensed consolidated balance sheet as of December 31, 2015 and as discontinued operations on the condensed consolidated statements of operations for the three and nine months ended September 30, 2016 and 2015. The net proceeds from the sale after selling costs and payment of associated mortgages were approximately $17 million. Approximately $3.3 million was used to pay off a loan, bearing an interest rate of 6.5% that was scheduled to mature on September 1, 2015, on the Waterman property, $3.9 million was used to

acquire the office building in Fargo, North Dakota, \$2.9 million was used to acquire the retail building in Colorado, Springs and \$2.4 million was used to acquire the office building in Centennial, Colorado and the remainder is included in cash and restricted cash on the balance sheet as of September 30, 2016.

ECONOMIC ENVIRONMENT

The US economic data in the third quarter continued to accelerate at a moderate pace. Economic readings for Retail Sales and the ISM Non-Manufacturing Index showed signs of improvement. The employment data has remained strong with good job growth, however, meager wage and salary growth has been a detriment. Vacancy rates for commercial real estate have decreased, however, the secondary markets are still higher than pre-recession levels. Rental rates have increased in many primary and secondary markets. Corporate earnings and stock market investment have rebounded.

The significance of the U.S. Dollar in the global economy, the size of the U.S. debt and uncertainty of servicing such debt seems to be the biggest concern for continued economic recovery. The impact of the current global market instability and recent events in Europe with respect to the ability of certain European Union countries to continue to service their sovereign debt obligations are inherently unpredictable and could adversely affect the U.S. and global financial markets and economic conditions. With the recent political instability in the United States and in Europe it appears the United States Federal Reserve Bank will have to patiently wait to raise interest rate. The effect of increased interest rates on Real Estate Investment Trusts is a much debated topic at this time. However, in the past when interest rates increased it has been a sign of a better economy that allowed for rental rates to increase mitigating the effect on REIT's. Adverse economic conditions could have a material adverse effect on our business, financial condition and results of operations.

Our ability to execute our business strategies, particularly 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. We continue to obtain mortgages from the CMBS market, life insurance companies and regional banks. Even though we have been successful in procuring equity financing and secured mortgages financing we cannot be assured that we will be successful in the future. Low interest rates are positive from a lending standpoint but they increased the defeasances costs associated with the disposition of any encumbered properties.

CRITICAL ACCOUNTING POLICIES

There have been no material changes to our critical accounting policies as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC on March 18, 2016.

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 anticipated 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. Management focuses its efforts on improving underperforming assets through re-leasing efforts, including negotiation of lease renewals and rental rates. Properties that have reached goals in occupancy and rental rates are evaluated for potential added value appreciation and, if lacking such potential, are sold with the equity reinvested in properties that have better potential without foregoing cash flow. Our 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.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015.

Our results of operations for the three months ended September 30, 2016 and 2015 are not indicative of those expected in future periods as we expect that rental income, interest expense, rental operating expense and depreciation and amortization will significantly increase in future periods as a result of the assets acquired over the last year and as a result of anticipated growth through future acquisitions of real estate related investments.

The following discussion over our results of operations for all properties for the three months ended September 30, 2016 and 2015 relates to continuing operations.

Revenues. Total revenue was $7.9 million for the three months ended September 30, 2016 compared to $6.1 million for the same period in 2015, an increase of $1.8 million or 29.5 %. The increase in rental income as reported for the three month period in 2016 as compared to 2015 is due to a net increase in industrial and office properties rental income of $1.6 million as a result of the six property acquisitions made during the third and fourth quarters of 2015. The remaining increase is due to an increase in same store occupancy and rental rate increases. Same store occupancy was at 91.4% and 86.6% as of September 30, 2016 and 2015, respectively.

Rental Operating Costs. Rental operating costs were $2.6 million for the three months ended September 30, 2016 compared to $1.9 million for the same period in 2015, an increase of approximately $700,000 or 36.8%. Costs associated with properties acquired during the third and fourth quarters accounted for substantially all of this increase. Rental operating costs as a percentage of total revenue was 32.8% and 31.1% for the three months ended September 30, 2016 and 2015, respectively.

General and Administrative Expenses. General and administrative ("G&A") expenses increased approximately $85,000 or 7.3% during the three months ended September 30, 2016, compared to the same period in 2015. The primary increase is due to accruing on a monthly basis for year-end bonuses that management determined would be more than likely to be paid. These expenses are semi-fixed and do not necessarily correlate to total revenue. These expenses correlate more to the administrative functions required for the different types of properties. G&A expenses as a percentage of total revenue was 15.9% and 19.1% for three months ended September 30, 2016 and 2015.

Depreciation and Amortization. Depreciation and amortization expense totaled approximately $2.6 million for the three months ended September 30, 2016, compared to approximately $1.9 million for the same period in 2015, representing an increase of approximately $700,000 or 36.8%. Depreciation and amortization costs associated with properties acquired during the third and fourth quarters of 2015 accounted for substantially all of this increase.

Asset Impairments. We review the carrying value of each of our real estate properties quarterly to determine if circumstances indicate an impairment in the carrying value of these investments exists. During the three months ended September 30, 2016, management estimated that the fair market value of World Plaza property was below the carrying value and an impairment of approximately $700,000 was recorded.

Interest Expense-Series B preferred stock. The Series B Preferred Stock issued in August 2014 includes a mandatory redemption provision and therefore is treated as a liability for financial reporting purposes. The dividends paid and accrued and the amortization of the deferred offering costs are considered interest expense. Interest expense, including amortization of the deferred offering costs, totaled $1.4 million for the three months ending September 30, 2016 compared to $1.2 million for the same period in 2015. Dividends paid and accrued totaled $1.2 million and $919,000, respectively, and the amortization of the deferred offering costs associated with that transaction totaled $254,000 and $241,000, respectively for the three months ended September 30, 2016 and 2015 and were included in interest expense-Series B preferred stock in the accompanying financial statements. There were 32,700 and 30,000 shares outstanding as of September 30, 2016 and 2015, respectively, resulting in the increase in interest expense.

Interest Expense-mortgage notes. Interest expense, including amortization of deferred finance charges, increased by approximately $409,000, or 27.8%, to approximately $1.9 million for the three months ended September 30, 2016 compared to $1.5 million for the same period in 2015. Interest expense associated with properties acquired during the third and fourth quarters of 2015 totaled $320,000. The weighted average interest rate on our outstanding debt was 4.6 % as of September 30, 2016 compared to 4.8% as of September 30, 2015.

Gain on Sale of Real Estate Assets, net. For the three months ended September 30, 2016, we had a gain from the sale of two Model Homes of approximately $65,000 and a $668,000 gain from the sale of the Havana Parker Complex. For the three months ended September 30, 2015, the Company had gains from the sale of one Model Homes totaling $11,000.

Discontinued Operations. The Company sold 100% of the Sparky's Self-Storage Portfolio in April 2015. No similar discontinued operations occurred during the three months ending September 30, 2016 and 2015.

Income/losses allocated to non-controlling interests. Loss allocated to non-controlling interests for the three months ended September 30, 2016 totaled approximately $82,000 when compared to the loss allocated during the three months ended September 30, 2015 of $96,000.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015.

Our results of operations for the nine months ended September 30, 2016 and 2015 are not indicative of those expected in future periods as we expect that rental income, interest expense, rental operating expense and depreciation and amortization will significantly increase in future periods as a result of the assets acquired over the last year and as a result of anticipated growth through future acquisitions of real estate related investments.

The following discussion over our results of operations for all properties for the nine months ended September 30, 2016 and 2015 relates to continuing operations.

Revenues. Total revenue was $24.1 million for the nine months ended September 30, 2016 compared to $17.1 million for the same period in 2015, an increase of $7.0 million or 40.9 %. The increase in rental income as reported for the nine month period in 2016 as compared to 2015 primarily reflects:

- A net increase in industrial and office properties rental income of $5.5 million as a result of the six property acquisitions made during the third and fourth quarters in 2015.
- A net increase in rental income due to an early lease termination fee totaling $376,000, and;
- A net increase in rental income related to same store properties of $1.2 million as a result of increases in rental rates and occupancy. Same store occupancy was at 91.4% and 86.6% as of September 30, 2016 and 2015, respectively.

Rental Operating Costs. Rental operating costs were $7.6 million for the nine months ended September 30, 2016 compared to $5.7 million for the same period in 2015, an increase of approximately $1.9 million or 33.3%. Costs associated with properties acquired during the third and fourth quarters in 2015 accounted for substantially all of this increase. Rental operating costs as a percentage of rental and fee income was 31.7% and 33.6% for the nine months ended September 30, 2016 and 2015, respectively. The decrease in rental operating costs as a percentage of revenue for the nine month period is due to the increase in revenues from the termination fee and the increase in rental rates and occupancy at the same store properties.

General and Administrative Expenses. General and administrative expenses increased approximately $406,000 or 12.3% during the nine months ended September 30, 2016, compared to the same period in 2015. The primary increase is due to accruing on a monthly basis for year-end bonuses that management determined would be more than likely to be paid. These expenses are semi-fixed and do not necessarily correlate to total revenue. These expenses correlate more to the administrative functions required for the different types of properties. General and administrative expenses as a percentage of revenue was 15.4% and 19.4% for nine months ended September 30, 2016 and 2015. With the sale of the self-storage facilities, which segment was the most administrative intense, we anticipate that our general and administrative expenses will remain fairly constant going forward as we acquire more office, retail and industrial properties.

Depreciation and Amortization. Depreciation and amortization expense totaled approximately $7.7 million for the nine months ended September 30, 2016, compared to approximately $5.6 million for the same period in 2015, representing an increase of approximately $2.1 million or 37.5%. Depreciation and amortization costs associated with properties acquired during 2015 accounted for substantially all of this increase.

Asset Impairments. We review the carrying value of each of our real estate properties quarterly to determine if circumstances indicate an impairment in the carrying value of these investments exists. During the nine months ended September 30, 2016, management estimated that the fair market value of World Plaza property was below the carrying value and an impairment of approximately $700,000 was recorded.

Interest Expense-Series B preferred stock. The Series B Preferred Stock issued in August 2014 includes a mandatory redemption and therefore is treated as a liability for financial reporting purposes. The dividends paid and accrued and the amortization of the deferred offering costs are considered interest expense. Interest expense, including amortization of the deferred offering costs, totaled $4.5 million for the nine months ending September 30, 2016 compared to $2.9 million for the same period in 2015. Dividends paid and accrued totaled $3.8 million and $2.2 million, respectively, and the amortization of the deferred offering costs associated with that transaction totaled $761,000 and $700,000, respectively for the nine months ended September 30, 2016 and 2015 and were included in interest expense-Series B preferred stock in the accompanying financial statements. There were 32,700 and 30,000 shares outstanding as of September 30, 2016 and 2015, respectively, resulting in the increase in interest expense.

Interest Expense-mortgage notes. Interest expense, including amortization of deferred finance charges, increased by approximately $1.2 million, or 27.2%, to approximately $5.6 million for the nine months ended September 30, 2016 compared to $4.4 million for the same period in 2015. Interest expenses associated with properties acquired during the third and fourth quarters in 2015 totaled $1.1 million. The weighted average interest rate on our outstanding debt was 4.6% as of September 30, 2016 compared to 4.8% as of September 30, 2015.

Gain on Sale of Real Estate Assets, net. For the nine months ended September 30, 2016, we had a gain from the sale of seventeen Model Homes of approximately $622,000, an $831,000 gain from the sale of a parcel of land and its building at the Yucca Valley Retail Center and a $668,000 gain from the sale of the Havana Parker Complex. For the nine months ended September 30, 2015, the Company had gains from the sales of five Model Homes totaling $165,000 and $1.0 million from the sale of a parcel of land and its building at the Yucca Valley Retail Center.

Discontinued Operations. The Company sold 100% of the Sparky's Self-Storage Portfolio in April 2015. During the nine months ended September 30, 2015, the Company had income from discontinued operations of $4.6 million which included the gain from the sale of $4.7 million. No similar discontinued operations occurred during the nine months ending September 30, 2016.

Income/losses allocated to non-controlling interests. Loss allocated to non-controlling interests for the nine months ended September 30, 2016 totaled approximately $103,000 when compared to the loss allocated during the nine months ended September 30, 2015 of $1.4 million. The self-storage portfolio had two properties that were owned in limited partnerships and substantially all of the income allocated to non-controlling interests was due to the gain on sale of the two properties. Approximately $224,000 was attributable to the model home partnerships for the nine-month period ended September 30, 2015.

LIQUIDITY AND CAPITAL RESOURCES

Overview

As discussed above under Economic Environment, during 2016, 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 arena due to the uncertainties with global interest rates and the recent political instability. We believe that as a result of the trends, new mortgage financing will continue to 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 trends in the mortgage markets for smaller properties and in some geographic locations have reduced property prices and may, in certain cases, reduce competition for those properties.

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 real estate sales and the possible sale of additional equity/debt securities. Our available liquidity at September 30, 2016 included cash and cash equivalents of $4.7 million, as well as our potential borrowing capacity under potential credit facilities such as a revolving line of credit or from mortgages on unencumbered properties and refinancing of mortgages with low debt to value. We currently do not have a revolving line of credit but have been exploring the possibilities of obtaining such a line of credit.

Our future capital needs include paying down existing borrowings, maintaining our existing properties, funding tenant improvements, paying lease commissions (not covered by lender held reserve deposits), monthly payments on the Series B preferred stock and the payment of a competitive distribution to our stockholders. We also are actively seeking investments that are likely to produce income and achieve long term gains in order to pay distributions to our stockholders. To ensure that we are able to effectively execute these objectives, we routinely review our liquidity requirements and continually evaluate all potential sources of liquidity.

Our short term liquidity needs include paying our current operating costs, satisfying the debt service requirements of our existing mortgages, completing tenant improvements and funding for our distributions to stockholders. During the nine months ended September 30, 2016, our principal debt service was $3.6 million (debt paid off in connection with refinancing and sales of real estate was $7.9 million) and the cash portion of the distributions to our common shareholders was $3.3 million, while the net cash provided by our operating activities totaled approximately $3.8 million. The remainder of the short term liquidity needs were covered by our cash and cash equivalents. We believe that the cash flow from our existing portfolio and our recent acquisitions (when operational for the full term) and distributions from joint ventures in Model Home partnerships will be sufficient to fund our near term operating costs, capital expenditures, debt service costs and the cash portion of distributions to stockholders at the current rate. However, if our cash flow from operating activities is not sufficient to fund our short term liquidity needs, 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 potential financing capital available to us in the future is sufficient to fund our long-term liquidity needs. We are continually reviewing our existing portfolio to determine which properties have met our short and long term goals and reinvesting the proceeds in properties with better potential to increase performance. We expect to obtain additional cash in connection with refinancing of maturing mortgages and assumption of existing debt collateralized by some or all of our real property in the future to meet our long-term liquidity needs. If we are unable to arrange a line of credit, borrow on unencumbered properties, or sell securities to the public we may not be able to acquire additional properties to meet our long-term objectives.

Cash and Cash Equivalents

At September 30, 2016, we had approximately $4.7 million in cash and cash equivalents. 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 2016 and 2015, we did not experience any loss or lack of access to our cash or cash equivalents. Approximately $2.0 million of our cash balance is intended for capital expenditures on existing properties (net of deposits held in reserve accounts by our lenders). We intend to use the remainder of our existing cash and cash equivalents for acquisitions, general corporate purposes and distributions to our stockholders.

Secured Debt

As of September 30, 2016, NetREIT had fixed-rate mortgage notes payable in the aggregate principal amount of $137.0 million, collateralized by a total of 22 properties with loan terms at issuance ranging from 5 to 20 years. The weighted-average interest rate on the mortgage notes payable as of September 30, 2016 was approximately 4.6%, and our debt to estimated market value on these properties was approximately 58.0%.

As of September 30, 2016, NetREIT Dubose, and related entities, had 89 fixed-rate mortgage notes payable in the aggregate principal amount of $17.6 million, collateralized by a total of 89 Model Home properties. These loans generally have a term at issuance of three to five years. The average loan balance per home outstanding and the weighted-average interest rate on these mortgage loans are approximately $198,000 and 4.3%, respectively as of September 30, 2016. Our debt to estimated value on these properties is approximately 56.5%. The Company has guaranteed these promissory notes.

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 our acquisitions.

Cash Flows for the nine months ended September 30, 2016 and September 30, 2015.

Operating Activities: Net cash provided in operating activities for the nine months ended September 30, 2016 increased by approximately $1.7 to $3.7 million from net cash provided of $2.0 million, primarily due to the net cash flow from the six acquisitions that occurred between August and December 2015 and the $376,000 early lease termination fee received during the nine months ended September 30, 2016.

Investing Activities: Net cash used in investing activities during the nine months ended September 30, 2016 was $8.6 million compared to $10.6 million of cash used in the same period in 2015. During the nine months ended September 30, 2016 we purchased forty-six model homes for $15.8 million and received proceeds from the sales of seventeen model homes totaling $5.1 million, sold a parcel of land and its building for $1.3 million and the Havana Parker Complex for $3.3 million. We incurred approximately $1.3 million in selling costs associated with these sales. During the nine months ended September 30, 2015, the Company sold all of its self-storage facilities for $36 million and incurred $2 million in selling costs associated with the sale.

We currently project that we could spend up to $2.0 million (net of deposits held in reserve accounts by lenders) on capital improvements, tenant improvements and leasing costs for properties within our portfolio on an annual basis. Capital expenditures may fluctuate in any given period subject to the nature, extent, and timing of improvements required to the properties. We may spend more on capital expenditures during in the future due to rising construction costs and the anticipated increase in property acquisitions. Tenant improvements and leasing costs may also fluctuate in any given year depending upon factors such as the property, the term of the lease, the type of lease, the involvement of external leasing agents and overall market conditions.

Financing Activities: Net cash provided by financing activities during the nine months ended September 30, 2016 was $2.9 million compared to cash provided of $14.1 million for the same period in 2015. The decrease is primarily due to receiving $13.4 million of proceeds from the issuance of the Series B preferred stock during the nine months ending September 30, 2015 offset by mortgage activities during the same period.

Off-Balance Sheet Arrangements

As of September 30, 2016, 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 from sales of depreciable operating property and extraordinary items, as defined by GAAP. Other REITs may use different methodologies for calculating FFO and, accordingly, our FFO may not be comparable to other REITs. Because FFO excludes depreciation and amortization, gains and losses from property dispositions that are available for distribution to stockholders and extraordinary items, it provides a performance measure that, when compared year over year, reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, development activities, general and administrative expenses and interest costs, providing a perspective not immediately apparent from net income. In addition, Management believes that FFO provides useful information to the investment community about our financial performance when compared to other REITs since FFO is generally recognized as the industry standard for reporting the operations of REITs. However, FFO should not be viewed as an alternative measure of our operating performance since it does not reflect either depreciation and amortization costs or the level of capital expenditures and leasing costs necessary to maintain the operating performance of our properties which are significant economic costs and could materially impact our results from operations.

The following table presents our FFO and MFFO for the three and nine months ended September 30, 2016 and 2015:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Net loss	$(1,990,030)	$(1,546,534)	$(4,005,415)	$ (537,387)
Adjustments:				
Income attributable to noncontrolling interests	81,534	96,116	102,890	1,414,642
Depreciation and amortization (including discontinued operations)	2,564,211	1,884,193	7,723,372	5,726,170
Impairment of real estate	700,000	-	700,000	-
Gain on sale of real estate assets (including discontinued operations)	(732,908)	(10,858)	(2,121,453)	(5,936,010)
FFO	$ 622,807	$ 422,917	$ 2,399,394	$ 667,415
Straight line rent adjustment	(258,254)	(126,573)	(660,705)	(310,835)
Amortization of above and below market leases, net	(65,525)	(264)	(206,531)	66,967
Amortization of restricted stock compensation	129,534	116,671	388,602	350,014
Amortization of financing costs	346,213	320,799	1,081,520	941,385
Real estate acquisition costs	28,935	174,202	56,016	261,089
MFFO	$ 803,710	$ 907,752	$ 3,058,296	$ 1,976,035

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 basis to a cash basis of disclosing the rent and lease payments); accretion of discounts and amortization of premiums on debt investments; nonrecurring impairments of real estate-related investments (i.e., infrequent or unusual, not reasonably likely to recur in the ordinary course of business); mark-to-market adjustments included in net income; nonrecurring gains or losses included in net income from the extinguishment or sale of debt, hedges, foreign exchange, derivatives or securities holdings where trading of such holdings is not a fundamental attribute of the business plan, unrealized gains or losses resulting from consolidation from, or deconsolidation to, equity accounting, and after adjustments for consolidated and unconsolidated partnerships and joint ventures, with such adjustments calculated to reflect MFFO on the same basis. The accretion of discounts and amortization of premiums on debt investments, nonrecurring unrealized gains and losses on hedges, foreign exchange, derivatives or securities holdings, unrealized gains and losses resulting from consolidations, as well as other listed cash flow adjustments are adjustments made to net income in calculating the cash flows provided by operating activities and, in some cases, reflect gains or losses which are unrealized and may not ultimately be realized.

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

Same-Store Property Operating Results for the three and nine months ending September 30, 2016 and 2015.

The table below presents the 2016 and 2015 operating results for the Company’s commercial rental properties owned as of January 1, 2015, thereby excluding the impact on our results of operations from the real estate properties acquired subsequently. The table below excludes model home operations as the rental rates do not fluctuate during the term of the lease and there are no operating expenses. Income from discontinued operations from the self-storage portfolio are not included. 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. 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, and thus may not provide an adequate basis for comparison between REITs.

The Company evaluates the performance of its same-store property operating results based upon net operating income from continuing operations (“NOI”), which is a non-GAAP supplemental financial measure. The Company defines NOI as operating revenues (rental income, tenant reimbursements and other operating income) less property and related expenses (property operating expenses, real estate taxes, insurance 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, asset management fees and corporate general and administrative expenses. The Company believes that net income is the GAAP measure that is most directly comparable to NOI; however, NOI should not be considered as an alternative to net income as the primary indicator of operating performance as it excludes the items described above. Additionally, NOI as defined above may not be comparable to other REITs or companies as their definitions of NOI may differ from the Company’s definition.

	For the Three Months Ended September 30,		Variance		For the Nine Months Ended September 30,		Variance	
	2016	2015	$	%	2016	2015	$	%
Rental revenues	$ 5,246,369	$ 4,883,432	$362,937	7.4%	$15,745,853	$14,627,712	$1,118,141	7.6%
Rental operating costs	1,848,101	1,632,306	215,795	13.2%	5,256,820	5,290,888	(34,068)	(0.6)%
Net operating income	$ 3,398,268	$ 3,251,126	$147,142	4.5%	$10,489,033	$ 9,336,824	$1,152,209	12.3%
Operating Ratios:								
Number of same properties	19	19			19	19		
Same-property occupancy, end of period	91.4%	86.6%		4.8%	91.4%	96.6%		-5.2%
Same-properties operating costs as a percentage of total revenues	35.2%	33.4%		1.8%	33.4%	36.2%		(2.8)%

Overview

Same-store property NOI increased for the three months ended September 30, 2016 as compared to the corresponding period in 2015 as evidenced by the increase in rental revenues of 7.4 % and NOI of 4.5 %. The increase was due to an increase in rental rates and occupancy during the period. Same-store property NOI increased for the nine months ended September 30, 2016 as compared to the corresponding period in 2015 as evidenced by the increase in rental revenues of 7.6% and NOI of 12.3%. The improvement in rental revenues was partially due to a lease termination fee of approximately $376,000 and the remainder of the increase was due to increases in rental rates and occupancy during the period. Rental operating costs as a percentage of total revenues increased approximately 1.8% for the three months ended September 30, 2016 when compared to the same period in 2015. Rental operating costs as a percentage of total revenues decreased approximately 2.8% for the nine months ended September 30, 2016.

Leasing

Our same-store growth is primarily driven by increases in rental rates on new leases and lease renewals, changes in portfolio occupancy and the lease termination fee at one of the properties. Over the long-term, we believe that the infill nature and strong demographics of our properties provide us with a strategic advantage, allowing us to maintain relatively high occupancy and increase rental rates. We have continued to see signs of improvement for many of our tenants as well as increased interest from prospective tenants for our spaces. While there can be no assurance that these positive signs will continue, we remain cautiously optimistic regarding the improved trends we have seen over the past few years. We believe the locations of our properties and diverse tenant base mitigate the potentially negative impact of a poor economic environment. However, any reduction in our tenants' abilities to pay base rent, percentage rent or other charges, may adversely affect our financial condition and results of operations.

During the quarter ended September 30, 2016, we signed 26 leases (9 new leases and 17 renewals) for a total of 91,450 square feet of comparable space leases, at an average rental rate increase of 6.7% on a cash basis and an average rental increase of 10.2 % on a straight-line basis. One new office lease for comparable spaces was signed for 1,200 square feet at an average rental rate increase of 0.2% on a cash basis and an average rental rate decrease of 0.3 % on a straight-line basis. Renewals for comparable office spaces were signed for 62,039 square feet at an average rental rate increase of 11.0% on a cash basis and increase of 14.8% on a straight-line basis.

Impact of Downtime and Rental Rate Changes

The downtime between a lease expiration and a new lease commencement, typically ranging from 6-24 months, can negatively impact total NOI and same property NOI. In addition, office leases, both new and lease renewals typically contain upfront rental and /or operating expense abatement periods which delay the cash flow benefits of the lease even after the new lease or renewal has commenced. If we are unable to replace expiring leases with new or renewal leases at rental rates equal to or greater than the expiring rates, rental rate roll downs can also negatively impact total NOI and same property NOI comparisons. This was the case for all leases entered into prior to 2008 the start of the recession. Most of our leases were less than seven years and therefore the rental rate roll downs should not have a significant effect on future years. Our geographically diverse portfolio model results in rent roll ups that can fluctuate widely on a market by market basis; however, given the large volume of leasing activity over the last several years, we estimate that our portfolio, taken as a whole, is currently at market. Total NOI and same property NOI comparisons for any given period may still fluctuate as a result of rent roll ups and roll downs, however, depending on the leasing activity in individual geographic markets during the respective period.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required

ITEM 4. CONTROLS AND PROCEDURES

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

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended September 30, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors

Not Required

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

1. The Company does not have a formal policy with respect to a stock repurchase program and typically restricts repurchases to hardship cases only.
2. See note 5 to the condensed consolidated financial statements for a description of the related party transaction.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information.

None.

Item 6. EXHIBITS.

Exhibit Number	Description
31.1	Certificate of the Company's Chief Executive Officer (Principal Executive Officer) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016.
31.2	Certification of the Company's Chief Financial Officer (Principal Financial Officer) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016.
31.3	Certification of the Company's Principal Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016.
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
	Instance Document
	XBRL Taxonomy Extension Schema Document
	XBRL Taxonomy Extension Calculation Linkbase Document
	XBRL Taxonomy Extension Definition Linkbase Document
	XBRL Taxonomy Extension Label Linkbase Document
	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 9, 2016

NetREIT, Inc.

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

By: */s/ Grant Harbert*
Name: Grant Harbert
Title: Chief Financial Officer

By: */s/ Heather L. Pittard*
Name: Heather L. Pittard
Title: Principal Accounting Officer