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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, 2018

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.)

PRESIDIO PROPERTY TRUST, 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 every Interactive Data File required to be submitted 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 such files) Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☒
Emerging Growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 14, 2018, registrant had issued and outstanding 17,667,857 shares of its common stock, $0.01 par value.

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CAUTIONARY STATEMENTS

This report contains "forward-looking statements" within the meaning of the federal securities laws that involve risks and uncertainties, many of which are beyond our control. Our actual results could differ materially and adversely from those anticipated in such forward-looking statements as a result of certain factors, including those set forth in this report and in our other filings with the Securities and Exchange Commission (the "SEC"). Forward-looking statements relate to matters such as our industry, business strategy, goals and expectations concerning our market position, future operations, margins, profitability, capital expenditures, financial condition, liquidity, capital resources, cash flows, results of operations and other financial and operating information. When used in this report, the words "will," "may," "believe," "anticipate," "intend," "estimate," "expect," "should," "project," "plan," and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. Important factors that may cause actual results to differ from projections include, but are not limited to:

- adverse economic conditions in the real estate market;
- adverse changes in the real estate financing markets;
- our inability to raise sufficient additional capital to continue to expand our real estate investment portfolio and pay dividends to our stockholders;
- unexpected costs, lower than expected rents and revenues from our properties, and/or increases in our operating costs;
- inability to attract or retain qualified personnel, including real estate management personnel;
- adverse results of any legal proceedings;
- changes in local, regional and national economic conditions;
- our inability to compete effectively;
- our inability to collect rent from tenants or renew tenants' leases;
- defaults on or non-renewal of leases by tenants;
- increased interest rates and operating costs;
- decreased rental rates or increased vacancy rates;
- changes in the availability of additional acquisition opportunities;
- our inability to successfully complete real estate acquisitions;
- our failure to successfully operate acquired properties and operations;
- changes in our business strategy;
- our failure to generate sufficient cash flows to service our outstanding indebtedness;
- our failure or inability to implement the recapitalization;
- environmental uncertainties and risks related to adverse weather conditions and natural disasters;
- our failure to qualify and maintain our status as a REIT;
- government approvals, actions and initiatives, including the need for compliance with environmental requirements;
- financial market fluctuations;
- New legislation or unexpected interpretations of existing legislation;
- changes in real estate and zoning laws and increases in real property tax rates; and
- additional factors discussed in our filings with the SEC.

Presidio Property Trust, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

	September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Real estate assets and lease intangibles:		
Land	$ 39,084,687	$ 37,766,357
Buildings and improvements	189,036,379	183,071,686
Tenant improvements	22,843,881	21,348,989
Lease intangibles	8,996,931	9,096,793
Real estate assets and lease intangibles held for investment, cost	259,961,879	251,283,825
Accumulated depreciation and amortization	(42,894,476)	(37,143,881)
Real estate assets and lease intangibles held for investment, net	217,067,403	214,139,943
Real estate assets held for sale, net	20,299,157	20,394,001
Real estate assets, net	237,366,560	234,533,944
Cash equivalents and restricted cash	11,841,100	8,310,575
Deferred leasing costs, net	2,006,175	1,892,066
Goodwill	2,423,000	2,423,000
Other assets, net	5,994,522	7,337,280
TOTAL ASSETS	$ 259,631,357	$ 254,496,865
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage notes payable, net	$ 155,638,288	$ 144,893,113
Mortgage notes payable related to properties held for sale, net	15,193,432	15,429,624
Mortgage notes payable, net	170,831,720	160,322,737
Accounts payable and accrued liabilities	7,530,999	7,142,720
Accrued real estate taxes	2,455,397	3,013,993
Below-market leases, net	1,218,148	1,390,372
Mandatorily redeemable Series B Preferred Stock, net, $0.01 par value, $1,000 liquidating preference; shares authorized: 35,000; 30,700 and 30,700 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively, net	30,595,347	30,584,875
Total liabilities	212,631,611	202,454,697
Commitments and contingencies		
Equity:		
Series A Common Stock, $0.01 par value, shares authorized: 100,000,000; 17,667,857 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	176,680	176,680
Additional paid-in capital	151,121,902	151,121,902
Dividends and accumulated losses	(119,751,640)	(113,652,763)
Total stockholders' equity before noncontrolling interest	31,546,942	37,645,819
Noncontrolling interest	15,452,804	14,396,349
Total equity	46,999,746	52,042,168
TOTAL LIABILITIES AND EQUITY	$ 259,631,357	$ 254,496,865

See Notes to Condensed Consolidated Financial Statements

Presidio Property Trust, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Rental income	$ 7,950,356	$ 7,661,356	$ 23,740,115	$ 23,470,574
Fee and other income	332,246	302,118	931,736	1,257,500
Total revenue	8,282,602	7,963,474	24,671,851	24,728,074
Costs and expenses:				
Rental operating costs	2,718,295	2,794,071	8,030,427	8,067,236
General and administrative	1,384,974	1,322,631	4,041,453	3,960,202
Depreciation and amortization	2,268,896	2,399,307	6,873,828	7,346,640
Impairment of real estate assets	532,951	-	532,951	-
Total costs and expenses	6,905,116	6,516,009	19,478,659	19,374,078
Other income (expense):				
Interest expense-Series B preferred stock	(1,145,474)	(1,202,099)	(3,344,788)	(3,966,902)
Interest expense-mortgage notes	(2,135,614)	(1,989,053)	(6,160,456)	(5,851,865)
Interest and other income, net	8,466	10,515	2,624	25,612
Gain on sales of real estate, net	366,032	210,372	795,521	2,237,423
Deferred offering costs	-	-	(1,507,599)	-
Income tax expense	(69,683)	(53,566)	(225,341)	(154,189)
Total other expense, net	(2,976,273)	(3,023,831)	(10,440,039)	(7,709,921)
Net loss	(1,598,787)	(1,576,366)	(5,246,847)	(2,355,925)
Less: Income attributable to noncontrolling interests	(284,138)	(200,181)	(852,030)	(415,009)
Net loss attributable to Presidio Property Trust, Inc. common stockholders	$ (1,882,925)	$ (1,776,547)	$ (6,098,877)	$ (2,770,934)
Basic and diluted loss per common share	$ (0.11)	$ (0.10)	$ (0.16)	$ (0.16)
Weighted average number of common shares outstanding - basic and diluted	17,667,857	17,617,500	17,564,805	17,564,805

See Notes to Condensed Consolidated Financial Statements

Presidio Property Trust, Inc. and Subsidiaries
Condensed Consolidated Statement of Changes in Equity
For the Nine Months Ended September 30, 2018
(Unaudited)

	Common Stock		Additional Paid-in Capital	Dividends and Accumulated Losses	Total Stockholders' Equity	Non-controlling Interests	Total Equity
	Shares	Amount					
Balance, December 31, 2017	17,667,857	$ 176,680	$ 151,121,902	$ (113,652,763)	$ 37,645,819	$ 14,396,349	$ 52,042,168
Net (loss) income	-	-	-	(6,098,877)	(6,098,877)	852,030	(5,246,847)
Contributions from noncontrolling interests, net of distributions paid	-	-	-	-	-	204,425	204,425
Balance, September 30, 2018	17,667,857	$ 176,680	$ 151,121,902	$ (119,751,640)	$ 31,546,942	$ 15,452,804	$ 46,999,746

See Notes to Condensed Consolidated Financial Statements

Presidio Property Trust, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	For the Nine Months Ended September 30, 2018	For the Nine Months Ended September 30, 2017
Cash flows from operating activities:		
Net loss	$ (5,246,847)	$ (2,355,925)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	6,873,828	7,346,640
Stock compensation	429,273	410,760
Bad debt expense	26,661	37,205
Gain on sale of real estate assets, net	(795,521)	(2,237,423)
Impairment of real estate assets	532,951	
Amortization of financing costs	414,896	956,956
Amortization of above-market leases	48,938	79,013
Amortization of below-market leases	(172,223)	(240,882)
Straight-line rent adjustment	(259,600)	(452,427)
Changes in operating assets and liabilities:		
Other assets	1,003,579	487,961
Accounts payable and accrued liabilities	(40,994)	267,164
Accrued real estate taxes	(558,596)	29,155
Net cash provided by operating activities	2,256,345	4,328,197
Cash flows from investing activities:		
Real estate acquisitions	(15,225,886)	(16,810,985)
Additions to buildings and tenant improvements	(2,141,551)	(3,156,986)
Additions to deferred leasing costs	(582,823)	(407,653)
Proceeds from sales of real estate, net	8,404,012	16,463,558
Net cash used in investing activities	(9,546,248)	(3,912,066)
Cash flows from financing activities:		
Proceeds from mortgage notes payable, net of issuance costs	21,679,160	13,342,994
Repayment of mortgage notes payable	(11,063,157)	(9,656,060)
Series B preferred stock costs	-	(153,500)
Redemption of mandatorily redeemable preferred stock	-	(2,000,000)
Contributions from noncontrolling interests net of distributions paid	204,425	1,592,414
Repurchase of common stock	-	(17,394)
Dividends paid to stockholders	-	(3,620,879)
Net cash provided by (used in) financing activities	10,820,428	(512,425)
Net increase (decrease) in cash equivalents and restricted cash	3,530,525	(96,294)
Cash equivalents and restricted cash - beginning of period	8,310,575	7,387,795
Cash equivalents and restricted cash - end of period	$ 11,841,100	$ 7,291,501
Supplemental disclosure of cash flow information:		
Interest paid Series B preferred stock	$ 3,259,317	$ 3,355,983
Interest paid-mortgage notes payable	$ 5,749,421	$ 5,441,424
Non-cash investing and financing activities:		
Reinvestment of cash dividends	$ -	$ 1,095,434

See Notes to Condensed Consolidated Financial Statements

Presidio Property Trust, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (unaudited)
September 30, 2018

1. ORGANIZATION

Organization. Presidio Property Trust, Inc. (“we”, “our”, “us” or the “Company”) is a self-managed real estate investment trust (“REIT”). We were incorporated in the State of California on September 28, 1999, and in August 2010, we reincorporated as a Maryland corporation. In October 2017, we changed our name from “NetREIT, Inc.” to “Presidio Property Trust, Inc.” The Company’s portfolio includes the following properties:

- Fifteen office buildings and two industrial properties (“Office/Industrial Properties”) which total approximately 1,463,390 rentable square feet,
- Five retail shopping centers (“Retail Properties”) which total approximately 228,260 rentable square feet, and
- One hundred forty-seven model homes leased residential properties (“Model Homes”) owned through four affiliated limited partnerships and one wholly owned limited liability company (“Model Home Properties”).

The Company operates in the following partnerships 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 is the general and limited partner in four limited partnerships that purchase Model Homes and lease them back to homebuilders (“Dubose Model Home Investors #202, LP”, “Dubose Model Homes Investors #203, LP”, “Dubose Model Homes Investors #204, 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 limited partnerships in which it owns less than 100%, should be included in the Company’s consolidated financial statements as the Company directs their activities and has control of such limited partnerships.

We have elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code (“Code”), for federal income tax purposes. To maintain our qualification as a REIT, we are required to distribute at least 90% of our REIT taxable income to our stockholders and meet the various other requirements imposed by the Code relating to such matters as operating results, asset holdings, distribution levels and diversity of stock ownership. Provided we maintain our qualification for taxation as a REIT, we are generally not subject to corporate level income tax on the earnings distributed currently to our stockholders that we derive from our REIT qualifying activities. If we fail to maintain our qualification as a REIT in any taxable year and are unable to avail ourselves of certain savings provisions set forth in the Code, all of our taxable income would be subject to federal income tax at regular corporate rates, including any applicable alternative minimum tax. We are subject to certain state and local income taxes.

We, together with one of our entities, have elected to treat our subsidiaries as a taxable REIT subsidiary (a “TRS”) for federal income tax purposes. Certain activities that we undertake must be conducted by a TRS, such as non-customary services for our tenants, and holding assets that we cannot hold directly. A TRS is subject to federal and state income taxes.

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, 2017. 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, 2017 included in the Company’s Annual Report on Form 10-K filed with the SEC on March 20, 2018.

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 three and nine months ended September 30, 2018 and 2017, 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, 2018. 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, 2017. The condensed consolidated balance sheet as of December 31, 2017 has been derived from the audited consolidated financial statements included in the Form 10-K filed with the SEC on March 20, 2018.

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.

Cash Equivalents and Restricted Cash. At September 30, 2018 and December 31, 2017, we had approximately $4.7 million and $3.8 million in cash equivalents and $7.1 million and $4.5 million of restricted cash, respectively. Our cash equivalents and restricted cash consist of invested cash and cash in our operating accounts and are held in bank accounts at third party institutions. Restricted cash consists of funds used for property taxes, insurance, capital expenditures and leasing commission.

Real Estate Held for Sale. Real estate held for sale during the current period is classified as "real estate held for sale" for all prior periods presented in the accompanying condensed consolidated financial statements. Mortgage notes payable related to the real estate held for sale during the current period is classified as "mortgage notes payable related to real estate held for sale, net" for all prior periods presented in the accompanying condensed consolidated financial statements.

Asset Impairments. We review for impairment on a property by property basis. Impairment is recognized on properties held for use when the expected undiscounted cash flows for a property are less than its carrying amount at which time the property is written-down to fair value. The calculation of both discounted and undiscounted cash flows requires management to make estimates of future cash flows including revenues, operating expenses, required maintenance and development expenditures, market conditions, demand for space by tenants and rental rates over long periods. Since our properties typically have a long life, the assumptions used to estimate the future recoverability of book value requires significant management judgment. Actual results could be significantly different from the estimates. These estimates have a direct impact on net income because recording an impairment charge results in a negative adjustment to net income. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods.

Properties held for sale are recorded at the lower of the carrying amount or the expected sales price less costs to sell. Although our strategy is to hold our properties over the long-term, if our strategy changes or market conditions otherwise dictate an earlier sale date, an impairment loss may be recognized to reduce the property to fair value and such loss could be material.

During the three and nine months ended September 30, 2018, management estimated that the fair market value of the Waterman Plaza property was below the carrying value and an impairment of approximately $533,000 was recorded.

Fair Value Measurements. Under GAAP, we are required to measure certain financial instruments at fair value on a recurring basis. In addition, we are required to measure other non-financial and financial assets at fair value on a non-recurring basis (e.g., carrying value of impaired real estate loans receivable and long-lived assets). Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The GAAP fair value framework uses a three-tiered approach. Fair value measurements are classified and disclosed in one of the following three categories:

- Level 1: unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;

- Level 2: quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and

- Level 3: prices or valuation techniques where little or no market data is available that requires inputs that are both significant to the fair value measurement and unobservable.

When available, we utilize quoted market prices from independent third-party sources to determine fair value and classify such items in Level 1 or Level 2. In instances where the market for a financial instrument is not active, regardless of the availability of a nonbinding quoted market price, observable inputs might not be relevant and could require us to make a significant adjustment to derive a fair value measurement. Additionally, in an inactive market, a market price quoted from an independent third party may rely more on models with inputs based on information available only to that independent third party. When we determine the market for a financial instrument owned by us to be illiquid or when market transactions for similar instruments do not appear orderly, we use several valuation sources (including internal valuations, discounted cash flow analysis and quoted market prices) and establish a fair value by assigning weights to the various valuation sources. Additionally, when determining the fair value of a liability in circumstances in which a quoted price in an active market for an identical liability is not available, we measure fair value using (i) a valuation technique that uses the quoted price of the identical liability when traded as an asset or quoted prices for similar liabilities when traded as assets or (ii) another valuation technique that is consistent with the principles of fair value measurement, such as the income approach or the market approach. During the three months ended September 30, 2018, the Company measured the fair value of the Waterman Plaza property on a nonrecurring basis using Level 3 inputs.

Changes in assumptions or estimation methodologies can have a material effect on these estimated fair values. In this regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, may not be realized in an immediate settlement of the instrument.

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 May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update ("ASU") 2014-09, “Revenue From Contracts With Customers (ASC 606)," which outlines a comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The standard states that “an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.” While the standard specifically references contracts with customers, it may apply to certain other transactions such as the sale of real estate. The standard applies to the Company's recognition of gains on sale of real estate. The Company's adoption of the standard on January 1, 2018 did not have an impact on the pattern of revenue recognition for gains on sale of real estate.

On November 17, 2016, the FASB issued ASU 2016-18, “Restricted Cash,” which requires that the statement of cash flows explain the change during a reporting period in the total of cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. This standard states that transfers between cash, cash equivalents, and restricted cash are not part of the entity’s operating, investing, and financing activities. Therefore, restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. On January 1, 2018, the Company adopted the standard and retrospectively applied the guidance of the standard to the prior period presented, which resulted in a decrease of $417,000 in net cash provided by investing activities on its consolidated statements of cash flows for the nine months ended September 30, 2017.

In February 2016, the FASB issued ASU 2016-02, which sets out principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The standard requires that lessors expense, on an as-incurred basis, certain initial direct costs that are not incremental in negotiating a lease. Under existing standards, certain of these costs are capitalizable and therefore this new standard may result in certain of these costs being expensed as incurred after adoption. Under the standard, lessees apply a dual approach, classifying leases as either finance or operating leases. A lessee is required to record a right-of-use asset and a lease liability for all leases with a term of greater than twelve months, regardless of their lease classification. The Company is a lessee on ground leases at certain properties, on certain office space leases and on certain other improvements and equipment. The standard will impact the accounting and disclosure requirements for these leases. The standard is effective for the Company under a modified retrospective approach beginning January 1, 2019. The Company is evaluating the impact of the adoption of this standard on its consolidated financial statements.

On January 5, 2017, the FASB issued ASU 2017-01, “Business Combinations,” which clarifies the definition of a business. The objective of the standard is to add further guidance that assists entities in evaluating whether a transaction will be accounted for as an acquisition of an asset or a business. The guidance requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If so, the set of transferred assets and activities are not a business and should be treated as an asset acquisition. The guidance also requires a business to include at least one substantive process and narrows the definition of outputs. The primary difference between business combinations and asset acquisitions is the recognition of transaction costs, which are expensed as period costs for business combinations and capitalized for asset acquisitions. The Company's adoption of this standard on January 1, 2018 did not have a significant impact on its consolidated financial statements.

In February 2017, the FASB issued ASU No. 2017-05, “Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets,” which clarifies the scope of asset derecognition and adds further guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with non-customers. The Company has concluded that property sales represent transactions with non-customers. Sales of property generally represent only one performance obligation and are recognized when an enforceable contract is in place, collectability is ensured and control is transferred to the buyer. The Company's adoption of this standard on January 1, 2018 did not have a significant impact on its consolidated financial statements.

3. RECENT REAL ESTATE TRANSACTIONS

During the nine months ended September 30, 2018, the Company acquired thirty-nine Model Homes for approximately $15.2 million. The purchase price was paid through cash payments of approximately $4.6 million and mortgage notes of approximately $10.6 million.

During the nine months ended September 30, 2018, the Company disposed of twenty-four model homes for approximately $9.0 million and recognized a gain of approximately $796,000 related to the sale of these Model Homes.

During the nine months ended September 30, 2017, the Company acquired forty-five model homes for approximately $16.8 million. The purchase price was paid through cash payments of approximately $5.7 million and mortgage notes of approximately $11.1 million.

On February 27, 2017, the Company sold the Rangewood Medical Building for approximately $2.2 million and recognized a loss of approximately $170,000.

On March 31, 2017, the Company sold the Regatta Square Retail Center for approximately $3.0 million and recognized a gain of approximately $756,000.

On April 7, 2017, the Company sold the Shoreline Medical Building for approximately $8.2 million and recognized a gain of approximately $1.3 million.

During the nine months ended September 30, 2017, the Company disposed of fourteen Model Homes for approximately $5.3 million and recognized a gain of approximately $350,000 related to the sale of these Model Homes.

4. REAL ESTATE ASSETS

A summary of the properties owned by the Company as of September 30, 2018 is as follows:

Property Name		Date Acquired	Location	Real estate assets, net (in thousands)
Garden Gateway Plaza		March 2007	Colorado Springs, Colorado	$ 11,268
World Plaza		September 2007	San Bernardino, California	5,761
Executive Office Park		July 2008	Colorado Springs, Colorado	8,027
Waterman Plaza		August 2008	San Bernardino, California	5,000
Pacific Oaks Plaza		September 2008	Escondido, California	3,965
Morena Office Center		January 2009	San Diego, California	4,723
Genesis Plaza		August 2010	San Diego, California	8,506
Dakota Bank Buildings		May 2011	Fargo, North Dakota	9,258
Yucca Valley Retail Center	(1)	September 2011	Yucca Valley, California	6,612
Port of San Diego Complex	(1)	December 2011	San Diego, California	13,687
The Presidio		November 2012	Aurora, Colorado	6,427
Grand Pacific Center		March 2014	Bismarck, North Dakota	5,846
Union Terrace Building		August 2014	Lakewood, Colorado	8,095
Centennial Tech Center		December 2014	Colorado Springs, Colorado	13,027
Arapahoe Service Center		December 2014	Centennial, Colorado	10,380
Union Town Center		December 2014	Colorado Springs, Colorado	9,981
West Fargo Industrial		August 2015	Fargo, North Dakota	7,304
300 N.P.		August 2015	Fargo, North Dakota	3,569
Research Parkway		August 2015	Colorado Springs, Colorado	2,612
One Park Center		August 2015	Westminster, Colorado	8,538
Highland Court		August 2015	Centennial, Colorado	11,910
Shea Center II		December 2015	Highlands Ranch, Colorado	22,796
Presidio Property Trust, Inc properties				187,292
Model Home properties		2010-2018	AZ, CA, FL, IL, NC, NJ, PA, SC, TX, UT	50,075
		Total real estate assets and lease intangibles, net		$ 237,367

(1) Properties held for sale as of September 30, 2018.

Geographic Diversification Table

The following tables show a list of properties owned by Presidio Property Trust, Inc. grouped by state location as of September 30, 2018:

State	No. of Properties	Aggregate Square Feet	Approximate % of Square Feet	Current Base Annual Rent	Approximate % of Aggregate Annual Rent
California	7	420,927	24.9%	$ 5,256,291	24.5%
Colorado	11	873,684	51.6%	12,545,307	58.5%
North Dakota	4	397,039	23.5%	3,634,145	17.0%
Total	22	1,691,650	100.0%	$21,435,743	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
Southwest	92	282,105	67.1%	$2,587,824	61.1%
West	3	7,854	1.9%	77,748	1.8%
Southeast	41	99,502	23.7%	1,152,624	27.2%
Midwest	3	9,458	2.2%	131,916	3.1%
East	8	21,566	5.1%	286,500	6.8%
Total	147	420,485	100.0%	$4,236,612	100.0%

5. LEASE INTANGIBLES

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

	September 30, 2018			December 31, 2017		
	Lease Intangibles	Accumulated Amortization	Lease Intangibles, net	Lease Intangibles	Accumulated Amortization	Lease Intangibles, net
In-place leases	$ 5,592,418	$ (3,970,544)	$ 1,621,875	$ 5,592,418	$ (3,531,441)	$ 2,060,977
Leasing costs	3,727,331	(2,408,170)	1,319,161	3,727,332	(2,088,799)	1,638,533
Above-market leases	684,542	(296,295)	388,247	784,404	(347,218)	437,186
	$ 10,004,291	$ (6,675,008)	$ 3,329,283	$ 10,104,154	$ (5,967,458)	$ 4,136,696

As of September 30, 2018 and December 31, 2017, $1,007,360 and $1,007,360, respectively, of net lease intangible assets were included in real estate assets held for sale.

The net value of acquired intangible liabilities was $1,218,148 and $1,390,372 relating to below-market leases as of September 30, 2018 and December 31, 2017, respectively.

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

Three months remaining in 2018	$ 303,965
Years ending December 31:	
2019	885,806
2020	696,573
2021	497,459
2022	369,255
Thereafter	576,225
Total	$ 3,329,283

The weighted average remaining amortization period of the intangible assets as of September 30, 2018 is 2.9 years.

6. OTHER ASSETS

Other assets consist of the following:

	September 30, 2018	**December 31, 2017**
Deferred rent receivable	$ 3,541,656	$ 3,227,700
Raw land	900,000	900,000
Prepaid expenses, deposits and other	485,737	1,410,363
Accounts receivable, net	436,698	1,108,110
Other intangibles, net	314,057	374,733
Notes receivable	316,374	316,374
Total other assets	$ 5,994,522	$ 7,337,280

As of December 31, 2017, there was $1.0 million of deferred offering costs related to the Company’s filing of a registration statement on Form S-11 included in other assets. Due to the uncertainty of the timing of the offering, we expensed all offering costs of approximately $1.5 million which is included in the consolidated statements of operations for the nine months ended September 30, 2018.

7. MORTGAGE NOTES PAYABLE

Mortgage notes payable consisted of the following:

Mortgage note property	Notes	Principal as of September 30, 2018	Principal as of December 31, 2017	Loan Type	Interest Rate (1)	Maturity
Port of San Diego Complex	(5)	9,359,077	9,575,508	Fixed	4.75%	3/5/2020
Garden Gateway Plaza		6,303,202	6,445,300	Fixed	5.00%	4/5/2020
World Plaza	(6)	6,011,564	-	Variable	4.83%	6/5/2020
West Fargo Industrial		4,311,440	4,365,449	Fixed	4.79%	8/4/2020
Morena Office Center		2,102,058	2,156,479	Fixed	4.30%	6/1/2021
Waterman Plaza		3,786,784	3,850,365	Fixed	4.25%	4/29/2021
Pacific Oaks Plaza		1,429,346	1,466,351	Fixed	4.30%	6/1/2021
300 N.P.		2,354,328	2,380,703	Fixed	4.95%	6/11/2022
Highland Court		6,591,783	6,695,541	Fixed	3.82%	8/28/2022
Dakota Center		10,347,159	10,492,904	Fixed	4.74%	7/6/2024
Union Terrace Building		6,372,478	6,454,448	Fixed	4.50%	9/5/2024
The Presidio		6,000,000	6,000,000	Fixed	4.54%	12/1/2024
Centennial Tech Center		9,773,141	9,908,235	Fixed	4.43%	1/5/2025
Research Parkway		1,872,419	1,909,012	Fixed	3.94%	1/5/2025
Arapahoe Service Center		8,255,412	8,364,088	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	(5)	5,952,658	6,000,000	Fixed	4.30%	4/11/2025
Executive Office Park	(2)	4,965,346	4,151,161	Fixed	5.80%	7/1/2025
Genesis Plaza		6,500,000	6,500,000	Fixed	4.65%	8/25/2025
One Park Centre		6,601,714	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	(4)	3,979,105	4,057,752	Fixed	4.02%	8/1/2037
Subtotal, Presidio Property Trust, Inc. Properties		139,036,514	133,550,796		4.58%	
Model Home mortgage notes		33,585,165	28,454,883	Fixed	(3)	2019-2021
Mortgage Notes Payable		$ 172,621,679	$ 162,005,679			
Unamortized loan costs		(1,789,959)	(1,682,942)			
Mortgage Notes Payable, net		$ 170,831,720	$ 160,322,737			

(1) Interest rates as of September 30, 2018.
(2) Interest rate is subject to reset on June 1, 2021 and June 1, 2024.
(3) Each model home has a stand-alone mortgage note at interest rates ranging from 3.8% to 5.75% per annum (at September 30, 2018).
(4) Interest rate is subject to reset on September 1, 2023 and on September 1, 2030.
(5) Properties held for sale as of September 30, 2018.
(6) Interest rate is Libor plus 2.75% or 5.75% as of September 30, 2018.

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

Scheduled principal payments of mortgage notes payable were as follows as of September 30, 2018:

	Presidio Property Trust, Inc. Notes Payable	Model Homes Notes Payable	Principal Payments
Three months remaining in 2018	$ 537,754	$ 314,997	$ 852,751
Years ending December 31:			
2019	2,307,005	12,265,710	$ 14,572,715
2020	27,187,327	11,192,731	$ 38,380,058
2021	14,518,280	9,811,727	$ 24,330,007
2022	10,154,452	-	$ 10,154,452
Thereafter	84,331,696	-	$ 84,331,696

Total	$ 139,036,514	$ 33,585,165	$ 172,621,679

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 ("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 was scheduled to be redeemed on August 1, 2017; however, the Company had two one year options to extend the redemption date. On June 30, 2017, the Company exercised its option to extend the redemption date to August 1, 2018 and paid an extension fee of $153,500. The Company paid an additional $153,500 to exercise its option to extend the redemption date to August 1, 2019 in July 2018. 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 $47,000 and $86,000 was included in interest expense for the three and nine months ended September 30, 2018, respectively, in the accompanying condensed consolidated statements of operations. The unamortized deferred costs totaled $105,000 and $115,000 as of September 30, 2018 and December 31, 2017.

During 2017, the Company redeemed 1,000 shares in March and 1,000 shares in May for a total of $2.0 million. As of September 30, 2018 and December 31, 2017, the remaining outstanding number of shares was 30,700.

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 $0.01 par value ("Series A Common Stock") and 1,000 shares of Series B Common Stock $0.01 ("Series B Common Stock") par value. The Series A Common Stock and the Series B Common Stock have identical rights, preferences, terms and conditions except that the holders of Series B Common Stock are not entitled to receive any portion of Company assets in the event of Company liquidation. There have been no shares of Series B Common Stock issued. Each share of Series A Common Stock and Series B Common Stock entitles the holder to one vote. The Series A Common Stock and Series B common stock is not subject to redemption and 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 Series A 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 Series A 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 active market currently exists for the securities sold under this offering.

Cash Dividends. We suspended the payment of dividends during the third quarter of 2017 and no dividends were declared or paid during the fourth quarter of 2017 or during the nine months ended September 30, 2018. During the nine months ended September 30, 2017 the Company paid cash dividends, net of reinvested stock dividends, of approximately $3,621,000 or at a rate of $0.10 per share on a quarterly basis.

Dividend Reinvestment Plan. The Company has adopted a distribution reinvestment plan ("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 Plan. The Plan became effective on January 23, 2012. The purchase price per share used in the past was 95% of the price the Company was formerly selling its shares or $9.50 per share. No sales commission or dealer manager fee were paid on shares sold through the 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, 2018 approximately $17.4 million or approximately 1,834,147 shares of common stock have been issued under the Plan to date. No shares were issued under the Plan during the nine months ended September 30, 2018.

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 and nine months ended September 30, 2018 and 2017 totaled $7,000 and $7,000, respectively and $21,000 and $21,000, respectively.

11. SEGMENTS

The Company's reportable segments consist of three types of commercial real estate properties for which the Company's decision-makers internally evaluate operating performance and financial results: Office/Industrial Properties, Model Home Properties and Retail Properties. 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, 2018 and 2017.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Office/Industrial Properties:				
Rental, fee and other income	$ 6,118,429	$ 5,924,773	$ 18,333,962	$ 18,703,971
Property and related expenses	(2,348,532)	(2,413,777)	(7,005,628)	(6,928,015)
Net operating income, as defined	3,769,896	3,510,996	11,328,334	11,775,956
Model Home Properties:				
Rental, fee and other income	1,211,327	983,426	3,504,983	2,790,032
Property and related expenses	(44,704)	(35,239)	(132,055)	(109,233)
Net operating income, as defined	1,166,623	948,187	3,372,928	2,680,799
Retail Properties:				
Rental, fee and other income	952,846	1,055,177	2,832,906	3,234,071
Property and related expenses	(325,058)	(344,957)	(892,746)	(1,029,987)
Net operating income, as defined	627,788	710,220	1,940,160	2,204,083
Reconciliation to net loss:				
Total net operating income, as defined, for reportable segments	5,564,308	5,169,403	16,641,422	16,660,838
General and administrative expenses	(1,384,974)	(1,322,631)	(4,041,453)	(3,960,202)
Depreciation and amortization	(2,268,896)	(2,399,307)	(6,873,828)	(7,346,640)
Interest expense	(3,281,088)	(3,191,152)	(9,505,244)	(9,818,767)
Other expense	8,466	10,515	2,624	25,612
Deferred offering costs	-	-	(1,507,599)	-
Income tax expense	(69,683)	(53,566)	(225,341)	(154,189)
Impairment of real estate assets	(532,951)	-	(532,951)	-
Gain on sale of real estate	366,032	210,372	795,521	2,237,423
Net loss	$ (1,598,787)	$ (1,576,366)	$ (5,246,847)	$ (2,355,925)

Assets by Reportable Segment:	September 30, 2018	December 31, 2017
Office/Industrial Properties:		
Land, buildings and improvements, net (1)	$ 157,324,874	$ 160,422,469
Total assets (2)	$ 157,667,998	$ 163,041,049
Model Home Properties:		
Land, buildings and improvements, net (1)	$ 50,075,254	$ 43,245,832
Total assets (2)	$ 50,284,837	$ 44,782,943
Retail Properties:		
Land, buildings and improvements, net (1)	$ 30,499,383	$ 30,865,644
Total assets (2)	$ 31,365,922	$ 32,534,890
Reconciliation to Total Assets:		
Total assets for reportable segments	$ 239,318,757	$ 240,358,882
Other unallocated assets:		
Cash equivalents and restricted cash	11,841,100	8,310,575
Other assets, net	8,471,501	5,827,408
Total Assets	$ 259,631,357	$ 254,496,865

(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,	
	2018	2017
Office/Industrial Properties:		
Capital expenditures and tenant improvements	$ 2,122,291	$ 3,115,489
Model Home Properties:		
Acquisition of operating properties	15,225,886	16,810,985
Retail Properties:		
Capital expenditures and tenant improvements	19,260	41,497
Totals:		
Acquisition of operating properties, net	15,225,886	16,810,985
Capital expenditures and tenant improvements	2,141,551	3,156,986
Total real estate investments	$ 17,367,437	$ 19,967,971

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. In October 2017, we changed our name from "NetREIT, Inc." to "Presidio Property Trust, Inc." The Company acquires, owns and manages a geographically diversified portfolio of real estate assets including office, industrial retail and model home leased residential properties located throughout the United States. As of September 30, 2018, the Company owned or had an equity interest in:

- Fifteen office buildings and two industrial properties ("Office/Industrial Properties") which total approximately 1,463,390 rentable square feet,
- Four retail shopping centers and one mixed use property ("Retail Properties") which total approximately 228,260 rentable square feet, and
- One hundred forty-seven Model Homes owned by four affiliated limited partnerships and one wholly-owned limited liability company ("Model Home Properties").

The Company's office, industrial, retail and mixed-use 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, industrial, retail and mixed-use 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, net leases that require tenants to pay all of the operating expense triple net 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 two to three years to the homebuilder under 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 tenants are typically substantial homebuilders with established credit histories. These business 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 of avoiding significant credit losses.

SIGNIFICANT TRANSACTIONS IN 2018 AND 2017

Acquisitions

- The Company acquired thirty-nine Model Homes and leased them back to the homebuilders during the nine months ended September 30, 2018. The purchase price for the properties was approximately $15.2 million and was paid through cash payments of approximately $4.6 million and mortgage notes of approximately $10.6 million.
- The Company acquired forty-five Model Home properties and leased them back to the homebuilders during the nine months ended September 30, 2017. The purchase price for the properties was $16.8 million. The purchase price paid was through cash payments of $5.8 million and mortgage notes of $11.0 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, and for general corporate purposes. We disposed of the following properties during the nine months ended September 30, 2018 and 2017:

- During the nine months ended September 30, 2018, the Company disposed of twenty-four Model Homes for approximately $9.0 million and recognized a gain of approximately $796,000 related to the sale of these Model Homes.
- On February 27, 2017, the Company sold the Rangewood Medical Building for approximately $2.2 million and recognized a loss of approximately $170,000.
- On March 31, 2017, the Company sold the Regatta Square Retail Center for approximately $3.0 million and recognized a gain of approximately $756,000.
- On April 7, 2017, the Company sold the Shoreline Medical Building for approximately $8.2 million and recognized a gain of approximately $1.3 million.
- During the nine months ended September 30, 2017, the Company disposed of fourteen Model Homes for approximately $5.3 million and recognized a gain of approximately $350,000 related to the sale of these Model Homes.

ECONOMIC ENVIRONMENT

In one of the longest expansions on record, the United States continues to expand its economy. GDP growth in the third quarter of 2018 was estimated at an annual rate of 3.5%. The Federal Reserve has remained optimistic about the United States' economic outlook across many sectors, although it has noted an increase in energy prices as an inflation risk.

The U.S. labor market remains strong, with an unemployment rate of 3.6% as of September 30, 2018. Unemployment in the office-using sector of professional and business services was even lower, at 3.2%, as of September 30, 2018, and that could lead to continued strength in the commercial real estate segment. National vacancy rates for the office sector of commercial real estate decreased to 12.8% as of September 30, 2018. During the third quarter of 2018, net absorption in the U.S. office market was approximately 11.0 million square feet.

It is impossible to project U.S. economic growth, but economic conditions may have a material effect on our business, financial condition and results of operations.

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, 2017 filed with the SEC on March 20, 2018.

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 the results of our operations of our portfolio and individual properties 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, 2018 AND 2017.

Revenues. Total revenue was $8.3 million for the three months ended September 30, 2018 compared to $8.0 million for the same period in 2017, an increase of $300,000 or 3.8%. The increase in revenue as reported for the three month period in 2018 as compared to 2017 is due a $230,000 increase in rent from model home properties due to the increase in inventory and a $220,000 increase in recovery revenue from increases in property taxes in Colorado offset by a decrease in straight-line rent adjustments .

Rental Operating Costs. Rental operating costs remained consistent at $2.7 million and $2.8 million for the three months ended September 30, 2018 and 2017, respectively. Rental operating costs as a percentage of total revenue was 32.5% and 35.0% for the three months ended September 30, 2018 and 2017, respectively.

General and Administrative Expenses. G&A expenses remained largely stable at $1.4 million and $1.3 million for the three months ended September 30, 2018 and 2017, respectively. G&A expenses as a percentage of total revenue was 16.9% and 16.3% for three months ended September 30, 2018 and 2017, respectively.

Depreciation and Amortization. Depreciation and amortization expense totaled approximately $2.3 million for the three months ended September 30, 2018, compared to approximately $2.4 million for the same period in 2017, representing a decrease of approximately $100,000 or 4.2%. Amortization expense associated with intangible assets that became fully amortized during 2017 account for all of the decrease during the three months ended September 30, 2018 when compared to the same period in 2017.

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 three months ended September 30, 2018, management estimated that the fair market value of the Waterman Plaza property was below the carrying value and an impairment of approximately $533,000 was recorded. There were no impairments during the three months ended September 30, 2017.

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 interest 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 $1.1 million for the three months ended September 30, 2018 compared to $1.2 million for the same period in 2017, a decrease of $100,000 or 8.3%. The decrease is due to fully amortizing the initial stock costs during the third quarter of 2017. Interest paid and accrued totaled $1.1 million and $1.1 million, respectively, and the amortization of the deferred offering costs associated with that transaction totaled $47,000 and $104,000, respectively for the three months ended September 30, 2018 and 2017 and were included in interest expense-Series B Preferred Stock in the accompanying financial statements. There were 30,700 shares outstanding as of September 30, 2018 and 2017.

Interest Expense-mortgage notes. Interest expense, including amortization of deferred finance charges was $2.0 million for the three months ended September 30, 2018 when compared to $1.9 million for the same period in 2017, an increase of $100,000 or 5.3%. The increase in interest relates to the increased number of model homes and the related debt. The weighted average interest rate on our outstanding debt was 4.6% as of September 30, 2018 compared to 4.7% as of September 30, 2017.

Gain on Sale of Real Estate Assets, net. For the three months ended September 30, 2018, the Company recognized a net gain of approximately $366,000 due to the sales of eleven Model Homes. For the three months ended September 30, 2017, the Company recognized a net gain of $210,000 from the sale of five Model Homes.

Income allocated to non-controlling interests. Income allocated to non-controlling interests for the three months ended September 30, 2018 totaled approximately $284,000 when compared to the income allocated during the three months ended September 30, 2017 of $200,000. The increase is related to the sale of eleven Model Home Properties during the three months ended September 30, 2018 compared to five Model Home Properties during the three months ended September 30, 2017.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017.

Revenues. Total revenue remained consistent at $24.7 million for the nine months ended September 30, 2018 and 2017. Occupancy as of September 30, 2018 was approximately 85.0% and 89.1% as of September 30, 2017. While occupancy declined slightly, rental rates increased as evidenced by the leasing activity in the same-store section of this document, resulting in consistent results of revenues.

Rental Operating Costs. Rental operating costs remained stable at $8.0 million and $8.1 million for the nine months ended September 30, 2018 and 2017, respectively. Rental operating costs as a percentage of total revenue was 32.4% and 32.8% for the nine months ended September 30, 2018 and 2017, respectively.

General and Administrative Expenses. G&A expenses remained stable at $4.0 million for the nine months ended September 30, 2018 and 2017. G&A expenses as a percentage of total revenue was 16.2% for nine months ended September 30, 2018 and 2017.

Depreciation and Amortization. Depreciation and amortization expense totaled approximately $6.9 million for the nine months ended September 30, 2018, compared to approximately $7.3 million for the same period in 2017, representing a decrease of approximately $400,000 or 5.5 %. Amortization expense associated with fully amortized intangibles during 2017 account for all of the decrease during the nine months ended September 30, 2018 when compared to the same period in 2017.

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 nine months ended September 30, 2018, management estimated that the fair market value of the Waterman Plaza property was below the carrying value and an impairment of approximately $533,000 was recorded. There were no impairments during the nine months ended September 30, 2017.

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 interest 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 $3.4 million for the nine months ended September 30, 2018 compared to $4.0 million for the same period in 2017, a decrease of $600,000 or 15.0%. The decrease is due to fully amortizing the initial stock costs during the third quarter of 2017. Interest paid and accrued totaled $3.3 million and $3.3 million, respectively, and the amortization of the deferred offering costs associated with that transaction totaled $85,000 and $611,000, respectively for the nine months ended September 30, 2018 and 2017 and were included in interest expense-Series B Preferred Stock in the accompanying financial statements. There were 30,700 shares outstanding as of September 30, 2018 and 2017.

Interest Expense-mortgage notes. Interest expense, including amortization of deferred finance charges was $6.2 million for the nine months ended September 30, 2018 when compared to $5.9 million for the same period in 2017, an increase of $300,000 or 5.1%. The increase in interest relates to the increased number of model homes and the related debt. The weighted average interest rate on our outstanding debt was 4.6 % as of September 30, 2018 compared to 4.7% as of September 30, 2017.

Gain on Sale of Real Estate Assets, net. For the nine months ended September 30, 2018, the Company recognized a net gain of approximately $795,000 due to the sales of twenty-four Model Homes. For the nine months ended September 30, 2017, the Company recognized a net gain of approximately $2.3 million due to the sales of Rangewood Medical Office Building, Regatta Square Retail Center, Shoreline Medical Building and fourteen Model Homes. The sale of Rangewood Medical Office Building resulted in a loss of approximately $170,000. The sale of Regatta Square Retail Center resulted in a gain of approximately $756,000. The sale of the Shoreline Medical Office Building resulted in a gain of approximately $1.3 million. The sale of the fourteen Model Homes resulted in a gain of approximately $350,000.

Income allocated to non-controlling interests. Income allocated to non-controlling interests for the nine months ended September 30, 2018 totaled approximately $852,000 when compared to the income allocated during the nine months ended September 30, 2017 of $415,000.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our anticipated future sources of liquidity may include existing cash and cash equivalents, cash flows from operations, refinancing of existing mortgages, future real estate sales and the possible sale of additional equity/debt securities. Our available liquidity at September 30, 2018 included cash, cash equivalents and restricted cash of $11.8 million. We currently do not have a revolving line of credit but have been exploring the possibilities of obtaining such a line of credit.

Our short-term liquidity needs include paying our current operating costs, satisfying the debt service requirements of our existing mortgages and Series B preferred stock dividend payments, completing tenant improvements and paying leasing commissions. Cash flow from operations is the primary source of funds used to meet short-term liquidity needs. Additionally, proceeds from the sales of properties may comprise an important source of liquidity. The Series B Preferred Stock redemption date is August 1, 2019.

Our long-term liquidity and capital resources needs include proceeds necessary to grow and maintain our portfolio of investments, repayment of existing mortgages at their maturity date, redemption of the Series B Preferred Stock, improvements to existing properties including tenant improvements, paying lease commissions (not covered by lender held reserve deposits) and the payment of a competitive distribution to stockholders. On June 30, 2017, the Company exercised its option to extend the redemption date on its Series B Preferred Stock to August 1, 2018. In July 2018, the Company exercised its option to extend the redemption date on its Series B Preferred Stock to August 1, 2019.

We believe that the potential financing capital available to us in the future would be sufficient to fund our long-term liquidity and capital resources 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 improve performance. We expect to obtain additional cash in connection with refinancing of mortgages in the future to meet our long-term liquidity needs. If we are unable to arrange a line of credit, or sell securities to the public we may not be able to acquire additional properties to meet our long-term objectives.

Cash Equivalents and Restricted Cash

At September 30, 2018 and December 31, 2017, we had approximately $4.7 million and $3.8 million in cash equivalents and $7.1 million and $4.5 million of restricted cash, respectively. Our cash equivalents and restricted cash consist of invested cash and cash in our operating accounts and are held in bank accounts at third party institutions. During 2018 and 2017, 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 or distributions to our stockholders

Secured Debt

As of September 30, 2018, the Company had fixed-rate mortgage notes payable in the aggregate principal amount of $139.0 million, collateralized by a total of 22 commercial 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, 2018 was approximately 4.6%, and our debt to estimated market value on these properties was approximately 56.0%.

As of September 30, 2018, the Company had 145 fixed-rate mortgage notes payable in the aggregate principal amount of $33.6 million, collateralized by a total of 145 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 $232,000 and 5.2%, respectively as of September 30, 2018. Our debt to estimated value on these properties is approximately 61.7%. The Company has guaranteed these mortgages.

We have been able to refinance maturing debts before scheduled maturity dates and we have not experienced any unusual difficulties financing our acquisitions.

Cash Flows for the nine months ended September 30, 2018 and September 30, 2017.

Operating Activities: Net cash provided by operating activities for the nine months ended September 30, 2018 decreased by approximately $2.0 million to approximately $2.3 million from net cash provided of $4.3 million for the nine months ended September 30, 2017. The decrease is due to increases in property taxes and changes in timing of payments.

Investing Activities: Net cash used in investing activities during the nine months ended September 30, 2018 was approximately $9.5 million compared to approximately $3.9 million of cash provided by investing activities during in the same period in 2017. During the nine months ended September 30, 2018 the Company purchased thirty-nine Model Homes for approximately $15.2 million. During the nine months ended September 30, 2017 the Company purchased forty-five Model Homes for approximately $16.8 million. During the nine months ended September 30, 2017, the Company received proceeds from the sales of two medical buildings and one retail building totaling approximately $13.3 million and the sale of fourteen Model Homes for approximately $3.2 million.

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 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, 2018 was $10.8 million compared to cash used of $510,000 for the same period in 2017 primarily due to proceeds received from new mortgage notes payable during the nine months ended September 30, 2018 offset by redeeming 2,000 shares of Series B Preferred Stock for $2,000,000 during the nine months ended September 30, 2017.

Off-Balance Sheet Arrangements

As of September 30, 2018, 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.

Modified Funds From Operations ("MFFO") and Adjusted Modified Funds From Operations ("Adjusted 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. In addition, our management uses an adjusted MFFO ("Adjusted MFFO") as an indicator of our ongoing performance. Adjusted MFFO provides adjustments to reduce MFFO related to operating expenses that are capitalized with respect to our deferred offering costs related to the Company's filing of a registration statement on Form S-11. Under GAAP, acquisition fees and expenses are characterized as operating expenses in determining operating net income. These expenses are paid in cash by us. All paid and accrued acquisition fees and expenses will have negative effects on returns to investors, the potential for future distributions, and cash flows generated by us, unless earnings from operations or net sales proceeds from the disposition of other properties are generated to cover the purchase price of the property, these fees and expenses and other costs related to such property. The acquisition of properties, and the corresponding acquisition fees and expenses, is the key operational feature of our business plan to generate operational income and cash flow to fund distributions to our stockholders. Further, under GAAP, certain contemplated non-cash fair value and other non-cash adjustments are considered operating non-cash adjustments to net income in determining cash flow from operating activities. In addition, we view fair value adjustments of impairment charges and gains and losses from dispositions of assets as non-recurring items or items which are unrealized and may not ultimately be realized, and which are not reflective of on-going operations and are therefore typically adjusted for when assessing operating performance. In particular, we believe it is appropriate to disregard impairment charges, as this is a fair value adjustment that is largely based on market fluctuations and assessments regarding general market conditions which can change over time. An asset will only be evaluated for impairment if certain impairment indications exist and if the carrying, or book value, exceeds the total estimated undiscounted future cash flows (including net rental and lease revenues, net proceeds on the sale of the property, and any other ancillary cash flows at a property or group level under GAAP) from such asset. Investors should note, however, that determinations of whether impairment charges have been incurred are based partly on anticipated operating performance, because estimated undiscounted future cash flows from a

property, including estimated future net rental and lease revenues, net proceeds on the sale of the property, and certain other ancillary cash flows, are taken into account in determining whether an impairment charge has been incurred. While impairment

charges are excluded from the calculation of MFFO as described above, investors are cautioned that due to the fact that impairments are based on estimated future undiscounted cash flows and the relatively limited term of our operations, it could be difficult to recover any impairment charges.

The following table presents our FFO, MFFO and Adjusted MFFO for the three and nine months ended September 30, 2018 and 2017:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Net loss	$ (1,882,925)	$ (1,776,547)	$ (6,098,877)	$ (2,770,934)
Adjustments:				
Income attributable to noncontrolling interests	284,138	200,181	852,030	415,009
Depreciation and amortization	2,268,896	2,399,307	6,873,828	7,346,640
Impairment of real estate assets	532,951	-	532,951	-
Gain on sale of real estate assets	(366,032)	(210,372)	(795,521)	(2,237,423)
FFO	$ 837,028	$ 612,569	$ 1,364,412	$ 2,753,292
Straight-line rent adjustment	(136,508)	(135,037)	(249,065)	(452,427)
Amortization of above and below market leases, net	(43,607)	(49,769)	(85,720)	(161,869)
Restricted stock compensation	153,090	136,920	306,180	410,760
Amortization of financing costs	136,918	213,667	272,989	956,957
Real estate acquisition costs	3,488	28,028	24,907	66,355
MFFO	$ 950,409	$ 806,378	$ 1,633,703	$ 3,573,068
Deferred offering costs	-	-	1,507,599	-
Adjusted MFFO	$ 950,409	$ 806,378	$ 3,141,301	$ 3,573,068

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

Same-Store Property Operating Results for the three and nine months ended September 30, 2018 and 2017.

The table below presents the operating results for the Company’s commercial properties owned as of January 1, 2017 for each of the three and nine months ended September 30, 2018 and 2017, 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. The Company believes that this type of non-GAAP financial measure, when considered with our financial statements prepared in accordance with GAAP, allows 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	
	2018	2017	$	%	2018	2017	$	%
Rental revenues	$ 7,147,893	$ 7,053,463	$ 94,430	1.3%	$21,382,767	$ 21,351,285	$ 31,482	0.1%
Rental operating costs	2,780,045	2,870,376	(90,331)	(3.1)%	8,159,762	8,114,313	45,449	0.6%
Net operating income	$ 4,367,848	$ 4,183,087	$ 184,761	4.4%	$13,223,005	$ 13,236,972	$ (13,967)	-0.1%
Operating Ratios:								
Number of same properties	22	22			22	22		
Occupancy, end of period	85.0%	89.1%		-4.1%	85.0%	89.1%		-4.1%
Operating costs as a percentage of total revenues	38.9%	36.4%		2.4%	38.2%	33.8%		4.3%

Overview

Same-store property NOI increased 4.4% and decreased -.01% for the three months and nine months ended September 30, 2018, respectively, as compared to the corresponding periods in 2017. The increase in the three month period was due to increases in rental rates. The decrease in NOI for the nine month period was primarily due to increases in rental operating costs related increases in real estate taxes in Colorado due to property value reassessments. Rental revenues increased 1.3% and 0.1% for the three and nine months ended September 30, 2018, respectively, when compared to the same periods in 2017, as did rental rates as evidenced by the leasing spreads discussed below.

Leasing

Our same-store results are primarily driven by increases in rental rates on new leases and lease renewals and changes in portfolio occupancy. 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, 2018, we signed 13 comparable leases (3 new leases and10 renewals) for a total of 73,210 square feet of comparable space leases, at an average rental rate increase of 10.9 % on a cash basis and an average rental increase of 13.0 % on a straight-line basis. Renewals for comparable office spaces were signed for 67,883 square feet at an average rental rate increase of 11.3% on a cash basis and increase of 12.9% on a straight-line basis. New leases for comparable office spaces were signed of 5,327 square feet at an average rental rate increase of 7.1% on a cash basis and increase of 14.4% 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-store 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-store property NOI comparisons. 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-store 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

The Company 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, Chief Financial Officer and Principal Accounting 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, Chief Financial Officer and our Principal Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chief Executive Officer, Chief Financial Officer and Principal Accounting 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, 2018 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 10 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, 2018.
31.2	Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018.
31.3	Certification of the Company's Principal 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, 2018.
32.1	Certification of Principal Executive Officer and Principal Accounting Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
	XBRL 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 14, 2018

Presidio Property Trust, Inc.

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

By: */s/ Adam Sragovicz*
Name: Adam Sragovicz
Title: Chief Financial Officer

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