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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2015**

or

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

Commission File Number 000-54295

**Sterling Real Estate Trust**

d/b/a Sterling Multifamily Trust

(Exact name of registrant as specified in its charter)

North Dakota  
(State or other jurisdiction of  
incorporation or organization)

90-0115411  
(I.R.S. Employer  
Identification Number)

1711 Gold Drive South, Suite 100  
Fargo, North Dakota  
(Address of principal executive offices)

58103  
(Zip Code)

(701) 353-2720

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Shares of Beneficial Interest

(Title of Class)

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

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

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the 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 checkmark whether the Registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).  Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

The aggregate market value of the common shares of beneficial interest held by non-affiliates as of June 30, 2015 was approximately \$100,388,281, computed by reference to the price at which the common shares was last sold as of such date. The common shares of beneficial interest are not listed on any national exchange or over-the-counter market or quoted on any national securities market.

Indicate the number of shares outstanding of each of the issuer's classes of common shares, as of the latest practicable date.

| Class  | Outstanding at March 9, 2016 |
|--|------------------------------|
| Common Shares of Beneficial Interest, \$0.01 par value per share | 7,690,478                    |

Documents Incorporated by Reference: Portions of Sterling's Proxy Statement for its 2016 Annual Meeting of Shareholders, which Sterling intends to file with the Securities and Exchange Commission within 120 days after the end of Sterling's fiscal year ended December 31, 2015, are incorporated by reference into Part III (Items 10, 11, 12, 13 and 14) of this Annual Report on Form 10-K to the extent described herein. If Sterling does not file its Proxy Statement on or before 120 days after the end of its 2015 fiscal year, Sterling will file the required information in an amendment to this Annual Report on Form 10-K.

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**Sterling Real Estate Trust**

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## NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements included in this Annual Report on Form 10-K and the documents incorporated into this document by reference contain certain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Such forward-looking statements include statements regarding our plans and objectives, including, among other things, our future financial condition, anticipated capital expenditures, anticipated dividends and other matters. Forward-looking statements are typically identified by the use of terms such as “may,” “will,” “should,” “expect,” “intend,” “plan,” “anticipate,” “estimate,” “believe,” “continue,” “predict,” “potential” or the negative of such terms and other comparable terminology. These statements are only predictions and are not historical facts. Actual events or results may differ materially.

The forward-looking statements included herein are based on our current expectations, plans, estimates and beliefs that involve numerous risks and uncertainties. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Any of the assumptions underlying the forward-looking statements contained herein could be inaccurate. Although we believe the expectations reflected in such forward-looking statements are based on reasonable assumptions, we cannot assure readers that the forward-looking statements included in this filing will prove to be accurate. The accompanying information contained in this Annual Report on Form 10-K, including, without limitation, the information set forth under the section entitled “Risk Factors” in Item 1A, identifies important additional factors that could materially adversely affect actual results and performance. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results.

### PART I

*All dollar amounts in this Form 10-K are stated in thousands with the exception of share and per share amounts, unless otherwise indicated.*

### ITEM 1. BUSINESS

#### GENERAL

Sterling Real Estate Trust (“we,” “us,” “our,” “Company” or “Sterling”) is a real estate investment trust (“REIT”), registered in North Dakota as an unincorporated business trust on December 4, 2002. We are an emerging growth company as defined in the Securities Act of 1933 and the Exchange Act of 1934. References in this Annual Report on Form 10-K to the “Company,” “Sterling,” “we,” “us,” or “our” include consolidated subsidiaries, unless the context indicates otherwise. As a REIT, we are not subject to U.S. federal income taxation as long as we satisfy certain requirements, principally relating to the nature of our income, the level of our dividends and other factors. At December 31, 2015, we owned directly or through our operating partnership, 146 properties in twelve states.

#### UPREIT Structure

We operate as an Umbrella Partnership Real Estate Investment Trust, which is a REIT that holds all or substantially all of its assets through a partnership which the REIT controls as general partner. Therefore, we conduct substantially all of our investment activities and hold all or substantially all of our assets through our operating partnership Sterling Properties, LLLP. We control the operating partnership as the general partner and own approximately 33.12% of the operating partnership as of December 31, 2015. For purposes of satisfying the asset and income tests for qualification as a REIT for tax purposes, our proportionate shares of the assets and income of our operating partnership are deemed to be our assets and income.

## **Operating Partnership**

Our operating partnership, Sterling Properties, LLLP, was formed as a North Dakota limited liability limited partnership on April 25, 2003 to acquire, own and operate properties on our behalf. The operating partnership holds a diversified portfolio of multifamily dwellings and commercial properties located principally in the upper and central Midwest United States.

Since our formation, our focus has consisted of owning and operating income-producing real estate properties. In 2006, we held 23 total properties approximating \$56,265 in total assets. Between 2007 and 2015, we focused extensively on strengthening the multifamily component of our portfolio, acquiring properties directly or through UPREIT transactions. A majority of these multifamily properties were located in North Dakota. Our portfolio has grown to 146 properties, approximating \$594,509 in total assets, and book equity, including noncontrolling interests, of approximately \$240,427 as of December 31, 2015. As of December 31, 2015, our portfolio contained approximately 8,520 apartment units and 1,688,802 square feet of leasable commercial space.

As of December 31, 2015, approximately 68.0% (based on cost) of the properties were apartment communities located primarily in North Dakota with others located in Minnesota, Missouri and Nebraska. Most multifamily dwelling properties are leased to a variety of tenants under short-term leases.

As of December 31, 2015, approximately 32.0% (based on cost) of the properties were comprised of office, retail and medical commercial properties located primarily in North Dakota with others located in Arkansas, Colorado, Iowa, Louisiana, Michigan, Mississippi, Minnesota, Texas and Wisconsin. Most commercial properties are leased to a variety of tenants under long-term leases.

## **OUR PEOPLE**

We do not have any employees. Instead, we rely on our external Advisor to conduct our day-to-day affairs.

### **Our Advisor**

Our external Advisor is Sterling Management, LLC, a North Dakota limited liability company formed on November 14, 2002. Our Advisor is responsible for managing our day-to-day affairs and for identifying, acquiring and disposing investments on our behalf. The Advisor is owned in part by Kenneth Regan, a trustee and our Chief Executive Officer, by an entity controlled by James Wieland, also one of our trustees and by Bradley Swenson our President. In addition, Messrs. Regan, Wieland and Swenson serve on the Board of Governors of the Advisor. From 2007 to 2015, our Advisor's staff increased in number and expertise, growing from 4 to 13 full-time employees including a president, chief accounting officer, senior and financial accountants, asset managers, investor relations, and a finance manager.

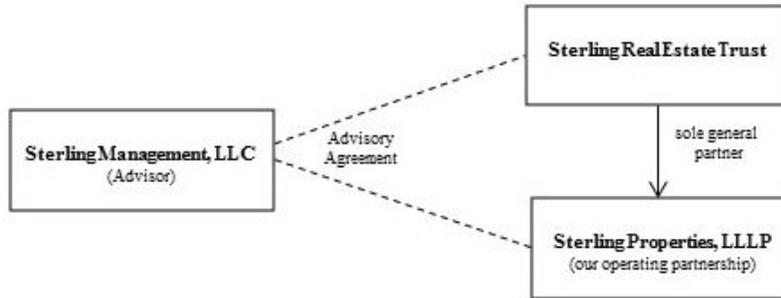
### **Our Board of Trustees and Executive Officers**

We operate under the direction of our Board of Trustees, the members of which are accountable to us and our shareholders. Our trustees are elected annually by our shareholders. In addition, the Board has a duty to supervise our relationship with the Advisor and evaluates the performance of and fees paid to the Advisor on an annual basis. The Advisory Agreement was approved by the Board of Trustees (including all the independent trustees) on March 27, 2015, effective January 1, 2015. Our Board of Trustees has provided investment guidance for the Advisor to follow, and must approve each investment recommended by the Advisor. Currently, we have nine members on our board, seven of whom are independent.

Although we have executive officers, we do not have any paid employees. Our President, Chief Executive Officer, Chief Accounting Officer, Treasurer and Secretary are also officers, employees, owners or governors of our Advisor. Among others, such executive officers oversee our Advisor's day-to-day operations with respect to us. However, when doing so, such executive officers are acting on behalf of our Advisor in performing the Advisor's obligations under the Advisory Agreement. Generally, the only services performed by our executive officers in their capacity as our executive officers are those required by law or regulation, such as executing documents as required by North Dakota law and providing certifications required by the federal securities laws.

### Organizational Structure

The following chart shows our structure:



- (1) The Advisor is owned in part by our Chief Executive Officer and Trustee Mr. Kenneth P. Regan (35.625 %), by Wieland Investments, LLLP, an entity controlled by our Trustee Mr. James S. Wieland ( 35.625 %) and by our President Bradley J. Swenson (5 .398 %). In addition, Mr. Regan serves as the Chief Executive Officer and Chairman of the Board of the Advisor, and Messrs. Wieland and Swenson serve on the Board of Governors of the Advisor.
- (2) The Advisor serves as both our and our operating partnership’s advisor. The Advisor does not own any of our shares. Messrs. Regan and Wieland beneficially own approximately 1.9% and 1.8 %, respectively, of our shares as of December 31, 201 5 .
- (3) We control the operating partnership as the general partner, and own approximately 33.12 % of the operating partnership as of December 31, 201 5 . Mr. Regan and Mr. Wieland beneficially owned and had voting power over approximately 13.7 % and 12.1 %, respectively, of the operating partnership as of December 31, 201 5 .

### OUR CORE INVESTMENT OBJECTIVES AND STRATEGY

#### Investment Objectives

Our primary investment objectives are to:

- acquire quality real estate properties or interests in real estate properties that can provide stable cash flow for distribution to our shareholders, preservation of capital and realization of long-term capital appreciation upon the sale of such properties;
- offer an investment option in which the value of the common shares is correlated to real estate as an asset class rather than traditional asset classes such as stocks and bonds; and
- provide a hedge against inflation through use of month-to-month rentals or short-term and long-term lease arrangements with rental properties tenants.

We may change our investment objectives only with the approval of holders of a majority of the outstanding common shares.

#### Investment Strategy

Prior to January 1, 2016, our investment strategy was primarily to acquire and hold a diverse portfolio of:

- commercial real estate properties or portfolios or real estate properties in various sectors, including multifamily residential , senior housing, retail, office, medical and other commercial properties, including restaurants , primarily located in the central corridor of the contiguous 48 states.

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Effective January 1, 2016, the Trust's investment strategy is to acquire and hold ownership interests in real estate properties in multifamily residential properties located in these markets. There is no current plan for the existing commercial properties (industrial, medical, office and retail) in regards to retention or disposition.

The majority of our acquisitions are located in or near metropolitan areas. However, there is no limitation on the geographic areas in which we may acquire targeted investments.

We may acquire portfolios of real estate properties held by individual owners and real estate properties held by funds, including hedge funds. We anticipate such property owners will primarily sell the properties in exchange for limited partnership interests of the operating partnership.

We may make investments alone or together with other investors, including with affiliates of the Advisor, through holding company structures or joint ventures, real estate partnerships, tenant-in-common deals, REITs or other collective investment vehicles.

### **Investment Guidance**

Our Board of Trustees has provided investment guidance to the Advisor to direct our investment strategy. Changes to our investment guidance must be approved by our Board. The Advisor has been authorized to execute (1) commercial real estate property acquisitions and dispositions and (2) investments in other real estate related assets, in each case so long as such investments are approved by our Board. Our Board will at all times have ultimate oversight over our investments and may change from time to time the scope of authority delegated to our Advisor with respect to acquisition and disposition transactions.

Prior to January 1, 2016, our investment guidance was that our real estate investments be allocated approximately as follows:

- up to 80% in multifamily and apartment properties;
- up to 50% in commercial properties, of which:
  - up to 70% in office properties;
  - up to 30% in retail properties;
  - up to 30% in industrial properties; and
  - up to 5% in land properties.

Effective January 1, 2016, our investment guidance is that future real estate investments be limited to multifamily apartment properties. We currently have no plans with respect to our commercial properties in regards to retention or disposition.

### ***Investments in Real Estate Properties***

Our investment guidance provides we will primarily invest in existing or newly constructed real estate properties and interests in real estate properties in multifamily residential, apartment and senior housing properties by acquiring direct ownership or ownership interests through equity interests or other joint venture structures. We may also invest in other real estate property types, including undeveloped land or other development opportunities if the land is acquired for the purpose of producing rental or other operating income and either development or construction is in process or development or construction is planned. We primarily invest in real estate properties with existing rent and expense schedules or newly constructed properties with predictable cash flows. We concentrate our efforts on real estate properties located primarily in North Dakota, the central corridor of the contiguous 48 states and in or near metropolitan areas.

### ***Investments in Real Estate Related Assets***

Our guidelines provide we may invest in real estate related assets. These assets include securities of other companies engaged in real estate activities, mortgage-backed securities and conventional mortgage loans. However, to date, our investment in such assets have been nominal. We may increase such investments in the future, but do not anticipate such investment amounts to be material.

***Investments in Cash, Cash Equivalents and Other Short-Term Investments***

We may invest in cash, cash equivalents and other short-term investments. Consistent with the rules applicable to qualification as a REIT, such investments may include investments in the following: money market instruments; short-term debt instruments, such as commercial paper, certificates of deposit, bankers' acceptances, repurchase agreements, interest-bearing time deposits and corporate debt securities; corporate asset-backed securities; and U.S. government or government agency securities. However, to date, our investment in such assets have not been material, and we do not expect to increase such investments in the near future.

**CONFLICTS OF INTEREST**

We are subject to various conflicts of interest arising out of our relationship with our trustees, executive officers, key personnel and our Advisor and its affiliates. Some of the conflicts of interest in our transactions with our Advisor and others are described below.

Our trustees and officers and the officers and key personnel of our Advisor (herein individually and collectively our "Leadership") may spend a portion of their time on activities unrelated to us, which may significantly reduce the amount of time to be spent by one or more of our Leadership on Sterling activities. Each of our Leadership, including Messrs. Regan and Weiland, is currently expected to spend a significant portion of their time on our behalf, but may not always spend a majority of their time on our behalf.

One or more of our Leadership, including Messrs. Regan and Weiland, may also serve as trustees, directors, governors, members, officers or key personnel of other: (a) affiliated entities, including our Advisor; (b) real estate programs, real estate entities, or REITs; (c) advisors to other real estate programs, real estate entities or REITs; or (d) property managers to real estate programs, real estate entities or REITs (herein collectively "Other Real Estate Related Activities"). In addition, from time to time, members of our Leadership may purchase real estate or interests in real estate for themselves, which may conflict with Sterling's activities or objectives. Leadership's management of Other Real Estate Related Activities may significantly reduce the amount of time our Leadership is able to spend on Sterling related activities. Given Leadership is or may become involved in Other Real Estate Related Activities, there may be times where Sterling's fundraising, acquisition, disposition and liquidation activities overlap with similar activities of Leadership's Other Real Estate Related Activities. This overlap may cause conflicts of interest to arise with respect to, among other things, finding investors, locating and acquiring real estate investments, leasing activities and disposing of investments. The conflicts of interest faced could generally cause our operating results to suffer.

Certain members of Leadership will have fiduciary duties relating to their Other Real Estate Related Activities. These fiduciary duties may conflict with Leadership's duties to Sterling and its shareholders. Leadership's Other Real Estate Related Activities could result in actions or inactions detrimental to Sterling, which could harm the implementation of Sterling's business strategies and Sterling's investments. If Sterling does not successfully implement its business strategy, we may be unable to generate cash needed to pay dividends to shareholders and to maintain or increase the value of our assets.

Conflicts with Sterling's business and interests are most likely to arise from Leadership's involvement in activities related to: (a) allocation of new investments and management time and services between Sterling and Leadership's Other Real Estate Related Activities, (b) allocation of time and services between Sterling and Leadership's Other Real Estate Related Activities; (c) Sterling's purchase of properties from, or sale of properties to, affiliated entities, (c) the timing and terms of the investment in or sale of an asset, (d) development of our properties by affiliates, (e) investments with or activities of affiliates of our Advisor and (f) compensation to our Advisor.

To the extent Leadership engages in future Other Real Estate Related Activities, Sterling may compete for investors with such activities. Any overlap of capital raising efforts of Other Real Estate Related Activities with Sterling's capital raising efforts or other activities could adversely affect our ability to raise capital in the future and the amount of proceeds we have to spend on real estate investments.

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Sterling may, in the future, purchase real estate investments at the same time as Leadership is purchasing real estate investments via Other Real Estate Related Activities. As a result, Leadership may owe duties to both Sterling and the Other Real Estate Related Activities, their members and limited partners and these investors, which duties may from time to time conflict with the duties they owe to Sterling and its shareholders.

Leadership may engage for their own account in business activities of the types conducted or to be conducted by Sterling or our subsidiaries. To the extent Leadership takes actions that are more favorable to other entities than to us, these actions could have a negative impact on Sterling's financial performance and, consequently, on dividends to our shareholders and the value of our stock. For a description of some of the risks related to these conflicts of interest, see the section of this periodic report captioned "Risk Factors — Risks Related to Conflicts of Interest."

### **Interests in Other Real Estate Programs**

Leadership and entities owned by Leadership may, in the future, acquire real estate investments for their own accounts, and have done so in the past. Furthermore, Leadership and entities owned or managed by Leadership may form additional real estate investment entities in the future, including additional REITs, which can be expected to have the same or similar investment objectives and policies as we do and which may be involved in the same geographic areas. Leadership is not obligated to present to us any particular investment opportunity that comes to their attention, unless such opportunity is of a character that might be suitable for investment by us. Leadership likely will experience conflicts of interest as they simultaneously perform services for us and Other Real Estate Related Activities.

Any affiliated entity, whether or not currently existing, could compete with us in the purchase, sale or operation of real estate investments. We will seek to achieve any operating efficiency or similar savings that may result from affiliated management of competitive investments. However, to the extent that affiliates own or acquire an investment that is adjacent or its underlying property is adjacent, or in close proximity, to a property we own, our property may compete with the affiliate's property for tenants or purchasers. Every transaction that we enter into with Leadership is subject to an inherent conflict of interest. Leadership may encounter conflicts of interest in enforcing our rights against any affiliate in the event of a default by or disagreement with an affiliate or in invoking powers, rights or options pursuant to any agreement between us and our advisor or any of its affiliates.

### **Other Activities of Our Advisor and Its Affiliates**

We rely on our Advisor for the day-to-day operation of our business. As a result of the current and/or future interests of Leadership in any other program and the fact that they also are engaged, or may continue to engage, in Other Real Estate Related Activities, Leadership has conflicts of interest in allocating their time between us and any other programs and other activities in which they are involved. Our Advisor presently believes that it and its affiliates have sufficient personnel to discharge fully their responsibilities to all of the sponsored programs and other ventures in which they are or may become involved.

In addition, each of our executive officers also serves or may serve in the future as an officer of one or more affiliated entities, including our Advisor, and/or other affiliated entities. As a result, these individuals owe or will owe fiduciary duties to these other entities, which may conflict with the fiduciary duties that they owe to us and our shareholders.

We may purchase real estate investments from affiliates of our Advisor. The prices we pay to affiliates of our Advisor for these investments will not be the subject of arm's-length negotiations, which could mean that the acquisitions may be on terms less favorable to us than those negotiated with unaffiliated parties.

### **Competition in Acquiring, Leasing and Operating of Properties**

Conflicts of interest will exist to the extent Sterling acquires, or seeks to acquire, properties in the same geographic areas where properties owned by Leadership or Leadership's Other Real Estate Related Activities are located. In such a case, a conflict could arise in the acquisition or leasing of properties if we and one of Leadership's Other Real Estate Related

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Activities were to compete for the same properties or tenants in negotiating leases, or a conflict could arise in connection with the resale of properties if we were to attempt to sell similar properties at the same time.

Conflicts of interest also may exist at such time as we or our affiliates managing property on our behalf seek to employ developers, contractors or building managers, as well as under other circumstances. Leadership will seek to reduce conflicts relating to the employment of developers, contractors or building managers. Leadership will also seek to reduce conflicts that may arise with respect to properties available for sale or rent. However, these conflicts cannot be fully avoided in that there may be established differing compensation arrangements at different properties or differing terms for resales or leasing of the various properties.

### **Joint Ventures with Affiliates**

We may enter into joint ventures with Leadership's Other Real Estate Related Activities (as well as other parties) for the acquisition of real estate investments. Leadership may have conflicts of interest in determining whether its Other Real Estate Related Activity should enter into any particular joint venture agreement. The co-venturer may have economic or business interests or goals which are or which may become inconsistent with Sterling's business interests or goals. In addition, should any such joint venture be consummated, Leadership may face a conflict in structuring the terms of the relationship between Sterling's interests and the interest of the co-venturer and in managing the joint venture. Since Leadership may control both us and any affiliated co-venturer, agreements and transactions between the co-venturers with respect to any such joint venture may not have the benefit of arm's-length negotiation of the type normally conducted between unrelated co-venturers.

### **Conflict Resolution**

Every transaction that we enter into with Leadership will be subject to an inherent conflict of interest. Our Board of Trustees may encounter conflicts of interest in enforcing our rights or options against a member of Leadership in the event of a disagreement.

### **SEGMENT DATA**

We report our results in two reportable segments: residential and commercial properties. Our residential properties include multifamily. Our commercial properties include retail, office, industrial, restaurant and medical properties. We assess and measure operating results based on net operating income ("NOI"), which we define as total real estate segment revenues less real estate expenses (which consist of real estate taxes, property management fees, utilities, repairs and maintenance, insurance and direct administrative costs). We believe NOI is an important measure of operating performance even though it should not be considered an alternative to net income or cash flow from operating activities. NOI is unaffected by financing, depreciation, amortization, legal and professional fees and other general and administrative expenses.

### **COMPETITION**

Our properties are located in highly competitive real estate markets. The number of competitive properties in a particular area could have a material adverse effect on our ability to lease space and the amount of rent we can charge at our properties. We compete with many property owners, such as corporations, limited partnerships, individual owners, other real estate investment trusts, insurance companies and pension funds.

Our competition also consists of other owners and developers of multifamily and commercial properties who are trying to attract tenants to their properties. We also compete with other real estate investors such as individuals, partnerships, corporations and other REITs to acquire properties that meet our investment objectives. This competition influences our ability to acquire properties and the prices that we may pay for those properties. We do not have a dominant position in any of the markets in which we operate and many of our competitors have greater financial and other resources than us and may have substantially more operating experience than either us or our Advisor. We believe, however, that the diversity of our investments, the experience and abilities of our management, the quality of our assets and the financial strength of many of our commercial tenants affords us some competitive advantages that have in the past, and should in the future, allow us to operate our business successfully despite the competitive nature of our business.

Generally, there are multifamily and other similar commercial properties within relatively close proximity to each of our properties. Regarding our retail properties, in addition to competitor retail properties, we and our tenants face increasing competition from outlet malls, internet shopping websites, discount shopping clubs, catalog companies, direct mail and telemarketing.

## **ENVIRONMENTAL MATTERS AND GOVERNMENT REGULATION**

As an owner of real estate, we are subject to various environmental laws, rules and regulations adopted by various governmental bodies or agencies. These laws and regulations generally govern wastewater discharges, air emissions, the operation and removal of underground and above-ground storage tanks, the use, storage, treatment, transportation and disposal of solid hazardous materials, the remediation of contaminated property associated with the disposal of solid and hazardous materials and other health and safety-related concerns. Under these laws, a current or previous owner or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances released at a property, and may be held liable to a governmental entity or to third parties for property damage or personal injuries and for investigation and clean-up costs incurred in connection with any contamination. We could be subject to liability in the form of fines or damages for noncompliance with these laws and regulations, and some environmental laws create a lien on a contaminated site in favor of the government for damages and costs it incurs in connection with the contamination. Some of these laws and regulations may impose joint and several liability on residents, owners or operators for the costs of investigation or remediation of contaminated properties, regardless of fault or the legality of the original disposal. In addition, the presence of these substances, or the failure to properly remediate these substances, may adversely affect our ability to sell or rent the property or to use the property as collateral for future borrowing. Compliance with new or more stringent laws or regulations or stricter interpretation of existing laws may require material expenditures by us.

In addition we are subject to many other laws and governmental regulations applicable to our properties, and changes in the laws and regulations, or in their interpretation by agencies and the courts, occur frequently. Under the Americans with Disabilities Act of 1990 (the “ADA”), all places of public accommodation are required to meet certain federal requirements related to access and use by disabled persons. The Fair Housing Amendments Act of 1988 (the “FHAA”) requires apartment communities first occupied after March 13, 1991, to be accessible to the handicapped and prohibits housing discrimination based upon familial status, which is commonly referred to as age-based discrimination. The Housing for Older Persons Act (HOPA) provides age-based discrimination exceptions for housing developments qualifying as housing for older persons. Non-compliance with ADA, FHAA or HOPA could result in the imposition of fines, awards of damages to private litigants, payment of attorneys’ fees and other costs to plaintiffs, substantial litigation costs and substantial costs of remediation. We believe our properties which are subject to ADA, FHAA and/or HOPA are substantially in compliance with their present requirements.

Compliance with these laws, rules and regulations has not had a material adverse effect on our business, assets, or results of operations, financial condition and ability to pay dividends. We do not believe our existing portfolio as of December 31, 2015 will require us to incur material expenditures to comply with these laws and regulations. However, we cannot assure that future laws, ordinances or regulations will not impose any material liability, or that the current environmental condition of our properties will not be affected by the operations of tenants, by the existing condition of the land, by operations in the vicinity of the properties, such as the presence of underground storage tanks, or by the activities of unrelated third parties.

## **AVAILABLE INFORMATION**

We electronically file our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy and information statements and all amendments to these filings with the Securities and Exchange Commission (“SEC”). The public may read and copy any materials filed by us with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549, on official business days during the operation of 10:00 am to 3:00 pm. The public may obtain information on the operation of the Public Reference Room by calling the SEC at (800)-SEC-0330. The SEC maintains an Internet site at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers that file electronically.

We will make these reports available, free of charge, by responding to requests addressed to 1711 Gold Drive South, Suite 100, Fargo, North Dakota 58103. You may also request reports by calling the telephone number (701) 353-2720. Additionally, we maintain an internet site at [www.sretrust.com](http://www.sretrust.com), which includes the Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports. These reports are available as soon as reasonably practicable after such material is electronically filed or furnished to the SEC. This reference to our website is not intended to incorporate information found on the website into this filing.

## ITEM 1A. RISK FACTORS

### Risks Related to Sterling Real Estate Trust

***Common shares of beneficial interest represent an investment in equity only, and not a direct investment in our assets. Therefore, common shareholders will hold only an indirect interest in our assets.***

The common shares of beneficial interest represent an equity interest only in us, not in any of our assets or the real estate or real estate related investments made by our operating partnership. We will have no substantial assets other than our equity interest in the operating partnership. Neither the Advisor nor any of its managers or affiliates have any obligation with respect to the payment of dividends to our shareholders or the return of capital investments made to us by the shareholders.

***Our results are dependent on amounts received from the leasing and resale of investments, which are subject to market and economic changes. If income is insufficient to meet our capital needs, our ability to carry out our business plans could be adversely affected.***

Our purpose is to acquire and hold our real estate investments as long-term investments before we resell the investments to maximize anticipated appreciation for our shareholders. The primary income that will be generated by us will be the profits, if any, from the operation or holding of the real estate and real estate related investments and upon the resale of the investments. If circumstances arise which cause an investment to remain at its current value or decrease in value, we may generate less income than anticipated.

***We may raise additional funds in the future to fund our capital needs, which may not be available on acceptable terms if at all.***

We may need to raise additional capital in the future in order to fulfill our business plans. The timing and amount of our future capital needs will depend on a number of factors, including the revenue generated by the operation of our real estate investments, when and if the properties will appreciate in value, the resale price of the properties and other real estate related investments, our future operating expenses and required capital outlays. There can be no assurance additional financing will be available when needed on terms favorable to us, if at all.

Further, we may be required to raise additional capital and sell additional securities in the future on terms which are more favorable to those investors than the terms under which our current shareholders purchased their common shares. If adequate funds are not available or are not available on acceptable terms, our ability to fund our current business plans and to acquire additional real estate and real estate related investments would be significantly limited. Such limitation could have a material adverse effect on our results.

***Our success is based on continuing to locate and hold suitable real estate investments, and failure of our Advisor to locate additional suitable properties or the unsuccessful operation of our existing real estate investments could adversely affect our operations and our ability to pay dividends.***

Our ability to achieve our investment objectives and to pay dividends to our shareholders is dependent upon the performance of our Advisor in locating suitable investments and appropriate financing arrangements for us as well as on the successful management of our properties after acquisition. We currently own, through the operating partnership, the properties described under Item 2 – Properties.

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We cannot be sure our Advisor will be successful in locating suitable investments on financially attractive terms, or be certain that operation of the properties will avoid the risks attendant to real estate acquisitions, such as:

- The risk properties may not perform in accordance with expectations, including projected occupancy and rental rates;
- The risk we may have underestimated the cost of improvements required to bring an acquired property up to standards established for its intended use or its intended market position.

***Our Board of Trustees may have to make expedited decisions on whether to invest in certain properties or real estate-related assets, including prior to receipt of detailed information on the investment.***

In the current real estate market, our Board of Trustees may frequently be required to make expedited decisions in order to effectively compete for the acquisition of desirable properties and other real estate-related assets. In such cases, our Advisor and Board of Trustees may not have access to detailed information regarding investment properties, such as physical characteristics, environmental matters, zoning regulations or other local conditions affecting the investment property, at the time of making an investment decision to pay a non-refundable deposit and to proceed with an acquisition. In addition, the actual time period during which our Advisor will be allowed to conduct due diligence may be limited. Therefore, there can be no assurance our Advisor and Board of Trustees will have knowledge of all circumstances that may adversely affect an investment.

***We face competition from other real estate investors for suitable properties, and may not be successful in our attempts to acquire desirable properties.***

The multifamily and commercial real estate industries are highly competitive, and we face competition for investment opportunities. These competitors may be real estate developers, real estate financing entities, real estate investment trusts, mutual funds, hedge funds, investment banking firms, institutional investors and other entities or investors that acquire real estate and may have substantially greater financial resources than we do. These entities or investors may be able to accept more risk than our Board of Trustees believes is in our best interest. This competition may limit the number of suitable investment opportunities offered to us. This competition also may increase the bargaining power of property owners seeking to sell to us, making it more difficult for us to acquire properties or interests in properties. In addition, we believe competition from entities organized for purposes similar to ours may increase in the future.

***We may change our investment and operational policies without shareholder consent, and such changes could increase our exposure to additional risks.***

Generally, the Board of Trustees may change our investment and operational policies, including our policies with respect to investments, acquisitions, growth, operations, indebtedness, capitalization and distributions, at any time without the consent of our shareholders, which could result in our making investments different from, and possibly riskier than, investments made in the past. A change in our investment policies may, among other things, increase our exposure to interest rate risk, default risk and commercial real estate market fluctuations, all of which could materially affect our ability to achieve our investment objectives.

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

There are many factors that can affect the availability and timing of cash dividends to our shareholders. Dividends will be based principally on cash available from our real estate and real estate related investments. The amount of cash available for dividends will be affected by many factors, such as our ability to acquire profitable real estate investments and successfully manage our real estate properties and our operating expenses. We can give no assurance we will be able to pay or maintain dividends or that dividends will increase over time. Our actual results may differ significantly from the assumptions used by our Board of Trustees in establishing the dividend rate to our shareholders.

***We may pay dividends from sources other than our cash flow from operations, which could subject us to additional risks.***

We are permitted to pay distributions from any source. If we fund dividends from cash flow from operations or working capital, we will have less funds available for investment in real estate and real estate related investments and our shareholders' overall return may be reduced. Actual cash available for dividends may vary substantially from the estimates of our Board of Trustees. Because we may receive income from interest or rents at various times during our fiscal year, dividends paid may not reflect our income earned in that particular dividend period. In these instances, we may obtain third party financing to fund our dividends, causing us to incur additional interest expense. We may also fund such dividends from the sale of assets or additional securities. Any of these actions could potentially negatively affect future results of operations.

***Dividends may include a return of capital, and shareholders may be required to recognize capital gain on distributions.***

Dividends payable to shareholders may include a return of capital. To the extent dividends exceed cash flow from operations, a shareholder's basis in our shares will be reduced and, to the extent dividends exceed a shareholder's basis, the shareholder may recognize capital gain and be required to make tax payments.

***We depend on certain executive officers and trustees, and the loss of such persons may delay or hinder our ability to carry out our investment strategies.***

Our future success substantially depends on the active participation of James Wieland, one of our trustees, Kenneth Regan, our Chief Executive Officer and a trustee, and Bradley J. Swenson, our President. Messrs. Wieland and Regan are also governors and owners of the Advisor. Messrs. Wieland, Regan and Swenson have over 30 years of extensive experience each in the commercial real estate industry, and have been instrumental in setting our strategic direction, operating our business and arranging necessary financing, and through the Advisor, in locating desirable real estate investments and where serving as property manager, managing our properties. Losing the services of Messrs. Wieland, Regan or Swenson could have a material adverse effect on our ability to successfully carry out our investment strategies and achieve our investment objectives. There can be no guarantee they will remain affiliated with us. See "Risks Related to Conflicts of Interest."

***Our systems may not be adequate to support our growth, and our failure to successfully oversee our portfolio of real estate investments could adversely affect our results of operation.***

There can be no assurance we will be able to adapt our management, administrative, accounting and operational systems, or hire and retain sufficient staff, to support any growth we may experience. Our failure to successfully oversee our current and future real estate investments or developments could have a material adverse effect on our results of operation and financial condition and our ability to pay dividends to our shareholders.

#### **Risks Related to Our Structure**

***There are limitations on ownership of our common shares of beneficial interest, which could discourage a takeover transaction even if it is beneficial to our shareholders.***

Our Amended Declaration of Trust provides no person may own more than 9.9% of our outstanding common shares of beneficial interest. Even if a shareholder did not acquire more than 9.9% of our shares, the shareholder may become subject to such restrictions if redemptions by other shareholders cause the holdings to exceed 9.9% of our outstanding shares. This limitation may have the effect of delaying, deferring or preventing a transaction or a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price for our shareholders, even if it would be in the best interest of our shareholders. The ownership limits and restrictions on transferability will continue to apply until our Board of Trustees determines it is no longer in our best interest to continue to qualify or seek to qualify as a REIT.

***Our shareholders may experience dilution if we or our operating partnership issues additional securities.***

Our shareholders do not have preemptive rights to any shares issued by us in the future. If we sell additional shares in the future to raise capital, issue additional shares pursuant to a dividend reinvestment plan or issue shares in exchange for limited partnership units pursuant to our exchange rights under the LLLP Agreement of our operating partnership, our shareholders will experience dilution of their equity investment in us. In addition, if our operating partnership sells additional securities or issues additional securities in connection with a property acquisition transaction, we would, and indirectly our shareholders would, experience dilution in its equity position in the operating partnership.

***Our shareholders have limited control over our operation, and the Board of Trustees has the sole power to appoint and terminate the Advisor.***

Our Board of Trustees has the sole authority to determine our major policies, including our policies regarding financing, growth, investment strategies, debt capitalization, REIT qualification, distribution, and to take certain actions including acquiring or disposing of real estate and real estate related investments, dividend declaration and the election or removal of the Advisor. Our shareholders do not have the right to remove the Advisor, but have the right to elect and remove trustees. Under the Amended Declaration of Trust, our trustees may not do the following without the approval of the holders of a majority of the outstanding common shares of beneficial interest:

- Amend the Amended Declaration of Trust, except for amendments which do not adversely affect the rights, preference and privileges of shareholders;
- Sell all or substantially all of our assets other than in the ordinary course of business or in connection with a liquidation and dissolution;
- Conduct a merger or other reorganization of the trust; or
- Dissolve or liquidate us.

In addition, the shareholders have the right, without the concurrence of the Board of Trustees, to terminate the trust and liquidate our assets or amend the Amended Declaration of Trust.

***Shareholders have no role in determining our investments and must rely on our Advisor and oversight by the Board of Trustees.***

For future acquisitions identified by our Advisor, the Board of Trustees has the authority to approve such investment acquisitions without shareholder approval. Therefore, shareholders will not be able to evaluate the terms of future investment acquisitions, their economic merit or other relevant financial data before we acquire such investments. The shareholders must rely entirely on the oversight of our Board of Trustees, the management ability of our Advisor and the performance of the property managers.

***We may issue securities with more favorable terms than the outstanding shares without shareholder approval.***

Under our Amended Declaration of Trust, our Board of Trustees has the authority to establish more than one class or series of shares and to fix the relative preferences and rights regarding conversion, voting powers, restrictions, limitations as to dividends and other distributions, and terms or conditions of redemption of such different classes or series without shareholder approval. Thus, our Board could authorize the issuance of a class or series of shares with terms and conditions that could have priority as to dividends and amounts payable upon liquidation over the rights of the holders of our outstanding common shares of beneficial interest. Such class or series of shares could also have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might otherwise provide a premium price to holders of our shares, even if it would be in the best interest of our shareholders.

***Shareholders could incur current tax liability on dividends they elect to reinvest in our shares, and may have to use separate funds to pay their tax liability.***

Shareholders that participate in our dividend reinvestment plan will be deemed to have received, and for income tax purposes will be taxed on, the amount reinvested in shares to the extent the amount reinvested was not a tax-free return of capital. In addition, our shareholders will be treated for tax purposes as having received an additional dividend to the extent the shares are purchased at a discount to fair market value. As a result, unless shareholders are a tax-exempt entity, they may have to use funds from other sources to pay their tax liability on the value of the shares received.

***Our trustees, officers, Advisor and its affiliates have limited liability to us and our shareholders, and may have the right to be indemnified under certain conditions.***

Our Amended Declaration of Trust provides that our trustees, officers, Advisor and its affiliates will not be held liable for any loss or liability suffered by us if: (1) the trustee, officer, Advisor or its affiliate determines in good faith its actions or inactions were in our best interest, (2) such actions were taken on behalf of us and (3) such liability or loss was not the result of: (a) negligence or misconduct by a trustee (other than an independent trustee), the Advisor or its affiliate or (b) gross negligence or willful misconduct by an independent trustee. Moreover, we are required to indemnify our trustees, officers, the Advisor and its affiliates, subject to limitations stated in the Amended Declaration of Trust. As a result, we and our shareholders have limited rights against our trustees, officers, the Advisor and its affiliates, which could reduce our and our shareholders' recovery from these persons. In addition, we may be obligated to fund the defense costs incurred by such parties in some cases, which would decrease the cash otherwise available for dividends to our shareholders.

***There may be conflicts of interest between us and our shareholders on one side and our operating partnership and its limited partners on the other side.***

Our trustees and officers have duties to us and our shareholders in connection with their management of us. At the same time, we, as general partner will have duties to our operating partnership and its limited partners in connection with the management of the operating partnership. Our duties as general partner of the operating partnership may come into conflict with the duties of our trustees and officers to us and our shareholders. The LLLP Agreement of our operating partnership expressly limits our liability for monetary damages by providing we will not be liable for losses sustained, liabilities incurred or benefits not derived if we acted in good faith. In addition, our operating partnership is required to indemnify us and our trustees and officers from and against any and all claims arising from operations of our operating partnership, unless it is established: (1) the act or omission was material and committed in bad faith or was the result of active and deliberate dishonesty; (2) the indemnified party received an improper personal benefit in money, property or services; or (3) in the case of a criminal proceeding, the indemnified person had reasonable cause to believe the act or omission was unlawful. The LLLP Agreement also provides that we will not be held responsible for any misconduct or negligence on the part of any agent appointed by us in good faith.

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

We are not registered as an investment company under the Investment Company Act of 1940, as amended ("Investment Company Act") based on exemptions we believe are available to us. If we were obligated to register as an investment company, we would have to comply with a variety of substantive requirements under the Investment Company Act. Registration as an investment company would be costly, would subject us to a host of complex regulations, and would divert the attention of management from the conduct of our business. If the SEC or a court of competent jurisdiction were to find we are required, but in violation of the Investment Company Act had failed, to register as an investment company, possible consequences include, but are not limited to, the following: (i) the SEC could apply to a district court to enjoin the violation; (ii) our shareholders could sue us and recover any damages caused by the violation; (iii) any contract to which we are party made in, or whose performance involves a violation of the Investment Company Act would be unenforceable by any party to the contract unless a court were to find that under the circumstances enforcement would produce a more equitable result than non-enforcement and would not be inconsistent with the purposes of the Investment Company Act; and (iv) criminal and civil actions could be brought against us. Should we be subjected to any or all of the foregoing, our operations and results of operations would be materially and adversely affected.

***There is no public trading market for our shares, nor do we expect one to develop, which may negatively impact a shareholders ability to sell their shares and the price at which shares may be sold.***

There is no public market for our shares and there is no assurance one may develop. In addition, the price shareholders may receive for the sale of their shares is likely to be less than the proportionate value of our investments. If our shareholders are able to find a buyer for their shares, they may have to sell them at a substantial discount from the price they purchased the shares. Consequently, shareholders may not be able to liquidate their investments in the event of emergency or for any other reason. Therefore, shareholders should consider our securities as illiquid and a long-term investment and should be prepared to hold their shares for an indefinite period of time.

***The estimated value of our common stock is based on a number of assumptions and estimates that may not be accurate and is also subject to a number of limitations.***

The current estimated value of our common stock equals \$15.50 per share. The methodology used by our board to determine this value was based on estimates of the value of our real estate investments, cash and other assets and debt and other liabilities as of a date certain and no subsequent valuation has been undertaken by us. The valuation process involves a number of estimates, assumptions and subjective judgments that may not be accurate and complete. Further, different parties using different assumptions and estimates could derive a different estimated value per share, which could be significantly different from our estimated value per share. The estimated value per share may not represent current market values or fair values as determined in accordance with U.S. generally accepted accounting principles. The estimated value of our real estate assets used in the analysis may not necessarily represent the value we would receive or accept if the assets were marketed for sale. Further, acquisitions and dispositions of properties will have an effect on the value of our estimated price per share, which is not reflected in the current estimated price. Moreover, the estimated per share value of the common stock does not reflect a liquidity discount for the fact that the shares are not currently traded on a public market, a discount for the non-assumability or prepayment obligations associated with certain loans and other costs that may be incurred in connection with the sale of assets. As a result a shareholder should not rely on the estimated value per share as being an accurate measure of the then-current value of the shares of our common stock in making a decision to buy or sell shares of our common stock, including whether to reinvest dividends by participating in the dividend reinvestment plan and whether to request redemption pursuant to our share redemption program.

***Shareholders may not be able to have their shares redeemed under the Share Redemption Plan, and if shareholders do redeem their shares, they will not receive the current value of the shares.***

We have adopted a share redemption plan. However, our Board of Trustees can limit, suspend, terminate or amend the plan at any time without shareholder approval, and there is no assurance we will have sufficient funds available at the time of any request to honor a redemption request for cash. Shares redeemed under this plan may be purchased at a discount to the current price of the shares or to the price paid for such shares by the shareholder. Therefore, shareholders may not receive the amount they paid for the shares and may receive less by selling their shares back to us than they would receive if they were to sell their shares to other buyers.

***There are transfer restrictions on the shares, and we do not plan to register the shares for resale.***

Other than shares issued under our dividend reinvestment plan, we have not registered our shares under federal or state securities laws, but rather we have sold the shares in reliance on exemptions under applicable federal and state securities laws. Therefore, the shares may be “restricted securities” and may not be resold unless they are subsequently registered under the Securities Act and applicable state securities laws or pursuant to exemption from such registration requirements or may have other transfer restrictions based on the exemption relied on for the sale of the shares. We are not obligated to, nor do we currently plan to, register any shares for resale.

## **Risks Related to Our Status as a REIT and Related Federal Income Tax Matters**

***If we fail to continue to qualify as a REIT, we would incur additional tax liabilities that would adversely affect our operations and our ability to make distributions and could result in a number of other negative consequences.***

Although our management believes we are organized, have operated, and will be able to continue to be organized and to operate in such a manner to qualify as a real estate investment trust (REIT), as that term is defined under the Internal Revenue Code, we may not have been organized, may not have operated, or may not be able to continue to be organized or to operate in a manner to have qualified or remain qualified as a REIT. Qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which there are only limited judicial or administrative interpretations. Even a technical or inadvertent mistake could endanger our REIT status.

The determination that we qualify as a REIT requires an ongoing analysis of various factual matters and circumstances, some of which may not be within our control, regarding our organization and ownership, distributions of our income and the nature and diversification of our income and assets. The fact we hold substantially all of our assets through our operating partnership and our ongoing reliance on factual determinations, such as determinations related to the valuation of our assets, further complicates the application of the REIT requirements for us.

If we lose our REIT qualification, we will face income tax consequences that will reduce substantially our available cash for dividends and investments for each of the years involved because:

- We would be subject to federal corporate income taxation on our taxable income, including any applicable alternative minimum tax, and could be subject to increased state and local taxes;
- We would not be allowed a deduction for dividends paid to shareholders in computing our taxable income; and
- Unless we are entitled to relief under applicable statutory provisions, we could not elect to be taxed as a REIT for four taxable years following the year during which we were disqualified.

The increased taxes could reduce the value of the shares as well as cash available for dividends to shareholders and investments in additional assets. In addition, if we fail to continue to qualify as a REIT, we will not be required to pay dividends to shareholders. Our failure to continue to qualify as a REIT also could impair our ability to expand our business and to raise capital.

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

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

- To continue to qualify as a REIT, we must distribute annually at least 90% of our REIT taxable income (which is determined without regard to the dividends-paid deduction or net capital gains) to our shareholders. If we satisfy the distribution requirement but distribute less than 100% of our REIT taxable income, we will be subject to corporate income tax on the undistributed income. In such situation, shareholders will be treated as having received the undistributed income and having paid the tax directly, but tax-exempt shareholders, such as charities or qualified pension plans, will receive no benefit from any deemed tax payments.
- We may be subject to state and local taxes on our income or property, either directly or indirectly, because of the taxation of our operating partnership or of other entities through which we indirectly own our assets.
- If we have net income from the sale of foreclosure property we hold primarily for sale to customers in the ordinary course of business or other non-qualifying income from foreclosure property, we must pay a tax on that income at the highest corporate income tax rate.
- If we sell a property, other than foreclosure property, we hold primarily for sale to customers in the ordinary course of business, our gain will be subject to the 100% “prohibited transaction” tax.
- We will be subject to a 4% nondeductible excise tax on the amount, if any, by which the distributions we pay in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income, and 100% of our undistributed income from prior years.

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

To qualify as a REIT, in general, we must distribute to our shareholders at least 90% of our net taxable income each year, excluding capital gains. However, we could be required to include earnings in our net taxable income before we actually receive the related cash. If we do not have sufficient cash to make the necessary dividends to preserve our REIT status for any year or to avoid taxation, we may need to borrow funds, to sell assets or to issue additional securities even if the then-prevailing market conditions are not favorable for such actions.

To the extent dividends to our shareholders had been made in anticipation of qualifying as a REIT, we might be required to borrow funds, to sell assets or to issue additional securities to pay the applicable tax if we lose our REIT qualification and are subject to increased taxes.

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

***If our operating partnership does not qualify as a partnership, its income may be subject to taxation, and we would no longer qualify as a REIT.***

The Internal Revenue Code classifies “publicly traded partnerships” as associations taxable as corporations (rather than as partnerships), unless substantially all of their taxable income consists of specified types of passive income. We structured our operating partnership to be classified as a partnership for federal income tax purposes. However, no assurance can be given the IRS will not challenge our position or will classify our operating partnership as a “publicly traded partnership” for federal income tax purposes. To minimize this risk, we have placed certain restrictions on the transfer and/or redemption of partnership units in the Agreement of Limited Liability Limited Partnership of our operating partnership (“LLLP Agreement”). If the IRS would assert successfully our operating partnership should be treated as a “publicly traded partnership” and substantially all of the operating partnership’s gross income did not consist of the specified types of passive income, the Internal Revenue Code would treat the operating partnership as an association taxable as a corporation. In such event, we would cease to qualify as a REIT. In addition, the imposition of a corporate tax on the operating partnership would reduce the amount of distributions the operating partnership could make to us and, in turn, reduce the amount of cash available to us to pay dividends to our shareholders.

***We have transfer restrictions on our shares that may limit offers to acquire substantial amounts of the trust’s shares at a premium.***

To qualify as a REIT, our shares must be beneficially owned by 100 or more persons and no more than 50% of the value of our issued and outstanding shares may be owned directly or indirectly by five or fewer individuals. Currently, our Amended Declaration of Trust prohibits transfers of our shares that would result in : (1) our shares being beneficially owned by fewer than 100 persons, (2) five or fewer individuals, including natural persons, private foundations, specified employee benefit plans and trusts, and charitable trusts, owning more than 50% of our shares, applying broad attribution rules imposed by the federal income tax laws, or (3) before our shares qualify as a class of publicly-offered securities, 25% or more of our shares being owned by ERISA investors. If a shareholder acquires shares in excess of the ownership limits or in violation of the restrictions on transfer, we:

- May consider the transfer to be void ab initio.
- May not reflect the transaction on our books.
- May institute legal action to enjoin the transaction.
- May redeem such excess shares.
- Automatically transfer any excess shares to a charitable trust for the benefit of a charitable beneficiary.

If such excess shares are transferred to a trust for the benefit of a charitable beneficiary, the charitable trustee shall sell the excess shares and the shareholder will be paid the net proceeds from the sale equal to the lesser of: (1) the price paid by

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the shareholder or the “market price” of our shares if no value was paid or (2) the price per share received by the charitable trustee.

If shares are acquired in violation of the ownership limits or the restrictions on transfer described above:

- Transferee may lose its power to dispose of the shares; and
- Transferee may incur a loss from the sale of such shares if the fair market price decreases.

These limitations may have the effect of preventing a change of control or takeover of us by a third party, even if the change in control or takeover would be in the best interest of our shareholders.

### ***Complying with REIT requirements may restrict our ability to operate in a way to maximize profits.***

To qualify as a REIT, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our shareholders, and the ownership of our common shares. For example, we may be required to pay dividends to our shareholders at disadvantageous times, including when we do not have readily available funds. Thus, compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

### ***Complying with REIT requirements may force us to forego or liquidate otherwise attractive investments which could negatively impact shareholder value.***

To qualify as a REIT, at the end of each calendar quarter, at least 75% of our assets must consist of cash, cash items, government securities and qualified real estate assets. The remainder of our investments in securities (other than government securities and qualified real estate assets), in general, cannot include more than 10% of the voting securities of any one issuer or more than 10% of the value of the outstanding securities of any one issuer. In addition, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, and no more than 25% of the value of our assets may be represented by securities of one or more taxable REIT subsidiaries. Therefore, we may be required to liquidate otherwise attractive investments or may be forced to forego attractive investments to satisfy these requirements. Such action or inaction could be adverse to our shareholder interests.

### ***Gains from asset sales may be subject to a 100% prohibited transaction tax, which tax could reduce the trust’s available assets and reduce shareholder value.***

We may have to sell assets from time to time to satisfy our REIT distribution requirements and other REIT requirements or for other purposes. The IRS may posit one or more asset sales may be “prohibited transactions.” If we are deemed to have engaged in a “prohibited transaction,” our gain from such sale would be subject to a 100% tax. The Internal Revenue Code sets forth a safe harbor for REITs that wish to sell property without risking the imposition of the 100% tax, but we cannot assure you we will be able to qualify for the safe harbor. We will use reasonable efforts to avoid the 100% tax by : (1) conducting activities that may otherwise be considered a prohibited transaction through a taxable REIT subsidiary, (2) conducting our operations in such a manner so no sale or other disposition of an asset we own, directly or through any subsidiary other than a taxable REIT subsidiary, will be treated as a prohibited transaction or (3) structuring certain sales of our assets to comply with a safe harbor available under the Internal Revenue Code. We do not intend to hold assets in a manner to cause their dispositions to be treated as “prohibited transactions,” but we cannot assure you the IRS will not challenge our position, especially if we make frequent sales or sales of assets in which we have short holding periods. Payment of a 100% tax would adversely affect our results of operations.

### ***Ordinary dividends payable by REITs generally are taxed at the higher ordinary income rate which could reduce the net cash received by shareholders as a result of an investment in the trust and may be detrimental to our ability to raise additional funds through the sale of our common shares.***

The maximum U.S. federal income tax rate for “qualified dividends” payable by U.S. corporations to individual U.S. shareholders currently is 20%. In general, ordinary dividends payable by REITs to its shareholders, however, are generally not eligible for the reduced rates and generally are taxed at ordinary income rates (the maximum individual income tax

rate currently is 39.6%). This result could reduce the net cash received by shareholders as a result of an investment in the trust and could be detrimental to our ability to raise additional funds through the sale of our common shares.

***Changes in legislative or other actions affecting REITs may adversely affect our status as a REIT.***

The rules dealing with U.S. federal income taxation are constantly under review by the legislative process, the IRS and the U.S. Treasury Department. Changes to tax laws (which changes may apply retroactively) could adversely affect us or our shareholders. Furthermore, new legislation, regulations, administrative interpretations or court decisions could change the federal income tax laws with respect to our qualification as a REIT or the federal income tax consequences of our qualification. We cannot predict whether, when, in what forms, or with what effective dates, the laws applicable to us or our shareholders may be changed.

***Our Board of Trustees may revoke our REIT election without shareholder approval, and we would no longer be required to make distributions of our net income.***

Our Board of Trustees can revoke or otherwise terminate our REIT election without the approval of our shareholders if our Board determines it is not in our best interest to continue to qualify as a REIT. In such case, we would become subject to U.S. federal income tax on our taxable income, and we no longer would be required to distribute most of our net income to our shareholders, which may reduce the total return to our shareholders and affect the value of the shares.

**Risks Related to Tax-Exempt Investors**

***Common shares may not be a suitable investment for tax-exempt investors.***

There are special considerations that apply to investing in common shares on behalf of a trust, pension, profit sharing or 401(k) plans, health or welfare plans, trusts, individual retirement accounts (IRAs), or Keogh plans. If you are investing the assets of any of the above in common shares, you should satisfy yourself:

- Your investment is consistent with your fiduciary obligations under applicable law, including common law, ERISA and the Internal Revenue Code;
- Your investment is made in accordance with the documents and instruments that govern the trust, plan or IRA, including any investment policy;
- Your investment satisfies the prudence and diversification requirements of Sections 404(a)(1)(B) and 404(a)(1)(C) of ERISA and other applicable provisions of ERISA and the Internal Revenue Code;
- Your investment will not impair the liquidity of the trust, plan or IRA;
- Your investment will not produce “unrelated business taxable income” for the trust, plan or IRA;
- You will be able to value the assets of the trust, plan or IRA annually in accordance with ERISA requirements and applicable provisions of the trust, plan or IRA; and
- Your investment will not constitute a prohibited transaction under Section 406 of ERISA or Section 4975 of the Internal Revenue Code.

We have not evaluated, and will not evaluate, whether an investment in us is suitable for any particular trust, plan, or IRAs.

***Under certain circumstances, tax-exempt shareholders may be subject to unrelated business taxable income, which could adversely affect such shareholders.***

Neither ordinary nor capital gain distributions with respect to our common shares nor gain from the sale of our common shares, in general, should constitute unrelated business taxable income to tax-exempt shareholders. The following, however, are some exceptions to this rule:

- Under certain circumstances, part of the income and gain recognized by certain qualified employee pension trusts with respect to our common shares may be treated as unrelated business taxable income if our common shares are held predominately by qualified employee pension trusts (which we do not expect to be the case);

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- Part of the income and gain recognized by a tax-exempt shareholder with respect to common shares would constitute unrelated business taxable income if the tax-exempt shareholder incurs debt to acquire the common shares; and
- Part or all of the income or gain recognized with respect to our common shares held by social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans that are exempt from federal income taxation under Sections 501(c)(7), (9), (17), or (20) of the Internal Revenue Code may be treated as unrelated business taxable income.

Therefore, tax-exempt shareholders are not assured all dividends received from the trust will be tax-exempt.

**Risks Related to Our Relationship with the Advisor and Its Affiliates**

***We depend on our Advisor for the successful operations of the REIT, and if required, we may not be able to find a suitable replacement advisor.***

Our ability to achieve our investment objectives is dependent upon the successful performance of our Advisor in locating attractive acquisitions, advising on dispositions of real estate properties and other real estate related assets, advising on any financing arrangements and other administrative tasks to operate our business. If the Advisor suffers or is distracted by adverse financial, operational problems in connection with its operations unrelated to us or for any reason, it may be unable to allocate a sufficient amount of time and resources to our operations. If this occurs, our ability to achieve our investment objectives or pay dividends to our shareholders may be adversely affected. Any adversity experienced by the Advisor or problems in our relationship with the Advisor could also adversely impact the operation of our properties and, consequently, our cash flow and ability to pay dividends to shareholders.

Either we or the Advisor can terminate the Advisory Agreement upon 60 days written notice to the other party for any reason, or we can terminate the Advisory Agreement immediately for cause or material breach of the Advisory Agreement. In addition, the Board of Trustees may determine not to renew the Advisory Agreement in any year. If this occurs, we would need to find another advisor to provide us with day-to-day management services or engage employees to provide these services directly to us, which would likely be difficult to do and may be costly. There can be no assurances we would be able to find a suitable replacement advisor or suitable employees or enter into agreements for such services on acceptable terms.

***The termination or replacement of the Advisor could trigger a default or repayment event under financings.***

Lenders providing financing for our acquired properties may include provisions in the mortgage loan documentation that state the termination or replacement of the Advisor is an event of default or an event triggering acceleration of the repayment of the loan in full. Even though we will attempt to have such provisions excluded from the loan documents, the lenders may still require them to be included. In addition, the termination or replacement of the Advisor could trigger an event of default under any credit agreement governing a line of credit we may obtain in the future. If an event of default or repayment event occurs with respect to any of our properties, our ability to achieve our investment objectives could be materially adversely affected.

***The Advisor may not be able to retain its key employees, which could adversely affect our ability to carry out our investment strategies.***

We depend on the retention by the Advisor of its key officers, employees and governors. However, none of these individuals have an employment agreement with the Advisor. The loss of any or all of the services by the Advisor's key officers, employees and governors and the Advisor's inability to find, or any delay in finding, replacements with equivalent skills and experience, could adversely impact our ability to successfully carry out our investment strategies and achieve our investment objectives.

Our future success also depends on the Advisor's and its affiliates' ability to identify, hire, train and retain highly qualified real estate, managerial, financial, marketing and technical personnel to provide the services to us pursuant to the Advisory Agreement and any other written services agreement, including any property management agreements. Competition for

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such personnel is intense, and the Advisor or its affiliates may not be able to attract, assimilate or retain such personnel in the future. The inability to attract and retain the necessary personnel could have a material adverse effect on our business and results of operations.

### ***Payment of fees and expenses to the Advisor reduces the cash available for dividends.***

The Advisor performs services for us in connection with the selection, acquisition and disposition of our investments; the management of our assets; and certain administrative services. We pay the Advisor an annual management fee, reimbursement for operating and acquisition expenses as well as acquisition, disposition, financing and development fees. Such fees and payments reduce the amount of cash available for further investments or dividends to our shareholders. Additionally, such fees increase the risk shareholders may receive a lower price when they resell their shares than the purchase price they initially paid for their shares.

### ***There are conflicts of interest in our relationship with the Advisor and its affiliates and several trustees, which could adversely affect our operations and business operations.***

We are subject to potential conflicts of interest arising out of our relationships with the trustees, Advisor and its affiliates. Conflicts of interest may arise among a trustee or the Advisor and its respective affiliates, on the one hand, and us and our shareholders, on the other hand. As a result of these conflicts, the trustee or Advisor may favor its own interests or the interests of its affiliates over the interest of our shareholders.

### *Allocation of time and effort*

We rely on the personnel of the Advisor and its affiliates to manage our assets and daily operations. Two of our trustees are also governors and owners of the Advisor and the primary property manager of a number of our properties, and therefore have conflicts of interest in allocating their time, services and functions among us and other real estate programs or business ventures the Advisor or its affiliates organize or serve.

### *Division of loyalty*

Several of our officers and/or trustees serve as officers, governors and owners of one or more entities affiliated with our Advisor or trustees, including property managers, tenants of our properties and brokerage companies. As a result, these individuals owe duties to these other entities and their investors, which may conflict with the duties that they owe to us and our shareholders. Their loyalties to these other entities and investors could result in action or inaction detrimental to our business, which could harm implementation of our business strategy and investment and leasing opportunities.

### *Allocation of investment opportunities*

The Advisor and its affiliates are or may become committed to the continuing management of other business ventures. Accordingly, there may be conflicts of interest between our investments and other investments or business ventures in which the Advisor and its affiliates are participants. In addition, the Advisor and its officers will advise other investment programs that invest in commercial real estate properties and real estate related assets in which we may be interested. Therefore, the Advisor could face conflicts of interest in allocating and determining which programs will have the opportunity to acquire and participate in such investments as they become available. As a result, other investment programs advised by the Advisor may compete with us with respect to certain investments we may want to acquire.

### *Investments owned by Advisor or its affiliates*

Our Advisor identifies and selects potential investments in real estate properties and other real estate related assets in which we may be interested. Such investments could include property owned by the Advisor or its affiliates.

*May profit even if investment is not profitable*

The Advisor receives acquisition, disposition, management, financing, and development fees under the Advisory Agreement. The Advisor and its affiliates may also be appointed or utilized to provide other services to us and our assets and receive fees and compensation for providing such other services, such as property management fees and construction fees. Therefore, the Advisor and its affiliates may profit from real estate investments even where we lose all or a portion of our investment. In addition, the agreements and arrangements, including those relating to compensation, between us and the Advisor and its affiliates are not the result of arm's-length negotiations and their terms may not be as favorable to us as if they had been negotiated with an unaffiliated third party.

*Fees received by the parties*

The Advisor is paid an annual management fee for its services based on total assets as reflected on our consolidated financial statements. The Advisor may benefit by us retaining ownership of certain investments at times when our shareholders may be better served by the sale or disposition of such investments in order to avoid a reduction in the total assets and correspondingly to the Advisor's annual management fee. In addition, the Advisor may recommend we purchase investments that increase the total assets and correspondingly the Advisor's annual management fee but that are not necessarily the most suitable investments for our portfolio. Further, the book value of the assets may include property-related debt, which could influence the amount of leverage obtained on real estate investments and other real estate related investments.

Our Advisor and its affiliates (including some of our trustees) may also be entitled to additional fees for providing other services, including property management and assistance with investment acquisition and disposition. These fees could influence our Advisor's advice to us as well as the judgment of their affiliates and our trustees performing services for us. These compensation arrangements could affect their judgment with respect to:

- the continuation, renewal or enforcement of our agreements with our Advisor and its affiliates, including the Advisory Agreement and any property management agreement;
- offerings of equity by us, which may result in property acquisitions entitling our Advisor to increased acquisition, management, financing and development fees, possibly entitling its affiliates to property management fees for new properties and possibly entitling trustees to brokerage commissions;
- property sales, which entitle our Advisor to disposition fees and possibly trustees to receive brokerage commissions;
- property acquisitions, which entitle our Advisor to acquisition, financing and development fees, possibly entitles affiliates to property management fees on new properties and possibly entitles trustees to receive brokerage commissions; and
- borrowings to acquire properties, which may increase the acquisition, financing and management fees payable to our Advisor, possibly entitles affiliates to property management fees on new properties and possibly entitles trustees to receive brokerage commissions.

**Risks Related to Investments in Real Estate**

*Our performance could be adversely affected by the general risks involved in real estate investments.*

Our results of operation and financial condition, the value of our real estate assets, and the value of an investment in us are subject to the risks normally associated with the ownership and operation of real estate properties, including, among others:

- Fluctuations in occupancy rates, rent schedules and operating expenses, which can render the sale or refinancing of a real estate investment difficult or unattractive;
- The validity and enforceability of leases, financial resources of the tenants, tenant bankruptcies, rent levels and sales levels in the local areas of the investments;
- Perceptions of the safety, convenience and attractiveness of our properties and the neighborhoods where they are located;
- Ability to provide adequate management, maintenance and insurance on our properties;

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- Adverse changes in local population trends, market conditions, neighborhood values, local economic and social conditions;
- Supply and demand for properties such as our real estate investments and competition from properties that could be used in the same manner as our real estate investments;
- Changes in interest rates and availability of permanent mortgage funds;
- Changes in real estate tax rates and other taxes;
- Changes in governmental rules, regulations and fiscal policies, including the effects of inflation and enactment of unfavorable real estate, rent control, environmental or zoning laws; and
- Hazardous material laws, uninsured losses and other risks.

All of these factors are beyond our control. Any negative changes in these factors could affect our ability to meet our obligations, pay dividends to shareholders or achieve our investment objectives.

### ***Market disruptions may significantly and adversely affect our financial condition and results of operations.***

Our results of operations may be sensitive to changes in overall economic conditions impacting tenant leasing practices, such as increased unemployment, weakening of tenant financial condition, large-scale business failures and tight credit markets. Adverse economic conditions affecting tenant income, such as employment levels, business conditions, interest rates, tax rates, fuel and energy costs and other matters, could reduce overall tenant leasing or cause tenants to shift their leasing practices. In addition, periods of economic slowdown or recession, rising interest rates or declining demand for real estate, or the public perception any of these events may occur, could result in a general decline in rents or an increased incidence of defaults under existing leases. A general reduction in the level of tenant leasing could adversely affect our ability to maintain our current occupancy rates and gain new tenants, affecting our growth and profitability. Accordingly, difficult financial and macroeconomic conditions could have a significant adverse effect on our cash flows, profitability and results of operations.

### ***Lack of geographic diversity of our real estate investments could adversely affect our operating results if economic changes impact those real estate markets.***

Geographic concentration of our properties may expose us to economic downturns in those areas where our properties are located. A recession in any area where we own several properties or interests in properties could adversely affect our ability to generate or increase operating revenues, locate and retain financially sound tenants or dispose of unproductive properties. In addition, it could have an adverse impact on our tenant's revenues, costs and results of operations and may adversely affect their ability to meet their obligations to us. Likewise, we may be required to lower our rental rates to attract desirable tenants in such an environment. Currently, the majority of our properties are located in North Dakota, and we hold several properties in Fargo, North Dakota. To the extent weak economic or real estate conditions affect North Dakota or other markets in which we own properties more severely than other areas of the country, our financial performance could be negatively impacted.

### ***We face numerous risks associated with property acquisitions which could adversely affect our operating results.***

Through our operating partnership, we acquire properties and portfolios of properties. Our acquisition activities and their success are subject to the following risks typically encountered in real estate acquisitions:

- We may be unable, or decide it is not in our interests, to complete an acquisition after making a non-refundable deposit and incurring certain other acquisition-related costs or purchasing an option to purchase;
- We may be unable to obtain financing for acquisitions on favorable terms or at all;
- Acquired properties may fail to perform as expected;
- The actual costs of repositioning or redeveloping acquired properties may be greater than our estimates;
- Acquired properties may be located in new markets in which we may face risks associated with a lack of market knowledge or understanding of the local economy, lack of business relationships in the area and unfamiliarity with local governmental and permitting procedures; and
- We may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations.

These risks could have an adverse effect on our results of operation, our financial condition and the amount available for payment of dividends to our shareholders.

***We may invest in undeveloped real property, which requires us to pay expenses prior to receiving any income on the property.***

We have the discretion to invest up to 10% of our total assets in undeveloped property. If we invest in undeveloped property, such property will not generate operating revenue while costs are incurred to develop the property and may generate other expenses including property taxes and insurance. In addition, construction may not be completed within budget or as scheduled and projected rental levels may not be achieved. In addition to the risks of real estate investments in general, an investment in undeveloped property is subject to additional risks, including the expense and delay which may be associated with rezoning the land for a higher use and the development and environmental concerns of governmental entities and/or community groups. Therefore, we will not generate income on such property until development is completed and we begin leasing the property.

***We may acquire multiple properties in a single transaction, which may adversely affect our operations through the inclusion of less desirable investments or financing requirements greater than we would otherwise be willing to incur.***

Periodically, we may acquire multiple properties in a single transaction. Portfolio acquisitions are more complex and expensive than single property acquisitions, and the risk a multiple property acquisition does not close may be greater than in a single property acquisition. Portfolio acquisitions may also result in us owning investments in geographically dispersed markets, placing additional demands on our ability to manage the properties in the portfolio. In addition, a seller may require a group of properties be purchased as a package even though we may not want to purchase one or more properties in the portfolio. In these situations, if we are unable to identify another person or entity to acquire the unwanted properties, we may be required to operate or attempt to dispose of these properties. To acquire multiple properties in a single transaction we may be required to accumulate a large amount of cash. We would expect the returns we can earn on such cash to be less than the ultimate returns in real property and therefore, accumulating such cash could reduce the funds available for dividends. Any of the foregoing events may increase the risk of adverse business results and negatively affect our results of operations.

***We may invest in co-ventures, where our co-venture partners, co-tenants or other partners in co-ownership arrangements could take actions that decrease the value of a real estate investment and lower our overall return.***

We may enter into joint ventures, tenant-in-common investments or other co-ownership arrangements with our Advisor, its affiliates, our trustees, or third parties having investment objectives similar to ours in the acquisition of real estate investments. In such arrangements, we may be acquiring non-controlling interests in or sharing responsibility for managing the affairs of the joint venture. In such event, we would not be in a position to exercise sole decision-making authority regarding the joint venture. Investments in joint ventures may, under certain circumstances, involve risks not present where another party is not involved, including the possibility partners or co-venturers might become bankrupt or fail to fund their required capital contributions. Co-venturers may have economic or other business interests or goals which are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Such investments may also have the potential risk of impasses on decisions, such as a sale, because neither we nor the co-venturer would have full control over the joint venture. Disputes between us and co-venturers may result in litigation or arbitration that would increase our expenses and prevent our management and the Advisor from focusing their time and effort on our business. Consequently, actions by or disputes with co-venturers might result in subjecting properties owned by the joint venture to additional risk. In addition, we may in certain circumstances be liable for the actions of our co-venturers. Any of these risks could subject us to liabilities in excess of those contemplated and reduce our returns on that investment.

***We could experience difficulties or delays renewing leases or re-leasing space, which will increase our costs to maintain such properties without receiving income.***

We derive a significant portion of our net income from rent received from our tenants. Our properties include both residential as well as commercial properties. If a tenant experiences a downturn in its business or other types of financial distress, it may be unable to make timely rental payments. If a significant number of tenants default on lease payments to us, it would cause us to lose the revenue associated with such leases and require us to find alternative sources of revenue to meet mortgage payments and prevent a foreclosure if the property is subject to a mortgage. If lease defaults occur, we may experience delays in enforcing our rights as landlord. Also, if our tenants decide not to renew their leases, terminate early or default on their lease, we may not be able to re-let the space or may experience delays in finding suitable replacement tenants. Even if tenants decide to renew or lease new space, the terms of renewals or new leases, including the cost of required renovations or concessions to tenants, particularly commercial tenants, may be less favorable to us than current lease terms. As a result, our net income and ability to pay dividends to shareholders could be materially adversely affected. Further, if one of our properties cannot be leased on terms and conditions favorable to us, the property may not be marketable at a suitable price without substantial capital improvements, alterations, or at all.

***We could face potential adverse effects if a commercial tenant is unable to make timely rental payments, declares bankruptcy or become insolvent.***

If a tenant experiences a downturn in its business or other types of financial distress, it may be unable to make timely rental payments. Delayed rental payments could adversely affect cash flow available for dividends. If a commercial tenant declares bankruptcy or becomes insolvent, it may adversely affect the income produced by our properties. If a tenant defaults, we may experience delays and incur substantial costs in enforcing our rights as landlord. However, if a tenant files for bankruptcy, we cannot evict the tenant solely because of such bankruptcy. If a court authorizes the commercial tenant to reject and terminate its lease with us, our claim against the tenant for unpaid future rent would be subject to a statutory cap that might be substantially less than the remaining rent actually owed under the lease. In addition, it is unlikely a bankrupt tenant would pay in full amounts it owes us under a lease. Additionally, we may be required to incur additional costs in the form of tenant improvements and leasing commissions in our efforts to lease the space to a new tenant, as well as lower our rental rates to reflect any decline in market rents. This shortfall could adversely affect our cash flow and results of operations.

***If our reserves for making capital improvements on our real estate investments are insufficient, we may be required to defer necessary capital improvements which could negatively affect our revenues.***

We establish capital reserves on a property-by-property basis, as we deem appropriate. If we do not have enough reserves to cover the costs of capital improvements throughout the life of the real estate property and there is insufficient cash available from our operations, we may have to borrow funds or defer necessary improvements to the property. If we delay or do not make necessary capital improvements when needed, there are risks the property may decline in value and may result in fewer tenants maintaining or renewing their leases and attracting new tenants to the property. If this happens, we may not be able to maintain projected rental rates for affected properties, and our results of operations may be negatively impacted.

***Properties will face significant competition for tenants, which could limit our profitability.***

We face significant competition from owners, operators and developers of similar real estate properties designed and dedicated to serve tenants with the same needs as the tenants that occupy or could occupy our properties in the same market. These competitors may have greater resources than we do, and may have other advantages resulting from lower cost of capital and enhanced operating efficiencies. This competition may affect our ability to attract and retain tenants and may reduce the rents we are able to charge. These competing properties may have vacancy rates higher than our properties, which may result in their owners being willing to lease available space at lower prices than the space in our properties. Due to such competition, the terms and conditions of any lease we enter into with our tenants may vary substantially from those we anticipate when we acquire a property. Our properties experience competition from existing and planned projects, as well as newer developments located within the market area. We cannot assure competitors will not develop similar

properties in the area or not be able to negotiate better leases for existing or new properties which could adversely affect the profitability and viability of our properties.

***Increased affordability of single-family homes could limit our ability to retain residents, lease apartment units or increase or maintain rents.***

The residential properties we own or may acquire can compete with numerous housing alternatives in attracting residents, including other apartment communities and single-family homes, as well as owner occupied single- and multifamily homes available to rent. Competitive housing in a particular area and the increasing affordability of owner occupied single- and multifamily homes available to rent or buy caused by declining mortgage interest rates and government programs to promote home ownership could adversely affect our ability to retain our residents, lease apartment units and increase or maintain rental rates.

***Investments in real estate are illiquid, and we may not be able to resell a property on terms favorable to us.***

We intend to hold real estate properties until such time as our Advisor determines a sale or other disposition appears to be advantageous to achieve our investment objectives or when our shareholders approve our termination and liquidation. Because real estate investments are relatively illiquid, it could be difficult for us to promptly sell one or more of our real estate properties on favorable terms. This may be a result of economic conditions, availability of financing, interest rates and other factors beyond our control. This may limit our ability to change our portfolio promptly in response to adverse changes in the performance of any such property or economic or market trends. We cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. Real estate investments by their nature are often difficult or time consuming to liquidate. In addition, federal tax laws imposing a 100% excise tax on gains from sales of certain types of property sales by a REIT (generally, property viewed as being purchased for resale, rather than investment) could limit our ability to sell properties and may affect our ability to sell properties without adversely affecting returns to our shareholders. These restrictions could adversely affect our ability to achieve our investment objectives.

***Valuations and appraisals of our investments may not necessarily correspond to realizable value.***

We value our real estate properties initially at cost, which we expect to represent fair value at that time. After acquisition, valuations may include appraisals of our properties periodically. The valuation methodologies used to value our real estate properties will involve subjective judgments regarding such factors as comparable sales, rental and operating expense data, the capitalization and/or discount rate and projections of future rent and expenses based on appropriate analysis. Our investments in real estate related assets will initially be valued at cost, and thereafter will be valued periodically, or in the case of liquid securities, daily, as applicable, at fair value as determined by the Advisor in good faith. Although our valuation procedures are designed to determine the accurate fair value of our assets, appraisals and valuations of our real estate properties and valuations of our investments in real estate related assets will be only estimates of fair value and therefore may not correspond to realizable value upon a sale of those assets.

***Uninsured losses related to real estate investments may adversely affect our results of operation.***

We purchase, and we may be required by lenders of mortgage loans or other financings to obtain, certain insurance coverage on our real estate investments. Either the property manager or the Advisor selects policy specifications and insured limits which it believes to be appropriate and adequate given the risk of loss, the cost of the coverage and industry practice. The nature of the tenants at the properties we hold may expose us and our operations to an increase in liability for personal injuries or other losses. There can be no assurance that such insurance will be sufficient to cover potential liabilities. Some of our policies may be subject to limitations involving large deductibles or co-payments and policy limits which may not be sufficient to cover losses. Furthermore, insurance against certain risks, such as terrorism, flood and toxic mold, may be unavailable or available at commercially unreasonable rates or in amounts less than the full market value or replacement cost of the properties. There can be no assurance particular risks are currently insurable, will continue to be insurable on an economical basis or current levels of coverage will continue to be available. If a loss occurs that is partially or completely uninsured, we may lose all or part of our investment in a property as well as the anticipated future cash flows from such properties. In addition, if the damaged properties are subject to recourse indebtedness, we would continue to be

liable for the indebtedness, even if these properties were irreparably damaged. We may also be liable for any uninsured or underinsured personal injury, death or property damage claims, which could result in decreased dividends to shareholders.

***Discovery of toxic mold in or at our properties may adversely affect our results of operation.***

Litigation and concern about indoor exposure to certain types of toxic molds have been increasing as the public becomes aware exposure to mold can cause a variety of health effects and symptoms, including allergic reactions. Toxic molds can be found almost anywhere; they can grow on virtually any organic substance, as long as moisture and oxygen are present. There are molds that can grow on wood, paper, carpet, foods and insulation. When excessive moisture accumulates in buildings or on building materials, mold growth will often occur, particularly if the moisture problem remains undiscovered or unaddressed. It is impossible to eliminate all mold and mold spores in the indoor environment. The difficulty in discovering indoor toxic mold growth could lead to a risk of lawsuits by affected persons and the risk that the cost to remedy toxic mold could exceed the value of the property. We will attempt to acquire properties where there is no toxic mold or where there has not been any proceeding or litigation with respect to the presence of toxic mold. However, we cannot provide assurances toxic mold will not exist on any of our properties when we acquire the properties or will not subsequently develop on any of our properties.

***We may acquire a property or properties “AS IS,” which increases the risk of an investment that requires us to remedy defects or costs without recourse to the prior owner.***

We may acquire real estate properties “as is” with only limited representations and warranties from the property seller regarding matters affecting the condition, use and ownership of the property. As a result, if defects in the property (including any building on the property) or other matters adversely affecting the property are discovered, we may not be able to pursue a claim for any or all damage against the property seller. Such a situation could negatively affect our results of operations.

***We may engage in leaseback transactions, which involve risks including a failure to qualify as a REIT.***

From time to time we have purchased certain real estate properties and leased them back to the sellers of such properties. While we will use our best efforts to structure any such leaseback transactions to be characterized as a “true lease” so we will be treated as the owner of the property for federal income tax purposes, we cannot assure you the IRS will not challenge such characterization. If any such re-characterization were successful, deductions for depreciation and cost recovery relating to such real property would be disallowed, interest and penalties could be assessed by the IRS and it is possible, under some circumstances, we could fail to qualify as a REIT as a result.

***We rely on affiliated and outside property managers to properly manage and lease our properties.***

The Advisor and an affiliate of the Advisor serve as our main property managers, and the Advisor has hired and intends to hire other affiliates and/or third parties to serve as additional property managers, to manage our properties and act as leasing agents to lease vacancies in our real estate properties. These property managers will have significant decision-making authority with respect to the management of our properties. Our ability to direct and control how our properties are managed may be limited. We will not, and the Advisor will not as to its affiliates and third party property managers, supervise any of the property managers or any of their respective personnel on a day-to-day basis. Thus, the success of our business may depend in large part on the ability of our property managers to manage the day-to-day operations and their ability to lease vacancies in our properties. Any adversity experienced by our property managers could adversely impact the operation and profitability of our properties and, consequently, our ability to achieve our investment objectives.

**Risks Related with Our Indebtedness and Financing**

***Market conditions could adversely affect our ability to obtain financing.***

As a REIT, we are required to distribute at least 90% of our taxable income (excluding net capital gains) to our shareholders in each taxable year, and thus our ability to retain internally generated cash is limited. Accordingly, our ability to acquire properties or to make capital improvements to or remodel properties can depend on our ability to obtain debt or equity

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financing from third parties or the sellers of properties or to sell other properties. We have incurred mortgage debt and pledged some or all of our properties as security for debt in order to obtain funds to acquire additional properties or for working capital. We have also obtained lines of credit to provide a flexible borrowing source of funds.

Market fluctuations and disruptions in the credit markets could significantly affect our ability to access capital. Reductions in our available borrowing capacity, or inability to establish a credit facility when required or when business conditions warrant, could then limit the number, size and quality of properties we could acquire or the amount of improvements we could make on acquired properties, which could materially affect our ability to achieve our investment objectives and may result in price or value decreases of our real estate assets.

### ***We will incur mortgage indebtedness and other borrowings, which will increase our business risks.***

We have obtained mortgage loans on many of our properties so we can use our capital to acquire additional real estate properties and make improvements on the properties. However, we may not incur indebtedness of more than 300% of our net assets, unless such excess is approved by a majority of our trustees. High debt levels will cause us to incur higher interest charges, which would result in higher debt service payments and could be accompanied by restrictive covenants. If there is a shortfall between the cash flow from a property and the cash flow needed to service mortgage debt on that property, then the amount available for dividends to shareholders may be reduced. In addition, incurring mortgage debt increases the risk of loss since defaults on indebtedness secured by a property may result in lenders initiating foreclosure actions. In that case, we could lose the property securing the loan in default, thus reducing the value of our shareholders' investment.

For tax purposes, a foreclosure on any of our properties will be treated as: (1) if the foreclosed debt is nonrecourse, a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage or (2) if the foreclosed debt is recourse, a sale of the property for a purchase price equal to its fair market value and as cancellation of debt income to the extent, if any, the outstanding debt balance exceeds the fair market value. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we will recognize taxable income on foreclosure, but we would not receive any cash proceeds. We may give full or partial guarantees to lenders of mortgage debt on behalf of our operating partnership, whereby we will be responsible to the lender for satisfaction of the debt if it is not paid by our operating partnership. If any mortgage contains cross-collateralization or cross-default provisions, a default on a single property could affect multiple properties. If any of our properties are foreclosed upon due to a default, our ability to pay cash dividends to our shareholders could be adversely affected.

### ***We could face difficulties in refinancing loans involving balloon payment obligations.***

Some of our mortgage loans require us to make a lump-sum or "balloon" payment at maturity. Our ability to make a balloon payment at maturity could be uncertain and may depend upon our ability to obtain additional financing, to refinance the debt or our ability to sell the particular property. If we try and refinance the debt, we may not be able to obtain terms as favorable as the original loan. Based on historical interest rates, current interest rates are low and, as a result, it is likely the interest rate that will be obtained upon refinancing in subsequent years may be higher than the original loan. If we are not able to refinance the debt, or obtain acceptable terms, we may be required to sell the mortgaged property at a time which may not permit realization of the maximum return on such property. The effect of a refinancing or sale could affect the rate of return to shareholders and the projected time of disposition of our assets.

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

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

***Increases in interest rates on variable rate debt incurred by us will reduce cash available for dividends.***

If we incur variable rate debt, increases in interest rates would increase our interest costs, which would reduce our cash flows and our ability to pay dividends to our shareholders. In addition, if we need to repay existing debt during periods of rising interest rates, we could be required to liquidate one or more of our investments in properties at times which may not permit realization of the maximum return on such investments.

***Failure to hedge effectively against interest rate changes may adversely affect our results of operations.***

We have entered into two hedging transactions and may enter into additional such transactions. Hedging transactions could take a variety of forms, including interest rate swaps or cap agreements, options, futures contracts, forward rate agreements, or similar financial instruments. Any income from a hedging transaction to manage risk of interest rate, price changes, or currency fluctuations with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred by us to acquire or own real estate assets, which is clearly identified as such before the close of the day on which it was acquired, originated, or entered into, including gain from the disposition of such a transaction, will be disregarded for purposes of the 75% and the 95% gross income tests. To the extent we enter into other types of hedging transactions, the income from those transactions likely will be treated as non-qualifying income for purposes of both the 75% and the 95% gross income tests. We intend to structure any hedging transactions in a manner that does not jeopardize our ability to qualify as a REIT.

***Complying with REIT requirements may limit our ability to hedge liabilities through tax-efficient means.***

The REIT provisions of the Code substantially limit our ability to hedge liabilities. Because we conduct substantially all of our operations through our operating partnership, any income from a hedging transaction entered into to manage risk of interest rate changes with respect to borrowings made or to be made to acquire or carry real estate assets will not constitute gross income to us for purposes of the 75% or 95% gross income test. To the extent our operating partnership enters into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income to us for purposes of the 75% and 95% gross income tests. As a result, we may be required to limit the operating partnership's use of advantageous hedging techniques or to implement hedges through certain taxable corporations. This could increase the costs of hedging activities because any taxable corporation would be subject to tax on gains or expose the operating partnership to greater risks associated with changes in interest rates than is otherwise desirable. In addition, losses of a taxable corporation will generally not be deductible by the operating partnership and will generally only be available to offset future taxable income of such corporation.

***We may structure acquisitions of property in exchange for limited partnership units in our operating partnership on terms that could limit our liquidity or our flexibility.***

We may acquire properties by issuing limited partnership units in our operating partnership to contributors of property. If we enter into such transactions, in order to induce the property owners to accept limited partnership units rather than cash, it may be necessary for us to provide them with additional incentives. For instance, our operating partnership's LLLP Agreement provides any holder of limited partnership units may, subject to certain conditions, request redemption of their units and we may acquire such units with our shares on a one-for-one exchange basis.

We may, however, enter into additional contractual arrangements with contributors of property under which we would agree to redeem a contributor's units for our shares or cash, at the option of the contributor, at set times. If the contributor required us to redeem units for cash pursuant to such a provision, it would limit our liquidity and thus our ability to use cash to make other investments, satisfy other obligations or pay dividends. Moreover, if we were required to redeem units for cash at a time when we did not have sufficient cash to fund the redemption, we might be required to sell one or more properties to raise funds to satisfy this obligation or seek short-term financing. Furthermore, in order to allow a contributor of a property to defer taxable gain on the contribution of property to our operating partnership, we might agree not to sell a contributed property for a defined period of time or until the contributor exchanged the contributor's units for cash or our shares. Such an agreement would prevent us from selling those properties, even if market conditions made such a sale favorable to us.

## **Risks Related to Investments in Real Estate Related Assets**

From time to time, our investment portfolio contains real estate related assets. The following risk factors apply to such assets.

***Investments in real estate related equity assets could involve higher risks than other investments, which could adversely affect our operations and ability to make dividend payments.***

We can invest in common and preferred stock of both publicly traded and private real estate companies, including REITs, which involve a higher degree of risk than debt securities due to a variety of factors, including subordination to creditors and lack of any security. Our investments in real estate related equity securities can involve special risks relating to the particular issuer of the equity securities, including the financial condition and business outlook of the issuer. Issuers of real estate related common equity securities generally invest in real estate or real estate related assets and are subject to the inherent risks associated with real estate discussed in this report, including risks relating to rising interest rates.

***The value of real estate related securities may be volatile and could cause the value of our shares to fluctuate, adversely affect our business operations and our ability to make dividend payments.***

The value of real estate related securities, including those of REITs, fluctuate in response to issuer, political, market and economic developments. In the short term, equity prices can fluctuate dramatically in response to these developments. Different parts of the market and different types of equity securities can react differently to these developments and they can affect a single issuer or multiple issuers within an industry or economic sector or geographic region or the market as a whole. The real estate industry is sensitive to economic downturns. The value of securities of companies engaged in real estate activities can be affected by changes in real estate values and rental income, property taxes, interest rates and tax and regulatory requirements. In addition, the value of a REIT's equity securities can depend on the structure and amount of cash flow generated by the REIT. Fluctuations in value of our securities may cause the value of our shares to vary regardless of the performance of our real estate assets, adversely affect our business operations and our ability to pay dividends to our shareholders.

***Investments in commercial mortgage-backed securities have similar risks to mortgage loans, and we could be adversely affected if the value of such investments decrease due to repayment changes or non-payment.***

Commercial mortgage-backed securities are bonds which evidence interests in, or are secured by, a single commercial mortgage loan or a pool of commercial mortgage loans. Accordingly, any mortgage-backed securities we invest in will be subject to all the risks of the underlying mortgage loans, including the risks of prepayment or non-payment.

The value of commercial mortgage-backed securities may be adversely affected when repayments on underlying mortgage loans do not occur as anticipated, resulting in the extension of the security's effective maturity and the related increase in interest rate sensitivity of a longer-term instrument. The value of commercial mortgage-backed securities also may change due to shifts in the market's perception of issuers and regulatory or tax changes adversely affecting the mortgage securities markets as a whole. In addition, commercial mortgage-backed securities are subject to the credit risk associated with the performance of the underlying mortgage properties.

Commercial mortgage-backed securities are also subject to several risks created through the securitization process. Certain subordinate commercial mortgage-backed securities are paid interest only to the extent there are funds available to make payments. To the extent the collateral pool includes a large percentage of delinquent loans, there is a risk interest payments on subordinate commercial mortgage-backed securities will not be fully paid. Subordinate securities of commercial mortgage-backed securities are also subject to greater risk than more highly rated commercial mortgage-backed securities.

***Investments in mortgage instruments could adversely affect our business operations if the values of the underlying properties decrease or there are repayment defaults.***

For any investments we make in mortgage loans, we will be at risk of loss on those investments, including losses as a result of defaults on mortgage loans. These losses may be caused by many conditions beyond our control, including general

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prevailing local, national and global economic conditions; economic conditions affecting real estate values; changes in specific industry segments; tenant defaults and lease expirations; financial condition of tenants; changes in use of property; shift of business processes and functions offshore; declines in regional or local real estate values, or rental or occupancy rates; increases in interest rates, real estate tax rates and other operating expenses; competition from comparable types of properties; and property management decisions.

If we acquire a property by foreclosure following defaults under any mortgage loan investments, we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral less costs to hold and dispose of a property and the principal and accrued interest of the mortgage loan, which could have a material adverse effect on our ability to achieve our investment objectives. We do not know whether the values of the property securing any of our real estate securities investments will remain at the levels existing on the dates we initially make the related investment. If the values of the underlying properties drop, our risk will increase and the values of our interests may decrease. Further, seeking available remedies could be a time-consuming and expensive process and would increase the costs associated with holding such mortgage and reduce our cash available for shareholders.

***If there are delays in liquidating defaulted mortgage loan investments, we could be required to incur additional expenses to pursue such remedies, which could adversely affect our operations.***

If there are defaults under any mortgage loan investments we hold, we may not be able to foreclose on or obtain a suitable remedy with respect to such investments. Specifically, we may not be able to repossess and sell the underlying properties quickly, which could reduce the value of our investment. For example, an action to foreclose on a property securing a mortgage loan is regulated by state statutes and rules and is subject to many of the delays and expenses of lawsuits if the defendant raises defenses or counterclaims. Additionally, in the event of default by a mortgagor, these restrictions, among other things, may impede our ability to foreclose on or sell the mortgaged property or to obtain proceeds sufficient to repay all amounts due to us on the mortgage loan. Therefore, we may experience a delay and additional costs in liquidating the investment and return of the funds to invest in new investments.

***Investments in mezzanine loans may involve higher risks, and we may not be able to obtain full recourse if the investment becomes unsecured or the assets of the entity providing the pledge become insufficient to satisfy the loan.***

We may invest in mezzanine loans taking the form of subordinated loans secured by second mortgages on the underlying real property or loans secured by a pledge of the ownership interests of either the entity owning the real property or the entity that owns the interest in the entity owning the real property. These types of investments involve a higher degree of risk than long-term senior first-lien mortgage loans secured by income producing real property because the investment may become unsecured as a result of foreclosure by the senior lender. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, we may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to satisfy our mezzanine loan. If a borrower defaults on our mezzanine loan or debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan will be satisfied only after the senior debt. As a result, we may not recover some or all of our investment. In addition, mezzanine loans may have higher loan-to-value ratios than conventional mortgage loans, resulting in less equity in the real property and increasing the risk of loss of principal.

***Investments subject to interest rate risks may decline in value due to changes in the market interest rates, which could adversely affect the value of our assets.***

Interest rate risk is the risk fixed income securities such as preferred and debt securities, and to a lesser extent dividend paying common stocks, will decline in value due to changes in market interest rates. When market interest rates rise, the fair value of such securities tend to decline, and vice versa.

During periods of rising interest rates, the average life of certain types of securities may be extended because of slower than expected principal payments. This may lock in a below-market interest rate, increase the security's duration and reduce the value of the security. During periods of declining interest rates, an issuer may be able to exercise an option to prepay principal earlier than scheduled. If this occurs, we may be forced to reinvest in lower yielding securities. Preferred and debt securities frequently have call features allowing the issuer to repurchase the security prior to its stated maturity.

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An issuer may redeem an obligation if the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the credit standing of the issuer. These risks may reduce the value of any real estate related securities investments.

***Investments in illiquid investments could adversely affect the value of our assets if we are unable to resell the investments when desired to protect ourselves from changes in market or economic conditions.***

We may purchase real estate related securities in connection with privately negotiated transactions not registered under the relevant securities laws, resulting in a prohibition against their transfer, sale, pledge or other disposition except in a transaction exempt from the registration requirements of, or is otherwise in accordance with, those laws. As a result, our ability to vary our portfolio in response to changes in economic and other conditions may be relatively limited. Any mezzanine and bridge loans we may purchase will be particularly illiquid investments due to their short life, their unsuitability for securitization and the greater risk of our inability to recover loaned amounts in the event of a borrower's default.

***Liquidation prior to the maturity of any real estate securities investments could require us to sell on unfavorable terms and for a lower price than anticipated if held to maturity.***

Our Board of Trustees may choose to liquidate assets, including any real estate related securities investments. If we liquidate those types of investments prior to their maturity, we may be forced to sell those investments on unfavorable terms or at a loss during a time when prevailing interest rates are higher than the interest rates of such mortgage loans, whereby we would sell such investments at a discount to their stated principal values.

### **Risks Related to Conflicts of Interest**

We will be subject to conflicts of interest arising out of our relationships with our affiliates, our A dvisor and its affiliates, including the material conflicts discussed below. The "Conflicts of Interest" section of this periodic report provides a more detailed discussion of the conflicts of interest between us and our affiliates, our A dvisor and its affiliates.

***Leadership will face conflicts of interest relating to purchasing real estate investment opportunities, and such conflicts may not be resolved in our favor, which could adversely affect our investment opportunities.***

One or more of our trustees and officers and the officers and key personnel of our A dvisor (such persons referred to herein, individually and collectively, as our "Leadership") currently, and may in the future, also serve as trustees, directors, governors, members, officers or key personnel of or may sponsor other: (a) affiliated entities, including our A dvisor; (b) real estate programs, real estate entities, or REITs; (c) advisors to other real estate programs, real estate entities or REITs; or (d) property managers to real estate programs, real estate entities or REITs (herein collectively "Other Real Estate Related Activities"). There is a risk that members of Leadership will choose to pursue an investment opportunity outside of Sterling or choose for Sterling an investment that provides lower returns to us than a property purchased by one of Leadership's Other Real Estate Related Activities. Sterling cannot be sure that Leadership will act in our best interests when deciding whether to allocate any particular investment to Sterling. In addition, Sterling may acquire investments in geographic areas where Leadership's Other Real Estate Related Activities own investments. In such a case, a conflict could arise in the acquisition of investments if Sterling and one of Leadership's Other Real Estate Related Activities were to compete for the same investments in negotiating leases, or a conflict could arise in connection with the resale of properties if Sterling and one of Leadership's Other Real Estate Related Activities were to attempt to sell similar investments at the same time. Also, Sterling may acquire investments from, or sell investments to, Leadership's Other Real Estate Related Activities. If one of Leadership's Other Real Estate Related Activities acquires an investment for which Sterling is competing, attracts a borrower for which Sterling is competing, attempts to sell similar investments as Sterling around the same time, or other circumstances occur where a conflict of interest is not resolved in our favor, Sterling could suffer a loss of revenue due to delays in locating another suitable investment.

***Leadership will face conflicts of interest relating to joint ventures, which could result in a disproportionate benefit to the other venture partners at Sterling's expense and adversely affect the return on your investment.***

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Sterling may enter into joint ventures with Leadership's Other Real Estate Related Activities (as well as other parties) for the acquisition of real estate and other real estate investments. Leadership may have conflicts of interest in determining whether one of its Other Real Estate Related Activities should enter into any particular joint venture agreement with Sterling. The co-venturer may have economic or business interests or goals that are or may become inconsistent with Sterling's business interests or goals. In addition, should any such joint venture be consummated, Leadership may face a conflict in structuring the terms of the relationship between Sterling's interests and the interest of the co-venturer and in managing the joint venture. Since Leadership will control both Sterling and any Leadership-affiliated co-venturer, agreements and transactions between the co-venturers with respect to any such joint venture will not have the benefit of arm's-length negotiation of the type normally conducted between unrelated co-venturers, which could result in the co-venturer receiving benefits greater than the benefits that Sterling receives. In addition, Sterling may assume liabilities related to the joint venture that exceed the percentage of Sterling's investment in the joint venture.

***Leadership may face competing demands relating to its time and real estate investment opportunities, and this may cause our operating results to suffer.***

One or more of our Leadership are or may become engaged in Other Real Estate Related Activities, some of which may have investment objectives and legal and financial obligations similar to Sterling's. Each member of Leadership affiliated with our A dvisor is currently expected to spend a significant portion of his or her time on our behalf, but may not always spend a majority of his or her time on our behalf. In addition, members of our Leadership may engage for their own account in business activities of the types conducted or to be conducted by Sterling or its affiliates, including Other Real Estate Related Activities. Because Leadership may have competing demands on their time and resources, they may have conflicts of interest in allocating time between Sterling's business and these other activities. If this occurs, the returns to our investors may suffer. Although Leadership's resources are not dedicated exclusively to Sterling, members of our Leadership are required to devote sufficient resources to Sterling's administration to discharge their obligations.

***One or more of our Leadership also serve as officers, governors, key professionals or holders of a direct or indirect controlling interest in our A dvisor and Other Real Estate Related Activities.***

One or more of our Leadership are also officers, governors, key professionals or holders of a direct or indirect controlling interest in our A dvisor or Other Real Estate Related Activities. Certain of our Leadership have legal and financial obligations with respect to such other Real Estate Related Activities that are similar to their obligations to Sterling. In the future, some of our Leadership may organize other real estate programs, serve as the advisor to other investors and acquire for their own account real estate properties that may be suitable for Sterling. As a result of their interests in other programs, their obligations to other investors and the fact that they engage in, and they will continue to engage in, other business activities on behalf of themselves and others, our Leadership face conflicts of interest in allocating their time among us and their Other Real Estate Related Activities. In addition, many members of our Leadership have existing obligations to Other Real Estate Related Activities sponsored by Mr. Regan and/or Mr. Weiland.

***Leadership are not obligated to devote a fixed amount of their time to Sterling, but believe that they have sufficient time to fully discharge their responsibilities to Sterling and to the other business in which they are involved.***

Members of Leadership may spend a portion of their time on activities unrelated to Sterling, which may significantly reduce the amount of time spent by one or more of our Leadership on Sterling-related activities. Leadership are not obligated to devote a fixed amount of their time to Sterling, but believe that they have sufficient time to fully discharge their responsibilities to Sterling and to the Other Real Estate Related Activities in which they are involved. Sterling believes that its Leadership will devote the time required to manage Sterling's business and expects that the amount of time Leadership devotes to Sterling will vary during the course of the year and depend on Sterling's business activities at a given time. For example, Leadership may spend significantly more time focused on Sterling's activities when it is reviewing potential property acquisitions or negotiating a financing arrangement than during times when it is not.

***Our Leadership face conflicts of interest related to the positions they hold with other real estate entities, which could hinder our ability to successfully implement our business strategy and to generate returns to our shareholders.***



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One or more of our Leadership, including Mr. Regan and Mr. Weiland, may also engage in Other Real Estate Related Activities, and members of Leadership will have fiduciary duties relating to such Other Real Estate Related Activities. These fiduciary duties may conflict with Leadership's duties to Sterling and its shareholders. Leadership's Other Real Estate Related Activities could result in actions or inactions detrimental to Sterling, which could harm the implementation of Sterling's business strategies, and Sterling's investment, sale and leasing opportunities. Conflicts with Sterling's business and interests are most likely to arise from involvement in activities related to: (i) allocation of new investments and management time and services between Sterling and Leadership's Other Real Estate Related Activities, (ii) allocation of time and services between Sterling and Leadership's Other Real Estate Related Activities; (iii) Sterling's purchase of properties from, or sale of properties to, affiliated entities, (iv) the timing and terms of the investment in or sale of an asset, (v) development of our properties by affiliates, (vii) investments with affiliates of our A dvisor and (viii) compensation to our A dvisor. If Sterling does not successfully implement its business strategy, we may be unable to generate cash needed to pay dividends to shareholders and to maintain or increase the value of our assets.

***Leadership's management of Other Real Estate Related Activities may significantly reduce the amount of time our Leadership is able to spend on Sterling related activities and may cause other conflicts of interest, which may cause our operating results to suffer.***

Given that our Leadership is or may become involved in Other Real Estate Related Activities, there may be times where Sterling's fundraising, acquisition, disposition and liquidation activities overlap with similar activities of Leadership's Other Real Estate Related Activities. This overlap may cause conflicts of interest to arise with respect to, among other things, finding investors, locating and acquiring properties, entering into leases and disposing of properties. The conflicts of interest our Leadership and each of our executive officers and each officer of our advisor may face could delay our fund raising and investment of our proceeds due to the competing time demands and generally cause our operating results to suffer.

***We may compete for investors with Leadership's Other Real Estate Related Activities, which could adversely affect the amount of capital we have to invest.***

To the extent Leadership engages in future Other Real Estate Related Activities, Sterling will compete for investors with such activities. Any overlap of capital raising efforts of Other Real Estate Related Activities with Sterling's capital raising efforts or other activities could adversely affect our ability to raise capital in the future, the timing and availability of additional capital and the amount of proceeds we have to spend on real estate investments.

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

### **ITEM 2. PROPERTIES**

#### **General**

As of December 31, 2015, we owned 146 properties, containing approximately 8,520 apartments and 1,688,802 square feet of leasable commercial space. Many of our properties are located in the state of North Dakota.

It is our policy to acquire assets with an intention to hold these assets as long-term investments seeking income and capital appreciation through an increase in value of our real estate portfolio, as well as increased revenue as a result of higher rent. These types of investments are the core of our strategy of creating shareholder value. We currently own and maintain a portfolio of real estate diversified by geographical location and by type and size. Effective January 1, 2016, our focus will be limited to multi family apartment properties. There is no current plan for the existing commercial properties (industrial, medical, office and retail) in regards to retention or disposition. Our Advisor monitors industry trends and invests in property believed to provide the most favorable return balanced with risk. We attempt to manage our real estate portfolio by evaluating changes or trends in the industries in which our tenants operate, the creditworthiness of our tenants and changes or trends in the area demographics surrounding our properties for evidence that our properties will continue to meet our investment objectives of cash flow, preservation of capital and capital appreciation.

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With the exception of single tenant buildings, the majority of our investment properties are managed by a third party. Property management firms usually receive between 3% and 5% of gross rent collection for their services. Substantially all of our commercial revenues consist of base rents received under leases having terms ranging from month-to-month to over 25 years. Approximately half of our existing commercial property leases as of December 31, 2015 contain “step up” rental clauses providing for annual increases in the base rental payments of approximately 1.0% to 3.0% each year during the term of the lease.

**Properties**

As of December 31, 2015, we owned 146 properties in twelve states, primarily located in North Dakota with others located Arkansas, Colorado, Iowa, Louisiana, Michigan, Minnesota, Mississippi, Missouri, Nebraska, Texas and Wisconsin. This portfolio of properties includes a diversified mixture of multifamily, single and multi-tenant retail and office buildings. The majority of the properties are located in the largest cities in the states of North Dakota and Minnesota. We report our results in two reportable segments: residential and commercial properties. Please see Notes 2 and 3 to the consolidated financials included in this report for more information.

As of December 31, 2015, approximately 68.0% (based on cost) of the properties were apartment communities located primarily in North Dakota with others located in Minnesota, Missouri and Nebraska. Most multifamily dwelling properties are leased to a variety of tenants under short-term leases.

As of December 31, 2015, approximately 32.0% (based on cost) of the properties were comprised of industrial, office, retail and medical commercial properties located primarily in North Dakota with others located in Arkansas, Colorado, Iowa, Louisiana, Michigan, Minnesota, Mississippi, Texas and Wisconsin. Most commercial properties are leased to a variety of tenants under long-term leases.

The following table sets forth information regarding each of our properties owned, including unconsolidated affiliates, as of December 31, 2015 (in thousands, except units or leasable sq. ft.).

| <b>Property</b>                     | <b>Location</b>  | <b># of<br/>Units or<br/>Leasable<br/>Sq. Ft</b> | <b>Physical<br/>Occupancy<br/>at December<br/>31, 2015</b> |
|-------------------------------------|------------------|--|--|
| 32nd Avenue Office                  | Fargo, ND        | 31,750   | 100.00%  |
| Aetna Building                      | Bismarck, ND     | 75,000   | 100.00%  |
| Applebee’s Neighborhood Bar & Grill | Apple Valley, MN | 4,997  | 100.00%  |
| Applebee’s Neighborhood Bar & Grill | Bloomington, MN  | 5,043  | 100.00%  |
| Applebee’s Neighborhood Bar & Grill | Coon Rapids, MN  | 5,576  | 100.00%  |
| Applebee’s Neighborhood Bar & Grill | Savage, MN       | 4,936  | 100.00%  |
| Arbor Apartments                    | Bismarck, ND     | 12   | 87.68%   |
| Arbor II Apartments                 | Bismarck, ND     | 12   | 100.00%  |
| Arbor III Apartments                | Bismarck, ND     | 12   | 100.00%  |
| Ashbury *                           | Fargo, ND        | 61   | 100.00%  |
| Auburn II                           | Fargo, ND        | 24   | 90.96%   |
| Autumn Ridge                        | Grand Forks, ND  | 144  | 96.39%   |
| Barrett Arms                        | Crookston, MN    | 24   | 99.68%   |
| Bayview                             | Fargo, ND        | 100  | 98.93%   |
| Becker Furniture Building           | Waite Park, MN   | 30,200   | 100.00%  |
| Berkshire                           | Fargo, ND        | 12   | 100.00%  |
| Betty Ann                           | Fargo, ND        | 24   | 94.30%   |
| Biolife Plasma Center               | Bismarck, ND     | 11,671   | 100.00%  |
| Biolife Plasma Center               | Eau Claire, WI   | 11,900   | 100.00%  |



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| <b>Property</b>                  | <b>Location</b>    | <b># of<br/>Units or<br/>Leasable<br/>Sq. Ft</b> | <b>Physical<br/>Occupancy<br/>at December<br/>31, 2015</b> |
|----------------------------------|--------------------|--|--|
| Biolife Plasma Center            | Janesville, WI     | 12,225   | 100.00%  |
| Biolife Plasma Center            | Mankato, MN        | 13,181   | 100.00%  |
| Biolife Plasma Center            | Marquette, MI      | 11,737   | 100.00%  |
| Biolife Plasma Center            | Onalaska, WI       | 12,180   | 100.00%  |
| Biolife Plasma Center            | Oshkosh, WI        | 12,191   | 100.00%  |
| Biolife Plasma Center            | Sheboygan, WI      | 13,230   | 100.00%  |
| Biolife Plasma Center            | Stevens Point, WI  | 13,190   | 100.00%  |
| Brighton Village                 | New Brighton, MN   | 240  | 98.37%   |
| Brookfield                       | Fargo, ND          | 72   | 91.78%   |
| Buffalo Wild Wings               | Austin, TX         | 7,296  | 100.00%  |
| Cambridge (FKA 44th Street)      | Fargo, ND          | 42   | 100.00%  |
| Candlelight                      | Fargo, ND          | 66   | 97.25%   |
| Carling Manor                    | Grand Forks, ND    | 12   | 100.00%  |
| Carlton Place                    | Fargo, ND          | 213  | 98.79%   |
| Chandler 1802                    | Grand Forks, ND    | 24   | 100.00%  |
| Chandler 1866                    | Grand Forks, ND    | 12   | 100.00%  |
| Cherry Creek (FKA Village)       | Grand Forks, ND    | 35   | 87.27%   |
| Columbia West                    | Grand Forks, ND    | 70   | 94.51%   |
| Country Club                     | Fargo, ND          | 40   | 92.38%   |
| Countryside                      | Fargo, ND          | 24   | 95.57%   |
| Courtyard Apartments             | St. Louis Park, MN | 151  | 98.26%   |
| Dairy Queen                      | Dickinson, ND      | 2,811  | 100.00%  |
| Dairy Queen                      | Moorhead, MN       | 2,712  | 100.00%  |
| Dakota Manor                     | Fargo, ND          | 54   | 99.81%   |
| Danbury                          | Fargo, ND          | 135  | 90.43%   |
| Dellwood Estates                 | Anoka, MN          | 132  | 99.94%   |
| Eagle Run                        | West Fargo, ND     | 144  | 96.76%   |
| Echo Manor                       | Hutchinson, MN     | 30   | 99.42%   |
| Eide Bailly Building***          | Fargo, ND          | 74,646   | 100.00%  |
| Emerald Court                    | Fargo, ND          | 24   | 95.73%   |
| Fairview                         | Bismarck, ND       | 84   | 92.93%   |
| Family Dollar Store              | Mandan, ND         | 9,100  | 100.00%  |
| First International Bank & Trust | Moorhead, MN       | 3,510  | 100.00%  |
| Flickertail                      | Fargo, ND          | 180  | 96.83%   |
| Forest Avenue                    | Fargo, ND          | 20   | 100.00%  |
| Four Points Office Building      | Fargo, ND          | 11,973   | 100.00%  |
| Galleria III                     | Fargo, ND          | 18   | 100.00%  |
| Gate City Bank                   | Grand Forks, ND    | 17,406   | 100.00%  |
| Georgetown Courts                | Fridley, MN        | 462  | 94.45%   |

|                                   |                 |         |          |
|-----------------------------------|-----------------|---------|----------|
| Glen Pond                         | Eagan, MN       | 414     | 98.07 %  |
| Goldmark Office Park              | Fargo, ND       | 124,425 | 100.00 % |
| Grand Forks Marketplace****       | Grand Forks, ND | 182,522 | 100.00 % |
| Granger Court                     | Fargo, ND       | 59      | 99.07 %  |
| Great American Insurance Building | Fargo, ND       | 15,000  | 100.00 % |
| Griffin Court                     | Moorhead, MN    | 128     | 94.57 %  |
| Guardian Building Products        | Fargo, ND       | 100,600 | 100.00 % |

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| <b>Property</b>                        | <b>Location</b>   | <b># of<br/>Units or<br/>Leasable<br/>Sq. Ft</b> | <b>Physical<br/>Occupancy<br/>at December<br/>31, 2015</b> |
|--|-------------------|--|--|
| Hannifin Apartments                    | Bismarck, ND      | 14   | 100.00 %   |
| Highland Meadows*****                  | Bismarck, ND      | 144  | 96.63 %  |
| Hunter's Run I                         | Fargo, ND         | 12   | 83.15 %  |
| Hunter's Run II                        | Fargo, ND         | 12   | 94.44 %  |
| Huntington                             | Fargo, ND         | 10   | 95.95 %  |
| Islander Apartments                    | Fargo, ND         | 24   | 100.00 %   |
| Kennedy                                | Fargo, ND         | 12   | 100.00 %   |
| Library Lane                           | Grand Forks, ND   | 60   | 95.00 %  |
| Madison (FKA Columbine)                | Grand Forks, ND   | 12   | 85.26 %  |
| Maple Ridge                            | Omaha, NE         | 168  | 96.63 %  |
| Maplewood Apartments                   | Maplewood, MN     | 240  | 97.36 %  |
| Maplewood Bend                         | Fargo, ND         | 182  | 97.82 %  |
| Martha Alice                           | Fargo, ND         | 24   | 98.51 %  |
| Mayfair                                | Grand Forks, ND   | 24   | 92.02 %  |
| Midtown Plaza                          | Minot, ND         | 17,784   | 80.83 %  |
| Monticello Apartments                  | Fargo, ND         | 18   | 100.00 %   |
| Montreal Courts Apartments & Townhomes | Little Canada, MN | 444  | 95.90 %  |
| Northland Plaza**                      | Bloomington, MN   | 296,967  | 91.09 %  |
| O'Reilly Auto Store                    | Mandan, ND        | 6,300  | 100.00 %   |
| Oak Court                              | Fargo, ND         | 81   | 97.36 %  |
| Pacific Park I                         | Fargo, ND         | 30   | 96.12 %  |
| Pacific Park II                        | Fargo, ND         | 39   | 100.00 %   |
| Pacific Park South                     | Fargo, ND         | 15   | 93.45 %  |
| Parkview Arms                          | Bismarck, ND      | 62   | 92.19 %  |
| Parkway Office (FKA Echelon Building)  | Fargo, ND         | 17,000   | 100.00 %   |
| Parkwest Gardens                       | West Fargo, ND    | 142  | 95.88 %  |
| Parkwood                               | Fargo, ND         | 40   | 98.67 %  |
| Pebble Creek                           | Bismarck, ND      | 70   | 93.80 %  |
| Prairiewood Court I & II               | Fargo, ND         | 60   | 99.42 %  |
| Prairiewood Meadows                    | Fargo, ND         | 85   | 97.61 %  |
| Quail Creek                            | Springfield, MO   | 164  | 89.40 %  |
| Regis Building                         | Edina, MN         | 102,448  | 100.00 %   |
| Richfield Harrison                     | Grand Forks, ND   | 140  | 95.91 %  |
| Robinwood                              | Coon Rapids, MN   | 120  | 94.01 %  |
| Rosedale Estates                       | Roseville, MN     | 360  | 97.45 %  |
| Rosegate                               | Fargo, ND         | 90   | 97.71 %  |
| Saddlebrook                            | West Fargo, ND    | 60   | 95.92 %  |
| Schrock Apartments                     | Fargo, ND         | 18   | 100.00 %   |
| Sheridan Pointe Apartments             | Fargo, ND         | 48   | 97.33 %  |

|                          |                 |        |        |   |
|--------------------------|-----------------|--------|--------|---|
| Sierra Ridge             | Bismarck, ND    | 136    | 95.15  | % |
| Social Security Building | St. Cloud, MN   | 10,810 | 100.00 | % |
| Somerset                 | Fargo, ND       | 75     | 98.15  | % |
| Southgate                | Fargo, ND       | 162    | 96.03  | % |
| Southview III            | Grand Forks, ND | 18     | 89.68  | % |
| Southview Village        | Fargo, ND       | 72     | 96.95  | % |
| Spring                   | Fargo, ND       | 25     | 87.73  | % |

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| <u>Property</u>       | <u>Location</u>   | <u># of<br/>Units or<br/>Leasable<br/>Sq. Ft</u> | <u>Physical<br/>Occupancy<br/>at December<br/>31, 2015</u> |
|-----------------------|-------------------|--|--|
| Stanford Court        | Grand Forks, ND   | 96   | 92.36 %  |
| Stonefield            | Bismarck, ND      | 78   | 98.84 %  |
| Stony Brook           | Omaha, NE         | 148  | 96.03 %  |
| Summerfield           | Fargo, ND         | 18   | 99.76 %  |
| Summit Point          | Fargo, ND         | 87   | 98.84 %  |
| Sunset Ridge          | Bismarck, ND      | 180  | 96.30 %  |
| Sunview               | Grand Forks, ND   | 36   | 82.73 %  |
| Sunwood Estates       | Fargo, ND         | 81   | 99.95 %  |
| Terrace on the Green  | Moorhead, MN      | 116  | 96.41 %  |
| Titan Machinery       | Bismarck, ND      | 22,293   | 100.00 %   |
| Titan Machinery       | Dickinson, ND     | 17,760   | 100.00 %   |
| Titan Machinery       | Fargo, ND         | 29,800   | 100.00 %   |
| Titan Machinery       | Marshall, MN      | 42,000   | 100.00 %   |
| Titan Machinery       | Minot, ND         | 23,690   | 100.00 %   |
| Titan Machinery       | Redwood Falls, MN | 38,932   | 100.00 %   |
| Titan Machinery       | Sioux City, IA    | 32,532   | 100.00 %   |
| Titan Machinery       | Bismarck, ND      | 22,293   | 100.00 %   |
| Twin Oaks             | Hutchinson, MN    | 80   | 98.40 %  |
| Twin Parks            | Fargo, ND         | 66   | 99.64 %  |
| Valley Homes Duplexes | Grand Forks, ND   | 24   | 92.05 %  |
| Valley View           | Golden Valley, MN | 72   | 99.74 %  |
| Village Park          | Fargo, ND         | 60   | 100.00 %   |
| Village West          | Fargo, ND         | 80   | 99.14 %  |
| Walgreens             | Alexandria, LA    | 14,560   | 100.00 %   |
| Walgreens             | Batesville, AR    | 14,820   | 100.00 %   |
| Walgreens             | Denver, CO        | 13,390   | 100.00 %   |
| Walgreens             | Fayetteville, AR  | 14,550   | 100.00 %   |
| Walgreens             | Laurel, MS        | 14,820   | 100.00 %   |
| Wells Fargo Building  | Duluth, MN        | 95,961   | 83.67 %  |
| West Pointe Center    | Fargo, ND         | 28,187   | 100.00 %   |
| Westcourt Apartments  | Fargo, ND         | 64   | 96.88 %  |
| Westside              | Hawley, MN        | 14   | 100.00 %   |
| Westwind              | Fargo, ND         | 18   | 100.00 %   |
| Westwood Estates      | Fargo, ND         | 200  | 97.41 %  |
| Willow Park           | Fargo, ND         | 102  | 98.87 %  |

\* 82.50% ownership interest

\*\* 70.00% ownership interest

\*\*\* 66.67% ownership interest

\*\*\*\* 50.00% ownership interest

\*\*\*\* 40.26% ownership interest

The following information applies to all of our operating properties:

- We believe all of our properties are adequately covered by insurance and suitable for their intended purposes

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- We have no plans for any material renovations, improvements or development of our properties, except in accordance with planned budgets and our Bismarck, North Dakota apartment project;
- Our properties are located in markets where we are subject to competition in attracting new tenants and retaining current tenants; and
- Depreciation is provided on a straight-line basis over the estimated useful lives of the buildings.

**Geography**

Of our 146 properties, 99 are located in North Dakota, with 66 being located in the greater Fargo, North Dakota metropolitan statistical area. These 99 North Dakota properties generated approximately 49% of our rental revenue for the year ended December 31, 2015.

The following table presents the total real estate investment amount by state and annual rental revenue by state, as of and for the year ended December 31, 2015 (in thousands):

| State        | Real Estate       |                | Rental           |                |
|--------------|-------------------|----------------|------------------|----------------|
|              | Investment        | %              | Revenue          | %              |
| North Dakota | \$ 311,727        | 46.6 %         | \$ 46,140        | 49.4 %         |
| Minnesota    | 279,450           | 41.7 %         | 38,546           | 41.3 %         |
| Other        | 78,307            | 11.7 %         | 8,644            | 9.3 %          |
|              | <u>\$ 669,484</u> | <u>100.0 %</u> | <u>\$ 93,330</u> | <u>100.0 %</u> |

**Economy**

The North Dakota workforce is concentrated in agricultural, energy, information technology, aerospace sciences and medical sciences. According to the U.S. Census Bureau, 2014 American Community Survey, the estimated combined population of the Fargo, West Fargo and Moorhead metro area is 218,290 people.

The following chart depicts the difference in unemployment rates between North Dakota and the national average for 2015:

|                             | Jan   | Feb   | Mar   | Apr   | May   | Jun   | Jul   | Aug   | Sep   | Oct   | Nov   | Dec   |
|-----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| National <sup>(1)</sup>     | 5.7 % | 5.5 % | 5.5 % | 5.4 % | 5.5 % | 5.3 % | 5.3 % | 5.1 % | 5.1 % | 5.0 % | 5.0 % | 5.0 % |
| North Dakota <sup>(1)</sup> | 2.8 % | 2.9 % | 3.1 % | 3.1 % | 3.1 % | 3.1 % | 3.0 % | 2.9 % | 2.8 % | 2.8 % | 2.7 % | 2.7 % |

(1) Seasonally adjusted

Source: Bureau of Labor Statistics

**Tenants**

Our tenants are varied and consist of individuals, national, regional, and local businesses. Our commercial/retail properties generally attract a mix of tenants who provide basic staples, convenience items and services tailored to the specific cultures, needs and preferences of the surrounding community. In 2015 and 2014, no single tenant represented more than 10% of our revenues. We have investments in several types of real estate, including multifamily, retail, office, industrial, restaurant, and medical. Within our office, retail and industrial properties, we have over 120 tenants who operate in numerous industries, including restaurants, pharmacy, financing, banking, insurance, professional services, technology and wholesale and direct retail.

**Lease Expirations**

The vast majority of residential leases are for one year periods. The following table lists a summary, as of December 31, 2015, of lease expirations on non-residential properties schedule to occur during each of the ten calendar years from 2016 to 2025 and thereafter, assuming that tenants exercise no renewal options or early termination rights. Base rents do not include CAM (common area maintenance).

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The table is based on leases at December 31, 2015 for our non-residential properties (in thousands, except leasable area data).

| <b>Lease Expiration Year</b> | <b># of Leases Expiring</b> | <b>Gross Leasable Area</b> | <b>% of Gross Leasable Area</b> | <b>Expiring Base Rent</b> | <b>% of Total Base Rent</b> |
|------------------------------|-----------------------------|----------------------------|---------------------------------|---------------------------|-----------------------------|
| Month-to-Month               | 4                           | 40,142                     | 2.45 %                          | \$ 508                    | 2.61 %                      |
| 2016                         | 24                          | 139,163                    | 8.49 %                          | 796                       | 4.09 %                      |
| 2017                         | 21                          | 182,788                    | 11.15 %                         | 1,006                     | 5.16 %                      |
| 2018                         | 15                          | 76,630                     | 4.68 %                          | 483                       | 2.48 %                      |
| 2019                         | 19                          | 70,358                     | 4.29 %                          | 508                       | 2.61 %                      |
| 2020                         | 21                          | 221,702                    | 13.53 %                         | 1,214                     | 6.23 %                      |
| 2021                         | 19                          | 370,150                    | 22.59 %                         | 2,464                     | 12.65 %                     |
| 2022                         | 4                           | 131,516                    | 8.02 %                          | 781                       | 4.01 %                      |
| 2023                         | 4                           | 19,231                     | 1.17 %                          | 81                        | 0.42 %                      |
| 2024                         | 1                           | 1,579                      | 0.10 %                          | 4                         | 0.02 %                      |
| 2025                         | 4                           | 33,574                     | 2.05 %                          | 661                       | 3.39 %                      |
| Thereafter                   | 24                          | 351,997                    | 21.47 %                         | 10,975                    | 56.33 %                     |
| <b>Leased Total</b>          | <b>160</b>                  | <b>1,638,830</b>           | <b>100.00 %</b>                 | <b>\$ 19,481</b>          | <b>100.00 %</b>             |

**Mortgage Notes Secured by the Properties**

At December 31, 2015, we had \$ 383,292 in mortgage notes payable with respect to our properties. Principal payments on these notes are payable as follows (in thousands):

| <b>Years ending December 31,</b> | <b>Amount</b>     |
|----------------------------------|-------------------|
| 2016                             | \$ 17,400         |
| 2017                             | 35,784            |
| 2018                             | 16,328            |
| 2019                             | 23,618            |
| 2020                             | 26,232            |
| Thereafter                       | 263,930           |
|                                  | <b>\$ 383,292</b> |

**Acquisitions and Dispositions**

We acquired a controlling interest in nine properties, two parcels of land and disposed of one parcel of undeveloped land during the year ended December 31, 2015. Capitalization rates are a key decision making item used by the Board. Capitalization rates for acquisitions are calculated using projected net operating income divided by the investment. Net operating income is calculated by taking GAAP net income and adding back depreciation, amortization and interest expense. Capitalization rate for dispositions are calculated in the same way with the exception of using historical, rather than projected, net operating income.

We use historical occupancy, rental income, and expenses to calculate projected net operating income for potential investment properties. For residential properties, we make various assumptions about future rents, occupancy levels, and expenses based on historical financial information and our assessment of the property's future potential. The projected NOI for residential acquisitions is typically based 100% on historical occupancy and expenses over a three to five year period. When historical information is unavailable, market vacancy and credit loss factors are estimated. We normally do not assign a value to residential tenant leases already in place due to the short-term duration of twelve months or less of these leases and the uncertainty of retaining all tenants due to a change in ownership and in some cases property management companies.

For commercial properties, assumptions regarding rental income and expenses are based on the terms of the in-place leases and available historical financial information which is then used to generate projected net operating income. We require all commercial properties to have long-term leases in place before consideration is given for possible acquisition. The

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projected NOI calculation is based 100% on leases that are or will be in place prior to acquiring the property. While there may be estimates and assumptions regarding expenses based on historical information when available, there are no other assumptions for leasing income beyond the lease agreements in place prior to acquiring the property.

Numerous estimates and assumptions are necessary to generate projected net operating income for potential commercial and residential acquisitions, and there is no guarantee actual net operating income will equal projected net operating income.

In making acquisitions, the Board currently targets capitalization rates between 7.0 to 10.0%, depending on the amount of risk involved. For those properties with greater risk, the Board targets greater capitalization rates (9.0% or greater). For those properties exhibiting less risk, a lower capitalization rate is acceptable. For potential acquisitions, the Board also requires an adequate spread exists between the financing on the property and the capitalization rate.

**Insurance**

We believe we have adequate property damage, fire loss and liability insurance on all of our properties with reputable, commercially rated companies. We also believe our insurance policies contain commercially reasonable deductibles and limits, adequate to cover our properties. We expect to maintain this type of insurance coverage and to obtain similar coverage with respect to any additional properties we acquire in the near future. Further, we have title insurance relating to our properties in an aggregate amount we believe to be adequate.

**Regulations**

Our properties, as well as any other properties we may acquire in the future, are subject to various federal, state and local laws, ordinances and regulations. They include, among other things, zoning regulations, land use controls, environmental controls relating to air and water quality, noise pollution and indirect environmental impacts such as increased motor vehicle activity. We believe we have all permits and approvals necessary under current law to operate our properties.

**ITEM 3. LEGAL PROCEEDINGS**

In the ordinary course of our operations, we may become involved in litigation. Such matters may be generally covered by insurance. At this time, we are not aware of any material pending or threatened legal proceedings, or other proceedings contemplated by governmental authorities.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

**Market Information**

Our common shares of beneficial interest are not listed on any national exchange or over-the-counter market or quoted on any national securities market, and we currently do not have plans to list or have our common shares quoted.

**Shareholders and Unit Holders**

As of March 9, 2016, we had 7,690,478 common shares of beneficial interests outstanding, held by a total of 932 common shareholders and no outstanding options or warrants to purchase our common shares.

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In addition, as of March 9, 2016, there were approximately 15,749,260 limited partnership units of our operating partnership outstanding held by approximately 507 limited partners. Pursuant to the exchange rights under the LLLP Agreement of the operating partnership, we have the option, upon redemption requests by the holders of the limited partnership units, to acquire the limited partnership units by paying the holders with our common shares of beneficial interest on a one-for-one exchange basis. The numbers of common shareholders and limited partners is based on the Company's records.

### Quarterly Dividend Data

We have declared and intend to continue to declare regular quarterly dividends to our common shareholders. Because all of our operations are conducted through our operating partnership, our ability to pay dividends depends on the operating partnership's ability to make distributions to us and its other limited partners. We pay declared dividends quarterly, whereby the dividend attributable to a calendar quarter would be paid during the first month of the next quarter. Dividends will be paid to common shareholders as of the record dates selected by the Board of Trustees. We intend to make dividends sufficient to satisfy the requirements for qualification as a REIT for federal tax purposes.

The following tables show the dividends we have declared (including the total amount paid on a per share basis, paid in cash, reinvested in shares of our common stock pursuant to the Dividend Reinvestment Plan, and the total amount paid) during the last two fiscal years (in thousands, except per share data).

| 2015 Quarter Ended | Dividends Per |          | Reinvested |                         |
|--------------------|---------------|----------|------------|-------------------------|
|                    | Common Share  | Cash     | via DRP    | Total Dividends         |
| December 31        | \$ 0.2325     | \$ 625   | \$ 1,136   | \$ 1,761 <sup>(a)</sup> |
| September 30       | \$ 0.2325     | 641      | 1,112      | 1,753                   |
| June 30            | \$ 0.2325     | 639      | 1,092      | 1,731                   |
| March 31           | \$ 0.2325     | 546      | 1,094      | 1,640                   |
|                    |               | \$ 2,451 | \$ 4,434   | \$ 6,885                |

| 2014 Quarter Ended | Dividends Per |          | Reinvested |                         |
|--------------------|---------------|----------|------------|-------------------------|
|                    | Common Share  | Cash     | via DRP    | Total Dividends         |
| December 31        | \$ 0.2250     | \$ 401   | \$ 863     | \$ 1,264 <sup>(a)</sup> |
| September 30       | \$ 0.2250     | 402      | 846        | 1,248                   |
| June 30            | \$ 0.2250     | 396      | 824        | 1,220                   |
| March 31           | \$ 0.2250     | 399      | 817        | 1,216                   |
|                    |               | \$ 1,598 | \$ 3,350   | \$ 4,948                |

(a) Fourth quarter dividends paid on January 15<sup>th</sup> of the following year.

We expect that future dividends will be maintained at least at the present rate, unless there are changes in our results of operations, our general financial condition, general economic conditions or the Board determines other action prudent.

### Sale of Securities

Neither Sterling nor the operating partnership issued any unregistered securities during the three months ended December 31, 2015, except as noted below:

In connection with the completion of the acquisition of certain contributed properties, the operating partnership issued units as a portion of the purchase price, at a price per unit, as applicable, of \$15.50, as set forth in the table below, during

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the three months ended December 31, 2015 (in thousands, except per unit data) pursuant to Section 4(2) and Rule 506 of Regulation D.

| Property                | Property<br>Acquisition<br>Date | Number of<br>Units | Aggregate<br>Consideration |
|-------------------------|---------------------------------|--------------------|----------------------------|
| Summit Point, Fargo, ND | 10/01/15                        | 243,607            | \$ 3,776                   |

*Other Sales*

During the three months ended December 31, 2015, we issued no common shares in exchange for limited partnership units of the operating partnership on a one-for-one basis pursuant to redemption requests made by accredited investors pursuant to Section 4(2) and Rule 506 of Regulation D.

**Redemptions of Securities**

Set forth below is information regarding common shares and limited partnership units redeemed during the three months ended December 31, 2015:

| Period              | Total Number<br>of Common<br>Shares<br>Redeemed | Total Number<br>of Limited<br>Partner Units<br>Redeemed | Average<br>Price<br>Paid per<br>Common<br>Share/Unit | Total Number of<br>Shares Redeemed<br>as Part of<br>Publicly Announced<br>Plans or Programs | Total Number of<br>Units Redeemed<br>as Part of<br>Publicly Announced<br>Plans or Programs | Approximate Dollar Value of<br>Shares (or Units) that May<br>Yet Be Redeemed Under<br>Publicly Announced<br>Plans or Programs |
|---------------------|---|---|--|---|--|---|
| October 1-31, 2015  | 47,000  | 1,000   | \$ 14.50   | 937,000   | 558,000  | \$ 10,160   |
| November 1-30, 2015 | 17,000  | 5,000   | \$ 14.50   | 954,000   | 563,000  | \$ 9,845  |
| December 1-31, 2015 | 5,000   | —   | \$ 14.50   | 959,000   | 563,000  | \$ 9,772  |
| Total               | 69,000  | 6,000   |  |   |  |   |

For the three months ended December 31, 2015, we redeemed all shares or units for which we received redemption requests. In addition, for the three months ended December 31, 2015, all common shares and units redeemed were redeemed as part of the publicly announced plans.

The Amended and Restated Share Repurchase Plan permits us to repurchase common shares held by our shareholders and limited partnership units held by partners of our operating partnership, up to a maximum amount of \$30,000 worth of shares and units, upon request by the holders after they have held them for at least one year and subject to other conditions and limitations described in the plan. The repurchase price for such shares and units repurchased under the plan was fixed at \$14.00 per share or unit, which was increased to \$14.50 effective February 1, 2015 and is the current repurchase price. The repurchase plan will terminate in the event the shares become listed on any national securities exchange, the subject of bona fide quotes on any inter-dealer quotation system or electronic communications network or are the subject of bona fide quotes in the pink sheets. Additionally, the Board, in its sole discretion, may terminate, amend or suspend the repurchase plan at any time if it determines to do so is in our best interest.

**ITEM 6. SELECTED FINANCIAL DATA**

The following table sets forth our selected consolidated financial information and should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our audited consolidated financial statements and the notes thereto, both of which appear elsewhere in this Form 10-K.

|                             | December 31,                          |            |            |            |            |
|-----------------------------|---------------------------------------|------------|------------|------------|------------|
|                             | 2015                                  | 2014       | 2013       | 2012       | 2011       |
| BALANCE SHEET DATA:         | (in thousands, except per share data) |            |            |            |            |
| Total assets                | \$ 645,756                            | \$ 567,021 | \$ 448,300 | \$ 385,095 | \$ 381,268 |
| Mortgage loans payable, net | \$ 383,292                            | \$ 324,886 | \$ 239,008 | \$ 208,961 | \$ 217,480 |
| Total liabilities           | \$ 405,329                            | \$ 361,387 | \$ 251,094 | \$ 221,904 | \$ 237,043 |
| Stockholders' equity        | \$ 240,427                            | \$ 205,634 | \$ 197,206 | \$ 163,191 | \$ 144,225 |



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|   | Year Ended December 31, |           |           |           |           |
|---|-------------------------|-----------|-----------|-----------|-----------|
|   | 2015                    | 2014      | 2013      | 2012      | 2011      |
| STATEMENT OF OPERATIONS DATA:                         |                         |           |           |           |           |
| Rental income   | \$ 97,182               | \$ 70,936 | \$ 61,943 | \$ 52,021 | \$ 49,316 |
| Operating expenses                                    | 81,834                  | 57,404    | 47,260    | 41,453    | 40,578    |
| Interest  | 16,475                  | 12,495    | 11,222    | 10,925    | 12,031    |
| Depreciation and amortization                         | 20,240                  | 14,038    | 12,219    | 10,516    | 10,247    |
| Total expenses  | 87,481                  | 64,228    | 52,866    | 44,255    | 43,217    |
| Total other income (expense)                          | 1,683                   | 2,595     | 890       | 866       | 403       |
| Loss on impairment of property                        | 412                     | —         | 226       | 262       | 264       |
| Discontinued operations                               | —                       | —         | 3,350     | 499       | 116       |
| Net income  | 11,384                  | 9,303     | 13,317    | 9,131     | 6,618     |
| Noncontrolling interest in income                     | 7,684                   | 6,715     | 9,355     | 6,424     | 4,891     |
| Net income attributable to Sterling                   | \$ 4,286                | \$ 2,579  | \$ 3,962  | \$ 2,707  | \$ 1,727  |
| Net income per common share                           | \$ 0.59                 | \$ 0.47   | \$ 0.75   | \$ 0.57   | \$ 0.46   |
| Weighted average shares outstanding                   | 7,223                   | 5,507     | 5,384     | 4,733     | 3,771     |
| STATEMENT OF CASH FLOWS DATA:                         |                         |           |           |           |           |
| Cash flows provided by operating activities           | \$ 28,315               | \$ 27,927 | \$ 23,150 | \$ 20,093 | \$ 15,400 |
| Cash flows provided by (used in) investing activities | (25,766)                | (55,304)  | 557       | (9,507)   | (11,498)  |
| Cash flows provided by (used in) financing activities | 3,269                   | 14,171    | (14,414)  | (9,223)   | (10,718)  |
| OTHER DATA  |                         |           |           |           |           |
| Dividends declared (a)                                | \$ 6,885                | \$ 4,948  | \$ 4,514  | \$ 4,023  | \$ 3,030  |
| Dividends declared per share                          | \$ 0.9300               | \$ 0.9000 | \$ 0.8400 | \$ 0.8260 | \$ 0.8050 |

(a) Consists of dividends paid by the Trust on its common shares of beneficial interest.

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

### Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

Certain statements contained in this section and elsewhere in this Form 10- K constitute "*forward-looking statements*" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Please see "Note Regarding Forward-Looking Statements" and "Risk Factors" for more information. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made and are not guarantees of future performance.

### Executive Summary

Our real estate portfolio consists of 146 properties in twelve states, primarily located in North Dakota, containing 8,520 apartment units and approximately 1,689,000 square feet of leasable commercial space as of December 31, 2015 . The portfolio has a net book value of real estate investments (cost less accumulated depreciation) of approximately \$ 594,509 , which includes construction in progress. Our portfolio of properties currently includes a diversified mixture of multifamily , single and multi-tenant retail and office buildings. However, the Board of Trustees voted unanimously to update and amend the Trust's investment strategy, effective January 1, 2016 to acquire and hold multifamily real estate properties located primarily in the central corridor of the contiguous forty-eight (48) states. There is no current plan for the existing commercial properties (industrial, medical, office, and retail) in regards to retention or disposition.

**Specific Achievements**

- Increased revenues from rental operations by \$ 26, 246 or 37.0% for the year ended December 31, 2015 , compared to the year ended December 31, 2014 .
- Acquired nine ( 9 ) properties totaling 377 residential apartment units, two (2) properties totaling 319 ,000 square feet of commercial space and two ( 2 ) parcel s of land for a total of \$ 82, 626 during the year ended December 31, 2015 .
- Declared and paid dividends totaling \$ 0.9300 per common share for the year ended December 31, 2015 .

**Results of Operations for the Year Ended December 31, 2015 and 2014**

|  | Year ended December 31, 2015 |            |           | Year ended December 31, 2014 |            |           |
|--|------------------------------|------------|-----------|------------------------------|------------|-----------|
|  | Residential                  | Commercial | Total     | Residential                  | Commercial | Total     |
|  | (unaudited)                  |            |           | (unaudited)                  |            |           |
|  | (in thousands)               |            |           | (in thousands)               |            |           |
| Real Estate Revenues                     | \$ 75,914                    | \$ 21,268  | \$ 97,182 | \$ 53,499                    | \$ 17,437  | \$ 70,936 |
| Real Estate Expenses                     |                              |            |           |                              |            |           |
| Real Estate Taxes                        | 6,393                        | 1,459      | 7,852     | 4,368                        | 952        | 5,320     |
| Property Management Fees                 | 9,128                        | 489        | 9,617     | 6,214                        | 297        | 6,511     |
| Utilities                                | 6,183                        | 1,037      | 7,220     | 4,751                        | 863        | 5,614     |
| Repairs and Maintenance                  | 15,976                       | 1,750      | 17,726    | 10,868                       | 853        | 11,721    |
| Insurance                                | 2,218                        | 74         | 2,292     | 1,593                        | 54         | 1,647     |
| Total Real Estate Expenses               | 39,898                       | 4,809      | 44,707    | 27,794                       | 3,019      | 30,813    |
| Net Operating Income                     | \$ 36,016                    | \$ 16,459  | 52,475    | \$ 25,705                    | \$ 14,418  | 40,123    |
| Interest                                 |                              |            | 16,475    |                              |            | 12,495    |
| Depreciation and amortization            |                              |            | 20,240    |                              |            | 14,038    |
| Administration of REIT                   |                              |            | 5,647     |                              |            | 6,824     |
| Loss on lease terminations               |                              |            | —         |                              |            | 58        |
| Loss on impairment of property           |                              |            | 412       |                              |            | —         |
| Other (income)/expense                   |                              |            | (1,683)   |                              |            | (2,595)   |
| Net Income                               |                              |            | \$ 11,384 |                              |            | \$ 9,303  |
| Net Income Attributed to:                |                              |            |           |                              |            |           |
| Noncontrolling Interest                  |                              |            | \$ 7,098  |                              |            | \$ 6,724  |
| Sterling Real Estate Trust               |                              |            | \$ 4,286  |                              |            | \$ 2,579  |
| Dividends per share <sup>(1)</sup>       |                              |            | \$ 0.9300 |                              |            | \$ 0.9000 |
| Earnings per share                       |                              |            | \$ 0.5900 |                              |            | \$ 0.4700 |
| Weighted average number of common shares |                              |            | 7,223     |                              |            | 5,507     |

(1) Does not take into consideration the amounts distributed by the operating partnership to limited partners.

**Revenues**

Property revenues of approximately \$ 97,182 for the year ended December 31, 2015 increased approximately \$ 26,246 or 37.0% in comparison to the same period in 2014. Residential property revenues increased approximately \$ 22,415 and commercial property revenues increased approximately \$3,831.

The following table illustrates changes in occupancy for the twelve month periods indicated:

|                       | December 31,<br>2015 | December 31,<br>2014 |
|-----------------------|----------------------|----------------------|
| Residential occupancy | 95.7 %               | 96.1 %               |
| Commercial occupancy  | 97.4 %               | 98.6 %               |



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Residential revenues for the year ended December 31, 2015 increased \$ 22,415 in comparison to the same period for 2014. Residential properties acquired since January 1, 2014 contributed approximately \$ 20,699 to the increase in total residential revenues in the year ended December 31, 2015. Rental income from residential properties owned for more than one year increased approximately \$ 1,716 in comparison to the year ended December 31, 2014. Residential revenues comprised 78.1% of total revenues for the year ended December 31, 2015 compared to 75.4% of total revenues for the year ended December 31, 2014. The residential occupancy rates for the year ended December 31, 2015 decreased 0.4 % primarily due to the number of new apartments available in the Midwest market in recent months and the onboarding of the four buildings of the Bismarck, North Dakota development project placed in service during 2014 and 2015. The development project is a four building 156 unit multifamily apartment community. Building one, two, three and four were placed in service August 2014, October 2014, February 2015, and June 2015, respectively.

For the year ended December 31, 2015 total commercial revenues increased \$ 3,831 in comparison to the same period for 2014. Commercial properties acquired since January 1, 2014 contributed approximately \$ 3,487 to the increase in total commercial revenues in the year ended December 31, 2015 with the Northland Plaza property only contributing revenues during the last four months of 2015. Rental income from commercial properties owned for more than one year increased approximately \$ 344 in comparison to the year-ended December 31, 2014 primarily due to scheduled step up in base rents, increased CAM income from two properties and settlement proceeds from a triple net tenant for repair and replacement of structural components at a retail property in Minnesota. Commercial revenues comprised 21.9% of the total revenues for the year ended December 31, 2015 compared to 24.6% of total revenues for the year ended December 31, 2014. The commercial occupancy rates for the year ended December 31, 2015 decreased 1.2% primarily due to tenant turnover at one office property in Duluth, Minnesota and one office property in Minot, North Dakota.

### ***Expenses***

Residential expenses from operations of \$ 39,898 during the year ended December 31, 2015 increased \$ 12,104 or 43.5% in comparison to the same period in 2014. This increase was primarily attributed to the increase in number of residential properties owned during the year ended December 31, 2015 versus the same period in 2014. In addition, increased repair and maintenance expenses reflect the investments made to position these properties for continued rate increases, tenant retention, and market competitiveness.

Commercial expenses from operations of \$ 4,809 during the year ended December 31, 2015 increased \$ 1,790 or 59.3% in comparison to the same period in 2014. The increase was primarily attributed to the office property acquired in Bloomington, Minnesota in August 2015, as well as increases in repairs and maintenance expenses to replace flooring in three properties and repairing parking lots at three properties.

Interest expense of \$ 16,475 during the year ended December 31, 2015 increased \$ 3,980 in comparison to the same period in 2014 due to increased levels of debt outstanding. Interest expense was approximately 17.0% and 17.6% of rental income for the years ended December 31, 2015 and 2014, respectively.

Depreciation and amortization expense increased 44.2% from \$ 14,038 for the year ended December 31, 2014 to approximately \$ 20,240 for the year ended December 31, 2015. The \$ 6,202 increase was primarily a result of depreciation and amortization for the 9 properties added to our portfolio since December 31, 2014. Depreciation and amortization expense as a percentage of rental income for the years ended December 31, 2015 and 2014 was relatively consistent at 20.8% and 19.8%, respectively.

REIT administration expenses decreased from \$ 6,824 for the year ended December 31, 2014 to \$ 5,647 for the year ended December 31, 2015 due to a decrease in acquisition expenses related to less acquisition activity in comparison to the same period in 2014.

### ***Net Operating Income***

We measure the performance of our segments based on net operating income (“NOI”), which we define as total revenue from rental operations less expenses from rental operations and real estate taxes (excluding depreciation and amortization related to real estate investments and impairment of real estate investments). We believe that NOI is an important

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supplemental measure of operating performance for a REIT because it provides a measure of core operations unaffected by depreciation, amortization, financing, and administration expense. NOI does not represent cash generated by operating activities in accordance with GAAP and should not be considered an alternative to net income, net income available for non-controlling interests and shareholders of the Trust or cash flow from operating activities as a measure of financial performance.

Residential NOI increased \$ 10,311 or 40.1 % for the year ended December 31, 2015 in comparison to the same twelve month period in 2014 due primarily to acquisition activity in the residential segment. Commercial NOI increased \$ 2,041 or 14.2% for the year ended December 31, 2015 in comparison to the same twelve month period in 2014 due primarily attributed to the office property acquired in Bloomington, M innesota in August 2015 .

### ***Net Income***

Net income for the year ended December 31, 2015 was \$ 11,384 compared to \$ 9,303 for the year ended December 31, 2014 .

### ***Property Acquisitions and Dispositions***

#### *Property Acquisitions and Dispositions during the year ended December 31, 2015*

We acquired nine properties and two parcels of land for a total of \$ 82,586 during the year ended December 31, 2015 . Total consideration for the acquisitions was the issuance of approximately \$ 11,228 in limited partnership units of the operating partnership, new loans of \$ 45,830 , assumed loans of \$ 719 , assumed liabilities of \$ 1,329 and cash of \$ 23,480 .

During the year ended December 31, 2015 , the operating partnership sold 3.38 acres of development land in Fargo, North Dakota for approximately \$1,424 and recognized a gain of \$470 .

#### *Property Acquisitions and Dispositions during the year ended December 31, 2014*

We acquired sixteen properties and one parcel of land for a total of \$ 132,990 during the year ended December 31, 2014 . Total consideration for the acquisitions was the issuance of approximately \$ 17,461 in limited partnership units of the operating partnership, assumed loans of \$ 2,636 , assumed liabilities and deferred maintenance of \$ 1,362 , new loans of \$67,477 and cash of \$ 44,054 .

During the year ended December 31, 2014 , the operating partnership sold a 14,736 square foot office property in Norfolk, Nebraska for approximately \$625 and recognized a gain of approximately \$69.

See Notes 19 and 20 to the Consolidated Financial Statements included above for more information regarding our acquisitions and dispositions during the years ended December 31, 2015 and 2014 .

### **Funds From Operations and Modified Funds From Operations (FFO and MFFO)**

Funds From Operations (FFO) applicable to common shares and limited partnership units means net income (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures will be calculated to reflect funds from operations on the same basis.

Historical cost accounting for real estate assets implicitly assumes the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors have considered presentations of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. The term Funds From Operations (FFO) was created to address this problem. It was intended to be a standard supplemental measure of REIT operating performance that excluded historical cost depreciation from — or “added back” to — GAAP net income.

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Our management believes this non-GAAP measure is useful to investors because it provides supplemental information that facilitates comparisons to prior periods and for the evaluation of financial results. Management uses this non-GAAP measure to evaluate our financial results, develop budgets and manage expenditures. The method used to produce non-GAAP results is not computed according to GAAP, is likely to differ from the methods used by other companies and should not be regarded as a replacement for corresponding GAAP measures. Management encourages the review of the reconciliation of this non-GAAP financial measure to the comparable GAAP results.

Since the introduction of the definition of FFO, the term has come to be widely used by REITs. In the view of National Association of Real Estate Investment Trusts (“NAREIT”), the use of the definition of FFO (combined with the primary GAAP presentations required by the Securities and Exchange Commission) has been fundamentally beneficial, improving the understanding of operating results of REITs among the investing public and making it easier than before to compare the results of one REIT with another.

In addition to FFO, management also uses Modified Funds From Operations (“MFFO”) as a non-GAAP supplemental performance measure. MFFO as defined by us excludes from FFO acquisition related costs which are required to be expensed in accordance with GAAP. Our definition of MFFO also excludes disposition costs related to sales of investment properties. Acquisition and disposition related expenses include those paid to our Advisor and third parties. Management believes that excluding acquisition and disposition related costs from MFFO provides useful supplemental performance information that is comparable over the long-term and that is consistent with management’s analysis of the operating performance of the REIT.

While FFO and MFFO applicable to common shares and limited partnership units are widely used by REITs as performance metrics, all REITs do not use the same definition of FFO and MFFO or calculate FFO and MFFO in the same way. The FFO and MFFO reconciliation presented here is not necessarily comparable to FFO and MFFO presented by other real estate investment trusts. FFO and MFFO should also not be considered as an alternative to net income as determined in accordance with GAAP as a measure of a real estate investment trust’s performance, but rather should be considered as an additional, supplemental measure, and should be viewed in conjunction with net income as presented in the consolidated financial statements included in this report. FFO and MFFO applicable to common shares and limited partnership units does not represent cash generated from operating activities in accordance with GAAP, and is not necessarily indicative of sufficient cash flow to fund a real estate investment trust’s needs or its ability to service indebtedness or to pay dividends to shareholders.

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The following tables include calculations of FFO and MFFO, and the reconciliations to net income, for the year ended December 31, 2015 and 2014, respectively. We believe these calculations are the most comparable GAAP financial measure (in thousands):

*Reconciliation of Net Income Attributable to Sterling to FFO and MFFO Applicable to Common Shares and Limited Partnership Units*

|   | Year ended December 31, 2015            |                              |         | Year ended December 31, 2014            |                              |         |
|---|---|------------------------------|---------|---|------------------------------|---------|
|   | Weighted<br>Avg<br>Shares and<br>Amount | Per<br>Share and<br>Unit (2) |         | Weighted<br>Avg<br>Shares and<br>Amount | Per<br>Share and<br>Unit (2) |         |
| (unaudited)   |   |                              |         |   |                              |         |
| (in thousands, except per share data)   |   |                              |         |   |                              |         |
| Net Income attributable to Sterling Real Estate Trust   | \$ 4,286                                | 7,223                        | \$ 0.59 | \$ 2,579                                | 5,507                        | \$ 0.47 |
| Add back:   |   |                              |         |   |                              |         |
| Noncontrolling Interest - OPU   | 7,684                                   | 15,002                       |         | 6,715                                   | 14,300                       |         |
| Depreciation & Amortization from continuing operations  | 20,240                                  |                              |         | 14,038                                  |                              |         |
| Pro rata share of unconsolidated affiliate depreciation & amortization                          | 482                                     |                              |         | 485                                     |                              |         |
| Loss on impairment of property  | 412                                     |                              |         | —                                       |                              |         |
| Subtract:   |   |                              |         |   |                              |         |
| (Gains) loss on land and depreciable asset sales  | (470)                                   |                              |         | (69)                                    |                              |         |
| Funds from operations applicable to common shares and limited partnership units (FFO)           | 32,634                                  | 22,225                       | \$ 1.47 | 23,748                                  | 19,807                       | \$ 1.20 |
| Add back:   |   |                              |         |   |                              |         |
| Acquisition, and disposition expenses   | 2,323                                   |                              |         | 4,201                                   |                              |         |
| Modified Funds from Operations applicable to common shares and limited partnership units (MFFO) | \$34,957                                | 22,225                       | \$ 1.57 | \$27,949                                | 19,807                       | \$ 1.41 |

(1) Please see Note 12 and Note 14 to the consolidated financial statements included above for more information.

(2) Net Income is calculated on a per share basis. FFO and MFFO are calculated on a per share and unit basis.

**Liquidity and Capital Resources**

Our principal demands for funds will be for the : (i) acquisition of real estate and real estate-related investments, (ii) payment of acquisition related expenses and operating expenses, (iii) payment of dividends/distributions, (iv) payment of principal and interest on current and any future outstanding indebtedness, and (v) redemptions of our securities under our redemption plans. Generally, we expect to meet cash needs for the payment of operating expenses and interest on outstanding indebtedness from cash flow from operations. We expect to pay dividends/distributions and any repurchase requests to our shareholders and the unit holders of our operating partnership from cash flow from operations; however, we may use other sources to fund dividends/distributions and repurchases, as necessary. We expect to meet cash needs for acquisitions and other real-estate investments from cash flow from operations, net proceeds of share offerings and debt proceeds.

*Evaluation of Liquidity*

We continually evaluate our liquidity and ability to fund future operations, debt obligations and any repurchase requests. As part of our analysis, we consider among other items, credit quality of tenants and lease expirations.

*Credit Quality of Tenants*

We are exposed to credit risk within our tenant portfolio, which can reduce our results of operations and cash flow from operations if our tenants are unable to pay their rent. Tenants experiencing financial difficulties may become delinquent on their rent or default on their leases and, if they file for bankruptcy protection, may reject our lease in bankruptcy court, resulting in reduced cash flow. This may negatively impact net asset values and require us to incur impairment charges.

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Even if a default has not occurred and a tenant is continuing to make the required lease payments, we may restructure or renew leases on less favorable terms, or the tenant's credit profile may deteriorate, which could affect the value of the leased asset and could in turn require us to incur impairment charges.

Historically, the geographic location of our properties and credit-worthiness of our tenants have resulted in minimal to no property impairments or write-offs on uncollectible rental revenues. We currently anticipate the trend to continue. It is possible, however, that tenants may file for bankruptcy or default on their leases in the future and that economic conditions may deteriorate.

To mitigate credit risk on commercial properties, we have historically looked to invest in assets that we believe are critically important to our tenant's operations and have attempted to diversify our portfolio by tenant, tenant industry and geography. We also monitor all of our properties performance through review of rent delinquencies as a precursor to a potential default, meetings with tenant management and review of tenants' financial statements and compliance with financial covenants. When necessary, our asset management process includes restructuring transactions to meet the evolving needs of tenants, refinancing debt and selling properties, as well as protecting our rights when tenants default or enter into bankruptcy.

### *Lease Expirations and Occupancy*

No significant leases are scheduled to expire or renew in the next twelve months. The Advisor, with the assistance of our property managers, actively manages our real estate portfolio and begins discussing options with tenants in advance of scheduled lease expirations. In certain cases, we may obtain lease renewals from our tenants; however, tenants may elect to move out at the end of their term. In the cases where tenants elect not to renew, we may seek replacement tenants or try to sell the property.

### *Cash Flow Analysis*

Our objectives are to generate sufficient cash flow over time to provide shareholders with increasing dividends and to seek investments with potential for strong returns and capital appreciation throughout varying economic cycles. We have funded 100% of the dividends from operating cash flows. In setting a dividend rate, we focus primarily on expected returns from investments we have already made to assess the sustainability of a particular dividend rate over time.

|   | Year Ended     |             |
|---|----------------|-------------|
|   | December 31,   |             |
|   | 2015           | 2014        |
|   | (in thousands) |             |
| Net cash flows provided by operating activities | \$ 28,315      | \$ 27,927   |
| Net cash flows used in investing activities     | \$ (25,766)    | \$ (55,304) |
| Net cash flows provided by financing activities | \$ 3,269       | \$ 14,171   |

### *Operating Activities*

Our real estate properties generate cash flow in the form of rental revenues, which is reduced by interest payments, direct lease costs and property-level operating expenses. Property-level operating expenses consist primarily of property management fees including salaries and wages of property management personnel, utilities, cleaning, repairs, insurance, security and building maintenance cost, and real estate taxes. Additionally, we incur general and administrative expenses, advisory fees, acquisition and disposition expenses and financing fees.

Net cash provided by operating activities was \$ 28,315 and \$ 27,927 for the years ended December 31, 2015 and 2014, respectively, which consists primarily of net income from property operations adjusted for non-cash depreciation and amortization. The funds generated for the years ended December 31, 2015 and 2014 were primarily from property operations of our real estate portfolio.

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*Investing Activities*

Our investing activities generally consist of real estate-related transactions (purchases and sales of properties) and payments of capitalized property-related costs such as intangible assets and reserve escrows.

Net cash used in investing activities was \$ 25,766 and \$ 55,304 for the years ended December 31, 2015 and 2014 , respectively (this does not include the value of UPREIT units issued in connection with investing activities). For the years ended December 31, 2015 and 2014 , cash flows used in investing activities related primarily to the acquisition of properties and capital expenditures was \$ 29,239 and \$ 54,468 , respectively, and the changes in restricted cash for replacement reserve escrows was \$ 1,456 and \$ (1,367) , respectively. In addition, during the year ended December 31, 2014 , we invested \$674 in unconsolidated affiliates primarily used to acquire an office building site in Duluth, Minnesota.

*Financing Activities*

Our financing activities generally consist of funding property purchases by raising proceeds and securing mortgage notes payable as well as paying dividends, paying syndication costs and making principal payments on mortgage notes payable.

Net cash provided by financing activities was \$ 3,269 and \$ 14,171 for the years ended December 31, 2015 and 2014 , respectively . During the year ended December 31, 2015 , we paid approximately \$ 15,935 in dividends and distributions, redeemed \$ 2,548 of shares and units, received proceeds from new mortgage notes payable of approximately \$ 36,385 , made mortgage principal payments of approximately \$ 27,160 , made net payments of \$ 16,420 on short-term notes, and received proceeds from issuance of common shares of \$ 25,750 . For the year ended December 31, 2014 , we paid approximately \$ 14,129 in dividends and distributions, redeemed \$ 4,904 of shares and units, received proceeds from new mortgage notes payable of approximately \$ 24,540 made mortgage principal payments of approximately \$ 7,898 , and received net proceeds of \$16,420 on short-term notes.

*Dividends*

*Common Stock*

We declared cash dividends to our shareholders during the period from January 1, 2015 to December 31, 2015 totaling \$ 6,885 or \$ 0.9300 per share, including amounts reinvested through the dividend reinvestment plan. During the year ended December 31, 2015 , we paid cash dividends of \$ 2,451 and dividends of \$ 4,434 were reinvested under the dividend reinvestment plan. The cash dividends were paid with the \$ 28,315 from our cash flows from operations and \$ 152 provided by distributions from unconsolidated affiliates.

We declared cash dividends to our shareholders during the period from January 1, 2014 to December 31, 2014 totaling \$ 4,948 or \$ 0.9000 per share, including amounts reinvested through the dividend reinvestment plan. During the year ended December 31, 2014 , we paid cash dividends of \$ 1,598 and dividends of \$ 3,350 were reinvested under the dividend reinvestment plan. The cash dividends were paid with the \$ 27,927 from our cash flows from operations and \$ 274 provided by distributions from unconsolidated affiliates.

We continue to provide cash dividends to our shareholders from cash generated by our operations. The following chart summarizes the sources of our cash used to pay dividends. Our primary source of cash is cash flow provided by operating activities from our investments as presented in our cash flow statement. We also include distributions from unconsolidated affiliates to the extent that the underlying real estate operations in these entities generate these cash flows and the gain on sale of properties relates to net profits from the sale of certain properties. Our presentation is not intended to be an alternative to our consolidated statement of cash flows and does not present all sources and uses of our cash.

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The following table presents certain information regarding our dividend coverage :

|   | Year Ended       |                  |
|---|------------------|------------------|
|   | December 31,     |                  |
|   | 2015             | 2014             |
|   | (in thousands)   |                  |
| Cash flows provided by operations (includes net income of \$11,384 and \$9,303, respectively) | \$ 28,315        | \$ 27,927        |
| Distributions from unconsolidated affiliates  | 152              | 274              |
| Gain on sales of properties   | 470              | 69               |
| Dividends declared  | (6,885)          | (4,948)          |
| Excess (Deficit)  | <u>\$ 22,052</u> | <u>\$ 23,322</u> |

#### *Limited Partnership Units*

The operating partnership agreement provides that our operating partnership will distribute to the partners (subject to certain limitations) cash from operations on a quarterly basis (or more frequently, if we so elect) in accordance with the percentage interests of the partners. We determine the amounts of such distributions in our sole discretion.

For the year ended December 31, 2015 , we declared and paid distributions of \$ 13,976 to holders of limited partnership units in our operating partnership. Distributions were paid at a rate of \$ 0.9300 per unit, which is equal to the per share distribution rate paid to the common shareholders. As of December 31, 2015 , the limited partnership declared distributions of \$ 3,557 which represented distributions for the quarter ended December 31, 2015 , and we paid such amount on January 15, 2016 .

For the year ended December 31, 2014 , we declared and paid distributions of \$ 12,954 to holders of limited partnership units in our operating partnership. Distributions were paid at a rate of \$ 0.9000 per unit, which is equal to the per share distribution rate paid to the common shareholders. As of December 31, 2014 , the limited partnership declared distributions of \$ 3,290 which represented distributions for the quarter ended December 31, 2014 , and we paid such amount on January 15, 2015 .

#### *Sources of Dividends*

For the year ended December 31, 2015 , we paid aggregate dividends of \$ 6,885 , which were paid with cash flows provided by operating activities and distributions from unconsolidated affiliates . Our funds from operations, or FFO, was \$ 32,634 while our modified funds from operations, or MFFO, for the year ended December 31, 2015 was \$ 34,957 ; therefore our management believes our distribution policy is sustainable over time. For the year ended December 31, 2014 , we paid aggregate dividends of \$ 4,948 which were paid with cash flows provided by operating activities and distributions from unconsolidated affiliates . Our FFO was \$ 23,748 while our MFFO, as of the year ended December 31, 2014 was \$ 27,949 . For a further discussion of FFO and MFFO, including a reconciliation of FFO and MFFO to net income, see “Funds from Operations and Modified Funds from Operations” above.

#### *Cash Resources*

At December 31, 2015 , our cash resources consisted of cash and cash equivalents totaling approximately \$ 6,461 . Our cash reserves can be used for working capital needs and other commitments. In addition, we had unencumbered properties with a gross book value of \$ 11,192 , which could potentially be used as collateral to secure additional financing in future periods.

At December 31, 2015 , there was no balance outstanding on the lines of credit, leaving \$37,015 available and unused under the agreements. See Note 8 to the accompanying consolidated financial statements for additional details regarding our line of credit agreements.

The sale of our securities and issuance of limited partnership units of the operating partnership in exchange for property acquisitions and sale of additional common or preferred shares is also expected to be a source of long-term capital for us. During the year ended December 31, 2015 , we issued 1,677,000 common shares in a private placement to accredited

investors pursuant to Rule 506 of Regulation D and raised gross proceeds of \$ 25,750 . During the year ended December 31, 2015 , we issued 284,000 and 116,000 common shares under the dividend reinvestment plan, through dividends reinvested and the optional share purchases, respectively and raised gross proceeds of \$ 5,943 . During the year ended December 31, 2014 , we did not sell any common shares in private placements. During the year ended December 31, 2014 , we issued 231,000 and 128,000 common shares under the dividend reinvestment plan, through dividends reinvested and the optional share repurchases, respectively and raised gross proceeds of \$ 5,130 .

During the year ended December 31, 2015 , we issued limited partnership units valued at approximately \$ 11,228 in connection with the acquisition of nine properties.

During the year ended December 31, 2014 , we issued limited partnership units valued at approximately \$ 17,461 in connection with the acquisitions of sixteen properties.

### **Off-Balance Sheet Arrangements**

As of December 31, 2015 and 2014 , we had no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

### ***Critical Accounting Estimates***

The following disclosure pertains to accounting policies and estimates we believe are most “critical” to the portrayal of our financial condition and results of operations and require our most difficult, subjective or complex judgments. These judgments often result from the need to make estimates about the effect of matters that are inherently uncertain. GAAP requires information in financial statements about accounting principles, methods used and disclosures pertaining to significant estimates. This discussion addresses our judgment pertaining to trends, events or uncertainties known which were taken into consideration upon the application of those policies and the likelihood that materially different amounts would be reported upon taking into consideration different conditions and assumptions.

### ***Acquisition of Investment Properties***

We account for our property acquisitions by allocating the purchase price of a property to the property’s assets based on management’s estimates of fair value. Techniques used to estimate fair value include an appraisal of the property by a certified independent appraiser at the time of acquisition. Significant factors included in the independent appraisal include items such as current rent schedules, occupancy levels, and discount factors. Property valuations are completed primarily using the income capitalization approach, in which anticipated benefits are converted to an indication of current value.

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

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

We estimate the in-place lease value for each lease acquired. This fair value estimate is calculated using factors available in third party appraisals or cash flow estimates of the property prepared by our internal analysis. These estimates are based upon cash flow projections for the property, existing leases, and the current economic climate.

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Our analysis results in three discrete financial items: assets for above market leases, liabilities for below market leases, and assets for the in-place lease value. The calculation of each of these components is performed in tandem to provide a complete intangible asset value.

Key factors considered in the calculation of fair value of both real property and intangible assets include the current market rent values, “dark” periods (building in vacant status), direct costs estimated with obtaining a new tenant, discount rates, escalation factors, standard lease terms, and tenant improvement costs.

### ***Impairment of Long-Lived Assets***

Our investment properties are reviewed for potential impairment at the end of each reporting period whenever events or changes in circumstances indicate that the carrying value may not be recoverable. At the end of each reporting period, we separately determine whether impairment indicators exist for each property.

Examples of situations considered to be impairment indicators include, but are not limited to:

- a substantial decline or continued low occupancy rate;
- continued difficulty in leasing space;
- significant financial troubled tenants;
- a change in plan to sell a property prior to the end of its useful life or holding period;
- a significant decrease in market price not in line with general market trends; and
- any other quantitative or qualitative events or factors deemed significant by the Company’s management or board of trustees.

If the presence of one or more impairment indicators as described above is identified at the end of the reporting period or throughout the year with respect to an investment property, the asset is tested for recoverability by comparing its carrying value to the estimated future undiscounted cash flows. An investment property is considered to be impaired when the estimated future undiscounted cash flows are less than its current carrying value. When performing a test for recoverability or estimating the fair value of an impaired investment property, we make complex or subjective assumptions which include, but are not limited to:

- projected operating cash flows considering factors such as vacancy rates, rental rates, lease terms, tenant financial strength, demographics, holding period and property location;
- projected capital expenditures and lease origination costs;
- projected cash flows from the eventual disposition of an operating property using a property specific capitalization rate;
- comparable selling prices; and
- property specific discount rates for fair value estimates as necessary.

To the extent impairment has occurred, we will record an impairment charge calculated as the excess of the carrying value of the asset over its fair value for impairment of investment properties.

### ***Revenue Recognition***

We recognize revenue in accordance with ASC Topic 605, Revenue Recognition, (“ASC Topic 605”). ASC Topic 605 requires that all four of the following basic criteria be met before revenue is realized or realizable and earned: (1) there is persuasive evidence that an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the seller’s price to the buyer is fixed and determinable; and (4) collectability is reasonably assured.

We derive over 95% of our revenues from tenant rents and other tenant-related activities. We lease multifamily units under operating leases with terms of one year or less. Rental income and other property revenues are recorded when due from tenants and recognized monthly as earned pursuant to the terms of the underlying leases. Other property revenues consist primarily of laundry, application and other fees charged to tenants.

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We lease commercial space primarily under long-term lease agreements. Commercial tenant rents include base rents, expense reimbursements (such as common area maintenance, real estate taxes and utilities), and a straight-line rent adjustment. We record base rents on a straight-line basis. The monthly base rent income according to the terms of our leases is adjusted so that an average monthly rent is recorded for each tenant over the term of its lease. We receive payments for expense reimbursements from substantially all our multi-tenant commercial tenants throughout the year based on estimates. Differences between estimated recoveries and the final billed amounts, which generally are immaterial, are recognized in the subsequent year.

### ***Federal Income Taxes***

We have elected to be taxed as a REIT under the Internal Revenue Code, as amended. A REIT calculates taxable income similar to other domestic corporations, with the major difference being a REIT is entitled to a deduction for dividends paid. A REIT is generally required to distribute each year at least 90% of its taxable income. If it chooses to retain the remaining 10% of taxable income, it may do so, but it will be subject to a corporate tax on such income. REIT shareholders are taxed on REIT distributions of ordinary income in the same manner as they are taxed on other corporate distributions.

We intend to continue to qualify as a REIT and, as such, will not be taxed on the portion of the income that is distributed to shareholders. In addition, we intend to distribute all of our taxable income; therefore, no provisions or liabilities for income taxes have been recorded in the financial statements.

Sterling conducts its business activity as an Umbrella Partnership Real Estate Investment Trust (“UPREIT”) through its Operating Partnership – Sterling Properties, LLLP. The Operating Partnership is organized as a limited liability limited partnership. Income or loss is allocated to the partners in accordance with the provisions of the Internal Revenue Code 704(b) and 704(c). UPREIT status allows non-recognition of gain by an owner of appreciated real estate if that owner contributes the real estate to a partnership in exchange for a partnership interest. The conversion of a partnership interest to shares of beneficial interest in the REIT will be a taxable event to the limited partner.

We follow ASC Topic 740, *Income Taxes*, to recognize, measure, present and disclose in our consolidated financial statements uncertain tax positions that we have taken or expect to take on a tax return. As of December 31, 2015 and December 31, 2014 we did not have any liabilities for uncertain tax positions that we believe should be recognized in our consolidated financial statements. We are no longer subject to Federal and State tax examinations by tax authorities for years before 2012.

The operating partnership has elected to record related interest and penalties, if any, as income tax expense on the consolidated statements of operations and other comprehensive income.

### ***Estimated Value of Units/Shares***

The Board of Trustees has determined an estimate of fair value for the trust shares issued in 2015 and 2014. In addition, the Board of Trustees, acting as general partner for the operating partnership, has determined an estimate of fair value for the limited partnership units issued in 2015 and 2014. In determining this value, the Board relied upon their experience with, and knowledge about, our real estate portfolio and debt obligations. The Board also relied on valuation methodologies that are commonly used in the real estate industry. The methodology used by our board to determine this value was based on the value of our real estate investments, cash and other assets and debt and other liabilities as of a date certain.

Based on the results of the methodologies, the Board determined the fair value of the shares and limited partnership units to be \$14.00 per share/unit for the first three months of 2014 through March 27, 2014. The Board determined the fair value of the shares and limited partnership units to be \$15.00 per share/unit effective March 28, 2014. The Board determined the fair value of the shares and limited partnership units to be \$15.50 per share/unit effective February 1, 2015.

As with any valuation methodology, the methodologies utilized by the Board in reaching an estimate of the value of the shares and limited partnership units are based upon a number of estimates, assumptions, judgments or opinions that may, or may not, prove to be correct. The use of different estimates, assumptions, judgments, or opinions would likely have

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resulted in significantly different estimates of the value of the shares and limited partnership units. In addition, the Board's estimate of share and limited partnership unit value is not based on the fair values of our real estate, as determined by GAAP, as our book value for most real estate is based on the amortized cost of the property, subject to certain adjustments. Furthermore, in reaching an estimate of the value of the shares and limited partnership units, the Board did not include a liquidity discount in order to reflect the fact that the shares and limited partnership units are not currently traded on a national securities exchange; a discount for debt that may include a prepayment obligation or a provision precluding assumption of the debt by a third party; or the costs that are likely to be incurred in connection with an appropriate exit strategy, whether that strategy might be a listing of the limited partnership units or Sterling common shares on a national securities exchange or a merger or sale of our portfolio.

There have been no material changes in our Significant Accounting Policies as disclosed in Note 2 to our financial statements for the year ended December 31, 2015 included elsewhere in this report.

**Recently Issued Accounting Pronouncements**

For a discussion of recently issued accounting pronouncements, see Note 2, Principal Activity and Significant Accounting Policies— Recently Issued Accounting Pronouncements, to the consolidated financial statements that are a part of this Annual Report on Form 10-K.

**Recent Developments**

*Common Share Dividends.* On January 15, 2016, we paid a dividend or distribution of \$0.2325 per share on our common shares of beneficial interest, to common shareholders and limited unit holders of record on December 31, 2015. All future dividends remain subject to the discretion of our Board of Trustees.

Pursuant to the purchase agreement dated November 6, 2015, in January 2016, the operating partnership purchased a 19,595 square foot implement dealership in North Platte, Nebraska for approximately \$1,769. The purchase price was financed with cash.

In February 2016, the operating partnership purchased a 72 unit apartment and 8 unit townhome complex in Grand Forks, North Dakota for approximately \$5,050. The purchase price was financed with the issuance of limited partnership units and cash.

Pursuant to the purchase agreement dated December 28, 2015, in February 2016, the operating partnership purchased a 25,817 square foot office building in White Bear Lake, Minnesota for approximately \$4,000. The purchase price was financed with the issuance of limited partnership units and cash.

In March 2016, the operating partnership purchased a 20 unit apartment complex in Bismarck, North Dakota for approximately \$1,550. The purchase price was financed with the issuance of limited partnership units and cash.

In March 2016, the operating partnership purchased a 20 unit apartment complex in Bismarck, North Dakota for approximately \$1,550. The purchase price was financed with the issuance of limited partnership units and cash.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET DATA**

Not required.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Our consolidated financial statements included in this Annual Report are listed in Item 15 and begin immediately after the signature pages.

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

None.

## **ITEM 9A. CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Accounting Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Annual Report on Form 10-K (the "Evaluation Date"). Based upon the evaluation, our Chief Executive Officer and Chief Accounting Officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective to ensure that information required to be disclosed in our reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms, and is accumulated and communicated to management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

### **Report of Management on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining a comprehensive system of internal control over financial reporting to provide reasonable assurance of the proper authorization of transactions, the safeguarding of assets and the reliability of the financial records. Our internal control system was designed to provide reasonable assurance to our management and Board of Trustees regarding the preparation and fair presentation of published financial statements. The system of internal control over financial reporting provides for appropriate division of responsibility and is documented by written policies and procedures that are communicated to employees. The framework upon which management relied in evaluating the effectiveness of our internal control over financial reporting was set forth in *Internal Controls – Integrated Framework* (2013 ) published by the Committee of Sponsoring Organization of the Treadway Commission.

Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the U.S. Our internal control over financial reporting includes those policies and procedures that:

- i. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and
- ii. disposition of our assets;
- iii. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the U.S., and that our receipts and expenditures are being made only in accordance with authorization of our management and trustees; and
- iv. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Based on the results of our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2015 . However, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in our business or other conditions, or that the degree of compliance with our policies or procedures may deteriorate.

### **Inherent Limitations of Disclosure Controls and Procedures and Internal Control over Financial Reporting**

There are inherent limitations to the effectiveness of any control system. A control system, no matter how well conceived and operated, can provide only reasonable assurance that its objectives are met. No evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within us have been detected. Also, projections of

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any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or because the degree of compliance with the policies and procedures may deteriorate.

**Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and Rule 15d-15(f) under the Exchange Act) during the fourth quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

The information required in Item 10 (Directors, Executive Officers and Corporate Governance), Item 11 (Executive Compensation), Item 12 (Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters), Item 13 (Certain Relationships and Related Transactions, and Director Independence), and Item 14 (Principal Accountant Fees and Services) will be incorporated by reference to our definitive proxy statement for the 2016 Annual Meeting of Shareholders to be filed with the SEC or filed by amendment to this Annual Report on or before April 29, 2016.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

**(a)(1) The financial statements listed below are included in this report**

**Report of Independent Registered Public Accounting Firm**

**Consolidated Financial Statements**

**Consolidated Balance Sheets at December 31, 2015 and 2014**

**Consolidated Statements of Operations and Other Comprehensive Income for the Years Ended December 31, 2015 and 2014**

**Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2015 and 2014**

**Consolidated Statements of Cash Flows for the Years Ended December 31, 2015 and 2014**

**Notes to Consolidated Financial Statements**

**Real Estate and Accumulated Depreciation (Schedule III)**

**(a)(3) Exhibits**

**See the Exhibit Index filed as part of this Annual Report on Form 10-K.**



**STERLING** | REAL ESTATE TRUST

**STERLING REAL ESTATE TRUST AND SUBSIDIARIES**

*DECEMBER 31, 2015 AND 2014*

CONSOLIDATED FINANCIAL STATEMENTS, INCLUDING NOTES

and

REPORT OF INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM

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**STERLING REAL ESTATE TRUST AND SUBSIDIARIES**

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| CONSOLIDATED FINANCIAL STATEMENTS  |             |
| <a href="#">Consolidated Balance Sheets</a>  | 63          |
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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders, Audit Committee and Board of Directors  
Sterling Real Estate Trust  
Fargo, ND

We have audited the accompanying consolidated balance sheets of Sterling Real Estate Trust as of December 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive income, shareholders' equity and cash flows for the years then ended. Our audit also included the consolidated financial statement schedule listed in the accompanying index to the consolidated financial statements. These consolidated financial statements and schedule are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sterling Real Estate Trust as of December 31, 2015 and 2014 and the results of their operations and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Baker Tilly Virchow Krause, LLP

Chicago, Illinois  
March 14, 2016

**PART I – FINANCIAL INFORMATION****Item 1. Financial Statements****STERLING REAL ESTATE TRUST AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31, 2015 AND 2014**

|   | December 31,<br>2015 | December 31,<br>2014 |
|---|----------------------|----------------------|
| (in thousands)  |                      |                      |
| <b>ASSETS</b>   |                      |                      |
| Real estate investments   | \$ 594,509           | \$ 532,263           |
| Cash and cash equivalents   | 6,461                | 643                  |
| Restricted deposits and funded reserves   | 6,115                | 6,732                |
| Investment in unconsolidated affiliates   | 9,022                | 9,081                |
| Due from related party  | 60                   | 109                  |
| Receivables   | 3,428                | 2,953                |
| Prepaid expenses  | 844                  | 1,581                |
| Notes receivable  | 651                  | 600                  |
| Financing and lease costs, less accumulated amortization of \$3,536 in 2015 and \$2,985 in 2014 | 4,621                | 3,761                |
| Assets held for sale  | 1,721                | —                    |
| Intangible assets, less accumulated amortization of \$7,655 in 2015 and \$4,866 in 2014         | 18,184               | 9,222                |
| Other assets  | 140                  | 76                   |
| <b>Total Assets</b>   | <b>\$ 645,756</b>    | <b>\$ 567,021</b>    |
| <b>LIABILITIES</b>  |                      |                      |
| Mortgage notes payable  | \$ 383,292           | \$ 324,886           |
| Lines of credit   | —                    | 16,419               |
| Special assessments payable   | 1,659                | 934                  |
| Dividends payable   | 5,319                | 4,554                |
| Due to related party  | 440                  | 2,500                |
| Tenant security deposits payable  | 3,763                | 3,113                |
| Investment certificates and subordinated debt   | 200                  | 319                  |
| Unfavorable leases, less accumulated amortization of \$803 in 2015 and \$572 in 2014            | 2,253                | 806                  |
| Accounts payable - trade  | 819                  | 1,486                |
| Retainage payable   | 6                    | 555                  |
| Liabilities related to assets held for sale   | 659                  | —                    |
| Fair value of interest rate swaps   | 219                  | 272                  |
| Deferred insurance proceeds   | 69                   | 72                   |
| Accrued expenses and other liabilities  | 6,631                | 5,471                |
| <b>Total Liabilities</b>  | <b>405,329</b>       | <b>361,387</b>       |
| COMMITMENTS and CONTINGENCIES - Note 18   |                      |                      |
| <b>SHAREHOLDERS' EQUITY</b>   |                      |                      |
| Noncontrolling interest   |                      |                      |
| Operating partnership   | 154,810              | 150,594              |
| Partially owned properties  | 4,537                | —                    |
| Beneficial interest   | 81,299               | 55,312               |
| Accumulated other comprehensive income (loss)   | (219)                | (272)                |
| <b>Total Shareholders' Equity</b>   | <b>240,427</b>       | <b>205,634</b>       |
|   | <b>\$ 645,756</b>    | <b>\$ 567,021</b>    |

See Notes to Consolidated Financial Statements



**STERLING REAL ESTATE TRUST AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

|  | Year Ended<br>December 31,            |                 |
|--|---------------------------------------|-----------------|
|  | 2015                                  | 2014            |
|  | (in thousands, except per share data) |                 |
| Income from rental operations  |                                       |                 |
| Real estate rental income  | \$ 93,330                             | \$ 68,706       |
| Tenant reimbursements  | 3,852                                 | 2,230           |
|  | <u>97,182</u>                         | <u>70,936</u>   |
| Expenses   |                                       |                 |
| Expenses from rental operations  |                                       |                 |
| Interest   | 16,475                                | 12,495          |
| Depreciation and amortization  | 20,240                                | 14,038          |
| Real estate taxes  | 7,852                                 | 5,320           |
| Property management fees   | 9,617                                 | 6,511           |
| Utilities  | 7,220                                 | 5,614           |
| Repairs and maintenance  | 17,726                                | 11,721          |
| Insurance  | 2,292                                 | 1,647           |
| Loss on lease terminations   | —                                     | 58              |
| Loss on impairment of property   | 412                                   | —               |
|  | <u>81,834</u>                         | <u>57,404</u>   |
| Administration of REIT   |                                       |                 |
| Administrative expenses  | 338                                   | 281             |
| Advisory fees  | 2,401                                 | 1,855           |
| Acquisition and disposition expenses   | 2,323                                 | 4,201           |
| Trustee fees   | 51                                    | 56              |
| Legal and accounting   | 534                                   | 431             |
|  | <u>5,647</u>                          | <u>6,824</u>    |
| Total expenses   | <u>87,481</u>                         | <u>64,228</u>   |
| Income from operations   | <u>9,701</u>                          | <u>6,708</u>    |
| Other income (expense)   |                                       |                 |
| Equity in income of unconsolidated affiliates  | 957                                   | 1,086           |
| Dividend and interest income   | 59                                    | 376             |
| Gain on sale of real estate investments  | 470                                   | 69              |
| Gain on involuntary conversion   | 197                                   | 398             |
| Gain on disposal of marketable securities  | —                                     | 666             |
|  | <u>1,683</u>                          | <u>2,595</u>    |
| Net income   | <u>\$ 11,384</u>                      | <u>\$ 9,303</u> |
| Net income attributable to noncontrolling interest                                   |                                       |                 |
| Operating Partnership  | 7,684                                 | 6,715           |
| Partially owned properties   | (586)                                 | 9               |
| Net income attributable to Sterling Real Estate Trust                                | <u>\$ 4,286</u>                       | <u>\$ 2,579</u> |
| Net income per common share, basic and diluted                                       | <u>\$ 0.59</u>                        | <u>\$ 0.47</u>  |
| Comprehensive income:  |                                       |                 |
| Net income   | \$ 11,384                             | \$ 9,303        |
| Other comprehensive income - change in fair value of interest rate swaps             | 53                                    | 37              |
| Comprehensive income   | 11,437                                | 9,340           |
| Comprehensive income attributable to noncontrolling interest - Operating Partnership | 7,134                                 | 6,750           |
| Comprehensive income attributable to Sterling Real Estate Trust                      | <u>\$ 4,303</u>                       | <u>\$ 2,590</u> |

See Notes to Consolidated Financial Statements



**STERLING REAL ESTATE TRUST AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

|   | Common<br>Shares | Paid-in<br>Capital | Accumulated<br>Distributions<br>in Excess of<br>Earnings | Total<br>Beneficial<br>Interest | Noncontrolling<br>Interest |                                  | Accumulated                    | Total      |
|---|------------------|--------------------|--|---------------------------------|----------------------------|----------------------------------|--------------------------------|------------|
|   |                  |                    |  |                                 | Operating<br>Partnership   | Partially<br>Owned<br>Properties | Comprehensive<br>Income (Loss) |            |
| (in thousands)  |                  |                    |  |                                 |                            |                                  |                                |            |
| BALANCE AT DECEMBER 31, 2013  | 5,454            | \$ 68,051          | \$ (12,075)  | \$ 55,976                       | \$ 141,539                 | \$ —                             | \$ (309)                       | \$ 197,206 |
| Shares issued under trustee compensation plan   | 2                | 23                 |  | 23                              |                            |                                  |                                | 23         |
| Contribution of assets in exchange for the issuance of noncontrolling interest shares |                  |                    |  |                                 | 17,461                     | —                                |                                | 17,461     |
| Shares/units redeemed   | (238)            | (3,338)            |  | (3,338)                         | (1,566)                    | —                                |                                | (4,904)    |
| Dividends declared  |                  |                    | (4,948)  | (4,948)                         | (12,954)                   | —                                |                                | (17,902)   |
| Dividends reinvested - stock dividend   | 231              | 3,238              |  | 3,238                           |                            |                                  |                                | 3,238      |
| Issuance of shares under optional purchase plan                                       | 128              | 1,892              |  | 1,892                           |                            |                                  |                                | 1,892      |
| UPREIT units converted to REIT common shares  | 47               | 700                |  | 700                             | (700)                      | —                                |                                | —          |
| Purchase of subsidiary ownership from noncontrolling interest                         |                  | (810)              |  | (810)                           | 101                        | —                                |                                | (709)      |
| Change in fair value of interest rate swaps   |                  |                    |  |                                 |                            |                                  | 37                             | 37         |
| Distributions paid to consolidated real estate entity noncontrolling interests        |                  |                    |  |                                 | (11)                       | —                                |                                | (11)       |
| Net income  |                  |                    | 2,579  | 2,579                           | 6,724                      | —                                |                                | 9,303      |
| BALANCE AT DECEMBER 31, 2014  | 5,624            | \$ 69,756          | \$ (14,444)  | \$ 55,312                       | \$ 150,594                 | \$ —                             | \$ (272)                       | \$ 205,634 |
| Issuance of common shares   | 1,677            | 25,750             |  | 25,750                          |                            |                                  |                                | 25,750     |
| Shares issued pursuant to trustee compensation plan                                   | 4                | 56                 |  | 56                              |                            |                                  |                                | 56         |
| Contribution of assets in exchange for the issuance of noncontrolling interest shares |                  |                    |  |                                 | 11,228                     | —                                |                                | 11,228     |
| Shares/units redeemed   | (132)            | (1,915)            |  | (1,915)                         | (633)                      | —                                |                                | (2,548)    |
| Dividends declared  |                  |                    | (6,885)  | (6,885)                         | (13,976)                   | —                                |                                | (20,861)   |
| Dividends reinvested - stock dividend   | 284              | 4,160              |  | 4,160                           |                            |                                  |                                | 4,160      |
| Issuance of shares under optional purchase plan                                       | 116              | 1,783              |  | 1,783                           |                            |                                  |                                | 1,783      |
| UPREIT units converted to REIT common shares  | 6                | 87                 |  | 87                              | (87)                       | —                                |                                | —          |
| Syndication costs   |                  |                    | (1,335)  | (1,335)                         | —                          | —                                |                                | (1,335)    |
| Change in fair value of interest rate swaps   |                  |                    |  |                                 |                            |                                  | 53                             | 53         |
| Contributions from consolidated real estate entity noncontrolling interests           |                  |                    |  |                                 |                            | 5,123                            |                                | 5,123      |
| Net income  |                  |                    | 4,286  | 4,286                           | 7,684                      | (586)                            |                                | 11,384     |
| BALANCE AT DECEMBER 31, 2015  | 7,579            | \$ 99,677          | \$ (18,378)  | \$ 81,299                       | \$ 154,810                 | \$ 4,537                         | \$ (219)                       | \$ 240,427 |

See Notes to Consolidated Financial Statements

**STERLING REAL ESTATE TRUST AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

|  | Year Ended      |                 |
|--|-----------------|-----------------|
|  | December 31,    |                 |
|  | 2015            | 2014            |
|  | (in thousands)  |                 |
| <b>OPERATING ACTIVITIES</b>  |                 |                 |
| Net income   | \$ 11,384       | \$ 9,303        |
| Adjustments to reconcile net income to net cash from operating activities                      |                 |                 |
| Gain on sale of real estate  | (470)           | (69)            |
| Loss on extinguishment of debt   | —               | 18              |
| Net gain on investment in marketable securities  | —               | (666)           |
| Gain on involuntary conversion   | (197)           | (398)           |
| Loss on impairment of property   | 412             | —               |
| Loss on lease terminations   | —               | 58              |
| Equity in income of unconsolidated affiliates  | (957)           | (1,086)         |
| Distributions of earnings of unconsolidated affiliates   | 900             | 1,086           |
| Depreciation   | 16,466          | 12,116          |
| Amortization   | 3,742           | 1,897           |
| Effects on operating cash flows due to changes in  |                 |                 |
| Restricted deposits - tenant security deposits   | (1,169)         | (304)           |
| Restricted deposits - real estate tax and insurance escrows                                    | 330             | 523             |
| Due from related party   | 49              | (45)            |
| Receivables  | (475)           | 199             |
| Prepaid expenses   | 737             | (372)           |
| Marketable securities  | —               | 666             |
| Other assets   | (64)            | 23              |
| Due to related party   | (2,037)         | 2,229           |
| Tenant security deposits payable   | 159             | 244             |
| Accounts payable - trade   | (815)           | 439             |
| Accrued expenses and other liabilities   | 320             | 2,066           |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>   | <b>28,315</b>   | <b>27,927</b>   |
| <b>INVESTING ACTIVITIES</b>  |                 |                 |
| Purchase of real estate investment properties  | (23,480)        | (43,932)        |
| Capital expenditures and tenant improvements   | (5,759)         | (10,536)        |
| Proceeds from sale of real estate investments  | 1,424           | 625             |
| Proceeds from involuntary conversion   | 529             | 906             |
| Investment in unconsolidated affiliates  | (37)            | (674)           |
| Distributions in excess of earnings received from unconsolidated affiliates                    | 152             | 274             |
| Restricted deposits - replacement reserve escrows  | 1,456           | (1,367)         |
| Notes receivable issued  | (51)            | (600)           |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>   | <b>(25,766)</b> | <b>(55,304)</b> |
| <b>FINANCING ACTIVITIES</b>  |                 |                 |
| Payments for financing and lease costs   | (1,938)         | (1,668)         |
| Payments on investment certificates  | (319)           | (64)            |
| Reinvested proceeds from investment certificates   | —               | 17              |
| Principal payments on special assessments payable  | (117)           | (35)            |
| Proceeds from issuance of mortgage notes payable and subordinated debt                         | 36,385          | 24,540          |
| Principal payments on mortgage notes payable   | (27,160)        | (7,898)         |
| Advances on lines of credit  | 16,305          | 29,630          |
| Payments on lines of credit  | (32,725)        | (13,210)        |
| Proceeds from contributions received from noncontrolling interest - partially owned properties | 5,123           | —               |
| Proceeds from issuance of common shares  | 25,750          | —               |
| Proceeds from issuance of shares under optional purchase plan                                  | 1,783           | 1,892           |
| Shares/units redeemed  | (2,548)         | (4,904)         |
| Dividends/distributions paid   | (15,935)        | (14,129)        |
| Payment of syndication costs   | (1,335)         | —               |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>   | <b>3,269</b>    | <b>14,171</b>   |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>   | <b>5,818</b>    | <b>(13,206)</b> |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>  | <b>643</b>      | <b>13,849</b>   |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>  | <b>\$ 6,461</b> | <b>\$ 643</b>   |

See Notes to Consolidated Financial Statements



**STERLING REAL ESTATE TRUST AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (Continued)**

|   | Year Ended     |           |
|---|----------------|-----------|
|   | December 31,   |           |
|   | 2015           | 2014      |
|   | (in thousands) |           |
| SCHEDULE OF CASH FLOW INFORMATION   |                |           |
| Cash paid during the period for interest, net of capitalized interest   | \$ 16,249      | \$ 12,395 |
| SUPPLEMENTARY SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES  |                |           |
| Dividends reinvested  | \$ 4,160       | \$ 3,238  |
| Dividends declared and not paid   | 1,762          | 1,264     |
| UPREIT distributions declared and not paid  | 3,557          | 3,290     |
| UPREIT units converted to REIT common shares  | 87             | 700       |
| Stock issued pursuant to trustee compensation plan  | 56             | 23        |
| Acquisition of assets in exchange for the issuance of noncontrolling interest units in UPREIT   | 11,228         | 16,771    |
| Contributed assets in real estate venture   | —              | 1,316     |
| Purchase of subsidiary ownership from noncontrolling interest in exchange for the issuance of noncontrolling interest units in UPREIT | —              | 810       |
| Increase in land improvements due to increase in special assessments payable  | 850            | 172       |
| Unrealized gain (loss) on interest rate swaps   | 53             | (37)      |
| Acquisition of assets with new financing  | 45,830         | 67,813    |
| Acquisition of assets through assumption of debt and liabilities  | 2,051          | 2,636     |
| Capitalized interest related to construction in progress  | 71             | 224       |
| Construction in progress with new financing   | 3,424          | —         |
| Acquisition of assets with accounts payable   | 213            | 1,066     |

See Notes to Consolidated Financial Statements

**STERLING REAL ESTATE TRUST AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

(Dollar amounts in thousands, except share and per share data)

**NOTE 1 - ORGANIZATION**

Sterling Real Estate Trust (“Sterling”, “the Trust” or “the Company”) is a registered, but unincorporated business trust organized in North Dakota in December 2002. Sterling has elected to be taxed as a Real Estate Investment Trust (“REIT”) under Sections 856-860 of the Internal Revenue Code, which requires that 75% of the assets of a REIT must consist of real estate assets and that 75% of its gross income must be derived from real estate. The net income of the REIT is allocated in accordance with the stock ownership in the same fashion as a regular corporation.

Sterling previously established an operating partnership (“Sterling Properties, LLLP”) and transferred all of its assets and liabilities to the operating partnership in exchange for general partnership units. As the general partner, Sterling has management responsibility for all activities of the operating partnership. As of December 31, 2015 and 2014, Sterling owned approximately 33.12% and 27.77%, respectively, of the operating partnership.

**NOTE 2 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation*

The accompanying consolidated financial statements include the accounts of Sterling and all subsidiaries for which we maintain a controlling interest.

The accompanying consolidated financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles (“U.S. GAAP”) and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting periods. Actual results could differ from those estimates.

*Principles of Consolidation*

The consolidated financial statements include the accounts of Sterling, Sterling Properties, LLLP, and wholly-owned limited liability companies. All significant intercompany transactions and balances have been eliminated in consolidation.

Additionally, we evaluate the need to consolidate affiliates based on standards set forth in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 810, Consolidation (“ASC 810”). In determining whether we have a requirement to consolidate the accounts of an entity, management considers factors such as our ownership interest, our authority to make decisions and contractual and substantive participating rights of the limited partners and shareholders, as well as whether the entity is a variable interest entity (“VIE”) for which we have both : a) the power to direct the activities of the VIE that most significantly impact the entity’s economic performance, and b) the obligation to absorb losses or the right to receive benefits from the VIE that could be potentially significant to the VIE.

*Principal Business Activity*

Sterling currently owns directly and indirectly, 146 properties. The Trust’s 97 residential properties are located in North Dakota, Minnesota, Missouri and Nebraska and are principally multifamily apartment buildings. The Trust owns 49 commercial properties primarily located in North Dakota with others located in Arkansas, Colorado, Iowa, Louisiana, Michigan, Minnesota, Mississippi, Texas and Wisconsin. The commercial properties include retail, office, industrial, restaurant and medical properties. Presently, the Trust’s mix of properties is 68.0% residential and 32.0% commercial (based on cost) and total \$594,509 in real

**STERLING REAL ESTATE TRUST AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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estate investments at December 31, 2015. Effective January 1, 2016, our focus will be limited to multifamily apartment properties. We currently have no plans with respect to our non-multifamily apartment properties.

| <b>Residential Property</b> | <b>Location</b> | <b>No. of Properties</b> | <b>Units</b> |
|-----------------------------|-----------------|--------------------------|--------------|
|                             | North Dakota    | 78                       | 5,013        |
|                             | Minnesota       | 16                       | 3,027        |
|                             | Missouri        | 1                        | 164          |
|                             | Nebraska        | 2                        | 316          |
|                             |                 | 97                       | 8,520        |

| <b>Commercial Property</b> | <b>Location</b> | <b>No. of Properties</b> | <b>Sq. Ft</b> |
|----------------------------|-----------------|--------------------------|---------------|
|                            | North Dakota    | 21                       | 832,908       |
|                            | Arkansas        | 2                        | 29,370        |
|                            | Colorado        | 1                        | 13,390        |
|                            | Iowa            | 1                        | 32,532        |
|                            | Louisiana       | 1                        | 14,560        |
|                            | Michigan        | 1                        | 11,737        |
|                            | Minnesota       | 14                       | 657,273       |
|                            | Mississippi     | 1                        | 14,820        |
|                            | Texas           | 1                        | 7,296         |
|                            | Wisconsin       | 6                        | 74,916        |
|                            |                 | 49                       | 1,688,802     |

*Concentration of Credit Risk*

Our cash balances are maintained in various bank deposit accounts. The bank deposit amounts in these accounts may exceed federally insured limits at various times throughout the year.

*Use of Estimates*

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Real Estate Investments*

We account for our property acquisitions by allocating the purchase price of a property to the property's assets based on management's estimates of fair value. Techniques used to estimate fair value include an appraisal of the property by a certified independent appraiser at the time of acquisition. Significant factors included in the independent appraisal include items such as current rent schedules, occupancy levels, and discount factors. Property valuations are completed primarily using the income capitalization approach, in which anticipated benefits are converted to an indication of current value.

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

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

We estimate the in-place lease value for each lease acquired. This fair value estimate is calculated using factors available in third party appraisals or cash flow estimates of the property prepared by our internal analysis. These estimates are based upon cash flow projections for the property, existing leases, and the current economic climate.

Our analysis results in three discrete financial items: assets for above market leases, liabilities for below market leases, and assets for the in-place lease value. The calculation of each of these components is performed in tandem to provide a complete intangible asset value.

Key factors considered in the calculation of fair value of both real property and intangible assets include the current market rent values, "dark" periods (building in vacant status), direct costs estimated with obtaining a new tenant, discount rates, escalation factors, standard lease terms, and tenant improvement costs.

Furniture and fixtures are stated at cost less accumulated depreciation. All costs associated with the development and construction of real estate investments, including acquisition fees and interest, are capitalized as a cost of the property. Expenditures for renewals and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for routine maintenance and repairs, which do not add to the value or extend useful lives, are charged to expense as incurred.

Depreciation is provided for over the estimated useful lives of the individual assets using the straight-line method over the following estimated useful lives:

|                                   |           |
|-----------------------------------|-----------|
| Buildings and improvements        | 40 years  |
| Furniture, fixtures and equipment | 5-9 years |

Depreciation expense for the years ended December 31, 2015 and 2014 totaled \$16,466 and \$12,116, respectively.

The Company's investment properties are reviewed for potential impairment at the end of each reporting period whenever events or changes in circumstances indicate that the carrying value may not be recoverable. At the end of each reporting period, the Company separately determines whether impairment indicators exist for each property.

Examples of situations considered to be impairment indicators include, but are not limited to:

- a substantial decline or continued low occupancy rate;
- continued difficulty in leasing space;
- significant financial troubled tenants;
- a change in plan to sell a property prior to the end of its useful life or holding period;
- a significant decrease in market price not in line with general market trends; and
- any other quantitative or qualitative events or factors deemed significant by the Company's management or board of trustees.

If the presence of one or more impairment indicators as described above is identified at the end of the reporting period or throughout the year with respect to an investment property, the asset is tested for recoverability by comparing its carrying

**STERLING REAL ESTATE TRUST AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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value to the estimated future undiscounted cash flows. An investment property is considered to be impaired when the estimated future undiscounted cash flows are less than its current carrying value. When performing a test for recoverability or estimating the fair value of an impaired investment property, the Company makes complex or subjective assumptions which include, but are not limited to:

- projected operating cash flows considering factors such as vacancy rates, rental rates, lease terms, tenant financial strength, demographics, holding period and property location;
- projected capital expenditures and lease origination costs;
- projected cash flows from the eventual disposition of an operating property using a property specific capitalization rate;
- comparable selling prices; and
- property specific discount rates for fair value estimates as necessary.

To the extent impairment has occurred, the Company will record an impairment charge calculated as the excess of the carrying value of the asset over its fair value for impairment of investment properties. Based on evaluation, management recorded a loss on impairment of property of \$412 during the year ended December 31, 2015. There was no impairment losses during the year ended December 31, 2014 .

*Properties Held for Sale*

We account for our properties held for sale in accordance with ASC 360, Property, Plant and Equipment (“ASC 360”), which addresses financial accounting and reporting in a period in which a component or group of components of an entity either has been disposed of or is classified as held for sale.

In accordance with ASC 360, at such time as a property is held for sale, such property is carried at the lower of (1) its carrying amount or (2) fair value less costs to sell. In addition, a property being held for sale ceases to be depreciated. We classify operating properties as properties held for sale in the period in which all of the following criteria are met:

- management, having the authority to approve the action, commits to a plan to sell the asset;
- the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets;
- an active program to locate a buyer and other actions required to complete the plan to sell the asset has been initiated;
- the sale of the asset is probable and the transfer of the asset is expected to qualify for recognition as a completed sale within one year;
- the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and
- given the actions required to complete the plan to sell the asset, it is unlikely that significant changes to the plan would be made or that the plan would be withdrawn.

The results of operations of a component of an entity that either has been disposed of or is classified as held-for-sale under the requirements of ASC 360, shall be reported in discontinued operations in accordance with ASC 205, Presentation of Financial Statements (“ASC 205”) if the following condition is met:

- represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results.

There was one property classified as held for sale at December 31, 2015 , and no properties classified as held for sale at December 31, 2014. See Note 19 .

**STERLING REAL ESTATE TRUST AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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(Dollar amounts in thousands, except share and per share data)

*Construction in Progress*

The Company capitalizes direct and certain indirect project costs incurred during the development period such as construction, insurance, architectural, legal, interest and other financing costs, and real estate taxes. At such time as the development is considered substantially complete, the capitalization of certain indirect costs such as real estate taxes and interest and financing costs cease and all project-related costs included in construction in process are reclassified to land and building and other improvements.

*Cash and Cash Equivalents*

We classify highly liquid investments with a maturity of three months or less when purchased as cash equivalents.

*Investment in Unconsolidated Affiliates*

We account for unconsolidated affiliates using the equity method of accounting per guidance established under ASC 323, Investments – Equity Method and Joint Ventures (“ASC 323”). The equity method of accounting requires the investment to be initially recorded at cost and subsequently adjusted for our share of equity in the affiliates’ earnings and distributions. We evaluate the carrying amount of the investments for impairment in accordance with ASC 323. Unconsolidated affiliates are reviewed for potential impairment if the carrying amount of the investment exceeds its fair value. An impairment charge is recorded when an impairment is deemed to be other-than-temporary. To determine whether impairment is other-than-temporary, we consider whether we have the ability and intent to hold the investment until the carrying amount is fully recovered. The evaluation of an investment in an affiliate for potential impairment can require our management to exercise significant judgments. No impairment losses were recorded related to the unconsolidated affiliates for the years ended December 31, 2015 and 2014.

We use the equity method to account for investments that qualify as variable interest entities where we are not the primary beneficiary and entities that we do not control or where we do not own a majority of the economic interest but have the ability to exercise significant influence over the operations and financial policies of the investee. We will also use the equity method for investments that do not qualify as variable interest entities and do not meet the control requirements for consolidation, as defined in ASC 810. For a joint venture accounted for under the equity method, our share of net earnings and losses is reflected in income when earned and distributions are credited against our investment in the joint venture as received.

In determining whether an investment in a limited liability company or tenant in common is a variable interest entity, we consider: the form of our ownership interest and legal structure; the size of our investment; the financing structure of the entity, including the necessity of subordinated debt; estimates of future cash flows; our and our partner’s ability to participate in the decision making related to acquisitions, dispositions, budgeting and financing on the entity; and obligation to absorb losses and preferential returns. As of December 31, 2015, we assessed one of our liability liability company arrangements as a variable interest entity where we were not the primary beneficiary. In addition, four of our tenant in common arrangements do not qualify as variable interest entities and do not meet the control requirements for consolidation, as defined in ASC 810.

As of December 31, 2015 and 2014, the unconsolidated affiliates held total assets of \$32,296 and \$32,459 and mortgage notes payable of \$20,421 and \$20,803, respectively.

The operating partnership owns a 40.26% interest in a single asset limited liability company which owns a 144 unit residential, multifamily apartment complex in Bismarck, North Dakota. The property is encumbered by a first mortgage with a balance at December 31, 2015 and 2014 of \$2,259 and \$2,323, respectively. We owed \$909 and \$935 of our respective share of the mortgage loan balance as of December 31, 2015 and 2014, respectively. The Company is jointly and severally liable for the full mortgage balance.

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The operating partnership is a 50% owner of Grand Forks Marketplace Retail Center through 100% ownership in a limited liability company. Grand Forks Marketplace Retail Center has approximately 183,000 square feet of commercial space in Grand Forks, North Dakota. The property is encumbered by a non-recourse first mortgage with a balance at December 31, 2015 and 2014 of \$ 11,079 and \$11,260, respectively. We owed \$ 5,540 and \$5,630 for our respective share of the mortgage loan balance as of December 31, 2015 and 2014, respectively. The Company is jointly and severally liable for the full mortgage balance.

The operating partnership owns a 66.67% interest as tenant in common in an office building with approximately 75,000 square feet of commercial rental space in Fargo, North Dakota. The property is encumbered by a first mortgage with a balance at December 31, 2015 and 2014 of \$ 7,083 and \$7,221, respectively. We owed \$ 4,722 and \$4,814 for our respective share of the mortgage loan balance on December 31, 2015 and 2014, respectively. The Company is jointly and severally liable for the full mortgage balance.

The operating partnership owns an 82.50% interest as a tenant in common in a 61 unit residential, multifamily apartment complex in Fargo, North Dakota. The property was unencumbered at December 31, 2015 and 2014, respectively.

The operating partnership is a 99% owner of Michigan Street Transit Center, LLC (“Transit Center”) through 100% ownership in a limited liability company. The operating partnership has contributed approximately \$644 in cash and \$1,316 in property contributions to the Transit Center in May and June 2014, respectively. As of December 31, 2015, the property owned by the Transit Center consisted of land previously occupied by a building and parking ramp in Duluth, Minnesota which were both demolished during 2014. The property was unencumbered at December 31, 2015 and 2014, respectively.

*Receivables*

Receivables consist primarily of amounts due for rent and real estate taxes. The receivables are non-interest bearing. The carrying amount of receivables is reduced by an amount that reflects management’s best estimates of the amounts that will not be collected. As of December 31, 2015 and 2014, management determined no allowance was necessary for uncollectible receivables.

*Financing and Lease Costs*

Financing costs have been capitalized and are being amortized over the life of the financing using the effective interest method. Unamortized financing costs are written off when debt is retired before the maturity date and included in amortization expense at that time. Lease costs incurred in connection with new leases have been capitalized and are being amortized over the life of the lease using the straight-line method.

*Intangible Assets*

Lease intangibles are a purchase price allocation recorded on property acquisition. The lease intangibles represent the estimated value of in-place leases, tenant relationships and the value of leases with above or below market lease terms. Lease intangibles are amortized over the term of the related lease.

The carrying amount of intangible assets is regularly reviewed for indicators of impairments in value. Impairment is recognized only if the carrying amount of the intangible asset is considered to be unrecoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and the estimated fair value of the asset. Based on the review, management determined no impairment charges were necessary at December 31, 2015 and 2014.

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*Noncontrolling Interest*

A noncontrolling interest in a subsidiary (minority interest) is in most cases an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements and separate from the parent company's equity. In addition, consolidated net income is required to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest and the amount of consolidated net income attributable to the parent and the noncontrolling interest are required to be disclosed on the face of the consolidated statements of operations and comprehensive income.

Operating Partnership: Interests in the operating partnership held by limited partners are represented by operating partnership units. The operating partnership's income is allocated to holders of units based upon the ratio of their holdings to the total units outstanding during the period. Capital contributions, distributions, syndication costs, and profits and losses are allocated to noncontrolling interests in accordance with the terms of the operating partnership agreement.

Partially Owned Properties: The Company reflects noncontrolling interests in partially owned properties on the balance sheet for the portion of properties consolidated by the Company that are not wholly owned by the Company. The earnings or losses from those properties attributable to the noncontrolling interests are reflected as noncontrolling interest in partially owned properties in the consolidated statement of operations and comprehensive income.

*Syndication Costs*

Syndication costs consist of costs paid to attorneys, accountants, and selling agents, related to the raising of capital. Syndication costs are recorded as a reduction to beneficial and noncontrolling interest.

*Federal Income Taxes*

We have elected to be taxed as a REIT under the Internal Revenue Code, as amended. A REIT calculates taxable income similar to other domestic corporations, with the major difference being a REIT is entitled to a deduction for dividends paid. A REIT is generally required to distribute each year at least 90% of its taxable income. If it chooses to retain the remaining 10% of taxable income, it may do so, but it will be subject to a corporate tax on such income. REIT shareholders are taxed on REIT distributions of ordinary income in the same manner as they are taxed on other corporate distributions. A summary of the tax characterization of the dividends paid to shareholders of the Company's common stock for the years ended December 31, 2015 and 2014 follows:

|                   | <u>Tax Year Ended December 31,</u> |                 |                  |                 |
|-------------------|------------------------------------|-----------------|------------------|-----------------|
|                   | <u>Dividend</u>                    | <u>%</u>        | <u>Dividend</u>  | <u>%</u>        |
|                   | <u>2015</u>                        | <u>2015</u>     | <u>2014</u>      | <u>2014</u>     |
| Tax status        |                                    |                 |                  |                 |
| Ordinary income   | \$ 0.8671                          | 93.24 %         | \$ 0.6649        | 73.88 %         |
| Capital Gain      | 0.0098                             | 1.05 %          | 0.0281           | 3.12 %          |
| Return of capital | 0.0531                             | 5.71 %          | 0.2070           | 23.00 %         |
|                   | <u>\$ 0.9300</u>                   | <u>100.00 %</u> | <u>\$ 0.9000</u> | <u>100.00 %</u> |

We intend to continue to qualify as a REIT and, provided we maintain such status, will not be taxed on the portion of the income that is distributed to shareholders. In addition, we intend to distribute all of our taxable income; therefore, no provisions or liabilities for income taxes have been recorded in the financial statements.

Sterling conducts its business activity as an Umbrella Partnership Real Estate Investment Trust ("UPREIT") through its Operating Partnership – Sterling Properties, LLLP. The Operating Partnership is organized as a limited liability limited partnership. Income or loss is allocated to the partners in accordance with the provisions of the Internal Revenue Code

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704(b) and 704(c). UPREIT status allows non-recognition of gain by an owner of appreciated real estate if that owner contributes the real estate to a partnership in exchange for a partnership interest. The conversion of a partnership interest to shares of beneficial interest in the REIT will be a taxable event to the limited partner.

We follow ASC Topic 740, *Income Taxes*, to recognize, measure, present and disclose in our consolidated financial statements uncertain tax positions that we have taken or expect to take on a tax return. As of December 31, 2015 and 2014 we did not have any liabilities for uncertain tax positions that we believe should be recognized in our consolidated financial statements. We are no longer subject to Federal and State tax examinations by tax authorities for years before 2012.

The operating partnership has elected to record related interest and penalties, if any, as income tax expense on the consolidated statements of operations and other comprehensive income.

*Revenue Recognition*

We recognize revenue in accordance with ASC Topic 605, Revenue Recognition, (“ASC Topic 605”). ASC Topic 605 requires that all four of the following basic criteria be met before revenue is realized or realizable and earned: (1) there is persuasive evidence that an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the seller’s price to the buyer is fixed and determinable; and (4) collectability is reasonably assured.

We derive over 95% of our revenues from tenant rents and other tenant-related activities. We lease multifamily units under operating leases with terms of one year or less. Rental income and other property revenues are recorded when due from tenants and recognized monthly as earned pursuant to the terms of the underlying leases. Other property revenues consist primarily of laundry, application and other fees charged to tenants.

We lease commercial space primarily under long-term lease agreements. Commercial tenant rents include base rents, expense reimbursements (such as common area maintenance, real estate taxes and utilities), and a straight-line rent adjustment. We record base rents on a straight-line basis. The monthly base rent income according to the terms of our leases is adjusted so that an average monthly rent is recorded for each tenant over the term of its lease. The straight-line rent adjustment increased revenue by \$325 and \$186 for the years ended December 31, 2015 and 2014, respectively. The straight-line receivable balance included in receivables on the consolidated balance sheets as of December 31, 2015 and 2014 was \$ 2,863 and \$2,538, respectively. We receive payments for expense reimbursements from substantially all our multi-tenant commercial tenants throughout the year based on estimates. Differences between estimated recoveries and the final billed amounts, which generally are immaterial, are recognized in the subsequent year.

*Earnings per Common Share*

Basic earnings per common share is computed by dividing net income available to common shareholders (the “numerator”) by the weighted average number of common shares outstanding (the “denominator”) during the period. Sterling had no dilutive potential common shares as of December 31, 2015 and 2014, and therefore, basic earnings per common share was equal to diluted earnings per common share for both periods.

For the years ended December 31, 2015 and 2014, Sterling’s denominators for the basic and diluted earnings per common share were approximately 7,223,000 and 5,507,000, respectively.

*Recent Accounting Pronouncements*

In April 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* (“ASU 2014-08”). In accordance with ASU 2014-08, a discontinued operation represents: (i) a component of an entity or group of components that has been disposed of or is classified as held

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for sale in a single transaction and represents a strategic shift that has or will have a major effect on an entity's financial results, or (ii) an acquired business that is classified as held for sale on the date of acquisition. A strategic shift could include a disposal of : (i) a separate major line of business, (ii) a separate major geographic area of operations, (iii) a major equity method investment, or (iv) other major parts of an entity. The standard requires prospective application and will be effective for interim and annual periods beginning on or after December 15, 2014 with early adoption permitted. The standard is not applied to components of an entity that were sold or classified as held for sale prior to the adoption of the standard.

We have elected to adopt this standard early, effective January 1, 2014, which primarily has the impact of reflecting gains and losses on the sale of operating properties prospectively within continuing operations, and results in not classifying the operations of such operating properties as discontinued operations in all periods presented. Subsequent to our adoption of ASU 2014-08, the sale of real estate that does not meet the definition of a discontinued operation under the standard will be included in gain on sale of operating properties in our consolidated statements of operations and other comprehensive income.

In May 2014, the FASB and International Accounting Standards Board issued their final standard on revenue from contracts with customers, which was issued by the FASB as Accounting Standards Update 2014-09, *Revenue from Contracts with Customers*, or ASU 2014-09. ASU 2014-09, which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, supersedes most current GAAP applicable to revenue recognition and converges U.S. and international accounting standards in this area. The core principle of the new guidance is that revenue shall only be recognized when an entity has transferred control of goods or services to a customer and for an amount reflecting the consideration to which the entity expects to be entitled for such exchange. Additionally, lease contracts are specifically excluded from ASU 2014-09. In July 2015, the FASB decided to defer the effective date for annual reporting periods beginning after December 15, 2017. Early adoption is permitted beginning on the original effective date of periods beginning after December 15, 2016. Upon adoption, ASU 2014-09 allows for full retrospective adoption applied to all periods presented or modified retrospective adoption with the cumulative effect of initially applying the standard recognized at the date of initial application. We have not yet determined the effect ASU 2014-09 will have on our consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis* ("ASU 2015-02"). This amends ASC 810, *Consolidation* (ASC "810"), to improve targeted areas of consolidation guidance by simplifying the requirements of consolidation and placing more emphasis on risk of loss when determining a controlling financial interest. ASU 2015-02 is effective for the annual period ending after December 15, 2015, and subsequent interim and annual periods with early adoption permitted. The adoption of ASU 2015-02 is not expected to have a material impact on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03 “ *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* ”. The objective of ASU 2015-03 is to identify, evaluate, and improve areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. To simplify presentation of debt issuance costs, the amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. In August 2015, the FASB issued ASU No. 2015-15, *Interest – Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements*, which clarifies that absent authoritative guidance in ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, the staff of the Securities and Exchange Commission would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. This ASU is effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2015. Early adoption is permitted. The adoption of the standard will result in the reclassification of unamortized debt issuance

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costs related to the Company's mortgage notes payable from assets, net to reductions in mortgage notes payable within its consolidated balance sheets as of December 31, 2015 and 2014. Other than this reclassification, the adoption of the standard will not have an impact on the Company's consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*, which requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period, including the cumulative effect of changes in depreciation, amortization, or other income effects, in the reporting period in which the adjustment amounts are determined. Previously, acquirers were required to recognize these adjustments retrospectively. The standard is effective for annual reporting periods beginning after December 15, 2015, and interim periods within those years, with early adoption permitted. The standard will be applied on a prospective basis. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance requires that lessees will be required to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of more than 12 months. The ASU also will require disclosures designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative information. The standard will take effect for fiscal years, and interim periods within those fiscal years, beginning after Dec. 15, 2018 with earlier application permitted. The Company is still evaluating the impact of ASU No. 2016-02 on its financial position and results of operations.

Management does not believe that any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying Consolidated Financial Statements.

**NOTE 3 – SEGMENT REPORTING**

We report our results in two reportable segments: residential and commercial properties. Our residential properties include multifamily properties. Our commercial properties include retail, office, industrial, restaurant and medical properties. We assess and measure operating results based on net operating income ("NOI"), which we define as total real estate segment revenues less real estate expenses (which consist of real estate taxes, property management fees, utilities, repairs and maintenance, insurance and direct administrative costs). We believe NOI is an important measure of operating performance even though it should not be considered an alternative to net income or cash flow from operating activities. NOI is unaffected by financing, depreciation, amortization, legal and professional fees and certain general and administrative expenses. The accounting policies of each segment are consistent with those described in Note 2 of this report.

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**Segment Revenues and Net Operating Income**

The revenues and net operating income for the reportable segments (residential and commercial) are summarized as follows for the years ended December 31, 2015 and 2014, along with reconciliations to the consolidated financial statements. Segment assets are also reconciled to Total Assets as reported in the consolidated financial statements.

| <u>Year ended December 31, 2015</u> | <u>Residential</u> | <u>Commercial</u> | <u>Total</u>     |
|-------------------------------------|--------------------|-------------------|------------------|
|                                     |                    | (in thousands)    |                  |
| Income from rental operations       | \$ 75,914          | \$ 21,268         | \$ 97,182        |
| Expenses from rental operations     | 39,898             | 4,809             | 44,707           |
| Net operating income                | <u>\$ 36,016</u>   | <u>\$ 16,459</u>  | <u>\$ 52,475</u> |
| Interest                            |                    |                   | 16,475           |
| Depreciation and amortization       |                    |                   | 20,240           |
| Administration of REIT              |                    |                   | 5,647            |
| Loss on impairment of property      |                    |                   | 412              |
| Other (income)/expense              |                    |                   | (1,683)          |
| Net income                          |                    |                   | <u>\$ 11,384</u> |

| <u>Year ended December 31, 2014</u> | <u>Residential</u> | <u>Commercial</u> | <u>Total</u>     |
|-------------------------------------|--------------------|-------------------|------------------|
|                                     |                    | (in thousands)    |                  |
| Income from rental operations       | \$ 53,499          | \$ 17,437         | \$ 70,936        |
| Expenses from rental operations     | 27,794             | 3,019             | 30,813           |
| Net operating income                | <u>\$ 25,705</u>   | <u>\$ 14,418</u>  | <u>\$ 40,123</u> |
| Interest                            |                    |                   | 12,495           |
| Depreciation and amortization       |                    |                   | 14,038           |
| Administration of REIT              |                    |                   | 6,824            |
| Loss on lease termination           |                    |                   | 58               |
| Other (income)/expense              |                    |                   | (2,595)          |
| Net income                          |                    |                   | <u>\$ 9,303</u>  |

**Segment Assets and Accumulated Depreciation**

| <u>As of December 31, 2015</u>                           | <u>Residential</u> | <u>Commercial</u> | <u>Total</u>      |
|--|--------------------|-------------------|-------------------|
|  |                    | (in thousands)    |                   |
| Real estate investments                                  | \$ 472,129         | \$ 197,355        | \$ 669,484        |
| Accumulated depreciation                                 | (50,668)           | (24,307)          | (74,975)          |
|  | <u>\$ 421,461</u>  | <u>\$ 173,048</u> | <u>\$ 594,509</u> |
| Cash and cash equivalents                                |                    |                   | 6,461             |
| Restricted deposits and funded reserves                  |                    |                   | 6,115             |
| Investment in unconsolidated affiliates                  |                    |                   | 9,022             |
| Receivables and other assets                             |                    |                   | 5,123             |
| Financing and lease costs, less accumulated amortization |                    |                   | 4,621             |
| Assets held for sale                                     |                    |                   | 1,721             |
| Intangible assets, less accumulated amortization         |                    |                   | 18,184            |
| Total Assets   |                    |                   | <u>\$ 645,756</u> |

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| As of December 31, 2014                                  | Residential    | Commercial | Total      |
|--|----------------|------------|------------|
|  | (in thousands) |            |            |
| Real estate investments                                  | \$ 438,609     | \$ 152,527 | \$ 591,136 |
| Accumulated depreciation                                 | (38,729)       | (20,144)   | (58,873)   |
|  | \$ 399,880     | \$ 132,383 | 532,263    |
| Cash and cash equivalents                                |                |            | 643        |
| Restricted deposits and funded reserves                  |                |            | 6,732      |
| Investment in unconsolidated affiliates                  |                |            | 9,081      |
| Receivables and other assets                             |                |            | 5,319      |
| Financing and lease costs, less accumulated amortization |                |            | 3,761      |
| Intangible assets, less accumulated amortization         |                |            | 9,222      |
| Total Assets   |                |            | \$ 567,021 |

**NOTE 4 – REAL ESTATE INVESTMENTS**

| As of December 31, 2015           | Residential    | Commercial | Total      |
|-----------------------------------|----------------|------------|------------|
|                                   | (in thousands) |            |            |
| Land and land improvements        | \$ 63,605      | \$ 35,631  | \$ 99,236  |
| Building and improvements         | 384,308        | 160,225    | 544,533    |
| Furniture, fixtures and equipment | 23,744         | 1,499      | 25,243     |
| Construction in progress          | 472            | —          | 472        |
|                                   | 472,129        | 197,355    | 669,484    |
| Less accumulated depreciation     | (50,668)       | (24,307)   | (74,975)   |
|                                   | \$ 421,461     | \$ 173,048 | \$ 594,509 |

| As of December 31, 2014           | Residential    | Commercial | Total      |
|-----------------------------------|----------------|------------|------------|
|                                   | (in thousands) |            |            |
| Land and land improvements        | \$ 59,267      | \$ 28,285  | \$ 87,552  |
| Building and improvements         | 353,750        | 122,776    | 476,526    |
| Furniture, fixtures and equipment | 21,423         | 1,466      | 22,889     |
| Construction in progress          | 4,169          | —          | 4,169      |
|                                   | 438,609        | 152,527    | 591,136    |
| Less accumulated depreciation     | (38,729)       | (20,144)   | (58,873)   |
|                                   | \$ 399,880     | \$ 132,383 | \$ 532,263 |

Construction in progress as of December 31, 2015 consists of planning costs associated with phase II and III of a multifamily apartment community under construction in Bismarck, North Dakota. Phase II of the project consists of a clubhouse and six 6-plex two-story townhomes and phase III consists of up to six 4-story apartment buildings with underground parking. Site work has commenced on the clubhouse and one townhome building of Phase II and Phase III of the development is still in the planning stages and construction has not yet commenced. Phase II of the project is estimated to cost \$8,033 and is expected to be substantially completed in third quarter 2017. The Company is working with GOLDMARK Development Corporation, a related party, as the general contractor for Phase II.

Construction in progress as of December 31, 2014 consisted of costs associated with the development of a new, four building 156 unit multifamily apartment community (phase I) constructed in Bismarck, North Dakota. The project was substantially completed in June 2015. The total project construction costs capitalized were \$14,237. The Company is working with GOLDMARK Development Corporation, a related party, as the general contractor for the project. See Note 1 6 for additional information.

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**NOTE 5 - RESTRICTED DEPOSITS AND FUNDED RESERVES**

|                                       | 2015            | 2014            |
|---------------------------------------|-----------------|-----------------|
|                                       | (in thousands)  |                 |
| Tenant security deposits              | \$ 3,738        | \$ 2,569        |
| Real estate tax and insurance escrows | 1,677           | 2,007           |
| Replacement reserves                  | 700             | 2,156           |
|                                       | <u>\$ 6,115</u> | <u>\$ 6,732</u> |

*Tenant Security Deposits*

We have set aside funds to repay tenant security deposits upon tenant move-out.

*Real Estate Tax and Insurance Escrows*

Pursuant to the terms of certain mortgages, we have established and maintain real estate tax escrows and insurance escrows to pay real estate taxes and insurance. We are required to contribute to the account monthly an amount equal to 1/12 of the estimated real estate taxes and insurance premiums.

*Replacement Reserves*

Pursuant to the terms of certain mortgages, we have established and maintain several replacement reserve accounts. We make monthly deposits into the replacement reserve accounts to be used for repairs and replacements on the property. Certain replacement reserve accounts require authorization from the mortgage company for withdrawals.

**NOTE 6 – NOTES RECEIVABLE**

Notes receivable primarily consisted of a \$600 note to an unaffiliated party to provide working capital and for improvements on a residential property bearing interest at a rate of 6.5% and is personally guaranteed by the owner. Accrued interest is due monthly beginning in October 2014 until the note is paid in full. The principal plus accrued interest will be due and payable on the earlier of : 1) within ninety days of the lender’s demand, which demand may be made at any time after June 1, 2015 , or 2) August 31, 2016.

**NOTE 7 - LEASE INTANGIBLES**

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

| <u>As of December 31, 2015</u> | <u>Lease<br/>Intangibles</u> | <u>Accumulated<br/>Amortization</u> | <u>Lease<br/>Intangibles, net</u> |
|--------------------------------|------------------------------|-------------------------------------|-----------------------------------|
| Intangible Assets              |                              |                                     |                                   |
|                                |                              | (in thousands)                      |                                   |
| In-place leases                | \$ 22,722                    | \$ (6,974)                          | \$ 15,748                         |
| Above-market leases            | 3,117                        | (681)                               | 2,436                             |
|                                | <u>\$ 25,839</u>             | <u>\$ (7,655)</u>                   | <u>\$ 18,184</u>                  |
| Intangible Liabilities         |                              |                                     |                                   |
| Below-market leases            | \$ (3,056)                   | \$ 803                              | \$ (2,253)                        |

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| <u>As of December 31, 2014</u> | <u>Lease<br/>Intangibles</u> | <u>Accumulated<br/>Amortization</u> | <u>Lease<br/>Intangibles, net</u> |
|--------------------------------|------------------------------|-------------------------------------|-----------------------------------|
| Intangible Assets              |                              | (in thousands)                      |                                   |
| In-place leases                | \$ 11,622                    | \$ (4,385)                          | \$ 7,237                          |
| Above-market leases            | 2,466                        | (481)                               | 1,985                             |
|                                | \$ 14,088                    | \$ (4,866)                          | \$ 9,222                          |
| Intangible Liabilities         |                              |                                     |                                   |
| Below-market leases            | \$ (1,378)                   | \$ 572                              | \$ (806)                          |

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

| <u>Years ending December 31,</u> | <u>Intangible<br/>Assets</u> | <u>Intangible<br/>Liabilities</u> |
|----------------------------------|------------------------------|-----------------------------------|
|                                  | (in thousands)               |                                   |
| 2016                             | \$ 3,463                     | \$ 324                            |
| 2017                             | 2,501                        | 285                               |
| 2018                             | 2,222                        | 276                               |
| 2019                             | 1,908                        | 266                               |
| 2020                             | 1,435                        | 209                               |
| Thereafter                       | 6,655                        | 893                               |
|                                  | \$ 18,184                    | \$ 2,253                          |

The weighted average amortization period for the intangible assets ( in-place leases, above-market leases ) and intangible liabilities ( below-market leases ) acquired as of December 31, 2015 was 4.9 years.

**NOTE 8 – LINES OF CREDIT**

We have a \$ 27,000 variable rate (1-month LIBOR plus 2.25%) line of credit agreement with Wells Fargo Bank, which expires in June 2018; and a \$6,315 variable rate (prime rate less 0.5%) line of credit agreement with Bremer Bank, which expires November 2019. The lines of credit are secured by properties in Duluth, Minnesota; Minneapolis/St. Paul, Minnesota; Austin, Texas; Mandan, North Dakota; Fargo, North Dakota; Edina, Minnesota; St. Cloud, Minnesota; Moorhead, Minnesota; and Grand Forks, North Dakota. We also have a \$2,000 variable rate (prime rate less 0.5%) unsecured line of credit agreement with Bremer Bank, which expires October 2016; and a \$3,000 variable rate (prime rate) unsecured line of credit agreement with Bell State Bank & Trust, which expires December 2016. At December 31, 2015, there was no balance outstanding on the lines of credit, leaving \$37,015 available and unused under the agreements. Certain of the variable lines of credit have limits on availability based on collateral specific criteria.

Certain line of credit agreements include covenants that, in part, impose maintenance of certain debt service coverage and debt to net worth ratios. As a result of the December 19, 2014 suburban Minneapolis, Minnesota portfolio acquisition the Company was out of compliance with Bremer's post distribution debt service coverage ratio requirement on a consolidated basis on secured line of credit as of December 31, 2014. A waiver was received from the lender. As of December 31, 2015, four residential properties were out of compliance with Bremer's debt service coverage ratio requirement on an individual property basis. A waiver was received from the lender.

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**NOTE 9 - MORTGAGE NOTES PAYABLE**

The following table summarizes the Company's mortgage notes payable.

|                                       | Principal Balance At |                      |
|---------------------------------------|----------------------|----------------------|
|                                       | December 31,<br>2015 | December 31,<br>2014 |
|                                       | (in thousands)       |                      |
| Fixed rate mortgage notes payable (a) | \$ 383,292           | \$ 318,554           |
| Variable rate construction loan (b)   | -                    | 6,332                |
| Mortgage notes payable                | \$ 383,292           | \$ 324,886           |

- (a) Includes \$3,158 and \$3,254 of variable rate mortgage debt that was swapped to a fixed rate as of December 31, 2015 and 2014, respectively.
- (b) The variable rate construction loan bears interest at a floating rate of London Interbank Offered Rate (LIBOR) plus 2.50%.

Mortgage loan payables, net were \$ 383,292 and \$ 324,886 as of December 31, 2015 and 2014, respectively. As of December 31, 2015, we had 108 fixed rate and no variable rate mortgage loans with effective interest rates ranging from 2.57% to 7.65% per annum and a weighted average effective interest rate of 4.53% per annum.

As of December 31, 2014, we had 90 fixed rate and 1 variable rate mortgage loans with effective interest rates ranging from 2.57% to 7.65% per annum, and a weighted average effective interest rate of 4.70% per annum. As of December 31, 2014, we had \$ 318,554 of fixed rate debt, or 98.05% of mortgage loan payables, at a weighted average interest rate of 4.74% per annum and \$6,332 of variable rate debt, or 1.95% of mortgage loan payables, net at a weighted average effective interest rate of 2.66% per annum.

The majority of the Company's mortgages payable require monthly payments of principal and interest. Certain mortgages require reserves for real estate taxes and certain other costs. Mortgages are secured by the respective properties, assignment of rents, business assets, deeds to secure debt, deeds of trust and/or cash deposits with the lender.

Certain mortgage note agreements include covenants that, in part, impose maintenance of certain debt service coverage and debt to worth ratios. As a result of the December 19, 2014 suburban Minneapolis, Minnesota portfolio acquisition, as of December 31, 2014 the Company was out of compliance with the lender's post distribution debt service coverage ratio requirement on a consolidated basis. In addition, two loans on residential properties were out of compliance at year-end due to unit renovation repair and maintenance costs. One loan is secured by a property located in Fargo, North Dakota with an outstanding balance of \$295 and the other loan is secured by properties located in Fargo, North Dakota with an outstanding balance of \$3,446 at December 31, 2014. The loans were out of compliance with the lender's debt service coverage ratio requirement as of December 31, 2014. Waivers were received from the lenders. As of December 31, 2015, three loans on residential properties and two loans on commercial properties were out of compliance due to various unit renovation and parking lot repair and maintenance costs. The loans were secured by properties located in Fargo and Bismarck, North Dakota with a total outstanding balance of \$9,650 at December 31, 2015. Waivers have been received from the lenders.

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We are required to make the following principal payments on our outstanding mortgage notes payable for each of the five succeeding fiscal years and thereafter as follows:

| <u>Years ending December 31,</u> | <u>Amount</u><br><u>(in</u><br><u>thousands)</u> |
|----------------------------------|--|
| 2016                             | \$ 17,400  |
| 2017                             | 35,784   |
| 2018                             | 16,328   |
| 2019                             | 23,618   |
| 2020                             | 26,232   |
| Thereafter                       | 263,930  |
| Total payments                   | <u>\$ 383,292</u>                                |

**NOTE 10 – HEDGING ACTIVITIES**

As part of our interest rate risk management strategy, we have used derivative instruments to minimize significant unanticipated earnings fluctuations that may arise from rising variable interest rate costs associated with existing borrowings. To meet these objectives, we have entered into interest rate swaps in the notional amount of \$1,294 and \$2,450 to provide a fixed rate of 7.25% and 2.57%, respectively. The swaps mature in April 2020 and December 2017, respectively. The swaps were issued at approximate market terms and thus no fair value adjustment was recorded at inception.

The carrying amount of the swaps have been adjusted to their fair values at the end of the quarter, which because of changes in forecasted levels of LIBOR, resulted in reporting a liability for the fair value of the future net payments forecasted under the swaps. The interest rate swaps are accounted for as effective hedges in accordance with ASC 815-20 whereby they are recorded at fair value and changes in fair value are recorded to comprehensive income. As of December 31, 2015 and 2014, we have recorded a liability and accumulated other comprehensive loss of \$ 219 and \$272, respectively.

**NOTE 11 - FAIR VALUE MEASUREMENT**

The following table presents the carrying value and estimated fair value of the Company's financial instruments:

|                                   | <u>December 31, 2015</u>        |                   | <u>December 31, 2014</u>        |                   |
|-----------------------------------|---------------------------------|-------------------|---------------------------------|-------------------|
|                                   | <u>Carrying</u><br><u>Value</u> | <u>Fair Value</u> | <u>Carrying</u><br><u>Value</u> | <u>Fair Value</u> |
|                                   | (in thousands)                  |                   |                                 |                   |
| <b>Financial liabilities:</b>     |                                 |                   |                                 |                   |
| Mortgage notes payable            | \$ 383,292                      | \$ 394,782        | \$ 324,886                      | \$ 336,646        |
| Fair value of interest rate swaps | \$ 219                          | \$ 219            | \$ 272                          | \$ 272            |

The carrying values shown in the table are included in the consolidated balance sheets under the indicated captions. ASC 820-10 established a three-level valuation hierarchy for fair value measurement. Management uses these valuation techniques to establish the fair value of the assets at the measurement date. These valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect management's assumptions.

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These two types of inputs create the following fair value hierarchy:

- Level 1 – Quoted prices for identical instruments in active markets;
- 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 whose significant inputs are observable;
- Level 3 – Instruments whose significant inputs are unobservable.

The guidance requires the use of observable market data, when available, in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

***Recurring Fair Value Measurements***

The following table presents the Company's financial instruments, which are measured at fair value on a recurring basis, by the level in the fair value hierarchy within which those measurements fall. Methods and assumptions used to estimate the fair value of these instruments are described after the table.

|                                   | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-----------------------------------|----------------|----------------|----------------|--------------|
|                                   | (in thousands) |                |                |              |
| <b><u>December 31, 2015</u></b>   |                |                |                |              |
| Fair value of interest rate swaps | \$ —           | \$ 219         | \$ —           | \$ 219       |
| <b><u>December 31, 2014</u></b>   |                |                |                |              |
| Fair value of interest rate swaps | \$ —           | \$ 272         | \$ —           | \$ 272       |

*Fair value of interest rate swaps:* The fair value of interest rate swaps is determined using a discounted cash flow analysis on the expected future cash flows of the derivative. This analysis utilizes observable market data including forward yield curves and implied volatilities to determine the market's expectation of the future cash flows of the variable component. The fixed and variable components of the derivative are then discounted using calculated discount factors developed based on the LIBOR swap rate and are aggregated to arrive at a single valuation for the period. The Company also incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2015 and 2014, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation. As a result, the Company has determined that its derivative valuations in their entirety are classified within Level 2 of the fair value hierarchy. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered any applicable credit enhancements. The Company's derivative instruments are further described in Note 10.

***Nonrecurring Fair Value Measurements***

As discussed in Note 2, the Company recorded an impairment charge during the year ended December 31, 2015 to write the carrying value down to estimated fair value for certain investment properties after determining their carrying value exceeded the projected undiscounted cash flows based upon the estimated holding period for such assets. Estimated fair value is determined by the Company utilizing the discounted cash flow models, third-party broker valuation estimates, appraisals, bona fide purchase offers or the expected sales price from an executed sales agreement. Capitalization and

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discount rates utilized within discounted cash flows models are based upon observable rates that the Company believes to be within a reasonable range of current market rates for the property.

Investment properties measured at fair value on a nonrecurring basis at December 31, 2015 and 2014, respectively, aggregated by the level within the fair value hierarchy in which those measurements fall are as follows:

|                             | Level 1 | Level 2 | Level 3  | Total    | Provision for<br>Impairment<br>of<br>Investment<br>Properties |
|-----------------------------|---------|---------|----------|----------|---|
| (in thousands)              |         |         |          |          |   |
| <b>December 31, 2015</b>    |         |         |          |          |   |
| Real estate investments (a) | \$ —    | \$ —    | \$ 1,087 | \$ 1,087 | \$ 412  |
| <b>December 31, 2014</b>    |         |         |          |          |   |
| Real estate investments     | \$ —    | \$ —    | \$ —     | \$ —     | \$ —  |

(a) Includes an impairment charge recorded on certain investment properties during the year ended December 31, 2015, based upon a discounted cash flow model.

**Fair Value Disclosures**

The following table presents the Company's financial assets and liabilities, which are measured at fair value for disclosure purposes, by the level in the fair value hierarchy within which they fall. Methods and assumptions used to estimate the fair value of these instruments are described after the table.

|                          | Level 1 | Level 2 | Level 3    | Total      |
|--------------------------|---------|---------|------------|------------|
| (in thousands)           |         |         |            |            |
| <b>December 31, 2015</b> |         |         |            |            |
| Mortgage notes payable   | \$ —    | \$ —    | \$ 394,782 | \$ 394,782 |
| <b>December 31, 2014</b> |         |         |            |            |
| Mortgage notes payable   | \$ —    | \$ —    | \$ 336,646 | \$ 336,646 |

*Mortgage notes payable:* The Company estimates the fair value of its mortgage notes payable by discounting the future cash flows of each instrument at rates currently offered to the Company for similar debt instruments of comparable maturities by the Company's lenders. Judgment is used in determining the appropriate rate for each of the Company's individual mortgages and notes payable based upon the specific terms of the agreement, including the term to maturity, the quality and nature of the underlying property and its leverage ratio. The rates used range from 3.97 % to 4.05 % and from 3.94% to 4.41% at December 31, 2015 and 2014, respectively. The fair value of the Company's matured mortgage notes payable were determined to be equal to the carrying value of the properties because there is no market for similar debt instruments and the properties' carrying value was determined to be the best estimate of fair value as of December 31, 2015. The Company's mortgage notes payable are further described in Note 9.

**NOTE 12 – NONCONTROLLING INTEREST OF UNITHOLDERS IN OPERATING PARTNERSHIP**

As of December 31, 2015 and 2014, outstanding limited partnership units totaled 15,300,000 and 14,621,000 respectively. As of December 31, 2015 and 2014, the operating partnership declared distributions of \$3,557 and \$3,290 respectively, to limited partners paid in January 2016 and 2015, respectively. Distributions per unit were \$0.9300 and \$0.9000 during the years ended December 31, 2015 and 2014, respectively.

During the year ended December 31, 2015, Sterling exchanged 6,000 common shares for 6,000 limited partnership units held by limited partners, pursuant to redemption requests. The aggregate value of these transactions was \$87. During the

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year ended December 31, 2014, Sterling exchanged 47,000 common shares for 47,000 limited partnership units held by limited partners, pursuant to redemption requests. The aggregate value of these transactions was \$700.

At the sole and absolute discretion of the limited partnership, and so long as a Redemption Plan exists, Limited Partners may request the operating partnership redeem their limited partnership units. The operating partnership may choose to offer the Limited Partner: (i) cash for the redemption or, at the request of the Limited Partner, (2) offer shares in lieu of cash for the redemption on a basis of one limited partnership unit for one Sterling common share (the "Exchange Request"). The Exchange Request shall be exercised pursuant to a Notice of Exchange. If the issuance of Sterling common shares pursuant to an Exchange Request will cause the shareholder to exceed the ownership limitations, among other reasons, payment will be made to the Limited Partner in cash. No Limited Partner may exercise an Exchange Request more than twice during any calendar year, and Exchange Requests may not be made for less than 1,000 limited partnership units. If a Limited Partner owns less than 1,000 limited partnership units, all of the limited partnership units held by the Limited Partner must be exchanged pursuant to the Exchange Request.

**NOTE 13 – REDEMPTION PLANS**

Our Board of Trustees has approved redemption plans that enable our shareholders to sell their common shares and the partners of our operating partnership to sell their limited partnership units to us, after they have held the securities for at least one year and subject to other conditions and limitations described in the plans.

Our redemption plans currently provide that the maximum amount that can be redeemed under the plan is \$30,000 worth of securities. Currently, the fixed redemption price is \$14.50 per share or unit under the plans which price became effective February 1, 2015.

We may redeem securities under the plans provided the aggregate total has not been exceeded if we have sufficient funds to do so. The plans will terminate in the event the shares become listed on any national securities exchange, the subject of bona fide quotes on any inter-dealer quotation system or electronic communications network or are the subject of bona fide quotes in the pink sheets. Additionally, the Board, in its sole discretion, may terminate, amend or suspend the redemption plans, either or both of them, if it determines to do so in its sole discretion.

During the years ended December 31, 2015 and 2014, the Company redeemed 132,000 and 238,000 common shares valued at \$ 1,915 and \$ 3,338, respectively. In addition, during the years ended December 31, 2015 and 2014, the Company redeemed 44,000 and 112,000 units valued at \$ 633 and \$ 1,566, respectively.

**NOTE 14 – BENEFICIAL INTEREST**

We are authorized to issue 100,000,000 common shares of beneficial interest with \$0.01 par value and 50,000,000 preferred shares with \$0.01 par value, which collectively represent the beneficial interest of Sterling. As of December 31, 2015 and 2014, there were 7,579,000 and 5,624,000 common shares outstanding. We had no preferred shares outstanding as of either date.

Dividends paid to holders of common shares were \$0.9300 per share and \$0.9000 per share for the years ended December 31, 2015 and 2014, respectively.

**NOTE 15 – DIVIDEND REINVESTMENT PLAN**

Our Board of Trustees approved a dividend reinvestment plan to provide existing holders of our common shares with a convenient method to purchase additional common shares without payment of brokerage commissions, fees or service charges. On July 20, 2012, we registered with the Securities Exchange Commission 2,000,000 common shares to be issued under the plan on Form S-3D, which automatically became effective on July 20, 2012.

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Under this plan, eligible shareholders may elect to have all or a portion (but not less than 25%) of the cash dividends they receive automatically reinvested in our common shares. If an eligible shareholder elects to reinvest cash dividends under the plan, the shareholder may also make additional optional cash purchases of our common shares, not to exceed \$5 per fiscal quarter without our prior approval. The purchase price per common share under the plan equals 95% of the estimated value per common share for dividend reinvestments and equals 100% of the estimated value per common share for additional optional cash purchases, as determined by our Board of Trustees. The estimated value per common share was \$15.50 and \$15.00 at December 31, 2015 and 2014, respectively. See discussion of determination of estimated value in Note 20.

Therefore, the purchase price per common share for dividend reinvestments was \$14.725 and \$14.25 and for additional optional cash purchases was \$15.50 and \$15.00 at December 31, 2015 and 2014, respectively. The Board, in its sole discretion, may amend, suspend or terminate the plan at any time, without the consent of shareholders, upon a ten day notice to participants.

In the year ended December 31, 2015, 284,000 shares were issued pursuant to dividend reinvestments and 116,000 shares were issued pursuant to additional optional cash purchases under the plan. In the year ended December 31, 2014, 231,000 shares were issued pursuant to dividend reinvestments and 128,000 shares were issued pursuant to additional optional cash purchases under the plan.

**NOTE 16 – RELATED PARTY TRANSACTIONS**

*Property Management Fee*

During the years ended December 31, 2015 and 2014, we paid property management fees to GOLDMARK Property Management in an amount equal to 5% of rents of the properties managed. GOLDMARK Property Management is owned in part by Kenneth Regan and James Wieland. For the years ended December 31, 2015 and 2014, we paid management fees of \$9,304 and \$6,439, respectively, to GOLDMARK Property Management.

*Board of Trustee Fees*

We incurred Trustee fees of \$51 and \$56 during the years ended December 31, 2015 and 2014, respectively. As of December 31, 2015, and 2014 we owed our Trustees \$27 and \$32 for unpaid board of trustee fees, respectively. There is no cash retainer paid to Trustees. Instead, we pay Trustees specific amounts for meetings attended. In March 2014, our Board revised the Trustee Compensation Plan effective January 1, 2014.

The plan provides:

|                                     |                    |
|-------------------------------------|--------------------|
| Board Chairman – Board Meeting      | 105 shares/meeting |
| Trustee – Board Meeting             | 75 shares/meeting  |
| Committee Chair – Committee Meeting | 30 shares/meeting  |
| Trustee – Committee Meeting         | 30 shares/meeting  |

Common shares earned in accordance with the plan are calculated on an annual basis. Shares earned pursuant to the Trustee Compensation Plan are issued on or about July 15 for Trustees' prior year of service. Non-independent Trustees are not compensated for their service on the Board or Committees.

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*Advisory Agreement*

We are an externally managed trust and as such, although we have a Board of Trustees and executive officers responsible for our management, we have no paid employees. The following is a brief description of the current fees and compensation that may be received by the Advisor under the Advisory Agreement, which must be renewed on an annual basis and approved by a majority of the independent trustees. The Advisory Agreement was approved by the Board of Trustees (including all the independent Trustees) on March 27, 2015, effective January 1, 2015.

**Management Fee :** 0.35% of our total assets (before depreciation and amortization), annually. Total assets are our gross assets (before depreciation and amortization) as reflected on our consolidated financial statements, taken as of the end of the fiscal quarter last preceding the date of computation. The management fee will be payable monthly in cash or our common shares, at the option of the Advisor, not to exceed one-twelfth of 0.35% of the total assets as of the last day of the immediately preceding month. The management fee calculation is subject to quarterly and annual reconciliations. The management fee may be deferred at the option of the Advisor, without interest.

**Acquisition Fee :** For its services in investigating and negotiating acquisitions of investments for us, the Advisor receives an acquisition fee of 2.5% of the purchase price of each property acquired, capped at \$375 per acquisition. The total of all acquisition fees and acquisition expenses cannot exceed 6% of the purchase price of the investment, unless approved by a majority of the trustees, including a majority of the independent trustees, if they determine the transaction to be commercially competitive, fair and reasonable to us.

**Disposition Fee :** For its services in the effort to sell any investment for us, the Advisor receives a disposition fee of 2.5% of the sales price of each property disposition, capped at \$375 per disposition.

**Financing Fee :** 0.25% of all amounts made available to us pursuant to any loan, refinance (excluding rate and/or term modifications of an existing loan with the same lender), line of credit or other credit facility.

**Development Fee :** Based on regressive sliding scale (starting at 5% and declining to 3%) of total project costs, excluding cost of land, for development services requested by us.

| <b>Total Cost</b> | <b>Fee</b> | <b>Range of Fee</b> | <b>Formula</b>            |
|-------------------|------------|---------------------|---------------------------|
| 0 – 10M           | 5.0 %      | 0 – .5M             | 0M – 5.0% x (TC – 0M)     |
| 10M - 20M         | 4.5 %      | .5 M – .95M         | .50M – 4.5% x (TC – 10M)  |
| 20M – 30M         | 4.0 %      | .95 M – 1.35M       | .95M – 4.0% x (TC – 20M)  |
| 30M – 40M         | 3.5 %      | 1.35 M – 1.70M      | 1.35M – 3.5% x (TC – 30M) |
| 40M – 50M         | 3.0 %      | 1.70 M – 2.00M      | 1.70M – 3.0% x (TC – 40M) |

TC = Total Project Cost

Management Fees

During the years ended December 31, 2015 and 2014 , we incurred advisory management fees of \$ 2,401 and \$ 1,855 with Sterling Management, LLC, our Advisor. As of December 31, 2015 and 2014 , we owed our Advisor \$ 214 and \$ 342 , respectively, for unpaid advisory management fees. These fees cover the office facilities, equipment, supplies, and staff required to manage our day-to-day operations.

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Acquisition Fees

During the years ended December 31, 2015 and 2014 , we incurred acquisition fees of \$ 1,128 and \$ 2,628 , respectively, with our Advisor. There were no acquisition fees owed to our Advisor as of December 31, 2015 . As of December 31, 2014, we owed our Advisor \$1,875 for unpaid acquisition fees .

Financing Fees

During the years ended December 31, 2015 and 2014 , we incurred financing fees of \$ 270 and \$ 269 with our Advisor for loan financing and refinancing activities. As of December 31 , 2015 and 2014 , we owed our Advisor \$23 and \$214 for unpaid financing fees, respectively .

Disposition Fees

During the years ended December 31, 2015 and 2014 , we incurred disposition fees of \$36 and \$16 with our Advisor. See Note 19 . There were no disposition fees owed to our Advisor as of December 31, 2015 and 2014 , respectively.

Development Fees

During the years ended December 31, 2015 and 2014 , we incurred \$ 336 and \$ 358 in development fees with our Advisor. As of December 31, 2015 and 2014 , we owed our Advisor \$69 and \$36 for unpaid development fees as part of a 10% hold back, respectively.

*Operating Partnership Units Issued in Connection with Acquisitions*

During the year ended December 31, 2015, we issued directly or indirectly, 242,000 operating partnership (OP) units to entities affiliated with Messrs. Regan, Wieland, two of our trustees, in connection with the acquisition of various properties. The aggregate value of these units was \$ 3,754 .

During the year ended December 31, 2014, we issued directly or indirectly, 644,000 operating partnership (OP) units to entities affiliated with Messrs. Regan, Wieland, Furness, three of our trustees, in connection with the acquisition of various properties. The aggregate value of these units was \$ 9,118 .

*Commissions*

During the years ended December 31, 2015 and 2014 , we incurred real estate commissions of \$ 1,033 and \$ 1,408 , respectively, owed to GOLDMARK SCHLOSSMAN Commercial Real Estate Services, Inc., which is controlled by Messrs. Regan and Wieland. There were no outstanding commissions owed as of December 31, 2015 . As of December 31, 2014, we owed commissions of \$750 .

During the year ended December 31, 2015 , we incurred brokerage fees of \$931 to a broker-dealer benefiting Dale Lian, a shareholder of Sterling and a member of our Advisor. Brokerage fees were based on 7% of the purchase price of Sterling common shares sold. There were no outstanding brokerage fees owed to Dale Lian or entities benefiting Dale Lian as of December 31, 2015 . We did not incur any brokerage fees to Dale Lian or entities benefiting Dale Lian in 2014.

During the year ended December 31, 2015 , we incurred brokerage fees of \$348 to a broker-dealer benefiting James Echtenkamp, a shareholder of Sterling and a member of our Advisor. Brokerage fees were based on 7% of the purchase price of Sterling common shares sold. There were no outstanding brokerage fees owed to James Echtenkamp or entities benefiting James Echtenkamp as of December 31, 2015 . We did not incur any brokerage fees to James Echtenkamp or entities benefiting James Echtenkamp in 2014.

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*Rental Income*

During the years ended December 31, 2015 and 2014 , we received rental income of \$ 215 and \$ 179 , respectively, under an operating lease agreement with GOLDMARK Property Management.

During the years ended December 31, 2015 and 2014 , we received rental income of \$ 51 and \$ 50 , respectively, under an operating lease agreement with GOLDMARK SCHLOSSMAN Commercial Real Estate Services, Inc.

During the years ended December 31, 2015 and 2014 , we received rental income of \$ 43 and \$ 42 , respectively, under operating lease agreements with our Advisor.

*Construction Costs*

As of December 31, 2015 , since the project ' s inception , we incurred costs related to the construction of a 156 unit apartment community (Phase I) in Bismarck, North Dakota of \$ 14,147 to GOLDMARK Development. There was no retainage owed to GOLDMARK Development as of December 31, 2015 . As of December 31, 2014 , we owed GOLDMARK Development \$555 for retainage. In addition, there were no unpaid construction fees owed to GOLDMARK Development as of December 31 , 2015. As of December 31, 2014 we owed GOLDMARK Development \$477 for unpaid construction fees.

As of December 31, 2015, we incurred costs of \$117 related to the construction of Phase II of the Bismarck, North Dakota development project which consists of a clubhouse and six 6-plex two-story townhomes to GOLDMARK Development. As of December 31, 2015, we owed GOLDMARK Development \$107 for construction fees and \$6 for retainage.

**NOTE 17 - RENTALS UNDER OPERATING LEASES / RENTAL INCOME**

Residential apartment units are rented to individual tenants with lease terms of one year or less. Gross revenues from residential rentals totaled \$ 75,914 and \$53,499 for the years ended December 31, 2015 and 2014 , respectively.

Commercial properties are leased to tenants under terms expiring at various dates through 2034. Lease terms often include renewal options. For the years ended December 31, 2015 and 2014 , gross revenues from commercial property rentals, including CAM income (common area maintenance) of \$3,852 and \$2,230 , respectively, totaled \$ 21,268 and \$17,437 , respectively.

Commercial space is rented under long-term agreements. Minimum future rentals on non-cancelable operating leases as of December 31, 2015 are as follows:

| <u>Years ending December 31,</u> | <u>Amount</u>         |
|----------------------------------|-----------------------|
|                                  | <u>(in thousands)</u> |
| 2016                             | \$ 18,818             |
| 2017                             | 17,961                |
| 2018                             | 16,695                |
| 2019                             | 16,004                |
| 2020                             | 15,012                |
| Thereafter                       | 69,741                |
|                                  | <u>\$ 154,231</u>     |

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**NOTE 18 - COMMITMENTS AND CONTINGENCIES**

*Environmental Matters*

Federal law (and the laws of some states in which we own or may acquire properties) imposes liability on a landowner for the presence on the premises of hazardous substances or wastes (as defined by present and future federal and state laws and regulations). This liability is without regard to fault or knowledge of the presence of such substances and may be imposed jointly and severally upon all succeeding landowners. If such hazardous substance is discovered on a property acquired by us, we could incur liability for the removal of the substances and the cleanup of the property.

There can be no assurance that we would have effective remedies against prior owners of the property. In addition, we may be liable to tenants and may find it difficult or impossible to sell the property either prior to or following such a cleanup.

*Risk of Uninsured Property Losses*

We maintain property damage, fire loss, and liability insurance. However, there are certain types of losses (generally of a catastrophic nature) which may be either uninsurable or not economically insurable. Such excluded risks may include war, earthquakes, tornados, certain environmental hazards, and floods. Should such events occur, (i) we might suffer a loss of capital invested, (ii) tenants may suffer losses and may be unable to pay rent for the spaces, and (iii) we may suffer a loss of profits which might be anticipated from one or more properties.

*Litigation*

The Company is subject, from time to time, to various legal proceedings and claims that arise in the ordinary course of business. While the resolution of such matters cannot be predicted with certainty, management believes, based on currently available information, that the final outcome of such matters will not have a material effect on the financial statements of the Company.

**NOTE 19 – DISPOSITIONS**

During the year ended December 31, 2015, the operating partnership sold 3.38 acres of development land in Fargo, North Dakota for approximately \$1,424 and recognized a gain of \$470.

During the year ended December 31, 2014 the operating partnership sold a 14,736 square foot office property in Norfolk, Nebraska for approximately \$625 and recognized a gain of approximately \$69.

During December 2015, the Company received a notice from a tenant to exercise a purchase option for a medical property located in Eau Claire, Wisconsin. This property qualified for held for sale accounting treatment upon meeting all applicable GAAP criteria on or prior to December 31, 2015, at which time depreciation and amortization ceased. As such, the assets and liabilities associated with this property are separately classified as held for sale in the consolidated balance sheets as of December 31, 2015.

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The following table presents the assets and liabilities associated with the investment properties held for sale:

|  | <u>December 31,</u><br><u>2015</u> | <u>December 31,</u><br><u>2014</u> |
|--|------------------------------------|------------------------------------|
| (in thousands)                         |                                    |                                    |
| <b>ASSETS</b>                          |                                    |                                    |
| Real estate investments                | \$ 1,716                           | \$ —                               |
| Receivables                            | 5                                  | —                                  |
| Total Assets                           | <u>\$ 1,721</u>                    | <u>\$ —</u>                        |
| <b>LIABILITIES</b>                     |                                    |                                    |
| Mortgage notes payable                 | \$ 655                             | \$ —                               |
| Accrued expenses and other liabilities | 4                                  | —                                  |
| Total Liabilities                      | <u>\$ 659</u>                      | <u>\$ —</u>                        |

**NOTE 20 – BUSINESS COMBINATIONS AND ACQUISITIONS**

The Company closed on the following acquisitions during the year ended December 31, 2015:

| <u>Date</u> | <u>Property Name</u>  | <u>Location</u>    | <u>Property Type</u>    | <u>Units/<br/>Square<br/>Footage/<br/>Acres</u> | <u>Acquisition<br/>Price</u> | <u>Prorata<br/>Acquisition<br/>Price</u> |
|-------------|-----------------------|--------------------|-------------------------|---|------------------------------|--|
| 1/13/15     | Valley Homes Duplexes | Grand Forks,<br>ND | Duplex complex          | 24 units  | \$ 2,148                     | \$ 2,148                                 |
| 1/28/15     | Titan Machinery       | Bismarck, ND       | Implement<br>dealership | 22,293 sq.<br>ft.                               | 3,416                        | 3,416                                    |
| 2/3/15      | Quail Creek           | Springfield, MO    | Apartment<br>complex    | 164 units                                       | 10,900                       | 10,900                                   |
| 5/13/15     | Parkview Arms         | Bismarck, ND       | Apartment<br>complex    | 62 units  | 4,464                        | 4,464                                    |
| 6/16/15     | Development land      | Mankato, MN        | Land                    | 1.13 acres                                      | 263                          | 263                                      |
| 7/20/15     | Development land      | Fargo, ND          | Land                    | 1.95 acres                                      | 500                          | 500                                      |
| 8/4/15      | Huntington            | Fargo, ND          | Apartment<br>complex    | 10 units  | 420                          | 420                                      |
| 8/4/15      | Summerfield           | Fargo, ND          | Apartment<br>complex    | 18 units  | 774                          | 774                                      |
| 8/13/15     | Northland Plaza       | Bloomington,<br>MN | Office building         | 296,967<br>sq. ft.                              | 52,500                       | 36,750                                   |
| 9/1/15      | Columbine Apartments  | Grand Forks,<br>ND | Apartment<br>complex    | 12 units  | 629                          | 629                                      |
| 10/1/15     | Summit Point          | Fargo, ND          | Apartment<br>complex    | 87 units  | <u>6,572</u>                 | <u>6,572</u>                             |
|             |                       |                    |                         |   | <u>\$ 82,586</u>             | <u>\$ 66,836</u>                         |

Total consideration given for acquisitions through December 31, 2015 was completed through issuing approximately 729,000 limited partnership units of the operating partnership valued at \$15.00 and \$15.50 per unit for an aggregate consideration of approximately \$11,228, new loans of \$45,830, assumed loans of \$719 and assumed liabilities of \$1,329 and cash of \$23,480. The value of units issued in exchange for property is determined through a value established annually by our Board of Trustees, and reflects the fair value at the time of issuance.

Included in the Company's condensed consolidated statements of operations and other comprehensive income are the results of operations from Northland Plaza, which was acquired and accounted for as a business combination, consisting of \$3,163 in revenues and \$2,356 in net loss attributable to Sterling Real Estate Trust from the date of acquisition (August 13, 2015) through December 31, 2015.



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The Company closed on the following acquisitions during the year ended December 31, 2014:

| <u>Date</u> | <u>Property Name</u>                | <u>Location</u>   | <u>Property Type</u> | <u>Units/<br/>Square<br/>Footage/<br/>Acres</u> | <u>Acquisition<br/>Price</u> | <u>Prorata<br/>Acquisition<br/>Price</u> |
|-------------|-------------------------------------|-------------------|----------------------|---|------------------------------|--|
| 1/2/14      | Barrett Arms Apartments             | Crookston, MN     | Apartment complex    | 24 units  | \$ 1,104                     | \$ 1,104                                 |
| 1/2/14      | Chandler 1802                       | Grand Forks, ND   | Apartment complex    | 24 units  | 1,320                        | 1,320                                    |
| 1/2/14      | Echo Manor Apartments               | Hutchinson, MN    | Apartment complex    | 30 units  | 1,080                        | 1,080                                    |
| 1/2/14      | Westcourt Apartments                | Fargo, ND         | Apartment complex    | 64 units  | 3,520                        | 3,520                                    |
| 5/1/14      | Eagle Run Apartments <sup>(1)</sup> | West Fargo, ND    | Apartment complex    | 144 units                                       | 1,566                        | 1,566                                    |
| 6/9/14      | Griffin Court Apartments            | Moorhead, MN      | Apartment complex    | 128 units                                       | 4,848                        | 4,848                                    |
| 6/30/14     | Parkwest Gardens Apartments         | West Fargo, ND    | Apartment complex    | 142 units                                       | 6,840                        | 6,840                                    |
| 8/7/14      | Dakota Manor Apartments             | Fargo, ND         | Apartment complex    | 54 units  | 2,646                        | 2,646                                    |
| 10/1/14     | Twin Oaks                           | Hutchinson, MN    | Apartment complex    | 80 units  | 4,320                        | 4,320                                    |
| 10/23/14    | Development land                    | Bismarck, ND      | Land                 | 16 acres  | 2,246                        | 2,246                                    |
| 12/19/14    | Brighton Village Apartments         | New Brighton, MN  | Apartment complex    | 240 units                                       | 16,800                       | 16,800                                   |
| 12/19/14    | Georgetown on the River             | Fridley, MN       | Apartment complex    | 462 units                                       | 30,400                       | 30,400                                   |
| 12/19/14    | Maplewood Apartments                | Maplewood, MN     | Apartment complex    | 240 units                                       | 15,600                       | 15,600                                   |
| 12/19/14    | Robinwood Apartments                | Coon Rapids, MN   | Apartment complex    | 120 units                                       | 7,500                        | 7,500                                    |
| 12/19/14    | Rosedale Estates North              | Roseville, MN     | Apartment complex    | 180 units                                       | 12,850                       | 12,850                                   |
| 12/19/14    | Rosedale Estates South              | Roseville, MN     | Apartment complex    | 180 units                                       | 12,850                       | 12,850                                   |
| 12/19/14    | Valley View                         | Golden Valley, MN | Apartment complex    | 72 units  | 7,500                        | 7,500                                    |
|             |                                     |                   |                      |   | <u>\$ 132,990</u>            | <u>\$ 132,990</u>                        |

- (1) Assumed loan presented as consideration given, however, previously consolidated the single asset LLP due to controlling financial interest.

Total consideration given for acquisitions through December 31, 2014 was completed through issuing approximately 1,233,000 limited partnership units of the operating partnership valued at \$14.00 per unit and \$15.00 per unit for an aggregate consideration of approximately \$17,461, assumed loans of \$ 2,636, assumed liabilities and deferred maintenance of \$1,362, new loans of \$67,477 and cash of \$44,054. The value of units issued in exchange for property is determined through a value established annually by our Board of Trustees, and reflects the fair value at the time of issuance.

The following table summarizes the acquisition date fair values, before prorations, the Company recorded in conjunction with the acquisitions discussed above:

|   | <u>2015</u>     | <u>2014</u>     |
|---|-----------------|-----------------|
| Land, building, tenant improvements and FF&E  | \$ 71,493       | \$ 132,990      |
| Acquired lease intangible assets              | 12,735          | -               |
| Acquired lease intangible liabilities         | (1,642)         | -               |
| Mortgages notes payable assumed               | (719)           | (2,637)         |
| Other liabilities                             | <u>(1,329)</u>  | <u>(1,361)</u>  |
| Net assets acquired                           | 80,538          | 128,992         |
| Equity/limited partnership unit consideration | (11,228)        | (17,461)        |
| New loans                                     | <u>(45,830)</u> | <u>(67,477)</u> |

***Estimated Value of Units/Shares***

The Board of Trustees determined an estimate of fair value for the trust shares in 2015 and 2014. In addition, the Board of Trustees, acting as general partner for the operating partnership, determined an estimate of fair value for the limited partnership units in 2015 and 2014. In determining this value, the Board relied upon its experience with, and knowledge about, our real estate portfolio and debt obligations. The Board also relied on valuation methodologies that are commonly

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used in the real estate industry. The methodology used by our board to determine this value was based on the value of our real estate investments, cash and other assets and debt and other liabilities as of a date certain.

Based on the results of the methodologies, the Board determined the fair value of the shares and limited partnership units to be \$14.00 per share/unit for the first three months of 2014 through March 27, 2014. The Board determined the fair value of the shares and limited partnership units to be \$15.00 per share/unit effective March 28, 2014. The Board determined the fair value of the shares and limited partnership units to be \$15.50 per share/unit effective February 1, 2015.

As with any valuation methodology, the methodologies utilized by the Board in reaching an estimate of the value of the shares and limited partnership units are based upon a number of estimates, assumptions, judgments or opinions that may, or may not, prove to be correct. The use of different estimates, assumptions, judgments, or opinions would likely have resulted in significantly different estimates of the value of the shares and limited partnership units. In addition, the Board's estimate of share and limited partnership unit value is not based on the fair values of our real estate, as determined by GAAP, as our book value for most real estate is based on the amortized cost of the property, subject to certain adjustments.

Furthermore, in reaching an estimate of the value of the shares and limited partnership units, the Board did not include a liquidity discount in order to reflect the fact that the shares and limited partnership units are not currently traded on a national securities exchange; a discount for debt that may include a prepayment obligation or a provision precluding assumption of the debt by a third party; or the costs that are likely to be incurred in connection with an appropriate exit strategy, whether that strategy might be a listing of the limited partnership units or Sterling common shares on a national securities exchange or a merger or sale of our portfolio.

***Condensed Pro Forma Financial Information***

The following unaudited condensed pro forma financial information is presented as if the Northland Plaza acquisition was completed as of January 1, 2014. These pro forma results are for comparative purposes only and are not necessarily indicative of what the actual results of operations of the Company would have been had the acquisition occurred at the beginning of the period presented, nor are they necessarily indicative of future operating results.

The unaudited condensed pro forma financial information is as follows:

|  | <b>Year Ended</b>                            |             |
|--|--|-------------|
|  | <b>December 31,</b>                          |             |
|  | <b>2015</b>                                  | <b>2014</b> |
|  | <b>(in thousands, except per share data)</b> |             |
| Total revenues   | \$ 101,807                                   | \$ 78,735   |
| Net income   | \$ 11,457                                    | \$ 5,772    |
| Net income attributable to Sterling Real Estate Trust                  | \$ 5,998                                     | \$ 2,657    |
| Earnings per common share, basic and diluted                           |  |             |
| Net income per common share attributable to Sterling Real Estate Trust | \$ 0.83                                      | \$ 0.48     |
| Weighted average number of common shares outstanding - basic           | 7,223  | 5,507       |

**NOTE 21 - SUBSEQUENT EVENTS**

On January 15, 2016, we paid a dividend or distribution of \$0.2325 per share on our common shares of beneficial interest, to common shareholders and limited unit holders of record on December 31, 2015.

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Pursuant to the purchase agreement dated November 6, 2015, in January 2016, the operating partnership purchased a 19,595 square foot implement dealership in North Platte, Nebraska for approximately \$1,769 . The purchase price was financed with cash.

In February 2016, the operating partnership purchased a 72 unit apartment and 8 unit townhome complex in Grand Forks, North Dakota for approximately \$5,050 . The purchase price was financed with the issuance of limited partnership units and cash.

Pursuant to the purchase agreement dated December 28, 2015, in February 2016, the operating partnership purchased a 25,817 square foot office building in White Bear Lake, Minnesota for approximately \$4,000 . The purchase price was financed with the issuance of limited partnership units and cash.

In March 2016, the operating partnership purchased a 20 unit apartment complex in Bismarck, North Dakota for approximately \$1,550 . The purchase price was financed with the issuance of limited partnership units and cash.

In March 2016, the operating partnership purchased a 20 unit apartment complex in Bismarck, North Dakota for approximately \$1,550 . The purchase price was financed with the issuance of limited partnership units and cash.

Pending acquisitions and dispositions are subject to numerous conditions and contingencies and there are no assurances that the transactions will be completed.

We have evaluated subsequent events through the date of this filing. We are not aware of any other subsequent events which would require recognition or disclosure in the consolidated financial statements.

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| Industrial<br>Property     | Physical Location | Encumbrances     | Costs           |                  |                 |                | Date of<br>Construction<br>or<br>Acquisition | Life on<br>which<br>depreciation<br>on<br>latest income<br>statement is<br>computed |                            |                 |            |    |
|----------------------------|-------------------|------------------|-----------------|------------------|-----------------|----------------|--|---|----------------------------|-----------------|------------|----|
|                            |                   |                  | Initial cost    |                  | capitalized     |                |  |   | Gross Amount at which      |                 |            |    |
|                            |                   |                  | to company      |                  | subsequent      |                |  |   | carried at close of period |                 |            |    |
|                            |                   | Land             | Buildings       | Land             | Buildings       | Land           | Buildings                                    | Total   | Depreciation               |                 |            |    |
| Guardian Building Products | Fargo, ND         | \$ 2,138         | \$ 820          | \$ 2,554         | \$ 9            | \$ (94)        | \$ 829                                       | \$ 2,460  | \$ 3,289                   | \$ 211          | 08/29/2012 | 40 |
| Titan Machinery            | Bismarck, ND      | 2,532            | 950             | 1,395            | 7               | —              | 957  | 1,395   | 2,352                      | 35              | 01/28/2015 | 40 |
| Titan Machinery            | Dickinson, ND     | 931              | 354             | 1,096            | 400             | —              | 754  | 1,096   | 1,850                      | 105             | 12/31/2008 | 40 |
| Titan Machinery            | Fargo, ND         | 1,108            | 781             | 1,947            | 510             | —              | 1,291  | 1,947   | 3,238                      | 158             | 12/10/2008 | 40 |
| Titan Machinery            | Marshall, MN      | 2,153            | 300             | 3,648            | 81              | —              | 381  | 3,648   | 4,029                      | 388             | 11/01/2011 | 40 |
| Titan Machinery            | Minot, ND         | 1,610            | 618             | 1,654            | —               | —              | 618  | 1,654   | 2,272                      | 141             | 08/01/2012 | 40 |
| Titan Machinery            | Redwood Falls, MN | 1,631            | 333             | 3,568            | —               | —              | 333  | 3,568   | 3,901                      | 260             | 01/31/2013 | 40 |
| Titan Machinery            | Sioux City, IA    | 1,565            | 315             | 2,472            | —               | —              | 315  | 2,472   | 2,787                      | 139             | 10/25/2013 | 40 |
| <b>Total</b>               |                   | <b>\$ 13,668</b> | <b>\$ 4,471</b> | <b>\$ 18,334</b> | <b>\$ 1,007</b> | <b>\$ (94)</b> | <b>\$ 5,478</b>                              | <b>\$ 18,240</b>  | <b>\$ 23,718</b>           | <b>\$ 1,437</b> |            |    |

| Land<br>Property | Physical Location | Encumbrances  | Costs         |             |             |             | Date of<br>Construction<br>or<br>Acquisition | Life on<br>which<br>depreciation<br>on<br>latest income<br>statement is<br>computed |                            |             |            |  |
|------------------|-------------------|---------------|---------------|-------------|-------------|-------------|--|---|----------------------------|-------------|------------|--|
|                  |                   |               | Initial cost  |             | capitalized |             |  |   | Gross Amount at which      |             |            |  |
|                  |                   |               | to company    |             | subsequent  |             |  |   | carried at close of period |             |            |  |
|                  |                   | Land          | Buildings     | Land        | Buildings   | Land        | Buildings                                    | Total   | Depreciation               |             |            |  |
| Taco Bell        | Denver, CO        | \$ 473        | \$ 669        | \$ —        | \$ —        | \$ —        | \$ 669                                       | \$ —  | \$ 669                     | \$ —        | 06/14/2011 |  |
| <b>Total</b>     |                   | <b>\$ 473</b> | <b>\$ 669</b> | <b>\$ —</b> | <b>\$ —</b> | <b>\$ —</b> | <b>\$ 669</b>                                | <b>\$ —</b>   | <b>\$ 669</b>              | <b>\$ —</b> |            |  |

**STERLING REAL ESTATE TRUST AND SUBSIDIARIES**  
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(Dollar amounts in thousands)

| Medical<br>Property | Physical Location    | Encumbrances | Initial cost<br>to company |           | Costs<br>capitalized<br>subsequent<br>to acquisition (a) |           | Gross Amount at which<br>carried at close of period |           |           | Depreciation | Date of<br>Construction<br>or<br>Acquisition | Life on<br>which<br>depreciation<br>on<br>latest income<br>statement is<br>computed |
|---------------------|----------------------|--------------|----------------------------|-----------|--|-----------|---|-----------|-----------|--------------|--|---|
|                     |                      |              | Land                       | Buildings | Land   | Buildings | Land  | Buildings | Total     |              |  |   |
| Bio-Life            | Bismarck, ND         | 677          | 306                        | 2,255     | 11   | 123       | 317   | 2,378     | 2,695     | 497          | 01/03/2008                                   | 9 - 40  |
| Bio-Life            | Grand Forks,<br>ND   | 700          | 457                        | 2,230     | 1  | 158       | 458   | 2,388     | 2,846     | 517          | 01/03/2008                                   | 10 - 40   |
| Bio-Life            | Janesville, WI       | 624          | 250                        | 1,857     | —  | 123       | 250   | 1,980     | 2,230     | 415          | 01/03/2008                                   | 9 - 40  |
| Bio-Life            | Mankato, MN          | 752          | 390                        | 2,111     | 263  | 1,154     | 653   | 3,265     | 3,918     | 609          | 01/03/2008                                   | 11 - 40   |
| Bio-Life            | Marquette, MI        | 870          | 213                        | 2,793     | —  | 123       | 213   | 2,916     | 3,129     | 602          | 01/03/2008                                   | 9 - 40  |
| Bio-Life            | Onalaska, WI         | 655          | 208                        | 1,853     | —  | 323       | 208   | 2,176     | 2,384     | 439          | 01/03/2008                                   | 11 - 40   |
| Bio-Life            | Oshkosh, WI          | 597          | 293                        | 1,705     | —  | 146       | 293   | 1,851     | 2,144     | 407          | 01/03/2008                                   | 10 - 40   |
| Bio-Life            | Sheboygan, WI        | 665          | 645                        | 1,611     | —  | 248       | 645   | 1,859     | 2,504     | 381          | 01/03/2008                                   | 10 - 40   |
| Bio-Life            | Stevens Point,<br>WI | 748          | 119                        | 2,184     | —  | 123       | 119   | 2,307     | 2,426     | 480          | 01/03/2008                                   | 9 - 40  |
| Total               |                      | \$ 6,288     | \$ 2,881                   | \$ 18,599 | \$ 275   | \$ 2,521  | \$ 3,156  | \$ 21,120 | \$ 24,276 | \$ 4,347     |  |   |

**STERLING REAL ESTATE TRUST AND SUBSIDIARIES**  
**SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION**  
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| Residential<br>Property        | Physical Location     | Encumbrances | Initial cost |           | Costs<br>capitalized<br>subsequent |           | Gross Amount at which      |           |        | Depreciation | Date of<br>Construction<br>or<br>Acquisition | Life on<br>which<br>depreciation<br>on<br>latest income<br>statement is<br>computed |
|--------------------------------|-----------------------|--------------|--------------|-----------|------------------------------------|-----------|----------------------------|-----------|--------|--------------|--|---|
|                                |                       |              | to company   |           | to acquisition (a)                 |           | carried at close of period |           |        |              |  |   |
|                                |                       |              | Land         | Buildings | Land                               | Buildings | Land                       | Buildings | Total  |              |  |   |
| Arbor I/400                    | Bismarck, ND          | 439          | 73           | 516       | 4                                  | —         | 77                         | 516       | 593    | 33           | 06/04/2013                                   | 40  |
| Arbor II/404                   | Bismarck, ND          | 448          | 73           | 538       | 6                                  | 14        | 79                         | 552       | 631    | 29           | 11/01/2013                                   | 40  |
| Arbor III/406                  | Bismarck, ND          | 446          | 71           | 536       | 7                                  | 14        | 78                         | 550       | 628    | 29           | 11/01/2013                                   | 40  |
| Auburn II                      | Fargo, ND             | 601          | 105          | 883       | 4                                  | 64        | 109                        | 947       | 1,056  | 204          | 03/23/2007                                   | 20 - 40   |
| Autumn Ridge                   | Grand Forks,<br>ND    | 5,991        | 1,072        | 8,875     | 44                                 | 19        | 1,116                      | 8,894     | 10,010 | 2,130        | 08/16/2004                                   | 9 - 40  |
| Barrett Arms                   | Crookston, MN         | 938          | 37           | 1,001     | —                                  | 11        | 37                         | 1,012     | 1,049  | 50           | 01/02/2014                                   | 40  |
| Bayview                        | Fargo, ND             | 3,350        | 284          | 4,077     | 6                                  | 65        | 290                        | 4,142     | 4,432  | 826          | 12/31/2007                                   | 20 - 40   |
| Berkshire                      | Fargo, ND             | 278          | 31           | 406       | 3                                  | 6         | 34                         | 412       | 446    | 80           | 03/31/2008                                   | 20 - 40   |
| Betty Ann                      | Fargo, ND             | 566          | 74           | 738       | 1                                  | 31        | 75                         | 769       | 844    | 123          | 08/31/2009                                   | 40  |
| Brighton Village               | New Brighton,<br>MN   | 10,911       | 2,520        | 13,985    | —                                  | 119       | 2,520                      | 14,104    | 16,624 | 380          | 12/19/2014                                   | 5 - 40  |
| Brookfield                     | Fargo, ND             | 1,051        | 228          | 1,958     | 3                                  | 100       | 231                        | 2,058     | 2,289  | 374          | 08/01/2008                                   | 20 - 40   |
| Cambridge (FKA<br>44th Street) | Fargo, ND             | —            | 333          | 1,845     | 3                                  | —         | 336                        | 1,845     | 2,181  | 135          | 02/06/2013                                   | 40  |
| Candlelight                    | Fargo, ND             | 2,166        | 613          | 1,221     | (351)                              | 351       | 262                        | 1,572     | 1,834  | 124          | 11/30/2012                                   | 40  |
| Carling Manor                  | Grand Forks,<br>ND    | 509          | 69           | 656       | —                                  | 3         | 69                         | 659       | 728    | 128          | 03/31/2008                                   | 40  |
| Carlton Place                  | Fargo, ND             | 7,351        | 703          | 7,207     | 14                                 | 129       | 717                        | 7,336     | 8,053  | 1,330        | 09/01/2008                                   | 20 - 40   |
| Chandler 1802                  | Grand Forks,<br>ND    | —            | 133          | 1,114     | —                                  | 12        | 133                        | 1,126     | 1,259  | 56           | 01/02/2014                                   | 40  |
| Chandler 1866                  | Grand Forks,<br>ND    | —            | 31           | 270       | —                                  | 28        | 31                         | 298       | 329    | 77           | 01/03/2005                                   | 20 - 40   |
| Cherry Creek<br>(FKA Village)  | Grand Forks,<br>ND    | 1,026        | 173          | 1,435     | 1                                  | 60        | 174                        | 1,495     | 1,669  | 264          | 11/01/2008                                   | 40  |
| Columbia West                  | Grand Forks,<br>ND    | 3,301        | 294          | 3,406     | 1                                  | 148       | 295                        | 3,554     | 3,849  | 644          | 09/01/2008                                   | 20 - 40   |
| Country Club                   | Fargo, ND             | 326          | 252          | 1,252     | —                                  | 70        | 252                        | 1,322     | 1,574  | 152          | 05/02/2011                                   | 40  |
| Countryside                    | Fargo, ND             | 200          | 135          | 677       | —                                  | 14        | 135                        | 691       | 826    | 77           | 05/02/2011                                   | 40  |
| Courtyard                      | St. Louis Park,<br>MN | 4,165        | 2,270        | 5,681     | —                                  | 66        | 2,270                      | 5,747     | 8,017  | 335          | 09/03/2013                                   | 5 - 40  |
| Dakota Manor                   | Fargo, ND             | 1,885        | 249          | 2,236     | —                                  | 7         | 249                        | 2,243     | 2,492  | 79           | 08/07/2014                                   | 40  |
| Danbury                        | Fargo, ND             | 2,876        | 381          | 6,020     | 9                                  | 64        | 390                        | 6,084     | 6,474  | 1,219        | 12/31/2007                                   | 20 - 40   |
| Dellwood Estates               | Anoka, MN             | 7,775        | 844          | 9,966     | —                                  | 306       | 844                        | 10,272    | 11,116 | 651          | 05/31/2013                                   | 40  |
| Eagle Run                      | West Fargo, ND        | 4,448        | 576          | 5,787     | 38                                 | 12        | 614                        | 5,799     | 6,413  | 785          | 08/12/2010                                   | 40  |
| Echo Manor                     | Hutchinson, MN        | 1,013        | 141          | 875       | —                                  | 32        | 141                        | 907       | 1,048  | 45           | 01/02/2014                                   | 20 - 40   |
| Emerald Court                  | Fargo, ND             | 569          | 66           | 830       | 1                                  | 66        | 67                         | 896       | 963    | 171          | 03/31/2008                                   | 20 - 40   |
| Fairview                       | Bismarck, ND          | 3,109        | 267          | 3,978     | —                                  | 74        | 267                        | 4,052     | 4,319  | 710          | 12/31/2008                                   | 20 - 40   |
| Flickertail                    | Fargo, ND             | 5,725        | 426          | 5,652     | 8                                  | 97        | 434                        | 5,749     | 6,183  | 998          | 12/31/2008                                   | 40  |
| Forest Avenue                  | Fargo, ND             | 454          | 61           | 637       | —                                  | 6         | 61                         | 643       | 704    | 47           | 02/06/2013                                   | 40  |
| Galleria III                   | Fargo, ND             | 595          | 118          | 681       | —                                  | —         | 118                        | 681       | 799    | 88           | 11/09/2010                                   | 40  |
| Georgetown on<br>the River     | Fridley, MN           | 19,368       | 4,620        | 25,263    | —                                  | 142       | 4,620                      | 25,405    | 30,025 | 686          | 12/19/2014                                   | 5 - 40  |
| Glen Pond                      | Eagan, MN             | 15,574       | 3,761        | 20,833    | —                                  | 189       | 3,761                      | 21,022    | 24,783 | 2,135        | 12/02/2011                                   | 20 - 40   |
| Granger Court I                | Fargo, ND             | 2,446        | 279          | 2,619     | —                                  | —         | 279                        | 2,619     | 2,898  | 169          | 06/04/2013                                   | 40  |
| Griffin Court                  | Moorhead, MN          | 3,581        | 652          | 3,914     | —                                  | 188       | 652                        | 4,102     | 4,754  | 157          | 06/09/2014                                   | 5 - 40  |
| Hannifin                       | Bismarck, ND          | 505          | 81           | 607       | 5                                  | 7         | 86                         | 614       | 700    | 33           | 11/01/2013                                   | 40  |
| Hunter's Run I                 | Fargo, ND             | 289          | 50           | 419       | 2                                  | (2)       | 52                         | 417       | 469    | 90           | 03/23/2007                                   | 40  |



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| Residential Property                                     | Physical Location | Encumbrances | Initial cost |           | Costs capitalized subsequent to acquisition (a) |           | Gross Amount at which carried at close of period |           |        | Date of Construction or Acquisition | Life on which depreciation on latest income statement is computed |           |
|--|-------------------|--------------|--------------|-----------|---|-----------|--|-----------|--------|-------------------------------------|---|-----------|
|  |                   |              | to company   |           | to acquisition (a)                              |           | carried at close of period                       |           |        |                                     |   |           |
|  |                   |              | Land         | Buildings | Land  | Buildings | Land   | Buildings | Total  |                                     |   |           |
| Hunter's Run II  | Fargo, ND         | 589          | 44           | 441       | 2   | —         | 46   | 441       | 487    | 83                                  | 07/01/2008  | 40        |
| Huntington   | Fargo, ND         | —            | 86           | 309       | —   | —         | 86   | 309       | 395    | 3                                   | 08/04/2015  | 40        |
| Islander   | Fargo, ND         | 915          | 98           | 884       | —   | 53        | 98   | 937       | 1,035  | 100                                 | 07/01/2011  | 40        |
| Kennedy  | Fargo, ND         | 495          | 84           | 588       | 1   | 23        | 85   | 611       | 696    | 40                                  | 02/06/2013  | 40        |
| Library Lane   | Bismarck, ND      | 1,840        | 301          | 2,401     | 12  | 121       | 313  | 2,522     | 2,835  | 511                                 | 10/01/2007  | 20 - 40   |
| Madison  | Grand Forks, ND   | 272          | 95           | 497       | —   | —         | 95   | 497       | 592    | 4                                   | 09/01/2015  | 40        |
| Maple Ridge  | Omaha, NE         | 4,222        | 766          | 5,608     | —   | 1,495     | 766  | 7,103     | 7,869  | 1,198                               | 08/01/2008  | 20 - 40   |
| Maplewood  | Maplewood, MN     | 10,031       | 3,122        | 12,122    | —   | 189       | 3,122  | 12,311    | 15,433 | 330                                 | 12/19/2014  | 5 - 40    |
| Maplewood Bend I, II, III, IV, V, VI, VII, VIII & Royale | Fargo, ND         | 5,327        | 783          | 5,839     | —   | 192       | 783  | 6,031     | 6,814  | 803                                 | 01/01/2009  | 20 - 40   |
| Martha Alice   | Fargo, ND         | 566          | 74           | 738       | 1   | 83        | 75   | 821       | 896    | 128                                 | 08/31/2009  | 20 - 40   |
| Mayfair  | Grand Forks, ND   | 764          | 80           | 1,043     | —   | 20        | 80   | 1,063     | 1,143  | 199                                 | 07/01/2008  | 20 - 40   |
| Monticello   | Fargo, ND         | 745          | 60           | 752       | —   | 32        | 60   | 784       | 844    | 41                                  | 11/08/2013  | 20 - 40   |
| Montreal Courts  | Little Canada, MN | 19,385       | 5,809        | 19,687    | —   | 341       | 5,809  | 20,028    | 25,837 | 1,123                               | 10/02/2013  | 5 - 40    |
| Oak Court  | Fargo, ND         | 1,798        | 270          | 2,354     | —   | 188       | 270  | 2,542     | 2,812  | 474                                 | 04/30/2008  | 27.5 - 40 |
| Pacific Park I   | Fargo, ND         | 736          | 95           | 777       | —   | 26        | 95   | 803       | 898    | 58                                  | 02/06/2013  | 40        |
| Pacific Park II  | Fargo, ND         | 630          | 111          | 865       | —   | 37        | 111  | 902       | 1,013  | 65                                  | 02/06/2013  | 40        |
| Pacific Park South                                       | Fargo, ND         | 389          | 58           | 459       | —   | —         | 58   | 459       | 517    | 33                                  | 02/06/2013  | 40        |
| Parkview Arms  | Bismarck, ND      | 238          | 373          | 3,845     | —   | 33        | 373  | 3,878     | 4,251  | 64                                  | 05/13/2015  | 40        |
| Parkwest Gardens   | West Fargo, ND    | 4,153        | 713          | 5,825     | —   | 299       | 713  | 6,124     | 6,837  | 235                                 | 06/30/2014  | 20 - 40   |
| Parkwood   | Fargo, ND         | 1,122        | 126          | 1,143     | 6   | 16        | 132  | 1,159     | 1,291  | 203                                 | 08/01/2008  | 40        |
| Pebble Creek   | Bismarck, ND      | 4,491        | 260          | 3,704     | —   | (300)     | 260  | 3,404     | 3,664  | 669                                 | 03/19/2008  | 20 - 40   |
| Prairiewood Courts                                       | Fargo, ND         | 1,376        | 308          | 1,815     | 9   | 43        | 317  | 1,858     | 2,175  | 419                                 | 09/01/2006  | 20 - 40   |
| Prairiewood Meadows                                      | Fargo, ND         | 2,293        | 736          | 2,514     | —   | 10        | 736  | 2,524     | 3,260  | 210                                 | 09/30/2012  | 40        |
| Quail Creek  | Springfield, MO   | 7,434        | 1,529        | 8,717     | —   | 7         | 1,529  | 8,724     | 10,253 | 200                                 | 02/03/2015  | 5 - 40    |
| Richfield/Harrison                                       | Grand Forks, ND   | 6,188        | 756          | 6,346     | 3   | 256       | 759  | 6,602     | 7,361  | 1,391                               | 07/01/2007  | 20 - 40   |
| Robinwood  | Coon Rapids, MN   | 4,841        | 1,138        | 6,133     | 242   | (158)     | 1,380  | 5,975     | 7,355  | 161                                 | 12/19/2014  | 40        |
| Rosedale Estates   | Roseville, MN     | 16,421       | 4,681        | 20,591    | —   | 104       | 4,681  | 20,695    | 25,376 | 559                                 | 12/19/2014  | 5 - 40    |
| Rosegate   | Fargo, ND         | 2,290        | 251          | 2,978     | 5   | 84        | 256  | 3,062     | 3,318  | 599                                 | 04/30/2008  | 20 - 40   |
| Saddlebrook  | Fargo, ND         | 1,046        | 148          | 1,262     | 13  | 82        | 161  | 1,344     | 1,505  | 222                                 | 12/31/2008  | 40        |
| Schrock  | Fargo, ND         | 540          | 71           | 626       | 3   | 6         | 74   | 632       | 706    | 41                                  | 06/04/2013  | 40        |
| Sheridan Pointe  | Fargo, ND         | 2,141        | 292          | 2,424     | —   | 16        | 292  | 2,440     | 2,732  | 137                                 | 10/01/2013  | 40        |
| Sierra Ridge   | Bismarck, ND      | 5,750        | 754          | 8,795     | 151   | 2         | 905  | 8,797     | 9,702  | 1,413                               | 09/01/2006  | 40        |
| Somerset   | Fargo, ND         | 3,195        | 300          | 3,431     | 7   | —         | 307  | 3,431     | 3,738  | 643                                 | 07/01/2008  | 40        |
| Southgate  | Fargo, ND         | 2,885        | 803          | 5,299     | —   | (112)     | 803  | 5,187     | 5,990  | 1,101                               | 07/01/2007  | 40        |
| Southview III  | Grand Forks, ND   | 224          | 99           | 522       | —   | 68        | 99   | 590       | 689    | 64                                  | 08/01/2011  | 40        |
| Southview Villages                                       | Fargo, ND         | 2,012        | 268          | 2,519     | —   | 122       | 268  | 2,641     | 2,909  | 537                                 | 10/01/2007  | 20 - 40   |
| Spring   | Fargo, ND         | 601          | 76           | 822       | 5   | 15        | 81   | 837       | 918    | 60                                  | 02/06/2013  | 20 - 40   |
| Stanford Court   | Grand Forks, ND   | —            | 291          | 3,866     | —   | 64        | 291  | 3,930     | 4,221  | 286                                 | 02/06/2013  | 20 - 40   |



**STERLING REAL ESTATE TRUST AND SUBSIDIARIES**  
**SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION**  
**DECEMBER 31, 2015**  
(Dollar amounts in thousands)

| Residential<br>Property | Physical Location | Encumbrances | Initial cost |           | Costs<br>capitalized<br>subsequent |           | Gross Amount at which      |           |           | Depreciation | Date of<br>Construction<br>or<br>Acquisition | Life on<br>which<br>depreciation<br>on<br>latest income<br>statement is<br>computed |      |
|-------------------------|-------------------|--------------|--------------|-----------|------------------------------------|-----------|----------------------------|-----------|-----------|--------------|--|---|------|
|                         |                   |              | to company   |           | to acquisition (a)                 |           | carried at close of period |           |           |              |  |   |      |
|                         |                   |              | Land         | Buildings | Land                               | Buildings | Land                       | Buildings | Total     |              |  |   |      |
| Stonefield-Phase I      | Bismarck, ND      | 9,200        | 2,804        | 13,353    | 207                                | —         | 3,011                      | 13,353    | 16,364    | 349          | 08/01/2014                                   | 20  | - 40 |
| Stonefield-Phase II     | Bismarck, ND      | —            | 1,167        | —         | 183                                | —         | 1,350                      | —         | 1,350     | —            | 10/23/2014                                   | n/a   |      |
| Stonefield-Phase III    | Bismarck, ND      | —            | 1,079        | —         | 168                                | —         | 1,247                      | —         | 1,247     | —            | 10/23/2014                                   | n/a   |      |
| Stonybrook              | Omaha, NE         | 7,686        | 1,439        | 8,003     | —                                  | 1,215     | 1,439                      | 9,218     | 10,657    | 1,421        | 01/20/2009                                   | 20  | - 40 |
| Summerfield             | Fargo, ND         | 138          | 129          | 599       | —                                  | —         | 129                        | 599       | 728       | 6            | 08/04/2015                                   | 40  |      |
| Summit Point            | Fargo, ND         | 4,000        | 681          | 5,510     | —                                  | —         | 681                        | 5,510     | 6,191     | 34           | 10/01/2015                                   | 40  |      |
| Sunset Ridge            | Bismarck, ND      | 8,816        | 1,759        | 11,012    | 36                                 | 14        | 1,795                      | 11,026    | 12,821    | 1,819        | 06/06/2008                                   | 9   | - 40 |
| Sunview                 | Grand Forks, ND   | 1,163        | 144          | 1,614     | 1                                  | 42        | 145                        | 1,656     | 1,801     | 289          | 12/31/2008                                   | 20  | - 40 |
| Sunwood                 | Fargo, ND         | 2,929        | 358          | 3,520     | 7                                  | 4         | 365                        | 3,524     | 3,889     | 749          | 07/01/2007                                   | 20  | - 40 |
| Terrace on the Green    | Moorhead, MN      | 2,098        | 697          | 2,588     | —                                  | —         | 697                        | 2,588     | 3,285     | 216          | 09/30/2012                                   | 40  |      |
| Twin Oaks               | Hutchinson, MN    | 993          | 816          | 3,245     | —                                  | 44        | 816                        | 3,289     | 4,105     | 102          | 10/01/2014                                   | 40  |      |
| Twin Parks              | Fargo, ND         | 2,272        | 119          | 2,072     | 17                                 | 56        | 136                        | 2,128     | 2,264     | 381          | 10/01/2008                                   | 20  | - 40 |
| Valley Homes Duplexes   | Grand Forks, ND   | —            | 356          | 1,668     | —                                  | —         | 356                        | 1,668     | 2,024     | 42           | 01/22/2015                                   | 40  |      |
| Valley View             | Golden Valley, MN | 4,805        | 1,190        | 6,217     | —                                  | 46        | 1,190                      | 6,263     | 7,453     | 167          | 12/19/2014                                   | 5   | - 40 |
| Village Park            | Fargo, ND         | 824          | 219          | 1,932     | 23                                 | 34        | 242                        | 1,966     | 2,208     | 375          | 04/30/2008                                   | 40  |      |
| Village West            | Fargo, ND         | 2,646        | 357          | 2,274     | 24                                 | 31        | 381                        | 2,305     | 2,686     | 438          | 04/30/2008                                   | 40  |      |
| Westcourt               | Fargo, ND         | 2,486        | 287          | 3,028     | —                                  | 41        | 287                        | 3,069     | 3,356     | 157          | 01/02/2014                                   | 5   | - 40 |
| Westside                | Hawley, MN        | 578          | 59           | 360       | —                                  | 37        | 59                         | 397       | 456       | 54           | 02/01/2010                                   | 40  |      |
| Westwind                | Fargo, ND         | 317          | 49           | 455       | —                                  | 75        | 49                         | 530       | 579       | 102          | 04/30/2008                                   | 20  | - 40 |
| Westwood                | Fargo, ND         | 4,652        | 597          | 6,455     | 13                                 | 124       | 610                        | 6,579     | 7,189     | 1,248        | 06/05/2008                                   | 20  | - 40 |
| Willow Park             | Fargo, ND         | 4,199        | 288          | 5,298     | 7                                  | 239       | 295                        | 5,537     | 5,832     | 941          | 12/31/2008                                   | 40  |      |
| Total                   |                   | \$ 292,022   | \$62,649     | \$376,338 | \$ 955                             | \$ 7,971  | \$63,604                   | \$384,309 | \$447,913 | \$ 38,940    |  |   |      |

**STERLING REAL ESTATE TRUST AND SUBSIDIARIES**  
**SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION**  
**DECEMBER 31, 2015**  
(Dollar amounts in thousands)

| Office<br>Property   | Physical Location  | Encumbrances | Initial cost |           | Costs<br>capitalized<br>subsequent<br>to acquisition (a) |           | Gross Amount at which<br>carried at close of period |           |           | Depreciation | Date of<br>Construction<br>or<br>Acquisition | Life on<br>which<br>depreciation<br>on<br>latest income<br>statement is<br>computed |   |    |
|--|--------------------|--------------|--------------|-----------|--|-----------|---|-----------|-----------|--------------|--|---|---|----|
|  |                    |              | Land         | Buildings | Land   | Buildings | Land  | Buildings | Total     |              |  | 3   | - | 40 |
| 32nd Avenue  | Fargo, ND          | 2,160        | 635          | 3,300     | 6  | 43        | 641   | 3,343     | 3,984     | 980          | 03/16/2004                                   | 3   | - | 40 |
| Aetna  | Bismarck, ND       | 6,679        | 1,291        | 7,372     | —  | 946       | 1,291   | 8,318     | 9,609     | 1,705        | 12/06/2006                                   | 20  | - | 40 |
| First International<br>Bank & Trust                            | Moorhead, MN       | —            | 210          | 712       | 3  | 88        | 213   | 800       | 1,013     | 108          | 05/13/2011                                   | 10  | - | 40 |
| Four Points  | Fargo, ND          | —            | 70           | 1,238     | —  | 11        | 70  | 1,249     | 1,319     | 255          | 10/18/2007                                   |   |   | 40 |
| Gate City  | Grand Forks,<br>ND | 977          | 382          | 917       | 1  | 35        | 383   | 952       | 1,335     | 180          | 03/31/2008                                   |   |   | 40 |
| Goldmark Office<br>Park  | Fargo, ND          | 3,452        | 1,160        | 14,796    | —  | 978       | 1,160   | 15,774    | 16,934    | 3,309        | 07/01/2007                                   | 1   | - | 40 |
| Great American<br>Bldg   | Fargo, ND          | 998          | 511          | 1,290     | 1  | 362       | 512   | 1,652     | 2,164     | 393          | 02/01/2005                                   | 28  | - | 40 |
| Midtown Plaza  | Minot, ND          | 1,327        | 30           | 1,213     | —  | —         | 30  | 1,213     | 1,243     | 323          | 01/01/2004                                   |   |   | 40 |
| Northland Plaza<br>Parkway office<br>building (FKA<br>Echelon) | Bloomington,<br>MN | 35,454       | 6,912        | 36,520    | —  | 238       | 6,912   | 36,758    | 43,670    | 953          | 08/13/2015                                   | 1   | - | 40 |
| Regis  | Fargo, ND          | 1,065        | 278          | 1,491     | 2  | 29        | 280   | 1,520     | 1,800     | 324          | 05/15/2007                                   | 20  | - | 40 |
| SSA  | Edina, MN          | —            | 2,991        | 7,633     | —  | —         | 2,991   | 7,633     | 10,624    | 1,343        | 01/01/2009                                   |   |   | 40 |
| Wells Fargo<br>Center  | St Cloud, MN       | —            | 100          | 2,793     | —  | 13        | 100   | 2,806     | 2,906     | 615          | 03/20/2007                                   | 20  | - | 40 |
|  | Duluth, MN         | —            | 600          | 7,270     | (115)  | 1,126     | 485   | 8,396     | 8,881     | 1,487        | 07/11/2007                                   | 4   | - | 40 |
| Total  |                    | \$ 52,112    | \$15,170     | \$ 86,545 | \$ (102)   | \$ 3,869  | \$15,068  | \$ 90,414 | \$105,482 | \$ 11,975    |  |   |   |    |

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**STERLING REAL ESTATE TRUST AND SUBSIDIARIES**  
**SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION**  
**DECEMBER 31, 2015**  
(Dollar amounts in thousands)

| Retail Property              | Physical Location | Encumbrances      | Initial cost     |                   | Costs capitalized subsequent to acquisition (a) |                  | Gross Amount at which carried at close of period |                   |                   | Depreciation     | Date of Construction or Acquisition | Life on which depreciation on latest income statement is computed |
|------------------------------|-------------------|-------------------|------------------|-------------------|---|------------------|--|-------------------|-------------------|------------------|-------------------------------------|---|
|                              |                   |                   | to company       |                   | to acquisition (a)                              |                  | carried at close of period                       |                   |                   |                  |                                     |   |
|                              |                   |                   | Land             | Buildings         | Land  | Buildings        | Land   | Buildings         | Total             |                  |                                     |   |
| Applebee's                   | Apple Valley, MN  | —                 | 560              | 1,235             | —   | —                | 560  | 1,235             | 1,795             | 154              | 01/27/2011                          | 40  |
| Applebee's                   | Bloomington, MN   | —                 | 1,000            | 474               | 11  | —                | 1,011  | 474               | 1,485             | 69               | 03/22/2010                          | 40  |
| Applebee's                   | Coon Rapids, MN   | —                 | 750              | 875               | —   | —                | 750  | 875               | 1,625             | 128              | 03/09/2010                          | 40  |
| Applebee's                   | Savage, MN        | —                 | 690              | 424               | —   | —                | 690  | 424               | 1,114             | 62               | 01/01/2010                          | 40  |
| Becker Furniture             | Waite Park, MN    | —                 | 150              | 2,065             | —   | (637)            | 150  | 1,428             | 1,578             | 490              | 07/12/2006                          | 40  |
| Buffalo Wild Wings           | Austin, TX        | —                 | 575              | 1,664             | —   | —                | 575  | 1,664             | 2,239             | 229              | 07/30/2010                          | 40  |
| Dairy Queen                  | Dickinson, ND     | 630               | 329              | 658               | —   | —                | 329  | 658               | 987               | 66               | 01/19/2012                          | 40  |
| Dairy Queen                  | Moorhead, MN      | —                 | 243              | 787               | 1   | —                | 244  | 787               | 1,031             | 92               | 05/13/2011                          | 20  |
| Family Dollar                | Mandan, ND        | —                 | 167              | 649               | —   | —                | 167  | 649               | 816               | 82               | 12/14/2010                          | 40  |
| O'Reilly                     | Mandan, ND        | —                 | 115              | 449               | —   | —                | 115  | 449               | 564               | 57               | 12/14/2010                          | 40  |
| Walgreen's                   | Alexandria, LA    | 1,818             | 1,090            | 2,973             | —   | —                | 1,090  | 2,973             | 4,063             | 447              | 12/18/2009                          | 28 - 40   |
| Walgreen's                   | Batesville, AR    | 6,143             | 473              | 6,405             | —   | —                | 473  | 6,405             | 6,878             | 1,041            | 07/09/2009                          | 40  |
| Walgreen's                   | Denver, CO        | 3,634             | 2,349            | 2,358             | —   | —                | 2,349  | 2,358             | 4,707             | 270              | 06/14/2011                          | 40  |
| Walgreen's                   | Fayetteville, AR  | 4,705             | 636              | 4,732             | —   | —                | 636  | 4,732             | 5,368             | 769              | 07/09/2009                          | 40  |
| Walgreen's Westpointe Center | Laurel, MS        | 1,799             | 1,280            | 2,984             | —   | —                | 1,280  | 2,984             | 4,264             | 410              | 07/30/2010                          | 40  |
|                              | Fargo, ND         | —                 | 687              | 2,372             | 155   | (17)             | 842  | 2,355             | 3,197             | 794              | 06/30/2006                          | 5 - 40  |
| <b>Total</b>                 |                   | <b>\$ 18,729</b>  | <b>\$ 11,094</b> | <b>\$ 31,104</b>  | <b>\$ 167</b>                                   | <b>\$ (654)</b>  | <b>\$ 11,261</b>                                 | <b>\$ 30,450</b>  | <b>\$ 41,711</b>  | <b>\$ 5,160</b>  |                                     |   |
| <b>Grand Totals</b>          |                   | <b>\$ 383,292</b> | <b>\$ 96,934</b> | <b>\$ 530,920</b> | <b>\$ 2,302</b>                                 | <b>\$ 13,613</b> | <b>\$ 99,236</b>                                 | <b>\$ 544,533</b> | <b>\$ 643,769</b> | <b>\$ 61,859</b> |                                     |   |

Investments in Unconsolidated Affiliates:

| Property                       | Physical Location | Encumbrances | Initial cost |           | Costs capitalized subsequent to acquisition (a) |           | Gross Amount at which carried at close of period |           |        | Depreciation | Date of Construction or Acquisition | Life on which depreciation on latest income statement is computed |
|--------------------------------|-------------------|--------------|--------------|-----------|---|-----------|--|-----------|--------|--------------|-------------------------------------|---|
|                                |                   |              | to company   |           | to acquisition (a)                              |           | carried at close of period                       |           |        |              |                                     |   |
|                                |                   |              | Land         | Buildings | Land  | Buildings | Land   | Buildings | Total  |              |                                     |   |
| Banner                         | Fargo, ND         | 7,083        | 750          | 8,016     | 22  | 311       | 772  | 8,327     | 9,099  | 1,750        | 03/15/2007                          | 40  |
| GF Marketplace                 | Grand Forks, ND   | 11,079       | 4,259        | 15,801    | 208   | 38        | 4,467  | 15,839    | 20,306 | 4,615        | 07/01/2003                          | 8 - 40  |
| Highland Meadows               | Bismarck, ND      | 2,259        | 624          | 2,591     | 335   | 124       | 959  | 2,715     | 3,674  | 1,383        | 07/31/2011                          | 15 - 40   |
| Ashbury                        | Bismarck, ND      | —            | 331          | 2,517     | —   | —         | 331  | 2,517     | 2,848  | 157          | 07/01/2013                          | 40  |
| Michigan Street Transit Center | Duluth, MN        | —            | 2,005        | —         | —   | —         | 2,005  | —         | 2,005  | —            | 05/05/2014                          | n/a   |

**STERLING REAL ESTATE TRUST AND SUBSIDIARIES**  
**SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION**  
**DECEMBER 31, 2015**

(Dollar amounts in thousands)

**Notes:**

- (a) The costs capitalized subsequent to acquisition is net of dispositions.  
(b) The changes in total real estate investments for the years ended December 31, 2015 and 2014 are as follows (in thousands):

|  | <u>2015</u>       | <u>2014</u>       |
|--|-------------------|-------------------|
| Balance at January 1,                    | \$ 591,136        | \$ 450,250        |
| Purchase of real estate investments      | 82,111            | 143,141           |
| Sale and disposal of investment property | (1,325)           | (2,255)           |
| Property held for sale                   | (2,058)           | —                 |
| Provision for asset impairment           | (412)             | —                 |
| Reallocation to intangible assets        | 32                | —                 |
| Balance at December 31,                  | <u>\$ 669,484</u> | <u>\$ 591,136</u> |

- (c) The changes in accumulated depreciation for the years ended December 31, 2015 and 2014 are as follows (in thousands):

|  | <u>2015</u>      | <u>2014</u>      |
|--|------------------|------------------|
| Balance at January 1,                    | \$ 58,873        | \$ 47,058        |
| Depreciation expense                     | 16,466           | 12,116           |
| Property held for sale                   | (342)            | —                |
| Sale and disposal of investment property | (22)             | (301)            |
| Balance at December 31,                  | <u>\$ 74,975</u> | <u>\$ 58,873</u> |

- (d) The aggregate cost of our real estate for federal income tax purposes is \$589,470 .

**Exhibit Index**

| Exhibit number | Exhibit Description  | Filed here with | Incorporated by reference |               |         |             |
|----------------|--|-----------------|---------------------------|---------------|---------|-------------|
|                |  |                 | Form                      | Period ending | Exhibit | Filing date |
| 3.1            | Articles of Organization of Sterling Real Estate Trust filed December 3, 2002  |                 | 10-12G                    |               | 3.1     | 03/10/11    |
| 3.2            | Amendment to Articles of Organization of Sterling Real Estate Trust dated August 1, 2014   |                 | 8-K                       |               | 5.02    | 06/24/14    |
| 3.3            | Amended and Restated Bylaws dated June 23, 2011  |                 | 10-12G                    |               | 3.2     | 03/10/11    |
| 4.1            | Declaration of Trust Sterling Real Estate Trust dated July 21, 2004  |                 | 10-12G                    |               | 4.1     | 03/10/11    |
| 4.2            | Addendum to Declaration of Trust dated July 25, 2007   |                 | 10-12G                    |               | 4.2     | 03/10/11    |
| 4.3            | Sterling Third Amended and Restated Declaration of Trust dated March 27, 2014  |                 | 8-K                       |               | 4.1     | 04/02/14    |
| 4.4            | First Amended and Restated Declaration of Trust dated February 9, 2011   |                 | 10-12G                    |               | 4.3     | 03/10/11    |
| 4.5            | Amendment No. 1 to First Amended and Restated Declaration of Trust dated August 1, 2014  |                 | 8-K                       |               | 5.01    | 06/24/14    |
| 4.6            | Amended and Restated Share Repurchase Plan December 20, 2012   |                 | 8-K                       |               | 10.2    | 12/27/12    |
| 4.8            | Amended and Restated Share Repurchase Plan dated September 26, 2013  |                 | 8-K                       |               | 99.2    | 10/02/13    |
| 4.7            | Amended and Restated Share Repurchase Plan dated March 27, 2014  |                 | 8-K                       |               | 99.1    | 04/02/14    |
| 4.9            | Amended and Restated Share Repurchase Plan dated December 18, 2014   |                 | 8-K                       |               | 99.1    | 01/30/15    |
| 4.10           | Amended and Restated Unit Repurchase Plan dated September 26, 2013   |                 | 8-K                       |               | 99.3    | 10/02/13    |
| 4.11           | Amended and Restated Unit Repurchase Plan dated March 27, 2014   |                 | 8-K                       |               | 99.2    | 04/02/14    |
| 4.12           | Amended and Restated Unit Repurchase Plan dated December 18, 2014  |                 | 8-K                       |               | 99.2    | 01/30/15    |
| 10.1           | First Amended and Restated Advisory Agreement dated February 9, 2011   |                 | 10-12G                    |               | 10.1    | 03/10/11    |
| 10.2           | First Amendment and Complete Restatement of Agreement of Limited Liability Limited Partnership of Sterling Properties, LLLP dated April 25, 2003 |                 | 10-12G                    |               | 10.2    | 03/10/11    |
| 10.3           | Second Amendment to the Agreement of Limited Liability Limited Partnership of Sterling Properties, LLLP dated December 19, 2008                  |                 | 10-12G                    |               | 10.3    | 03/10/11    |
| 10.4           | Third Amendment to the Agreement of Limited Liability Limited Partnership of Sterling Properties, LLLP dated August 5, 2009                      |                 | 10-12G                    |               | 10.4    | 03/10/11    |
| 10.5           | Fourth Amendment to the Agreement of Limited Liability Limited Partnership of Sterling Properties, LLLP dated February 9, 2011                   |                 | 10-12G                    |               | 10.5    | 03/10/11    |
| 10.6           | Fifth Amendment to the Agreement of Limited Liability Limited Partnership of Sterling Properties, LLLP dated June 23, 2011                       |                 | 10-K                      | 12/31/2011    | 10.6    | 03/30/12    |
| 10.7           | Second Amended and Restated Advisory Agreement dated January 1, 2012   |                 | 8-K                       |               | 10.1    | 09/27/12    |
| 10.8           | Third Amended and Restated Advisory Agreement dated January 1, 2014  |                 | 8-K                       |               | 10.1    | 04/02/14    |
|                | Third Amended and Restated Advisory Agreement dated January 1, 2015  |                 | 8-K                       |               | 10.1    | 04/02/15    |
| 10.9           | Second Amended and Restated Agreement of Limited Liability Limited Partnership of Sterling Properties, LLLP dated January 1, 2013                |                 | 8-K                       |               | 10.1    | 12/27/12    |
| 10.10          | Third Amended and Restated Agreement of Limited Liability Limited Partnership of Sterling Properties LLLP dated August 1, 2014                   |                 | 8-K                       |               | 5.04    | 06/24/14    |
| 10.11          | Dividend Reinvestment Plan dated July 20, 2012   |                 | S-3D                      |               | A       | 07/20/12    |
| 10.12          | First Amendment to Dividend Reinvestment Plan dated September 26, 2013   |                 | 8-K                       |               | 99.1    | 10/02/13    |
| 10.13          | Share Repurchase Plan dated June 7, 2012   |                 | 10-Q                      | 9/30/2012     | 4.1     | 11/13/12    |
| 10.14          | Amendment to Certificate of Limited Liability Partnership of Sterling Properties, LLLP dated August 1, 2014                                      |                 | 8-K                       |               | 5.03    | 06/24/14    |
| 10.15          | Form of Purchase and Sale Agreement dated as of November 17, 2014  |                 | 8-K                       |               | 10.1    | 12/23/14    |
| 10.16          | Form of Amendment to Purchase and Sale Agreement dated as of December 18, 2014   |                 | 8-K                       |               | 10.2    | 12/23/14    |
| 10.17          | Form of Secured Promissory Note (15-Year Note) dated as of December 19, 2014   |                 | 8-K                       |               | 10.3    | 12/23/14    |
| 10.18          | Form of Secured Promissory Note (10-Year Note) dated as of December 19, 2014   |                 | 8-K                       |               | 10.4    | 12/23/14    |
| 10.19          | Form of Mortgage, Security Agreement and Fixture Filing dated as of December 19, 2014  |                 | 8-K                       |               | 10.5    | 12/23/14    |
| 10.20          | Form of Promissory Note dated as of December 19, 2014  |                 | 8-K                       |               | 10.6    | 12/23/14    |
| 10.21          | Form of Mortgage dated as of December 19, 2014   |                 | 8-K                       |               | 10.7    | 12/23/14    |
| 10.22          | Form of Commercial Security Agreement dated as of December 19, 2014  |                 | 8-K                       |               | 10.8    | 12/23/14    |
| 10.23          | Amended and Restated Sterling Real Estate Trust Independent Trustee Common Shares Plan approved June 18, 2015                                    |                 | 8-K                       |               | 10.1    | 06/23/15    |
| 10.24          | Form of Purchase and Sale Agreement dated as of July 1, 2015   |                 | 8-K                       |               | 10.1    | 08/18/15    |
| 10.25          | Form of Promissory Note dated as of August 13, 2015  |                 | 8-K                       |               | 10.2    | 08/18/15    |
| 10.26          | Form of Mortgage, Security Agreement and Fixture Filing dated as of August 13, 2015  |                 | 8-K                       |               | 10.3    | 08/18/15    |
| 21.1           | Subsidiaries of Registrant   | X               |                           |               |         |             |
| 23.1           | Consent of Independent Registered Public Accounting Firm - Baker Tilly Virchow Krause, LLP   | X               |                           |               |         |             |
| 31.1           | Section 302 Certification of Chief Executive Officer   | X               |                           |               |         |             |
| 31.2           | Section 302 Certification of Chief Accounting Officer  | X               |                           |               |         |             |
| 32.1           | Section 906 Certification of Chief Executive Officer and Chief Accounting Officer  | X               |                           |               |         |             |



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|      | Report of Independent Registered Public Accounting Firm   |       |      |          |
|      | Combined Statement of Revenues and Certain Expenses for the nine months ended September 30, 2014 (unaudited) and the year ended December 31, 2013   |       |      |          |
|      | Notes to the Combined Statement of Revenues and Certain Expenses for the nine months ended September 30, 2014 (unaudited) and the year ended December 31, 2013  |       |      |          |
|      | Unaudited Pro Forma Consolidated Balance Sheet as of September 30, 2014   |       |      |          |
| 99.2 | Unaudited Pro Forma Consolidated Statement of Operations and Other Comprehensive Income for the nine months ended September 30, 2014  |       |      |          |
|      | Unaudited Pro Forma Consolidated Statement of Operations and Other Comprehensive Income for the year ended December 31, 2013  |       |      |          |
|      | Notes to Unaudited Pro Form Consolidated Financial Statements   | 8-K/A | 99.2 | 01/30/15 |
| 101  |   | X     |      |          |
|      | The following materials from Sterling Real Estate Trust's Annual Report on Form 10-K for the year ended December 31, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at December 31, 2015 and 2014; (ii) Consolidated Statements of Operations and Comprehensive Income for years ended December 31, 2015 and 2014; (iii) Consolidated Statements of Shareholders' Equity for the years ended December 31, 2015 and 2014; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2015 and 2014, and; (v) Notes to Consolidated Financial Statements. |       |      |          |

| <b>NAME OF SUBSIDIARY</b>                 | <b>JURISDICTION OF FORMATION</b> |
|---|----------------------------------|
| Autumn Ridge INREIT, LLC                  | North Dakota                     |
| Bayview Apartments, LLC                   | North Dakota                     |
| Bismarck Interstate INREIT, LLC           | North Dakota                     |
| Candlelight Apartments, LLC               | Delaware                         |
| Columbia West Apartments, LLC             | North Dakota                     |
| Courtyard Apartments, LLC                 | Minnesota                        |
| Dellwood Estates Apartments, LLC          | Minnesota                        |
| Flickertail Apartments, LLC               | North Dakota                     |
| Grand Forks INREIT, LLC                   | North Dakota                     |
| INREIT Alexandria, LLC                    | Delaware                         |
| INREIT Batesville, LLC                    | North Dakota                     |
| INREIT BL Bismarck, LLC                   | North Dakota                     |
| INREIT BL Eau Claire, LLC                 | North Dakota                     |
| INREIT BL Grand Forks, LLC                | North Dakota                     |
| INREIT BL Janesville, LLC                 | North Dakota                     |
| INREIT BL Mankato, LLC                    | North Dakota                     |
| INREIT BL Marquette, LLC                  | North Dakota                     |
| INREIT BL Onalaska, LLC                   | North Dakota                     |
| INREIT BL Oshkosh, LLC                    | North Dakota                     |
| INREIT BL Sheboygan, LLC                  | North Dakota                     |
| INREIT BL Stevens Point, LLC              | North Dakota                     |
| INREIT Fayetteville, LLC                  | North Dakota                     |
| INREIT Fed-3 LLC                          | North Dakota                     |
| INREIT Highland, LLC                      | North Dakota                     |
| INREIT Laurel, LLC                        | Delaware                         |
| INREIT Maple Ridge, LLC                   | North Dakota                     |
| INREIT Somerset, LLC                      | Delaware                         |
| INREIT Stonybrook, LLC                    | Delaware                         |
| INREIT Sunset Ridge, LLC                  | North Dakota                     |
| Maplewood Bend Apartments, LLC            | North Dakota                     |
| Michigan Street Ramp, LLC                 | North Dakota                     |
| ** Michigan Street Transit Center, LLC    | Minnesota                        |
| Montreal Courts Apartments, LLC           | Minnesota                        |
| Pebble Creek Apartments, LLC              | North Dakota                     |
| Prairiewood Meadows Apartments, LLC       | North Dakota                     |
| Richfield Harrison Apartments, LLC        | North Dakota                     |
| Sierra Ridge, LLC                         | North Dakota                     |
| Sterling Georgetown, LLC                  | Minnesota                        |
| *** Sterling Northland, LLC               | Minnesota                        |
| Sterling Parkwest, LLC                    | North Dakota                     |
| Sterling Quail Creek, LLC                 | Missouri                         |
| * Sterling Properties, LLLP               | North Dakota                     |
| Sterling Stonefield I, LLC                | North Dakota                     |
| Sunwood Estates, LLC                      | North Dakota                     |
| Terrace on the Green Apartments, LLC      | Minnesota                        |
| Twin Oaks Apartments, LLC                 | Minnesota                        |
| Twin Parks, LLC                           | North Dakota                     |
| Willow Park Apartments, LLC               | North Dakota                     |
|   |                                  |
| * 33.1% ownership as of December 31, 2015 |                                  |
| ** 99% ownership as of December 31, 2015  |                                  |
| *** 70% ownership as of December 31, 2015 |                                  |

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S -3D (File No. 333 -182768) of Sterling Real Estate Trust of our report dated March 14, 2016, relating to the consolidated financial statements and schedule, which appears on page 96 of this annual report on Form 10 -K for the year ended December 31, 2015.

/s/ BAKER TILLY VIRCHOW KRAUSE, LLP

Chicago, Illinois  
March 14, 2016

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**OFFICER'S CERTIFICATE  
PURSUANT TO SECTION 302**

I, Angie D. Stock , certify that:

1. I have reviewed this Annual Report on Form 10-K for Sterling Real Estate Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-5(e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 14 , 201 6

By: /s/ Angie D. Stock

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Angie D. Stock  
Chief Accounting Officer

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

In connection with the Annual Report on Form 10-K of Sterling Real Estate Trust (the "Company") for the annual period ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and on the dates indicated below, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of their knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Dated: March 14, 2016

By: /s/ Kenneth P. Regan

Kenneth P. Regan  
Chief Executive Officer

Dated: March 14, 2016

By: /s/ Angie D. Stock

Angie D. Stock  
Chief Accounting Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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