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

FORM 10-Q

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

For the quarterly period ended June 30, 2013

OR

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

For the period from _____ to _____

000-53673
(Commission file No.)

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

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

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

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

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

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

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller Reporting Company ☒
(Do not check if a smaller reporting company)

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

At August 12, 2013, registrant had issued and outstanding 16,210,739 shares of its common stock, $0.01 par value.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

NetREIT, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

	June 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Real estate assets and lease intangibles, net	$ 163,499,554	$ 165,638,719
Mortgages receivable and interest	920,216	920,216
Cash and cash equivalents	7,807,237	10,746,536
Restricted cash	1,051,744	1,113,123
Other real estate owned	900,000	900,000
Other assets, net	8,361,884	5,813,399
TOTAL ASSETS	$ 182,540,635	$ 185,131,993
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Mortgage notes payable	$ 89,315,758	$ 92,480,363
Accounts payable and accrued liabilities	3,821,439	4,126,771
Dividends payable	1,204,753	1,142,191
Total liabilities	94,341,950	97,749,325
Commitments and contingencies		
Stockholders' equity:		
Convertible series AA preferred stock, $0.01 par value, $25 liquidating preference, shares authorized: 1,000,000; no shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	-	-
Convertible series 6.3% preferred stock, $0.01 par value, $1,000 liquidating preference, shares authorized: 10,000; 1,649 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	16	16
Common stock series A, $0.01 par value, shares authorized: 100,000,000; 16,210,739 and 15,767,417 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	162,108	157,674
Common stock series B, $0.01 par value, shares authorized: 1,000; no shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	-	-
Additional paid-in capital	139,069,673	134,884,312
Dividends in excess of accumulated losses	(63,156,288)	(58,337,457)
Total stockholders' equity before noncontrolling interest	76,075,509	76,704,545
Noncontrolling interest	12,123,176	10,678,123
Total stockholders' equity	88,198,685	87,382,668
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 182,540,635	$ 185,131,993

See Notes to Condensed Consolidated Financial Statements

NetREIT, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Rental income	$ 4,759,887	$ 4,185,568	$ 9,833,729	$ 8,164,182
Fee and other income	97,382	87,572	192,136	197,144
	4,857,269	4,273,140	10,025,865	8,361,326
Costs and expenses:				
Rental operating costs	1,510,787	1,331,904	3,007,389	2,665,035
General and administrative	1,350,968	1,071,552	2,583,729	2,196,270
Depreciation and amortization	1,325,534	1,214,150	2,640,738	2,390,888
Total costs and expenses	4,187,289	3,617,606	8,231,856	7,252,193
Income from operations	669,980	655,534	1,794,009	1,109,133
Other income (expense):				
Interest expense	(1,219,329)	(1,071,686)	(2,553,355)	(2,053,170)
Interest and other income	70,439	20,125	91,695	40,484
Gain on sale of real estate	410,258	54,993	856,911	99,075
Total other expense, net	(738,632)	(996,568)	(1,604,749)	(1,913,611)
Net (loss) income before noncontrolling interests	(68,652)	(341,034)	189,260	(804,478)
Income attributable to noncontrolling interests	327,550	92,187	638,611	200,354
Net loss attributable to common stockholders	$ (396,202)	$ (433,221)	$ (449,351)	$ (1,004,832)
Loss per common share - Basic and diluted:	$ (0.02)	$ (0.03)	$ (0.03)	$ (0.07)
Weighted average number of common shares outstanding - basic and diluted	15,986,632	15,400,309	16,072,826	15,316,875

See notes to condensed consolidated financial statements.

NetREIT, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity
Six Months Ended June 30, 2013
(Unaudited)

	Convertible Series 6.3% Preferred Stock		Series A Common Stock		Additional Paid-in Capital	Dividends In Excess of Accumlated Losses	Total NetREIT, Inc. Stockholders' Equity	Non-controlling Interests	Total
	Shares	Amount	Shares	Amount					
Balance, December 31, 2012	1,649	$ 16	15,767,417	$ 157,674	$ 134,884,312	$ (58,337,457)	$ 76,704,545	$ 10,678,123	$ 87,382,668
Net (loss) income						(449,351)	(449,351)	638,611	189,260
Vesting of restricted stock awards			715	7	6,142		6,149		6,149
Stock issued for acquisition of NTR, Inc.			200,000	2,000	1,898,000		1,900,000		1,900,000
Common stock issued for acquisition of Dubose Model Homes USA			38,752	388	332,881		333,269		333,269
Common stock repurchased			(4,882)	(49)	(34,123)		(34,172)		(34,172)
Dividends paid			104,723	1,048	993,999	(2,175,225)	(1,180,178)	-	(1,180,178)
Dividends declared/reinvested			104,029	1,040	988,462	(2,194,255)	(1,204,753)		(1,204,753)
Contributions received from noncontrolling interests net of distributions paid								806,442	806,442
Balance, June 30, 2013	1,649	$ 16	16,210,754	$ 162,108	$ 139,069,673	$ (63,156,288)	$ 76,075,509	$ 12,123,176	$ 88,198,685

See Notes to Condensed Consolidated Financial Statements

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

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Cash flows from operating activities:		
Net loss	$ (449,351)	$ (1,004,832)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,689,009	2,556,094
Stock compensation	308,087	250,906
Gain on sale of real estate assets	(856,911)	(99,075)
Bad debt expense	24,568	31,330
Income attributable to noncontrolling interests	638,611	200,354
Other assets	(824,510)	(172,378)
Restricted cash	61,379	270,578
Accounts payable and accrued liabilities	(274,001)	132,104
Net cash provided by operating activities	1,316,881	2,165,081
Cash flows from investing activities:		
Real estate acquisitions	(4,789,715)	(21,052,615)
Building and tenant improvements	(1,416,548)	(675,504)
Proceeds received sale of real estate assets	6,664,787	4,706,238
Net repayments of notes receivable	-	1,569
Net cash provided by (used in) investing activities	458,524	(17,020,312)
Cash flows from financing activities:		
Proceeds from mortgage notes payable	20,733,829	15,997,341
Repayment of mortgage notes payable	(23,898,434)	(3,103,091)
Deferred stock issuance costs	-	(18,895)
Contributions received from noncontrolling interests in excess of distributions paid	806,442	639,706
Repurchase of common stock	(34,172)	(15,660)
Repurchase of common stock - related parties	-	(155,904)
Dividends paid	(2,322,369)	(2,043,257)
Net cash (used in) provided by financing activities	(4,714,704)	11,300,240
Net decrease in cash and cash equivalents	(2,939,299)	(3,554,991)
Cash and cash equivalents:		
Beginning of year	10,746,536	4,872,081
End of period	$ 7,807,237	$ 1,317,090
Supplemental disclosure of cash flow information:		
Interest paid	$ 2,600,808	$ 2,033,265
Non-cash investing and financing activities:		
Shares issued in connection with Dubose Model Home USA acquisition	$ 333,269	$ -
Issuance of common stock for acquisition of NTR Property Management	$ 1,900,000	$ -
Reinvestment of cash dividend	$ 2,010,605	$ 2,026,994
Accrual of dividends payable	$ 1,204,753	$ 1,122,806

See Notes to Condensed Consolidated Financial Statements

NetREIT, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
June 30, 2013

1. ORGANIZATION AND BASIS OF PRESENTATION

NetREIT (the "Company") was incorporated in the State of California on January 28, 1999 for the purpose of investing in real estate properties. Effective August 4, 2010, NetREIT, a California Corporation, merged into NetREIT, Inc., a Maryland Corporation with NetREIT, Inc. becoming the surviving Corporation. As a result of the merger, NetREIT is now incorporated in the State of Maryland. The Company qualifies and operates as a self-administered real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended, (the "Code") and commenced operations with capital provided by its private placement offering of its equity securities in 1999.

The Company invests in a diverse portfolio of real estate assets. The primary types of properties the Company invests in include office, retail, self-storage and residential properties located in the western United States. As of June 30, 2013, including properties held for sale, the Company owned or had an equity interest in eleven office buildings and one industrial building ("Office Properties") which total approximately 786,000 rentable square feet, four retail shopping centers ("Retail Properties") which total approximately 186,000 rentable square feet, seven self-storage facilities ("Self-Storage Properties") which total approximately 652,000 square feet and 81 Model Homes owned by four limited partnerships ("Residential Properties").

The Company is the sole General Partner in five limited partnerships (NetREIT 01 LP, NetREIT Palm Self-Storage LP, NetREIT Casa Grande LP, NetREIT Garden Gateway LP and NetREIT National City Partners, LP) and is the sole Managing Member in one limited liability company (Fontana Medical Plaza, LLC) all with ownership in real estate income producing properties. In addition, the Company is a limited partner in six partnerships that purchase and leaseback model homes from developers (Dubose Acquisition Partners II and III or "DAP II" and "DAP III" "Dubose Model Home Income Fund #3, LTD.," "Dubose Model Home Income Fund #4, LTD.," "Dubose Model Home Income Fund #5, LTD.," "Dubose Model Home Investors Fund #113, LP," "Dubose Model Home Investors #201, LP," and "NetREIT Dubose Model Home REIT, LP"). We refer to these entities collectively, as the "Partnerships". During 2012, DAP III, Dubose Model Home Income Fund #3, Dubose Model Home Income Fund #4 and Dubose Model Home Income Fund #5 sold all their model home assets. DAP III and Dubose Model Home Income Fund #5 were dissolved before the end of 2012. Dubose Model Home Income Fund #3 and Dubose Model Home Income Fund #4 each has an investment in DAP II, its one remaining asset. Dubose Model Home Investors Fund #113, LP has one model home remaining as of June 30, 2013. The limited partnerships have been consolidated into the financial statements of the Company in accordance with guidelines attributable to variable interest entities.

In March 2010, the Company purchased certain tangible and intangible personal property from DMHU, including rights to certain names, trademarks and trade secrets, title to certain business equipment, furnishings and related personal property. DMHU had used these assets in its previous business of purchasing model homes for investment in new residential housing tracts and initially leasing the model homes back to their developer. In addition, the Company also acquired DMHU's rights under certain contracts, including contracts to provide management services to 19 limited partnerships sponsored by DMHU and for which a DMHU affiliate serves as general partner (the "**Model Home Partnerships**"). These partnerships include DAP II and DAP III in each of which the Company was a 51% limited partner. In the DMHU Purchase, the Company paid the owners of DMHU $300,000 cash and, in accordance with an earn out issued approximately 39,000 shares of the Company's common stock, as a result of the level of production the Company achieved from new model home acquisitions over the three year period that ended February 28, 2013. The transaction was accounted for as a business combination. Management performed an analysis of intangible assets acquired with the assistance of an independent valuation specialist and it was determined that $209,000 of the purchase price was attributable to customer relationships and is being amortized over 10 years. The Company had anticipated that the full earn-out would have been achieved and estimated a liability of $1,032,000 associated with the 120,000 shares that it believed would have been issued during the three year earn-out period. As a result, the total purchase price of $1,332,000 was allocated between goodwill of $1,123,000 and intangible assets of $209,000. In 2012, the Company reduced the liability by approximately $691,000 for the difference of the anticipated earn-out to the actual earn-out. The limited partnerships have been consolidated into the financial statements of the Company in accordance with guidelines attributable to variable interests entities since their acquisition..

In 2010, the Company formed a new subsidiary, NetREIT Advisors, LLC, a wholly-owned Delaware limited liability company, and sponsored the formation of NetREIT Dubose Model Home REIT, Inc. (“NetREIT Dubose”), a Maryland corporation. NetREIT Dubose, a proposed REIT, invests in Model Homes it purchases from developers in transactions whereby the developer leases back the Model Home under a short term lease, typically one to three years in length. Upon expiration of the lease, NetREIT Dubose seeks to re-lease the Model Home until such time as it is able to sell the property. NetREIT Dubose owns substantially all of its assets and conduct its operations through a its operating partnership called NetREIT Dubose Model Home REIT, LP (“Operating Partnership”) which is a wholly-owned Delaware limited partnership. NetREIT Advisors, LLC serves as advisor to NetREIT Dubose.

NetREIT Dubose is authorized to issue up to 25 million shares of $0.01 shares of stock. Of these authorized shares, 20 million are common stock and 5 million are preferred stock. The Company capitalized NetREIT Dubose with $1.2 million cash in exchange for a convertible promissory note, which was converted to NetREIT Dubose common stock on September 30, 2010. NetREIT Dubose has also commenced raising outside investor capital through a Private Placement Memorandum (“PPM”). NetREIT Dubose intends to sell 1 million shares of its common stock at $10.00 per share, or $10 million under the initial offering. The Company also has the option to increase the maximum offering amount to 2 million shares or $20 million. Through June 30, 2013, NetREIT Dubose has raised approximately $3.8 million from outside investors. As of June 30, 2013, there were approximately 944,000 shares outstanding of which approximately 621,000 have been issued to parties other than NetREIT, Inc. However, NetREIT Dubose is consolidated into the financial statements of the Company in accordance with guidelines attributable to variable interest entities.

NetREIT Advisors, LLC also provides management services to one remaining Model Home Partnership, pursuant to rights under the management contracts assigned to it by DMHU. This partnership is in the process of liquidating assets towards an end of life. For these services, NetREIT Advisors, LLC receives ongoing management fees and has the right to receive certain other fees when the respective partnership sells or otherwise disposes of its properties.

In September 2010, the Company commenced three tender offers for the purchase of outstanding limited partnerships units of Dubose Model Home Income Funds #3, 4 & 5. The offerings closed effective November 30, 2010. As a result of the Company acquiring control of these three limited partnerships, their financial statements have been included in the consolidated financial statements of the Company beginning in December 2010. Income Fund #5 sold its last model home in 2012 and the partnership was liquidated. Income Funds #3 and #4 have also sold all of their model homes by the end of 2012. These two funds only remaining asset is a minority ownership of DAP II.

In August 2011, the Company formed Dubose Advisors, LLC (“**Dubose Advisors**”) a wholly-owned Delaware limited liability company, and sponsored the formation of Dubose Model Home Investors #201, LP. (“**201 Partnership**”), a California limited partnership. Dubose Advisors is the sole general partner and advisor to the 201 partnership. The 201 Partnership invests in Model Homes it purchases from developers in transactions whereby the developer leases back the Model Home under a short term lease, typically one to three years in length similar to NetREIT Dubose. The Company has initially invested $250,000 to capitalize the 201 Partnership and has commenced raising $3,000,000 in outside investor capital through the sale of 60 limited partner units at $50,000 per unit. As of June 30, 2013, the 201 Partnership has raised the maximum $3.0 million from outside investors.

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

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

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

Pursuant to the terms and conditions of the Agreement and Plan of Merger, the Company formed NTR Property Management, Inc. ("NTR"), a California corporation. The Company is NTR's sole shareholder, and as such, owns one hundred percent (100%) of all of the issued and outstanding shares of NTR. The Agreement of Merger was executed by and between NTR, CIH, and the Company and provides that the outstanding shares of CIH will be cancelled upon the receipt by CIH shareholders of 200,000 shares of common stock of the Company using an agreed upon value of $9.50 per share for a total value of $1.9 million. NTR shall function as the sole in-house property manager for the Company after the merger, reducing the Company's property management expense by the marked-up charges previously paid to CHG. The Company is acquiring the existing infrastructure, experienced personnel, and computer systems which will be assigned to and assumed by NTR. Management, with the assistance of an independent valuation specialist, is in the process of determining an allocation of the purchase price. As of June 30, 2013, the $1.9 million purchase price is included in "Other assets, net" in the accompanying condensed consolidated balance sheet.

Basis of Presentation . The accompanying condensed consolidated financial statements have been prepared by the Company's management in accordance with accounting principles generally accepted in the United States of America ("**GAAP**"). Certain information and footnote disclosures required for annual consolidated financial statements have been condensed or excluded pursuant to rules and regulations of the SEC. In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments of a normal and recurring nature that are considered necessary for a fair presentation of our financial position, results of our operations, and cash flows as of and for the three and six months ended June 30, 2013 and 2012, respectively. However, the results of operations for the interim periods are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. These condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. The condensed consolidated balance sheet at year ended December 31, 2012 has been derived from the audited consolidated financial statements included in the Form 10-K filed with the Securities and Exchange Commission on March 28, 2013.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation. The accompanying consolidated financial statements include the accounts of NetREIT and its subsidiaries, NetREIT Property Management, Inc., Fontana Medical Plaza, LLC ("FMP"), NetREIT 01 LP Partnership, NetREIT Casa Grande LP Partnership, NetREIT Palm Self-Storage LP Partnership, NetREIT Garden Gateway, LP and Dubose Acquisition Partners II (collectively "the Partnerships") NetREIT Advisors, LLC ("Advisors"), NetREIT Dubose Model Home REIT, Inc. and its subsidiary, NetREIT Dubose Model Home LP, Dubose Advisors LLC, Model Home Income Funds 3, 4, 113 LTD and Dubose Model Home Investors #201 LP (collectively, the "Income Funds") and NetREIT National City Partners, LP. As used herein, the "Company" refers to NetREIT, FMP, Advisors and the Partnerships, Income Funds, and the NetREIT National City Partners, LP, collectively. Dubose Acquisition Partners III and Model Home Income Fund 5 had operations in 2012 although they sold all of their assets and liquidated before the end of that year. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company classifies the noncontrolling interests in FMP, the Partnerships, and the Income Funds as part of consolidated net loss in 2013 and 2012 and includes the accumulated amount of noncontrolling interests as part of stockholders' equity from the Partnerships inception in 2009 and 2010, the effective date that the Company assumed significant control of DAP II and III in February 2010, the Income Funds acquisitions in November 2010 and November 2011 as well as NetREIT National City Partners, LP in December 2011. If a change in ownership of a consolidated subsidiary results in loss of control and deconsolidation, any retained ownership interest will be remeasured with the gain or loss reported in the statement of operations. Management has evaluated the noncontrolling interests and determined that they do not contain any redemption features.

Federal Income Taxes. The Company has elected to be taxed as a REIT under Sections 856 through 860 of the Code, for federal income tax purposes. To qualify as a REIT, the Company must distribute annually at least 90% of adjusted taxable income, as defined in the Code, to its stockholders and satisfy certain other organizational and operating requirements. As a REIT, no provision will be made for federal income taxes on income resulting from those sales of real estate investments which have or will be distributed to stockholders within the prescribed limits. However, taxes will be provided for those gains which are not anticipated to be distributed to stockholders unless such gains are deferred pursuant to Section 1031. In addition, the Company will be subject to a federal excise tax which equals 4% of the excess, if any, of 85% of the Company's ordinary income plus 95% of the Company's capital gain net income over cash distributions, as defined.

Earnings and profits that determine the taxability of distributions to stockholders differ from net income reported for financial reporting purposes due to differences in estimated useful lives and methods used to compute depreciation and the carrying value (basis) on the investments in properties for tax purposes, among other things. During the six months ended June 30, 2013 and 2012, because of net losses, all distributions were considered return of capital to the stockholders and therefore non-taxable.

The Company believes that it has met all of the REIT distribution and technical requirements for the six months ended June 30, 2013 and 2012, respectively.

The Company has concluded that there are no significant uncertain tax positions requiring recognition in its financial statements. Neither the Company nor its subsidiaries have been assessed interest or penalties for tax positions by any major tax jurisdictions.

Real Estate Asset Acquisitions. The Company accounts for its acquisitions of real estate in accordance with accounting principles generally accepted in the United States of America ("GAAP") which requires the purchase price of acquired properties to be allocated to the acquired tangible assets and liabilities, consisting of land, building, tenant improvements, a land purchase option, long-term debt and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, the value of in-place leases, unamortized lease origination costs and tenant relationships, based in each case on their fair values.

The Company allocates the purchase price to tangible assets of an acquired property (which includes land, building and tenant improvements) based on the estimated fair values of those tangible assets, assuming the building was vacant. Estimates of fair value for land, building and building improvements are based on many factors including, but not limited to, comparisons to other properties sold in the same geographic area and independent third party valuations. The Company also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair values of the tangible and intangible assets and liabilities acquired.

The total value allocable to intangible assets acquired, which consists of unamortized lease origination costs, in-place leases and tenant relationships, are allocated based on Management's evaluation of the specific characteristics of each tenant's lease and the Company's overall relationship with that respective tenant. Characteristics considered by Management in allocating these values include the nature and extent of the existing business relationships with the tenant, growth prospects for developing new business with the tenant, the remaining term of the lease and the tenant's credit quality, among other factors.

The value allocable to above or below market component of an acquired in-place lease is determined based upon the present value (using a market discount rate) of the difference between (i) the contractual rents to be paid pursuant to the lease over its remaining term, and (ii) Management's estimate of rents that would be paid using fair market rates over the remaining term of the lease. The amounts allocated to above or below market leases are included in real estate assets and lease intangibles, net in the accompanying balance sheets and are amortized on a straight-line basis as an increase or reduction of rental income over the remaining non-cancelable term of the respective leases. Amortization of above and below market rents resulted in a net reduction in rental income of approximately $44,000 and $121,000 for the three months ended June 30, 2013 and 2012, respectively. Amortization of above and below market rents resulted in a net reduction in rental income of approximately $88,700 and $233,000 for the six months ended June 30, 2013 and 2012, respectively.

The value of in-place leases, unamortized lease origination costs and tenant relationships are amortized to expense over the remaining term of the respective leases, which range from less than a year to ten years. The amount allocated to acquire in-place leases is determined based on management's assessment of lost revenue and costs incurred for the period required to lease the "assumed vacant" property to the occupancy level when purchased. The amount allocated to unamortized lease origination costs is determined by what the Company would have paid to a third party to secure a new tenant reduced by the expired term of the respective lease. The amount allocated to tenant relationships is the benefit resulting from the likelihood of a tenant renewing its lease. Amortization expense related to these assets was approximately $192,000 and $155,000 for the three months ended June 30, 2013 and 2012, respectively. Amortization expense related to these assets was approximately $249,000 and $306,000 for the six months ended June 30, 2013 and 2012, respectively.

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

Sales of Real Estate Assets. Gains from the sale of real estate assets will not be recognized under the full accrual method by the Company until certain criteria are met. Gain or loss (the difference between the sales value and the cost of the real estate sold) shall be recognized at the date of sale if a sale has been consummated and the following criteria are met:

a. The buyer is independent of the seller;

b. Collection of the sales prices is reasonably assured; and

c. The seller will not be required to support the operations of the property or its related obligations to an extent greater than its proportionate interest.

Gains relating to transactions which do not meet the criteria for full accrual method of accounting are deferred and recognized when the full accrual method of accounting criteria are met or by using the installment or deposit methods of profit recognition, as appropriate in the circumstances.

Depreciation and Amortization of Buildings and Improvements. Land, buildings and improvements are recorded at cost. Major replacements and betterments, which improve or extend the life of the asset, are capitalized and depreciated over their estimated useful lives, while ordinary repairs and maintenance are expensed as incurred. The cost of buildings and improvements are depreciated using the straight-line method over estimated useful lives ranging from 30 to 55 years for buildings, improvements are amortized over the shorter of the estimated life of the asset or term of the tenant lease which range from 1 to 10 years, and 4 to 5 years for furniture, fixtures and equipment. Depreciation expense for buildings and improvements for the three months ended June 30, 2013 and 2012 was approximately $1,108,000 and $1,005,000, respectively. Depreciation expense for buildings and improvements for the six months ended June 30, 2013 and 2012 was approximately $2,237,000 and $1,979,000, respectively.

Impairment. The Company reviews the carrying value of each property to determine if circumstances that indicate impairment in the carrying value of the investment exist or that depreciation periods should be modified. If circumstances support the possibility of impairment, the Company prepares a projection of the undiscounted future cash flows, without interest charges, of the specific property and determines if the investment in such property is recoverable. If impairment is indicated, the carrying value of the property is written down to its estimated fair value based on the Company's best estimate of the property's discounted future cash flows. As of June 30, 2013 and December 31, 2012, management does not believe indicators of impairment were evident for properties not held for sale and as such, no other impairment charges were recognized.

Intangible Assets. Lease intangibles represents the allocation of a portion of the purchase price of a property acquisition representing the estimated value of in-place leases, unamortized lease origination costs, tenant relationships and a land purchase option. Intangible assets are comprised of finite-lived and indefinite-lived assets. Indefinite-lived assets are not amortized. Finite-lived intangibles are amortized over their expected useful lives.

The Company is required to perform a test for impairment of goodwill and other definite and indefinite lived assets at least annually, and more frequently as circumstances warrant. Based on the review, no impairment was deemed necessary at December 31, 2012 and, as of June 30, 2013, management does not believe that any indicators of impairment were evident.

Other intangible assets that are not deemed to have an indefinite useful life are amortized over their estimated useful lives. The carrying amount of intangible assets that are not deemed to have an indefinite useful life is regularly reviewed for indicators of impairments in value. Impairment is recognized only if the carrying amount of the intangible asset is considered to be unrecoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and the estimated fair value of the asset. Based on the review, no impairment was deemed necessary as of December 31, 2012 and, as of June 30, 2013, management does not believe that any indicators of impairment were evident.

Other Real Estate Owned. The Company acquired a property consisting of undeveloped land in Escondido, CA through foreclosure proceedings in May 2009. At the time we acquired title to the property we entered into an exclusive option with the borrower to sell the property back at our investment plus additional expenditures and interest charges through the date the original borrower purchased back the property. The option expired in late 2010. The Company has not actively engaged in the attempted sale of the property while management studies the best use options for the property.

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

a. persuasive evidence of an arrangement exists;

b. delivery has occurred or services have been rendered;

c. the amount is fixed or determinable; and

d. the collectability of the amount is reasonably assured.

Annual rental revenue is recognized in rental revenues on a straight-line basis over the term of the related lease. Estimated recoveries from certain tenants for their pro rata share of real estate taxes, insurance and other operating expenses are recognized as revenues in the period the applicable expenses are incurred or as specified in the leases.

Certain of the Company's leases currently contain rental increases at specified intervals. The Company records as an asset, and includes in revenues, deferred rent receivable that will be received if the tenant makes all rent payments required through the expiration of the initial term of the lease. Deferred rent receivable in the accompanying balance sheets includes the cumulative difference between rental revenue recorded on a straight-line basis and rents received from the tenants in accordance with the lease terms. Accordingly, the Company determines, in its judgment, to what extent the deferred rent receivable applicable to each specific tenant is collectible. The Company reviews material deferred rent receivable, as it relates to straight-line rents, on a quarterly basis and takes into consideration the tenant's payment history, the financial condition of the tenant, business conditions in the industry in which the tenant operates and economic conditions in the area in which the property is located. In the event that the collectability of deferred rent with respect to any given tenant is in doubt, the Company records an increase in the allowance for uncollectible accounts or records a direct write-off of the specific rent receivable. No such reserves have been recorded as of June 30, 2013 and December 31, 2012.

The Company receives transaction fees in connection with the acquisition and lease back of model homes. These fees are recognized as an increase to model home rental income over the contractual lease period.

Loss Per Common Share. Basic loss per common share ("**Basic EPS**") is computed by dividing net loss available to common shareholders (the "numerator") by the weighted average number of common shares outstanding (the "denominator") during the period. Diluted loss per common share ("**Diluted EPS**") is similar to the computation of Basic EPS except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. In addition, in computing the dilutive effect of convertible securities, the numerator is adjusted to add back the after-tax amount of interest recognized in the period associated with any convertible debt. The computation of Diluted EPS does not assume exercise or conversion of securities that would have an anti-dilutive effect on net earnings per share.

The following is a reconciliation of the denominator of the basic loss per common share computation to the denominator of the diluted loss per common share computations, for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Weighted average shares used for Basic EPS	15,986,632	15,400,309	16,072,826	15,316,875
Effect of dilutive securities (1):				
Adjusted weighted average shares used for diluted EPS	15,986,632	15,400,309	16,072,826	15,316,875

(1) Weighted average shares from share based compensation, shares from conversion of NetREIT 01 LP Partnership, Casa Grande LP Partnership, NetREIT Palm Self-Storage LP Partnership, NetREIT Garden Gateway LP Partnership, NetREIT National City Partners LP Partnership and shares from stock purchase warrants with respect to a total of 1,382,433 for the three and six months ended June 30, 2013 and 1,360,096 shares of common stock for the three and six months ended June 30, 2012, respectively were excluded from the computation of diluted earnings per share as their effect was anti-dilutive.

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

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

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

Level 3 - Unobservable inputs for the asset or liability.

Fair value is defined as the price at which an asset or liability is exchanged between market participants in an orderly transaction at the reporting date. The Company's cash equivalents, mortgage notes receivable, accounts receivable and payables and accrued liabilities all approximate fair value due to their short term nature. Management believes that the recorded and fair value of notes payable are approximately the same as of June 30, 2013 and December 31, , 2012.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant estimates include the allocation of purchase price paid for property acquisitions between land, building and intangible assets acquired including their useful lives; valuation of long-lived assets, and the allowance for doubtful accounts, which is based on an evaluation of the tenants' ability to pay and the provision for possible loan losses with respect to mortgages receivable and interest. Actual results may differ from those estimates.

Segments. The Company acquires and operates income producing properties including office properties, residential properties, retail properties and self-storage properties and invests in real estate assets, including real estate loans and, as a result, the Company operates in five business segments. See Note 7 "Segments".

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

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

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

3. REAL ESTATE ASSETS AND LEASE INTANGIBLES

A summary of the properties owned by the Company as of June 30, 2013 is as follows:

Property Name	Date Acquired	Location	Square Footage	Property Description	Real estate assets, net (in thousands)
Havana/Parker Complex	June 2006	Aurora, Colorado	114,000	Office	5,130.7
Garden Gateway Plaza	March 2007	Colorado Springs, Colorado	115,052	Office	12,260.5
World Plaza	September 2007	San Bernardino, California	55,098	Retail	6,741.4
Regatta Square	October 2007	Denver, Colorado	5,983	Retail	1,955.4
Sparky's Palm Self-Storage	November 2007	Highland, California	50,250	Self-Storage	4,431.6
Sparky's Joshua Self-Storage	December 2007	Hesperia, California	149,750	Self-Storage	6,901.4
Executive Office Park	July 2008	Colorado Springs, Colorado	65,084	Office	8,462.3
Waterman Plaza	August 2008	San Bernardino, California	21,170	Retail	6,203.6
Pacific Oaks Plaza	September 2008	Escondido, California	16,000	Office	4,377.2
Morena Office Center	January 2009	San Diego, California	26,784	Office	6,040.9
Fontana Medical Plaza	February 2009	Fontana, California	10,500	Office	2,014.9
Rangewood Medical Office Building	March 2009	Colorado Springs, Colorado	18,222	Office	2,294.6
Sparky's Thousand Palms Self-Storage	August 2009	Thousand Palms, California	113,126	Self-Storage	5,616.8
Sparky's Hesperia East Self-Storage	December 2009	Hesperia, California	72,940	Self-Storage	2,675.0
Sparky's Rialto Self-Storage	May 2010	Rialto, California	101,343	Self-Storage	4,830.5
Genesis Plaza	August 2010	San Diego, California	57,685	Office	8,927.5
Dakota Bank Buildings	May 2011	Fargo, North Dakota	119,749	Office	9,483.6
Yucca Valley Retail Center	September 2011	Yucca Valley, California	103,596	Retail	7,331.8
Sparky's Sunrise Self-Storage	December 2011	Hesperia, California	93,851	Self-Storage	2,180.7
Port of San Diego Complex	December 2011	San Diego, California	146,700	Industrial	14,231.3
Shoreline Medical Building	May 2012	Half Moon Bay, California	93,851	Office	6,200.6
The Presidio	November 2012	Aurora, Colorado	146,700	Office	7,006.3
Sparky's Lancaster Self-Storage	May 2013	Lancaster, California	71,000	Self-Storage	3,649.2
NetREIT, Inc properties					138,947.8
			Homes		
Model Home properties held in limited partnerships	Various in 2009-2013	CA, AZ, WA, TX, NC FL and NJ	64	Residential	18,458.6
Model Home properties held in income and investment funds	Various in 2003-2008, 2010-2013	CA, AZ, TX, SC, PA, NJ	17	Residential	6,093.2
Model Home properties					24,551.8
		Total real estate assets and lease intangibles, net			$ 163,499.6

3. REAL ESTATE ASSETS AND LEASE INTANGIBLES

A summary of the properties owned by the Company as of December 31, 2012 is as follows:

Property Name	Date Acquired	Location	Square Footage	Property Description	Real estate assets, net (in thousands)
Casa Grande Apartments	April 1999	Cheyenne, Wyoming	29,250	Residential	$ 1,381.4
Havana/Parker Complex	June 2006	Aurora, Colorado	114,000	Office	5,262.9
Garden Gateway Plaza	March 2007	Colorado Springs, Colorado	115,052	Office	12,507.2
World Plaza	September 2007	San Bernardino, California	55,098	Retail	6,852.5
Regatta Square	October 2007	Denver, Colorado	5,983	Retail	1,977.6
Sparky's Palm Self-Storage	November 2007	Highland, California	50,250	Self-Storage	4,486.8
Sparky's Joshua Self-Storage	December 2007	Hesperia, California	149,750	Self-Storage	6,983.5
Executive Office Park	July 2008	Colorado Springs, Colorado	65,084	Office	8,544.2
Waterman Plaza	August 2008	San Bernardino, California	21,170	Retail	6,280.3
Pacific Oaks Plaza	September 2008	Escondido, California	16,000	Office	4,430.2
Morena Office Center	January 2009	San Diego, California	26,784	Office	5,887.0
Fontana Medical Plaza	February 2009	Fontana, California	10,500	Office	2,052.5
Rangewood Medical Office Building	March 2009	Colorado Springs, Colorado	18,222	Office	2,335.1
Sparky's Thousand Palms Self-Storage	August 2009	Thousand Palms, California	113,126	Self-Storage	5,688.7
Sparky's Hesperia East Self-Storage	December 2009	Hesperia, California	72,940	Self-Storage	2,693.6
Sparky's Rialto Self-Storage	May 2010	Rialto, California	101,343	Self-Storage	4,882.0
Genesis Plaza	August 2010	San Diego, California	57,685	Office	9,161.5
Dakota Bank Buildings	May 2011	Fargo, North Dakota	119,749	Office	8,732.6
Yucca Valley Retail Center	September 2011	Yucca Valley, California	103,596	Retail	7,503.1
Sparky's Sunrise Self-Storage	December 2011	Hesperia, California	93,851	Self-Storage	2,195.8
Port of San Diego Complex	December 2011	San Diego, California	146,700	Industrial	14,275.1
Shoreline Medical Building	May 2012	Half Moon Bay, California	15,335	Office	6,269.6
The Presidio	November 2012	Aurora, Colorado	80,800	Office	7,237.8
NetREIT, Inc properties					137,621.0
			Homes		
Model Home properties held in limited partnerships	Various in 2009-2012	CA, AZ, WA, TX, SC, NC and NJ	74	Residential	21,552.2
Model Home properties held in income and investment funds	Various in 2003-2008, 2010 & 2011	CA, AZ, TX, SC, PA, NJ	18	Residential	6,465.5
Model Home properties					28,017.7
		Total real estate assets and lease intangibles, net			$ 165,638.7

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

	June 30, 2013	December 31, 2012
Land	$ 41,959,869	$ 41,617,925
Buildings and other	129,971,223	130,471,526
Tenant improvements	7,252,006	7,112,494
Lease intangibles	4,569,854	4,569,854
	183,752,952	183,771,799
Less:		
Accumulated depreciation and amortization	(20,253,398)	(18,133,080)
Real estate assets, net	$ 163,499,554	$ 165,638,719

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

The Company acquired the following properties in the six months ended June 30, 2013:

In January 2013, NetREIT Dubose and Dubose Model Home Investors #201 LP acquired 4 Model Home properties in Texas and leased them back to the home builder. The purchase price for the properties was approximately $1.1 million. The purchase price paid was through a cash payment of approximately $0.5 million and promissory notes totaling approximately $0.6 million.

In May 2013, the Company acquired a self-storage facility in Lancaster, CA for the purchase price of approximately $3.7 million dollars. The purchase price was paid in cash. The facility is comprised of approximately 71,000 square feet of rentable area consisting of approximately 608 self-storage units. The facility was built in 1990 and was approximately 65 percent occupied at acquisition. The results of operations for the six months ended June 30, 2013 include approximately one month of operations related to this property.

The Company disposed of the following properties in the six months ended June 30, 2013:

NetREIT Dubose and the other Model Home entities disposed of 16 Model Home properties. The sales price, net of selling costs, aggregated approximately $5.3 million and approximately $2.2 million in mortgage notes payable were retired in connection with these sales. The Company recognized a gain of $534,555 related to the sale of these Model Homes.

In May 2013, the Company sold its Casa Grande Apartments for a sales price of $1.8 million. The sale resulted in mortgage payoff of $1.3 million and a gain of $322,356.

The Company acquired the following properties in the six months ended June 30, 2012:

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

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

In May 2012, the Company acquired the former Rite Aid building in Yucca Valley, California, The building adjoins the Company's Yucca Valley Retail Center purchased in September 2011. The building was purchased vacant as a result of the relocation of Rite Aid. In January 2013, Rite Aid and the Company agreed to cancel the remaining term of the lease through a cancellation fee of $345,000. The purchase price was approximately $1.1 million all paid in cash. The building consists of approximately 17,600 rentable square feet.

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

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

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

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

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

The Company disposed of the following properties in 2012:

During the six months ended June 30, 2012, NetREIT Dubose and the other Model Home entities disposed of thirty-five Model Home properties. The sales price, net of selling costs, aggregated approximately $8.9 million and approximately $1.5 million in mortgage notes payable were retired in connection with these sales. The Company recognized a gain of $260,360 related to the sale of these Model Homes.

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

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

The Company allocated the purchase price of the properties acquired during the six months ended June 30, 2013 as follows:

	Land	Buildings and other	Total Purchase Price
Sparky's Lancaster Self-Storage	$ 949,000	$ 2,701,000	$ 3,650,000
Model Home Properties	181,350	958,365	1,139,715

The Company allocation of the properties sold during the six months ended June 30, 2013 is as follows:

	Land	Buildings and other	Total Cost
Model Home Properties	$ 365,140	$ 3,085,260	$ 3,450,400
Casa Grande Apartments	220,572	1,190,822	1,411,394

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

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

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

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

Lease Intangibles

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

	June 30, 2013			December 31, 2012		
	Lease intangibles	Accumulated amortization	Lease intangibles, net	Lease intangibles	Accumulated amortization	Lease intangibles, net
In-place leases	$ 2,015,459	$ (1,373,591)	$ 641,868	$ 2,015,459	$ (1,229,792)	$ 785,667
Leasing costs	1,448,985	(913,003)	535,982	1,448,985	(807,816)	641,169
Tenant relationships	332,721	(332,721)	-	332,721	(332,721)	-
Below-market leases	(841,425)	51,439	(789,986)	(841,425)	37,415	(804,010)
Above-market leases	1,614,114	(924,676)	689,438	1,614,114	(821,947)	792,167
	$ 4,569,854	$ (3,492,552)	$ 1,077,302	$ 4,569,854	$ (3,154,861)	$ 1,414,993

As of June 30, 2013, the estimated aggregate amortization expense for each of the five succeeding fiscal years and thereafter is as follows:

	Estimated Aggregate Amortization Expense
Six month period ending December 31, 2013	$ 286,473
2014	532,314
2015	388,282
2016	157,215
2017	53,591
Thereafter (principally below market rent amortization)	(340,573)
	$ 1,077,302

The weighted average amortization period for the intangible assets, in-place leases, leasing costs, tenant relationships and below-market leases acquired as of June 30, 2013 was 13.9 years.

4. MORTGAGE NOTES PAYABLE

Mortgage notes payable as of June 30, 2013 and December 31, 2012 consisted of the following:

	June 30, 2013	December 31, 2012
Mortgage note payable in monthly installments of $24,330 through July 1, 2016, including interest at a fixed rate of 6.51%; collateralized by the Havana/Parker Complex property.	$ 3,119,976	$ 3,163,018
Mortgage note payable in monthly installments of $42,383 through April 5, 2020, including interest at a fixed rate of 5.00%; collateralized by the leases and office buildings of the Garden Gateway Plaza property. (1)	7,194,752	9,248,703
Mortgage note payable in monthly installments of $25,995 through September 1, 2015, including interest at a fixed rate of 6.50%; collateralized by the Waterman Plaza Property	3,500,747	3,542,157
Mortgage note payable in monthly installments of $28,865 through March 1, 2034, including interest at a variable rate ranging from 5.5% to 10.5%; with a current rate of 5.5% collateralized by the Sparky's Thousand Palms Self-Storage property.	4,271,705	4,326,536
Mortgage note payable in monthly installments of $5,171 through December 18, 2022, including interest at a variable rate of currently of 4.75%; through December 20, 2020 indexed to the 5 year Interest Rate Swap rate; collateralized by the Sparky's Hesperia East Self-Storage property. (2)	898,470	1,666,713
Mortgage note payable in monthly installments of $17,226 through May 3, 2012, including interest at a fixed rate of 5.00%; monthly installments of $19,323 from June 3, 2012, including interest at 4.75% to maturity, or May 15, 2023; collateralized by the Sparky's Rialto Self-Storage property. (3)	2,189,387	2,512,003
Mortgage note payable in monthly installments of $6,638 through July 1, 2018, including interest at a fixed rate of 5.80%; collateralized by the Casa Grande Apartment property (1).	-	1,020,943
Mortgage note payable in monthly installments of $28,219 through September 1, 2015, including interest at a fixed rate of 4.65%; collateralized by the Genesis Plaza property.	4,679,258	4,738,967
Mortgage note payable in monthly installments of $26,962 through July 1, 2025, including interest at a fixed rate of 5.79% through July 1, 2018; collateralized by the Executive Office Park property.	4,479,110	4,511,736
Mortgage note payable in monthly installments sufficient to amortize the note on a 25 year schedule and the current month interest charge (currently, approximately $36,200), interest at a variable rate of 3.0% over the one month libor with a floor of 5.75% (current rate) and a ceiling of 9.75% through May 31, 2016; collateralized by the Dakota Bank Building property.	5,474,970	5,532,953
Mortgage note payable in monthly installments of $23,919 through April 11, 2015, including interest at a fixed rate of 5.62%; collateralized by the Yucca Valley Retail Center.	3,150,134	3,203,262
Mortgage note payable in monthly installments of $9,858 through January 1, 2019, including interest at a fixed rate of 4.95%; collateralized by the Rangewood Medical Office Building.	1,185,187	1,214,819
Mortgage note payable in monthly installments of $7,562 through January 1, 2019, including interest at a fixed rate of 4.95%; collateralized by Regatta Square.	1,258,723	1,272,994

Mortgage note payable in monthly installments of $61,573 through March 5, 2020, including interest at a fixed rate of 4.75%; collateralized by the Port of San Diego Complex. (1)	10,724,261	9,185,400
Mortgage note payable in monthly installments of $13,896 through June 1, 2021, including interest at a fixed rate of 4.5% subject to reseting at the 3rd and 6th anniversary to the lender's current rate on similar loans; collateralized by the Morena Office Center.	2,439,582	2,468,148
Mortgage note payable in monthly installments of $9,450 through June 1, 2021, including interest at a fixed rate of 4.5% subject to reseting at the 3rd and 6th anniversary to the lender's current rate on similar loans; collateralized by the Pacific Oaks Plaza.	1,658,905	1,678,335
Mortgage note payable in monthly installments of $26,043 through June 1, 2022, including interest at a fixed rate of 5.1% subject to reseting at the 3rd and 6th anniversary to the lender's current rate on similar loans; collateralized by the Shoreline Medical Office Building.	4,013,554	4,067,514
Mortgage note payable in monthly installments of $42,788 through December 6, 2022, including interest at a fixed rate of 4.7%; collateralized by Sparky's Palm, Joshua and Sunrise Self-Storage properties.	8,176,901	8,250,000
Mortgage note payable in monthly installments of $36,701 through January 6, 2015, including interest at a fixed rate of 5.6%; collateralized by The Presidio.	5,554,609	5,617,671
Mortgage note payable in monthly installments of $13,200 through June 1, 2020, including interest at a fixed rate of 5.0%; collateralized by Sparky's Lancaster Self- Storage.	1,995,133	-
Subtotal, NetREIT, Inc. properties	75,965,364	77,221,872
Mortgage notes payable in monthly installments of $20,588; maturity date of February 10, 2014, including interest at a fixed rate of 5.50%; collateralized by 7 Model Home properties.	1,552,340	1,628,170
Mortgage notes payable in monthly installments of $2,250; maturity date of September 15, 2015, including interest at a fixed rate of 5.75%; collateralized by 2 Model Home properties.	236,827	407,480
Mortgage notes payable in monthly installments of $14,104 maturity date of December 15, 2015, including interest at a fixed rate of 5.75%; collateralized by 12 Model Home properties.	1,243,768	1,545,578
Mortgage notes payable in monthly installments of $15,683, maturities varying from February 15, 2016 to August 15, 2016, including interest at fixed rates from 5.75%, to 6.30%; collateralized by 12 Model Home properties.	1,231,164	1,723,047
Mortgage notes payable in monthly installments of $35,594; maturity dates of April 15, 2017 through June 15, 2017; including interest at fixed rate of 5.50%; collateralized by 16 Model Home properties.	3,466,735	4,238,005
Mortgage notes payable in monthly installments of $14,732; maturity dates of December 15, 2017; including interest at fixed rate of 5.00%; collateralized by 13 Model Home properties.	1,820,368	1,860,887

Mortgage notes payable in monthly installments of $33,298; maturity dates of June 30, 2013 through January 15, 2018; including interest at fixed rate of 5.50% to 5.84%; collateralized by 15 Model Home properties.	3,276,744	3,855,324
Mortgage notes payable in monthly installments of $2,864; maturity date of January 15, 2018; including interest at fixed rate of 5.00%; collateralized by 2 Model Home properties.	206,658	-
Mortgage notes payable in monthly installments of $2,642; maturity date of January 15, 2018; including interest at fixed rate of 5.00%; collateralized by 2 Model Home properties.	315,790	-
	13,350,394	15,258,491
	$ 89,315,758	$ 92,480,363

(1) These notes were refinanced and extended in early 2013. The refinancings included a paydown on the Garden Gateway note and an increase in the mortgage note secured by the Port of San Diego Complex.
(2) Paydown only.
(3) Paydown, interest rate reduction, and an extended maturity date.

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

Scheduled principal payments of mortgage notes payable as of June 30, 2013 is as follows:

Years Ending:	NetREIT, Inc. Principal Payments	Model Home Properties Principal Payments	Scheduled Principal Payments
Six month period ending December 31,2013	$ 884,454	$ 568,298	$ 1,452,752
2014	1,819,793	2,063,262	3,883,055
2015	16,411,563	1,857,650	18,269,213
2016	9,352,108	1,699,749	11,051,857
2017	999,326	6,819,555	7,818,881
Thereafter	46,498,120	341,880	46,840,000
Total	$ 75,965,364	$ 13,350,394	$ 89,315,758

5. RELATED PARTY TRANSACTIONS

The Company had entered into a property management agreement with CHG Properties, Inc. ("**CHG**"), a wholly-owned subsidiary of CI, to manage all of its properties at rates up to 5% of gross income. For the six months ended June 30, 2013 and June 30, 2012, the Company paid CHG total management fees of approximately $113,000 and $324,000, respectively.

During the term of the property management agreement, the Company had an option to acquire the business conducted by CHG. The option is exercisable, with the approval of a majority of the Company's directors not otherwise interested in the transaction, without any consent of the property manager, its board or its shareholders. The option price is shares of the Company to be determined by a predefined formula based on the net income of CHG during the 6-month period immediately preceding the month in which the acquisition notice is delivered. The Company has elected to exercise its option to purchase CHG. See Note 1, "Organization and Basis of Presentation" for further discussion.

The Company leases a portion of its corporate headquarters at Pacific Oaks Plaza in Escondido, California to C.I. Holding Group, Inc. and Subsidiaries ("**CI**"), a small shareholder in the Company that is approximately 35% owned by the Company's executive management. Total rents charged and paid by these affiliates was approximately $11,000 and $15,000 for the three months ended June 30, 2013 and 2012, respectively. Total rents charged and paid by these affiliates was approximately $20,000 and $29,000 for the six months ended June 30, 2013 and 2012, respectively.

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

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

6. STOCKHOLDERS' EQUITY

Share-Based Incentive Plan. An incentive award plan has been established for the purpose of attracting and retaining officers, key employees and non-employee board members. The Compensation Committee of the Board of Directors adopted a Restricted Stock plan ("**Restricted Stock**") in December 2006 and granted nonvested shares of restricted common stock effective January 1 since the year of adoption. The nonvested shares have voting rights and are eligible for any dividends paid to common shares. The share awards vest in equal annual instalments over a three or five year period from date of issuance. The Company recognized compensation cost for these fixed awards over the service vesting period, which represents the requisite service period, using the straight-line attribution expense method.

The value of the nonvested shares was calculated based on the offering price of the shares in the most recent private placement offering of $10 adjusted for stock dividends since granted and assumed selling costs. The value of granted nonvested restricted stock issued during the six months ended June 30, 2013 totalled approximately $656,000 which was calculated using the most recent private placement offering of $10 adjusted for estimated selling costs. The value of granted nonvested restricted stock issued during the six months ended June 30, 2012 totalled approximately $490,000. Compensation expense recorded was approximately $122,000 and $113,000 in the three months ended June 30, 2013 and 2012, respectively. Compensation expense recorded was approximately $245,000 and $251,000 in the six months ended June 30, 2013 and 2012, respectively. The 137,589 nonvested restricted shares as of June 30, 2013 will vest in equal instalments over the next two to four years.

A table of non-vested restricted shares granted and vested since December 31, 2011 is as follows:

Balance, December 31, 2011	63,777
Granted	57,016
Vested	(57,577)
Cancelled	(411)
Balance, December 31, 2012	62,805
Granted	76,283
Vested	(715)
Cancelled	(784)
Balance, June 30, 2013	137,589

Cash Dividends. During the six months ended June 30, 2013 and 2012, the Company paid cash dividends, net of reinvested stock dividends, of approximately $2,145,000, and $2,092,000, respectively, or at an annualized rate $0.543 per share. As the Company reported net losses in both of these periods, and on a cumulative basis, these cash dividends represent a return of capital to the stockholders rather than a distribution of earnings. The Company paid cash dividends on the Convertible Series 6.3% Preferred Stock of approximately $54,000 in the three and six months ended June 30, 2013 and 2012. The dividends were paid to a subsidiary that is consolidated into the condensed consolidated financial statements of the Company and, as a result, have been eliminated in consolidation.

7. SEGMENTS

The Company's reportable segments consist of the four types of commercial real estate properties for which the Company's decision-makers internally evaluate operating performance and financial results: Residential Properties, Industrial and Office Properties, Retail Properties, Self-Storage Properties; and Mortgage Loans. The Company also has certain corporate level activities including accounting, finance, legal administration and management information systems which are not considered separate operating segments.

The Company's chief operating decision maker evaluates the performance of its segments based upon net operating income. Net operating income is defined as operating revenues (rental income, tenant reimbursements, other property income and impairment charges, if any.) less property and related expenses (property expenses, real estate taxes, ground leases and provisions for bad debts) and excludes other non-property income and expenses, interest expense, depreciation and amortization and general and administrative expenses. The accounting policies of the reportable segments are the same as those described in the Company's significant accounting policies (see Note 2). There is no intersegment activity.

The following tables reconcile the Company's segment activity to its results of operations and financial position as of and for the three and six months ended June 30, 2013 and 2012, respectively.

	Three Months Ending June 30,		Six Months Ending June 30,	
	2013	2012	2013	2012
Industrial/Office Properties:				
Rental income	$ 2,634,708	$ 2,129,857	$ 5,210,357	$ 4,149,268
Property and related expenses	806,970	716,548	1,657,430	1,398,057
Net operating income, as defined	1,827,738	1,413,309	3,552,927	2,751,211
Residential Properties:				
Rental income	756,100	659,375	1,630,418	1,313,556
Property and related expenses	76,055	77,893	152,834	153,836
Net operating income, as defined	680,045	581,482	1,477,584	1,159,720
Retail Properties:				
Rental income	644,498	740,288	1,640,372	1,440,644
Property and related expenses	203,009	184,610	387,304	390,373
Net operating income, as defined	441,489	555,678	1,253,068	1,050,271
Self-Storage Properties:				
Rental income	821,963	743,620	1,544,718	1,457,858
Property and related expenses	424,753	352,853	809,821	722,769
Net operating income, as defined	397,210	390,767	734,897	735,089
Mortgage loan activity:				
Interest income	14,738	18,333	29,314	36,523
Reconciliation to Net Loss Available to Common Shareholders:				
Total net operating income, as defined, for reportable segments	3,361,220	2,959,569	7,047,790	5,732,814
Unallocated other income:				
Total other income	55,701	1,792	62,381	3,961
Gain on sale of real estate	410,258	54,993	856,911	99,075
General and administrative expenses	1,350,968	1,071,552	2,583,729	2,196,270
Interest expense	1,219,329	1,071,686	2,553,355	2,053,170
Depreciation and amortization	1,325,534	1,214,150	2,640,738	2,390,888
Net (loss) income before noncontrolling interests	(68,652)	(341,034)	189,260	(804,478)
Noncontrolling interests	327,550	92,187	638,611	200,354
Net loss	$ (396,202)	$ (433,221)	$ (449,351)	$ (1,004,832)

	June 30, 2013	December 31, 2012
Assets:		
Industrial/Office Properties:		
Land, buildings and improvements, net (1)	$ 86,430,146	$ 86,695,553
Total assets (2)	90,613,146	90,286,093
Residential Property:		
Land, buildings and improvements, net (1)	24,552,141	29,399,405
Total assets (2)	25,063,971	31,869,016
Retail Properties:		
Land, buildings and improvements, net (1)	22,232,138	22,613,528
Total assets (2)	23,561,013	23,913,305
Self-Storage Properties:		
Land, buildings and improvements, net (1)	30,285,129	26,930,233
Total assets (2)	30,999,387	27,384,412
Mortgage loan activity:		
Mortgage receivable and accrued interest	920,216	920,216
Total assets	920,216	920,216
Reconciliation to Total Assets:		
Total assets for reportable segments	171,157,733	174,373,042
Other unallocated assets:		
Cash and cash equivalents	7,807,237	10,746,536
Other assets, net	3,575,665	12,415
Total Assets	$ 182,540,635	$ 185,131,993

(1) Includes lease intangibles and the land purchase option related to property acquisitions.

(2) Includes land, buildings and improvements, current receivables, deferred rent receivables and deferred leasing costs and other related intangible assets, all shown on a net basis.

	Six Months Ended June 30,	
	2013	2012
Capital Expenditures:(1)		
Industrial/Office Properties:		
Acquisition of operating properties	$ -	$ 6,350,000
Capital expenditures and tenant improvements	1,407,645	500,704
Residential Property:		
Acquisition of operating properties	1,139,715	13,577,615
Retail Properties:		
Acquisition of operating properties	-	1,125,000
Capital expenditures and tenant improvements	-	153,836
Self-Storage Properties:	3,650,000	-
Capital expenditures and tenant improvements	8,903	20,964
Total acquisition of operating properties, net	4,789,715	21,052,615
Total capital expenditures and tenant improvements	1,416,548	675,504
Total additions to real estate assets	$ 6,206,263	$ 21,728,119

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

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion relates to our financial statements and should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. Statements contained in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" that are not historical facts may be forward-looking statements. Such statements are subject to certain risks and uncertainties, which could cause actual results to materially differ from those projected. Some of the information presented is forward-looking in nature, including information concerning projected future occupancy rates, rental rate increases, project development timing and investment amounts. Although the information is based on our current expectations, actual results could vary from expectations stated in this report. Numerous factors will affect our actual results, some of which are beyond our control. These include the timing and strength of national and regional economic growth, the strength of commercial and residential markets, competitive market conditions, fluctuations in availability and cost of construction materials and labor resulting from the effects of worldwide demand, future interest rate levels and capital market conditions. You are cautioned not to place undue reliance on this information, which speaks only as of the date of this report.

We assume no obligation to update publicly any forward-looking information, whether as a result of new information, future events or otherwise, except to the extent we are required to do so in connection with our ongoing requirements under federal securities laws to disclose material information. For a discussion of important risks related to our business, and an investment in our securities, including risks that could cause actual results and events to differ materially from results and events referred to in the forward-looking information Item 1A and Item 7 included in the Form 10-K as filed with the Securities and Exchange Commission.

OVERVIEW AND RECENT DEVELOPMENTS

Growth in Capital Resources. During the last five years our stockholders' equity has increased from approximately $23.9 to $76.1 million at June 30, 2013. Our investment portfolio, consisting of real estate assets, lease intangibles, land purchase option and mortgages receivable, has increased by 372.5% to approximately $163.5 million at June 30, 2013 from $34.6 million at September 30, 2007. The primary source of funds for the growth in the portfolio during these five years was attributable to the issuance of common stock of approximately $62.6 million and from proceeds from mortgage notes payable.

Expansion of Business Model. In addition to the increase in our investment portfolio, in March 2010, the Company acquired the assets and six employees of DMHU. Later that year, the Company formed NetREIT Advisors and transferred the four remaining DMHU employees to this newly formed LLC. NetREIT Advisors began managing and serving as external advisor to NetREIT Dubose. During the first two years this business was hampered by the slow recovery of the residential building. The real estate market is showing signs of recovery as housing prices have been increasing over the last and homebuilders are once again building homes at a greater rate than over the four previous years.

Acquisitions during the six months of 2013. During the first six months of 2013, NDMHR and Dubose Model Homes #201 LP have acquired 4 model homes with an aggregate value of approximately $1.1 million. Between these two entities, as of June 30, 2013, we own 81 homes with a net book value of approximately $24.5 million.

In May 2013, the Company acquired a self-storage facility in Lancaster, CA for the purchase price of approximately $3.7 million dollars. The purchase price was paid in cash. The facility is comprised of approximately 71,000 square feet of rentable area consisting of approximately 608 self-storage units. The facility was built in 1990 and was approximately 65 percent occupied at acquisition.

Economic Environment

The current economic environment is still characterized by residential housing foreclosures and a shadow inventory, although both have decreased significantly during 2012 and early 2013, and a decreasing supply of homes available for purchase, depressed commercial real estate valuations, slowly improving consumer spending, unemployment that has decreased over the last several years although it still remains higher than pre-recessionary levels. In general, U.S. corporations' net income and investments have shown improvement and the stock markets are at record level highs. The housing sector has been the bright spot in the economy with increases in home sales and prices. We believe that the pace of the overall recovery will continue to be slow and disjointed. Full recovery will need increasing job growth and the economy situation in European countries will need to stabilize, but even then it will not be consistent across industries, geographies or periods of the year causing an uneven tempo of growth.

Recent U.S. debt size that is continuing to increase and approaching another debt ceiling and the slow economic recovery concerns, together with signs of deteriorating sovereign debt conditions in Europe, have increased the possibility of additional credit-rating downgrades and economic slowdowns. The possibility of further downgrades to the U.S. government's sovereign credit rating, or its perceived creditworthiness, and the impact of the current crisis in Europe with respect to the ability of certain European Union countries to continue to service their sovereign debt obligations is inherently unpredictable and could adversely affect the U.S. and global financial markets and economic conditions. There can be no assurance that governmental or other measures to aid economic recovery will be effective. Although the government's current debt purchase stimulus plan and their intend to keep interest rates low through 2014, these developments and the government's credit concerns in general, could cause interest rates and borrowing costs to eventually rise, which may negatively impact our ability to access the debt markets on favorable terms. Continued adverse economic conditions could have a material adverse effect on our business, financial condition and results of operations.

Management Evaluation of Results of Operations

Management evaluates our results of operations with a primary focus on increasing and enhancing the value, quality and quantity of properties and in our real estate. Management focuses its efforts on improving underperforming assets through re-leasing efforts, including negotiation of lease renewals, or selectively selling assets in order to increase value in our real estate portfolio. The ability to increase assets under management is affected by our ability to raise capital and our ability to identify appropriate investments.

Management's evaluation of operating results includes an assessment of our ability to generate cash flow necessary to fund distributions to our shareholders. As a result, management's assessment of operating results gives less emphasis to the effects of unrealized gains and losses and other non-cash charges such as depreciation and amortization and impairment charges, which may cause fluctuations in net income for comparable periods but have no impact on cash flows. Management's evaluation of our potential for generating cash flow includes assessments of our recently acquired properties, our non-stabilized properties, the long-term sustainability of our real estate portfolio, our future operating cash flow from anticipated acquisitions, and the proceeds from sales of our real estate.

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

As of June 30, 2013, including properties held for sale, the Company owned or had an equity interest in eleven office buildings and one industrial building ("Office Properties") which total approximately 786,000 rentable square feet, four retail shopping centers ("Retail Properties") which total approximately 186,000 rentable square feet, seven self-storage facilities ("Self-Storage Properties") which total approximately 652,000 square feet and 81 Model Homes owned by four limited partnerships ("Residential Properties").

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

Most of our office and retail properties are leased to a variety of tenants ranging from small businesses to large public companies, many of which do not have publicly rated debt. We have in the past entered into, and intend in the future to enter into, purchase agreements for real estate having net leases that require the tenant to pay all of the operating expense (Net, Net, Net Leases) or pay increases in operating expenses over specific base years.

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

The Residential Properties, or model home properties, typically lease for periods of 2 to 3 years. The model homes are leased to the developer on a triple net lease. Under a triple net lease the tenant is required to pay all operating, maintenance and insurance costs and real estate taxes with respect to the leased property.

The Self-Storage Properties are rented pursuant to rental agreements that are for no longer than 6 months. The Self-Storage Properties are located in markets having other self-storage properties. Competition with these other properties will impact our operating results of these properties, which depends materially on our ability to timely lease vacant self-storage units, to actively manage unit rental rates, and our tenants' ability to make required rental payments. To be successful, we must be able to continue to respond quickly and effectively to changes in local and regional economic conditions by adjusting rental rates of these properties within their regional market in Southern California. We depend on websites, advertisements, flyers, etc. to secure new tenants to fill any vacancies.

Critical Accounting Policies

There have been no material changes to our critical accounting policies as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the SEC on March 28, 2013.

For a discussion of significant accounting policies, see also footnote 2 to the condensed consolidated financial statements.

RECENT EVENTS HAVING SIGNIFICANT EFFECT ON RESULTS OF OPERATIONS

Company and Property Acquisitions

In March 2010, the Company purchased certain tangible and intangible personal property from DMHU, including rights to certain names, trademarks and trade secrets, title to certain business equipment, furnishings and related personal property. DMHU had used these assets in its previous business of purchasing model homes for investment in new residential housing tracts and initially leasing the model homes back to their developer. In addition, the Company also acquired DMHU's rights under certain contracts, including contracts to provide management services to 19 limited partnerships sponsored by DMHU and for which a DMHU affiliate serves as general partner (the "**Model Home Partnerships**"). These partnerships include DAP II and DAP III in each of which the Company was a 51% limited partner. In the DMHU Purchase, the Company paid the owners of DMHU $300,000 cash and, in accordance with an earn out issued approximately 39,000 shares of the Company's common stock, as a result of the level of production the Company achieved from new model home acquisitions over the three year period that ended February 28, 2013. The transaction was accounted for as a business combination. Management performed an analysis of intangible assets acquired with the assistance of an independent valuation specialist and it was determined that $209,000 of the purchase price is attributable to customer relationships and will be amortized over 10 years. The Company had anticipated that the full earn-out would have been achieved and estimated a liability of $1,032,000 associated with the 120,000 shares that it believed would have been issued during the three year earn-out period. As a result, the total purchase price of $1,332,000 was allocated between goodwill of $1,123,000 and intangible assets of $209,000. In 2012, the Company reduced the liability by approximately $691,000 for the difference of the anticipated earn-out to the actual earn-out. As a result of this transaction, the Company's investment in DAP II and DAP III have been consolidated into the financial statements of NetREIT effective March 1, 2010. The limited partnerships have been consolidated into the financial statements of the Company in accordance with guidelines attributable to variable interests entities.

The Company has formed a Model Homes Division that pursues investment activities based on DMHU's business model. The Model Homes Division's activities include the purchase and leaseback of Model Homes in new residential housing tract developments. To pursue this business, the Company formed a new subsidiary, NetREIT Advisors and is sponsoring the formation of NetREIT Dubose Model Home REIT ("NetREIT Dubose"). NetREIT Dubose invests in Model Homes it purchases from home builders in transactions where the builder leases back the Model Home under a short term lease, typically one to three years in length on a triple net basis. Upon expiration of the lease, NetREIT Dubose typically extends the lease of the Model Home until such time the property is sold. NetREIT Dubose owns substantially all of its assets and conducts its operations through an Operating Partnership. NetREIT Advisors serves as the advisor to NetREIT Dubose.

In August 2011, the Company formed Dubose Advisors, LLC ("**Dubose Advisors**") a wholly-owned Delaware limited liability company, and sponsored the formation of Dubose Model Home Investors #201, LP. ("**201 Partnership**"), a California limited partnership. Dubose Advisors is the sole general partner and advisor to the 201 partnership. The 201 Partnership invests in Model Homes it purchases from developers in transactions whereby the developer leases back the Model Home under a short term lease, typically one to three years in length similar to NetREIT Dubose. The Company has initially invested $250,000 to capitalize the 201 Partnership and has raised $3,000,000 in outside investor capital through the sale of limited partner units at $50,000 per unit.

Over the last three years, NetREIT Advisors provided management services to the 19 Model Home Partnerships, pursuant to the rights under the management contracts assigned to it by DMHU. As of June 30, 2013, one partnership remains under management. For these services, NetREIT Advisors receives ongoing management fees and has the right to receive certain other fees when the respective partnership sells or otherwise disposes of its properties.

Effective January 31, 2013, the Company entered into an Agreement and Plan of Merger to consummate the merger acquisition of CHG Properties, Inc. ("CHG"), a California corporation. The Company had the option to purchase CHG pursuant to a February 15, 2005, option agreement. With the existing properties formerly managed through CHG, the 100% owned subsidiary known as NTR Property Management, Inc. ("NTR"), is expected to save the Company approximately $300,000 annually. As the Company acquires more properties, the savings are expected to increase.

The Company acquired the following properties in 2012:

In January 2012, Dubose Model Home Investors #201 LP acquired one model home property in Texas and leased it back to the home builder. The purchase price for the property was $0.38 million. The purchase price paid was through a cash payment of $0.15 million and a promissory note $0.23 million. There are approximately two months results of operations included in the six months ended June 30, 2012 and six months results of operations included in the six months ended June 30, 2013.

In April 2012, NetREIT Dubose and Dubose Model Home Investors #201 LP acquired 19 model home properties in California and Arizona and leased them back to the home builder. The purchase price for the properties was approximately $8.2 million. The purchase price paid was through a cash payment of approximately $3.7 million and promissory notes totaling approximately $4.5 million. There are approximately three months of operations included in the six months ended June 30, 2012 and six months results of operations included in the six months ended June 30, 2013.

In May 2012, the Company acquired the former Rite Aid building in Yucca Valley, California, The building adjoins the Company's Yucca Valley Retail Center purchased in September 2011. The building was purchased vacant as a result of the relocation of Rite Aid. However, the property remained under lease to the tenant for several more years. The purchase price was approximately $1.1 million all paid in cash. The building consists of approximately17,600 rentable square feet. There is one month results of operations included in the six months ended June 30, 2012 and in January 2013, Rite Aid paid off the remaining term of the lease through a cancellation agreement.

In June 2012, the Company acquired the Shoreline Medical Building for the purchase price of approximately $6.4 million. The Property is a two-story medical office building under a single tenant lease that was built in 1980. The land consists of approximately 38,600 square feet with a building on it of approximately15,335 rentable square feet in Half Moon Bay, California. Half Moon Bay is approximately 25 miles south of San Francisco and 10 miles west of San Mateo. The Company made a down payment of approximately $2.3 million and financed the remainder of the purchase price through a fixed rate mortgage with interest at 5.1%. The interest rate is subject to change at the 3 and 6 year anniversaries of the loan. There are no results of operations included in the six months ended June 30, 2012 and six months results of operations included in the six months ended June 30, 2013.

In June 2012, NetREIT Dubose and Dubose Model Home Investors #201 LP acquired 14 model home properties in New Jersey and Pennsylvania and leased them back to the home builder. The purchase price for the properties was approximately $5.0 million. The purchase price paid was through a cash payment of approximately $2.0 million and promissory notes totaling approximately $3.0 million. There are no results of operations included in the six months ended June 30, 2012 and six months results of operations included in the six months ended June 30, 2013.

The Company disposed of the following properties in 2012:

In 2012, NetREIT Dubose and the other model home entities disposed of twenty-five model home properties. The sales price, net of selling costs, aggregated approximately $6.5 million and approximately $1.5 million in mortgage notes payable were retired in connection with these sales. The Company recognized a gain of approximately $260,000 related to the sale of these model homes. The Company also sold its 7-Eleven property and some raw land in Rialto. The aggregate selling price was approximately $2.2 million and a total gain of approximately $638,000. Both properties were unencumbered.

The Company acquired the following properties in the six months ended June 30, 2013:

In January 2013, NetREIT Dubose and Dubose Model Home Investors #201 LP acquired 4 Model Home properties in Texas and leased them back to the home builder. The purchase price for the properties was approximately $1.1 million. The purchase price paid was through a cash payment of approximately $0.5 million and promissory notes totaling approximately $0.6 million. There are no results of operations included in the six months ended June 30, 2012 and approximately five months results of operations included in the six months ended June 30, 2013.

In May 2013, the Company acquired a self-storage facility in Lancaster, CA for the purchase price of approximately $3.7 million dollars. The purchase price was paid in cash. The facility is comprised of approximately 71,000 square feet of rentable area consisting of approximately 608 self-storage units. The facility was built in 1990 and was approximately 65 percent occupied at acquisition.

The Company disposed of the following properties in six months ended June 30, 2013:

NetREIT Dubose and the other Model Home entities disposed of eleven Model Home properties. The sales price, net of selling costs, aggregated approximately $3.8 million and approximately $1.3 million in mortgage notes payable were retired in connection with these sales. The Company recognized a gain of $534,555 related to the sale of these Model Homes

In May 2013, the Company sold its Casa Grande Apartments for a sales price of $1.8 million. The sale resulted in mortgage payoff of $1.3 million and a gain of $322,356.

THE FOLLOWING IS A COMPARISON OF OUR RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2013 AND 2012.

Revenues

Total revenue was $4,857,269 for the three months ended June 30, 2013, compared to $4,273,140 for the same period in 2012, an increase of $584,129, or 13.7%. The increase in rental income as reported in 2013 compared to 2012 is primarily attributable to:

- The addition of the three properties acquired in 2012 and 2013, reduced by two properties sold, as well as the addition of the model home properties which generated an additional $642,000 of rent and fee income in the three months ended June 30, 2013 compared to the same period in 2012. The increase in rent and fee income from model home activity in the quarter was approximately $167,000; and

- A small decrease of rental income of approximately $24,000 for properties owned for the full three months ended June 30, 2013; and

- A decrease in revenues of $34,000 from model home partnerships that have either liquidated or are in the process of winding operations down.

Overall rental and fee revenues are expected to continue to increase in future periods, as compared to historical periods, as a result of owning the assets acquired during 2013 and 2012 for an entire year and future acquisitions of real estate assets.

Interest and other income was $70,439 for the three months ended June 30, 2013, compared to $20,125 for the same period in 2012, an increase of $50,314, or 250.0%. The increase was primarily attributable to reversal of a liability related to tenant improvement commitments of approximately $50,000 in the three months ended June 30, 2013. Interest income was approximately $20,000 for each of the three months ended June 30, 2013 and 2012.

Rental Operating Expenses

Rental operating expenses were $1,510,787 for the three month period ended June 30, 2013 compared to $1,331,904 for the same period in 2012, an increase of $178,883, or 13.4%. The increase in operating expense year over year is primarily attributable to the same reasons that rental revenue increased except there are no increases in rental operating costs associated with the increase in model home rental income. Rental operating costs as a percentage of rental income was 31.1% and 31.2% for the three months ended June 30, 2013 and 2012, respectively.

Rental operating costs are expected to continue to increase in future periods, as compared to historical periods, as a result of owning recently acquired assets for entire periods and anticipated future acquisitions of real estate assets.

Interest Expense

Interest expense, including amortization of deferred finance charges, increased by $147,643, to $1,219,329, or 13.8% during the three month period ended June 30, 2013 compared to $1,071,686 for the same period in 2012. The primary reason for the increase is the mortgage debt additions related to the addition of two properties after the end of the second quarter of 2012 and, as a result, did not have interest expense for three months ended June 30, 2012. In addition, the Company encumbered three self-storage facilities with a new loan that contributed about $97,000 to the increase in interest expense 2013 over 2012.

The weighted average interest rate as of June 30, 2013 was 5.23% compared to 5.64% as of June 30, 2012. The decline in the weighted average interest rate was due to refinancing and modifying the terms of approximately $18.1 million in two loans that were coming due in early 2013 and 2014 at new interest rates that are between 1.00% and 1.25% lower than the loans that were refinanced in early 2013.

The following is a summary of our interest expense on loans by property for the three months ended June 30, 2013 and 2012:

	Date acquired financed or refinanced	2013	2012
Havana/Parker Complex	June 2006	$ 51,577	$ 52,928
Waterman Plaza	August 2008	57,114	58,424
Sparky's Thousand Palms Self-Storage	August 2009	58,992	60,463
Sparky's Hesperia East Self-Storage	December 2009	10,512	24,845
Dubose Acquisition Partners II, LP	March 2010	23,851	23,802
Sparky's Rialto Self-Storage	May 2010	32,276	41,313
Genesis Plaza	August 2010	54,629	55,991
NetREIT Dubose Model Home REIT, Inc.	October 2010	117,700	101,138
Dakota Bank Buildings	May 2011	79,856	81,464
Casa Grande Apartments	June 2011	8,013	14,914
Executive Office Park	June 2011	64,812	65,529
Yucca Valley Retail Center	September 2011	45,495	46,978
Rangewood Medical Office Building	December 2011	14,749	13,899
Regatta Square	December 2011	15,592	15,889
Dubose Model Home Investor Fund #113, LP	December 2011	3,010	6,488
Dubose Model Home Investors #201, LP	December 2011	48,820	26,528
Morena Office Center	May 2012	27,477	18,135
Pacific Oaks Plaza	May 2012	18,864	12,332
Shoreline Medical Building	June 2012	51,261	18,405
The Presidio	November 2012	78,784	-
Sparky's Joshua, Palm and Sunrise self-storage facilities	December 2012	97,405	-
Garden Gateway Plaza	February 2013	43,507	143,498
Port of San Diego Complex	March 2013	127,227	143,344
Sparky's Lancaster Self-Storage	May 2013	8,333	-
Amortization of deferred financing costs		79,473	45,379
		$ 1,219,329	$ 1,071,686

General and Administrative Expenses

General and administrative expenses increased by $279,416 to $1,350,968 for the three months ended June 30, 2013, compared to $1,071,552 for the same period in 2012. As a percentage of rental and fee income, general and administrative expenses were 27.8% and 25.1% for the three months ended June 30, 2013 and 2012, respectively. In comparing our general and administrative expenses with other REITs, you should take into consideration that we are a self-administered REIT, which means such expenses are greater for us than an advisory administered REIT. We expect general and administrative expenses as a percentage of revenues to continue to decline in the future as our revenues continue to increase at a faster rate than our expense.

For the three months ended June 30, 2013, our salaries and employee related expenses increased by approximately $166,000 to approximately $794,000 compared to approximately $626,000 for the same three months in 2012, an increase of 26.9%. The increase in salary and employee expenses in 2013 was primarily attributable to the addition of employees that were added with the acquisition of NTR Property Management, Inc.

Legal, accounting and public company related expenses and increased by approximately $61,000 to approximately $161,000 for the three months ended June 30, 2013, compared to approximately $100,000 during the same period in 2012. The increase is due to additional proxy related legal costs as well as a quiet title action that a lender has required the Company to complete related to a property acquired in 2007.

Other increases to general and administrative costs are also attributable to the addition of a Director after the first quarter 2012, compensation changes to the Directors and an increase in income tax expense of a subsidiary in 2013.

Gain/Loss on Sale of Real Estate Assets

In the three month period ended June 30, 2013, the Company had a net gain on the sale of model home properties of $410,258 compared to a net gain of $54,993 for the same three months of 2012. Sales in the previous year were older model homes that had been affected by the downturn in real estate values.

Net Loss

Net loss for the three months ended three months ended June 30, 2013, was $396,202, or $0.02 loss per share, compared to a net loss for the three months ended June 30, 2012 of $433,221, or $0.03 loss per share. The quarter over quarter improvement in the three months ended June 30, 2013 was primarily attributable to an increase of rental income over rental operating costs of approximately $405,000 for the three months ended June 30, 2013 compared to the same period last year and an increase in the gain on sale of real estate assets of approximately $355,000.

THE FOLLOWING IS A COMPARISON OF OUR RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2012.

Revenues

Total revenue was $10,025,865 for the six months ended June 30, 2013, compared to $8,361,326 for the same period in 2012, an increase of $1,664,539, or 19.9%. The increase in rental income as reported in 2013 compared to 2012 is primarily attributable to:

- The addition of the properties acquired in June 30, 2012 and June 30, 2013 and the addition of the model home properties which generated an additional $1,836,317 of rent income in the six months ended June 30, 2013 compared to the same period in 2012; and

- An increase of rental and fee income of approximately $2,194 for properties owned for the full six months ended June 30, 2013.

- A decrease of approximately $173,972 in model home rental and fee income as the older partnerships are winding down their operations.

Overall rental and fee revenues are expected to continue to increase in future periods, as compared to historical periods, as a result of owning the assets acquired during June 30, 2012 and June 30, 2013 for an entire year and future acquisitions of real estate assets.

Interest and other income was $91,695 for the six months ended June 30, 2013, compared to $40,484 for the same period in 2012, a increase of $51,211, or 126.5%. The increase was primarily attributable to reversal of a liability related to tenant improvement commitments of approximately $50,000 for the six months ended June 30, 2013. Interest income was approximately $40,000 for each of the six months ended June 30, 2013 and 2012.

Rental Operating Expenses

Rental operating expenses were $3,007,389 for the six months ended June 30, 2013 compared to $2,665,035 for the same period in June 30, 2012, an increase of $342,354, or 12.8%. The increase in operating expense year over year is primarily attributable to the same reasons that rental revenue increased. Rental operating costs as a percentage of rental and fee income was 30.0% and 31.9% for the six months ended June 30, 2013 and 2012, respectively. The decrease in operating costs as a percentage of revenue is primarily due to one-time property tax expense reductions resulting from the positive outcome of appealing assessed values.

Rental operating costs are expected to continue to increase in future periods, as compared to historical periods, as a result of owning recently acquired assets for entire periods and anticipated future acquisitions of real estate assets.

Interest Expense

Interest expense, including amortization of deferred finance charges, increased by $500,185, to $2,553,355 during the six months ended June 30, 2013 compared $2,053,170 for the same period in June 30, 2012. The primary reason for the increase is the mortgage debt additions related to the acquisitions after June 30, 2012 of The Presidio, The Shoreline Medical Building (in June 2012), Sparky's Self-Storage Lancaster and additional model home properties. In addition, the Company financed its Sparky's Joshua, Palm and Sunrise Self-Storage properties. The refinancing of the Port of San Diego and Garden Gateway Plaza reduced interest expense by approximately $136,000 in the six months ended June 30, 2013. The decline in the weighted average interest rate was due to refinancing and modifying the terms of approximately $18.1 million in two loans that were coming due in early 2013 and 2014 at new interest rates that are between 1.00% and 1.25% lower than the loans that were refinanced in early 2013.

The weighted average interest rate as of June 30, 2013 was 5.23% compared to 5.64% as of June 30, 2012.

The following is a summary of our interest expense on loans by property for the six months ended June 30, 2013 and 2012:

	Date acquired financed or financed	2013	2012
Havana/Parker Complex	June 2006	$ 102,938	$ 106,182
Waterman Plaza	August 2008	114,563	117,162
Sparky's Thousand Palms Self-Storage	August 2009	118,359	121,287
Sparky's Hesperia East Self-Storage	December 2009	34,182	53,302
Dubose Acquisition Partners II, LP	March 2010	47,702	52,859
Sparky's Rialto Self-Storage	May 2010	71,464	76,899
Genesis Plaza	August 2010	109,605	112,313
Dubose Model Home Income Fund #3, LTD	December 2010	-	1,308
Dubose Model Home Income Fund #4, LTD	December 2010	-	2,771
Dubose Model Home Income Fund #5, LTD	December 2010	-	349
NetREIT Dubose Model Home REIT, Inc.	October 2010	247,498	180,928
Dakota Bank Buildings	May 2011	159,253	163,319
Casa Grande Apartments	June 2011	22,588	29,898
Executive Office Park	June 2011	129,146	131,277
Yucca Valley Retail Center	September 2011	90,386	93,352
Rangewood Medical Office Building	December 2011	29,516	27,989
Regatta Square	December 2011	31,101	31,861
Dubose Model Home Investor Fund #113, LP	December 2011	5,916	12,977
Dubose Model Home Investors #201, LP	December 2011	99,285	31,663
Morena Office Center	May 2012	54,810	18,135
Pacific Oaks Plaza	May 2012	37,270	12,332
Shoreline Medical Building	June 2012	102,298	18,405
The Presidio	November 2012	157,143	-
Sparky's Joshua, Palm and Sunrise self-storage facilities	December 2012	193,025	
Garden Gateway Plaza	February 2013	203,526	288,061
Port of San Diego Complex	March 2013	231,502	282,952
Sparky's Lancaster Self-Storage	May 2013	8,333	-
Amortization of deferred financing costs		151,946	85,589
		$ 2,553,355	$ 2,053,170

General and Administrative Expenses

General and administrative expenses increased by $387,459 to $2,583,729 for the six months ended June 30, 2013, compared to $2,196,270 for the same period in June 30, 2012. As a percentage of rental and fee income, general and administrative expenses were 25.8% and 26.3% for the six months ended June 30, 2013 and 2012, respectively. In comparing our general and administrative expenses with other REITs, you should take into consideration that we are a self- administered REIT, which means such expenses are greater for us than an advisory administered REIT.

For the six months ended June 30, 2013, our salaries and employee related expenses increased $198,461 to $1,538,114 compared to $1,339,653 for the same six months ended June 30, 2012, an increase of 14.8%. The increase in salary and employee expenses in June 30, 2013 was primarily attributable to the addition of employees in connection with the NTR acquisition. In addition, the Company annually grants salary increases to employees effective January 1 each year.

Legal, accounting and public company related expenses and increased by $73,855 to $333,439 for the six months ended June 30, 2013, compared to $317,166 during the same period in the June 30, 2012. The increase is due higher than normal proxy related costs and a lender's requirement for the Company regarding a quiet title action related to a property acquired in 2007.

Directors fees increased by $71,994 to $108,372 for the six months ended June 30, 2013 compared to $188,241 for the six months ended June 30, 2012. The increase is due to the addition of a Director and an increase Director fees.

Gain/Loss on Sale of Real Estate Assets

For the six months ended June 30, 2013, the Company had a net gain on the sale of the Casa Grande Apartments and model home properties of $856,911 compared to a net gain of $99,075 for the same period in June 30, 2012.

Net Loss

Net loss for the six months ended June 30, 2013 was $449,351, or $0.03 loss per share, compared to a net loss for the six months ended June 30, 2012 of $1,004,832, or $0.07 loss per share. The decrease in net loss of $555,481 in the six months ended June 30, 2013 was primarily attributable to an increase of approximately $1,322,185 in net operating income rental and fee income less rental operating costs and an increase of $757,636 in the gain on sale of real estate assets offset by an increase in interest expense of approximately $500,185.

LIQUIDITY AND CAPITAL RESOURCES

As discussed above under Economic Environment, during 2012 and early 2013, there have been indications of economic improvement and stabilization in the equity markets. However, we expect the market turbulence could continue in the commercial real estate arena as mortgage financings originated over the past five to seven years mature.

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

Overview

We actively seek investments that are likely to produce income in order to pay distributions as well as long-term gains for our stockholders. Our future sources of liquidity include cash and cash equivalents, cash flows from operations, new mortgages on our unencumbered properties, refinancing of existing mortgages and the possible sale of additional debt or equity securities. Our available liquidity at June 30, 2013 was approximately $15.2 million, including $7.8 million in cash and cash equivalents and an estimated borrowing capacity of approximately $7.4 million from potential mortgages on unencumbered properties. We do not have any arrangement with any financial institution to borrow any amount and therefore we cannot be certain a financial institution would loan that amount on the unencumbered properties or the timing of such borrowings.

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

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

We believe that our cash flow from our existing portfolio when operational for the full term, and from financing activities, is sufficient to pay the debt service costs on our existing mortgages, fund our operating costs in the near term and fund the cash portion of our distribution to stockholders at the current rate. During the six months ended June 30, 2013 our net cash provided by operating activities was approximately $1.3 million and the net proceeds from our sales of estate assets was approximately $3.1 million while our cash portion of stockholder distributions was approximately $2.0 million. Our cash flow from investing activities contributed $0.5 million in the current six month period and our cash flow used in financing activities was $4.7 million for the six months ended June 30, 2013. In the future, if our cash flow from operating, investing and financing activities is not sufficient to fund our short term liquidity needs, including the payment of cash dividends at current rates to our shareholders, we will fund a portion of these needs from additional borrowings of secured or unsecured indebtedness or we will reduce the rate of distribution to the shareholders.

We further believe that our cash flow from operations along with the potential financing capital available to us in the future is sufficient to fund our long-term liquidity needs. We are continually reviewing our existing portfolio for properties that have met maximized short and long term potential with the intent of selling those properties and reinvesting the proceeds in properties that have equivalent or better short term benefits and better long term potential. In second quarter of 2013 we purchased a self-storage facility and completed the sale of our Casa Grande apartments. We have also identified 7 model home properties held for sale in the normal course of business. We expect to obtain additional mortgages and assumption of existing debt collateralized by some or all of our real property in the future to meet our long-term liquidity needs. If we are unable to arrange a line of credit, borrow on unencumbered properties, or sell securities to the public we may not be able to acquire additional properties to meet our long-term objectives.

Equity Capital

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

Debt Capital

We obtained approximately $18.1 million during the six months of 2013 and took out a new mortgage for $2.0 million in connection with our purchase of Sparky's Lancaster Self-Storage. The majority of the proceeds were through the refinancing two largest mortgage loans with a balance at year-end of approximately $18.4 million. These loans of approximately $9.2 million each were maturing in June 2013 and April 2014 and they had a weighted average interest rate of 6.04%. The new loans mature in 2020 and have a weighted average interest rate of 4.85%. The decrease in interest rates will save approximately $200,000 in interest expense in the first year. The annual reduction in debt service as a result of the new loans is approximately $600,000. We anticipate raising additional capital by obtaining loans on our other unencumbered properties without a material increase to our leverage percentage to the company as a whole.

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

Cash and Cash Equivalents

At June 30, 2013, we had approximately $7.8 million in cash and cash equivalents compared to approximately $10.7 million at December 31, 2012. We intend to use this cash for general corporate purposes and distributions to our shareholders.

Our cash and cash equivalents are held in bank accounts at third party institutions and consist of invested cash and cash in our operating accounts. During 2013 and 2012, we did not experience any loss or lack of access to our cash or cash equivalents.

Debt

As of June 30, 2013, NetREIT had mortgage notes payable in the aggregate principal amount of approximately $76.0 million, collateralized by a total of 19 non model home properties with terms at issuance ranging from 3 to 30 years. The weighted-average interest rate on the mortgage notes payable as of June 30, 2013 was approximately 5.16%. Our debt to book value on these properties is approximately 54.7%. We do not have any mortgage debt balloon principal payments on these properties due during 2013 or 2014.

As of June 30, 2013, NetREIT Dubose had 57 fixed-rate mortgage notes payable in the aggregate principal amount of $8.2 million, collateralized by a total of 57 model home properties, an average of approximately $144,000 per home. These loans generally have a term at issuance of five years. The weighted-average interest rate on these mortgage notes payable as of June 30, 2013 was 5.50%. Our debt to net book value on these properties is approximately 52.5%. The Company has guaranteed substantially all of these promissory notes. The balloon principal payments on the notes payable are in 2015 through 2017 and are typically tied to the end of the lease and sale of the model home securing the debt.

As of June 30, 2013, limited partnerships that the Company has a limited partnership interest in had 24 fixed-rate mortgage note payables in the aggregate principal amount of $5.1 million, collateralized by a total of 24 model home properties, an average of $213,000 per home. The debt to book value on these properties is approximately 57.6%. Through June 30, 2013, all of the free cash flow on these limited partnerships was either accumulating as excess cash balances or used to apply the related loan balances with no distribution to the partners. The Company has recently made a special distribution to the 201 investors of 3%/ All of the properties will be sold at the end of the lease agreements and we believe that all properties will be sold for more than the mortgage debt balloon amount.

Despite the disruptions in the debt market discussed in "Overview" above, we believe that we will be able to refinance maturing debts on or before scheduled maturity dates.

Operating Activities

Net cash provided by operating activities for the six months ended June 30, 2013 was approximately $1.3 million compared to net cash provided by operating activities of approximately $2.2 million for the six months ended June 30, 2012. The decrease of approximately $0.9 million was primarily due to an increase in in other assets and an increase on the gain on sale of real estate assets. We anticipate that with the inclusion of the recent acquisitions and the anticipated acquisitions that the cash provided by operating activities will cover the cash portion of our distribution to shareholders in the future.

Investing Activities

Net cash provided by investing activities was approximately $0.5 million during the six months ended June 30, 2013, compared to net cash used in investing activities of $17.0 million in the same period in 2012. This decrease was primarily attributable to purchasing one property and four model homes in the six months ended June 30, 2013 compared to two properties and 34 model home properties in the six months ended June 30, 2012.

Financing Activities

Net cash used in financing activities for the six months ended June 30, 2013 was approximately $4.7 million compared to net cash provided by financing activities of $11.3 million in the same period 2012. The Company used excess cash balances to pay down some of the mortgages bearing the highest interest rates and we also had an increase in the proceeds from mortgages in the current year. We do anticipate our proceeds from mortgage notes to increase due to financing of unencumbered existing properties and anticipated acquisitions.

Contractual Obligations

The following table provides information with respect to the maturities and scheduled principal repayments of our secured debt and interest payments on our fixed and variable rate debt at June 30, 2013 and provides information about the minimum commitments due in connection with our ground lease obligation. Our secured debt agreements contain covenants and restrictions requiring us to meet certain financial ratios and reporting requirements. Non-compliance with one or more of the covenants or restrictions could result in the full or partial principal balance of such debt becoming immediately due and payable.

We are in compliance with all conditions and covenants of our loans.

	Less than a year 2013	1-3 Years (2014-2015)	3-5 Years (2015-2016)	More than 5 Years (After 2016)	Total
Principal payments - secured debt	$ 884,455	$ 18,232,357	$ 10,387,961	$ 46,460,591	$ 75,965,364
Interest payments - fixed rate debt	2,294,896	8,607,941	4,754,425	22,685,240	38,342,502
Interest payments - variable rate debt	273,942	119,272	385,474	374,801	1,153,489
Model home properties - secured debt	575,016	3,920,914	8,512,584	341,880	13,350,394
Model home properties - interest payments	547,387	1,465,316	638,305	714	2,651,722
Ground lease obligation (1)	21,910	43,820	43,820	1,249,310	1,358,860
	$ 4,597,606	$ 32,389,620	$ 24,722,569	$ 71,112,536	$ 132,822,331

(1) Ground lease obligation represents the ground lease payments due on our World Plaza Property.

Other Liquidity Needs

We are required to distribute 90% of our REIT taxable income (excluding capital gains) on an annual basis in order to qualify and maintain our qualification as a REIT for federal income tax purposes. Accordingly, we intend to continue to make regular quarterly distributions to our common shareholders from cash flow from operating, investing and financing activities. We are not contractually bound to make regular quarterly dividend distributions to our common stock holders since we have a net loss carry-forward that will offset any taxable income in 2013. In the past we have distributed cash amounts in excess of our taxable income resulting in a return of capital to our shareholders. We currently have the ability to decrease our distributions while still meeting our REIT requirement for 2013. If our net cash provided by operating, investing and financing activities, including proceed on sale of real estate in excess of any related indebtedness (assuming we are successful in selling any of our properties) do not exceed our intended distributions to our common shareholders, we would have to borrow funds to pay the distribution or reduce and/or possibly eliminate the distribution. We consider market factors and our historical and anticipated performance in addition to REIT requirements in determining our distribution levels.

In addition, although U.S. economy has shown a slow recovery during 2012 and early 2013, the economic environment has and still could adversely affect our tenants' financial condition and make it difficult for them to continue to meet their obligations to us. We have been successful maintaining relatively even levels of occupancy at our stabilized properties; however, overall progress to date in the office leasing velocity and pricing has been inconsistent both regionally and across assets of differing quality. Vacancy rates in our markets appear to have reached the top and are starting to descend at a slow pace. During 2012 and early this year, we experienced the highest levels of new leasing activity since the beginning of the economic downturn. Several years may be required before vacancy rates decline sufficiently to support meaningful growth in rents.

Our involvement in retail properties has been limited, however, we are seeing more rental inquiries. Retail demand for space in our markets in 2012 was positive for the first time since 2007. We expect this trend to continue this year. Although the increase is expected to be modest we, expect that well situated properties, including ours, will benefit from the improving economy.

Economic growth rates have shown trends of slow growth in recent periods and inflation rates in the United States have remained low. We do not anticipate a sharp increase in inflation in the immediate future. Changes in inflation/deflation are sometimes associated with changes in long-term interest rates, which may have a negative impact on the value of the portfolio we own. To mitigate this risk, we will continue to seek to lease our properties with fixed rent increases and/or with scheduled rent increases based on formulas indexed to increases in the Consumer Price Index ("CPI") or other indices for the jurisdiction in which the property is located. To the extent that the CPI increases, additional rental income streams may be generated from these leases and thereby mitigate the impact of inflation.

Off-Balance Sheet Arrangements

As of June 30, 2013, we do not have any off-balance sheet arrangements or obligations, including contingent obligations.

Capital Expenditures, Tenant Improvements and Leasing Costs

We currently project that during 2013 we could spend an additional $750,000 in capital improvements, tenant improvements, and leasing costs for properties within our portfolio. Capital expenditures may fluctuate in any given period subject to the nature, extent, and timing of improvements required to the properties. We may spend more on gross capital expenditures during 2013 compared to 2012 due to rising construction costs, planned improvements on recent acquisitions and the anticipated increase in property acquisitions in 2013. Tenant improvements and leasing costs may also fluctuate in any given year depending upon factors such as the property, the term of the lease, the type of lease, the involvement of external leasing agents and overall market conditions.

Non-GAAP Supplemental Financial Measure: Funds From Operations ("FFO") and Modified Funds From Operations ("MFFO")

Management believes that FFO is a useful supplemental measure of our operating performance. We compute FFO using the definition outlined by the National Association of Real Estate Investment Trusts ("**NAREIT**"). NAREIT defines FFO as net income (loss) in accordance with GAAP, plus depreciation and amortization of real estate assets (excluding amortization of deferred financing costs and depreciation of non-real estate assets) reduced by gains and losses from sales of depreciable operating property and extraordinary items, as defined by GAAP. Other REITs may use different methodologies for calculating FFO and, accordingly, our FFO may not be comparable to other REITs. Because FFO excludes depreciation and amortization, gains and losses from property dispositions that are available for distribution to shareholders and extraordinary items, it provides a performance measure that, when compared year over year, reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, development activities, general and administrative expenses and interest costs, providing a perspective not immediately apparent from net income. In addition, management believes that FFO provides useful information to the investment community about our financial performance when compared to other REITs since FFO is generally recognized as the industry standard for reporting the operations of REITs. However, FFO should not be viewed as an alternative measure of our operating performance since it does not reflect either depreciation and amortization costs or the level of capital expenditures and leasing costs necessary to maintain the operating performance of our properties that are significant economic costs and could materially impact our results from operations.

The following table presents our FFO for the three and six months ended June 30, 2013 and 2012. FFO should not be considered an alternative to net income (loss), as an indication of our performance, nor is FFO indicative of funds available to fund our cash needs or our ability to make distributions to our shareholders. In addition, FFO may be used to fund all or a portion of certain capitalizable items that are excluded from FFO, such as capital expenditures and payments of debt, each of which may impact the amount of cash available for distribution to our shareholders.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net loss	$ (396,202)	$ (433,221)	$ (449,351)	$ (1,004,832)
Adjustments:				
Income attributable to noncontrolling interests	(327,550)	(92,187)	(638,611)	(200,354)
Gain on sale of real estate assets attributable to noncontrolling interests	250,058	42,931	507,191	53,836
Depreciation and amortization	1,678,354	1,265,183	3,063,864	2,284,993
Gain on sale of real estate assets	(410,258)	(54,993)	(856,911)	(99,075)
	$ 794,402	$ 727,713	$ 1,626,182	$ 1,034,568

FFO increased in the three months ended June 30, 2013 by $66,689, or 9.2%, to $794,402 compared to $727,713 for the same period in 2012. FFO increased in the six months ended June 30, 2013 by $591,614, or 57.2%, to $1,626,182 compared to $1,034,568 for the same period in 2012. The increase in FFO is primarily due to the a reduction in net loss in 2013 over 2012 offset by an increase on the gain on sale of real estate assets.

On a GAAP basis, cash flow provided by operating activities was $1,316,881 and $2,165,081 for the six months ended June 30, 2013 and 2012, respectively.

We anticipate FFO to improve as we continue to acquire properties and earn rental revenues on properties recently acquired without substantial increases in general and administrative expenses.

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

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

The following table presents our MFFO for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Funds from operations	$ 794,402	$ 727,713	$ $1,626,182	$ $1,034,568
Adjustments:				
Straight line rent adjustment	(77,953)	(68,174)	(155,376)	(153,052)
Above and below market rents	44,606	82,522	8,807	232,667
Acquisition costs	35,148	81,502	121,907	44,033
Modified Funds from Operations	$ $796,203	$ $823,563	$ $1,601,520	$ $1,158,216

MFFO was $796,203 in the three months ended June 30, 2013 compared to $823,563, a decrease of $27,360, or 3.3% for the same period in 2012. MFFO increased in the six months ended June 30, 2013 by $443,304, or 38.3%, to $1,601,520 compared to $1,158,216 for the same period in 2012. The small decrease in MFFO in the quarter was due to an increase in straight line rents and reductions in above and below market rent adjustments and acquisition costs. The increase in MFFO in the six months ended June 30, 2013 is for the same reasons as the increase in FFO.

Inflation

Since the majority of our leases require tenants to pay most operating expenses, including real estate taxes, utilities, insurance and increases in common area maintenance expenses, we do not believe our exposure to increases in costs and operating expenses resulting from inflation would be material.

Segments Disclosure

Our reportable segments consist of mortgage activities and the four types of commercial real estate properties for which our decision-makers internally evaluate operating performance and financial results: Residential Properties, including Model Homes, Office Properties, Retail Properties and Self-Storage Properties. We also have certain corporate level activities including accounting, finance, legal administration and management information systems which are not considered separate operating segments.

Our chief operating decision maker evaluates the performance of our segments based upon net operating income. Net operating income is defined as operating revenues (rental income, tenant reimbursements and other property income) less property and related expenses (property expenses, real estate taxes, ground leases and provisions for bad debts) and excludes other non-property income and expenses, interest expense, depreciation and amortization, and general and administrative expenses. There is no intersegment activity.

See the accompanying financial statements for a Schedule of the Segment Reconciliation to Net Income Available to Common Shareholders.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required

ITEM 4. CONTROLS AND PROCEDURES

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

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended June 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

None.

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

During the six months ended June 30, 2013, the Company also sold 209,079 shares of its common stock to certain of its existing shareholders under its dividend reinvestment plan. The shares were sold directly by the Company without underwriters to a total of approximately 1,372 persons participating in the plan. The Company sold these shares under its registration statement on Form S-3 filed with the Securities and Exchange Commission on January 17, 2012 file number 333-179029.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (1)
April 1 — April 30, 2012	4,882	$ 7.00		
Total	4,882	$ 7.00		

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

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information.

None.

ITEM 6. EXHIBITS.

Exhibit Number	Description
31.1	Certificate of the Company's Chief Executive Officer (Principal Executive Officer) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013.
31.2	Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013.
31.3	Certification of the Company's Principal Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013.
32.1	Certification of principal executive officers and principal financial officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

Date: August 12, 2013

NetREIT, Inc.

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

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

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

EXHIBIT 31.1

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

I, Jack K. Heilbron, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NetREIT, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has material affected, or is reasonably likely to materially effect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 12, 2013

By: */s/ Jack K. Heilbron*

Jack K. Heilbron,

Chief Executive Officer

EXHIBIT 31.2

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

I, Kenneth W. Elsberry, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NetREIT, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has material affected, or is reasonably likely to materially effect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2013

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

EXHIBIT 31.3

CERTIFICATION OF PRINCIPAL FINANCIAL
AND ACCOUNTING OFFICER PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, J. Bradford Hanson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NetREIT, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has material affected, or is reasonably likely to materially effect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2013

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

EXHIBIT 32.1

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

Each of the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, in their capacities as CEO, CFO and Principal Financial and Accounting Officer, respectively, of NetREIT, Inc. (the "**Company**") that, to the best of his knowledge:

(i) the Quarterly Report for the quarter ended June 30, 2013 of the Company on Form 10-Q (the "**Report**") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and the results of operations of the Company.

Date: August 12, 2013

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

Date: August 12, 2013

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

Date: August 12, 2013

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

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