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, 2014

OR

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

For the period from _____ to _____

000-53673
(Commission file No.)

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

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

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

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

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

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

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

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

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

At August 1, 2014, registrant had issued and outstanding 16,695,392 shares of its common stock, no par value.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

NetREIT, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

	June 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Real estate assets and lease intangibles, net	$ 159,262,935	$ 159,455,162
Cash and cash equivalents	9,981,937	10,207,001
Restricted cash	1,723,449	1,355,277
Deferred leasing and finance costs, net	2,787,367	2,649,273
Other assets, net	8,283,800	7,578,669
TOTAL ASSETS	$ 182,039,488	$ 181,245,382
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage notes payable	$ 95,421,185	$ 89,551,724
Accounts payable and accrued liabilities	3,649,662	4,585,120
Dividends payable	1,293,866	1,240,455
Total liabilities	100,364,713	95,377,299
Commitments and contingencies		
Equity:		
Convertible series AA preferred stock, $0.01 par value, $25 liquidating preference, shares authorized - 1,000,000 - no shares issued and outstanding shares issued and outstanding	-	-
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, 2014 and December 31, 2013, respectively	16	16
Common stock series A, $0.01 par value, shares authorized: 100,000,000; 16,695,392 and 16,473,674 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	166,954	164,974
Additional paid-in capital	143,561,361	141,494,883
Dividends in excess of accumulated losses	(77,193,683)	(71,226,974)
Total NetREIT, Inc. stockholders' equity	66,534,648	70,432,662
Noncontrolling interest	15,140,127	15,435,421
Total equity	81,674,775	85,868,083
TOTAL LIABILITIES AND EQUITY	$ 182,039,488	$ 181,245,382

See notes to condensed consolidated financial statements

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

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Rental income	$ 4,556,419	$ 4,759,887	$ 9,249,084	$ 9,833,729
Fee and other income	135,452	97,382	222,626	192,136
	4,691,871	4,857,269	9,471,710	10,025,865
Costs and expenses:				
Rental operating costs	1,742,830	1,623,937	3,410,145	3,185,873
General and administrative	1,563,793	1,237,818	2,688,649	2,405,245
Depreciation and amortization	1,426,916	1,325,534	2,772,673	2,640,738
Total costs and expenses	4,733,539	4,187,289	8,871,467	8,231,856
(Loss) income from operations	(41,668)	669,980	600,243	1,794,009
Other income (expense):				
Interest expense	(1,371,123)	(1,219,329)	(2,641,085)	(2,553,355)
Interest and other income	41,790	70,439	60,159	91,695
Gain on sale of real estate	779,379	410,258	1,204,324	856,911
Gain on dissolution of partnership assets	-	-	302,831	-
Total other expense, net	(549,954)	(738,632)	(1,073,771)	(1,604,749)
Net (loss) income	(591,622)	(68,652)	(473,528)	189,260
Income attributable to noncontrolling interests	504,797	327,550	982,905	638,611
Net loss attributable to common stockholders	$ (1,096,419)	$ (396,202)	$ (1,456,433)	$ (449,351)
Basic and diluted loss per common share -				
Loss per share - basic and diluted:	$ (0.07)	$ (0.02)	$ (0.09)	$ (0.07)
Weighted average number of common shares outstanding - basic and diluted	16,831,217	15,986,632	16,768,211	15,316,875

See notes to condensed consolidated financial statements.

NetREIT, Inc. and Subsidiaries
Condensed Consolidated Statements of Equity
Six Months Ended June 30, 2014
(Unaudited)

	Convertible Series 6.3% Preferred Stock Shares	Amount	Series A Common Stock Shares	Amount	Additional Paid-in Capital	Dividends In Excess of Accumulated Losses	Total NetREIT, Inc. Stockholders' Equity	Non-controlling Interests	Total
Balance, December 31, 2013	1,649	$ 16	16,473,674	$ 164,737	$ 141,494,883	$ (71,226,974)	$ 70,432,662	$ 15,435,421	$ 85,868,083
Net (loss) income	-	-	-	-	-	(1,456,433)	(1,456,433)	982,905	(473,528)
Dividends declared/reinveste	-	-	101,874	1,018	966,787	(2,263,128)	(1,295,323)	-	(1,295,323)
Dividends paid	-	-	102,176	1,022	961,198	(2,247,148)	(1,284,928)	-	(1,284,928)
Common stock issued - related party	-	-	39,806	398	312,394	-	312,792	-	312,792
Common stock repurchased - related party	-	-	(21,000)	(210)	(164,808)	-	(165,018)	-	(165,018)
Common stock repurchased	-	-	(1,138)	(11)	(9,093)	-	(9,104)	-	(9,104)
Distributions paid in excess of contributions received from noncontrolling interests, net	-	-	-	-	-	-	-	(1,278,199)	(1,278,199)
Balance, June 30, 2014	1,649	$ 16	16,695,392	$ 166,954	$ 143,561,361	$ (77,193,683)	$ 66,534,648	$ 15,140,127	$ 81,674,775

See notes to condensed consolidated financial statements

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

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Cash flows from operating activities:		
Net loss attributable to NetREIT, Inc. common stockholders	$ (1,456,433)	$ (449,351)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	2,908,793	2,689,009
Stock compensation	258,996	308,087
Gain on sale of real estate assets	(1,204,324)	(856,911)
Gain on dissolution of partnerships	(302,831)	-
Bad debt expense	67,924	24,568
Income attributable to noncontrolling interests	982,905	638,611
Other assets	(397,244)	(231,972)
Accounts payable and accrued liabilities	(1,194,454)	(274,001)
Net cash (used in) provided by operating activities	(336,668)	1,848,040
Cash flows from investing activities:		
Real estate acquisitions	(7,131,300)	(4,789,715)
Building and tenant improvements	(1,841,738)	(1,416,548)
Deferred leasing costs	(293,451)	(296,024)
Proceeds received from sale of real estate	7,807,978	6,664,787
Restricted cash	(368,172)	61,379
Net cash (used in) provided by investing activities	(1,826,683)	223,879
Cash flows from financing activities:		
Proceeds from mortgage notes payable	15,538,412	20,733,829
Repayment of mortgage notes payable	(9,668,951)	(23,898,434)
Repurchase of common stock - related parties	(165,018)	-
Repurchase of common stock	(9,104)	(34,172)
Debt issuance costs	(264,805)	(296,514)
(Distributions paid) contributions received in excess of contributions received/(distributions paid) from/to noncontrolling interests	(965,407)	806,442
Dividends paid	(2,526,840)	(2,322,369)
Net cash provided by (used in) financing activities	1,938,287	(5,011,218)
Net decrease in cash and cash equivalents	(225,064)	(2,939,299)
Cash and cash equivalents:		
Beginning of period	10,207,001	10,746,536
End of period	$ 9,981,937	$ 7,807,237
Supplemental disclosure of cash flow information:		
Interest paid	$ 2,376,424	$ 2,600,808
Non-cash financing activities:		
Conversion of partnership interests into common stock	$ 165,018	$ -
Reinvestment of cash dividend	$ 1,938,474	$ 2,010,605
Accrual of dividends payable	$ 1,293,866	$ 1,204,753
Stock issued for purchase of NTR, Inc.	$ -	$ 1,900,000

See notes to condensed consolidated financial statements

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, 2014, 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 879,000 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 rentable square feet, and 67 Model Homes owned by four limited partnerships ("Residential Properties").

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, 2014 and 2013, 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, 2014. 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, 2013. The condensed consolidated balance sheet at year ended December 31, 2013 has been derived from the audited consolidated financial statements included in the Form 10-K filed with the Securities and Exchange Commission on March 31, 2014.

2. SIGNIFICANT ACCOUNTING POLICIES

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

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 three months ended June 30, 2014 and 2013, 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, 2014 and 2013, 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.

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 price is reasonably assured

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.

As of June 30, 2014, Management has concluded that there are 26 Model Home properties aggregating approximately $9.9 million which are considered as held for sale and are included in real estate assets. These homes have mortgage notes payable of approximately $4.9 million.

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. Based on the review, no impairment was deemed necessary at June 30, 2014 and 2013.

Loss Per Common Share. Basic loss per common share ("Basic EPS") is computed by dividing net loss available to common stockholders (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, 2014 and 2013:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Adjusted weighted average shares used for diluted EPS	16,829,933	15,986,632	16,768,211	16,072,826

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 1,356,093 shares of common stock for the three and six months ended June 30, 2014 and 1,382,433 shares of common stock for the three and six months ended June 30, 2013, were excluded from the computation of diluted earnings per share as their effect was anti-dilutive.

Use of Estimates. The preparation of financial statements in conformity with GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the 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, as a result, the Company operates in four business segments. See Note 7 "Segment Information".

Subsequent Events. Management has evaluated subsequent events through the date the accompanying financial statements are issued.

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

Recently Issued Accounting Standards Updates. In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ("ASU No. 2014-08"). ASU No. 2014-08 limits discontinued operations reporting to disposals of components of an entity that represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when any of the following occurs: a) the component of an entity or group of components of an entity meets the criteria to be classified as held for sale; b) the component of an entity or group of components of an entity is disposed of by sale; and c) the component of an entity or group of components of an entity is disposed of other than by sale. ASU No. 2014-08 also requires additional disclosures about discontinued operations. ASU No. 2014-08 is effective for reporting periods beginning after December 15, 2014. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. The Company early adopted ASU No. 2014-08 for the reporting period beginning January 1, 2014. As a result of the adoption of ASU No. 2014-08, results of operations for properties that are classified as held for sale in the ordinary course of business on or subsequent to January 1, 2014 would generally be included in continuing operations on the Company's consolidated statements of operations, to the extent such disposals did not meet the criteria for classification as a discontinued operation described above. Additionally, any gain or loss on sale of real estate that does not meet the criteria for classification as a discontinued operation would be presented, on the statements of operations, below income from continuing operations and income from discontinued operations.

3. REAL ESTATE ASSETS AND LEASE INTANGIBLES

A summary of the properties owned by the Company as of June 30, 2014 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	$ 3,357.6
Garden Gateway Plaza	March 2007	Colorado Springs, Colorado	115,052	Office	12,306.4
World Plaza	September 2007	San Bernardino, California	55,098	Retail	6,608.0
Regatta Square	October 2007	Denver, Colorado	5,983	Retail	1,916.9
Sparky's Palm Self-Storage	November 2007	Highland, California	50,250	Self-Storage	4,321.3
Sparky's Joshua Self-Storage	December 2007	Hesperia, California	149,750	Self-Storage	6,739.0
Executive Office Park	July 2008	Colorado Springs, Colorado	65,084	Office	8,330.4
Waterman Plaza	August 2008	San Bernardino, California	21,170	Retail	6,055.6
Pacific Oaks Plaza	September 2008	Escondido, California	16,000	Office	4,339.5
Morena Office Center	January 2009	San Diego, California	26,784	Office	5,566.9
Fontana Medical Plaza	February 2009	Fontana, California	10,500	Office	1,939.7
Rangewood Medical Office Building	March 2009	Colorado Springs, Colorado	18,222	Office	2,318.2
Sparky's Thousand Palms Self-Storage	August 2009	Thousand Palms, California	113,126	Self-Storage	5,437.3
Sparky's Hesperia East Self-Storage	December 2009	Hesperia, California	72,940	Self-Storage	2,394.8
Sparky's Rialto Self-Storage	May 2010	Rialto, California	101,343	Self-Storage	4,732.8
Genesis Plaza	August 2010	San Diego, California	57,685	Office	8,712.7
Dakota Bank Buildings	May 2011	Fargo, North Dakota	119,749	Office	10,165.2
Yucca Valley Retail Center	September 2011	Yucca Valley, California	103,596	Retail	7,362.3
Sparky's Sunrise Self-Storage	December 2011	Hesperia, California	93,851	Self-Storage	2,150.5
Port of San Diego Complex	December 2011	San Diego, California	146,700	Industrial	13,969.4
Shoreline Medical Building	May 2012	Half Moon Bay, California	15,335	Office	6,062.7
The Presidio	November 2012	Colorado Springs, Colorado	80,800	Office	6,836.9
Sparky's Lancaster Self-Storage	May 2013	Lancaster, CA	71,000	Self-Storage	3,637.9
Bismarck	May 2014	Bismarck, ND	93,000	Office	5,251.5
NetREIT, Inc. properties					140,513.5
			Model Homes		
Model Home properties held in limited partnerships	Various in 2009-2013	CA, AZ, WA, TX, SC, NC and NJ	50	Residential	13,465.2
Model Home properties held in income and investment funds	Various in 2010-2014	CA, AZ, TX, SC, PA, NJ	17	Residential	5,284.2
Model Home properties					18,749.4
Total real estate assets and lease intangibles, net					$ 159,262.9

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

	June 30, 2014	December 31, 2013
Land	$ 41,614,553	$ 41,882,217
Buildings and other	128,827,321	128,085,648
Tenant improvements	8,553,210	7,344,151
Lease intangibles	4,798,754	4,569,854
	183,793,838	181,881,870
Less:		
Accumulated depreciation and amortization	(24,530,903)	(22,426,708)
Real estate assets, net	$ 159,262,935	$ 159,455,162

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

Recent Acquisitions

In April 2014, the Company acquired The Bismarck Office Building for the purchase price of approximately $5.4 million plus closing costs. The property is a six-story office building with of approximately 93,000 rentable square feet located in Bismarck, North Dakota. The Company acquired the property with cash of approximately $2.2 million and a $3.2 million fixed rate mortgage note that bears interest at 6.12% per annum and is due in October 2016.

In February 2014, NetREIT Dubose, Dubose Model Home Investors #201 LP and Dubose Model Home Investors #202 LP acquired six Model Home properties in Pennsylvania and leased them back to the home builder. The purchase price for the properties was $1.8 million. The purchase price paid was through a cash payment of $0.7 million and a promissory note $1.1 million.

The Company allocated the purchase price of the properties acquired during the six months ended June 30, 2014 as follows:

	Land	Buildings and other	Improvements	In-place leases	Leasing costs	Total Purchase Price
Model Home Properties	$ 371,300	$ 1,410,000	$ -	$ -	$ -	$ 1,781,300
Bismarck Office Building	$ 413,000	$ 4,233,700	$ 474,400	$ 164,300	$ 64,600	$ 5,350,000

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, 2014			December 31, 2013		
	Lease intangibles	Accumulated amortization	Lease intangibles net	Lease intangibles	Accumulated amortization	Lease intangibles net
In-place leases	$ 2,179,759	$ (1,629,220)	$ 550,539	$ 2,015,459	$ (1,493,808)	$ 521,651
Leasing costs	1,513,585	(1,087,876)	425,709	1,448,985	(999,444)	449,541
Tenant relationships	332,721	(332,721)	-	332,721	(332,721)	-
Below-market leases	(841,425)	79,487	(761,938)	(841,425)	65,463	(775,962)
Above-market leases	1,614,114	(1,110,669)	503,445	1,614,114	(1,018,516)	595,598
	$ 4,798,754	$ (4,080,999)	$ 717,755	$ 4,569,854	$ (3,779,026)	$ 790,828

As of June 30, 2014, the estimated aggregate amortization expense for each of the five succeeding fiscal years and thereafter is as follows:

	Estimated Aggregate Amortization Expense
Six months remaining in 2014	$ 349,408
2015	489,421
2016	164,385
2017	57,213
2018	31,265
Thereafter (principally below market rent amortization)	(373,937)
	$ 717,755

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, 2014 was 14.8 years.

4. MORTGAGE NOTES PAYABLE

Mortgage notes payable as of June 30, 2014 and December 31, 2013 consisted of the following:

Property Securing Mortgage Note	Location	Monthly Payment	Interest Rate	Maturity Date	June 30, 2014	December 31, 2013
Havana/Parker Complex (1)	Aurora, Colorado	$ 24,330	6.51%	July 1, 2016	$ 3,098,780	$ 3,098,780
Garden Gateway Plaza	Colorado Springs, Colorado	42,383	5.00%	February 5, 2020	7,042,437	7,119,544
Waterman Plaza	San Bernardino, California	25,995	6.50%	September 1, 2015	3,413,790	3,457,973
Sparky's Palms Self-Storage	Thousand Palms, California	28,865	Variable rate ranging from 5.5% to 10.5%, currently 5.5%	March 1, 2034	4,157,429	4,215,349
Sparky's Hesperia East Self-Storage	Hesperia, California	5,171	Variable rate, currently 4.75%	December 18, 2022	840,842	890,774
Sparky's Rialto Self-Storage	Rialto, California	19,323	4.75%	May 15, 2023	2,142,774	2,166,791
Genesis Plaza	San Diego, California	28,219	4.65%	September 1, 2015	4,555,602	4,618,147
Executive Office Park	Colorado Springs, Colorado	26,962	5.79%	July 1, 2025	4,413,213	4,447,699
Dakota Center	Fargo, North Dakota	36,031	4.74%	June 9, 2024	11,014,481	5,417,950
Yucca Valley Retail Center	Yucca Valley, California	23,919	5.62%	April 11, 2015	3,039,761	3,095,974
Rangewood Medical Office Building	Colorado Springs, Colorado	9,858	4.95%	January 1, 2019	1,124,197	1,155,305
Regatta Square	Denver, Colorado	7,562	4.95%	January 1, 2019	1,229,640	1,244,615
Port of San Diego Complex	San Diego, California	61,573	4.75%	March 5, 2020	10,489,729	10,608,385
Morena Office Center	San Diego, California	13,896	4.50%	June 1, 2021	2,381,435	2,411,282
Pacific Oaks Plaza	Escondido, California	9,450	4.50%	June 1, 2021	1,619,357	1,639,658
Shoreline Medical Office Building	Half Moon Bay, California	26,043	5.10%	June 1, 2022	3,903,203	3,959,914
Sparky's Palm, Joshua and Sunrise Self-Storage	Highland, Hesperia and Thousand Palms, California, respectively	42,788	4.70%	December 6, 2022	8,050,462	8,116,028
The Presidio	Colorado Springs, Colorado	36,701	5.60%	January 6, 2015	5,425,751	5,492,375
Sparky's Lancaster Self-Storage	Lancaster, California	13,200	5.00%	June 1, 2020	1,935,127	1,965,504
Fontana Medical Plaza	Fontana, California	11,479	4.75%	August 28, 2019	1,966,473	1,990,880
Bismarck Office Building	Bismarck, North Dakota	42,735	6.12%	October 1, 2016	3,353,357	-
Subtotal, NetREIT, Inc. properties					85,197,840	77,112,927
4 Model Homes	CA	10,333	5.50%	February 10, 2014	698,650	1,222,266
3 Model Homes	TX	2,799	5.75%	September 15, 2015	282,579	778,823
7 Model Homes	TX, NC	6,016	5.87%	December 15, 2015	621,271	639,007
12 Model Homes	AZ, CA, NJ	22,728	5.48%	April 15, 2017 to June 15, 2017	2,518,553	3,212,444
9 Model Homes	TX	10,346	5.00%	December 15, 2017	1,216,757	1,777,808
10 Model Homes	PA, TX	14,561	5.00%	December 15, 2017	1,317,112	1,343,658
4 Model Homes	TX	4,691	5.50%	January 15, 2018 to December 15, 2018	580,959	593,505
11 Model Homes	AZ, CA, NJ, TX	19,918	5.50% to 5.84%	June 30, 2014 to January 15, 2018	2,142,279	2,871,286
6 Model Homes	PA, TX	7,721	5.07% to 5.13%	December 15, 2017 to July 15, 2018	510,738	-
2 Model Homes		2,449	5.13%	February 13, 2019	334,447	-
Subtotal, Model Home properties					10,223,345	12,438,797
					$ 95,421,185	$ 89,551,724

(1) In the quarter ended September 30, 2013, the Company determined that an additional impairment existed on its Havana Parker property and recorded an asset impairment of $1.5 million. At June 30,2014, the book value of the property was $3.4 million and the property was encumbered with a CMBS loan with a balance of $3.1 million and a maturity date of July 1, 2016. The Company commenced paying the net cash flow from the property in order to get the loan assigned to the proper Servicing Agent qualified to negotiate a modification of the loan. The net cash flow is substantially less than the monthly payment due. The Company has made reduced mortgage payments for the previous eight (8) mortgage payments. In May 2013, months before the decision to pay only the net cash flow generated by the Property, the Company engaged a third party consultant with experience in modification of CMBS loans to have the terms of the loan modified by the lender on the property. Negotiations with the lender are currently ongoing. However, on March 4, 2014, the Company received a notice of foreclosure from the lender stating that the covenants of the deed of trust have been violated for failure to pay principal and interest when due together with all other payments provided for in the evidence of debt secured by the deed of trust and other violations. The notice also included a Notice of Sale of the real property to be held on September 3, 2014. The Company expects that the debt service requirements will be reduced and term of the loan will be extended or the Company will be allowed to pay off the loan at a discounted amount prior to the date of sale. The Company has evaluated the potential loss contingency in accordance with generally accepted accounting principles and concluded that it is not likely at this time that the Company will experience further losses. However, if the negotiations are not successful, the Lender may move forward with the court action and foreclose on the property. The loan on the Havana Parker property is non-recourse. Except as noted above, the Company is in compliance with all conditions and covenants of its mortgage notes payable.

From the time that the Company commenced paying only net cash flow, scheduled payments through June 30, 2014 totalled approximately $301,000 and the Company paid approximately $48,000. The Company has accrued all interest and late charges due under the loan through June 30, 2014.

Scheduled principal payments of mortgage notes payable as of June 30, 2014 is as follows:

Years Ending:	NetREIT, Inc. Principal Payments	Model Home Properties Principal Payments	Scheduled Principal Payments
Six months remaining in 2014	$ 1,031,088	$ 30,829	$ 1,061,917
2015	17,790,274	733,758	18,524,032
2016	7,639,499	1,494,637	9,134,136
2017	1,554,170	2,544,350	4,098,520
2018	5,669,827	3,751,535	9,421,362
Thereafter	51,512,982	1,668,236	53,181,218
Total	$ 85,197,840	$ 10,223,345	$ 95,421,185

5. RELATED PARTY TRANSACTIONS

Through January 31, 2013, the Company had a property management agreement with CHG Properties, Inc. ("**CHG**") to manage all of its properties at rates up to 5% of gross income. The Company paid CHG total management fees of approximately $113,000 in the quarter ended March 31, 2013.

During the term of the property management agreement, the Company had an option to acquire the business conducted by CHG. The option was 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 to be paid in shares of the Company was 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. In January 2013, the Company completed the purchase CHG.

The Company leases a portion of its corporate headquarters at Pacific Oaks Plaza in Escondido, California to an entity 100% owned by the Company's Chairman and Chief Executive Officer and another related party. Total rents charged and paid by these affiliates was approximately $10,000 and $20,000 for the three months ended June 30, 2014 and 2013, respectively.

In January 2014, the former limited partner of NetREIT 01, LP, a consolidated subsidiary of the Company (the "Partnership") that owns the Presidio, exercised its option to convert approximately 52.8% of its ownership interests in the Partnership in exchange for approximately 21,000 shares of Company common stock. After conversion, our interest in the Partnership increased to approximately 89%. In January 2014, the Company agreed to purchase 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 $7.858 per share. The stock purchase 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 and was formally approved in December 2013.

Effective April 1, 2014, the former limited partner elected to convert all remaining interests in the Partnership in exchange for 18,807 shares of Company common stock. The Company will buy these shares back in January 2015 for an aggregate purchase price of approximately $147,800.

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 installments over a three to 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 three months ended June 30, 2014 totalled approximately $680,000 which is 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, 2013 totalled approximately $637,000. Compensation expense recorded was approximately $259,000 and $245,000 in the six months ended June 30, 2014 and 2013, respectively. The 150,505 nonvested restricted shares as of June 30, 2014 will vest in equal instalments over the next two to eight years.

A table of non-vested restricted shares granted and vested since December 31, 2013 is as follows:

Balance, December 31, 2013	80,495
Granted	79,054
Cancelled	(9,044)
Balance, June 30, 2014	150,505

Cash Dividends. During the six months ended June 30, 2014 and 2013, the Company paid cash dividends, net of reinvested stock dividends, of $2,525,000, and $2,146,000, respectively, or at an annualized rate $0.543 per share on an annualized basis. As the Company reported net losses in both of these periods, and on a cumulative basis, these cash dividends represent a return of capital to the stockholders rather than a distribution of earnings. The Company paid cash dividends on the Convertible Series 6.3% Preferred Stock of approximately $54,000 in the six months ended June 30, 2014 and 2013. 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.

Dividend Reinvestment Plan. The Company has adopted a distribution reinvestment plan that allows stockholders to have dividends and other distributions otherwise distributable to them invested in additional shares of Company common stock. The Company has registered 1,500,000 shares of common stock pursuant to the dividend reinvestment plan. The dividend reinvestment plan became effective on January 23, 2012 just after the close of our private placement offering discussed above. The purchase price per share is 95% of the price the Company was formerly selling its shares for $9.50 per share. No sales commission or dealer manager fee will be paid on shares sold through the dividend reinvestment plan. The Company may amend, suspend or terminate the Plan at any time. Any such amendment, suspension or termination will be effective upon a designated dividend record date and notice of such amendment, suspension or termination will be sent to all Participants at least thirty (30) days prior to such record date. As of December 31, 2013, the second year under the plan, approximately $7.9 million, or approximately 836,000 shares of common stock were issued under the dividend reinvestment plan.

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 and Self-Storage Properties. The Company also has certain corporate level activities including accounting, finance, legal administration and management information systems which are not considered separate operating segments.

The 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 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. The accounting policies of the reportable segments are the same as those described in the Company's significant accounting policies. 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, 2014 and 2013, respectively.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Industrial/Office Properties:				
Rental income	$ 2,639,041	$ 2,634,708	$ 5,246,281	$ 5,210,357
Property and related expenses	1,102,117	806,970	2,141,203	1,657,430
Net operating income, as defined	1,536,924	1,827,738	3,105,078	3,552,927
Residential Properties:				
Rental income	572,876	756,100	1,244,062	1,630,418
Property and related expenses	38,108	189,205	44,843	331,318
Net operating income, as defined	534,768	566,895	1,199,219	1,299,100
Retail Properties:				
Rental income	630,863	644,498	1,271,689	1,640,372
Property and related expenses	215,072	203,009	429,804	387,304
Net operating income, as defined	415,791	441,489	841,885	1,253,068
Self-Storage Properties:				
Rental income	849,091	821,963	1,709,678	1,544,718
Property and related expenses	387,533	424,753	794,295	809,821
Net operating income, as defined	461,558	397,210	915,383	734,897
Reconciliation to Net Loss Available to Common Shareholders:				
Total net operating income, as defined, for reportable segments	$ 2,949,041	$ 3,346,482	$ 6,061,565	$ 7,018,476
Unallocated other income:				
Total other income	41,790	70,439	60,159	91,695
Gain on sale of real estate	779,379	410,258	1,204,324	856,911
Gain on dissolution of partnership interests	-	-	302,831	-
General and administrative expenses	1,563,793	1,350,968	2,688,649	2,583,729
Interest expense	1,371,123	1,219,329	2,641,085	2,553,355
Depreciation and amortization	1,426,916	1,325,534	2,772,673	2,640,738
Net (loss) income	(591,622)	(68,652)	(473,528)	189,260
Noncontrolling interests	504,797	327,550	982,905	638,611
Net loss	$ (1,096,419)	$ (396,202)	$ (1,456,433)	$ (449,351)

	June 30, 2014	December 31, 2013
Assets:		
Industrial/Office Properties:		
Land, buildings and improvements, net (1)	$ 89,156,948	$ 84,458,209
Total assets (2)	94,500,645	89,813,764
Residential Properties:		
Land, buildings and improvements, net (1)	18,749,671	23,093,296
Total assets (2)	19,811,948	25,434,100
Retail Properties:		
Land, buildings and improvements, net (1)	21,942,854	21,931,330
Total assets (2)	23,640,729	23,354,122
Self-Storage Properties:		
Land, buildings and improvements, net (1)	29,413,460	29,972,327
Total assets (2)	30,189,041	31,028,008
Reconciliation to Total Assets:		
Total assets for reportable segments	168,142,363	169,629,994
Other unallocated assets:		
Cash and cash equivalents	9,981,937	10,207,001
Other assets, net	3,915,188	1,408,387
Total Assets	$ 182,039,488	$ 181,245,382

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(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,	
	2014	2013
Capital Expenditures:(1)		
Industrial/Office Properties:		
Acquisition of operating property	$ 5,350,000	$ -
Capital expenditures and tenant improvements	1,387,057	1,407,645
Residential Properties:		
Acquisition of operating properties	1,781,300	1,139,715
Retail Properties:		
Capital expenditures and tenant improvements	378,473	-
Self-Storage Properties:		
Acquisition of operating properties	-	3,650,000
Capital expenditures and tenant improvements	76,208	8,903
Acquisition of operating properties	7,131,300	4,789,715
Capital expenditures and tenant improvements	1,841,738	1,416,548
Total real estate investments	$ 8,973,038	$ 6,206,263

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

8. SUBSEQUENT EVENTS

In August 2014, the Company acquired The Union Terrace Office building for the purchase price of approximately $9.4 million plus closing costs. The Property is a four-story office building with approximately 84,000 rentable square feet located in Lakewood, Colorado. The Company acquired the property with a cash payment of approximately $2.8 million and fixed rate mortgage note $6.6 million that bears interest 4.5% per annum and is due in August 2024.

In August 2014, the Company closed on a private placement transaction of up to $40 million. The investment will be made in a series of capital contributions to be used for investor approved property acquisitions. The initial investment of $15 million dollars was made at the close of the transaction and an additional investment of $25 million dollars will be made on or before the one year anniversary of the initial investment. The Company issued 15,000 shares of its Series B Preferred Stock at the close of the transaction. The preferred return on the funds invested is 14% (10% shall be paid on a monthly basis and the remaining 4% shall accrue and compound monthly). The preferred stock must be redeemed by the third anniversary closing date, however, the Company shall have the right to extend a redemption for up to two additional years.

Certain specified management decisions must be approved in advance by the Series B Preferred Investor. In addition, upon the occurrence of an Event of Default, as defined in the Investor Agreement, the Investor has certain rights including electing a majority of the Board of Directors.

In connection with the private placement, the Company redeemed the Series 6.3% preferred stock for approximately $1,649,000. As a result of the redemption, the Company now owns 100% of its Port of San Diego property.

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 and 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

OVERVIEW AND RECENT DEVELOPMENTS

Growth in Assets. Our portfolio of real estate consists of commercial office, industrial, self-storage and retail located primarily in the western United States. In addition we manage and own a portion of a portfolio of model homes that are leased back to the residential home developers on a NNN basis. During the last five years our investment portfolio has increased by 142% to approximately $186.1 million at June 30, 2014 from $77.0 million at June 31, 2009. 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 $46 million, pursuant to a private offering that terminated at the end of 2011, and from proceeds from mortgage notes payable.

At June 30, 2014 our gross portfolio was relatively the same as June 30, 2013. During the year 2013 and the six months ended June 30, 2014 we acquired one self-storage facility, one office building and 20 model homes but sold 51 model homes as the leases expired. The growth was slow during 2013 in the commercial area as we were participating in lengthy negotiations to acquire a package of approximately 12 office buildings that would have required all of our cash balances plus some additional cash through either debt or equity raising. Through the extended due diligence period, the Company did not entertain any other acquisitions. In November 2013, we entered into escrow for an office building in Bismarck, North Dakota and completed the purchase in May 2014. Our growth in model home acquisitions was hampered by our turning away business from one large developer in early 2013 as the acquisition would have resulted in a large concentration with that developer exposing the Company to risks that it did not feel safe to do. In addition, also since early 2013, another one of our large developers started the process of spinning off its homebuilder subsidiaries. Once spun-off these homebuilding companies were going to merge into one large homebuilder. This activity resulted in a cease of the sale-leaseback financings until the merger is consummated that is expected in late-year 2014. If this new homebuilder decides to get back into financing arrangements similar to our sale-leaseback product the result should be large increase in our portfolio of Model Homes.

We intend to be active in acquiring additional model homes in the foreseeable future. We believe that over the next few years we will have excellent opportunities as we have extensive relationships with homebuilders gearing up their development of residential homes if the rebound in the economy continues. The increase in acquisitions of model homes by these entities will increase revenue to our advisor subsidiaries in the future and should generate additional net operating income from our real estate investments.

Operating Portfolio

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 NNN leased residential properties primarily located in the western United States. As of June 30, 2014, 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 879,000 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 rentable square feet, and 67 Model Homes owned by four limited partnerships ("Residential Properties").

NetREIT's office/ industrial, retail and self-storage properties are located primarily in Southern California and Colorado, with two office buildings located in Fargo and Bismarck, North Dakota. Our Model Home properties are located in eight states. We do not develop properties but acquire properties that are stabilized or that we anticipate will be stabilized within two to 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/industrial and retail properties are leased to a variety of tenants ranging from small businesses to large public companies, most of which do not have publicly rated debt. We have in the past entered into, and intend to enter into in the future, 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 s specific base year of the property acquired.

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. During 2014 the change in rental rates has affected our operating results due to the older leases being extended at market rates lower than the old rates. We cannot give any assurance that as the older leases expire or as we add new tenants that rental rates will be equal to or above the current market rates. Also, decreased demand and other negative trends or unforeseeable events that impair our ability to timely renew or re-lease space could have a negative effect on our future financial condition, results of operations and cash flow.

The Model Homes are typically leased for 2 to 3 years to the home developer on a triple net lease. Under a triple net lease the tenant is required to pay all operating, maintenance and insurance costs and real estate taxes with respect to the leased property.

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 the operating results of these properties, which depends materially on our ability to timely lease vacant self-storage units, to actively manage unit rental rates, and our tenants' ability to make required 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.

We seek to diversify our portfolio of the properties acquired to reduce the adverse effect of a single under-performing segment, geographic market and tenant industry.

Economic Environment

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

Increases in the size of the U.S. debt, the slow economic recovery, and uncertainty surrounding the action of the Federal Reserve and/or 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 are inherently unpredictable and could adversely affect the U.S. and global financial markets and economic conditions. Although the United States Federal Reserve Bank has started to scale back the quantitative easing their stated intent is to keep interest rates low through 2015, however any change in policy concerns could cause interest rates and borrowing costs to rise, which may have a negative effect on our ability to access both the debt and equity markets on favorable terms. Continued adverse economic conditions could have a material adverse effect on our tenants, or our business, financial condition and results of operations.

Our ability to make new investments is highly dependent upon our ability to procure external financing. Our principal source of external financing includes the issuance of equity securities and mortgages secured by properties. The market for mortgages has improved. We continue to obtain mortgages from the CMBS market, life insurance companies and regional banks.

Management Evaluation of Results of Operations

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

In addition, Management evaluates our portfolio and individual properties results of operations with a primary focus on increasing and enhancing the value, quality and quantity of properties in our real estate holdings. Properties that have reached goals in occupancy and rental rates are evaluated for potential added value appreciation and, if lacking such potential, are sold with the equity reinvested in properties that have better potential without foregoing cash flow. Management focuses its efforts on improving underperforming assets through re-leasing efforts, including negotiation of lease renewals and rental rates.

The ability to increase assets under management is affected by our ability to raise borrowings and/or capital, coupled with our ability to identify appropriate investments.

Critical Accounting Policies

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, 2013, as filed with the SEC on March 31, 2014.

RECENT EVENTS HAVING SIGNIFICANT EFFECT ON RESULTS OF OPERATIONS

Equity Raise

In August 2014 the Company closed on a private placement transaction of up to $40 million dollars. The investment will be made in a series of capital contributions to be used for investor approved property acquisitions. The initial investment of $15 million dollars was made at the close of the transaction and an additional investment of $25 million dollars will be made on or before the one year anniversary of the initial investment. The Company issued 15,000 shares of its Series B Preferred Stock at the close of the transaction. The preferred return on the funds invested is 14% (10% shall be paid on a monthly basis and the remaining 4% shall accrue and compound monthly). The preferred stock must be redeemed by the third anniversary closing date, however, the Company shall have the right to extend a redemption for up to two additional years.

Certain specified management decisions must be approved in advance by the Series B Preferred Investor. In addition, upon the occurrence of an Event of Default, as defined in the Investor Agreement, the Investor has certain rights including electing a majority of the Board of Directors.

Property Acquisitions

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. CHG was the property manager for all of NetREIT's properties. 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. The Company determined the fair market value of CHG to be $1.9 million and the transaction was reviewed and unanimously approved by the independent Directors of the Board.

Pursuant to the terms and conditions of the Agreement and Plan of Merger, the Company formed NTR Property Management, Inc. ("NTR"), a California corporation (note 5). NTR functions 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.

Below is a chronological listing of the acquisitions and dispositions of properties in for the first six monthsfirst three months of 2014 and the year ended December 31, 2013. Operating results are included in the consolidated financial statements from the date of acquisition.

The Company acquired the following properties in the six months ended June 30, 2014:

In February 2014, NetREIT Dubose, Dubose Model Home Investors #201 LP and Dubose Model Home Investors #202 LP acquired six Model Home properties in Pennsylvania and leased them back to the home builder. The purchase price for the properties was $1.8 million. The purchase price paid was through a cash payment of $0.7 million and a promissory note of $1.1 million.

On April 30, 2014, the Company acquired an office building located in Bismarck, ND for the purchase price of $5.4 million dollars. The purchase price was paid through a cash payment of $2.2 million and through the assumption of the existing loan on the property of $3.2 million. The property was built in 1976 and is comprised of approximately 93,000 rentable square feet. The property was 85% occupied at acquisition.

The Company disposed of the following properties in the six months ended June 30, 2014:

During the six months ended June 30, 2014, NetREIT Dubose and the other Model Home entities disposed of eighteen Model Home properties. The sales price, net of selling costs, aggregated approximately $7.1 million and approximately $2.9 million in mortgage notes payable were retired in connection with these sales. The Company recognized a gain of approximately $1.3 million related to the sale of these Model Homes.

The Company acquired the following properties in the year ended December 31, 2013:

During the year ended December 31, 2013, NetREIT Dubose and other Model Home entities acquired 12 Model Home properties and leased them back to the home builder. The purchase price for the properties was approximately $3.6 million. The purchase price paid was through a cash payment of approximately $1.5 million and promissory notes totaling approximately $2.1 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 Company disposed of the following properties in the year ended December 31, 2013:

NetREIT Dubose and the other Model Home entities disposed of 32 Model Home properties. The sales price, net of selling costs, aggregated approximately $9.8 million and approximately $3.5 million in mortgage notes payable were retired in connection with these sales. The Company recognized a gain of $1,297,753 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, 2014 AND 2013.

Revenues

Total revenue was $4,691,871 for the three months ended June 30, 2014, compared to $4,857,269 for the same period in 2013, a decrease of $165,398, or 3.4%. The decrease in rental income as reported in 2014 compared to 2013 is primarily attributed to the sales of model homes. The model home count was 67 at June 30, 2014 and 81 at June 30, 2013. Another reason rental income declined is that there were several large adjustments to several tenants due to actual prior year CAM expense coming in lower at what was originally estimated resulting in credits back to the tenants in the period ending June 30, 2014.

Rental Operating Expenses

Rental operating expenses were $1,742,830 for the three month period ended June 30, 2014 compared to $1,623,937 for the same period in 2013, an increase of $118,893, or 7.3%. The increase in rental operating expense is primarily due to an increase in head count and annual increases in compensation levels for personnel at NTR Property Management Inc. The acquisition of Bismarck LLC increased rental operating expenses by $65,000 for the three months ending June 30. 2014. Rental operating expenses as a percentage of revenue increased to 37.0% from 31.8% for three month period ending June 30, 2014 when compared to the same period in 2013. The increase as a percentage of rental operating costs to total revenues is due to the decline in rental income in the model home subsidiaries.

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 $151,794, to $1,371,123, or 12.4% during the three month period ended June 30, 2014 compared to $1,219,329 for the same period in 2013. The primary reason for the increase is due to the additions of debt financing for Sparky's Lancaster Self-Storage, Fontana Medical Plaza and Dubose Model Home Investors #202, LP that were not included in the three months ended March 31, 2013. Interest expense is also up due to the increase in the amortization of deferred financing costs resulting from the write off of approximately $60,000 of capitalized fees associated with a property where the loan was refinanced.

The weighted average interest rate as of June 30, 2014 was 5.19% compared to 5.29% as of June 30, 2013.

The following is a summary of our interest expense on loans by property for the three months ended June 30, 2014 and 2013:

Property	Date Acquired or Financed	2014	2013
Havana/Parker Complex	June 2006	$ 47,157	$ 51,577
Waterman	August 2008	55,716	57,114
Sparky's Thousand Palms Self-Storage	August 2009	57,434	58,992
Sparky's Hesperia East Self-Storage	December 2009	10,547	10,512
Dubose Acquisition Partners II, LP	March 2010	14,669	23,851
Sparky's Rialto Self-Storage	May 2010	25,826	32,276
Genesis Plaza	August 2010	53,203	54,629
NetREIT Dubose Model Home REIT, Inc.	October 2010	99,471	117,700
Dakota Center	May 2011	101,576	79,856
Casa Grande Apartments	June 2011	-	8,013
Executive Office Park	June 2011	63,870	64,812
Yucca Valley Retail Center	September 2011	43,925	45,495
Rangewood Medical Office Building	December 2011	14,002	14,749
Regatta Square	December 2011	15,236	15,592
Dubose Model Home Investor Fund #113, LP	December 2011	2,355	3,010
Dubose Model Home Investors #201, LP	December 2011	36,294	48,820
Morena Office Center	May 2012	26,829	27,477
Pacific Oaks Plaza	May 2012	18,244	18,864
Shoreline Medical Building	June 2012	49,869	51,261
The Presidio	November 2012	76,980	78,784
Sparky's Joshua, Palm and Sunrise Self-Storage	December 2012	95,914	97,405
Garden Gateway Plaza	February 2013	88,354	43,507
Port of San Diego Complex	March 2013	125,039	127,227
Sparky's Lancaster self-storage	May 2013	24,317	8,333
Fontana Medical Center	August 2013	22,694	-
Dubose Model Home Investors #202, LP	December 2013	5,197	-
Bismarck Center	May 2014	35,403	-
Amortization of deferred financing costs		161,002	79,473
		$ 1,371,123	$ 1,219,329

General and Administrative Expenses

General and administrative expenses increased by $325,975 to $1,563,793 for the three months ended June 30, 2014, compared to $1,237,818 for the same period in 2013. As a percentage of rental and fee income, general and administrative expenses were 33.3% and 26.33% for the three months ended June 30, 2014 and 2013, respectively. The increase in 2014 is primarily due to an increase in income tax expense resulting from large gains on sale of real estate for NetREIT Dubose Model Home REIT, Inc. In comparing our general and administrative expenses with other REITs, it should be taken 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 decline in the future as our revenues continue to increase at a faster rate than our expense.

Gain/Loss on Sale of Real Estate Assets

In the three month period ended June 30, 2014, the Company had a net gain on the sale of model home properties of $779,379 compared to a net gain of $410,258 for the same three months of 2013. In 2014, we sold 12 model homes at an average gain of $78,000 per home versus 5 model homes at an average gain of $91,000 for the same three months in 2013.

Net Loss

Net loss for the three months ended three months ended June 30, 2014, was $1,096,419, or $0.07 loss per share, compared to a net loss for the three months ended June 30, 2013 of $396,202, or $0.02 loss per share. The quarter over quarter increase in the three months ended June 30, 2014 was primarily attributable to a decrease in revenues of $165,000, an increase in income tax expense of $325,000 and a $175,000 increase allocated to noncontrolling interests related to the gain on sale of model homes during the three months ended June 30, 2014. In addition, in the same quarter in 2013 the Company had additional income from a one-time lease cancellation fee of $345,000.

THE FOLLOWING IS A COMPARISON OF OUR RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013.

Revenues

Total revenue was $9,471,710 for the six months ended June 30, 2014, compared to $10,025,865 for the same period in 2013, a decrease of $554,155, or 5.5%. The decrease in rental income as reported in 2014 compared to 2013 is primarily attributable to a lease cancellation fee received during the quarter ended March 31, 2013 totaling $345,000, and a decrease in rental revenues from model homes of $349,000 offset by an increase in self-storage revenue of $164,000. The increase in self-storage revenue is primarily due to owning Sparky's Lancaster Self-Storage for six months during 2014 compared to 2 months in 2013. The model home count was down to 67 homes at June 30, 2014 from 81 at June 30, 2013.

Rental Operating Expenses

Rental operating expenses were $3,410,145 for the six months ended June 30, 2014 compared to $3,185,873 for the same period in 2013, an increase of $224,272 or 7.0%. Rental operating costs as a percentage of rental and fee income was 36.0% and 30.2% for the six months ended June 30, 2014 and 2013, respectively. The increase in operating expense is primarily due to an increase in real estate property taxes in 2014 when compared to 2013 that included refunds received due to the Company successfully appealing and receiving refunds in the prior year. In addition, maintenance costs are up in 2014 as are the write off of unanticipated bad debts and the increased legal costs associated with collections of tenant receivables. The acquisition of Bismarck LLC increased rental operating expenses by $65,000 for the period ending June 30. 2014. The increased rental operating costs as a percentage of revenue is due to a decline in model home revenue. Our model home revenue does not have operating costs as all the property related expenses are paid by the lessee's.

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 $87,730, to $2,641,085 during the six months ended June 30, 2014 compared to $2,553,355 for the same period in 2013. The primary reason for the increase is due to the additions of debt financing for Sparky's Lancaster Self-Storage, Fontana Medical Plaza, Bismarck, and Dubose Model Home Investors #202, LP that were not included for the full period in the six months ended June 30, 2013. The amortization of financing costs increased by $108,110 to $260,506 in the six months ended June 30, 2014 compared to $151,946 for the same period in 2013. This increase is primarily due to the write-off of a remaining balance for a loan that was refinanced over a year earlier that maturity as well as the Company entering into several CMBS mortgage loans that have traditionally higher borrowing costs. The increases referred to above were partially offset by decreased interest expense in the model homes as loans are getting paid off early with excess funds and the number and balances of the loans as a result of having more homes sold than acquired during the current period .

The weighted average interest rate as of June 30, 2014 was 5.19% compared to 5.29% as of June 30, 2013.

The following is a summary of our interest expense on loans by property for the six months ended June 30, 2014 and 2013

Property	Date Acquired or Financed	2014	2013
Havana/Parker Complex	June 2006	$ 100,091	$ 102,938
Waterman Plaza	August 2008	111,790	114,563
Sparky's Thousand Palms Self-Storage	August 2009	115,271	118,359
Sparky's Hesperia East Self-Storage	December 2009	21,037	34,182
Dubose Acquisition Partners II, LP	March 2010	31,701	47,702
Sparky's Rialto Self-Storage	May 2010	51,511	71,464
Genesis Plaza	August 2010	106,769	109,605
NetREIT Dubose Model Home REIT, Inc.	October 2010	204,857	247,498
Dakota Center	May 2011	179,311	159,253
Casa Grande Apartments	June 2011	-	22,588
Executive Office Park	June 2011	127,286	129,146
Yucca Valley Retail Center	September 2011	87,301	90,386
Rangewood Medical Office Building	December 2011	28,040	29,516
Regatta Square	December 2011	30,397	31,101
Dubose Model Home Investor Fund #113, LP	December 2011	5,365	5,916
Dubose Model Home Investors #201, LP	December 2011	79,844	99,285
Morena Office Center	May 2012	53,529	54,810
Pacific Oaks Plaza	May 2012	36,399	37,270
Shoreline Medical Building	June 2012	99,547	102,298
The Presidio	November 2012	153,580	157,143
Sparky's Joshua, Palm and Sunrise Self-Storage	December 2012	191,160	193,025
Garden Gateway Plaza	February 2013	177,189	203,526
Port of San Diego Complex	March 2013	250,780	231,502
Sparky's Lancaster Self-Storage	May 2013	48,823	8,333
Fontana Medical Center	August 2013	44,468	-
Dubose Model Home Investors #202, LP	December 2013	9,580	
Bismarck Center	May 2014	35,403	-
Amortization of deferred financing costs		260,056	151,946
		$ 2,641,085	$ 2,553,355

General and Administrative Expenses

General and administrative expenses increased by $283,404 to $2,688,649 for the six months ended June 30, 2014, compared to $2,405,245 for the same period in 2013. The increase is primarily due to an increase in income tax expense for NetREIT Dubose Model Home REIT, Inc. In comparing our general and administrative expenses with other REITs, it should be taken 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. As a percentage of rental and fee income, general and administrative expenses were 28.4% and 24.0% for the six months ended June 30, 2014 and 2013, respectively.

Gain/Loss on Sale of Real Estate Assets

In the six month period ended June 30, 2014, the Company had a net gain on the sale of model home properties of $1,204,324 compared to a net gain of $856,911 for the same six months of 2013. The Company sold 18 homes during the six month period ended June 30, 2014 and 16 for the same period of 2013, the average gain increased to $76,000 per home in 2014 when compared to $54,000 per model home for the same period in 2013.

Gain on Dissolution of Partnership Interests

During the year ended December, 31, 2013, certain of the subsidiaries of the Company sold its last remaining Model Homes and have either liquidated or are in the process of liquidation. The Company received $239,138 and $63,693, respectively in excess of the original investments and recognized the excess cash distributions a gain on dissolution of partnerships during the six months ended June 30, 2014. These gains represent receiving amounts in excess of the amounts invested. The Company did not have any similar gains during the six months ended June 30, 2013.

Net Loss

Net loss for the six months ended June 30, 2014 was $1,456,433, or $0.09 loss per share, compared to a net loss for the six months ended June 30, 2013 of $449,351, or $0.07 loss per share. The increase in net loss of $1,007,082 in the six month period ended June 30, 2014 was primarily attributable to a decrease in revenues of $554,000, an increase in expenses of $639,000 and a $344,000 increase allocated to noncontrolling interests related to the gain on sale of model homes during the six months ended June 30, 2014 partially offset by an increase in gains in sales of real estate and dissolution of partnership interests.

LIQUIDITY AND CAPITAL RESOURCES

As discussed above under Economic Environment, during 2014, there have been signs of economic improvement and stabilization in the equity markets but there are concerns due to the uncertainty surrounding Federal Reserve future actions. We expect the market turbulence could continue in the commercial real estate arena due to the uncertainties previously discussed and due to mortgage financings originated over the seven years that are coming due in the future.

We believe that as a result of the economic and business trends, new mortgage financing will continue to remain less favorable in terms of loan amount to value versus pre-recession days, which may negatively impact our ability to finance future acquisitions. Interest rates remain relatively low by historical standards but we anticipate that interest rates will increase when the US Government stops suppressing the rates with stimulus programs. On the other hand, we believe the negative trends in the mortgage markets for smaller properties and in some geographic and suburban locations may reduce property prices and may, in certain cases, reduce competition for those properties.

Overview

We actively seek investments that are currently cash flowing that will increase in order to fund distributions as well as realize 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 equity/debt securities. Our available liquidity at June 30, 2014 was approximately $23 million, including approximately $10 million in cash and cash equivalents and an additional estimated borrowing capacity of approximately $13 million from potential mortgages on unencumbered properties and refinancing of properties with low debt to value. We do not have any arrangements with any financial institution to borrow any amount and therefore we cannot be certain a financial institution would loan that amount on the unencumbered and refinancing properties or the timing of such borrowings. However, during the second quarter of 2014 we consummated a refinance of one of our properties that had a 5.75 % debt of approximately $5.3 million with a 10 year fixed rate loan of approximately $11.1 million at a rate of approximately 4.378%. We are currently working with an institution to refinance another property that has a 5.59% debt of approximately $5.4 million with a new 4.5% mortgage of $6.6 million. We expect this refinance to close in the next quarter.

Our future capital needs include the acquisition of additional properties as we expand our investment portfolio, pay down existing borrowings, maintain our existing properties, fund tenant improvement, pay lease commissions and the payment of a competitive distribution to our stockholders. To ensure that we are able to effectively execute these objectives, we routinely review our liquidity requirements and continually evaluate all potential sources of liquidity.

Our short term liquidity needs include proceeds necessary to pay the debt service on existing mortgages, fund our current operating costs and fund our distribution to stockholders. During the six months ended June 30, 2014 our net cash flow from operating activities on a GAAP basis was negative by approximately $639,000 primarily due to approximately $800,000 of accrued liabilities as of December 31, 2013 that were paid in the first quarter of 2014. During the period we received distributions in excess of our investment in two real estate partnerships of approximately $320,000 and cash proceeds from the sale of properties less debt payoff of approximately $1.4 million that are not included in the net cash for operating activities. In addition we had a balance of approximately $10.0 million cash at the beginning of the period. Our cash portion of distributions paid to shareholders during the six months of 2014 was approximately $2.6 million We believe that our cash flow from our existing portfolio, distributions from joint ventures in model home partnerships and anticipated acquisitions when operational for the full term will be sufficient to fund the debt service costs on our existing mortgages, fund our operating costs in the near term and fund the cash portion of distributions to stockholders at the current rate. However, if our cash flow from operating activities is not sufficient to fund our short term liquidity needs, including the payment of cash dividends at current rates to our stockholders, we will fund a portion of these needs from additional borrowings of secured or unsecured indebtedness or we will reduce the rate of distribution to the stockholders.

Our long-term liquidity needs include proceeds necessary to grow and maintain our portfolio of investments. We believe that 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. We expect to obtain additional cash in connection with refinancing of maturing mortgages and assumption of existing debt collateralized by some or all of our real property in the future to meet our long-term liquidity needs. If we are unable to arrange a line of credit, borrow on unencumbered properties, or sell securities to the public we may not be able to acquire additional properties to meet our long-term objectives.

Equity Capital

In August 2014, the Company closed on a private placement transaction of up to $40 million dollars. The proceeds of this equity will be used to increase the size of our portfolio by approximately $115 million. In addition, we will continue to seek acquisitions or properties for equity in a DownREIT structure.

An initial investment of $15 million dollars was made at the close of the transaction and an additional investment of $25 million dollars will be made on or before the one year anniversary of the initial investment. The Company issued 15,000 shares of its Series B Preferred Stock at the close of the transaction. The preferred return on the funds invested is 14% (10% shall be paid on a monthly basis and the remaining 4% shall accrue and compound monthly). The preferred stock must be redeemed by the third anniversary closing date, however, the Company shall have the right to extend a redemption for up to two additional years.

Debt Capital

At the current time we do not have any unsecured debt or 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.

Cash and Cash Equivalents

At June 30, 2014, we had approximately $10.0 million in cash and cash equivalents compared to approximately $10.2 million at December 31, 2013. Approximately $1 million of the cash balance is intended for capital expenditures on existing properties through the remainder of 2014. We intend to use the remainder of this cash for additional acquisitions, general corporate purposes and distributions to our stockholders.

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 the first six months of 2014 and 2013, we did not experience any loss or lack of access to our cash or cash equivalents.

Secured Debt

As of June 30, 2014, NetREIT had mortgage notes payable in the aggregate principal amount of $85.2 million, collateralized by a total of 23 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, 2014 was approximately 5.14%. Our debt to book value on these properties is approximately 59%. We do not have any significant mortgage debt balloon principal payments on our mortgage loans payable during 2014.

As of June 30, 2014, NetREIT Dubose, and related entities, had 67 fixed-rate mortgage notes payable in the aggregate principal amount of $10.2 million, collateralized by a total of 67 Model Home properties, an average of approximately $341,000 per home. These loans generally have a term at issuance of three to five years. The weighted-average interest rate on these mortgage notes payable as of June 30, 2014 was 5.6%. Our debt to net book value on these properties is approximately 55%. The Company has guaranteed these promissory notes. The balloon principal payments on the notes payable are in 2016 and 2019 and are typically tied to the end of the lease and sale of the Model Home securing the debt.

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

Operating Activities

Net cash used by operating activities for the six months ended June 30, 2014 was approximately $0.6 million compared to net cash provided by operating activities of approximately $1.8 million for the same period in 2013. There was approximately $800,000 of liabilities accrued and unpaid as of December 31, 2013 for year-end bonuses, taxes and tenant improvements that were paid during the first quarter of 2014. Similar expenses, primarily annual bonuses, in 2012 that would otherwise have been accrued at that year end were actually paid in 2012 resulting in no accrued liability related to the bonus as of December 31, 2012. In addition, net cash provided in the six months ended June 30, 2013 included approximately $345,000 of rental income received for a cancelation fee where there was no such fee received in 2014. Rental revenues from model homes in 2014 were down approximately $349,000. Rental operating costs in 2014 were up approximately $300,000 primarily due to increased maintenance and repairs, utilities, bad debts, legal collection costs, property taxes and inclusion of operating costs of Bismarck for one month in 2014. Property taxes were more in 2014 due to refund credits received in 2013 from positive results achieved appealing tax assessments of many of our properties. We anticipate that with the inclusion of the recent acquisitions and the anticipated acquisitions, the cash provided by operating activities will cover the cash portion of our distribution to stockholders in the future.

Investing Activities

Net cash used in investing activities was approximately $1.8 million for the six months ended June 30, 2014, compared to net cash provided of $0.2 million during the same period in 2013. The increase in net cash used in the current year was primarily due to approximately $0.7 million more spent on building improvements, tenant improvements and leasing costs primarily at the Dakota Center and the acquisition of the Bismarck property and the acquisition of 6 model homes for approximately $7.2 million in 2014 compared to the acquisition of Lancaster and 4 model homes for $4.8 million in the same period in 2013. These uses of funds were offset by an increase in proceeds received on sales of real estate of approximately $1.1 million primarily due to the sale of 18 model homes in 2014 compared to 16 in 2013.

We anticipate that the acquisitions of both the non-Model Home properties and of Model Homes will increase during the remainder of 2014 and thereafter. Future acquisitions by the Company will depend on proceeds from sale of existing properties and funds available from cash on hand and the sale of equity securities. Future acquisitions by the Model Home entities will depend on cash available on hand, proceeds from the sale of Model Homes as the leases expire, additional funds raised through limited partnerships or other activities.

Capital Expenditures, Tenant Improvements and Leasing Costs

With the completion of the renovation and lease up at the Dakota Center we expect our expenditures in these areas will decline significantly. We currently project that during the remainder of 2014 we could spend $500,000 to $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 2014 compared to 2013 due to rising construction costs and the anticipated increase in property acquisitions in 2014. Tenant improvements and leasing costs may also fluctuate in any given year depending upon factors such as the property, the term of the lease, the type of lease, the involvement of external leasing agents and overall market conditions.

Financing Activities

Net cash provided by financing activities in the first six months of 2014 was approximately $2.2 million compared to cash used of $5.0 million the same period in 2013, an increase of approximately $7.2 million. During 2014 our net repayment of mortgages notes payable over our proceeds from mortgage notes payable decreased due to lower number of sales of model homes in 2014 compared to 2013.

During the remainder of 2014 we anticipate greater cash distributions from our investment in real estate partnerships that are in liquidation stages. We anticipate placing mortgages on one unencumbered property and increasing mortgages balances in connection with refinancing debt maturing in 2015 on several properties in the next two years. These properties have an estimated market value of approximately $ 15.0 million giving us approximately $7.5 million in borrowing capacity. We anticipate acquiring properties by assuming existing loans or obtaining new mortgage loans and with cash available from operations or the sale of existing properties.

Off-Balance Sheet Arrangements

As of June 30, 2014, we do not have any off-balance sheet arrangements or obligations, including contingent obligations.

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, 2014 and 2013. 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,	
	2014	2013	2014	2013
Net loss	$ (1,070,514)	$ (51,149)	$ (1,430,528)	$ (51,149)
Adjustments:				
Income attributable to noncontrolling interests	868,854	311,061	982,905	311,061
Depreciation and amortization	1,544,649	1,385,510	2,850,801	1,385,510
Gain on dissolution of partnership interests	-	-	(302,831)	-
Gain on sale of real estate	(779,379)	(446,653)	(1,204,324)	(446,653)
Funds from Operations	$ 563,610	$ 1,198,769	$ 896,023	$ 1,198,769

FFO decreased in the six month period ended June 30, 2014 by $302,746, or 25.3%, to $896,023 compared to $1,198,769 for the same period in 2013. The decrease in FFO is due to the increase in the Company's non-recurring sources of income for gains on sale of real estate and gains on dissolution of partnership interests.

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, 2014 and 2013.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Funds from operations	$ 563,610	$ 1,198,769	$ 896,023	$ 1,198,769
Adjustments:				
Straight line rent adjustment	34,390	77,953	113,430	155,376
Above and below market rents	39,065	44,606	78,129	8,807
Acquisition costs	37,646	35,148	53,239	121,907
Modified Funds from Operations	$ 674,711	$ 1,356,476	$ 1,140,821	$ 1,484,859

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, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors

Not Required

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

None.

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, 2014	1,138	$ 8.00		
Total	1,138	$ 8.00		

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, 2014.
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, 2014.
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, 2014.
32.1	Certification of principal executive officer and principal financial officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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 13, 2014	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 officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

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

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

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

Date: August 13, 2014

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 officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

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

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

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

Date: August 13, 2014

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 officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

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

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

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

Date: August 13, 2014

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 March 31, 2014 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 13, 2014	By: *<u>/s/ Jack K. Heilbron</u>* Jack K. Heilbron, Chief Executive Officer
Date: August 13, 2014	By: *<u>/s/ Kenneth W. Elsberry</u>* Kenneth W. Elsberry, Chief Financial Officer
Date: August 13, 2014	By: *<u>/s/ J. Bradford Hanson</u>* 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.