



**Presidio Property Trust, Inc.**  
The Contrarian Real Estate Investment Trust

**2022 Annual Report**

A Simple, Frugal, Thrifty,  
Prudent, Cost-Cutting,  
Straightforward Approach to  
Real Estate Investment Trusts.

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

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**FORM 10-K**

(mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES ACT OF 1934

For the fiscal year ended December 31, 2022

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-53673

**Presidio Property Trust, Inc.**

(Exact name of registrant as specified in its charter)

Maryland

33-0841255

(State of other jurisdiction of  
incorporation or organization)

(IRS Employer  
Identification Number)

4995 Murphy Canyon Road, Suite 300, San Diego, CA 92123  
(Address of principal executive offices)

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

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

Title of Each Class	Trading Symbol(s)	Name of each Exchange on Which Registered
Series A Common Stock, \$0.01 par value per share	SQFT	The Nasdaq Stock Market LLC
9.375% Series D Cumulative Redeemable Perpetual Preferred Stock, \$0.01 par value per share	SQFTP	The Nasdaq Stock Market LLC
Series A Common Stock Purchase Warrants to Purchase Shares of Common Stock	SQFTW	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the last 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 if disclosure of delinquent filers pursuant to item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in part III of this Form 10-K or any amendment to this Form 10-K.  Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).  Yes  No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging Growth company	<input type="checkbox"/>		

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 USC. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2022, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$11.4 million based upon the closing price reported for such date on the Nasdaq Capital Market. At March 27, 2023, the registrant had issued and outstanding 13,075,199 shares of its Series A Common Stock \$0.01 par value per share.

**DOCUMENTS INCORPORATED BY REFERENCE**

Part III, Items 10, 11, 12, 13 and 14 incorporate by reference certain specific portions of the definitive Proxy Statement for Presidio Property Trust's Annual Meeting currently scheduled to be held on June 1, 2023 to be filed pursuant to Regulation 14A. Only those portions of the proxy statement which are specifically incorporated by reference herein shall constitute a part of this annual report.

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**PRESIDIO PROPERTY TRUST, INC.**

**FORM 10-K – ANNUAL REPORT**

For the year ended December 31, 2022

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b><u>Part I</u></b>	
ITEM 1. <a href="#">BUSINESS</a>	<a href="#">2</a>
ITEM 1A. <a href="#">RISK FACTORS</a>	<a href="#">10</a>
ITEM 1B. <a href="#">UNRESOLVED STAFF COMMENTS</a>	<a href="#">38</a>
ITEM 2. <a href="#">PROPERTIES</a>	<a href="#">38</a>
ITEM 3. <a href="#">LEGAL PROCEEDINGS</a>	<a href="#">44</a>
ITEM 4. <a href="#">MINE SAFETY DISCLOSURES</a>	<a href="#">44</a>
<b><u>Part II</u></b>	
ITEM 5. <a href="#">MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUERS PURCHASES OF EQUITY SECURITIES</a>	<a href="#">44</a>
ITEM 6. <a href="#">RESERVED</a>	<a href="#">47</a>
ITEM 7. <a href="#">MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</a>	<a href="#">48</a>
ITEM 7A. <a href="#">QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</a>	<a href="#">62</a>
ITEM 8. <a href="#">FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</a>	<a href="#">62</a>
ITEM 9. <a href="#">CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</a>	<a href="#">63</a>
ITEM 9A. <a href="#">CONTROLS AND PROCEDURES</a>	<a href="#">63</a>
ITEM 9B. <a href="#">OTHER INFORMATION</a>	<a href="#">63</a>
ITEM 9C. <a href="#">DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS</a>	<a href="#">63</a>
<b><u>Part III</u></b>	
ITEM 10. <a href="#">DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</a>	<a href="#">64</a>
ITEM 11. <a href="#">EXECUTIVE COMPENSATION</a>	<a href="#">64</a>
ITEM 12. <a href="#">SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</a>	<a href="#">64</a>
ITEM 13. <a href="#">CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE</a>	<a href="#">64</a>
ITEM 14. <a href="#">PRINCIPAL ACCOUNTING FEES AND SERVICES</a>	<a href="#">64</a>
<b><u>Part IV</u></b>	
ITEM 15. <a href="#">EXHIBITS, FINANCIAL STATEMENT SCHEDULES</a>	<a href="#">64</a>

## **CAUTIONARY LANGUAGE REGARDING FORWARD-LOOKING STATEMENTS, RISK FACTORS AND INDUSTRY DATA**

This Form 10-K contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties, many of which are beyond our control. Our actual results could differ materially and adversely from those anticipated in such forward-looking statements as a result of certain factors, including those set forth in this Form 10-K. Important factors that may cause actual results to differ from projections include, but are not limited to:

- inherent risks associated with real estate investments and with the real estate industry;
- significant competition may decrease or prevent increases in our properties' occupancy and rental rates and may reduce the value of our properties;
- a decrease in demand for commercial space and model homes and/or an increase in operating costs;
- failure by any major tenant (or a substantial number of tenants) to make rental payments to us because of a deterioration of its financial condition, an early termination of its lease, a non-renewal of its lease, or a renewal of its lease on terms less favorable to us;
- challenging economic conditions facing us and our tenants may have a material adverse effect on our financial condition and results of operations;
- our failure to generate sufficient cash to pay dividends and to service or retire our debt obligations in a timely manner;
- our inability to borrow or raise sufficient capital to maintain or expand our real estate investment portfolio;
- adverse changes in the real estate financing markets, including potential increases in interest rates and/or borrowing costs;
- potential losses, including from adverse weather conditions, natural disasters and title claims, may not be covered by insurance;
- inability to complete acquisitions or dispositions and, even if these transactions are completed, failure to successfully operate acquired properties or sell properties without incurring significant defeasance costs;
- our reliance on third-party property managers to manage a substantial number of our properties and brokers and/or agents to lease our properties;
- decrease in supply and/or demand for single family homes, inability to acquire additional model homes, and increased competition to buy such properties;
- failure to continue to qualify as a REIT;
- adverse results of any legal proceedings;
- changes in laws, rules and regulations affecting our business;
- the other risks and uncertainties discussed in "Risk Factors" and elsewhere herein; and
- the potential adverse effects of the COVID-19 pandemic of new epidemics and ensuing economic turmoil on our financial condition, results of operations, cash flows and performance, particularly our ability to collect rent, on the financial condition, results of operations, cash flows and performance of our tenants, and on the global economy and financial markets; adverse economic conditions in the real estate market and overall financial market fluctuations (including, without limitation, as a result of the current COVID-19 pandemic).

## [Table of Contents](#)

All statements, other than statements of historical facts, included in this Form 10-K regarding our strategy, future operations, financial position, estimated revenue or losses, projected costs, prospects, current expectations, forecasts, and plans and objectives of management are forward-looking statements. When used in this Form 10-K, the words “will,” “may,” “believe,” “anticipate,” “intend,” “estimate,” “expect,” “should,” “project,” “plan,” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. All forward-looking statements speak only as of the date of this Form 10-K. We do not undertake any obligation to update any forward-looking statements or other information contained in this Form 10-K, except as required by federal securities laws. You should not place undue reliance on these forward-looking statements. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements in this Form 10-K are reasonable, we cannot assure you that these plans, intentions or expectations will be achieved. We have disclosed important factors that could cause our actual results to differ materially from our expectations under the “Risk Factors” section and elsewhere in this Form 10-K. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

Information regarding market and industry statistics contained in this Form 10-K is included based on information available to us that we believe is accurate. We have not reviewed or included data from all sources, and we cannot assure you of the accuracy or completeness of the data included in this Form 10-K. Forecasts and other forward-looking information obtained from these sources are subject to the same qualifications and the additional uncertainties accompanying any estimates of future market size, revenue and market acceptance of products and services. We undertake no obligation to update forward-looking information to reflect actual results or changes in assumptions or other factors that could affect those statements. See the “Risk Factors” section of this Form 10-K for a more detailed discussion of uncertainties and risks that may impact future results.

### **ITEM 1.**

#### **OVERVIEW AND CORPORATE STRUCTURE**

Presidio Property Trust, Inc. (“we”, “our”, “us” or the “Company”) is an internally-managed real estate investment trust (“REIT”). We were incorporated in the State of California on September 28, 1999, and in August 2010, we reincorporated as a Maryland corporation. In October 2017, we changed our name from “NetREIT, Inc.” to “Presidio Property Trust, Inc.” We are a publicly traded company on Nasdaq, and registered under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Through the Company, its subsidiaries and its partnerships, we own 12 commercial properties in fee interest and have partial interests in two commercial properties through our interests in various affiliates in which we serve as general partner, member and/or manager. Each of the limited partnerships is referred to as a “DownREIT.” In each DownREIT, we have the right, through put and call options, to require our co-investors to exchange their interests for shares of our Series A Common Stock, or our common stock, at a stated price after a defined period (generally five years from the date they first invested in the entity’s real property), the occurrence of a specified event or a combination thereof. The Company is a limited partner in five partnerships and sole shareholder in one corporation, which entities purchase and leaseback model homes to and from homebuilders.

#### **MARKET AND BUSINESS STRATEGY**

The Company invests in a diverse multi-tenant portfolio of real estate assets. Beginning in 2015, we began to focus our commercial portfolio primarily on office and industrial properties (“Office/Industrial Properties”) and model homes (“Model Home Properties”), and have been managing the portfolio to transition out of retail properties. Our commercial properties are currently located in Colorado, North Dakota, California, Maryland and Texas. Our commercial property tenant base is highly diversified and consists of approximately 156 individual commercial tenants with an average remaining lease term of approximately 3 years as of December 31, 2022. As of December 31, 2022, two commercial tenants represented more than 5.0% of our annualized base rent, one of which represented 8.57% of our annualized based rent, while our ten largest tenants represented approximately 37.46% of our annualized base rent. On December 31, 2022, the lease for our largest tenant, Halliburton Energy Services, Inc., expired. Halliburton Energy Services, Inc. was located in our Shea Center II property in Colorado, and made up approximately 8.57% of our annual base rent. The tenant did not renew the lease and we placed approximately \$1.1 million in a reserve account with our lender to cover future mortgage payments, if necessary. Our management team is working to fill the 45,535 square foot space as quickly as possible, and has already leased approximately 20% of the space to a tenant during January 2023. In addition, our commercial property tenant base has limited exposure to any single industry. For more information, see Part II - Item 7. Management's Discussion and Analysis of Financial Condition and Result of Operations included elsewhere in this Annual Report on Form 10-K.

## [Table of Contents](#)

Our main objective is to maximize long-term stockholder value through the acquisition, management, leasing and selective redevelopment of high-quality office and industrial properties. We focus on regionally dominant markets across the United States which we believe have attractive growth dynamics driven in part by important economic factors such as strong office-using employment growth; net in-migration of a highly educated workforce; a large student population; the stability provided by healthcare systems, government or other large institutional employer presence; low rates of unemployment; and lower cost of living versus gateway markets. We seek to maximize returns through investments in markets with limited supply, high barriers to entry, and stable and growing employment drivers. Our model home portfolio supports the objective of maximizing stockholder value by focusing on purchasing new single-family model homes and leasing them back to experienced homebuilders. We operate the model home portfolio in markets where we can diversify by geography, builder size, and model home purchase price.

### **RECENT DEVELOPMENTS**

#### **Significant Transactions in 2022 and 2021**

##### *Acquisitions during the year ended December 31, 2022:*

- We acquired 31 Model Home Properties and leased them back to the homebuilders under triple net leases during the year ended December 31, 2022. The purchase price for these properties was \$15.6 million. The purchase price consisted of cash payments of \$4.8 million and mortgage notes of \$10.8 million.

##### *Acquisitions during the year ended December 31, 2021:*

- On August 17, 2021, the Company, through its 61.3% owned subsidiaries, NetREIT Palm Self Storage, LP and NetREIT Highland LLC, acquired a single story newly constructed 10,500 square foot building in Houston, Texas for a purchase price of approximately \$4.9 million, in connection with a like-kind exchange transaction pursued under Section 1031 of the Internal Revenue Code of 1986, as amended (the "Code"). The building is 100% occupied under a 15-year triple net lease and was purchased with all cash.
- On December 22, 2021, the Company purchased a 31,752 square foot building in Baltimore, Maryland for a purchase price of approximately \$8.9 million. The building is 100% occupied under a 5 year triple net lease to Johns Hopkins University's Bloomberg School of Public Health and was purchased with all cash.
- We acquired 18 Model Home Properties and leased them back to the homebuilders under triple net leases during the year ended December 31, 2021. The purchase price for the properties was \$8.4 million. The purchase price consisted of cash payments of \$2.7 million and mortgage notes of \$5.7 million.

##### *Dispositions during the year ended December 31, 2022:*

We review our portfolio of investment properties for value appreciation potential on an ongoing basis, and dispose of any properties that no longer satisfy our requirements in this regard, taking into account tax and other considerations. The proceeds from any such property sale, after repayment of any associated mortgage or repayment of secured or unsecured indebtedness, are available for investing in properties that we believe will have a greater likelihood of future price appreciation.

During year ended December 31, 2022, we disposed of the following properties:

- World Plaza, which was sold on March 11, 2022, for approximately \$10.0 million and the Company recognized a loss of approximately \$0.3 million.
- 31 model homes for approximately \$17.5 million and the Company recognized a gain of approximately \$5.4 million.



## [Table of Contents](#)

### ***Dispositions during the year ended December 31, 2021:***

During year ended December 31, 2021, we disposed of the following properties:

- Waterman Plaza, which was sold on January 28, 2021, for approximately \$3.5 million and the Company recognized a loss of approximately \$0.2 million.
- Garden Gateway, which was sold on February 19, 2021, for approximately \$11.2 million and the Company recognized a loss of approximately \$1.4 million.
- Highland Court, which was sold on May 20, 2021, for approximately \$10.2 million and the Company recognized a loss of approximately \$1.6 million.
- Executive Office Park, which was sold on May 21, 2021, for approximately \$8.1 million and the Company recognized a gain of approximately \$2.5 million.
- 44 model homes for approximately \$20.7 million and the Company recognized a gain of approximately \$3.2 million.

### **Model Home Properties**

Our Model Home properties are located in three states throughout the United States. As of December 31, 2022, we owned 92 model homes with a net book value of approximately \$37.9 million.

NetREIT Dubose Model Home REIT, Inc. (“**NetREIT Dubose**”) is engaged in the business of acquiring model homes from third party homebuilders in sale-leaseback transactions whereby a homebuilder sells the Model Home to NetREIT Dubose and leases back the Model Home under a triple net lease (“**NNN**”) for use in marketing its residential development. Our Model Home business was started in March 2010 through the acquisition of certain assets and rights from Dubose Model Homes USA. Subsequent to its formation, NetREIT Dubose raised \$10.6 million pursuant to a private placement of its common stock (the private placement terminated on December 31, 2013). As of December 31, 2022, NetREIT Dubose had sold all of its properties and distributed all available cash to its shareholders, including the Company.

We currently operate five limited partnerships in connection with NetREIT Dubose: Dubose Model Home Investors #202, LP (“**DMHI #202**”), Dubose Model Home Investors #203, LP (“**DMHI #203**”), Dubose Model Home Investors #204, LP (“**DMHI #204**”), Dubose Model Home Investors #205, LP (“**DMHI #205**”), and Dubose Model Home Investors #206, LP (“**DMHI #206**”). The limited partnerships typically raise private equity to invest in Model Home Properties and lease them back to the homebuilders. As of December 31, 2022, the Company owned:

- 10.3% of DMHI #202, which raised \$2.9 million, and was formed to raise up to \$5.0 million through the sale of partnership units.
- 2.3% of DMHI #203, which raised \$4.4 million, and was formed to raise up to \$5.0 million through the sale of partnership units.
- 3.6% of DMHI #204, which raised \$2.8 million, and was formed to raise up to \$5.0 million through the sale of partnership units.
- 4.0% of DMHI #205, which has raised \$2.5 million, and was formed in 2019 to raise up to \$5.0 million through the sale of partnership units.
- 8.5% of DMHI #206, which has raised \$1.2 million, and was formed in 2020 to raise up to \$5.0 million through the sale of partnership units. This partnership continues to raise capital through the sale of additional limited partnership units.
- 100% of NetREIT Model Homes, Inc.

## [Table of Contents](#)

We provide management services to our limited partnerships through our wholly-owned subsidiaries, NetREIT Advisors, LLC (“NetREIT Advisors”) and Dubose Advisors LLC (“Dubose Advisors”), which we refer to collectively as the Advisors. For their services, each of the Advisors receives ongoing management fees, acquisition fees and has the right to receive certain other fees when a partnership sells or otherwise disposes of a model home. NetREIT Advisors manages NetREIT Dubose and NetREIT Model Homes, Inc. and Dubose Advisors manages DMHI #202, DMHI #203, DMHI #204, DMHI #205 and DMHI #206.

### **Share Repurchase Program**

On September 17, 2021, the Board of Directors authorized a stock repurchase program of up to \$10 million of outstanding shares of our Series A Common Stock, which expired in September 2022. On September 15, 2022, the Board of Directors authorized a stock repurchase program of up to \$6.0 million of outstanding shares of our Series A Common Stock and up to \$4.0 million of our Series D Preferred Stock. During the year ended December 31, 2021, the Company repurchased 29,721 shares of our Series A Common Stock at an average price of approximately \$3.7223 per share, including a commission of \$0.035 per share, for a total cost of \$110,631. During the year ended December 31, 2022, the Company repurchased 196,631 shares of our Series A Common Stock at an average price of approximately \$1.59 per share, including a commission of \$0.035 per share, and 6,013 shares of our Series D Preferred Stock at an average price of approximately \$20.31 per share, including a commission of \$0.035 per share, for a total cost of \$313,578 for the Series A Common Stock and \$122,141 for the Series D Preferred Stock. The repurchased shares will be treated as authorized and unissued in accordance with Maryland law and shown as a reduction of stockholders' equity at cost. While we will continue to pursue value creating investments, the Board of Directors believes there is significant embedded value in our assets that is yet to be realized by the market. Therefore, returning capital to stockholders through a repurchase program is an attractive use of capital currently.

### **At-the-Market Offering**

On November 8, 2021, we entered into an At-the-Market Offering Agreement (the “Sales Agreement”) with The Benchmark Company, LLC (the “Manager”) pursuant to which the Manager will act as the Company’s sales agent with respect to the issuance and sale of up to \$4,399,000 of our Series A Common Stock from time to time in an at-the-market public offering. Sales of our common stock, if any, through the Manager, will be by any method that is deemed to be an “at-the-market” equity offering as defined in Rule 415 under the Securities Act of 1933, as amended, including sales made directly on or through the Nasdaq Capital Market or any other existing trading market for the common stock in the U.S. or to or through a market maker. The Manager may also sell the common stock in privately negotiated transactions, subject to our prior approval. The price per share will be at prevailing market prices. The Company will pay the Manager a commission equal to 3.5% of the gross proceeds from the sale of the Series A Common Stock pursuant to the Sales Agreement. As of December 31, 2022, there have been no sales under the Sales Agreement.

### **Sponsorship of Special Purpose Acquisition Company**

On January 7, 2022, we announced our sponsorship, through our wholly-owned subsidiary, Murphy Canyon Acquisition Sponsor, LLC (the “Sponsor”), of a special purpose acquisition company (“SPAC”) initial public offering. The registration statement and prospectus relating to the initial public offering (“IPO”) of the SPAC, Murphy Canyon Acquisition Corp. (“Murphy Canyon”), was declared effective by the Securities and Exchange Commission (the “SEC”) on February 2, 2022 and SPAC units, consisting of one share of Class A common stock, par value \$0.0001 per share, of Murphy Canyon and one redeemable warrant, with each whole warrant entitling the holder thereof to purchase one share of common stock at a price of \$11.50 per share, began trading on the Nasdaq Global Market on February 3, 2022. The Murphy Canyon IPO closed on February 7, 2022, raising gross proceeds for Murphy Canyon of \$132,250,000, including the exercise in full by the underwriters of their over-allotment option. In connection with the IPO, we purchased, through the Sponsor, 754,000 placement units (the “placement units”) at a price of \$10.00 per unit, for an aggregate purchase price of \$7,540,000. The Sponsor has agreed to transfer an aggregate of 45,000 placement units (15,000 each) to each of Murphy Canyon’s independent directors.

Immediately following the IPO, Murphy Canyon began to evaluate acquisition candidates. On November 8, 2022, Murphy Canyon entered into an agreement and plan of merger with Conduit Pharmaceuticals Limited, a Cayman Islands exempted company (“Conduit”), and Conduit Merger Sub, Inc., a Cayman Islands exempted company and Murphy Canyon’s wholly owned subsidiary. If the merger agreement is approved by Murphy Canyon’s stockholders and the transactions under the merger agreement are consummated, Murphy Canyon’s Cayman Island subsidiary will merge with and into Conduit, with Conduit surviving the merger as Murphy Canyon’s wholly owned subsidiary. Pursuant to the merger agreement, the outstanding ordinary shares (including the shares issued upon conversion of all outstanding convertible debt, which conversion shall have occurred prior to the consummation of the merger) of Conduit will be converted into an aggregate of 65,000,000 shares of Murphy Canyon’s newly issued common stock, with each such outstanding Conduit ordinary share (including the ordinary shares issued upon conversion of all outstanding convertible debt, which conversion shall have occurred prior to the consummation of the merger) converted into newly issued shares of Murphy Canyon’s common stock on a pro rata basis.

## [Table of Contents](#)

Initially, Murphy Canyon was required to complete its initial business combination transaction by 12 months from the consummation of its initial public offering or up to 18 months if it extended the period of time to consummate a business combination in accordance with its certificate of incorporation. On January 26, 2023, at a special meeting of the stockholders, the stockholders approved a proposal to amend the Murphy Canyon's certificate of incorporation to extend the date by which it has to consummate a business combination up to 12 times, each such extension for an additional one month period, from February 7, 2023, to February 7, 2024. The stockholders also approved a related proposal to amend the trust agreement allowing Murphy Canyon to deposit into the trust account, for each one-month extension, one-third of 1% of the funds remaining in the trust account following the redemptions made in connection with the approval of the extension proposal at the special meeting. In connection with the stockholders' vote at the special meeting, 11,037,272 shares of common stock were tendered for redemption, which were redeemed in February 2023. After the redemptions, there were 2,187,728 shares SPAC Class A common stock subject to possible redemption.

On March 3, 2023 we loaned Murphy Canyon \$300,000 to fund its trust account and for operating expenses, and may lend up to \$1.5 million in total. The loan is non-interest bearing, unsecured and will be repayable in full upon the earlier of (i) the date on which Murphy Canyon consummates its initial business combination and (ii) the date that its winding up is effective.

### **Warrant Dividend**

In January 2022, we distributed the Series A Warrants to holders of our Series A Common Stock as of the record date of January 14, 2022. The Series A Warrants and the shares of Series A Common Stock issuable upon the exercise of the Series A Warrants were registered on a registration statement that was filed with the SEC and was declared effective January 21, 2022. The Series A Warrants commenced trading on the Nasdaq Capital Market under the symbol "SQFTW" on January 24, 2022 and were distributed on that date to persons who held shares of common stock and existing outstanding warrants as of the January 14, 2022 record date, or who acquired shares of Series A Common Stock in the market following the record date, and who continued to hold such shares at the close of trading on January 21, 2022. The Series A Warrants give the holder the right to purchase one share of Series A Common Stock at \$7.00 per share, for a period of five years. Should warrant holders not exercise the Series A Warrants during that holding period, the Series A Warrants will automatically convert to 1/10 of a share of Series A Common Stock at expiration, rounded down to the nearest number of whole shares.

### **Preferred Stock Series D**

On June 15, 2021, we completed an offering of 800,000 shares of our 9.375% Series D Cumulative Redeemable Perpetual Preferred Stock ("Series D Preferred Stock") for cash consideration of \$25.00 per share to a syndicate of underwriters led by The Benchmark Company, LLC, as representative, resulting in approximately \$18.1 million in net proceeds, after deducting the underwriting discounts and commissions and the offering expenses. We granted the underwriters a 45-day option to purchase up to an additional 120,000 shares of Series D Preferred Stock to cover over-allotments, which they exercised on June 17, 2021, resulting in approximately \$2.7 million in net proceeds, after deducting the underwriting discounts and commissions and the offering expenses. In total, we issued 920,000 shares of Series D Preferred Stock with net proceeds of approximately \$20.5 million, after deducting the underwriting discounts and commissions and the offering expenses.

Holders of shares of the Series D Preferred Stock are entitled to receive cumulative cash dividends at a rate of 9.375% per annum of the \$25.00 per share liquidation preference (equivalent to \$2.34375 per annum per share). Dividends are payable monthly on the 15th day of each month (each, a "dividend payment date"), provided that if any dividend payment date is not a business day, then the dividend that would otherwise have been payable on that dividend payment date may be paid on the next succeeding business day without adjustment in the amount of the dividend. Holders of shares of the Series D Preferred Stock will generally have no voting rights. However, if the Company does not pay dividends on the Series D Preferred Stock for eighteen or more monthly dividend periods (whether or not consecutive), the holders of the Series D Preferred Stock (voting separately as a class with the holders of all other classes or series of the Company's preferred stock it may issue upon which like voting rights have been conferred and are exercisable and which are entitled to vote as a class with the Series D Preferred Stock in the election referred to below) will be entitled to vote for the election of two additional directors to serve on the Company's Board of Directors until the Company pays, or declares and sets apart funds for the payment of, all dividends that it owes on the Series D Preferred Stock, subject to certain limitations. In addition, the affirmative vote of the holders of at least two-thirds of the outstanding shares of Series D Preferred Stock (voting together as a class with all other series of parity preferred stock the Company may issue upon which like voting rights have been conferred and are exercisable) is required at any time for the Company to (i) authorize or issue any class or series of its stock ranking senior to the Series D Preferred Stock with respect to the payment of dividends or the distribution of assets on liquidation, dissolution or winding up or (ii) to amend any provision of the Company charter so as to materially and adversely affect any rights of the Series D Preferred Stock or to take certain other actions.

## [Table of Contents](#)

In the event of our voluntary or involuntary liquidation, dissolution or winding up, the holders of shares of Series D Preferred Stock will be entitled to be paid out of the assets we have legally available for distribution to our stockholders, subject to the preferential rights of the holders of any class or series of stock we may issue ranking senior to the Series D Preferred Stock with respect to the distribution of assets upon liquidation, dissolution or winding up, a liquidation preference of \$25.00 per share, plus any accumulated and unpaid dividends to, but not including, the date of payment, before any distribution of assets is made to holders of our common stock or any other class or series of our stock we may issue that ranks junior to the Series D Preferred Stock as to liquidation rights. Commencing on or after June 15, 2026, we may redeem, at our option, the Series D Preferred Stock, in whole or in part, at a cash redemption price equal to \$25.00 per share, plus any accumulated and unpaid dividends to, but not including the redemption date. Prior to June 15, 2026, upon a Change of Control (as defined in the Articles Supplementary classifying and designating the Series D Preferred Stock), we may redeem, at our option, the Series D Preferred Stock, in whole or part, at a cash redemption price of \$25.00 per share, plus any accumulated and unpaid dividends to, but not including the redemption date. The Series D Preferred Stock has no stated maturity, will not be subject to any sinking fund or other mandatory redemption, and will not be convertible into or exchangeable for any of our other securities.

### **Use of Leverage**

We use mortgage loans secured by our individual properties in order to maximize the return for our stockholders. Typically, these loans are for terms ranging from five to ten years. Currently, the majority of our mortgage loans are structured as non-recourse to us with limited exceptions that would cause a recourse event only upon occurrence of certain fraud, misconduct, environmental, or bankruptcy events. Non-recourse financing limits our exposure to the amount of equity invested in each property pledged as collateral thereby protecting the equity in our other assets. We can provide no assurance that the non-recourse financing will be available to us in the future on terms that are acceptable to us, or at all and there may be circumstances where lenders have recourse to our other assets. To a lesser extent, we use recourse financing. At December 31, 2022, \$30.2 million of our total debt contained recourse to the Company, of which \$24.8 million was related to the model homes properties.

We have used both fixed and variable interest rate debt to finance our properties. Wherever possible, we prefer to obtain fixed rate mortgage financing as it provides better cost predictability. As of December 31, 2022, none of our mortgage loans include variable interest rate provisions. In August 2023 and September 2023, we have two mortgage loans, on West Fargo Industries and Grand Pacific Center, which are subject to possible interest rate resets.

In 2023, we have \$6.8 million of principal payments on mortgage notes payable related to the model home properties, including \$6.2 million payments related to mortgage notes payable that mature in 2023. We plan to refinance a significant portion of the mortgage notes payable or sell the model home properties to repay the mortgage notes payable. We have \$1.5 million of principal payments on mortgage notes payable relating to commercial properties in 2023, none of which are maturing in 2023.

Our short-term liquidity needs include satisfying the debt service requirements of our existing mortgages. Overall the commercial properties and Model Homes adequately covered their debt servicing needs during the year ended December 31, 2022, and management expect this to continue during the next twelve months. If our cash flow from operating activities is not sufficient to fund our short-term liquidity needs, we will fund a portion of these needs from additional borrowings of secured or unsecured indebtedness, from real estate sales, from sales of equity or debt securities, or we will reduce the rate of distribution to the stockholders.

### **PROPERTY MANAGEMENT**

The Company, through its wholly owned subsidiary, NTR Property Management, Inc., is the primary property manager for all of its properties. The Company subcontracts with third party property management companies in California and North Dakota to render on-site management services, and internally manages our properties in Colorado, Maryland, and Texas.

### **COMPETITION**

We compete with a number of other real estate investors, many of whom own similar properties in the same geographical markets. Competitors include other REITs, pension funds, insurance companies, investment funds and companies, partnerships and developers. Many of these competitors have substantially greater financial resources than we do and may be able to accept more risk than we can prudently manage, including risks with respect to the creditworthiness of a tenant or the geographic location of its investments. In addition, many of these competitors have capital structures that allow them to make investments at higher prices than what we can prudently offer while still generating a return to their investors that is commensurate with the returns we are seeking to provide our investors. If our competitors offer space at rental rates below current market rates, or below the rental rates we currently charge our tenants, we may lose potential tenants and we may be pressured to reduce our rental rates below those we currently charge or to offer more substantial rent abatements, tenant improvements, early termination rights or below-market renewal options in order to retain tenants when our leases expire. The concentration of our commercial properties in Colorado and North Dakota makes us susceptible to local market conditions in these areas.

## [Table of Contents](#)

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 our properties as appropriate. If we are unable to respond quickly and effectively, our financial condition, results of operations, cash flow, and ability to satisfy our debt service obligations and pay dividends may be adversely affected.

### **REGULATION**

Our management continually reviews our investment activity and monitors the proportion of our portfolio that is placed in various investments in order to prevent us from coming within the application of the Investment Company Act of 1940, as amended (the “Investment Company Act”). If at any time the character of our investments could cause us to be deemed an investment company for purposes of the Investment Company Act, we would be required to comply with the operating restrictions of the Investment Company Act, which are generally inconsistent with our normal operations. As such, we work to ensure that we are not deemed to be an “investment company.”

Various environmental laws govern certain aspects of the ongoing operation of our properties. Such environmental laws include those regulating the existence of asbestos-containing materials in buildings, management of surfaces with lead-based paint (and notices to tenants about the lead-based paint) and waste-management activities. Our failure to comply with such requirements could subject us to government enforcement action and/or claims for damages by a private party.

To date, we have not experienced a noticeable effect on our capital expenditures, earnings, or competitive position as a result of a lack of compliance with federal, state and local environmental protection regulations. All of our proposed acquisitions are inspected prior to such acquisition. These inspections are conducted by qualified environmental consultants, and we review in detail their reports prior to our acquisition of any property. Nevertheless, it is possible that our environmental assessments will not reveal all environmental liabilities, or that some material environmental liabilities exist of which we are unaware. In some cases, we may be required to abandon otherwise economically attractive acquisitions because the costs of removal or control of hazardous materials are considered to be prohibitive or we are unwilling to accept the potential risks involved. We do not believe we will be required to engage in any large-scale abatement at any of our current properties. We believe that through professional environmental inspections and testing for asbestos, lead paint and other hazardous materials, coupled with a relatively conservative posture toward accepting known environmental risk, we minimize our exposure to potential liability associated with environmental hazards.

We are unaware of any environmental hazards at any of our current properties that, individually or in the aggregate, may have a material adverse impact on our operations or financial position. We have not been notified by any governmental authority, and we are not otherwise aware of any material non-compliance, liability, or claim relating to environmental liabilities in connection with any of our properties. We do not believe that the cost of continued compliance with applicable environmental laws and regulations will have a material adverse effect on us, our financial condition or our results of operations. Future environmental laws, regulations, or ordinances, however, may require additional remediation of existing conditions that are not currently actionable. Also, if more stringent requirements are imposed on us in the future, the costs of compliance could have a material adverse effect on us and our financial condition.

### **LEGAL PROCEEDINGS**

We are periodically subject to various legal proceedings and claims that arise in the ordinary course of business. While the resolution of these matters cannot be predicted with certainty, management believes the final outcome of such matters will not have a material adverse effect on our financial position, results of operation or liquidity.

### **MANAGEMENT OF THE COMPANY**

#### ***Our Management***

We refer to our executive officers and any directors who are affiliated with them as our “Management”. Our Management is currently comprised of:

- Jack K. Heilbron, Chairman of the Board of Directors, Chief Executive Officer and President of the Company, President and Director of NetREIT Dubose, and President of NetREIT Advisors;
- Adam Sragovicz, Chief Financial Officer of the Company and Dubose Advisors;
- Gary M. Katz, Chief Investment Officer of the Company; and
- Steve Hightower, President of NetREIT Dubose.



## [Table of Contents](#)

Mr. Heilbron has overall responsibility for the day-to-day activities of the Company. Mr. Sragovicz oversees financial matters, including financial reporting, budgeting, forecasting, funding activities, tax and insurance. Mr. Hightower is responsible for managing the day-to-day activities of the Dubose Advisors and NetREIT Advisors and the model homes division. Mr. Heilbron and Mr. Katz are responsible for recommending all Company property acquisitions and dispositions.

### ***Our Board of Directors***

Our Management is subject to the direction and supervision of our Board of Directors. Among other things, our Board of Directors must approve each real property acquisition our Management proposes. As of December 31, 2022, there were five directors comprising our Board of Directors, four of whom are independent directors (“Independent Directors”). One of our directors, Mr. Heilbron is not independent. Mr. Dubose, a previously non-independent director stepped down as a director in March 2022. See Item 9B Other Information, in Part II of this 10-K for more information.

### **OUR REIT STATUS**

We elected to be taxed as a REIT for federal income tax purposes commencing with our taxable year ended December 31, 2000. To continue to be taxed as a REIT, we must satisfy numerous organizational and operational requirements, including a requirement that we distribute at least 90% of our REIT taxable income to our stockholders, as defined in the Code and calculated on an annual basis. As a REIT, we are generally not subject to federal income tax on income that we distribute to our stockholders. If we fail to qualify for taxation as a REIT in any year, our income will be taxed at regular corporate rates, and we may be precluded from qualifying for treatment as a REIT for the four-year period following our failure to qualify. Even though we qualify as a REIT for federal income tax purposes, we may still be subject to state and local taxes on our income and property and to federal income and excise taxes on our undistributed income. For more information, please see Risks Related to our Status as a REIT and Related Federal Income Tax Matters. We qualified as a REIT for the fiscal year ended December 31, 2022.

### **HUMAN CAPITAL RESOURCES**

Due to the nature of our business, our performance depends on identifying, attracting, developing, motivating, and retaining a highly skilled workforce in multiple areas, including property management, asset management and strategy, accounting, business development and management. Our human capital management strategy, which we refer to as our people strategy, is tightly aligned with our business needs. During 2022, our human capital efforts were focused on retaining top talent, and continuing to increase our agility to meet the quickly changing needs of the business, considering the challenges of the global pandemic and social and political unrest and had no COVID-19 related layoffs. We use a variety of human capital measures in managing our business, including: workforce demographics; diversity metrics with respect to representation, attrition, hiring, promotions and leadership; and talent management metrics including retention rates of top talent and hiring metrics.

### **OFFICE AND EMPLOYEES**

Our office is approximately 9,224 square feet and is located in San Diego, California.

As of December 31, 2022, we had a total of 18 full-time employees.

### **AVAILABLE INFORMATION**

Access to copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, and other filings with the SEC, including amendments to such filings are available at [www.sec.gov](http://www.sec.gov) or on our website at [www.presidiopt.com](http://www.presidiopt.com) as soon as reasonably practicable after such materials are electronically filed with the SEC. They are also available for printing by any stockholder upon request.

Our office is located at 4995 Murphy Canyon Road, Suite 300, San Diego, CA 92123. Our telephone number is 866-781-7721. Our e-mail address is [info@presidiopt.com](mailto:info@presidiopt.com) or you may visit our website at [www.presidiopt.com](http://www.presidiopt.com).

## ITEM 1A. RISK FACTORS

### Summary of Risk Factors

*The following is a summary of the principal risk factors associated with an investment in us. The following should be read in conjunction with the more complete discussion of the risk factors we face, which are set forth more fully below. If any of the following risks occur, our business, financial condition, results of operations, cash flows, cash available for distribution, ability to service our debt obligations and prospects could be materially and adversely affected. In that case, the market price of our securities could decline and you may lose some or all of your investment. Some of these risks include:*

- we face numerous risks associated with the real estate industry that could adversely affect our results of operations through decreased revenues or increased costs;
- disruptions in the financial markets and uncertain economic conditions could adversely affect the value of our real estate investments;
- our inability to sell a property at the time and on the terms we desire could limit our ability to realize a gain on our investments and pay distributions to our stockholders;
- we may acquire properties in joint ventures, partnerships or through limited liability companies, which could limit our ability to control or liquidate such holdings;
- we may acquire properties “as is,” which increases the risk that we will have to remedy defects or costs without recourse to the seller;
- our model home business is substantially dependent on the supply and/or demand for single family homes;
- a significant percentage of our properties are concentrated in a small number of states, which exposes our business to the effects of certain regional events and occurrences;
- we currently are dependent on internal cash from our operations, financing and proceeds from property sales to fund future property acquisitions, meet our operational costs and pay dividends to our stockholders;
- we depend on key personnel, and the loss of such persons could impair our ability to achieve our business objectives;
- we may change our investment and business policies without stockholder consent, and such changes could increase our exposure to operational risks;

## [Table of Contents](#)

- provisions of Maryland law may limit the ability of a third party to acquire control of us by requiring our Board of Directors or stockholders to approve proposals to acquire our company or effect a change in control;
- our management faces certain conflicts of interest with respect to their other positions and/or interests outside of our company, which could hinder our ability to implement our business strategy and to generate returns to our stockholders;
- we have significant outstanding indebtedness, which requires that we generate sufficient cash flow to satisfy the payment and other obligations under the terms of our debt and exposes us to the risk of default under the terms of our debt;
- failure to qualify as a REIT could adversely affect our operations and our ability to pay distributions;
- as a REIT, we may be subject to tax liabilities that reduce our cash flow;
- the tax imposed on REITs engaging in “prohibited transactions” may limit our ability to engage in transactions that would be treated as sales for U.S. federal income tax purposes;
- our business, financial condition, results of operations and cash flows may be adversely affected by the recent COVID-19 pandemic or of new epidemics;
- our cash available for distributions may not be sufficient to pay distributions on the common stock at expected levels, and we cannot assure you of our ability to pay distributions in the future. We may use borrowed funds or funds from other sources to pay distributions, which may adversely impact our operations;
- a future issuance of stock could dilute the value of our common stock, Series D Preferred Stock or Series A Warrants, ;
- our sponsorship of Murphy Canyon requires significant capital deployment, entails certain risks and may not be successful, which would likely have a material adverse effect on our future expansion, revenues, and profits; and
- inflation may materially and adversely affect our income, cash flow, results of operations, financial condition, liquidity, the ability to service our debt obligations, the market price of our securities and our ability to pay dividends and other distributions to our stockholders;



## Risks Related to our Business, Properties and Operations

***We face numerous risks associated with the real estate industry that could adversely affect our results of operations through decreased revenues or increased costs.***

As a real estate company, we are subject to various changes in real estate conditions, and any negative trends in such real estate conditions may adversely affect our results of operations through decreased revenues or increased costs. These conditions include:

- changes in national, regional and local economic conditions, which may be negatively impacted by concerns about inflation, deflation, government deficits, high unemployment rates, decreased consumer confidence and liquidity concerns, particularly in markets in which we have a high concentration of properties;
- fluctuations in interest rates, including anticipated interest rate increases in 2023, which could adversely affect our ability to obtain financing on favorable terms or at all, and negatively impact the value of properties and the ability of prospective buyers to obtain financing for properties we intend to sell;
- the inability of tenants to pay rent;
- the existence and quality of the competition, such as the attractiveness of our properties as compared to our competitors' properties based on considerations such as location, rental rates, amenities and safety record;
- competition from other real estate investors with significant capital, including other real estate operating companies, publicly traded REITs and institutional investment funds;
- increased operating costs, including increased real property taxes, maintenance, insurance and utilities costs;
- weather conditions that may increase or decrease energy costs and other weather-related expenses;
- oversupply of commercial space or a reduction in demand for real estate in the markets in which our properties are located;
- changes in, or increased costs of compliance with, laws and/or governmental regulations, including those governing usage, zoning, the environment and taxes; and
- civil unrest, acts of war, terrorist attacks and natural disasters, including earthquakes, wind and hail damage and floods, which may result in uninsured and underinsured losses.

Moreover, other factors may adversely affect our results of operations, including potential liability under environmental and other laws and other unforeseen events, many of which are discussed elsewhere in the following risk factors. Any or all of these factors could materially adversely affect our results of operations through decreased revenues or increased costs.

***Inflation may materially and adversely affect our income, cash flow, results of operations, financial condition, liquidity, the ability to service our debt obligations, the market price of our securities and our ability to pay dividends and other distributions to our stockholders.***

Increased inflation could have a pronounced negative impact on our property operating expenses and general and administrative expenses, as these costs could increase at a rate higher than our rents. While our tenants are generally obligated to pay property-level expenses relating to the properties they lease from us (e.g., maintenance, insurance and property taxes), we incur other expenses, such as general and administrative expense, interest expense relating to our debt (some of which bears interest at floating rates) and carrying costs for vacant properties. These expenses would increase in an inflationary environment, and such increases may exceed any increase in revenue we receive under our leases. Inflation could also have an adverse effect on consumer spending which could impact our tenants' revenues and, in turn, our percentage rents, where applicable, and the willingness and ability of tenants to enter into or renew leases and/or honor their obligations under existing leases. Additionally, increased inflation may have an adverse impact on our tenants if increases in their operating expenses exceed increases in their revenue, which may adversely affect the tenants' ability to pay rent owed to us and meet other lease obligations, such as paying property taxes and insurance and maintenance costs.

***Recent inflationary pressures could result in higher interest rates, which would have a negative impact on our business.***

Rising inflation and elevated U.S. budget deficits and overall debt levels, including as a result of federal pandemic relief and stimulus legislation and/or economic or market and supply chain conditions, can put upward pressure on interest rates and could be among the factors that could lead to higher interest rates in the future. Higher interest rates could adversely affect our overall business, income, and our ability to pay dividends, including by reducing the fair value of many of our assets and adversely affecting our ability to obtain financing on favorable terms or at all, and negatively impacting the value of properties and the ability of prospective buyers to obtain financing for properties we intend to sell. This may affect our earnings results, reduce our ability to sell our assets, or reduce our liquidity. Furthermore, our business and financial results may be harmed by our inability to accurately anticipate developments associated with changes in, or the outlook for, interest rates.

***Conditions in the financial markets could affect our ability to obtain financing on reasonable terms and have other adverse effects on our operations.***

The financial markets could tighten with respect to secured real estate financing. Lenders with whom we typically deal may increase their credit spreads resulting in an increase in borrowing costs. Higher costs of mortgage financing may result in lower yields from our real estate investments, which may reduce our cash flow available for distribution to our stockholders. Reduced cash flow could also diminish our ability to purchase additional properties and thus decrease our diversification of real estate ownership.

***Disruptions in the financial markets and uncertain economic conditions could adversely affect the value of our real estate investments.***

Disruptions in the financial markets could adversely affect the value of our real estate investments. Concerns over economic recession, the COVID-19 pandemic, interest rate increases, policy priorities of the U.S. presidential administration, trade wars, labor shortages, or inflation may contribute to increased volatility and diminished expectations for the economy and markets. Additionally, concern over geopolitical issues may also contribute to prolonged market volatility and instability. For example, the conflict between Russia and Ukraine has led to disruption, instability and volatility in global markets and industries. The U.S. government and other governments in jurisdictions have imposed severe economic sanctions and export controls against Russia and Russian interests, have removed Russia from the SWIFT system, and have threatened additional sanctions and controls. The full impact of these measures, as well as potential responses to them by Russia, is unknown. Such conditions could impact commercial real estate fundamentals and result in lower occupancy, lower rental rates, and declining values in our real estate portfolio and in the collateral securing our loan investments. As a result, the value of our property investments could decrease below the amounts paid for such investments, the value of collateral securing our loans could decrease below the outstanding principal amounts of such loans, and revenues from our properties could decrease due to fewer and/or delinquent tenants or lower rental rates. These factors would significantly harm our revenues, results of operations, financial condition, business prospects and our ability to make distributions to our stockholders.

***A decrease in real estate values could negatively affect our ability to refinance our existing mortgage obligations or obtain larger mortgages.***

A decrease in real estate values would decrease the principal amount of secured loans we can obtain on a specific property and our ability to refinance our existing mortgage loans or obtain larger mortgage loans. In some circumstances, a decrease in the value of an existing property which secures a mortgage loan may require us to prepay or post additional security for that mortgage loan. This would occur where the lender's initial appraised value of the property decreases below the value required to maintain a loan-to-value ratio specified in the mortgage loan agreement. Thus, any sustained period of depressed real estate prices would likely adversely affect our ability to finance our real estate investments.

***The current outbreak of the novel coronavirus (COVID-19), and the resulting volatility it has created, has disrupted our business and we expect that the COVID-19 pandemic may in the future significantly and adversely impact our business, financial condition and results of operations, and that other potential pandemics or outbreaks could materially adversely affect our business, financial condition, results of operations and cash flows. Further, the spread of the COVID-19 outbreak has caused severe disruptions in the U.S. and global economy and financial markets, and could potentially create widespread business continuity issues of an unknown magnitude and duration. To date our business has not been significantly impacted by the COVID-19 pandemic.***

## [Table of Contents](#)

The COVID-19 pandemic has had, and in the future may continue to have, repercussions across regional and global economies and financial markets. The global impact of the outbreak has been rapidly evolving and many countries, including the United States (including the states and cities that comprise the San Diego, California; Denver and Colorado Springs, Colorado; Fargo and Bismarck, North Dakota; and other metro regions where we own and operate properties) have instituted quarantines, “shelter in place” mandates, and rules and restrictions on travel and the types of businesses that may continue to operate. While these restrictions have been lifted, new variants of the coronavirus and/or the continued spread of the virus could cause government authorities to extend, reinstitute and/or adopt new restrictions. As a result, the COVID-19 pandemic may negatively impact almost every industry, both inside and outside these metro regions, directly or indirectly and has created business continuity issues. For instance, a number of our commercial tenants temporarily closed their offices or stores and requested temporary rent deferral or rent abatement during the pandemic. In addition, jurisdictions where we own and operate properties have implemented, or may implement, rent freezes, eviction freezes, or other similar restrictions. The full extent of the impacts on our business over the long term are largely uncertain and dependent on a number of factors beyond our control.

As a result of the effects of the COVID-19 pandemic, we have been and may continue to be impacted by one or more of the following:

- a decrease in real estate rental revenue (our primary source of operating cash flow), as a result of temporary rent deferrals, rent abatement and/or rent reductions, rent freezes or declines impacting new and renewal rental rates on properties, longer lease-up periods for both anticipated and unanticipated vacancies (in part, due to “shelter-in-place” mandates), lower revenue recognized as a result of waiving late fees, as well as our tenants’ ability and willingness to pay rent, and our ability to continue to collect rents, on a timely basis or at all;
- a complete or partial closure of one or more of our properties resulting from government or tenant action (since Q1, 2021, all of our commercial properties were reopened);
- reductions in demand for commercial space and the inability to provide physical tours of our commercial spaces may result in our inability to renew leases, re-lease space as leases expire, or lease vacant space, particularly without concessions, or a decline in rental rates on new leases;
- the inability of one or more major tenants to pay rent, or the bankruptcy or insolvency of one or more major tenants, may be increased due to a downturn in its business or a weakening of its financial condition as a result of shelter-in-place orders, phased re-opening of its business, or other pandemic related causes;
- the inability to decrease certain fixed expenses at our properties despite decreased operations at such properties;
- the inability of our third-party service providers to adequately perform their property management and/or leasing activities at our properties due to decreased on-site staff;
- the effect of existing and future orders by governmental authorities in any of our markets, which might require homebuilders to cease operations for an uncertain or indefinite period of time, which could significantly affect new home orders and deliveries, and negatively impact their home sales revenue and ability to perform on their lease obligations to the Company in such markets;
- difficulty accessing capital on attractive terms, or at all, and a severe disruption and instability in the global financial markets or deterioration in credit and financing conditions, which may affect our access to capital and our commercial tenants’ ability to fund their business operations and meet their obligations to us;
- the financial impact of the COVID-19 pandemic could negatively impact our future compliance with financial covenants of debt agreements;
- a decline in the market value of real estate may result in the carrying value of certain real estate assets exceeding their fair value, which may require us to recognize an impairment to those assets;

## [Table of Contents](#)

- future delays in the supply of products or services may negatively impact our ability to complete the renovations and lease-up of our buildings on schedule or for their original estimated cost;
- a general decline in business activity and demand for real estate transactions could adversely affect our ability or desire to grow or change the complexion of our portfolio of properties;
- our insurance may not cover loss of revenue or other expenses resulting from the pandemic and related shelter-in-place rules;
- unanticipated costs and operating expenses and decreased anticipated revenue related to compliance with regulations, such as additional expenses related to staff working remotely, requirements to provide employees with additional mandatory paid time off and increased expenses related to sanitation measures performed at each of our properties, as well as additional expenses incurred to protect the welfare of our employees, such as expanded access to health services;
- the potential for one or more members of our senior management team to become sick with COVID-19 and the loss of such services could adversely affect our business;
- the increased vulnerability to cyber-attacks or cyber intrusions while employees are working remotely has the potential to disrupt our operations or cause material harm to our financial condition; and
- complying with REIT requirements during a period of reduced cash flow could cause us to liquidate otherwise attractive investments or borrow funds on unfavorable conditions.

The financial aspects of the COVID-19 pandemic are difficult to predict and may not directly correlate to the severity of outbreaks at a particular place or time. For example, there has been significant inflation in the price of lumber, largely as a result of supply shortages specific to the lumber industry resulting from the pandemic, that may affect construction and renovation costs in our industry. Similarly, despite general economic concerns resulting from the COVID-19 pandemic, there has been home price inflation in many markets, which may affect our ability to purchase Model Homes at prices we consider to be reasonable.

The significance, extent and duration of the impact of COVID-19 remains largely uncertain and dependent on future developments that cannot be accurately predicted at this time, such as the continued severity, duration, transmission rate and geographic spread of COVID-19, the extent and effectiveness of the containment measures taken, and the response of the overall economy, the financial markets and the population.

The rapid development and volatility of this situation precludes us from making any prediction as to the ultimate adverse impact of COVID-19. As a result, we cannot provide an estimate of the overall impact of the COVID-19 pandemic on our business or when, or if, we (or our tenants) will be able to resume fully normal operations. Nevertheless, COVID-19 presents material uncertainty and risk with respect to our business, financial performance and condition, operating results and cash flows.

***Our portfolio of marketable securities, including covered call options, is subject to market, interest and credit risk that may reduce its value.***

We maintain a portfolio of marketable securities. As of December 31, 2022, we owned common shares of 18 different publicly traded REITs and an immaterial amount of covered call options in three of those same REITs. The gross fair market value on our publicly traded REIT securities was \$798,206, with covered call options totaling \$457. As of December 31, 2022, the net fair value of our publicly traded REIT securities was \$797,749 based on the December 31, 2022 closing price. Changes in the value of our portfolio of marketable securities could adversely affect our earnings. In particular, the value of our investments may decline due to increases in interest rates, downgrades of the securities included in our portfolio, instability in the global financial markets that reduces the liquidity of securities included in our portfolio, declines in the value of collateral underlying the securities included in our portfolio and other factors. In addition, the COVID-19 pandemic, geopolitical instability and rising inflation have and may continue to adversely affect the financial markets. Each of these events may cause us to record charges to reduce the carrying value of our investment portfolio or sell investments for less than our acquisition cost. Although we attempt to mitigate these risks through diversification of our investments and continuous monitoring of our portfolio's overall risk profile, the value of our investments may nevertheless decline.

***We may be adversely affected by unfavorable economic changes in the geographic areas where our properties are located.***

Adverse economic conditions in areas where properties securing or otherwise underlying our investments are located (including business layoffs or downsizing, industry slowdowns, changing demographics and other factors) and local real estate conditions (such as oversupply or reduced demand) may have an adverse effect on the value of our real estate portfolio. The deterioration of any of these local conditions could hinder our ability to profitably operate a property and adversely affect the price and terms of a sale or other disposition of the property.

***Competition for properties may limit the opportunities available to us and increase our acquisition costs, which could have a material adverse effect on our growth prospects and negatively impact our profitability.***

The market for property acquisitions continues to be competitive, which may reduce suitable investment opportunities available to us and increase acquisition purchase prices. Competition for properties offering higher rates of returns may intensify if real estate investments become more attractive relative to other investments. In acquiring real properties, we may experience considerable competition from a field of other investors, including other REITs, private equity investors, institutional investment funds, and real estate investment programs. Many of these competitors are larger than we are and have access to greater financial resources and better access to lower costs of capital. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments. This competition may limit our ability to take advantage of attractive investment opportunities that are consistent with our objectives. Our inability to acquire desirable properties on favorable terms could adversely affect our growth prospects, financial condition, our profitability and our ability to pay dividends.

***Our inability to sell a property at the time and on the terms we desire could limit our ability to realize a gain on our investments and pay distributions to our stockholders.***

Generally, we seek to sell, exchange or otherwise dispose of our properties when we determine such action to be in our best interests. Many factors beyond our control affect the real estate market and could affect our ability to sell properties for the price, on the terms or within the time frame that we desire. These factors include general economic conditions, the availability of financing, interest rates, supply and demand, and tax considerations. Because real estate investments are relatively illiquid, we have a limited ability to vary our portfolio in response to changes in economic or other conditions. Therefore, our inability to sell properties at the time and on the terms we want could reduce our cash flow, affect our ability to service or reduce our debt obligations, and limit our ability to make distributions to our stockholders.

***Lease default or termination by one of our major tenants could adversely impact our operations and our ability to pay dividends.***

The success of our real estate investments depends on the financial stability of our tenants. A default or termination by a significant tenant (or a series of tenants) on its lease payments could cause us to lose the revenue associated with such lease and seek an alternative source of revenue to meet mortgage payments and prevent a foreclosure, if the property is subject to a mortgage. In the event of a significant tenant default or bankruptcy, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment. Additionally, we may be unable to lease the property for the rent previously received or sell the property without incurring a loss. These events could cause us to reduce the amount of distributions to our stockholders.

***A property that becomes vacant could be difficult to sell or re-lease and could have a material adverse effect on our operations.***

We expect portions of our properties to periodically become vacant by reason of lease expirations, terminations, or tenant defaults. If a tenant vacates a property, we may be unable to re-lease the property without incurring additional expenditures, or at all. If the vacancy continues for a long period of time, if the rental rates upon such re-lease are significantly lower than expected, or if our reserves for these purposes prove inadequate, we will experience a reduction in net income and may be required to reduce or eliminate distributions to our stockholders. In addition, because a property's market value depends principally upon the value of the leases associated with that property, the resale value of a property with high or prolonged vacancies could suffer, which could further reduce our returns.

***We may incur substantial costs in improving our properties.***

In order to re-lease or sell a property, substantial renovations or remodeling could be required. For instance, we expect that some of our properties will be designed for use by a particular tenant or business. Upon default or termination of the lease by such a tenant, the property might not be marketable without substantial capital improvements. The cost of construction in connection with any renovations and the time it takes to complete such renovations may be affected by factors beyond our control, including material and labor shortages, general contractor and/or subcontractor defaults and delays, permitting issues, weather conditions, and changes in federal, state and local laws. If we experience cost overruns resulting from delays or other causes in any construction project, we may have to seek additional debt financing. Further, delays in construction will cause a delay in our receipt of revenues from that property and could adversely affect our ability to meet our debt service obligations.

***Uninsured and/or underinsured losses may adversely affect returns to our stockholders.***

Our policy is to obtain insurance coverage for each of our properties covering loss from liability, fire, and casualty in the amounts and under the terms we deem sufficient to insure our losses. Under tenant leases on our commercial properties, we require our tenants to obtain insurance to cover casualty losses and general liability in amounts and under terms customarily obtained for similar properties in the area. However, in certain areas, insurance to cover some losses, generally losses of a catastrophic nature such as earthquakes, floods, wind, hail, terrorism and wars, is either unavailable or cannot be obtained at a reasonable cost. Consequently, we may not have adequate coverage for such losses. If any of our properties incurs a casualty loss that is not fully insured, we could lose some or all of our investment in the property. In addition, other than any working capital reserve or other reserves we may establish, we likely would have no source of funding to repair or reconstruct any uninsured or underinsured property.

***Since we are not required to maintain specific levels of cash reserves, we may have difficulty in the event of increased or unanticipated expenses.***

We do not currently have, nor do we anticipate that we will establish in the future, a permanent reserve for maintenance and repairs, lease commissions, or tenant improvements of real estate properties. To the extent that existing expenses increase or unanticipated expenses arise and accumulated reserves are insufficient to meet such expenses, we would be required to obtain additional funds through borrowing or the sale of property. There can be no guarantee that such additional funds will be available on favorable terms, or at all.

***We may have to extend credit to buyers of our properties and a default by such buyers could have a material adverse effect on our operations and our ability to pay dividends.***

In order to sell a property, we may lend the buyer all or a portion of the purchase price. When we provide financing to a buyer, we bear the risk that the buyer may default or that we may not receive full payment for the property sold. Even in the absence of a buyer default, the distribution of the proceeds of the sale to our stockholders, or the reinvestment of the proceeds in other property, will be delayed until the promissory note or collateral we may accept upon a sale is actually paid, sold, refinanced or otherwise disposed.

***We may be adversely affected by trends in office real estate.***

In 2022, approximately 63% of our net operating income was from our office properties, and approximately 59% in 2021. Work from home, flexible work schedules, open workplaces, videoconferencing, and teleconferencing are becoming more common, particularly as a result of the COVID-19 pandemic. These practices may enable businesses to reduce their office space requirements. There is also an increasing trend among some businesses to utilize shared office spaces and co-working spaces. A continuation of the movement towards these practices could, over time, erode the overall demand for office space and, in turn, place downward pressure on occupancy, rental rates and property valuations.



## [Table of Contents](#)

***We may acquire properties in joint ventures, partnerships or through limited liability companies, which could limit our ability to control or liquidate such holdings.***

We may hold properties indirectly with others as co-owners (a co-tenancy interest) or indirectly through an intermediary entity such as a joint venture, partnership or limited liability company. Also, we may on occasion purchase an interest in a long-term leasehold estate or we may enter into a sale-leaseback financing transaction (see risk factor titled “In a sale-leaseback transaction, we are at risk that our seller/lessee will default, which could impair our operations and limit our ability to pay dividends.”). Such ownership structures allow us to hold a more valuable property with a smaller investment, but may reduce our ability to control such properties. In addition, if our co-owner in such arrangements experiences financial difficulties or is otherwise unable or unwilling to fulfill its obligations, we may be forced to find a new co-owner on less favorable terms or lose our interest in such property if no co-owner can be found.

***As a general partner or member in DownREIT entities, we could be responsible for all liabilities of such entities.***

We own three of our properties indirectly through limited liability companies and limited partnerships under a DownREIT structure. In a DownREIT structure, as well as some joint ventures or other investments we may make, we may utilize a limited liability company or a limited partnership as the holder of our real estate investment. We currently own a portion of these interests as a member, general partner and/or limited partner and in the future may acquire all or a greater interest in such entity. As a sole member or general partner, we are or would be potentially liable for all of the liabilities of the entities, even if we do not have rights of management or control over its operations. Therefore, our liability could far exceed the amount or value of investment we initially made, or then had, in such entities.

***Our ability to operate a property may be limited by contract, which could prevent us from obtaining the maximum value from such properties.***

Some of our properties will likely be contiguous to other parcels of real property, for example, comprising part of the same shopping center development. In some cases, there could exist significant covenants, conditions and restrictions, known as CC&Rs, relating to such property and any improvements or easements related to that property. The CC&Rs would restrict our operation of that property and could adversely affect the value of such property, either of which could adversely affect our operating costs and reduce the amount of funds that we have available to pay dividends.

***We may acquire properties “as is,” which increases the risk that we will have to remedy defects or costs without recourse to the seller.***

We may acquire real estate properties “as is,” with only limited representations and warranties from the seller regarding matters affecting the condition, use and ownership of the property. If defects in the property or other matters adversely affecting the property are discovered post-closing, we may not be able to pursue a claim for any or all damages against the seller. Therefore, we could lose some or all of our invested capital in the property as well as rental income. Such a situation could negatively affect our financial condition and results of operations.

***In a sale-leaseback transaction, we are at risk that our seller/lessee will default, which could impair our operations and limit our ability to pay dividends.***

In our model homes business, we frequently lease model home properties back to the seller or homebuilder for a certain period of time. Our ability to meet any mortgage payments is subject to the seller/lessee’s ability to pay its rent and other lease obligations, such as triple net expenses, on a timely basis. A default by the seller/lessee or other premature termination of its leaseback agreement with us and our subsequent inability to release the property could cause us to suffer losses and adversely affect our financial condition and ability to pay dividends.

***Our model home business is substantially dependent on the supply and/or demand for single family homes.***

Any significant decrease in the supply and/or demand for single family homes could have an adverse effect on our business. Reductions in the number of model home properties built by homebuilders due to fewer planned unit developments, rising construction costs or other factors affecting supply could reduce the number of acquisition opportunities available to us. The level of demand for single family homes may be impacted by a variety of factors, including changes in population density, the health of local, regional and national economies, mortgage rates, and the demand and use of model homes in newly developed communities by homebuilders and developers.

***We may be unable to acquire and/or manage additional model homes at competitive prices or at all.***

Model homes generally have a short life before becoming residential homes and there are a limited number of model homes at any given time. In addition, as each model home is unique, we need to expend resources to complete our due diligence and underwriting process on many individual model homes, thereby increasing our acquisition costs and possibly reducing the amount that we are able to pay for a particular property. Accordingly, our plan to grow our model home business by acquiring additional model homes to lease back to home builders may not succeed.

***There are a limited number of model homes and competition to buy these properties may be significant.***

We plan to acquire model homes to lease back to home builders when we identify attractive opportunities and have financing available to complete such acquisitions. We may face competition for acquisition opportunities from other investors. We may be unable to acquire a desired property because of competition from other well capitalized real estate investors, including private investment funds and others. Competition from other real estate investors may also significantly increase the purchase price we must pay to acquire properties.

***A significant percentage of our properties are concentrated in a small number of states, which exposes our business to the effects of certain regional events and occurrences.***

Our commercial properties are currently located in California, Colorado, Maryland, North Dakota and Texas. Our model home portfolio consists of properties currently located in three states, although a significant concentration of our model homes is located in Texas. As of December 31, 2022, approximately 96% of our model homes were located in Texas. This concentration of properties in a limited number of markets may expose us to risks of adverse economic developments that are greater than if our portfolio were more geographically diverse. These economic developments include regional economic downturns and potentially higher local property, sales and income taxes in the geographic markets in which we are concentrated. In addition, our properties are subject to the effects of adverse acts of nature, such as winter storms, hurricanes, hailstorms, strong winds, earthquakes and tornadoes, which may cause damage, such as flooding, to our properties. Additionally, we cannot assure you that the amount of casualty insurance we maintain would entirely cover damages caused by any such event, or in the case of our model homes portfolio or commercial triple net leases, that the insurance maintained by our tenants would entirely cover damages caused by any such event.

As a result of our geographic concentration of properties, we will face a greater risk of a negative impact on our revenues in the event these areas are more severely impacted by adverse economic and competitive conditions and extreme weather than other areas in the United States.

***We may be required under applicable accounting principles and standards to make impairment charges against one or more of our properties.***

Under current accounting standards, requirements, and principles, we are required to periodically evaluate our real estate investments for impairment based on a number of indicators. Impairment indicators include real estate markets, leasing rates, occupancy levels, mortgage loan status, and other factors which affect the value of a particular property. For example, a tenant's default under a lease, the upcoming termination of a long-term lease, the pending maturity of a mortgage loan secured by a property, and the unavailability of replacement financing are all impairment indicators. The presence of any of these indicators may require us to make a material impairment charge against the property so affected. If we determine an impairment has occurred, we are required to make an adjustment to the net carrying value of the property which could have a material adverse effect on our results of operations and financial condition for the period in which the impairment charge is recorded.

***Discovery of toxic mold on our properties may adversely affect our results of operation.***

Litigation and concern about indoor exposure to certain types of toxic molds have been increasing as the public becomes more aware that exposure to mold can cause a variety of health effects and symptoms, including allergic reactions. Toxic molds can be found almost anywhere; when excessive moisture accumulates in buildings or on building materials, mold growth will often occur, particularly if the moisture remains undiscovered or unaddressed. We attempt to acquire properties where there is no toxic mold or where there has not been any proceeding or litigation with respect to the presence of toxic mold. However, we cannot provide assurances that toxic mold will not exist on any of our properties or will not subsequently develop. The presence of toxic mold at any of our properties could require us to undertake a costly remediation program to contain or remove the mold from the affected property. In addition, the presence of toxic mold could expose us to liability from our tenants, employees of our tenants, and others if property damage or health concerns arise.



***Our long-term growth may depend on obtaining additional equity capital.***

Historically, we relied on cash from the sale of our equity securities to fund the implementation of our business plan, including property acquisitions and building our staff and internal management and administrative capabilities. We terminated our Series A Common Stock private placement on December 31, 2011 and closed on a preferred stock financing in August 2014, which financing was repaid in September 2020. Additionally, we consummated a preferred stock financing in June 2021 and in July 2021 completed a public offering of common stock and concurrent private placement of warrants. Our continued ability to fund real estate investments, our operations, and payment of dividends to our stockholders will likely be dependent upon our obtaining additional capital through the additional sales of our equity and/or debt securities. Without additional capital, we may not be able to grow our asset base to a size that is sufficient to support our planned growth, current operations, or to pay dividends to our stockholders at rates or at the levels required to maintain our REIT status (see risk factor titled “We may be forced to borrow funds on a short-term basis, to sell assets or to issue securities to meet the REIT minimum distribution or other requirements or for working capital purposes.”). There is no assurance as to when and under what terms we could successfully obtain additional funding through the sale of our equity and/or debt securities. Our access to additional equity or debt capital depends on a number of factors, including general market conditions, the market’s perception of our growth potential, our expected future earnings, and our debt levels. If we are unable to obtain such additional equity capital, it could have an adverse impact on our growth aspects and the market price of our outstanding securities.

***We currently are dependent on internal cash from our operations, financing and proceeds from property sales to fund future property acquisitions, meet our operational costs and pay dividends to our stockholders.***

To the extent the cash we receive from our real estate investments and re-financing of existing properties is not sufficient to pay our costs of operations, our acquisition of additional properties, or our payment of dividends to our stockholders, we would be required to seek capital through additional measures. We may incur additional debt or issue additional preferred and common stock for various purposes, including, without limitation, to fund future acquisitions and operational needs. Other measures of generating or preserving capital could include decreasing our operational costs through reductions in personnel or facilities, reducing or suspending our acquisition of real estate, and reducing or suspending dividends to our stockholders.

Reducing or suspending our property acquisition program would prevent us from fully implementing our business plan and reaching our investment objectives. Reducing or suspending the payment of dividends to our stockholders would decrease our stockholders’ return on their investment and possibly prevent us from satisfying the minimum distribution or other requirements of the REIT provisions (see risk factor titled “We may be forced to borrow funds on a short-term basis, to sell assets or to issue securities to meet the REIT minimum distribution or other requirements requirement or for working capital purposes.”). Any of these measures would likely have a substantial adverse effect on our financial condition, the value of our common stock, and our ability to raise additional capital.

***There can be no assurance that distributions will be paid, maintained or increased over time.***

There are many factors that can affect the availability and timing of cash distributions to our stockholders. Distributions are expected to be based upon our funds from operations, or FFO, financial condition, cash flows and liquidity, debt service requirements and capital or other expenditure requirements for our properties, and any distributions will be authorized at the sole discretion of our Board of Directors out of funds legally available therefor, and their form, timing and amount, if any, will be affected by many factors, such as our ability to acquire profitable real estate investments and successfully manage our real estate properties and our operating expenses. Other factors may be beyond our control. We can therefore provide no assurance that we will be able to pay or maintain distributions or that distributions will increase over time. For example, our distributions were suspended for the periods from the third quarter of 2017 through the third quarter of 2018 and for the final three quarters of 2019 through the third quarter of 2020. We have made quarterly distribution to our Series A Common stockholders since the fourth quarter of 2020 through the fourth quarter of 2022. If we do not have sufficient cash available for distributions, we may need to fund the shortage out of working capital or borrow to provide funds for such distributions, which would reduce the amount of proceeds available for real estate investments and increase our future interest costs. Our inability to pay distributions, or to pay distributions at expected levels, could result in a decrease in the per share trading price of our Series A Common Stock, Series D Preferred Stock or Series A Warrants.

***If we are unable to find suitable investments, we may not be able to achieve our investment objectives or continue to pay distributions.***

Our ability to achieve our investment objectives and to pay distributions on a regular basis is dependent upon our acquisition of suitable property investments and obtaining satisfactory financing arrangements. We cannot be sure that our management will be successful in finding suitable properties on financially attractive terms. If our management is unable to find such investments, we will hold the proceeds available for investment in an interest-bearing account or invest the proceeds in short-term, investment-grade investments. Holding such short-term investments will prevent us from making the long-term investments necessary to generate operating income to pay distributions. As a result, we will need to raise additional capital to continue to pay distributions until such time as suitable property investments become available (see risk factor titled “We may be forced to borrow funds on a short-term basis, to sell assets or to issue securities to meet the REIT minimum distribution or other requirements or for working capital purposes.”). In the event that we are unable to do so, our ability to pay distributions to our stockholders will be adversely affected.

***We depend on key personnel, and the loss of such persons could impair our ability to achieve our business objectives.***

Our success substantially depends upon the continued contributions of certain key personnel in evaluating and securing investments, selecting tenants and arranging financing. Our key personnel include Jack K. Heilbron, our Chief Executive Officer and President, Adam Sragovicz, our Chief Financial Officer, and Gary Katz, our Chief Investment Officer, each of whom would be difficult to replace. If either of these individuals or any of the other members of our management team were to leave, the implementation of our investment strategies could be delayed or hindered, and our operating results could suffer.

We also believe that our future success depends, in large part, upon our ability to hire and retain skilled and experienced managerial and operational personnel. Competition for skilled and experienced professionals has intensified, and we cannot assure our stockholders that we will be successful in attracting and retaining such personnel.

***We rely on third-party property managers to manage most of our properties and brokers or agents to lease our properties.***

We rely on various third-party property managers to manage most of our properties and local brokers or agents to lease vacant space. These third-party property managers have significant decision-making authority with respect to the management of our properties. Although we are significantly engaged with our third-party property managers, our ability to direct and control how our properties are managed on a day-to-day basis may be limited. Major issues encountered by our property managers, broker or leasing agents could adversely impact the operation and profitability of our properties and, consequently, our financial condition, results of operations, cash flows, cash available for distributions and our ability to service our debt obligations.

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

Our Board of Directors may change our investment and business policies, including our policies with respect to investments, acquisitions, growth, operations, indebtedness, capitalization and distributions, at any time without the consent of our stockholders. Although our independent directors review our investment policies at least annually to determine that the policies we are following are in the best interests of our Company, a change in such policies could result in our making investments different from, and possibly riskier than, investments made in the past. A change in our investment policies may, among other things, increase our exposure to interest rate risk, default risk and real estate market fluctuations, all of which could materially affect our ability to achieve our investment objectives.

## [Table of Contents](#)

***If we are deemed to be an investment company under the Investment Company Act, including due to our sponsorship of the Murphy Canyon SPAC, our stockholders' investment return may be reduced.***

We are not registered as an investment company under the Investment Company Act of 1940, based on exceptions we believe are available to us. Our investment in the Murphy Canyon SPAC discussed above could give rise to a determination that we are an investment company subject to registration under the Investment Company Act. We intend to conduct our operations so that we will not be deemed to be an investment company. The SPAC IPO registration statement and related prospectus includes an exception permitting us to transfer our ownership in the founder shares at any time to the extent that we determine, in good faith, that such transfer is necessary to ensure that we comply with the Investment Company Act.

***Provisions of Maryland law may limit the ability of a third party to acquire control of us by requiring our Board of Directors or stockholders to approve proposals to acquire our Company or effect a change in control.***

Certain provisions of the Maryland General Corporation Law ("MGCL") may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change in control under circumstances that otherwise could provide our stockholders with the opportunity to realize a premium over the then-prevailing market price of their shares of common stock, including:

- "business combination" provisions that, subject to certain exceptions and limitations, prohibit certain business combinations between a Maryland corporation and an "interested stockholder" (defined generally as any person who beneficially owns 10% or more of the voting power of our outstanding voting stock or an affiliate or associate of ours who, at any time within the two-year period immediately prior to the date in question, was the beneficial owner of 10% or more of the voting power of our then outstanding shares of stock) or an affiliate of any interested stockholder for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter imposes two super-majority stockholder voting requirements on these combinations, unless, among other conditions, our common stockholders receive a minimum price, as defined in the MGCL, for their shares and the consideration is received in cash or in the same form as previously paid by the interested stockholder for its shares of stock; and
- "control share" provisions that provide that, subject to certain exceptions, holders of "control shares" (defined as voting shares that, when aggregated with all other shares controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a "control share acquisition" (defined as the direct or indirect acquisition of ownership or control of issued and outstanding "control shares") have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding shares owned by the acquirer, by our officers or by our employees who are also directors of our Company.

By resolution, our Board of Directors has exempted business combinations between us and any other person, provided that the business combination is first approved by our Board of Directors (including a majority of our directors who are not affiliates or associates of such person). We cannot assure you that our Board of Directors will not amend or repeal this resolution in the future. In addition, pursuant to a provision in our bylaws we have opted out of the control share provisions of the MGCL.

In addition, the "unsolicited takeover" provisions of Title 3, Subtitle 8 of the MGCL permit our Board of Directors, without stockholder approval and regardless of what is provided in our charter or bylaws, to implement certain takeover defenses, including adopting a classified board or increasing the vote required to remove a director. Such takeover defenses may have the effect of inhibiting a third party from making an acquisition proposal for us or of delaying, deferring or preventing a change in control of us under the circumstances that otherwise could provide our common stockholders with the opportunity to realize a premium over the then-current market price.

***Our Board of Directors may approve the issuance of stock, including preferred stock, with terms that may discourage a third party from acquiring us.***

Other than as set forth therein, our charter permits our Board of Directors, without any action by our stockholders, to authorize the issuance of stock in one or more classes or series. Our Board of Directors may also classify or reclassify any unissued preferred stock and set or change the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications and terms and conditions of redemption of any such stock, which rights may be superior to those of our common stock. Thus, our Board of Directors could authorize the issuance of shares of a class or series of stock with terms and conditions which could have the effect of discouraging a takeover or other transaction in which holders of some or a majority of our outstanding common stock might receive a premium for their shares over the then current market price of our common stock.

***Our rights and the rights of our stockholders to take action against our directors and officers are limited.***

Our charter eliminates the liability of our directors and officers to us and our stockholders for money damages to the maximum extent permitted under Maryland law. Under current Maryland law and our charter, our directors and officers will not have any liability to us or our stockholders for money damages other than liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- active and deliberate dishonesty by the director or officer that was established by a final judgment and is material to the cause of action adjudicated.

Our charter authorizes us and our bylaws obligate us to indemnify each of our directors or officers who is or is threatened to be made a party to, or witness in, a proceeding by reason of his or her service in those or certain other capacities, to the maximum extent permitted by Maryland law, from and against any claim or liability to which such person may become subject or which such person may incur by reason of his or her status as a present or former director or officer of us or serving in such other capacities. In addition, we may be obligated to pay or reimburse the expenses incurred by our present and former directors and officers without requiring a preliminary determination of their ultimate entitlement to indemnification. As a result, we and our stockholders may have more limited rights to recover money damages from our directors and officers than might otherwise exist absent these provisions in our charter and bylaws or that might exist with other companies, which could limit your recourse in the event of actions that are not in our or your best interests.

***Our management faces certain conflicts of interest with respect to their other positions and/or interests outside of our Company, which could hinder our ability to implement our business strategy and to generate returns to our stockholders.***

We rely on our management, including Mr. Heilbron, our Chief Executive Officer and President, for implementation of our investment policies and our day-to-day operations. Although the majority of his business time is spent working for our Company, Mr. Heilbron engages in other investment and business activities in which we have no economic interest. His responsibilities to these other entities could result in action or inaction that is detrimental to our business, which could harm the implementation of our business strategy. He may face conflicts of interest in allocating his time among us and his other business ventures and in meeting his obligations to us and those other entities. His determinations in these situations may be more favorable to other entities than to us.

***Possible future transactions with our management or their affiliates could create a conflict of interest, which could result in actions that are not in the long-term best interests of our stockholders.***

Under prescribed circumstances, we may enter into transactions with affiliates of our management, including the borrowing and lending of funds, the purchase and sale of properties and joint investments. Currently, our policy is not to enter into any transaction involving sales or purchases of properties or joint investments with management or their affiliates, or to borrow from or lend money to such persons. However, our policies in each of these regards may change in the future.

***We face system security risks as we depend on automated processes and the Internet.***

We are increasingly dependent on automated information technology processes. While we attempt to mitigate this risk through offsite backup procedures and contracted data centers that include, in some cases, redundant operations, we could be severely impacted by a catastrophic occurrence, such as a natural disaster or a terrorist attack.

In addition, an increasing portion of our business operations are conducted over the Internet, putting us at risk from cybersecurity attacks, including attempts to make unauthorized transfers of funds, gain unauthorized access to our confidential data or information technology systems, viruses, ransomware, and other electronic security breaches. Such cyber-attacks may involve more sophisticated security threats that could impact day-to-day operations. While we employ a number of measures to prevent, detect and mitigate these threats, there is no guarantee such efforts will be successful at preventing a cyber-attack. Cybersecurity incidents could compromise confidential information of our tenants, employees and vendors and cause system failures and disruptions of operations.

## [Table of Contents](#)

### ***Risks related to cyber-attacks, cyber intrusions and other security breaches.***

We face risks associated with security breaches, whether through cyber-attacks or cyber intrusions over the Internet, malware, computer viruses, attachments to e-mails, persons inside our organization or persons with access to systems inside our organization, and other significant disruptions of our IT networks and related systems. The risk of a security breach or disruption, particularly through cyber-attack or cyber intrusion has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. In addition, the risk of cyber-attack or cyber intrusion has increased and become more costly to monitor and manage with more of our employees and the employees of our vendors, customers or other business partners working remotely as a result of the ongoing pandemic. Our IT networks and related systems are essential to the operation of our business and our ability to perform day-to-day operations (including managing our building systems). We make efforts to maintain the security and integrity of our IT networks and systems and have implemented various measures to manage the risk of a security breach or disruption. However, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging. A security breach or other significant disruption involving our IT networks and related systems could result in unauthorized access to proprietary, confidential, sensitive or otherwise valuable information, significantly disrupt our business operations, cause damage to our reputation and subject us to additional unforeseen costs and require significant time and resources to remedy. Any or all of the foregoing could have a material adverse effect on our results of operations, financial condition and cash flows.

***Current legislative uncertainty and discourse could cause significant economic impact on markets, including the availability and access to capital markets and other funding sources, adverse changes in real estate values and increased interest rates. Such impacts could have a material adverse effect on our business, financial condition, results from operation and growth prospects.***

In 2022, the United States Federal Reserve raised interest rates multiple times over the course of the year and is expected raise interest rates several times in 2023 as well. An increase in the federal funds effective rate could cause an increase in rates related to lending for commercial real estate, which could have a material adverse effect on our business, including our ability to pay distributions. Further, the outcome of congressional and other elections creates uncertainty with respect to legal, tax and regulatory regimes in which we operate. These changes could result in sweeping reform in many laws and regulations, including without limitation, those relating to taxes, small business aid and recovery from the COVID-19 pandemic. In addition, political discourse continues to be abrasive and an inability of the legislative and executive branches to engage in bipartisan politics may lead to instability on legislative, economic and social matters. These factors could have significant economic impacts on the markets, including without limitation, the stability, availability and access to capital markets and other funding sources, reduced real estate values and increases to interest rates. Such impacts could have a material adverse effect on our business, financial condition, results from operation and growth prospects.

***Our sponsorship of Murphy Canyon requires significant capital deployment, entails the risk of losing our entire investment, and may not be successful, which would likely have a material adverse effect on our future expansion, revenues, and profits.***

We purchased, through the Sponsor, founder shares in Murphy Canyon for an aggregate purchase price of \$25,000. In connection with Murphy Canyon's IPO, we purchased, through the Sponsor, 754,000 private placement units at a price of \$10.00 per unit, for an aggregate purchase price of \$7,540,000. We currently own approximately 65% of Murphy Canyon's outstanding shares. The founder shares and private placement units will be worthless if Murphy Canyon does not complete an initial business combination. In addition, the Sponsor has loaned or expect to loan Murphy Canyon up to \$1,500,000. Accordingly, we will benefit from the completion of a business combination and may be incentivized to complete an acquisition of a less favorable target company or on terms less favorable to shareholders rather than liquidate.

The value of our equity investment in Murphy Canyon, as carried on the consolidated balance sheet included in the financial statements accompanying this Form 10-K, is approximately \$7.56 million, which we have computed in accordance with accounting principles generally accepted in the United States ("GAAP"), and which constitutes [a significant portion/ the majority] of the carrying value of our total assets as reflected on our consolidated balance sheet. If Murphy Canyon is unable to consummate its IBC successfully, then we would likely be unable to recover any portion of this equity investment. Further, even if Murphy Canyon is able to consummate its IBC, we can provide no assurance that the value of this equity investment will not decline significantly based upon a variety of factors, including, without limitation, shareholder and general market reaction to any IBC, redemption requests received from Murphy Canyon stockholders in connection with any proposed IBC, and Murphy Canyon stockholder dilution resulting from additional capital raises or other financing transactions undertaken by Murphy Canyon in connection with its IBC.

***Our officers, including our Chairman, Chief Executive Officer and President, Mr. Heilbron, will allocate some of their time to Murphy Canyon, thereby causing potential conflicts of interest in their determination as to how much time to devote to our affairs. This potential conflict of interest could have a negative impact on our operations.***

Mr. Heilbron, our Chairman, Chief Executive Officer and President, Mr. Sragovicz, our Chief Financial Officer, and Mr. Bentzen, our Chief Accounting Officer, also serve in these positions for Murphy Canyon, and Mr. Heilbron and Mr. Sragovicz additionally serve as directors of Murphy Canyon. These officers may not commit their full time to our affairs, which may result in a conflict of

interest in allocating their time between our operations and Murphy Canyon's operations. These officers are engaged in Murphy Canyon and are not obligated to contribute any specific number of hours per week to our affairs. While we do not believe that the time devoted to the SPAC will undermine their ability to fulfill their duties with respect to our Company, if the business affairs of Murphy Canyon require them to devote substantial amounts of time to such affairs, it could limit their ability to devote time to our affairs which may have a negative impact on our operations.



## Risks Related to our Indebtedness

*We have significant outstanding indebtedness, which requires that we generate sufficient cash flow to satisfy the payment and other obligations under the terms of our debt and exposes us to the risk of default under the terms of our debt.*

Our total gross indebtedness as of December 31, 2022 was approximately \$97.8 million. We may incur additional debt for various purposes, including, without limitation, to fund future acquisitions and operational needs.

The terms of our outstanding indebtedness provide for significant principal and interest payments. Our ability to meet these and other ongoing payment obligations of our debt depends on our ability to generate significant cash flow in the future. Our ability to generate cash flow, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors, as well as other factors that are beyond our control. We cannot assure you that our business will generate cash flow from operations, or that capital will be available to us, in amounts sufficient to enable us to meet our payment obligations under our loan agreements and to fund our other liquidity needs. If we are not able to generate sufficient cash flow to service these obligations, we may need to refinance or restructure our debt, sell unencumbered assets subject to defeasance or yield maintenance costs (which we may be limited in doing in light of the relatively illiquid nature of our properties), reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet these payment obligations, which could materially and adversely affect our liquidity. Our outstanding indebtedness, and the limitations imposed on us by the agreements that govern our outstanding indebtedness, could have significant adverse consequences, including the following:

- make it more difficult for us to satisfy our obligations;
- limit our ability to obtain additional financing to fund future working capital, capital expenditures and other general corporate requirements, or to carry out other aspects of our business plan;
- limit our ability to refinance our indebtedness at maturity or impose refinancing terms that may be less favorable than the terms of the original indebtedness;
- require us to dedicate a substantial portion of our cash flow from operations to payments on obligations under our outstanding indebtedness, thereby reducing the availability of such cash flow to fund working capital, capital expenditures and other general corporate requirements, or adversely affect our ability to meet REIT distribution requirements imposed by the Code;
- cause us to violate restrictive covenants in the documents that govern our indebtedness, which would entitle our lenders to charge default rates of interest and/or accelerate our debt obligations;
- cause us to default on our obligations, causing lenders or mortgagees to foreclose on properties that secure our loans and receive an assignment of our rents and leases;
- force us to dispose of one or more of our properties, possibly on unfavorable terms or in violation of certain covenants to which we may be subject;
- limit our ability to make material acquisitions or take advantage of business opportunities that may arise and limit our flexibility in planning for, or reacting to, changes in our business and industry, thereby limiting our ability to compete effectively or operate successfully; and
- cause us to not have sufficient cash flow to pay dividends to our stockholders or place restrictions on the payment of dividends to our stockholders.

## [Table of Contents](#)

If any one of these events was to occur, our business, results of operations and financial condition would be materially adversely affected.

### ***Mortgage indebtedness and other borrowings increase our operational risks.***

Loans obtained to fund property acquisitions will generally be secured by mortgages on our properties. The more we borrow, the higher our fixed debt payment obligations will be and the greater the risk that we will not be able to timely meet these payment obligations. At December 31, 2022, excluding our model home properties, we had a total of approximately \$73.0 million of secured financing on our properties. If we are unable to make our debt payments as required, due to a decrease in rental or other revenues or an increase in our other costs, a lender could charge us a default rate of interest and/or foreclose on the property or properties securing its debt. This could cause an adverse effect on our results of operations and/or cause us to lose part or all of our investment, adversely affecting our financial condition by lowering the value of our real estate portfolio.

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

Some of our mortgage loans impose restrictions that affect our distribution and operating policies, our ability to incur additional debt and our ability to resell interests in properties. A number of loan documents contain covenants requiring us to maintain cash reserves or letters of credit under certain circumstances and limiting our ability to further mortgage the property, discontinue certain insurance coverage, replace the property manager, or terminate certain operating or lease agreements related to the property. Such restrictions may limit our ability to achieve our investment objectives.

### ***Financing arrangements involving balloon payment obligations may adversely affect our ability to pay distributions.***

Some of our mortgage loans require us to make a lump-sum or “balloon” payment at maturity. We may finance more properties that we acquire in this manner. Our ability to make a balloon payment at maturity could be uncertain and may depend upon our ability to obtain additional financing, to refinance the debt or to sell the property. When the balloon payment is due, we may not be able to refinance debt on favorable terms or sell the property at a price that would cover the balloon payment. The effect of a refinancing or sale could affect the rate of return to stockholders and the value of our common stock.

In addition, making a balloon payment may leave us with insufficient cash to pay the distributions that are required to maintain our qualification as a REIT. At December 31, 2022, excluding our model homes business, we have no mortgage that requires a balloon payment in 2023. The model homes division pays off the balance of its mortgages using proceeds from the sale of the underlying homes. Any deficiency in the sale proceeds would have to be paid from existing cash, reducing the amount available for distributions and operations.

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

### ***Failure to qualify as a REIT could adversely affect our operations and our ability to pay distributions.***

We elected to be taxed as a REIT for federal income tax purposes commencing with our taxable year ended December 31, 2001. We believe that we have been organized and have operated in a manner that has allowed us to qualify for taxation as a REIT for federal income tax purposes commencing with such taxable year, and we expect to operate in a manner that will allow us to continue to qualify as a REIT for federal income tax purposes. However, the federal income tax laws governing REITs are extremely complex, and interpretations of the federal income tax laws governing qualification as a REIT are limited. Qualifying as a REIT requires us to meet various tests regarding the nature of our assets and our income, the ownership of our outstanding stock, and the amount of our distributions on an ongoing basis. While we intend to continue to operate so that we will qualify as a REIT, given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, including the tax treatment of certain investments and dispositions, and the possibility of future changes in our circumstances, no assurance can be given that we will qualify for any particular year. If we lose our REIT qualification, we would be subject to federal corporate income taxation on our taxable income, and we could also be subject to increased state and local taxes. Additionally, we would not be allowed a deduction for distributions paid to stockholders. Moreover, unless we are entitled to relief under applicable statutory provisions, we could not elect to be taxed as a REIT for four taxable years following the year during which we were disqualified. The income tax consequences could be substantial and would reduce our cash available for distribution to stockholders and investments in additional real estate. We could also be required to borrow funds or liquidate some investments in order to pay the applicable tax. If we fail to qualify as a REIT, we would not be required to make distributions to our stockholders.



## [Table of Contents](#)

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

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

- To continue to qualify as a REIT, we must distribute annually at least 90% of our REIT taxable income (determined without regard to the dividends paid deduction and excluding net capital gains) to our stockholders. If we satisfy the distribution requirement but distribute less than 100% of our REIT taxable income (determined without regard to the dividends paid deduction and including net capital gains), we will be subject to corporate income tax on the undistributed income.
- We will be subject to a 4% nondeductible excise tax on the amount, if any, by which the distributions that we pay in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income, and 100% of our undistributed income from prior years.
- If we have net income from the sale of foreclosure property that we hold primarily for sale to customers in the ordinary course of business or other non-qualifying income from foreclosure property, we must pay a tax on that income at the highest corporate income tax rate.
- If we sell a property, other than foreclosure property, that we hold primarily for sale to customers in the ordinary course of business, our gain will be subject to the 100% “prohibited transaction” tax.
- We may be subject to state and local taxes on our income or property, either directly or indirectly because of the taxation of entities through which we indirectly own our assets.
- Our subsidiaries that are “taxable REIT subsidiaries” will generally be required to pay federal corporate income tax on their earnings.

### *Our ownership of taxable REIT subsidiaries is subject to certain restrictions, and we will be required to pay a 100% penalty tax on certain income or deductions if our transactions with our taxable REIT subsidiaries are not conducted on arm’s length terms.*

We own and may acquire direct or indirect interests in one or more entities that have elected or will elect, together with us, to be treated as our taxable REIT subsidiaries. A taxable REIT subsidiary is a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) other than a REIT in which a REIT directly or indirectly holds stock, and that has made a joint election with such REIT to be treated as a taxable REIT subsidiary. If a taxable REIT subsidiary owns more than 35% of the total voting power or value of the outstanding securities of another corporation, such other corporation will also be treated as a taxable REIT subsidiary. Other than some activities relating to lodging and health care facilities, a taxable REIT subsidiary may generally engage in any business, including the provision of customary or non-customary services to tenants of its parent REIT. A taxable REIT subsidiary is subject to U.S. federal income tax as a regular C corporation. In addition, a 100% excise tax will be imposed on certain transactions between a taxable REIT subsidiary and its parent REIT that are not conducted on an arm’s length basis.

A REIT’s ownership of securities of a taxable REIT subsidiary is not subject to the 5% or 10% asset tests applicable to REITs. Not more than 25% of the value of our total assets could be represented by securities, including securities of taxable REIT subsidiaries, other than those securities includable in the 75% asset test. Further, for taxable years beginning after December 31, 2017, not more than 20% of the value of our total assets may be represented by securities of taxable REIT subsidiaries. We anticipate that the aggregate value of the stock and other securities of any taxable REIT subsidiaries that we own will be less than 20% of the value of our total assets, and we will monitor the value of these investments to ensure compliance with applicable asset test limitations. In addition, we intend to structure our transactions with any taxable REIT subsidiaries that we own to ensure that they are entered into on arm’s length terms to avoid incurring the 100% excise tax described above. There can be no assurance, however, that we will be able to comply with these limitations or avoid application of the 100% excise tax discussed above.

## [Table of Contents](#)

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

To qualify as a REIT, we must continually satisfy tests concerning, among other things, the nature and diversification of our assets, the sources of our income and the amounts we distribute to our stockholders. In order to maintain our REIT status or avoid the payment of income and excise taxes, we may need to borrow funds on a short-term basis to meet the REIT distribution requirements, even if the then-prevailing market conditions are not favorable for these borrowings. To qualify as a REIT, in general, we must distribute to our stockholders at least 90% of our REIT taxable income (determined without regard to the dividends paid deduction and excluding net capital gains) each year. We have and intend to continue to make distributions to our stockholders. However, our ability to make distributions may be adversely affected by the risk factors described elsewhere herein. In the event of a decline in our operating results and financial performance or in the value of our asset portfolio, we may not have cash sufficient for distribution. Therefore, to preserve our REIT status or avoid taxation, we may need to borrow funds, sell assets or issue additional securities, even if the then-prevailing market conditions are not favorable. Moreover, we may be required to liquidate or forgo otherwise attractive investments in order to satisfy the REIT asset and income tests or to qualify under certain statutory relief provisions. If we are compelled to liquidate our investments to meet any of these asset, income or distribution tests, or to repay obligations to our lenders, we may be unable to comply with one or more of the requirements applicable to REITs or may be subject to a 100% tax on any resulting gain if such sales constitute prohibited transactions.

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

***The tax imposed on REITs engaging in “prohibited transactions” may limit our ability to engage in transactions that would be treated as sales for U.S. federal income tax purposes.***

A REIT’s net income from prohibited transactions is subject to a 100% penalty tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. Although we do not intend to hold any properties that would be characterized as held for sale to customers in the ordinary course of our business unless a sale or disposition qualifies under certain statutory safe harbors, such characterization is a factual determination and no guarantee can be given that the Internal Revenue Service (“IRS”) would agree with our characterization of our properties or that we will always be able to make use of the available safe harbors.

***Legislative or other actions affecting REITs could have a negative effect on our investors or us.***

The rules dealing with federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Department of the Treasury. Changes to the tax laws, with or without retroactive application, could adversely affect our investors or us. We cannot predict how changes in the tax laws might affect our investors or us. New legislation, Treasury Regulations, administrative interpretations or court decisions could significantly and negatively affect our ability to qualify as a REIT, the federal income tax consequences of such qualification, or the federal income tax consequences of an investment in us. Also, the law relating to the tax treatment of other entities, or an investment in other entities, could change, making an investment in such other entities more attractive relative to an investment in a REIT.

***The stock ownership limit imposed by the Code for REITs and our charter may discourage a takeover that could otherwise result in a premium price for our stockholders.***

In order for us to maintain our qualification as a REIT, no more than 50% in value of our outstanding stock may be beneficially owned, directly or indirectly, by five or fewer individuals (including certain types of entities) at any time during the last half of each taxable year. To ensure that we do not fail to qualify as a REIT under this test, our charter restricts ownership by one person or entity to no more than 9.8% in value or number of shares, whichever is more restrictive, of the outstanding shares of our common stock or more than 9.8% in value of the aggregate outstanding shares of all classes and series of our capital stock. This restriction may have the effect of delaying, deferring or preventing a change in control, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price for holders of our common stock.

***Dividends payable by REITs generally are taxed at the higher ordinary income rate, which could reduce the net cash received by stockholders and may be detrimental to our ability to raise additional funds through any future sale of our common stock.***

Income from “qualified dividends” payable to U.S. stockholders that are individuals, trusts and estates is generally subject to tax at reduced rates. However, dividends payable by REITs to its stockholders generally are not eligible for the reduced rates for qualified dividends and are taxed at ordinary income rates (but U.S. stockholders that are individuals, trusts and estates generally may deduct 20% of ordinary dividends from a REIT for taxable years beginning after December 31, 2017 and before January 1, 2026). Although these rules do not adversely affect the taxation of REITs or dividends payable by REITs, to the extent that the reduced rates continue to apply to regular corporate qualified dividends, investors that are individuals, trusts and estates may perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could materially and adversely affect the value of the shares of REITs, including the per share trading price of our common stock, and could be detrimental to our ability to raise additional funds through the future sale of our common stock.

***Tax-exempt stockholders will be taxed on our distributions to the extent such distributions are unrelated business taxable income.***

Generally, neither ordinary nor capital gain distributions should constitute unrelated business taxable income (“UBTI”) to tax-exempt entities, such as employee pension benefit trusts and individual retirement accounts. Our payment of distributions to a tax-exempt stockholder will constitute UBTI, however, if the tax-exempt stockholder has incurred debt to acquire its shares. Therefore, tax-exempt stockholders are not assured all dividends received will be tax-free.

#### **Risks Related to our Common Stock, Preferred Stock and Series A Warrants**

***Our Series D Preferred Stock is subordinate to our existing and future debt, and your interests could be diluted by the issuance of additional preferred stock and by other transactions.***

The Series D Preferred Stock ranks junior to all of our existing and future debt and to other non-equity claims on us and our assets available to satisfy claims against us, including claims in bankruptcy, liquidation or similar proceedings. Our future debt may include restrictions on our ability to pay distributions to preferred stockholders. Our charter currently authorizes the issuance of up to 1,000,000 shares of preferred stock in one or more classes or series. Subject to limitations prescribed by Maryland law and our charter, our Board of Directors is authorized to issue, from our authorized but unissued shares of stock, preferred stock in such classes or series as our Board of Directors may determine and to establish from time to time the number of shares of preferred stock to be included in any such class or series. The issuance of additional shares of Series D Preferred Stock or another series of preferred stock designated as ranking on parity with the Series D Preferred Stock would dilute the interests of the holders of shares of the Series D Preferred Stock, and the issuance of shares of any class or series of our stock expressly designated as ranking senior to the Series D Preferred Stock or the incurrence of additional indebtedness could affect our ability to pay distributions on, redeem or pay the liquidation preference on the Series D Preferred Stock. The Series D Preferred Stock do not contain any terms relating to or limiting our indebtedness or affording the holders of shares of the Series D Preferred Stock protection in the event of a highly leveraged or other transaction, including a merger or the sale, lease or conveyance of all or substantially all our assets, that might adversely affect the holders of shares of the Series D Preferred Stock, so long as the rights, preferences, privileges or voting power of the Series D Preferred Stock or the holders thereof are not materially and adversely affected.

## [Table of Contents](#)

### ***As a holder of shares of the Series D Preferred Stock, you have extremely limited voting rights.***

Your voting rights as a holder of shares of the Series D Preferred Stock will be limited. Our shares of common stock are the only class of our securities carrying full voting rights. Voting rights for holders of shares of the Series D Preferred Stock exist primarily with respect to adverse changes in the terms of the Series D Preferred Stock and the creation of additional classes or series of preferred shares that are senior to the Series D Preferred Stock. Other than these limited voting rights described herein, holders of shares of the Series D Preferred Stock will not have any voting rights.

***Our cash available for distributions may not be sufficient to pay distributions on the Series D Preferred Stock at expected levels, and we cannot assure you of our ability to pay distributions in the future. We may use borrowed funds or funds from other sources to pay distributions, which may adversely impact our operations.***

We have paid and intend to pay regular monthly distributions to holders of our Series D Preferred Stock. Distributions declared by us are and will be authorized by our Board of Directors in its sole discretion out of assets legally available for distribution and will depend upon a number of factors, including our earnings, our financial condition, restrictions under applicable law, our need to comply with the terms of our existing financing arrangements, the capital requirements of our Company and other factors as our Board of Directors may deem relevant from time to time. We may be required to fund distributions from working capital, proceeds of our equity offerings or a sale of assets to the extent distributions exceed earnings or cash flows from operations. Funding distributions from working capital would restrict our operations. If we are required to sell assets to fund distributions, such asset sales may occur at a time or in a manner that is not consistent with our disposition strategy. If we borrow to fund distributions, our leverage ratios and future interest costs would increase, thereby reducing our earnings and cash available for distribution from what they otherwise would have been. We may not be able to pay distributions in the future. In addition, some of our distributions may be considered a return of capital for income tax purposes. If we decide to make distributions in excess of our current and accumulated earnings and profits, such distributions would generally be considered a return of capital for federal income tax purposes to the extent of the holder's adjusted tax basis in its shares. A return of capital is not taxable, but it has the effect of reducing the holder's adjusted tax basis in its investment. If distributions exceed the adjusted tax basis of a holder's shares, they will be treated as gain from the sale or exchange of such stock.

***We could be prevented from paying cash dividends on the Series D Preferred Stock due to prescribed legal requirements.***

Holders of shares of Series D Preferred Stock do not receive dividends on such shares unless authorized by our Board of Directors and declared by us. Under Maryland law, cash dividends on stock may only be paid if, after giving effect to the dividends, our total assets exceed our total liabilities and we are able to pay our indebtedness as it becomes due in the ordinary course of business. Unless we operate profitably, our ability to pay cash dividends on the Series D Preferred Stock may be negatively impacted. Our business may not generate sufficient cash flow from operations to enable us to pay dividends on the Series D Preferred Stock when payable. Further, even if we meet the applicable solvency tests under Maryland law to pay cash dividends on the Series D Preferred Stock described above, we may not have sufficient cash to pay dividends on the Series D Preferred Stock.

Furthermore, no dividends on Series D Preferred Stock shall be authorized by our Board of Directors or paid, declared or set aside for payment by us at any time when the authorization, payment, declaration or setting aside for payment would be unlawful under Maryland law or any other applicable law.

***We may redeem the Series D Preferred Stock and you may not receive dividends that you anticipate if we redeem the Series D Preferred Stock.***

On or after June 15, 2026, we may, at our option, redeem the Series D Preferred Stock, in whole or in part, at any time or from time to time. Also, upon the occurrence of a Change of Control, we may, at our option, redeem the Series D Preferred Stock, in whole or in part, within 120 days after the first date on which such Change of Control occurred. We may have an incentive to redeem the Series D Preferred Stock voluntarily if market conditions allow us to issue other preferred stock or debt securities at a rate that is lower than the dividend rate on the Series D Preferred Stock. If we redeem the Series D Preferred Stock, from and after the redemption date, dividends will cease to accrue on shares of Series D Preferred Stock, the shares of Series D Preferred Stock shall no longer be deemed outstanding and all rights as a holder of those shares will terminate, except the right to receive the redemption price plus accumulated and unpaid dividends, if any, payable upon redemption.

***Holders of shares of the Series D Preferred Stock should not expect us to redeem the Series D Preferred Stock on or after the date they become redeemable at our option.***

## [Table of Contents](#)

The Series D Preferred Stock is a perpetual equity security. This means that it has no maturity or mandatory redemption date and is not redeemable at the option of the holders. The Series D Preferred Stock may be redeemed only by us at our option either in whole or in part, from time to time, at any time on or after June 15, 2026, or within 120 days following the occurrence of a Change of Control. Any decision we may make at any time to propose a redemption of the Series D Preferred Stock will depend upon, among other things, our evaluation of our capital position, the composition of our stockholders' equity and general market conditions at that time.

***The Series D Preferred Stock is not convertible into shares of our common stock, and investors will not realize a corresponding upside if the price of the common stock increases.***

The Series D Preferred Stock is not convertible into shares of our common stock and earns dividends at a fixed rate. Accordingly, an increase in market price of our common stock will not necessarily result in an increase in the market price of our Series D Preferred Stock. The market value of the Series D Preferred Stock may depend more on dividend and interest rates for other preferred stock, commercial paper and other investment alternatives and our actual and perceived ability to pay dividends on, and in the event of dissolution satisfy the liquidation preference with respect to, the Series D Preferred Stock.

***The Change of Control right may make it more difficult for a party to acquire us or discourage a party from acquiring us.***

The Change of Control right allowing us to redeem the Series D Preferred Stock, in whole or in part, any time from time to time, for cash at a redemption price equal to \$25.00 per share, plus any accumulated and unpaid dividends thereon to, but not including, the date of fixed redemption, may have the effect of discouraging a third party from making an acquisition proposal for us or of delaying, deferring or preventing certain of our change of control transactions under circumstances that otherwise could provide the holders of our Series D Preferred Stock with the opportunity to realize a premium over the then-current market price of such equity securities or that stockholders may otherwise believe is in their best interests.

***Our bylaws provide that, unless we consent in writing to the selection of an alternative forum, the Circuit Court for Baltimore City, Maryland, or, if that court does not have jurisdiction, the United States District Court for the District of Maryland, Baltimore Division, will be the sole and exclusive forum for certain actions, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with the Company.***

Our bylaws provide that, unless we consent in writing to the selection of an alternative forum, the Circuit Court for Baltimore City, Maryland, or, if that court does not have jurisdiction, the United States District Court for the District of Maryland, Baltimore Division, will be the sole and exclusive forum for (a) any derivative action or proceeding brought on our behalf, (b) any action asserting a claim of breach of any duty owed by any of our directors, officers or other employees to us or to our stockholders, (c) any action asserting a claim against us or any of our directors, officers or other employees arising pursuant to any provision of the MGCL or our charter or bylaws or (d) any action asserting a claim against us or any of our directors, officers or other employees that is governed by the internal affairs doctrine. This forum selection provision in our bylaws may limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or any our directors, officers or other employees.

***Listing on Nasdaq does not guarantee an active market for the Series D Preferred Stock and the market price and trading volume of the Series D Preferred Stock may fluctuate significantly.***

The Series D Preferred Stock is trading on the Nasdaq Capital Market but there is no guarantee that an active and liquid trading market to sell the Series D Preferred Stock will be sustained. Because the Series D Preferred Stock has no stated maturity date, investors seeking liquidity may be limited to selling their shares in the secondary market. If an active trading market is not sustained, the market price and liquidity of the Series D Preferred Stock may be adversely affected. Even if an active public market continues to exist, we cannot guarantee you that the market price for the Series D Preferred Stock will equal or exceed the price you pay for your Series D Preferred Stock.

The market determines the trading price for the Series D Preferred Stock and may be influenced by many factors, including our history of paying distributions on the Series D Preferred Stock, variations in our financial results, the market for similar securities, investors' perception of us, our issuance of additional preferred equity or indebtedness and general economic, industry, interest rate and market conditions. Because the Series D Preferred Stock carries a fixed distribution rate, its value in the secondary market will be influenced by changes in interest rates and will tend to move inversely to such changes. In particular, an increase in market interest rates may result in higher yields on other financial instruments and may lead purchasers of Series D Preferred Stock to demand a higher yield on the price paid for the Series D Preferred Stock, which could adversely affect the market price of the Series D Preferred Stock.



## [Table of Contents](#)

***If the Series D Preferred Stock is delisted, the ability to transfer or sell shares of the Series D Preferred Stock may be limited and the market value of the Series D Preferred Stock will likely be materially adversely affected.***

The Series D Preferred Stock does not contain provisions that are intended to protect investors if the Series D Preferred Stock is delisted from Nasdaq. If the Series D Preferred Stock is delisted from Nasdaq, investors' ability to transfer or sell shares of the Series D Preferred Stock will be limited and the market value of the Series D Preferred Stock will likely be materially adversely affected. Moreover, since the Series D Preferred Stock has no stated maturity date, investors may be forced to hold shares of the Series D Preferred Stock indefinitely while receiving stated dividends thereon when, as and if authorized by our Board of Directors and paid by us with no assurance as to ever receiving the liquidation value thereof.

***Market interest rates may have an effect on the value of the Series D Preferred Stock.***

One of the factors that will influence the price of the Series D Preferred Stock will be the distribution yield on the Series D Preferred Stock (as a percentage of the market price of the Series D Preferred Stock) relative to market interest rates. An increase in market interest rates may lead prospective purchasers of the Series D Preferred Stock to expect a higher distribution yield (and higher interest rates would likely increase our borrowing costs and potentially decrease funds available for distribution payments). Thus, higher market interest rates could cause the market price of the Series D Preferred Stock to decrease and reduce the amount of funds that are available and may be used to make distribution payments.

***In the event of a liquidation, you may not receive the full amount of your liquidation preference.***

In the event of our liquidation, the proceeds will be used first to repay indebtedness and then to pay holders of shares of the Series D Preferred Stock and any other class or series of our stock ranking senior to or on parity with the Series D Preferred Stock as to liquidation the amount of each holder's liquidation preference and accrued and unpaid distributions through the date of payment. In the event we have insufficient funds to make payments in full to holders of the shares of the Series D Preferred Stock and any other class or series of our stock ranking on parity with the Series D Preferred Stock as to liquidation, such funds will be distributed ratably among such holders and such holders may not realize the full amount of their liquidation preference.

***We are generally restricted from issuing shares of other series of preferred stock that rank senior the Series D Preferred Stock as to dividend rights or rights to the distribution of assets upon our liquidation, dissolution or winding up, but may do so with the requisite consent of the holders of the Series D Preferred Stock; and, further, no such consent is required for an increase in the number of shares of Series D Preferred Stock or the issuance of additional shares of Series D Preferred Stock or series of preferred stock ranking pari passu with the Series D Preferred Stock.***

We are allowed to issue shares of other series of preferred stock that rank senior to the Series D Preferred Stock as to dividend payments and rights upon our liquidation, dissolution or winding up of our affairs, only with the approval of the holders of at least two-thirds of the outstanding Series D Preferred Stock. However, we are allowed to increase the number of shares of Series D Preferred Stock or additional series of preferred stock that would rank equally to the Series D Preferred Stock as to dividend payments and rights upon our liquidation or winding up of our affairs without first obtaining the approval of the holders of our Series D Preferred Stock. The issuance of additional shares of Series D Preferred Stock or additional series of preferred stock could have the effect of reducing the amounts available to the Series D Preferred Stock upon our liquidation or dissolution or the winding up of our affairs. It also may reduce dividend payments on the Series D Preferred Stock if we do not have sufficient funds to pay dividends on all outstanding shares of Series D Preferred Stock and other classes or series of stock with equal or senior priority with respect to dividends. Future issuances and sales of senior or *pari passu* preferred stock, or the perception that such issuances and sales could occur, may cause prevailing market prices for the Series D Preferred Stock and our common stock to decline and may adversely affect our ability to raise additional capital in the financial markets at times and prices favorable to us.

***The market price of the Series D Preferred Stock could be substantially affected by various factors.***

The market price of the Series D Preferred Stock could be subject to wide fluctuations in response to numerous factors. The price of the Series D Preferred Stock in the market may be higher or lower than the price holders of the Series D Preferred stock paid for it depending on many factors, some of which are beyond our control and may not be directly related to our operating performance.

## [Table of Contents](#)

These factors include, but are not limited to, the following:

- prevailing interest rates, increases in which may have an adverse effect on the market price of the Series D Preferred Stock;
- trading prices of similar securities;
- our history of timely dividend payments;
- the annual yield from dividends on the Series D Preferred Stock as compared to yields on other financial instruments;
- general economic and financial market conditions;
- government action or regulation;
- the financial condition, performance and prospects of us and our competitors;
- changes in financial estimates or recommendations by securities analysts with respect to us or our competitors in our industry;
- our issuance of additional preferred equity or debt securities; and
- actual or anticipated variations in quarterly operating results of us and our competitors.

As a result of these and other factors, investors who purchase our Series D Preferred Stock may experience a decrease, which could be substantial and rapid, in the market price of the Series D Preferred Stock, including decreases unrelated to our operating performance or prospects.

***The market price and trading volume of our Series D Preferred Stock may be volatile, and you could experience a loss if you sell your shares.***

The market price of our Series D Preferred Stock may be volatile. In addition, the trading volume in our Series D Preferred Stock may fluctuate and cause significant price variations to occur. If the market price of our Series D Preferred Stock declines significantly, you may be unable to sell your shares at or above the public offering price. We cannot assure you that the market price of our Series D Preferred Stock will not fluctuate or decline significantly in the future.

Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our Series D Preferred Stock include:

- actual or anticipated variations in our quarterly results of operations or distributions, including as a result of the recent COVID-19 pandemic and its impact on our business, financial condition, results of operations and cash flows;
- changes in our FFO, earnings estimates or recommendations by securities analysts;
- publication of research reports about us or the real estate industry generally;

## [Table of Contents](#)

- the extent of investor interest;
- publication of research reports about us or the real estate industry;
- increases in market interest rates that lead purchasers of our shares to demand a higher yield;
- changes in market valuations of similar companies;
- strategic decisions by us or our competitors, such as acquisitions, divestments, spin-offs, joint ventures, strategic investments or changes in business strategy;
- the reputation of REITs generally and the reputation of REITs with portfolios similar to ours;
- the attractiveness of the securities of REITs in comparison to securities issued by other entities (including securities issued by other real estate companies);
- adverse market reaction to any additional debt that we incur or acquisitions that we make in the future;
- additions or departures of key management personnel;
- future issuances by us of our common stock or other equity securities;
- actions by institutional or activist stockholders;
- speculation in the press or investment community;
- the realization of any of the other risk factors presented in this annual report; and
- general market and economic conditions.

***If a substantial number of shares become available for sale and are sold in a short period of time, the market price of our Series D Preferred Stock could decline.***

A large volume of sales of shares of our Series D Preferred Stock could further decrease the prevailing market price of such shares and could impair our ability to raise additional capital through the sale of equity securities in the future. Even if sales of a substantial number of shares of our Series D Preferred Stock are not effectuated, the perception of the possibility of these sales could depress the market price for such shares and have a negative effect on our ability to raise capital in the future.

If our stockholders sell substantial amounts of our Series D Preferred Stock in the public market following, the market price of our Series D Preferred Stock could decrease significantly. The perception in the public market that our stockholders might sell shares of Series D Preferred Stock could also depress our market price. A decline in the price of shares of our Series D Preferred Stock might impede our ability to raise capital through the issuance of additional shares of our Series D Preferred Stock or other equity securities and could result in a decline in the value of the shares of our Series D Preferred Stock.



***Broad market fluctuations could negatively impact the market price of our Series D Preferred Stock.***

Stock market price and volume fluctuations could affect the market price of many companies in industries similar or related to ours and that have been unrelated to these companies' operating performance. These fluctuations could reduce the market price of our Series D Preferred Stock. Furthermore, our results of operations and prospects may be below the expectations of public market analysts and investors or may be lower than those of companies with comparable market capitalizations. Either of these factors could lead to a material decline in the market price of our Series D Preferred Stock.

***The market price of our Series D Preferred Stock could be adversely affected by our level of cash distributions.***

The market's perception of our growth potential and our current and potential future cash distributions, whether from operations, sales or refinancing, as well as the real estate market value of the underlying assets, may cause our Series D Preferred Stock to trade at prices that differ from our net asset value per share. If we retain operating cash flow for investment purposes, working capital reserves or other purposes, these retained funds, while increasing the value of our underlying assets, may not correspondingly increase the market price of our Series D Preferred Stock. Our failure to meet the market's expectations with regard to future earnings and cash distributions likely would adversely affect the market price of our Series D Preferred Stock.

***Future offerings of debt, which would be senior to our Series D Preferred Stock upon liquidation, and any preferred equity securities that may be issued and be senior to our Series D Preferred Stock for purposes of dividend distributions or upon liquidation, may adversely affect the market price of our Series D Preferred Stock.***

In the future, we may seek additional capital and commence offerings of debt or preferred equity securities, including medium-term notes, senior or subordinated notes and preferred stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive distributions of our available assets prior to the holders of our common stock. Future shares of preferred stock, if issued, could have a preference on liquidating distributions or dividend payments that could limit our ability to pay a dividend or make another distribution to the holders of our Series D Preferred. Our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, and consequently, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our common stock and diluting their stock holdings in us.

***A future issuance of stock could dilute the value of our Series D Preferred Stock.***

We may sell additional shares of Series D Preferred Stock, or securities convertible into or exchangeable for such shares, in subsequent public or private offerings. Future issuance of any new shares could cause further dilution in the value of our outstanding shares of Series D Preferred Stock. We cannot predict the size of future issuances of our Series D Preferred Stock, or securities convertible into or exchangeable for such shares, or the effect, if any, that future issuances and sales of shares of our Series A Common Stock or Series D Preferred Stock will have on the market price of our Series D Preferred Stock. Sales of substantial amounts of our Series D Preferred Stock, or the perception that such sales could occur, may adversely affect prevailing market prices of our Series D Preferred Stock.

***The Series A Warrants may not have any value.***

The Series A Warrants are immediately exercisable and may be exercised in accordance with their terms until their expiration at 5:00 p.m., New York City time, on the expiration date.

The Series A Warrants have an exercise price of \$7.00 per share. This exercise price does not necessarily bear any relationship to established criteria for valuation of our Series A Common Stock, such as book value per share, cash flows, or earnings, and you should not consider this exercise price as an indication of the current or future market price of our Series A Common Stock. There can be no assurance that the market price of our Series A Common Stock will exceed \$7.00 per share at any time on the expiration date of the Series A Warrants, January 24, 2027, or at any other time the Series A Warrants may be exercised. If the market price of our Series A Common Stock on such date does not exceed \$7.00 per share prior to the expiration of the Series A Warrants, your warrants will be of no value except to the extent that there is a value in their automatic conversion at expiration of 0.1 shares of Series A Common Stock rounded down to the nearest whole share.

***An active trading market for our warrants may not continue to exist or remain active.***

Although our Series A Warrants were listed on the Nasdaq Capital Market on or around January 24, 2022 under the symbol SQFTW, an active trading market for our warrants may not be sustained. If an active market for our warrants does not continue, it may be difficult for you to sell the Series A Warrants without depressing the market price for such securities.

***Holders of our warrants will have no rights as a common stockholder until such holders exercise their warrants and acquire shares of our Series A Common Stock.***

Until warrant holders acquire shares of our Series A Common Stock upon exercise of the Series A Warrants, warrant holders will have no rights with respect to the shares of our Series A Common Stock underlying such warrants. Upon the acquisition of shares of our Series A Common Stock upon exercise of the Series A Warrants, the holders thereof will be entitled to exercise the rights of a holder of Series A Common Stock only as to matters for which the record date for the matter occurs after the exercise date of the Series A Warrants.

***We could be prevented from paying cash dividends on the Series A Common Stock due to prescribed legal requirements.***

Holders of shares of Series A Common Stock will not receive dividends on such shares unless authorized by our Board of Directors and declared by us. Furthermore, no dividends on Series A Common Stock shall be authorized by our Board of Directors or paid, declared or set aside for payment by us at any time when the authorization, payment, declaration or setting aside for payment would be unlawful under Maryland law or any other applicable law. Under Maryland law, cash dividends on stock may only be paid if, after giving effect to the dividends, our total assets exceed our total liabilities and we are able to pay our indebtedness as it becomes due in the ordinary course of business. Unless we operate profitably, our ability to pay cash dividends on the Series A Common Stock may be negatively impacted. Our business may not generate sufficient cash flow from operations to enable us to pay dividends on the Series A Common Stock when payable. Further, even if we meet the applicable solvency tests under Maryland law to pay cash dividends on the Series A Common Stock described above, we may not have sufficient cash to pay dividends on the Series A Common Stock. Additionally, provisions of the Series D Preferred Stock provide that, subject to certain exceptions, including dividends on the Series D Preferred Stock having been paid or set aside, we are restricted from paying dividends on our Series A Common Stock.

#### **Risks Related to Legal and Regulatory Requirements**

***Costs of complying with governmental laws and regulations may reduce our net income and the cash available for distributions to our stockholders.***

Our properties are subject to various local, state and federal regulatory requirements, including those addressing zoning, environmental and land use, access for disabled persons, and air and water quality. These laws and regulations may impose restrictions on the manner in which our properties may be used or business may be operated, and compliance with these standards may require us to make unexpected expenditures, some of which could be substantial. Additionally, we could be subject to liability in the form of fines, penalties or damages for noncompliance, and any enforcement actions could reduce the value of a property. Any material expenditures, penalties, or decrease in property value would adversely affect our operating income and our ability to pay dividends to our stockholders.

***The costs of complying with environmental regulatory requirements, of remediating any contaminated property, or of defending against claims of environmental liability could adversely affect our operating results.***

Under various federal, state and local environmental laws, ordinances and regulations, an owner or operator of real property is responsible for the cost of removal or remediation of hazardous or toxic substances on its property. Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated.

For instance, federal regulations require us to identify and warn, via signs and labels, of potential hazards posed by workplace exposure to installed asbestos-containing materials (“ACMs”), and potential ACMs on our properties. Federal, state, and local laws and regulations also govern the removal, encapsulation, disturbance, handling and disposal of ACMs and potential ACMs, when such materials are in poor condition or in the event of construction, remodeling, renovation or demolition of a property. There are or may be ACMs at certain of our properties. As a result, we may face liability for a release of ACMs and may be subject to personal injury lawsuits by workers and others exposed to ACMs at our properties. Additionally, the value of any of our properties containing ACMs and potential ACMs may be decreased.

Although we have not been notified by any governmental authority and are not otherwise aware of any material noncompliance, liability or claim relating to hazardous substances in connection with our properties, we may be found noncompliant in the future. Environmental laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release of any hazardous substances. Therefore, we may be liable for the costs of removing or remediating contamination of which we had no knowledge. Additionally, future laws or regulations could impose an unanticipated material environmental liability on any of the properties that we purchase.

## [Table of Contents](#)

The presence of contamination, or our failure to properly remediate contamination of our properties, may adversely affect the ability of our tenants to operate the contaminated property, may subject us to liability to third parties, and may inhibit our ability to sell or rent such property or borrow money using such property as collateral. Any of these occurrences would adversely affect our operating income.

***Compliance with the Americans with Disabilities Act may require us to make unintended expenditures that could adversely impact our results of operations.***

Our properties are generally required to comply with the Americans with Disabilities Act of 1990, or the ADA. The ADA has separate compliance requirements for “public accommodations” and “commercial facilities,” but generally requires that buildings be made accessible to people with disabilities. Compliance with ADA requirements could require removal of access barriers and non-compliance could result in imposition of fines by the U.S. government or an award of damages to private litigants. The parties to whom we lease properties are obligated by law to comply with the ADA provisions, and we believe that these parties may be obligated to cover costs associated with compliance. If required changes to our properties involve greater expenditures than anticipated, or if the changes must be made on a more accelerated basis than anticipated, our tenants may be able to cover the costs and we could be required to expend our own funds to comply with the provisions of the ADA. Any funds used for ADA compliance will reduce our net income and the amount of cash available for distributions to our stockholders.

***Our property taxes could increase due to property tax rate changes, reassessments or changes in property tax laws, which would adversely impact our cash flows.***

We are required to pay property taxes for our properties, which could increase as property tax rates increase or as our properties are assessed or reassessed by taxing authorities. In California, under current law, reassessment occurs primarily as a result of a “change in ownership”. A potential reassessment may take a considerable amount of time, during which the property taxing authorities make a determination of the occurrence of a “change of ownership”, as well as the actual reassessed value. In addition, from time to time, there have been proposals to base property taxes on commercial properties on their current market value, without any limit based on purchase price. If any similar proposal were adopted, the property taxes we pay could increase substantially. In California, pursuant to an existing state law commonly referred to as Proposition 13, properties are reassessed to market value only at the time of change in ownership or completion of construction, and thereafter, annual property reassessments are limited to 2% of previously assessed values. As a result, Proposition 13 generally results in significant below-market assessed values over time. From time to time, including recently, lawmakers and political coalitions have initiated efforts to repeal or amend Proposition 13 to eliminate its application to commercial and industrial properties. If successful, a repeal of Proposition 13 could substantially increase the assessed values and property taxes for our properties in California.

***Our ability to attract and retain qualified members of our Board of Directors may be impacted due to new state laws, including recently enacted quotas related to gender and underrepresented communities.***

In September 2018, California enacted Senator Bill 826 (“SB 826”), which generally requires public companies with principal executive offices in California to have at least two female directors on its board of directors if the company has at least five directors, and at least three female directors on its board of directors if the company has at least six directors. SB 826 has been challenged in legal proceedings and on May 13, 2022, the Superior Court of California for the County of Los Angeles entered an order striking down SB 826, holding that the statute violates the Equal Protection Clause of the California Constitution. The California Secretary of State has appealed the order and such appeal is currently pending. On September 16, 2022, the appellate court ruled to temporarily stay enforcement of the trial court's order, which prevented the California Secretary of State from collecting diversity data on corporate disclosure forms pursuant to SB 826, pending a further order of the appellate court. To the extent that this ruling of the appellate court permits the Secretary of State of California to collect and report diversity data, we may be required to comply with additional disclosure requirements. However, ultimate enforceability of SB 826 remains uncertain.

Additionally, on September 30, 2020, California enacted Assembly Bill 979 (“AB 979”), which generally requires public companies with principal executive offices in California to include specified numbers of directors from “underrepresented communities”. A director from an “underrepresented community” means a director who self-identifies as Black, African American, Hispanic, Latino, Asian, Pacific Islander, Native American, Native Hawaiian, Alaska Native, gay, lesbian, bisexual or transgender. By December 31, 2021, each public company with principal executive offices in California was required to have at least one director from an underrepresented community. By December 31, 2022, a public company with more than four but fewer than nine directors will be required to have a minimum of two directors from underrepresented communities, and a public company with nine or more directors will need to have a minimum of three directors from underrepresented communities. On April 1, 2022, the Superior Court of California for the County of Los Angeles entered an order striking down AB 979, holding that the statute violates the Equal Protection Clause of the California Constitution. On June 6, 2022, a notice of appeal was filed. On September 16, 2022, the appellate court ruled to temporarily stay enforcement of the trial court's order, which prevented the California Secretary of State from collecting diversity data on corporate disclosure forms pursuant to AB 979, pending a further order of the appellate court.

## [Table of Contents](#)

To the extent that this ruling of the appellate court permits the Secretary of State of California to collect and report diversity data, we may be required to comply with additional disclosure requirements. Litigation regarding AB 979 will continue. We cannot assure that we can recruit, attract and/or retain qualified members of our Board of Directors and meet gender and diversity quotas under Nasdaq Listing Rules or any California law that may become applicable to us, which may expose us to financial penalties and adversely affect our reputation.

***The costs of complying with environmental regulatory requirements, of remediating any contaminated property, or of defending against claims of environmental liability could adversely affect our operating results.***

Under various federal, state and local environmental laws, ordinances and regulations, an owner or operator of real property is responsible for the cost of removal or remediation of hazardous or toxic substances on its property. Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated.

For instance, federal regulations require us to identify and warn, via signs and labels, of potential hazards posed by workplace exposure to installed asbestos-containing materials (“ACMs”), and potential ACMs on our properties. Federal, state, and local laws and regulations also govern the removal, encapsulation, disturbance, handling and disposal of ACMs and potential ACMs, when such materials are in poor condition or in the event of construction, remodeling, renovation or demolition of a property. There are or may be ACMs at certain of our properties. As a result, we may face liability for a release of ACMs and may be subject to personal injury lawsuits by workers and others exposed to ACMs at our properties. Additionally, the value of any of our properties containing ACMs and potential ACMs may be decreased.

Although we have not been notified by any governmental authority and are not otherwise aware of any material noncompliance, liability or claim relating to hazardous substances in connection with our properties, we may be found noncompliant in the future. Environmental laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release of any hazardous substances. Therefore, we may be liable for the costs of removing or remediating contamination of which we had no knowledge. Additionally, future laws or regulations could impose an unanticipated material environmental liability on any of the properties that we purchase.

The presence of contamination, or our failure to properly remediate contamination of our properties, may adversely affect the ability of our tenants to operate the contaminated property, may subject us to liability to third parties, and may inhibit our ability to sell or rent such property or borrow money using such property as collateral. Any of these occurrences would adversely affect our operating income.

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

We have no unresolved staff comments regarding our periodic or current reports.

### **ITEM 2. PROPERTIES**

#### **General Information**

We invest in a diverse multi-tenant portfolio of real estate assets primarily consisting of office/industrial, retail, and model home properties located primarily in the western United States. As of December 31, 2022, we owned or had an equity interest in nine office/industrial buildings totaling approximately 756,265 rentable square feet and three retail centers totaling approximately 65,242 rentable square feet. In addition, through our Model Home subsidiary and our investments in five limited partnerships and one corporation, we own a total of 92 Model Home properties located in three states. We directly manage the operations and leasing of our properties. Substantially all of our revenues consist of base rents received under leases that generally have terms that range from one to five years. The majority of our existing leases as of December 31, 2022 contain contractual rent increases that provide for increases in the base rental payments. Our tenants consist of local, regional and national businesses. Our properties generally attract a mix of diversified tenants creating lower risk in periods of economic fluctuations. Our largest tenant represented approximately 8.57% of total revenues for the year ended December 31, 2022.

**Geographic Diversification Table**

The following table shows a list of properties we owned as of December 31, 2022, grouped by the state where each of our investments is located.

***Office/Industrial and Retail Properties:***

<b>State</b>	<b>No. of Properties</b>	<b>Aggregate Square Feet</b>	<b>Approximate % of Square Feet</b>	<b>Current Base Annual Rent</b>	<b>Approximate % of Aggregate Annual Rent</b>
California	1	57,807	7.0%	\$ 1,217,582	11.0%
Colorado (1)	5	324,245	39.4%	5,476,502	49.7%
Maryland	1	31,752	3.9%	696,321	6.3%
North Dakota	4	397,203	48.4%	3,303,274	30.0%
Texas	1	10,500	1.3%	329,385	3.0%
<b>Total</b>	<b>12</b>	<b>821,507</b>	<b>100.0%</b>	<b>\$ 11,023,064</b>	<b>100.0%</b>

- (1) In February 2023, the Annual Base Rent for Colorado dropped to approximately \$4.9 million due to the loss of Halliburton Energy Services, Inc. which was located in our Shea Center II property.

***Model Home Properties:***

<b>Geographic Region</b>	<b>No. of Properties</b>	<b>Aggregate Square Feet</b>	<b>Approximate % of Square Feet</b>	<b>Current Base Annual Rent</b>	<b>Approximate % of Aggregate Annual Rent</b>
Midwest	2	6,153	2.2%	\$ 80,844	2.7%
Southeast	2	3,978	1.4%	78,492	2.6%
Southwest	88	268,749	96.4%	2,824,404	94.7%
<b>Total</b>	<b>92</b>	<b>278,880</b>	<b>100.0%</b>	<b>\$ 2,983,740</b>	<b>100.0%</b>

## [Table of Contents](#)

The following table summarizes information relating to our properties (excluding model homes) at December 31, 2022:

### **Property Summary**

<i>(\$ in000's) Property Location</i>	<i>Sq., Ft.</i>	<i>Date Acquired</i>	<i>Year Property Constructed</i>	<i>Purchase Price (1)</i>	<i>Occupancy</i>	<i>Percent Ownership</i>	<i>Mortgage On property</i>
<b>Office/Industrial Properties:</b>							
Genesis Plaza, San Diego, CA (2)	57,807	08/10	1989	10,000	96.2 %	76.4 %	6,056
Dakota Center, Fargo, ND	119,434	05/11	1982	9,575	71.8 %	100.0 %	9,443
Grand Pacific Center, Bismarck, ND (4)	93,153	03/14	1976	5,350	56.4 %	100.0 %	3,496
Arapahoe Center, Colorado Springs, CO	79,023	12/14	2000	11,850	100.0 %	100.0 %	7,602
West Fargo Industrial, West Fargo, ND	150,099	08/15	1998/2005	7,900	94.3 %	100.0 %	4,030
300 N.P., West Fargo, ND	34,517	08/15	1922	3,850	75.5 %	100.0 %	-
One Park Centre, Westminster CO	69,174	08/15	1983	9,150	84.9 %	100.0 %	6,163
Shea Center II, Highlands Ranch, CO (5)	121,306	12/15	2000	25,325	95.4 %	100.0 %	17,230
Baltimore, Baltimore, MD	31,752	12/21	2006	8,892	100.0 %	100.0 %	5,670
<b>Total Office/Industrial Properties</b>	<b>756,265</b>			<b>\$91,892</b>	<b>85.5 %</b>		<b>\$59,690</b>
<b>Retail Properties:</b>							
Union Town Center, Colorado Springs, CO	44,042	12/14	2003	11,212	72.9 %	100.0 %	8,025
Research Parkway, Colorado Springs, CO	10,700	08/15	2003	2,850	88.8 %	100.0 %	1,648
Mandolin, Houston, TX (3)	10,500	08/21	2021	4,892	100.0 %	61.3 %	3,636
<b>Total Retail Properties</b>	<b>65,242</b>			<b>\$18,954</b>	<b>79.9 %</b>		<b>\$13,309</b>

- (1) Prior to January 1, 2009, "Purchase Price" includes our acquisition related costs and expenses for the purchase of the property. After January 1, 2009, acquisition related costs and expenses were expensed when incurred.
- (2) Genesis Plaza is owned by two tenants-in-common, each of which own 57% and 43%, respectively, and we beneficially own an aggregate of 76.4%, based on our ownership percentages of each tenant-in-common.
- (3) Mandolin is owned by NetREIT Palm Self-Storage LP, through its wholly owned subsidiary NetREIT Highland LLC, and the Company is the sole general partner and owns 61.3% of NetREIT Palm Self-Storage LP.
- (4) Grand Pacific Center, Bismarck, ND, was removed from held for sale after signing a major lease with KLJ Engineering on December 7, 2022 for approximately 33,296 usable square feet, a term of 122 months, starting annualized rent of \$532,736, and a commencement date estimated to be between November 1, 2023 and March 1, 2024.
- (5) The loss of Halliburton Energy Services, Inc. from our Shea Center II property in Colorado, has dropped the occupancy to approximately 66% in February 2023.

### **Top Ten Tenants Physical Occupancy Table**

The following table sets forth certain information with respect to our top 10 tenants at our Office/Industrial and Retail Properties.



[Table of Contents](#)

<i>As of December 31, 2022 Tenant</i>	<i>Number of Leases (1)</i>	<i>Annualized Base Rent</i>	<i>% of Total Annualized Base Rent</i>
Halliburton Energy Services, Inc.	1	944,851	8.57%
Johns Hopkins University	1	696,321	6.32%
Finastra USA Corporation	1	507,360	4.60%
MasTec North America, Inc.	1	353,258	3.20%
L&T Care LLC	1	329,385	2.99%
Wells Fargo Bank, N.A.	1	289,751	2.63%
Nova Financial & Investment Corporation	1	263,240	2.39%
Republic Indemnity of America	1	262,825	2.39%
Meissner Jacquet Real Estate Management Group, Inc.	1	247,134	2.24%
Fredrikson & Byron P.A.	1	234,999	2.13%
		<u>\$ 4,129,124</u>	<u>37.46%</u>

- (1) On December 31, 2022, the lease for our largest tenant, Halliburton Energy Services, Inc., expired. Halliburton Energy Services, Inc. was located in our Shea Center II property in Colorado, and made up approximately 8.57% of our annual base rent. We placed approximately \$1.1 million in a reserve account with our lender to cover future mortgage payments, if necessary. Our management team is working to fill the 45,535 square foot space as quickly as possible, and has already leased approximately 20% of the space to a tenant during January 2023.

**Lease Expirations Tables**

The following table sets forth lease expirations for our properties as of December 31, 2022, assuming that none of the tenants exercise their renewal options.

**Office/Industrial and Retail Properties:**

<i>Expiration Year</i>	<i>Number of Leases Expiring</i>	<i>Square Footage</i>	<i>Annual Rental From Lease</i>	<i>Percent of Total</i>
2022 (1)	3	62,868	\$ 1,084,714	9.8%
2023	56	137,273	1,902,590	17.3%
2024	20	58,699	1,010,993	9.2%
2025	23	130,463	2,084,009	18.9%
2026	20	148,168	2,447,014	22.2%
2027	15	48,202	843,371	7.6%
Thereafter	19	97,588	1,650,373	15.0%
Totals	<u>156</u>	<u>683,261</u>	<u>\$ 11,023,064</u>	<u>100.0%</u>

- (1) On December 31, 2022, three of our leases expired and were not renewed. One of them was Halliburton Energy Services, Inc., located in our Shea Center II property in Colorado, and made up approximately 8.57% of our annual base rent. We placed approximately \$1.1 million in a reserve account with our lender to cover future mortgage payments, if necessary. Our management team is working to fill the 45,535 square foot space as quickly as possible, and has already leased approximately 20% of the space to a tenant during January 2023.

**Model Home Properties:**

<i>Expiration Year (1)</i>	<i>Number of Leases Expiring</i>	<i>Square Footage</i>	<i>Annual Rental From Lease</i>	<i>Percent of Total</i>
2023	61	186,028	\$ 1,753,824	58.8%
2024	31	92,852	1,229,916	41.2%
	<u>92</u>	<u>278,880</u>	<u>\$ 2,983,740</u>	<u>100.0%</u>

- (1) These leases are subject to extensions by the home builder depending on sales of the total development. All model homes are sold at the end of the lease period.

[Table of Contents](#)

**Physical Occupancy Table for Last 5 Years**

The following table presents the percentage occupancy for each of our properties, excluding our Model Home Properties, as of December 31 for each of the last five years.

	Date Acquired	Percentage Occupancy as of the Year Ended December 31,				
		2018	2019	2020	2021	2022
<b>Office/ Industrial Properties:</b>						
Garden Gateway Plaza (1)	03/07	68.1%	76.4%	76.4%	N/A	N/A
Executive Office Park (1)	07/08	99.9%	100.0%	97.7%	N/A	N/A
Genesis Plaza	08/10	58.3%	78.5%	74.7%	85.6%	96.2%
Dakota Center	05/11	98.2%	86.0%	86.0%	73.5%	71.8%
Grand Pacific Center	03/14	72.6%	71.8%	74.2%	56.6%	56.4%
Arapahoe Center	12/14	100.0%	100.0%	100.0%	100.0%	100.0%
West Fargo Industrial	08/15	75.9%	77.1%	82.0%	90.8%	94.3%
300 N.P.	08/15	82.3%	73.0%	72.8%	64.8%	75.5%
Highland Court (1)(2)	08/15	78.5%	70.1%	64.5%	N/A	N/A
One Park Centre	08/15	72.7%	79.1%	84.8%	80.5%	84.9%
Shea Center II (4)	12/15	88.2%	90.9%	91.2%	91.6%	95.4%
Baltimore	12/21	N/A	N/A	N/A	100.0%	100.0%
<b>Retail Properties:</b>						
World Plaza (3)	09/07	22.6%	100.0%	100.0%	100.0%	N/A
Waterman Plaza (1)	08/08	100.0%	90.7%	85.9%	N/A	N/A
Union Town Center	12/14	100.0%	100.0%	100.0%	87.4%	72.9%
Research Parkway	08/15	100.0%	100.0%	100.0%	100.0%	88.8%
Mandolin (2)	08/21	N/A	N/A	N/A	100.0%	100.0%

- (1) Property was sold during the year ended December 31, 2021.
- (2) A portion of the proceeds from the sale of Highland Court were used in like-kind exchange transactions pursued under Section 1031 of the Code for the acquisition of our Mandolin property. Mandolin is owned by NetREIT Palm Self-Storage LP, through its wholly owned subsidiary NetREIT Highland LLC, and the Company is the sole general partner and owns 61.3% of NetREIT Palm Self-Storage LP.
- (3) Property was sold during the year ended December 31, 2022.
- (4) The loss of Halliburton Energy Services, Inc. from our Shea Center II property in Colorado, has dropped the occupancy to approximately 66% in February 2023.

[Table of Contents](#)

**Annualized Base Rent Per Square Foot for Last 5 Years**

The following table presents the average effective annual rent per square foot for each of our properties, excluding our Model Home Properties, as of December 31, 2022.

	<b>Annualized Base Rent per Square Foot (1) For the Years Ended December 31,</b>					<b>Annualized Base Rent (2)</b>	<b>Net Rentable Square Feet</b>
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>		
<b>Office/ Industrial Properties:</b>							
Garden Gateway Plaza (3)	\$ 10.60	\$ 12.62	\$ 13.45	N/A	N/A	N/A	115,052
Executive Office Park (3)	\$ 12.34	\$ 13.29	\$ 13.65	N/A	N/A	N/A	49,864
Genesis Plaza	\$ 20.62	\$ 28.15	\$ 22.97	\$ 25.71	\$ 26.26	\$ 1,217,583	57,807
Dakota Center	\$ 14.21	\$ 12.87	\$ 13.24	\$ 13.22	\$ 14.09	\$ 1,206,666	119,434
Grand Pacific Center	\$ 14.29	\$ 13.97	\$ 13.71	\$ 13.79	\$ 13.90	\$ 730,296	93,153
Arapahoe Center	\$ 14.22	\$ 14.69	\$ 15.18	\$ 11.87	\$ 13.75	\$ 1,086,730	79,023
West Fargo Industrial	\$ 6.78	\$ 6.65	\$ 6.77	\$ 6.81	\$ 6.80	\$ 962,867	150,099
300 N.P.	\$ 16.51	\$ 13.67	\$ 14.86	\$ 14.89	\$ 16.72	\$ 403,444	34,517
Highland Court (3)(5)	\$ 24.59	\$ 19.33	\$ 22.33	N/A	N/A	N/A	93,536
One Park Centre	\$ 20.27	\$ 19.51	\$ 21.85	\$ 23.42	\$ 20.35	\$ 1,195,415	69,174
Shea Center II (6)	\$ 18.53	\$ 18.47	\$ 19.24	\$ 20.37	\$ 19.40	\$ 2,161,231	121,306
Baltimore	N/A	N/A	N/A	\$ 21.50	\$ 21.93	\$ 696,321	31,752
<b>Retail Properties:</b>							
World Plaza (4)	\$ 4.64	\$ 13.63	\$ 9.93	\$ 14.28	N/A	N/A	55,810
Waterman Plaza (3)	\$ 18.88	\$ 16.30	\$ 12.42	N/A	N/A	N/A	21,170
Union Town Center	\$ 24.91	\$ 25.63	\$ 23.73	\$ 23.86	\$ 25.22	\$ 809,626	44,042
Research Parkway	\$ 22.07	\$ 22.58	\$ 29.09	\$ 22.69	\$ 23.53	\$ 223,500	10,700
Mandolin (5)	N/A	N/A	N/A	\$ 30.75	\$ 31.37	\$ 329,385	10,500

- (1) Annualized Base Rent (defined as cash rent including abatements) divided by the percentage occupied divided by rentable square feet.
- (2) Annualized Base Rent is based upon actual rents due as of December 31, 2022.
- (3) Property was sold during the year ended December 31, 2021.
- (4) Property was sold during the year ended December 31, 2022.
- (5) A portion of the proceeds from the sale of Highland Court were used in like-kind exchange transactions pursued under Section 1031 of the Code for the acquisition of our Mandolin property. Mandolin is owned by NetREIT Palm Self-Storage LP, through its wholly owned subsidiary NetREIT Highland LLC, and the Company is the sole general partner and owns 61.3% of NetREIT Palm Self-Storage LP.
- (6) The Annualized Base Rent for Shea Center II, includes Halliburton Energy Services, Inc. which totals \$944,851 for the year ended December 31, 2022.

### ITEM 3. LEGAL PROCEEDINGS

We are subject to various legal proceedings and claims that arise in the ordinary course of business. While the resolution of these matters cannot be predicted with certainty, management believes the final outcome of such matters will not have a material adverse effect on our financial position, results of operation or liquidity.

### ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUERS PURCHASES OF EQUITY SECURITIES

#### Market Information

Our Series A Common Stock has been listed on the Nasdaq Capital Market under the symbol "SQFT" since October 7, 2020. Our Series D Preferred Stock has been listed on the Nasdaq Capital Market under the symbol "SQFTP" since June 11, 2021. On January 24, 2022, our Series A Warrants began trading on the Nasdaq Capital Market under the symbol "SQFTW".

#### Performance Graph

Not required.

#### Number of Common Stockholders

As of March 27, 2023, there were approximately 6,000 holders of our Series A Common Stock.

#### Dividend Payments

The following is a summary of distributions declared per share of our Series A Common Stock and for our Series D Preferred Stock for the years ended December 31, 2022 and 2021. The Company intends to continue to pay dividends to our common stockholders on a quarterly basis, and on a monthly basis for holders of Series D Preferred Stock going forward, but there can be no guarantee the Board of Directors will approve any future dividends.

#### Series A Common Stock

Quarter Ended	2022	2021
	Distributions Declared	Distributions Declared
March 31	\$ 0.105	\$ 0.101
June 30	0.106	0.102
September 30	0.020	0.103
December 31	0.021	0.104
Total	<u>\$ 0.252</u>	<u>\$ 0.410</u>

**Series D Preferred Stock**

<b>Month</b>	<b>2022</b>	<b>2021</b>
	<b>Distributions Declared</b>	<b>Distributions Declared</b>
January	\$ 0.19531	\$ —
February	0.19531	—
March	0.19531	—
April	0.19531	—
May	0.19531	—
June	0.19531	0.10417
July	0.19531	0.19531
August	0.19531	0.19531
September	0.19531	0.19531
October	0.19531	0.19531
November	0.19531	0.19531
December 31	0.19531	0.19531
<b>Total</b>	<b>\$ 2.34372</b>	<b>\$ 1.27603</b>

**Warrant Dividend**

We set a record date of January 14, 2022 with respect to the distribution of the Series A Warrants. The Series A Warrants and the shares of common stock issuable upon the exercise of the Series A Warrants were registered on a registration statement that was filed with the SEC and was declared effective January 21, 2022. The Series A Warrants commenced trading on the Nasdaq Capital Market under the symbol “SQFTW” on January 24, 2022 and were distributed on that date to persons who held shares of common stock and existing outstanding warrants as of the January 14, 2022 record date, or who acquired shares of common stock in the market following the record date, and who continued to hold such shares at the close of trading on January 21, 2022. The Series A Warrants give the holder the right to purchase one share of common stock at \$7.00 per share, for a period of five years. Should warrant holders not exercise the Series A Warrants during that holding period, the Series A Warrants will automatically convert to 1/10 of a common share at expiration, rounded down to the nearest number of whole shares.

**Dividend Policy**

We plan to pay at least 90% of our annual REIT taxable income to our stockholders in order to maintain our status as a REIT. We intend to continue to declare dividends, however, we cannot provide any assurance as to the amount or timing of future dividends. Our goal is to make cash dividend distributions out of our operating cash flow and proceeds from the sale of properties. During 2022, we paid dividends to holders of our Series A Common Stock of approximately \$4.5 million related to 2022. During 2021, we paid dividends to our holders of Series A Common Stock of approximately \$1.0 million related to 2021.

To the extent that we make dividends in excess of our earnings and profits, as computed for federal income tax purposes, these dividends will represent a return of capital, rather than a dividend, for federal income tax purposes. Dividends that are treated as a return of capital for federal income tax purposes generally will not be taxable as a dividend to a U.S. stockholder, but will reduce the stockholder’s basis in its shares (but not below zero) and therefore can result in the stockholder having a higher gain upon a subsequent sale of such shares. Return of capital dividends in excess of a stockholder’s basis generally will be treated as gain from the sale of such shares for federal income tax purposes.

We provide each of our stockholders a statement detailing dividends paid during the preceding year and their characterization as ordinary income, capital gain or return of capital annually. During the years ended December 31, 2022 and December 31, 2021, all dividends to holders of our Series A Common Stock were non-taxable as they were considered return of capital to the stockholders.

## Equity Compensation Plan Information

We established the 1999 Flexible Incentive Plan (“1999 Plan”) for the purpose of attracting and retaining employees, which was superseded by the 2017 Incentive Award Plan (“2017 Plan”). The 1999 Plan provided that the maximum number of shares to be issued under the 1999 Plan would be an amount equal to 10% of the Company’s issued and outstanding common stock at such time; the aggregate number of common stock that may be issued under the 2017 Plan is 2,500,000 shares. At December 31, 2022, approximately 651,000 restricted shares of common stock had been issued under the 1999 Plan and approximately 1,017,346 shares of Restricted Stock as defined in the 2017 Plan had been issued under such plan. At December 31, 2022, the amount of shares of common stock available for future grants under the 2017 Plan was approximately 1,483,000 shares.

## Issuer Purchases of Equity Securities

On September 17, 2021, the Board of Directors authorized a stock repurchase program of up to \$10 million of outstanding shares of our Series A Common Stock, which expired in September 2022. On September 15, 2022, the Board of Directors authorized a stock repurchase program of up to \$6.0 million of outstanding shares of our Series A Common Stock and up to \$4.0 million of our Series D Preferred Stock. During the year ended December 31, 2021, the Company repurchased 29,721 shares of our Series A Common Stock at an average price of approximately \$3.7223 per share, including a commission of \$0.035 per share, for a total cost of \$110,631. During the year ended December 31, 2022, the Company repurchased 196,631 shares of our Series A Common Stock at an average price of approximately \$1.59 per share, including a commission of \$0.035 per share, and 6,013 shares of our Series D Preferred Stock at an average price of approximately \$20.31 per share, including a commission of \$0.035 per share, for a total cost of \$313,578 for the Series A Common Stock and \$122,141 for the Series D Preferred Stock. The repurchased shares will be treated as authorized and unissued in accordance with Maryland law and shown as a reduction of stockholders' equity at cost. While we will continue to pursue value creating investments, the Board of Directors believes there is significant embedded value in our assets that is yet to be realized by the market. Therefore, returning capital to stockholders through a repurchase program is an attractive use of capital currently.

The following tables contain information for shares of Series A Common Stock and Series D Preferred Stock repurchased during the year ended December 31, 2022.

Series A Common Stock:

Month	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
January 2022	—	\$ —	—	\$ —
February 2022	—	-	—	—
March 2022	—	-	—	—
April 2022	—	-	—	—
May 2022	—	-	—	—
June 2022	10,411	2.97	10,411	9,858,450
July 2022	—	-	—	—
August 2022	—	-	—	—
September 2022	151,194	1.63	151,194	5,753,034
October 2022	—	-	—	—
November 2022	—	-	—	—
December 2022	35,026	1.02	35,026	5,717,340
<b>Total</b>	<b>196,631</b>	<b>\$ 1.59</b>	<b>196,631</b>	<b>\$ 5,717,340</b>



[Table of Contents](#)

Series D Preferred Stock:

<b>Month</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</b>
January 2022	—	\$ —	—	\$ —
February 2022	—	—	—	—
March 2022	—	—	—	—
April 2022	—	—	—	—
May 2022	—	—	—	—
June 2022	—	—	—	—
July 2022	—	—	—	—
August 2022	—	—	—	—
September 2022	3,939	21.42	3,939	3,915,614
October 2022	—	—	—	—
November 2022	—	—	—	—
December 2022	2,074	18.20	2,074	3,877,859
<b>Total</b>	<b>6,013</b>	<b>\$ 20.31</b>	<b>6,013</b>	<b>\$ 3,877,859</b>

**ITEM 6. RESERVED**

Not required.

## ITEM 7. 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. See Item 1A for a discussion of material risks.*

### OVERVIEW

The Company operates as an internally managed diversified real estate investment trust, or REIT. The Company invests in a multi-tenant portfolio of commercial real estate assets comprised of office, industrial, and retail properties and model homes leased back to the homebuilder located primarily in the western United States. As of December 31, 2022, including properties held for sale, the Company owned or had an equity interest in:

- Eight office buildings and one industrial building (“Office/Industrial Properties”) which total approximately 756,265 rentable square feet,
- Three retail shopping centers (“Retail Properties”) which total approximately 65,242 rentable square feet, and
- 92 model homes owned by five affiliated limited partnerships and one corporation (“Model Home Properties”).

Presidio Property Trust’s office, industrial and retail properties are located California, Colorado, Maryland, North Dakota and Texas. Our Model Home Properties are located in three states, primarily in Texas. We acquire properties that are stabilized or that we anticipate will be stabilized within two or three years of acquisition. We consider a property to be stabilized once it has achieved an 80% occupancy rate for a full calendar year, or has been operating for three years. Our geographical clustering of assets enables us to reduce our operating costs through economies of scale by servicing a number of properties with less staff, but it also makes us more susceptible to changing market conditions in these discrete geographic areas.

## [Table of Contents](#)

Most of our office and retail properties are leased to a variety of tenants ranging from small businesses to large public companies, many of which are not investment grade. We have in the past entered into, and intend in the future to enter into, purchase agreements for real estate having net leases that require the tenant to pay all of the operating expense (NNN Leases) or pay increases in operating expenses over specific base years. Most of our office leases are for terms of 3 to 5 years with annual rental increases. Our model homes are typically leased for 2 to 3 years to the homebuilder on a triple net lease. Under a triple net lease, the tenant is required to pay all operating, maintenance and insurance costs and real estate taxes with respect to the leased property.

We seek to diversify our portfolio by commercial real estate segments to reduce the adverse effect of a single under-performing segment, geographic market and/or tenant. We further supplement this at the tenant level through our credit review process, which varies by tenant class. For example, our commercial and industrial tenants tend to be corporations or individual owned businesses. In these cases, we typically obtain financial records, including financial statements and tax returns (depending on the circumstance), and run credit reports for any prospective tenant to support our decision to enter into a rental arrangement. We also typically obtain security deposits from these commercial tenants. Our Model Home business partners are substantial homebuilders with established credit histories. These tenants are subjected to financial review and analysis prior to us entering into a sales-leaseback transaction. Our ownership of the underlying property provides a further means to avoiding significant credit losses.

### **SIGNIFICANT TRANSACTIONS IN 2022 and 2021**

#### ***Acquisitions during the year ended December 31, 2022:***

- We acquired 31 Model Home Properties and leased them back to the homebuilders under triple net leases during the year ended December 31, 2022. The purchase price for these properties was \$15.6 million. The purchase price consisted of cash payments of \$4.8 million and mortgage notes of \$10.8 million.

#### ***Acquisitions during the year ended December 31, 2021:***

- On August 17, 2021, the Company, through its 61.3% owned subsidiaries NetREIT Palm Self Storage, LP and NetREIT Highland LLC, acquired a single story newly constructed 10,500 square foot building in Houston, Texas for a purchase price of approximately \$4.9 million, in connection with a like-kind exchange transaction pursued under Section 1031 of the Internal Revenue Code of 1986, as amended (the "Code"). The building is 100% occupied under a 15-year triple net lease and was purchased with all cash.
- On December 22, 2021, the Company purchased a 31,752 square foot building in Baltimore, Maryland for a purchase price of approximately \$8.9 million. The building is 100% occupied under a 5 year triple net lease to Johns Hopkins University's Bloomberg School of Public Health and was purchased with all cash.
- We acquired 18 Model Home Properties and leased them back to the homebuilders under triple net leases during the year ended December 31, 2021. The purchase price for the properties was \$8.4 million. The purchase price consisted of cash payments of \$2.7 million and mortgage notes of \$5.7 million.

#### ***Dispositions during the year ended December 31, 2022:***

We review our portfolio of investment properties for value appreciation potential on an ongoing basis, and dispose of any properties that no longer satisfy our requirements in this regard, taking into account tax and other considerations. The proceeds from any such property sale, after repayment of any associated mortgage or repayment of secured or unsecured indebtedness, are available for investing in properties that we believe will have a greater likelihood of future price appreciation.

During year ended December 31, 2022, we disposed of the following properties:

- World Plaza, which was sold on March 11, 2022, for approximately \$10.0 million and the Company recognized a loss of approximately \$0.3 million.
- 31 model homes for approximately \$17.5 million and the Company recognized a gain of approximately \$5.4 million.

***Dispositions during the year ended December 31, 2021:***

During year ended December 31, 2021, we disposed of the following properties:

- Waterman Plaza, which was sold on January 28, 2021, for approximately \$3.5 million and the Company recognized a loss of approximately \$0.2 million.
- Garden Gateway, which was sold on February 19, 2021, for approximately \$11.2 million and the Company recognized a loss of approximately \$1.4 million.
- Highland Court, which was sold on May 20, 2021, for approximately \$10.2 million and the Company recognized a loss of approximately \$1.6 million.
- Executive Office Park, which was sold on May 21, 2021, for approximately \$8.1 million and the Company recognized a gain of approximately \$2.5 million.
- 44 model homes for approximately \$20.7 million and the Company recognized a gain of approximately \$3.2 million.

***Sponsorship of Special Purpose Acquisition Company***

On January 7, 2022, we announced our sponsorship, through our wholly-owned subsidiary, Murphy Canyon Acquisition Sponsor, LLC (the “Sponsor”), of a special purpose acquisition company (“SPAC”) initial public offering. The SPAC raised \$132,250,000 in capital investment to acquire an operating business. We, through our wholly-owned subsidiary, owned approximately 23.49% of the issued and outstanding stock in the entity upon the initial public offering being declared effective and consummated (excluding the private placement units described below), and that following the completion of its initial business combination that the SPAC will operate as a separately managed, publicly traded entity. The SPAC offered \$132,250,000 units, with each unit consisting of one share of common stock and three-quarters of one redeemable warrant.

## [Table of Contents](#)

The Sponsor purchased an aggregate of 828,750 units (the “placement units”) of the SPAC at a price of \$10.00 per unit, for an aggregate purchase price of \$8,287,500. The placement units were sold in a private placement that closed simultaneously with the closing of the SPAC initial public offering. The Sponsor has agreed to transfer an aggregate of 45,000 placement units (15,000 each) to each of Murphy Canyon’s independent directors.

On November 8, 2022, the SPAC entered into an agreement and plan of merger with Conduit Pharmaceuticals Limited, a Cayman Islands exempted company (“Conduit”), and Conduit Merger Sub, Inc., a Cayman Islands exempted company and the SPAC’s wholly owned subsidiary. If the merger agreement is approved by the SPAC’s stockholders and the transactions under the merger agreement are consummated, the SPAC’s Cayman Island subsidiary will merge with and into Conduit, with Conduit surviving the merger as the SPAC’s wholly owned subsidiary. Pursuant to the merger agreement, the outstanding ordinary shares (including the shares issued upon conversion of all outstanding convertible debt, which conversion shall have occurred prior to the consummation of the merger) of Conduit will be converted into an aggregate of 65,000,000 shares of the SPAC’s newly issued common stock, with each such outstanding Conduit ordinary share (including the ordinary shares issued upon conversion of all outstanding convertible debt, which conversion shall have occurred prior to the consummation of the merger) converted into newly issued shares of the SPAC’s common stock on a pro rata basis.

Initially, the SPAC was required to complete its initial business combination transaction by 12 months from the consummation of its initial public offering or up to 18 months if it extended the period of time to consummate a business combination in accordance with its certificate of incorporation. On January 26, 2023, at a special meeting of the stockholders, the stockholders approved a proposal to amend the SPAC’s certificate of incorporation to extend the date by which it has to consummate a business combination up to 12 times, each such extension for an additional one month period, from February 7, 2023, to February 7, 2024. The stockholders also approved a related proposal to amend the trust agreement allowing the SPAC to deposit into the trust account, for each one-month extension, one-third of 1% of the funds remaining in the trust account following the redemptions made in connection with the approval of the extension proposal at the special meeting. Following redemptions made in connection with the special meeting, we owned approximately 65% of the issued and outstanding equity of the SPAC.

On March 3, 2023 we loaned Murphy Canyon \$300,000 to fund its trust account and for operating expenses, and may lend up to \$1.5 million in total. The loan is non-interest bearing, unsecured and will be repayable in full upon the earlier of (i) the date on which Murphy Canyon consummates its initial business combination and (ii) the date that its winding up is effective.

## **ECONOMIC ENVIRONMENT**

According to Nareit’s, the National Association of Real Estate Investment Trusts, 2023 Outlook for the Economy, published on its website in December 2022, the U.S. economy will continue to be marked by mixed economic growth results, waning job gains, elevated inflation, and higher interest rates. The confluence of these factors has resulted in increased uncertainty surrounding the economic outlook. In November 2022, the Bloomberg consensus forecast survey placed the odds of a U.S. recession within the next 12 months at 62.5%; the likelihood was 15% at the start of the year. While property fundamentals generally remained solid at the end of 2022, there has been some evidence of softening going into 2023. The industrial, retail, and apartment property types maintained elevated occupancy rates that were higher than their respective pre-pandemic levels. Office occupancy continued its downward trajectory, dropping nearly 3% from its 2019 average. Four-quarter rent growth rates remained healthy for the industrial, retail, and apartment sectors; office continued work toward maintaining positive rent gains. Higher interest rates and debt costs are throttling commercial real estate transaction volume. The combination of high rates and weak valuations resulted in a dearth of REIT capital raising in the third quarter of 2022; it is at its lowest level since 2009.

## **CREDIT MARKET ENVIRONMENT**

As noted in Nareit's "2023 REIT Outlook: REITs, Recessions, and Economic Uncertainty" article published on its website in December 2022, the Bloomberg forecast survey made in November of 2022 placed the odds of a recession in the US within the next year at 62.5%. It was 15% at the beginning of 2022. The commercial property market has shown some signs of softening as we enter 2023. Higher interest rates and debt costs continue to slow commercial real estate transaction volume. The combination of high rates and weak valuations resulted in little REIT capital raising. In the third quarter of 2022, REIT capital raising was at its lowest level since 2009.

Our ability to execute our business strategies, and in particular to make new investments, is highly dependent upon our ability to procure external financing. Our principal sources of external financing include the issuance of our equity securities and mortgages secured by properties. The market for mortgages has remained strong, and interest rates remain relatively low compared to historical rates. We continue to obtain mortgages from the commercial mortgage-backed securities ("CMBS") market, life insurance companies and regional banks. Although these lenders are cautious about the outlook of the credit markets, financing does appear to be available for desirable properties in strong locations. Even though we have been successful in procuring equity financing and secured mortgages financing in the past, we cannot be assured that we will be successful at doing so in the future.

Rising inflation and elevated U.S. budget deficits and overall debt levels, including as a result of federal pandemic relief and stimulus legislation and/or economic or market and supply chain conditions, can continue to put upward pressure on interest rates and could be among the factors that could lead to even higher interest rates in the future. Prolonged higher interest rates could adversely affect our overall business, income, and our ability to pay dividends, including by reducing the fair value of many of our assets and adversely affecting our ability to obtain financing on favorable terms or at all, and negatively impacting the value of properties and the ability of prospective buyers to obtain financing for properties we intend to sell. This may affect our earnings results, reduce our ability to sell our assets, or reduce our liquidity. Furthermore, our business and financial results may be harmed by our inability to accurately anticipate developments associated with changes in, or the outlook for, interest rates.

## **MANAGEMENT EVALUATION OF RESULTS OF OPERATIONS**

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

In addition, management evaluates the results of the operations of our portfolio and individual properties with a primary focus on increasing and enhancing the value, quality and quantity of properties in our real estate holdings. Management focuses its efforts on improving underperforming assets through re-leasing efforts, including negotiation of lease renewals and rental rates. Properties are regularly evaluated for potential added value appreciation and cash flow and, if lacking such potential, are sold with the equity reinvested in new acquisitions or otherwise allocated in a manner we believe is accretive to our stockholders. Our ability to increase assets under management is affected by our ability to raise borrowings and/or capital, coupled with our ability to identify appropriate investments.



## [Table of Contents](#)

Our results of operations for the years ended December 31, 2022 and 2021 are not indicative of those expected in future periods. Management does not expect that the level of commercial property sales experienced over the last 24 months to continue in the near future. Additionally, with the equity raised in June and July 2021, management is working to increase the number of properties in the portfolio with new acquisitions. However, elevated real estate prices in both commercial and residential real estate and compressing capitalization rates have made it challenging to acquire properties that fit our portfolio needs. As a result, we did not find any suitable commercial properties to acquire during 2022, but we were able to acquire 31 Model Home Properties. Management will continue to evaluate potential acquisitions in an effort to increase our portfolio of commercial real estate.

### **CRITICAL ACCOUNTING POLICIES**

As a company primarily involved in owning income generating real estate assets, management considers the following accounting policies critical as they reflect our more significant judgments and estimates used in the preparation of our financial statements and because they are important for understanding and evaluating our reported financial results. These judgments affect the reported amounts of assets and liabilities and our disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. With different estimates or assumptions, materially different amounts could be reported in our financial statements. Additionally, other companies may utilize different estimates that may impact the comparability of our results of operations to those of companies in similar businesses.

***Real Estate Assets and Lease Intangibles.*** Land, buildings and improvements are recorded at cost, including tenant improvements and lease acquisition costs (including leasing commissions, space planning fees, and legal fees). We capitalize any expenditure that replaces, improves, or otherwise extends the economic life of an asset, while ordinary repairs and maintenance are expensed as incurred. We allocate the purchase price of acquired properties between the acquired tangible assets and liabilities (consisting of land, building, tenant improvements, land purchase options, and long-term debt) and identified intangible assets and liabilities (including the value of above-market and below-market leases, the value of in-place leases, unamortized lease origination costs and tenant relationships), based in each case on their respective fair values.

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

The value allocated to acquired lease intangibles is based on management's evaluation of the specific characteristics of each tenant's lease. Characteristics considered by management in allocating these values include the nature and extent of the existing business relationships with the tenant, growth prospects for developing new business with the tenant, the remaining term of the lease and the tenant's credit quality, among other factors.

The value allocable to the above-market or below-market market component of an acquired in-place lease is determined based upon the present value (using a market discount rate) of the difference between (i) the contractual rents to be paid pursuant to the lease over its remaining term, and (ii) management's estimate of rents that would be paid using fair market rates over the remaining term of the lease.

The value of in-place leases and unamortized lease origination costs are amortized to expense over the remaining term of the respective leases, which range from less than a year to ten years. The amount allocated to acquire in-place leases is determined based on management's assessment of lost revenue and costs incurred for the period required to lease the "assumed vacant" property to the occupancy level when purchased. The amount allocated to unamortized lease origination costs is determined by what we would have paid to a third party to secure a new tenant reduced by the expired term of the respective lease.

***Real Estate Held for Sale and Discontinued Operations.*** Real estate sold or to be sold during the current period is classified as "real estate held for sale" for all prior periods presented in the accompanying condensed consolidated financial statements. Mortgage notes payable related to the real estate sold during the current period is classified as "notes payable related to real estate held for sale" for all prior periods presented in the accompanying condensed consolidated financial statements. Additionally, we record the operating results related to real estate that has been disposed of as discontinued operations for all periods presented if the operations have been eliminated and represent a strategic shift and we will not have any significant continuing involvement in the operations of the property following the sale.

## [Table of Contents](#)

**Impairment of Real Estate Assets.** We review 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, we prepare a projection of the undiscounted future cash flows, without interest charges, of the specific property and determine 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 our best estimate of the property's discounted future cash flows.

**Goodwill and Intangible Assets.** Intangible assets, including goodwill and lease intangibles, are comprised of finite-lived and indefinite-lived assets. Lease intangibles represents the allocation of a portion of the purchase price of a property acquisition representing the estimated value of in-place leases, unamortized lease origination costs, tenant relationships and land purchase options. Intangible assets that are not deemed to have an indefinite useful life are amortized over their estimated useful lives. Indefinite-lived assets are not amortized.

We test for impairment of goodwill and other definite and indefinite lived assets at least annually, and more frequently as circumstances warrant. Impairment is recognized only if the carrying amount of the intangible asset is considered to be unrecoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and the estimated fair value of the asset.

**Sales of Real Estate Assets.** Generally, our sales of real estate would be considered a sale of a nonfinancial asset as defined by ASC 610-20. If we determine we do not have a controlling financial interest in the entity that holds the asset and the arrangement meets the criteria to be accounted for as a contract, we would derecognize the asset and recognize a gain or loss on the sale of the real estate when control of the underlying asset transfers to the buyer.

**Revenue Recognition.** We recognize minimum rent, including rental abatements, lease incentives and contractual fixed increases attributable to operating leases, on a straight-line basis over the term of the related leases when collectability is reasonably assured and record amounts expected to be received in later years as deferred rent receivable. If the lease provides for tenant improvements, we determine whether the tenant improvements, for accounting purposes, are owned by the tenant or by us. When we are the owner of the tenant improvements, rental revenue begins when the tenant takes possession or has control of the physical use of the leased space and any tenant improvement allowance, the tenant is not considered to have taken physical possession or have control of the physical use of the leased asset until the tenant improvements are substantially completed. When the tenant is the owner of the tenant improvements, any tenant improvement allowance (including amounts that the tenant can take in the form of cash or a credit against its rent) that is funded is treated as a lease incentive and amortized as a reduction of revenue over the lease term. Tenant improvement ownership is determined based on various factors, including, but not limited to:

- whether the lease stipulates how a tenant improvement allowance may be spent;
- whether the amount of a tenant improvement allowance is in excess of market rates;
- whether the tenant or landlord retains legal title to the improvements at the end of the lease term;
- whether the tenant improvements are unique to the tenant or general-purpose in nature; and
- whether the tenant improvements are expected to have any residual value at the end of the lease.

We record property operating expense reimbursements due from tenants for common area maintenance, real estate taxes, and other recoverable costs in the period the related expenses are incurred.

We make estimates of the collectability of our tenant receivables related to base rents, including deferred rent receivable, expense reimbursements and other revenue or income. We specifically analyze accounts receivable, deferred rent receivable, historical bad debts, customer creditworthiness, current economic trends and changes in customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. In addition, with respect to tenants in bankruptcy, management makes estimates of the expected recovery of pre-petition and post-petition claims in assessing the estimated collectability of the related receivable. In some cases, the ultimate resolution of these claims can exceed one year. When a tenant is in bankruptcy, we will record a bad debt reserve for the tenant's receivable balance and generally will not recognize subsequent rental revenue until cash is received or until the tenant is no longer in bankruptcy and has the ability to make rental payments.

Sales of real estate are recognized generally upon the transfer of control, which usually occurs when the real estate is legally sold. The application of these criteria can be complex and required us to make assumptions. We believe the relevant criteria were met for all real estate sold during the periods presented.

## [Table of Contents](#)

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

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

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

- Level 1: unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;
- Level 2: quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and
- Level 3: prices or valuation techniques where little or no market data is available that requires inputs that are both significant to the fair value measurement and unobservable.

When available, we utilize quoted market prices from independent third-party sources to determine fair value and classify such items in Level 1 or Level 2. In instances where the market for a financial instrument is not active, regardless of the availability of a nonbinding quoted market price, observable inputs might not be relevant and could require us to make a significant adjustment to derive a fair value measurement.

Additionally, in an inactive market, a market price quoted from an independent third-party may rely more on models with inputs based on information available only to that independent third-party. When we determine the market for a financial instrument owned by us to be illiquid or when market transactions for similar instruments do not appear orderly, we use several valuation sources (including internal valuations, discounted cash flow analysis and quoted market prices) and establish a fair value by assigning weights to the various valuation sources. As of December 31, 2022 and December 31, 2021, our marketable securities presented on the balance sheet were measured at fair value using Level 1 market prices and totaled approximately \$0.8 million and \$1.5 million, respectively, with a cost basis of approximately \$0.9 million and \$1.6 million, respectively. There were no financial liabilities measured at fair value as of December 31, 2022 and December 31, 2021.

Additionally, when determining the fair value of a liability in circumstances in which a quoted price in an active market for an identical liability is not available, we measure fair value using (i) a valuation technique that uses the quoted price of the identical liability when traded as an asset or quoted prices for similar liabilities when traded as assets or (ii) another valuation technique that is consistent with the principles of fair value measurement, such as the income approach or the market approach. Changes in assumptions or estimation methodologies can have a material effect on these estimated fair values. In this regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, may not be realized in an immediate settlement of the instrument.

**Depreciation and Amortization.** The Company records depreciation and amortization expense using the straight-line method over the useful lives of the respective assets. The cost of buildings are depreciated over estimated useful lives of 39 years, the costs of improvements are amortized over the shorter of the estimated life of the asset or term of the tenant lease (which range from 1 to 10 years), the costs associated with acquired tenant intangibles over the remaining lease term and the cost of furniture, fixtures and equipment are depreciated over 4 to 5 years.

## [Table of Contents](#)

**Earnings per share (“EPS”).** The EPS on common stock has been computed pursuant to the guidance in FASB ASC Topic 260, Earnings Per Share. The guidance requires the classification of the Company’s unvested restricted stock, which contain rights to receive non-forfeitable dividends, as participating securities requiring the two-class method of computing net income per share of common stock. In accordance with the two-class method, earnings per share have been computed by dividing the net income less net income attributable to unvested restricted shares by the weighted average number of shares of common stock outstanding less unvested restricted shares. Diluted earnings per share is computed by dividing net income by the weighted average shares of common stock and potentially dilutive securities outstanding in accordance with the treasury stock method.

Dilutive common stock equivalents include the dilutive effect of in-the-money stock equivalents, which are calculated based on the average share price for each period using the treasury stock method, excluding any common stock equivalents if their effect would be anti-dilutive. In periods in which a net loss has been incurred, all potentially dilutive common stock shares are considered anti-dilutive and thus are excluded from the calculation. Securities that are excluded from the calculation of weighted average dilutive common stock, because their inclusion would have been antidilutive, are:

	<b>For the Year Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Common Stock Warrants	2,000,000	2,000,000
Placement Agent Warrants	80,000	80,000
Series A Warrants	14,450,069	—
Unvested Common Stock Grants	349,042	295,471
Total potentially dilutive shares	<u>16,879,111</u>	<u>2,375,471</u>

## **RESULTS FROM OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

Our results from operations for 2022 and 2021 are not indicative of those expected in future periods as we expect that rental income, interest expense, rental operating expense, general and administrative expenses, and depreciation and amortization will significantly change in future periods as a result of the assets sold over the last two years.

**Revenues.** Total revenue was approximately \$17.8 million for the year ended December 31, 2022, compared to approximately \$19.2 million for the same period in 2021, a decrease of approximately \$1.4 million or 7%. The decrease in rental income reported in 2022 compared to 2021 is related to the sale of four commercial properties during 2021 and the common area maintenance recovery ("CAM") income associated with those properties, and the sale of World Plaza in March of 2022. The CAM reduction for the year ended December 31, 2022 as compared to the same period in 2021, totaled approximately \$0.9 million. The decrease in rental income is also connected to the reduction of model homes in 2021 (going from 118 at the beginning of the year to 92 at December 31, 2021). As of December 31, 2022, we owned 92 model homes, the same number of homes as of December 31, 2021. The decrease in rental income was partially offset by the acquisition of our Mandolin and Baltimore properties during August and December 2021, respectively.

**Rental Operating Costs.** Rental operating costs were approximately \$5.8 million for the year ended December 31, 2022 compared to approximately \$6.2 million for the same period in 2021, a decrease of approximately \$0.3 million or 5%. Rental operating costs as a percentage of total revenue was 32.9% and 32.2% for the years ended December 31, 2022 and 2021, respectively. The decrease in rental operating costs for the years ended December 31, 2022 compared to 2021 is mainly due to the overall reduction in commercial properties.

**General and Administrative.** General and administrative (“G&A”) expenses were approximately \$6.2 million for the year ended December 31, 2022, compared to approximately \$6.2 million for the same period in 2021, representing a decrease of approximately \$62,000 or 1%. As a percentage of total revenue, our general and administrative costs was approximately 34.7% and 32.4% for the years ended December 31, 2022 and 2021, respectively. The G&A expense for the years ended December 31, 2022 was affected by a reduction in payroll costs totaling approximately \$878,000, including stock compensation, off set by the increase in D&O insurance for the SPAC totaling approximately \$465,000 and higher accounting and consulting fees of approximately \$412,000.

**Depreciation and Amortization.** Depreciation and amortization expenses were approximately \$5.5 million for the year ended December 31, 2022, compared to approximately \$5.4 million for the same period in 2021.

## [Table of Contents](#)

**Asset Impairments.** We review the carrying value of each of our real estate properties annually to determine if circumstances indicate an impairment in the carrying value of these investments exists. During 2021, we recognized a non-cash impairment charge of approximately \$0.6 million on Highland Court and 300 N.P. This impairment charges reflect management's revised estimate of the fair market value based on sales comparable of like property in the same geographical area as well as an evaluation of future cash flows or an executed purchase sale agreement. The Company did not recognize a non-cash impairment during the year ended December 31, 2022.

**Interest Expense-mortgage notes.** Interest expense, including amortization of deferred finance charges was approximately \$4.7 million for the year ended December 31, 2022 compared to approximately \$4.5 million for the same period in 2021, an increase of approximately \$0.2 million, or 4%. The increase in mortgage interest expense relates to the increase mortgage debt on our commercial properties and model homes. During March and April 2022, we added approximately \$9.3 million in mortgage debt related to our Baltimore and Mandolin properties and had a net increase in mortgage debt on our model home of approximately \$2.6 million, in connection with model home sales and acquisitions. The weighted average interest rate on our outstanding debt was 4.57% and 4.25% as of December 31, 2022 and 2021, respectively.

**Interest Expense-note payable.** On September 17, 2019, the Company executed a Promissory Note pursuant to which Polar, extended a loan in the principal amount of approximately \$14.0 million to the Company. The Polar Note bore interest at a fixed rate of 8% per annum and required monthly interest-only payments. Interest expense, including amortization of the deferred offering costs and Original Issue Discount of approximately \$1.4 million, totaled approximately \$0.3 million for the year ended December 31, 2021. The Polar Note was paid in full during March 2021, and no similar expenses were recorded during the year ended December 31, 2022.

**Gain on Sale of Real Estate Assets.** For the year ended December 31, 2022, the change in gain on sale relates to the mix and type of properties sold. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Significant Transactions in 2022 and 2021 above for further detail.

**Gain on Extinguishment of Government Debt.** On April 30, 2020, the Company received a Paycheck Protection Program ("PPP") loan of approximately \$0.5 million from the Small Business Administration ("SBA") which provided additional economic relief during the COVID-19 pandemic. The PPP loan, less \$10,000 related to the Economic Injury Disaster Loan ("EIDL") received on April 22, 2020, was forgiven by the SBA as of December 31, 2020 and was fully forgiven in January 2021 upon repeal of the EIDL holdback requirements. The gain on extinguishment of government debt totaled \$0 and \$10,000 for the years end December 31, 2022 and 2021, respectively.

**Income Tax Expense / Credit.** For the year ended December 31, 2022, the Company recorded an expense of approximately \$1.2 million related to estimated refunds from federal and state taxes for capital gains from the sale of model homes held by the taxable REIT subsidiary compared to a recorded an income tax credit of approximately \$47,620, for the year ended December 31, 2021.

**Income allocated to non-controlling interests.** Income allocated to non-controlling interests for the years ended December 31, 2022 and 2021 totaled approximately \$3.6 million, and \$2.2 million, and was directly impacted by the sale of 19 and 34 model homes during the years ended December 31, 2022 and 2021, respectively, held by our Model Home Partnerships.

### **Geographic Diversification Tables**

The following table shows a list of commercial properties owned by the Company grouped by state and geographic region as of December 31, 2022:

State	No. of Properties	Aggregate Square Feet	Approximate % of Square Feet	Current Base Annual Rent	Approximate % of Aggregate Annual Rent
California	1	57,807	7.0%	\$ 1,217,582	11.0%
Colorado (1)	5	324,245	39.4%	5,476,502	49.7%
Maryland	1	31,752	3.9%	696,321	6.3%
North Dakota	4	397,203	48.4%	3,303,274	30.0%
Texas	1	10,500	1.3%	329,385	3.0%
Total	12	821,507	100.0%	\$ 11,023,064	100.0%



## [Table of Contents](#)

The following table shows a list of our Model Home properties by geographic region as of December 31, 2022:

<b>Geographic Region</b>	<b>No. of Properties</b>	<b>Aggregate Square Feet</b>	<b>Approximate % of Square Feet</b>	<b>Current Base Annual Rent</b>	<b>Approximate % of Aggregate Annual Rent</b>
Midwest	2	6,153	2.2%	\$ 80,844	2.7%
Southeast	2	3,978	1.4%	78,492	2.6%
Southwest	88	268,749	96.4%	2,824,404	94.7%
Total	92	278,880	100.0%	\$ 2,983,740	100.0%

## LIQUIDITY AND CAPITAL RESOURCES

### *Overview*

Our anticipated future sources of liquidity may include existing cash and cash equivalents, cash flows from operations, refinancing of existing mortgages, future real estate sales, new borrowings from our model home lines of credit, and the sale of equity or debt securities. Management believes that the number of commercial real estate sales during 2021 (4 properties) and high level of model home sales during 2022 (31 homes) and 2021 (44 homes), and resulting cash generated thereby may not be indicative of our future strategic plans. We intend to grow our portfolio with cash on hand and future equity sales. Our cash and restricted cash at December 31, 2022 was approximately \$16.5 million. Our future capital needs include paying down existing borrowings, maintaining our existing properties, funding tenant improvements, paying lease commissions (to the extent they are not covered by lender-held reserve deposits), and the payment of dividends to our stockholders. We also are actively seeking investments that are likely to produce income and achieve long-term gains in order to pay dividends to our stockholders, and may seek a revolving line of credit to provide short-term liquidity. To ensure that we can effectively execute these objectives, we routinely review our liquidity requirements and continually evaluate all potential sources of liquidity.

Our short-term liquidity needs include paying our current operating costs, satisfying the debt service requirements of our existing mortgages, completing tenant improvements, paying leasing commissions, and funding dividends to stockholders. Future principal payments due on our mortgage notes payables during 2023, total approximately \$8.3 million, of which \$6.8 million is related to model home properties. Management expects certain model home and commercial properties will be sold, and that the underlying mortgage notes will be paid off with sales proceeds, while other mortgage notes will be refinanced as the Company has done in the past. Additional principal payments will be made with cash flows from ongoing operations. On March 11, 2022, the Company completed the sale of our property World Plaza, located in San Bernardino, CA, for \$10 million to an unrelated third party. This property was not encumbered by any debt and net cash proceeds will be used for future cash needs. On December 31, 2022, the lease for our largest tenant, Halliburton Energy Services, Inc., expired. Halliburton Energy Services, Inc. was located in our Shea Center II property in Colorado, and made up approximately 8.57% of our annual base as of December 31, 2022. The tenant did not renew the lease and we placed approximately \$1.1 million in a reserve account with our lender to cover future mortgage payments, if necessary. Our management team is working to fill the space as quickly as possible, and has filled approximately 20% of the space in the first quarter of 2023.

On September 17, 2021, the Board of Directors authorized a stock repurchase program of up to \$10 million of outstanding shares of our Series A Common Stock, which expired in September 2022. On September 15, 2022, the Board of Directors authorized a stock repurchase program of up to \$6.0 million of outstanding shares of our Series A Common Stock and up to \$4.0 million of our Series D Preferred Stock. During the year ended December 31, 2021, the Company repurchased 29,721 shares of our Series A Common Stock at an average price of approximately \$3.7223 per share, including a commission of \$0.035 per share, for a total cost of \$110,631. During the year ended December 31, 2022, the Company repurchased 196,631 shares of our Series A Common Stock at an average price of approximately \$1.59 per share, including a commission of \$0.035 per share, and 6,013 shares of our Series D Preferred Stock at an average price of approximately \$20.31 per share, including a commission of \$0.035 per share, for a total cost of \$313,578 for the Series A Common Stock and \$122,141 for the Series D Preferred Stock. The repurchased shares will be treated as authorized and unissued in accordance with Maryland law and shown as a reduction of stockholders' equity at cost. While we will continue to pursue value creating investments, the Board of Directors believes there is significant embedded value in our assets that is yet to be realized by the market. Therefore, returning capital to stockholders through a repurchase program is an attractive use of capital currently.



## [Table of Contents](#)

There can be no assurance that the Company will refinance loans, take out additional financing or capital will be available to the Company on acceptable terms, if at all. If events or circumstances occur such that the Company does not obtain additional funding, it will most likely be required to reduce its plans or certain discretionary spending, which could have a material adverse effect on the Company's ability to achieve its intended business objectives. We believe that cash on hand, cash flow from our existing portfolio, distributions from joint ventures in Model Home Partnerships and property sales during 2022 will be sufficient to fund our operating costs, planned capital expenditures and required dividends for at least the next twelve months. If our cash flow from operating activities is not sufficient to fund our short-term liquidity needs, we plan to fund a portion of these needs from additional borrowings of secured or unsecured indebtedness, from real estate sales, issuance of debt instruments, additional investors, or we may reduce the rate of dividends to our stockholders.

Our long-term liquidity needs include proceeds necessary to grow and maintain our portfolio of investments. We believe that the potential financing capital available to us in the future is sufficient to fund our long-term liquidity needs. We are continually reviewing our existing portfolio to determine which properties have met our short- and long-term goals and reinvesting the proceeds in properties with better potential to increase performance. We expect to obtain additional cash in connection with refinancing of maturing mortgages and assumption of existing debt collateralized by some or all of our real property in the future to meet our long-term liquidity needs. If we are unable to arrange a line of credit, borrow on properties, privately place securities or sell securities to the public we may not be able to acquire additional properties to meet our long-term objectives.

The following is a summary of distributions declared per share of our Series A Common Stock and for our Series D Preferred Stock for the years ended December 31, 2022 and 2021. The Company intends to continue to pay dividends to our common stockholders on a quarterly basis, and on a monthly basis for the Series D Preferred stockholders going forward, but there can be no guarantee the Board of Directors will approve any future dividends.

Quarter Ended	2022	2021
	Distributions Declared	Distributions Declared
March 31	\$ 0.105	\$ 0.101
June 30	0.106	0.102
September 30	0.020	0.103
December 31	0.021	0.104
Total	<u>\$ 0.252</u>	<u>\$ 0.410</u>

Month	2022	2021
	Distributions Declared	Distributions Declared
January	\$ 0.19531	\$ —
February	0.19531	—
March	0.19531	—
April	0.19531	—
May	0.19531	—
June	0.19531	0.10417
July	0.19531	0.19531
August	0.19531	0.19531
September	0.19531	0.19531
October	0.19531	0.19531
November	0.19531	0.19531
December 31	0.19531	0.19531
Total	<u>\$ 2.34372</u>	<u>\$ 1.27603</u>

### ***Cash, Cash Equivalents and Restricted Cash***

At December 31, 2022 and December 31, 2021, we had approximately \$16.5 million and \$14.7 million in cash equivalents, respectively, including \$4.4 million and \$4.7 million of restricted cash, respectively. Our cash equivalents and restricted cash consist of invested cash, cash in our operating accounts and cash held in bank accounts at third-party institutions. During the years ended December 31, 2022 and 2021, we did not experience any loss or lack of access to our cash or cash equivalents. Approximately \$4.1 million of our cash and restricted cash balance is intended for capital expenditures on existing properties (including deposits held in reserve accounts by our lenders) over the next 12 months of 2023. This includes approximately \$3.2 million related to tenant improvements and building improvements for a long-term lease agreement with KLJ Engineering LLC to occupy 33,296 square feet at our Grand Pacific Center office building in Bismarck, North Dakota. We plan on financing a portion of the Bismarck construction costs with a new loan that will also refinance the existing mortgage on the property. We intend to use the remainder of our existing cash and cash equivalents for asset/property acquisitions, reduction of principal debt, general corporate purposes, common stock repurchases (if market conditions are met), or dividends to our stockholders and sponsorship of Murphy Canyon Acquisition Corp.

### ***Secured Debt***

As of December 31, 2022, all our commercial properties, except 300 NP which has no debt, had fixed-rate mortgage notes payable in the aggregate principal amount of \$73.0 million, collateralized by a total of 11 commercial properties with loan terms at issuance ranging from 7 to 22 years. The weighted-average interest rate on these mortgage notes payable as of December 31, 2022 was approximately 4.53%, and our debt to estimated market value for our commercial properties was approximately 54.3%.

As of December 31, 2022, the Company had fixed-rate mortgage notes payable related to model homes in the aggregate principal amount of \$24.8 million, excluding loans eliminated through consolidation, collateralized by a total of 86 Model Homes and five intercompany loans from the Company to our Model Home entities, Dubose Model Home Investors #202, LP and Dubose Model Home Investors #204, LP. The intercompany loans are fully eliminated in consolidation. These loans generally have a term at issuance of three to five years. As of December 31, 2022, the average loan balance per home outstanding and the weighted-average interest rate on these mortgage loans are approximately \$288,000 and 4.69%, respectively. Our debt to estimated market value on all our model home properties is approximately 58%, excluding any loans eliminated through consolidation. We have been able to refinance maturing mortgages to extend maturity dates and we have not experienced any notable difficulties financing our acquisitions. The Company anticipates that any new mortgages used to acquire commercial properties or model homes in the near future will be at rates higher than our currently weighted average interest rate.

### ***Cash Flows for the years ended December 31, 2022 and December 31, 2021***

*Operating Activities:* Net cash provided by operating activities for the years ended December 31, 2022 and 2021 decreased by \$1.4 million to approximately \$0.9 million from \$2.4 million. The change in net cash provided in operating activities is mainly due to changes in net income, including operating activities of the SPAC, which fluctuates based on timing of receipt and payment, as well as an increase in non-cash addbacks such as straight-line rent.

*Investing Activities:* Net cash used in investing activities for the year ended December 31, 2022 was approximately \$126.4 million compared to approximately \$24.2 million provided by investing activities during the same period in 2021. The change from each period was primarily related to the gross cash invested into the trust account for Murphy Canyon totaling approximately \$134.9 million. Additionally, proceeds from sale of real estate, net, were down approximately \$23.8 million in 2022, as compared to 2021, and proceeds used for real estate acquisition and building improvements were down approximately \$6.0 million.

We currently project that we could spend up to \$4.1 million (some of which is held in deposits reserve accounts by our lenders) on capital improvements, tenant improvements and leasing costs for properties within our portfolio during the rest of the year. Capital expenditures may fluctuate in any given period subject to the nature, extent, and timing of improvements required to the properties. We may spend more on capital expenditures in the future due to rising construction costs. 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.

## [Table of Contents](#)

*Financing Activities:* Net cash provided by financing activities during the year ended December 31, 2022 was \$127.3 million compared to \$23.4 million used in financing activities for the same period in 2021 and was primarily due to the following activities for the year ended December 31, 2022:

- Proceeds of approximately \$132.3 million from public issuance for Murphy Canyon common stock during the year ended December 31, 2022.
- Net decrease in repayment of mortgage notes payable and notes payable totaling approximately \$38.8 million.
- Net increase in proceeds from mortgage notes payable totaling approximately \$8.6 million.
- A net decrease of dividends paid to Series A Common stockholders of approximately \$1.4 million.
- A net decrease of distributions to noncontrolling interest of approximately \$3.2 million.

These increases to cash provided by financing activities were offset by the following:

- Net increase of payment of deferred offering costs totaling approximately \$2.6 million, mainly related to offering costs for Murphy Canyon of \$3.2 million.
- The issuance of Series A Common Stock and Series D Preferred Stock totaling approximately \$8.9 million and \$20.5 million, respectively during 2021 which was not repeated during 2022.
- The increase in cash used to repurchase Series A Common Stock and Series D Preferred stock increased approximately \$0.3 million.
- Net increase in cash dividend payments to Series D Preferred Stockholders of approximately \$1.2 million (the Series D Preferred Stock dividends began in June 2021).

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

On July 12, 2021, the Company entered into a securities purchase agreement with a single U.S. institutional investor for the purchase and sale of 1,000,000 shares of its Series A Common Stock, Common Stock Warrants to purchase up to 2,000,000 shares of Series A Common Stock and Pre-Funded Warrants to purchase up to 1,000,000 shares of Series A Common Stock. Each share of Common Stock and accompanying Common Stock Warrants were sold together at a combined offering price of \$5.00, and each share of Common Stock and accompanying Pre-Funded Warrant were sold together at a combined offering price of \$4.99. The Pre-Funded Warrants were exercised in full during August 2021 at a nominal exercise price of \$0.01 per share. The Common Stock Warrants have an exercise price of \$5.50 per share, were exercisable upon issuance and will expire five years from the date of issuance.

In connection with this additional offering, we agreed to issue the Placement Agent Warrants to purchase up to 80,000 shares of Series A Common Stock, representing 4.0% of the Series A Common Stock and shares of Series A Common Stock issuable upon exercise of the Pre-Funded Warrants. The Placement Agent Warrants were issued in August 2021, post exercise of the Pre-Funded Warrants with an exercise price of \$6.25 and will expire five years from the date of issuance.

*Common Stock Warrants:* If all the potential Common Stock Warrants outstanding at December 31, 2022, were exercised at the price of \$5.00 per share, gross proceeds to us would be approximately \$10 million and we would as a result issue an additional 2,000,000 shares of common stock.

*Placement Agent Warrants:* If all the potential Placement Agent Warrants outstanding at December 31, 2022, were exercised at the price of \$6.25 per share, gross proceeds to us would be approximately \$0.5 million and we would as a result issue an additional 80,000 shares of common stock.

## [Table of Contents](#)

January 14, 2022 was the record date with respect to the distribution of five-year listed warrants (the “Series A Warrants”). The Series A Warrants and the shares of common stock issuable upon the exercise of the Series A Warrants were registered on a registration statement that was filed with the SEC and was declared effective January 21, 2022. The Series A Warrants commenced trading on the Nasdaq Capital Market under the symbol “SQFTW” on January 24, 2022 and were distributed on that date to persons who held shares of common stock and existing outstanding warrants as of the January 14, 2022 record date, or who acquired shares of common stock in the market following the record date, and who continued to hold such shares at the close of trading on January 21, 2022. The Series A Warrants give the holder the right to purchase one share of common stock at \$7.00 per share, for a period of five years. Should warrant holders not exercise the Series A Warrants during that holding period, the Series A Warrants will automatically convert to 1/10 of a common share at expiration, rounded down to the nearest number of whole shares.

*Series A Warrants:* If all the potential Series A Warrants outstanding at December 31, 2022, were exercised at the price of \$7.00 per share, gross proceeds to us would be approximately \$101.2 million and we would as a result issue an additional 14,450,069 shares of common stock.

### ***Inflation***

Leases generally provide for limited increases in rent as a result of fixed increases, increases in the consumer price index (typically subject to ceilings), or increases in the clients’ sales volumes. We expect that inflation will cause these lease provisions to result in rent increases over time. During times when inflation is greater than increases in rent, as provided for in the leases, rent increases may not keep up with the rate of inflation.

However, our use of net lease agreements tends to reduce our exposure to rising property expenses due to inflation because the client is responsible for property expenses. Inflation and increased costs may have an adverse impact on our clients if increases in their operating expenses exceed increases in revenue.

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As a smaller reporting company, we are not required to provide disclosure pursuant to this item.

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

The financial statements required by this item are filed with this report as described under Item 15.

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

None.

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

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our 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 Management, including our 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 year ended December 31, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Furthermore, we do not believe that these controls have been impacted by COVID-19 related circumstances, including remote work arrangements with our employees.

#### ***Management's Report on Internal Control over Financial Reporting***

Our Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our Management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). Based on our evaluation under the framework in *Internal Control — Integrated Framework*, our Management concluded that our internal control over financial reporting was effective as of December 31, 2022.

This annual report on Form 10-K does not include an attestation report of the Company's independent registered public accounting firm regarding our internal control over financial reporting as such report is not required for the Company.

### **ITEM 9B. OTHER INFORMATION**

None.

### **ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

None.

## **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this item is set forth under the captions “Board of Directors” and “Executive Officers of the Company” and “Section 16(a) Beneficial Ownership Reporting Compliance” in our definitive Proxy Statement for the 2022 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A, and is incorporated herein by reference. The Annual Meeting of Stockholders is estimated to be held on June 1, 2023.

## **ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item is set forth under the caption “Executive Compensation” in our definitive Proxy Statement for the 2023 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A, and is incorporated herein by reference.

## **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this item will be set forth under the caption “Security Ownership of Certain Beneficial Owners and Management” in our definitive Proxy Statement for the 2023 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A, and is incorporated herein by reference.

## **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

The information required by this item is set forth under the caption “Related Party Transactions” in our definitive Proxy Statement for the 2023 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A, and is incorporated herein by reference.

## **ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this item is set forth under the caption “Independent Registered Public Accounting Firm Fees and Services” in our definitive Proxy Statement for the 2023 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A, and is incorporated herein by reference.

## **PART IV**

### **ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(1) Financial Statements - the following documents are filed as part of this report:

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets as of December 31, 2022 and 2021
- Consolidated Statements of Operations for the years ended December 31, 2022 and 2021
- Consolidated Statements of Equity for the years ended December 31, 2022 and 2021
- Consolidated Statements of Cash Flows for the years ended December 31, 2022 and 2021
- Notes to Consolidated Financial Statements

(2) Financial Statement Schedules - the following documents are filed as part of this report:

- Schedule III - Real Estate Assets and Accumulated Depreciation and Amortization as of December 31, 2022

All other financial statement schedules have been omitted for the reason that the required information is presented in the financial statements or notes thereto, the amounts involved are not significant or the schedules are not applicable.



## [Table of Contents](#)

(3) Exhibits - an index to the Exhibits as filed as part of this Form 10-K is set forth below.

<b>Number</b>	<b>Description</b>
3.1	<u><a href="#">Articles of Merger filed with the Maryland State Department of Assessments and Taxation and the California Secretary of State on August 4, 2010 (incorporated by reference to Exhibit 3.03 of the Company's Current Report on Form 8-K filed on August 10, 2010).</a></u>
3.2	<u><a href="#">Articles of Amendment and Restatement of the Articles of Incorporation, dated as of July 30, 2010 (incorporated by reference to Exhibit 3.01 of the Company's Current Report on Form 8-K filed on August 10, 2010).</a></u>
3.3	<u><a href="#">Articles Supplementary filed on August 4, 2014 (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on August 8, 2014).</a></u>
3.4	<u><a href="#">Articles of Amendment of Presidio Property Trust, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on October 19, 2017).</a></u>
3.5	<u><a href="#">Articles Supplementary classifying and designating the Series C Common Stock (incorporated by reference to Exhibit 3.2 of the Company's Current Report on Form 8-K filed on July 31, 2020).</a></u>
3.6	<u><a href="#">Articles of Amendment effecting the reverse stock split (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on July 31, 2020).</a></u>
3.7	<u><a href="#">Articles Supplementary classifying and designating 805,000 shares of the Series D Preferred Stock (incorporated by reference to the Company's Form 8-A12B filed on June 9, 2021).</a></u>
3.8	<u><a href="#">Articles Supplementary classifying and designating an additional 115,000 shares of the Series D Preferred Stock (incorporated by reference to Exhibit 3.2 of the Company's Current Report on Form 8-K filed on June 15, 2021).</a></u>
3.9	<u><a href="#">Second Amended and Restated Bylaws of Presidio Property Trust, Inc. (incorporated by reference to Exhibit 3.2 of the Company's Current Report on Form 8-K filed on October 19, 2017).</a></u>
4.1	<u><a href="#">Form of Series A Common Stock Certificate (incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form 10-12B filed on May 6, 2008).</a></u>
4.2	<u><a href="#">Description of Securities (incorporated by reference to Exhibit 4.2 of the Company's Annual Report on Form 10-K filed on March 30, 2022).</a></u>
4.3	<u><a href="#">Form of Common Stock Warrant (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on July 14, 2021).</a></u>
4.4	<u><a href="#">Form of Placement Agent Warrant (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed on July 14, 2021).</a></u>
4.5	<u><a href="#">Form of Pre-Funded Warrant (incorporated by reference to Exhibit 4.3 of the Company's Current Report on Form 8-K filed on July 14, 2021).</a></u>
4.6	<u><a href="#">Form of Warrant (incorporated by reference to Exhibit 4.5 of the Company's Registration Statement on Form S-11 filed on November 9, 2021).</a></u>
4.7	<u><a href="#">Form of Warrant Agent Agreement (incorporated by reference to Exhibit 4.6 of the Company's Registration Statement on Form S-11 filed on November 9, 2021).</a></u>
10.1+	<u><a href="#">1999 Flexible Incentive Plan (incorporated by reference to Exhibit 10.1 of the Company's Registration Statement on Form 10-12B filed on May 6, 2008).</a></u>
10.2	<u><a href="#">Dividend Reinvestment Plan (incorporated by reference to Exhibit 10.2 of the Company's Registration Statement on Form 10-12B filed on May 6, 2008).</a></u>

- 10.3 [Promissory Note, dated as of September 17, 2019, by and between Presidio Property Trust, Inc. and Polar Multi-Strategy Master Fund \(incorporated by reference to Exhibit 1.1 of the Company's Current Report on Form 8-K filed on September 23, 2019\).](#)
- 10.4 [Agreement, dated as of September 17, 2019, by and between Presidio Property Trust, Inc. and Polar Multi-Strategy Master Fund \(incorporated by reference to Exhibit 1.2 of the Company's Current Report on Form 8-K filed on September 23, 2019\).](#)
- 10.5+ [Employment Agreement for Mr. Heilbron, effective as of October 18, 2017 \(incorporated by reference to Exhibit 10.2 of the Company's Annual Report on Form 10-K filed on March 30, 2021\).](#)
- 10.7 [Purchase and Sale Agreement and Joint Escrow Instructions among NetREIT Highland, LLC, NetREIT Joshua, LLC, NetREIT Casa Grande, LP, NetREIT Sunrise, LLC, NetREIT, Inc. and Sparky's Storage 18 \(CA\) LP, dated as of February 6, 2015; as amended by the First Amendment dated February 25, 2015, and the Second Amendment dated April 2, 2015 \(incorporated by reference to Exhibit 99.1 of the Company's Current Report on Form 8-K filed on April 15, 2015\).](#)
- 10.8 [Form of Restricted Stock Agreement under 1999 Flexible Incentive Plan \(incorporated by reference to Exhibit 10.1 of the Company's Registration Statement on Form 10-12B filed on May 6, 2008\).](#)
- 10.9+ [Presidio Property Trust, Inc. 2017 Incentive Award Plan \(incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on October 19, 2017\).](#)
- 10.10+ [Form of Restricted Stock Agreement under 2017 Incentive Award Plan \(incorporated by reference to Exhibit 10.25 of the Company's Registration Statement on Form S-11/A filed on January 17, 2018\).](#)
- 10.11 [Form of Placement Agency Agreement, dated as of July 12, 2021, by and between the Company and the Placement Agent \(incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on July 14, 2021\).](#)
- 10.12 [Form of Securities Purchase Agreement, dated as of July 12, 2021, by and between the Company and the Purchaser \(incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on July 14, 2021\).](#)
- 10.13 [At-The-Market Offering Agreement dated November 8, 2021, by and between Presidio Property Trust, Inc. and The Benchmark Company, LLC \(incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on November 9, 2021\).](#)
- 10.14 [Ninth Amendment to Loan Agreement signed August 19, 2021 \(incorporated by reference to Exhibit 1.1 of the Company's Current Report on Form 8-K filed on August 25, 2021\).](#)
- 10.15 [Loan Agreement dated February 26, 2016, together with Second Amendment to Loan Agreement dated as of June 29, 2016, Third Amendment to Loan Agreement dated as of April 11, 2017, Joinder and Fourth Amendment to Loan Agreement dated as of February 20, 2018, Fifth Amendment to Loan Agreement dated as of April 11, 2018, Joinder and Sixth Amendment to Loan Agreement dated as of April 11, 2019, Joinder and Seventh Amendment to Loan Agreement dated as of May 22, 2020 and Eighth Amendment to Loan Agreement dated as of June 26, 2020 \(incorporated by reference to Exhibit 1.2 of the Company's Current Report on Form 8-K filed on August 25, 2021\).](#)
- 10.16 [Form of Indemnification Agreement entered into between the Company and each of its directors and executive officers \(incorporated by reference to Exhibit 10.10 of the Company's Registration Statement on Form S-11 filed on September 18, 2017\).](#)
- 10.17 [Tenth Amendment to Loan Agreement signed October 12, 2022 \(incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on October 14, 2022\).](#)
- 10.18 [Tenth Amendment to Guaranty Agreement signed October 12, 2022 \(incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on October 14, 2022\).](#)
- 14 [Code of Ethics \(incorporated by reference to Exhibit 14 of the Company's Annual Report on Form 10-K filed on March 30, 2021\).](#)
- 21.1 [Subsidiaries of the Registrant \(incorporated by reference to Exhibit 21.1 of the Company's Annual Report on Form 10-K filed on March 30, 2022\).](#)

- 23.1 [Consent of Independent Registered Public Accounting Firm \\*](#)
- 31.1 [Certificate of the Company's Chief Executive Officer \(Principal Executive Officer\) pursuant to Exchange Act Rules 13a-14\(a\)/15d-14\(a\), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. \\*](#)
- 31.2 [Certification of the Company's Chief Financial Officer pursuant to Exchange Act Rules 13a-14\(a\)/15d-14\(a\), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. \\*](#)
- 31.3 [Certification of the Company's Principal Accounting Officer pursuant to Exchange Act Rules 13a-14\(a\)/15d-14\(a\), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. \\*](#)
- 32.1 [Certification of Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. \\*](#)
- 101.INS Inline XBRL Instance Document (the Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)

[Table of Contents](#)

101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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\* Filed herewith

+ Denotes a compensatory plan or arrangement

[Table of Contents](#)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Jack K. Heilbron</u> Jack K. Heilbron	Director, Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 28, 2023
<u>/s/ Adam Sragovicz</u> Adam Sragovicz	Chief Financial Officer	March 28, 2023
<u>/s/ Ed Bentzen</u> Ed Bentzen	Chief Accounting Officer (Principal Accounting Officer)	March 28, 2023
<u>/s/ Jennifer A. Barnes</u> Jennifer A. Barnes	Director	March 28, 2023
<u>/s/ David T. Bruen</u> David T. Bruen	Director	March 28, 2023
<u>/s/ James R. Durfey</u> James R. Durfey	Director	March 28, 2023
<u>/s/ Sumner J. Rollings</u> Sumner J. Rollings	Director	March 28, 2023

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	<b><u>Page</u></b>
<a href="#">REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</a> (PCAOB ID 23)	<a href="#">F-1</a>
FINANCIAL STATEMENTS:	
<a href="#">Consolidated Balance Sheets</a>	<a href="#">F-3</a>
<a href="#">Consolidated Statements of Operations</a>	<a href="#">F-4</a>
<a href="#">Consolidated Statements of Equity</a>	<a href="#">F-5</a>
<a href="#">Consolidated Statements of Cash Flows</a>	<a href="#">F-6</a>
<a href="#">Notes to Consolidated Financial Statements</a>	<a href="#">F-7</a>
<a href="#">Schedule III - Real Estate Assets and Accumulated Depreciation and Amortization</a>	<a href="#">F-31</a>



## **Report of Independent Registered Public Accounting Firm**

To the shareholders and the board of directors of

Presidio Property Trust, Inc. and Subsidiaries

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Presidio Property Trust, Inc. and Subsidiaries (the "Company") as of December 31, 2022 and 2021, the related consolidated statements of operations, equity and cash flows, for the years then ended, and the related notes to the consolidated financial statements and schedule in Item 15 (2), Schedule III – Real Estate and Accumulated Depreciation and Amortization (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

### **Critical Audit Matter**

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

## [Table of Contents](#)

### Real Estate Asset and Lease Intangible Impairment Assessment

#### *Critical Audit Matter Description*

As described in Notes 4 and 12, to the consolidated financial statements, the Company's consolidated real estate assets balance (including real estate properties and lease intangibles) was approximately \$131 million at December 31, 2022. Real estate asset are tested for impairment at least annually at the individual real estate property level. Management continually monitors events and changes in circumstances that could indicate that the carrying amounts of its real estate assets may not be recoverable or realized. When indicators of potential impairment suggest that the carrying value of real estate assets may not be recoverable, management assesses the recoverability by estimating whether the Company will recover the carrying value of its real estate assets through the undiscounted future cash flows and the eventual disposition of the investment. In some instances, there may be various potential outcomes for an investment and its potential future cash flows. In these instances, the undiscounted future cash flows used to assess recoverability are based on several assumptions and are probability-weighted based on management's best estimates as of the date of evaluation. These assumptions include, among others, cash flow projections, discount rates, and market capitalization rates. The assumptions are generally based on management's experience and assessment of market participants in its local real estate markets, and the effects of current market conditions, which are subject to economic and market uncertainties. Changes in these assumptions could have a significant impact on either the cash flows or fair value of the real estate assets, the amount of any impairment charge, or both.

We identified the real estate asset impairment assessment as a critical audit matter. The Company experienced fluctuations in tenant occupancy and related cash flows from the real estate properties based on rental demand, completion of tenant improvements, and other economic factors. In turn, auditing management's judgments regarding forecasts of future revenue and cash flows, and the resulting fair value of real estate assets compared to their carrying value involved a high degree of judgement and subjectivity.

#### *How We Addressed the Matter in Our Audit*

The primary procedures we performed to address this critical audit matter included:

- Obtaining an understanding of management's process and related controls for estimating the undiscounted cash flows of real estate assets, including management's identification of significant assumptions and sensitivity analysis.
- Testing the completeness, accuracy, relevance, and reliability of underlying data used in management's undiscounted cash flow model.
- Evaluating the reasonableness of management's assessment of events and changes in circumstances that are indicators of impairment related to performance of the investment and general market conditions indicating that the carrying amounts of its real estate investments may not be recoverable by considering the consistency with the current and past performance of the real estate investment and the consistency with external market and industry data.
- Evaluating the reasonableness of management's significant assumptions used in the undiscounted future cash flows of real estate investments with potential impairment by considering the consistency of the significant assumptions with the current and past performance of the real estate investments, the consistency with external market and industry data, and whether these significant assumptions were consistent with evidence obtained in other areas of the audit.

/s/ Baker Tilly US, LLP

We have served as the Company's auditor since 2009.

Irvine, California

March 28, 2023

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

	<u>December 31,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
<b>ASSETS</b>		
Real estate assets and lease intangibles:		
Land	\$ 19,189,386	\$ 21,136,379
Buildings and improvements	125,979,374	119,224,375
Tenant improvements	13,861,839	12,752,518
Lease intangibles	4,110,139	4,110,139
Real estate assets and lease intangibles held for investment, cost	163,140,738	157,223,411
Accumulated depreciation and amortization	(34,644,511)	(30,589,969)
Real estate assets and lease intangibles held for investment, net	128,496,227	126,633,442
Real estate assets held for sale, net	2,016,003	11,431,494
Real estate assets, net	130,512,230	138,064,936
Other assets		
Cash, cash equivalents and restricted cash	16,516,725	14,702,089
Deferred leasing costs, net	1,516,835	1,348,234
Goodwill	2,423,000	2,423,000
Other assets, net (see Note 6)	3,511,681	4,658,504
Total other assets	23,968,241	23,131,827
Investments held in Trust (see Notes 2 & 9)	136,871,183	—
<b>TOTAL ASSETS</b>	<u>\$ 291,351,654</u>	<u>\$ 161,196,763</u>
<b>LIABILITIES AND EQUITY</b>		
Liabilities:		
Mortgage notes payable, net	\$ 95,899,176	\$ 87,324,319
Mortgage notes payable related to properties held for sale, net	999,523	1,535,513
Mortgage notes payable, total net	96,898,699	88,859,832
Accounts payable and accrued liabilities	4,028,564	4,569,537
Accounts payable and accrued liabilities of SPAC (see Notes 2 & 9)	5,046,725	15,499
Accrued real estate taxes	1,879,875	1,940,913
Dividends payable preferred stock	178,511	179,685
Lease liability, net	46,833	75,547
Below-market leases, net	18,240	73,130
Total liabilities	108,097,447	95,714,143
Commitments and contingencies (Note 2 & 9)		
SPAC Class A common stock subject to possible redemption; 13,225,000 shares (at \$10.34 per share), net of issuance cost of approximately \$6,400,000	130,411,135	—
Equity:		
Series D Preferred Stock, \$0.01 par value per share; 1,000,000 shares authorized; 916,061 shares issued and outstanding (liquidation preference \$25.00 per share) as of December 31, 2022 and December 31, 2021, respectively	9,140	9,200
Series A Common Stock, \$0.01 par value per share, shares authorized: 100,000,000; 11,655,583 shares and 11,599,720 shares were issued and outstanding at December 31, 2022 and December 31, 2021, respectively	118,079	115,997
Additional paid-in capital	182,044,157	186,492,012
Dividends and accumulated losses	(138,341,750)	(130,947,434)
Total stockholders' equity before noncontrolling interest	43,829,626	55,669,775
Noncontrolling interest	9,013,446	9,812,845
Total equity	52,843,072	65,482,620
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>\$ 291,351,654</u>	<u>\$ 161,196,763</u>

*See Notes to Consolidated Financial Statements*

**Presidio Property Trust, Inc. and Subsidiaries**  
**Consolidated Statements of Operations**

	<b>For the Year Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
<b>Revenues:</b>		
Rental income	\$ 17,203,310	\$ 18,420,257
Fees and other income	560,971	810,852
Total revenue	<u>17,764,281</u>	<u>19,231,109</u>
<b>Costs and expenses:</b>		
Rental operating costs	5,841,396	6,183,189
General and administrative	6,163,816	6,225,510
Depreciation and amortization	5,465,015	5,397,498
Impairment of real estate assets	—	608,000
Total costs and expenses	<u>17,470,227</u>	<u>18,414,197</u>
<b>Other income (expense):</b>		
Interest expense - mortgage notes	(4,712,487)	(4,542,712)
Interest expense - note payable	—	(279,373)
Gain on sale of marketable securities, net	2,018,847	39,428
Interest and other (expense), net	21,075	(42,845)
Gain on sales of real estate, net	5,079,912	2,487,528
Gain on extinguishment of government debt	—	10,000
Income tax (expense) credit	(1,215,873)	47,620
Total other income (expense), net	<u>1,191,474</u>	<u>(2,280,354)</u>
Net income (loss)	1,485,528	(1,463,442)
Less: Income attributable to noncontrolling interests	(3,612,647)	(2,162,140)
Net loss attributable to Presidio Property Trust, Inc. stockholders	<u>\$ (2,127,119)</u>	<u>\$ (3,625,582)</u>
Less: Preferred Stock Series D dividends	(2,152,740)	(1,173,948)
Less: Series A Warrant dividend	(2,456,512)	—
Net loss attributable to Presidio Property Trust, Inc. common stockholders	<u>\$ (6,736,371)</u>	<u>\$ (4,799,530)</u>
<b>Net loss per share attributable to Presidio Property Trust, Inc. common stockholders:</b>		
Basic & Diluted	<u>\$ (0.57)</u>	<u>\$ (0.46)</u>
Diluted	<u>\$ (0.57)</u>	<u>\$ (0.46)</u>
Weighted average number of common shares outstanding - basic & diluted	<u>11,753,041</u>	<u>10,340,975</u>

*See Notes to Consolidated Financial Statements*

**Presidio Property Trust, Inc. and Subsidiaries**  
**Consolidated Statements of Equity**

	Preferred Stock		Common Stock		Additional	Dividends	Total	Non-	Total
	Series D				Paid-in	and	Stockholders'	controlling	Equity
	Shares	Amount	Shares	Amount	Capital	Accumulated	Equity	Interests	Equity
						Losses			
Balance, December 31, 2020	—	\$ —	9,508,363	\$ 95,038	\$156,463,146	\$(121,674,505)	\$ 34,883,679	\$15,238,902	\$50,122,581
Net loss	—	—	—	—	—	(3,625,582)	(3,625,582)	2,162,140	(1,463,442)
Dividends paid to Series A Common Stockholders	—	—	—	—	—	(4,473,399)	(4,473,399)	—	(4,473,399)
Dividends to Series D Preferred Stockholders	—	—	—	—	—	(1,173,948)	(1,173,948)	—	(1,173,948)
Issuance of Common Stock, net of issuance costs, including warrants exercised with offering *	—	—	2,000,000	20,000	8,851,879	—	8,871,879	—	8,871,879
Issuance of Series D Preferred Stock, net of issuance costs	920,000	9,200	—	—	20,480,603	—	20,489,803	—	20,489,803
Distributions in excess of contributions received	—	—	—	—	—	—	—	(7,588,197)	(7,588,197)
Repurchase of Common Stock, at cost	—	—	(29,721)	(252)	(110,379)	—	(110,631)	—	(110,631)
Vesting of restricted Series A Common Stock	—	—	121,078	1,211	806,763	—	807,974	—	807,974
Balance, December 31, 2021	920,000	\$ 9,200	11,599,720	\$115,997	\$186,492,012	\$(130,947,434)	\$ 55,669,775	\$ 9,812,845	\$65,482,620
Net income	—	—	—	—	—	(2,127,119)	(2,127,119)	3,612,647	1,485,528
Vesting of restricted stock	—	—	404,804	4,048	1,884,945	—	1,888,993	—	1,888,993
Dividends paid to Series A Common Stockholders	—	—	—	—	—	(3,114,456)	(3,114,456)	—	(3,114,456)
Dividends to Series D Preferred Stockholders	—	—	—	—	—	(2,152,741)	(2,152,741)	—	(2,152,741)
Remeasurement of SPAC common stock subject to possible redemption upon IPO, Public Warrants and Private Placement Units, net of offering costs	—	—	—	—	(4,023,113)	—	(4,023,113)	—	(4,023,113)
Remeasurement of SPAC shares to redemption value	—	—	—	—	(1,876,183)	—	(1,876,183)	—	(1,876,183)
Distributions in excess of contributions received	—	—	—	—	—	—	—	(4,412,046)	(4,412,046)
Repurchase of Series A Common Stock, at cost	—	—	(196,631)	(1,966)	(311,423)	—	(313,389)	—	(313,389)
Repurchase of Series D Preferred Stock, at cost	(6,013)	(60)	—	—	(122,081)	—	(122,141)	—	(122,141)
<b>Balance, December 31, 2022</b>	<u>913,987</u>	<u>\$ 9,140</u>	<u>11,807,893</u>	<u>\$118,079</u>	<u>\$182,044,157</u>	<u>\$(138,341,750)</u>	<u>\$ 43,829,626</u>	<u>\$ 9,013,446</u>	<u>\$52,843,072</u>

\* See *Additional Offerings & Warrants* in Note 1. ORGANIZATION AND BASIS OF PRESENTATION

*See Notes to Consolidated Financial Statements.*





**Presidio Property Trust, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**

	<b>For the Year Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 1,485,528	\$ (1,463,442)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	5,465,015	5,397,498
Stock compensation	1,204,106	1,614,228
Bad debt expense	73,055	164,623
Gain on sale of real estate assets, net	(5,079,912)	(2,487,528)
Gain on extinguishment of government debt	—	(10,000)
Net change in fair value marketable securities	(42,664)	(39,429)
Net change in fair value SPAC Trust Account	(1,976,183)	—
Impairment of real estate assets	—	608,000
Amortization of financing costs	240,090	479,853
Amortization of above-market leases	—	42,064
Amortization of below-market leases	(54,890)	(60,203)
Straight-line rent adjustment	(252,759)	(231,577)
Changes in operating assets and liabilities:		
Other assets	1,050,221	190,354
Accounts payable and accrued liabilities	(1,121,752)	(1,221,725)
Accrued real estate taxes	(61,038)	(607,773)
Net cash provided operating activities	<u>928,817</u>	<u>2,374,943</u>
<b>Cash flows from investing activities:</b>		
Real estate acquisitions	(15,673,575)	(22,224,826)
Additions to buildings and tenant improvements	(2,107,505)	(1,597,186)
Investment in marketable securities	(1,762,095)	(3,819,882)
Proceeds from sale of marketable securities	2,363,063	2,380,476
Investment of SPAC IPO proceeds into Trust Account	(134,895,000)	—
Additions to deferred leasing costs	(70,889)	(117,062)
Proceeds from sales of real estate, net	25,768,334	49,583,445
Net cash (used in) provided by investing activities	<u>(126,377,667)</u>	<u>24,204,965</u>
<b>Cash flows from financing activities:</b>		
Proceeds from mortgage notes payable, net of issuance costs	20,288,093	11,703,440
Repayment of mortgage notes payable	(11,958,568)	(43,069,312)
Repayment of note payable	—	(7,675,598)
Payment of deferred offering costs	(3,201,266)	(572,458)
Distributions to noncontrolling interests, net	(4,412,046)	(7,588,197)
Proceeds from initial public offering of SPAC	134,024,416	—
SPAC offering non-controlling interest adjustment	(1,774,416)	—
Issuance of Series A Common Stock, net of offering costs	—	8,871,879
Issuance of Series D Preferred Stock, net of offering costs	—	20,489,803
Repurchase of Series A Common Stock, at cost	(313,389)	(110,631)
Repurchase of Series D Preferred Stock, at cost	(122,141)	—
Dividends paid to Series D Preferred Stockholders	(2,152,741)	(994,263)
Dividends paid to Series A Common Stockholders	(3,114,456)	(4,473,399)
Net cash provided by (used in) financing activities	<u>127,263,486</u>	<u>(23,418,736)</u>
Net increase in cash, cash equivalents and restricted cash	1,814,636	3,161,172
Cash, cash equivalents and restricted cash - beginning of period	14,702,089	11,540,917
Cash, cash equivalents and restricted cash - end of period	<u>\$ 16,516,725</u>	<u>\$ 14,702,089</u>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid-mortgage notes payable	\$ 4,110,288	\$ 4,320,174
Interest paid-notes payable	\$ —	\$ 103,861
<b>Non-cash financing activities:</b>		
Unpaid deferred financing costs	\$ —	\$ 15,449

Dividends payable - Preferred Stock Series D	\$	178,511	\$	179,685
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*See Notes to Consolidated Financial Statements*

**Presidio Property Trust, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**1. ORGANIZATION AND BASIS OF PRESENTATION**

**Organization.** Presidio Property Trust, Inc. (“we”, “our”, “us” or the “Company”) is an internally-managed real estate investment trust (“REIT”), with holdings in office, industrial, retail and model home properties. We were incorporated in the State of California on September 28, 1999, and in August 2010, we reincorporated as a Maryland corporation. In October 2017, we changed our name from “NetREIT, Inc.” to “Presidio Property Trust, Inc.” Through Presidio Property Trust, Inc., its subsidiaries, and its partnerships, we own 12 commercial properties in fee interest, two of which we own as a partial interest in various affiliates, in which we serve as general partner, member and/or manager, and a special purpose acquisition company as noted below.

The Company or one of its affiliates operates the following partnerships during the periods covered by these consolidated financial statements:

- The Company is the sole general partner and limited partner in two limited partnerships (NetREIT Palm Self-Storage LP and NetREIT Casa Grande LP), both of which, at December 31, 2022, had ownership interests in an entity that owns income producing real estate. The Company refers to these entities collectively as the "NetREIT Partnerships".
- The Company is the general and limited partner in five limited partnerships that purchase model homes and lease them back to homebuilders (Dubose Model Home Investors #202, LP, Dubose Model Home Investors #203, LP, Dubose Model Home Investors #204, LP, Dubose Model Home Investors #205, LP, and Dubose Model Home Investors #206, LP). The Company refers to these entities collectively as the “Model Home Partnerships”.

The Company has determined that the limited partnerships in which it owns less than 100% should be included in the Company’s consolidated financial statements as the Company directs their activities and has control of such limited partnerships.

Unit-based information used herein (such as references to square footage or property occupancy rates) is unaudited.

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

We, together with one of our entities, have elected to treat our subsidiaries as a taxable REIT subsidiary (a “TRS”) for federal income tax purposes. Certain activities that we undertake must be conducted by a TRS, such as non-customary services for our tenants, and holding assets that we cannot hold directly. A TRS is subject to federal and state income taxes. The Company has concluded that there are no significant uncertain tax positions requiring recognition in its financial statements. Neither the Company nor its subsidiaries have been assessed any significant interest or penalties for tax positions by any tax jurisdictions.

## [Table of Contents](#)

**Additional Offerings & Warrants.** Our Form S-3 Registration Statement was declared effective by the SEC on April 27, 2021. Under this registration statement, we may offer and sell from time to time, in one or more series, subject to limitation that may apply (such as under Rule 415 of the Securities Act of 1933) various securities of the Company for total gross proceeds of up to \$200,000,000. On July 12, 2021, we entered into a securities purchase agreement with a single U.S. institutional investor for the purchase and sale of 1,000,000 shares of our Series A Common Stock, warrants (“Common Stock Warrants”) to purchase up to 2,000,000 shares of Series A Common Stock and pre-funded warrants (“Pre-Funded Warrants”) to purchase up to 1,000,000 shares of Series A Common Stock. The shares of Series A Common Stock, Pre-Funded Warrants and shares of Series A Common Stock issuable upon exercise of the Pre-Funded Warrants were issued pursuant to a prospectus supplement to the Form S-3 Registration Statement, with the Common Stock Warrants issued in a concurrent private placement. Each share of Series A Common Stock and accompanying Series A Common Stock Warrants were sold together at a combined offering price of \$5.00, and each share of Common Stock and accompanying Pre-Funded Warrants were sold together at a combined offering price of \$4.99. The Pre-Funded Warrants were exercised in full during August 2021 at a nominal exercise price of \$0.01 per share. The Common Stock Warrants have an exercise price of \$5.50 per share, were exercisable upon issuance, and will expire five years from the date of issuance.

In connection with this additional offering, we agreed to issue the Placement Agent Warrants to purchase up to 80,000 shares (the “Placement Agent Warrants”) of Series A Common Stock, representing 4.0% of the Series A Common Stock and shares of Series A Common Stock issuable upon exercise of the Pre-Funded Warrants. The Placement Agent Warrants were issued in August 2021, post exercise of the Pre-Funded Warrants with an exercise price of \$6.25 and will expire five years from the date of issuance. The Company registered for resale Series A Common Stock issuable upon exercise of Common Stock Warrants and Placement Agent Warrants issued in the July 2021 offering pursuant to a registration statement on Form S-11 that was declared effective by the SEC on September 14, 2021.

The Company evaluated the accounting guidance in ASC 480 - *Distinguishing Liabilities from Equity* and ASC 815 - *Derivatives and Hedging* regarding the classification of the Pre-Funded Warrant, Common Stock Warrants, and Placement Agent Warrants as equity or a liability and ultimately determined that it should be classified as permanent equity. As of December 31, 2022, none of the Common Stock Warrants and Placement Agent Warrants have been exercised.

**Preferred Stock Series D.** On June 15, 2021, the Company completed its secondary offering of 800,000 shares of our 9.375% Series D Cumulative Redeemable Perpetual Preferred Stock (“Series D Preferred Stock”) for cash consideration of \$25.00 per share to a syndicate of underwriters led by The Benchmark Company, LLC, as representative, resulting in approximately \$18.1 million in net proceeds, after deducting the underwriting discounts and commissions and the offering expenses paid by the Company. The Company granted the underwriters a 45-day option to purchase up to an additional 120,000 shares of Series D Preferred Stock to cover over-allotments, which they exercised on June 17, 2021, resulting in approximately \$2.7 million in net proceeds, after deducting the underwriting discounts and commissions and the offering expenses paid by the Company. In total, the Company issued 920,000 shares of Series D Preferred Stock with net proceeds of approximately \$20.5 million, after deducting the underwriting discounts and commissions and the offering expenses paid by the Company and deferred offering costs. The Company has used these proceeds for general corporate and working capital purposes, including acquiring additional properties.

**Warrant Dividend.** In January 2022, we distributed five-year listed warrants (the “Series A Warrants”) to holders of our Series A Common Stock. The Series A Warrants and the shares of Series A Common Stock issuable upon the exercise of the Series A Warrants were registered on a registration statement that was filed with the SEC and was declared effective January 21, 2022. The Series A Warrants commenced trading on the Nasdaq Capital Market under the symbol “SQFTW” on January 24, 2022 and were distributed on that date to persons who held Series A Common Stock and existing outstanding warrants as of the January 14, 2022 record date, or who acquired Series A Common Stock in the market following the record date, and who continued to hold such shares at the close of trading on January 21, 2022. The Series A Warrants give the holder the right to purchase one share of common stock at \$7.00 per share, for a period of five years. Should warrant holders not exercise the Series A Warrants during that holding period, the Series A Warrants will automatically convert to 1/10 of a common share at expiration, rounded down to the nearest number of whole shares. On the first day of trading SQFTW closed at \$0.17 per warrant with 14,450,069 warrants in the public market.

**Liquidity.** The Company's anticipated future sources of liquidity may include existing cash and cash equivalents, cash flows from operations, refinancing of existing mortgages, future real estate sales, new borrowings, and the sale of equity or debt securities. Future capital needs include paying down existing borrowings, maintaining our existing properties, funding tenant improvements, paying lease commissions (to the extent they are not covered by lender-held reserve deposits), and the payment of dividends to our stockholders. The Company is also seeking investments that are likely to produce income and achieve long-term gains in order to pay dividends to our stockholders and may seek a revolving line of credit to provide short-term liquidity. To ensure that we can effectively execute these objectives, we routinely review our liquidity requirements and continually evaluate all potential sources of liquidity.

## [Table of Contents](#)

Short-term liquidity needs include paying our current operating costs, satisfying the debt service requirements of existing mortgages, completing tenant improvements, paying leasing commissions, and funding dividends to stockholders. Future principal payments due on mortgage notes payables, during the year ended December 31, 2023, total approximately \$8.3 million, of which \$6.8 million is related to model home properties. Management expects certain model home properties can be sold, and that the underlying mortgage notes will be paid off with sales proceeds while other mortgage notes can be refinanced, as the Company has historically been able to do in the past. Additional principal payments will be made with cash flows from ongoing operations. The mortgage note payable for 300 N.P. was an amortizing loan with a balloon payment of \$2.2 million due at maturity, on June 11, 2022. The Company paid this note in full on May 11, 2022 with available cash on hand. Additionally, the Company has committed to provide additional funds, or obtain financing, if needed to a special purpose acquisition company, or "SPAC", for which we serve as the financial sponsor (as described below in Note 2. Significant Account Policies).

As the Company continues its operations, it may re-finance or seek additional financing. However, there can be no assurance that any such re-financing or additional financing will be available to the Company on acceptable terms, if at all. If events or circumstances occur such that the Company does not obtain additional funding, it will most likely be required to reduce its plans and/or certain discretionary spending, which could have a material adverse effect on the Company's ability to achieve its intended business objectives. Management believes that the combination of working capital on hand and the ability to refinance commercial and model home mortgages will fund operations through at least the next twelve months from the date of the issuance of these audited financial statements.

**Segments.** The Company acquires and operates income producing properties in three business segments including Office/Industrial Properties, Model Home Properties and Retail Properties. See Note 14. "Segments".

**Customer Concentration.** Concentration of credit risk with respect to tenant receivables is limited due to the large number of tenants comprising the Company's rental revenue. We had one tenant, Halliburton Energy Services, Inc, that account for 8.57% of total rental income for the year ended December 31, 2022 and approximately 8.0% of total rental income for the year ended December 31, 2021. On December 31, 2022, the lease for our largest tenant, Halliburton Energy Services, Inc., expired. Halliburton Energy Services, Inc. was located in our Shea Center II property in Colorado and did not renew the lease. We placed approximately \$1.1 million in a reserve account with our lender to cover future mortgage payments, if necessary, in connection with Halliburton's vacant space. This reserve amount is included in "Cash, cash equivalents and restricted cash" on the balance sheet. Our management team is working to fill the 45,535 square foot space as quickly as possible, and has leased approximately 20% of the space to a tenant during January 2023.

## 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation.** The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as contained within the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC").

**Principles of Consolidation.** The accompanying consolidated financial statements include the accounts of Presidio Property Trust and its subsidiaries, NetREIT Advisors, LLC and Dubose Advisors LLC (collectively, the "Advisors"), and NetREIT Dubose Model Home REIT, Inc. The consolidated financial statements also include the results of the NetREIT Partnerships, and the Model Home Partnerships. As used herein, references to the "Company" include references to Presidio Property Trust, its subsidiaries, and the partnerships. All significant intercompany balances and transactions have been eliminated in consolidation.

The condensed consolidated financial statements also include the accounts of (a) Murphy Canyon Acquisition Corp. ("Murphy Canyon"), which is a SPAC, for which we serve as the financial sponsor (as described below), and which is deemed to be controlled by us as a result of our 23.5% equity ownership stake, the overlap of three of our executive officers as executive officers of Murphy Canyon, and significant influence and operational control that we currently exercise over the funding and acquisition of new operations for an initial business combination ("IBC"). (see Note 2, Variable Interest Entity). All intercompany balances have been eliminated in consolidation.

The Company classifies the noncontrolling interests in the NetREIT Partnerships as part of consolidated net income (loss) in 2022 and 2021 and has included the accumulated amount of noncontrolling interests as part of equity since inception in February 2010. If a change in ownership of a consolidated subsidiary results in loss of control and deconsolidation, any retained ownership interest will be remeasured, with the gain or loss reported in the statement of operations. Management has evaluated the noncontrolling interests and determined that they do not contain any redemption features.

## [Table of Contents](#)

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

**Real Estate Assets and Lease Intangibles.** Land, buildings and improvements are recorded at cost, including tenant improvements and lease acquisition costs (including leasing commissions, space planning fees, and legal fees). The Company capitalizes any expenditure that replaces, improves, or otherwise extends the economic life of an asset, while ordinary repairs and maintenance are expensed as incurred. The Company allocates the purchase price of acquired properties between the acquired tangible assets and liabilities (consisting of land, buildings, tenant improvements, and long-term debt) and identified intangible assets and liabilities (including the value of above-market and below-market leases, the value of in-place leases, unamortized lease origination costs and tenant relationships), in each case based on their respective fair values.

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

The value allocated to acquired lease intangibles is based on management's evaluation of the specific characteristics of each tenant's lease. Characteristics considered by management in allocating these values include, but are not limited, to the nature and extent of the existing business relationships with the tenant, growth prospects for developing new business with the tenant, the remaining term of the lease, the tenant's credit quality, and other factors.

The value allocable to the above-market or below-market component of an acquired in-place lease is determined based upon the present value (using a market discount rate) of the difference between (i) the contractual rents to be paid pursuant to the lease over its remaining term, and (ii) management's estimate of rents that would be paid using fair market rates over the remaining term of the lease. The amounts allocated to above or below-market leases are amortized on a straight-line basis as an increase or reduction of rental income over the remaining non-cancelable term of the respective leases. Amortization of above and below-market rents resulted in a net increase in rental income of approximately \$55,000 and \$18,000 for the years ended December 31, 2022 and 2021, respectively.

The value of in-place leases and unamortized lease origination costs are amortized to expenses over the remaining term of the respective leases, which range from less than a year to ten years. The amount allocated to acquired in-place leases is determined based on management's assessment of lost revenue and costs incurred for the period required to lease the "assumed vacant" property to the occupancy level when purchased. The amount allocated to unamortized lease origination costs is determined by what the Company would have paid to a third-party to secure a new tenant reduced by the expired term of the respective lease. The amount allocated to tenant relationships is the benefit resulting from the likelihood of a tenant renewing its lease. Amortization expense related to these assets was approximately \$0.2 million and \$0.3 million for years ended December 31, 2022 and 2021, respectively.

**Real Estate Held for Sale and Discontinued Operations.** We generally reclassify assets to held for sale when the disposition has been approved, it is available for immediate sale in its present condition, we are actively seeking a buyer, and the disposition is considered probable within one year. Additionally, real estate sold during the current period is classified as "real estate held for sale" for all prior periods presented in the accompanying condensed consolidated financial statements. Mortgage notes payable related to the real estate sold during the current period is classified as "notes payable related to real estate held for sale" for all prior periods presented in the accompanying condensed consolidated financial statements. Additionally, we record the operating results related to real estate that has been disposed of as discontinued operations for all periods presented if the operations have been eliminated and represent a strategic shift and we will not have any significant continuing involvement in the operations of the property following the sale.



## [Table of Contents](#)

**Impairments of Real Estate Assets.** We regularly review for impairment on a property-by-property basis. Impairment is recognized on a property held for use when the expected undiscounted cash flows for a property are less than the carrying amount at which time the property is written-down to fair value. The calculation of both discounted and undiscounted cash flows requires management to make estimates of future cash flows including but not limited to revenues, operating expenses, required maintenance and development expenditures, market conditions, demand for space by tenants and rental rates over long periods. Since our properties typically have a long life, the assumptions used to estimate the future recoverability of carrying value requires significant management judgment. Actual results could be significantly different from the estimates. These estimates have a direct impact on net income because recording an impairment charge results in a negative adjustment to net income. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. Properties held for sale are recorded at the lower of the carrying amount or the expected sales price less costs to sell. Although our strategy is to hold our properties over the long-term, if our strategy changes or market conditions otherwise dictate an earlier sale date, an impairment loss may be recognized to reduce the property to fair value and such loss could be material.

During the fourth quarter of 2020, the Company recorded its Highland Court property (“Highland Court”) as held for sale and subsequently entered into a purchase and sale agreement (“PSA”) with an unrelated third-party. Highland Court had a book value of approximately \$10.5 million prior to entering into the PSA. The final selling price as agreed upon in the PSA was approximately \$10.2 million. As such, the Company recorded a \$0.3 million non-cash impairment in the accompanying condensed consolidated statement of operations at March 31, 2021. The sale was completed in May 2021. During the year ended December 31, 2021, the Company recorded an impairment of 300 N.P. totaling approximately \$0.3 million in connection with an updated appraisal. There were no impairments recorded during the year ended December 31, 2022.

**Intangible Assets.** Intangible assets, including goodwill and lease intangibles, are comprised of finite-lived and indefinite-lived assets. Lease intangibles represents the allocation of a portion of the purchase price of a property acquisition representing the estimated value of in-place leases, unamortized lease origination costs, tenant relationships and land purchase options. Intangible assets that are not deemed to have an indefinite useful life are amortized over their estimated useful lives. Indefinite-lived assets are not amortized. Amortization expense of intangible assets that are not deemed to have an indefinite useful life was approximately \$0.1 million and \$0.2 million, respectively, for the years ended December 31, 2022 and 2021 and is included in depreciation and amortization in the accompanying consolidated statements of operation.

The Company is required to perform a test for impairment of goodwill and other definite and indefinite lived assets at least annually, and more frequently as circumstances warrant. Impairment is recognized only if the carrying amount of the intangible asset is considered to be unrecoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and the estimated fair value of the asset. No impairment was deemed to exist at December 31, 2022 and 2021.

**Depreciation and Amortization.** The Company records depreciation and amortization expense using the straight-line method over the useful lives of the respective assets. The costs of buildings are depreciated over estimated useful lives of 39 years, the costs of improvements are amortized over the shorter of the estimated life of the asset or term of the tenant lease (which range from 1 to 10 years), the costs associated with acquired tenant intangibles over the remaining lease term and the cost of furniture, fixtures and equipment are depreciated over 4 to 5 years. Depreciation and amortization expense for the years ended December 31, 2022 and 2021 was approximately \$5.5 million and \$5.4 million, respectively, and is included in depreciation and amortization in the accompanying consolidated statements of operations.

**Cash, Cash Equivalents and Restricted Cash.** At December 31, 2022 and December 31, 2021, we had approximately \$16.5 million and \$14.7 million in cash, cash equivalents and restricted cash, respectively. The Company considers all short-term, highly liquid investments that are both readily convertible to cash and have an original maturity of three months or less at the date of purchase to be cash equivalents. Items classified as cash equivalents include money market funds. Cash balances in individual banks may exceed the federally insured limit of \$250,000 by the Federal Deposit Insurance Corporation (the "FDIC"). No losses have been experienced related to such accounts. At December 31, 2022, the Company had approximately \$8.8 million in deposits in financial institutions that exceeded the federally insurable limits. Restricted cash consists of funds held in escrow for Company lenders for properties held as collateral by the lenders. The funds in escrow are for payment of property taxes, insurance, leasing costs and capital expenditures. As of December 31, 2022, the Company has approximately \$4.4 million of restricted cash. At December 31, 2021, the Company had approximately \$7.3 million in deposits in financial institutions that exceeded the federally insurable limits. Restricted cash consists of funds held in escrow for Company lenders for properties held as collateral by the lenders. The funds in escrow are for payment of property taxes, insurance, leasing costs and capital expenditures. As of December 31, 2021, the Company has approximately \$4.7 million of restricted cash.



## [Table of Contents](#)

**Accounts Receivables.** The Company periodically evaluates the collectability of amounts due from tenants and maintains an allowance for doubtful accounts for estimated losses resulting from the inability of tenants to make required payments under lease agreements. In addition, the Company maintains an allowance for deferred rent receivable that arises from straight lining of rents. The Company exercises judgment in establishing these allowances and considers payment history and current credit status of its tenants in developing these estimates. As of December 31, 2022 and 2021, the balance of allowance for possible uncollectable tenant receivables included in other assets, net in the accompanying consolidated balance sheets was approximately \$138,000 and \$70,000, respectively.

**Deferred Leasing Costs.** Costs incurred in connection with successful property leases are capitalized as deferred leasing costs and amortized to leasing commission expense on a straight-line basis over the terms of the related leases which generally range from one to five years. Deferred leasing costs consist of third-party leasing commissions. Management re-evaluates the remaining useful lives of leasing costs as the creditworthiness of the tenants and economic and market conditions change. If management determines the estimated remaining life of the respective lease has changed, the amortization period is adjusted. At December 31, 2022 and 2021, the Company had net deferred leasing costs of approximately \$1.5 million and \$1.3 million, respectively. Total amortization expense for the years ended December 31, 2022 and 2021 was approximately \$0.4 million and \$0.3 million, respectively.

**Deferred Financing Costs.** Costs incurred, including legal fees, origination fees, and administrative fees, in connection with debt financing are capitalized as deferred financing costs, are amortized using the straight line method, which approximates the effective interest method, over the contractual term of the respective loans and recorded as an offset to the carrying value of the debt. At December 31, 2022 and 2021, unamortized deferred financing costs related to mortgage notes payable were approximately \$0.9 million and \$0.6 million. For the years ended December 31, 2022 and 2021, total amortization expense related to the mortgage notes payable deferred financing costs was approximately \$0.2 million and \$0.9 million, respectively. Amortization of deferred financing costs are included in interest expense in the accompanying consolidated statements of operations.

**Deferred Offering Costs.** Deferred offering costs represent legal, accounting and other direct costs related to our offerings. As of December 31, 2022 and December 31, 2021, we have incurred approximately \$117,000 and \$135,000, at the end of each period. These costs are related to various registration statements and our offering of common and preferred stock in connection with the sponsorship, through our wholly-owned subsidiary Murphy Canyon Acquisition Sponsor, LLC (the “Sponsor”), of a special purpose acquisition company (“SPAC”) initial public offering as of December 31, 2021. As of December 31, 2022, the costs related to the preparation of a registration statement for the Company have gone stale and were fully expensed during the year ended December 31, 2022. As of December 31, 2022, there were no deferred offering costs.

**Income Taxes.** We have elected to be taxed as a REIT under Sections 856 through 860 of the Code, for federal income tax purposes. To maintain our qualification as a REIT, we are required to distribute at least 90% of our REIT taxable income to our stockholders and meet the various other requirements imposed by the Code relating to such matters as operating results, asset holdings, distribution levels and diversity of stock ownership. Provided we maintain our qualification for taxation as a REIT, we are generally not subject to corporate level income tax on the earnings distributed currently to our stockholders that we derive from our REIT qualifying activities. If we fail to maintain our qualification as a REIT in any taxable year, and are unable to avail ourselves of certain savings provisions set forth in the Code, all of our taxable income would be subject to federal income tax at regular corporate rates, including any applicable alternative minimum tax. We are subject to certain state and local income taxes. As of December 31, 2022, we have estimated approximately \$18.0 million of Federal net operating loss (NOLs) carryforwards to offset potential future federal tax obligations. We may not generate sufficient taxable income in future periods to be able to realize fully the tax benefits of our NOL carry-forwards.

## [Table of Contents](#)

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

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

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

- Level 1: unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;
- Level 2: quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and
- Level 3: prices or valuation techniques where little or no market data is available that requires inputs that are both significant to the fair value measurement and unobservable.

When available, we utilize quoted market prices from independent third-party sources to determine fair value and classify such items in Level 1 or Level 2. In instances where the market for a financial instrument is not active, regardless of the availability of a nonbinding quoted market price, observable inputs might not be relevant and could require us to make a significant adjustment to derive a fair value measurement.

Additionally, in an inactive market, a market price quoted from an independent third-party may rely more on models with inputs based on information available only to that independent third-party. When we determine the market for a financial instrument owned by us to be illiquid or when market transactions for similar instruments do not appear orderly, we use several valuation sources (including internal valuations, discounted cash flow analysis and quoted market prices) and establish a fair value by assigning weights to the various valuation sources. As of December 31, 2022 and December 31, 2021, our marketable securities presented on the balance sheet were measured at fair value using Level 1 market prices and totaled approximately \$0.8 million and \$1.5 million, respectively, with a cost basis of approximately \$0.9 million and \$1.6 million, respectively. There were no financial liabilities measured at fair value as of December 31, 2022 and December 31, 2021.

Additionally, when determining the fair value of a liability in circumstances in which a quoted price in an active market for an identical liability is not available, we measure fair value using (i) a valuation technique that uses the quoted price of the identical liability when traded as an asset or quoted prices for similar liabilities when traded as assets or (ii) another valuation technique that is consistent with the principles of fair value measurement, such as the income approach or the market approach. Changes in assumptions or estimation methodologies can have a material effect on these estimated fair values. In this regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, may not be realized in an immediate settlement of the instrument.

## [Table of Contents](#)

**Sales of Real Estate Assets.** Effective January 1, 2018, we adopted the guidance of ASC 610-20, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets ("ASC 610-20"), which applies to sales or transfers to noncustomers of nonfinancial assets or in substance nonfinancial assets that do not meet the definition of a business. Generally, our sales of real estate would be considered a sale of a nonfinancial asset as defined by ASC 610-20.

ASC 610-20 refers to the revenue recognition principles under ASU No. 2014-9. Under ASC 610-20, if we determine we do not have a controlling financial interest in the entity that holds the asset and the arrangement meets the criteria to be accounted for as a contract, we would derecognize the asset and recognize a gain or loss on the sale of the real estate when control of the underlying asset transfers to the buyer.

**Revenue Recognition and Accounts Receivables.** We recognize minimum rent, including rental abatements, lease incentives and contractual fixed increases attributable to operating leases, on a straight-line basis over the term of the related leases when collectability is reasonably assured and record amounts expected to be received in later years as deferred rent receivable. If the lease provides for tenant improvements, we determine whether the tenant improvements, for accounting purposes, are owned by the tenant or by us. When we are the owner of the tenant improvements, rental revenue begins when the tenant takes possession or has control of the physical use of the leased space and any tenant improvement allowance, the tenant is not considered to have taken physical possession or have control of the physical use of the leased asset until the tenant improvements are substantially completed. When the tenant is the owner of the tenant improvements, any tenant improvement allowance (including amounts that the tenant can take in the form of cash or a credit against its rent) that is funded is treated as a lease incentive and amortized as a reduction of revenue over the lease term. Tenant improvement ownership is determined based on various factors, including, but not limited to:

- whether the lease stipulates how a tenant improvement allowance may be spent;
- whether the amount of a tenant improvement allowance is in excess of market rates;
- whether the tenant or landlord retains legal title to the improvements at the end of the lease term;
- whether the tenant improvements are unique to the tenant or general-purpose in nature; and
- whether the tenant improvements are expected to have any residual value at the end of the lease.

We record property operating expense reimbursements due from tenants for common area maintenance, real estate taxes, and other recoverable costs in the period the related expenses are incurred.

We make estimates of the collectability of our tenant receivables related to base rents, including deferred rent receivable, expense reimbursements and other revenue or income. We specifically analyze accounts receivable, deferred rent receivable, historical bad debts, customer creditworthiness, current economic trends and changes in customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. In addition, with respect to tenants in bankruptcy, management makes estimates of the expected recovery of pre-petition and post-petition claims in assessing the estimated collectability of the related receivable. In some cases, the ultimate resolution of these claims can exceed one year. When a tenant is in bankruptcy, we will record a bad debt reserve for the tenant's receivable balance and generally will not recognize subsequent rental revenue until cash is received or until the tenant is no longer in bankruptcy and has the ability to make rental payments.

**Variable Interest Entity.** We determine whether an entity is a Variable Interest Entity ("VIE") and, if so, whether it should be consolidated by utilizing judgments and estimates that are inherently subjective. Our determination of whether an entity in which we hold a direct or indirect variable interest is a VIE is based on several factors, including whether we participated in the design of the entity and the entity's total equity investment at risk upon inception is sufficient to finance the entity's activities without additional subordinated financial support. We make judgments regarding the sufficiency of the equity at risk based first on a qualitative analysis, and then a quantitative analysis, if necessary.

## [Table of Contents](#)

We analyze any investments in VIEs to determine if we are the primary beneficiary. In evaluating whether we are the primary beneficiary, we evaluate our direct and indirect economic interests in the entity. A reporting entity is determined to be the primary beneficiary if it holds a controlling financial interest in the VIE. Determining which reporting entity, if any, has a controlling financial interest in a VIE is primarily a qualitative approach focused on identifying which reporting entity has both: (i) the power to direct the activities of a VIE that most significantly impact such entity's economic performance; and (ii) the obligation to absorb losses or the right to receive benefits from such entity that could potentially be significant to such entity. Performance of that analysis requires the exercise of judgment.

We consider a variety of factors in identifying the entity that holds the power to direct matters that most significantly impact the VIE's economic performance, including, but not limited to, the ability to direct operating decisions and activities. In addition, we consider the rights of other investors to participate in those decisions. We determine whether we are the primary beneficiary of a VIE at the time we become involved with a variable interest entity and reconsider that conclusion continually. We consolidate any VIE of which we are the primary beneficiary.

The Company is involved in the formation of an entity considered to be a VIE. The Company evaluates the consolidation of this entity as required pursuant to ASC Topic 810 relating to the consolidation of such VIE. The Company's determination of whether it is the primary beneficiary of the VIE is based in part on an assessment of whether or not the Company and its related parties have the power to direct activities of the VIE and are exposed to the majority of the risks and rewards of the entity.

Following the completion of the Murphy Canyon IPO, we determined that Murphy Canyon is a VIE in which we have a variable interest because we participated in its formation and design, manage the significant activities, and Murphy Canyon does not have enough equity at risk to finance its activities without additional subordinated financial support. We have also determined that Murphy Canyon's public stockholders do not have substantive rights, and their equity interest constitutes temporary equity, outside of permanent equity, in accordance with ASC 480-10-S99-3A. As such, we have concluded that we are currently the primary beneficiary of Murphy Canyon as a VIE, as we have the right to receive benefits or the obligation to absorb losses of the entity, as well as the power to direct a majority of the activities that significantly impact Murphy Canyon's economic performance. Since we are the primary beneficiary, Murphy Canyon is consolidated into our consolidated financial statements. See Note 9 Commitments and Contingencies for additional details regarding Murphy Canyon.

**Shares Subject to Possible Redemption.** The Company accounts for common stock issued by the SPAC (which is consolidated in our condensed consolidated financial statements), that is subject to possible redemption in accordance with the guidance in ASC Topic 480 "Distinguishing Liabilities from Equity." Under ASC 480, shares of common stock subject to mandatory redemption are classified as a liability instrument and are measured at fair value. Conditionally redeemable shares of common stock (including shares of common stock that feature redemption rights that are either within the control of the holder or subject to redemption upon the occurrence of uncertain events not solely within the Company's control) are classified as temporary equity. At all other times, shares of common stock are classified as shareholders' equity.

All of the Public Shares of Murphy Canyon SPAC (Class A Common Shares) contain a redemption feature which allows for the redemption of such Public Shares in connection with the SPAC's liquidation, if there is a stockholder vote or tender offer in connection with the SPAC's initial business combination and in connection with certain amendments to the SPAC's amended and restated certificate of incorporation. In accordance with SEC and its guidance on redeemable equity instruments, which has been codified in ASC 480-10-S99, redemption provisions not solely within the control of a company require common stock subject to redemption to be classified outside of permanent equity. Accordingly, as of December 31, 2022, the Public Shares are presented as temporary equity, outside the shareholder's equity section of the Company's December 31, 2022 consolidated balance sheet.

Given that the Public Shares were issued with other freestanding instruments (i.e., public warrants which were classified as permanent equity as described below), the proceeds and initial carrying value of Class A common stock classified as temporary equity was allocated in accordance with ASC 470-20. The Murphy Canyon Class A common stock is subject to ASC 480-10-S99. In addition, because it is probable that the equity instrument will become redeemable, we have the option to either (i) accrete changes in the redemption value over the period from the date of issuance (or from the date that it becomes probable that the instrument will become redeemable, if later) to the earliest redemption date of the instrument or (ii) recognize changes in the redemption value immediately as they occur and adjust the carrying amount of the instrument to equal the redemption value at the end of each reporting period. We have elected to recognize the accretion resulting from changes in redemption value immediately during the year ended December 31, 2022. See Note 9 Commitments and Contingencies for additional details regarding Murphy Canyon.

## [Table of Contents](#)

**Warrant Instruments SPAC.** The Company and Murphy Canyon account for warrants in accordance with the guidance contained in ASC 480 and FASB ASC 815, “Derivatives and Hedging”. Under ASC 815-40 and ASC 840 warrants that meet the criteria for equity treatment are recorded in stockholder’s equity. The warrants are subject to re-evaluation of the proper classification and accounting treatment at each reporting period. If the warrants no longer meet the criteria for equity treatment, they will be recorded as a liability and remeasured each period with changes recorded in the statement of operations. The warrants meet the criteria for classification as equity because they are not exercisable until after the SPAC business combination is completed, at which point the common shares are no longer redeemable and because they are indexed to Murphy Canyon's common stock and meet the other criteria for equity classification. See Note 9 Commitments and Contingencies for additional details regarding Murphy Canyon.

**Income (Loss) per Common Share.** Basic income (loss) per common share (Basic EPS) is computed by dividing net income (loss) available to common shareholders (Numerator) by the weighted average number of common shares outstanding (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. For the years ended December 31, 2022 and 2021, the basic and diluted net loss per share are equivalent at \$0.57 and \$0.46 per share because the Company had incurred a net loss attributable to common stockholders causing any potentially dilutive securities to be anti-dilutive.

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

**Recently Issued and Adopted Accounting Pronouncements.** In June 2017, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses*, amended in February 2020 with ASU No. 2020-02, *Financial Instruments—Credit Losses (Topic 326) and Leases (Topic 842)*. ASU 2016-13 introduces a new model for estimating credit losses for certain types of financial instruments, including loans receivable, held-to-maturity debt securities, and net investments in direct financing leases, amongst other financial instruments. ASU 2016-13 also modifies the impairment model for available-for-sale debt securities and expands the disclosure requirements regarding an entity’s assumptions, models, and methods for estimating the allowance for losses. While ASU 2016-13 was effective for periods beginning after December 15, 2019, the issuance of ASU 2020-02 has allowed for the delay in adoption for certain smaller public companies and is now effective for fiscal periods beginning after December 15, 2022. Retrospective adjustments shall be applied through a cumulative-effect adjustment to retained earnings. The adoption did not have an impact to our financial statements as this was effective January 1, 2023.

In August 2020, the FASB issued ASU No. 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity’s Own Equity (Subtopic 815-40)*. This ASU simplifies accounting for convertible instruments by removing major separation models required under current U.S. GAAP. Consequently, more convertible debt instruments will be reported as a single liability instrument and more convertible preferred stock as a single equity instrument with no separate accounting for embedded conversion features. The ASU removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception, which will permit more equity contracts to qualify for it. The ASU also simplifies the diluted earnings per share (EPS) calculation in certain areas. The amendments in ASU No. 2020-06 are effective for public business entities that meet the definition of a SEC filer, excluding entities eligible to be smaller reporting companies as defined by the SEC, for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company has adopted this guidance with no material impact on our financial statements.

In March 2020, the FASB issued Accounting Standards Update No. 2020-04 - *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* (“ASU 2020-04”), which provides optional expedients and exceptions in order to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting as it relates to contracts, hedging relationships and other transactions by allowing companies to modify contracts that previously contained LIBOR rates without evaluating whether the modification constituted a new contract. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022 and are used on a prospective basis upon adoption. In December 2022, the FASB issued Accounting Standards Update No. 2022-06 - *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848* (“ASU 2022-06”), which deferred the sunset date of Topic 848 from December 31, 2022 to December 31, 2024 after which entities will no longer be permitted to apply the relief in Topic 848. The Company adopted this guidance of ASU 2020-04 as of March 31, 2020 noting no material impact to the financial statements and does not expect the update in ASU 2022-06 to have a material impact to our financial statements.



### 3. RECENT REAL ESTATE TRANSACTIONS

#### *Acquisitions during the year ended December 31, 2022:*

- We acquired 31 Model Home Properties and leased them back to the homebuilders under triple net leases during the year ended December 31, 2022. The purchase price for these properties was \$15.6 million. The purchase price consisted of cash payments of \$4.8 million and mortgage notes of \$10.8 million.

#### *Acquisitions during the year ended December 31, 2021:*

- On August 17, 2021, the Company, through its 61.3% owned subsidiaries NetREIT Palm Self Storage, LP and NetREIT Highland LLC, acquired a single story newly constructed 10,500 square foot building in Houston, Texas for a purchase price of approximately \$4.9 million, in connection with a like-kind exchange transaction pursued under Section 1031 of the Internal Revenue Code of 1986, as amended (the "Code"). The building is 100% occupied under a 15-year triple net lease and was purchased with all cash.
- On December 22, 2021, the Company purchased a 31,752 square foot building in Baltimore, Maryland for a purchase price of approximately \$8.9 million. The building is 100% occupied under a 5 year triple net lease to Johns Hopkins University's Bloomberg School of Public Health and was purchased with all cash.
- We acquired 18 Model Home Properties and leased them back to the homebuilders under triple net leases during the year ended December 31, 2021. The purchase price for the properties was \$8.4 million. The purchase price consisted of cash payments of \$2.7 million and mortgage notes of \$5.7 million.

#### *Dispositions during the year ended December 31, 2022:*

We review our portfolio of investment properties for value appreciation potential on an ongoing basis, and dispose of any properties that no longer satisfy our requirements in this regard, taking into account tax and other considerations. The proceeds from any such property sale, after repayment of any associated mortgage or repayment of secured or unsecured indebtedness, are available for investing in properties that we believe will have a greater likelihood of future price appreciation.

During year ended December 31, 2022, we disposed of the following properties:

- World Plaza, which was sold on March 11, 2022, for approximately \$10.0 million and the Company recognized a loss of approximately \$0.3 million.
- 31 model homes for approximately \$17.5 million and the Company recognized a gain of approximately \$5.4 million.

#### *Dispositions during the year ended December 31, 2021:*

During year ended December 31, 2021, we disposed of the following properties:

- Waterman Plaza, which was sold on January 28, 2021, for approximately \$3.5 million and the Company recognized a loss of approximately \$0.2 million.
- Garden Gateway, which was sold on February 19, 2021, for approximately \$11.2 million and the Company recognized a loss of approximately \$1.4 million.
- Highland Court, which was sold on May 20, 2021, for approximately \$10.2 million and the Company recognized a loss of approximately \$1.6 million.
- Executive Office Park, which was sold on May 21, 2021, for approximately \$8.1 million and the Company recognized a gain of approximately \$2.5 million.
- 44 model homes for approximately \$20.7 million and the Company recognized a gain of approximately \$3.2 million.

#### 4. REAL ESTATE ASSETS

The Company owns a diverse portfolio of real estate assets. The primary types of properties the Company invests in are office, industrial, retail, and triple-net leased model home properties. We have five commercial properties located in Colorado, four in North Dakota, one in Southern California, one in Texas and one in Maryland. Our model home properties are located in three states. As of December 31, 2022, the Company owned or had an equity interest in:

- Eight office buildings and one industrial building (“Office/Industrial Properties”) which total approximately rentable 756,265 square feet;
- Three retail shopping centers (“Retail Properties”) which total approximately 65,242 rentable square feet;
- 92 homes owned by our affiliated limited partnerships and one corporation (“Model Homes” or “Model Home Properties”) leased back on a triple-net basis to homebuilders that are owned by five affiliated limited partnerships and one wholly-owned corporation.

A summary of the properties owned by the Company as of December 31, 2022 and 2021 is as follows:

Property Name	Date		Real estate assets, net	
	Acquired	Location	December 31, 2022	December 31, 2021
World Plaza (1)	September 2007	San Bernardino, CA	\$ —	\$ 9,272,213
Genesis Plaza (2)	August 2010	San Diego, CA	7,995,980	8,310,803
Dakota Center	May 2011	Fargo, ND	8,569,537	8,607,360
Grand Pacific Center (6)	March 2014	Bismarck, ND	5,228,006	5,457,447
Arapahoe Center	December 2014	Centennial, CO	8,664,604	8,821,278
Union Town Center	December 2014	Colorado Springs, CO	9,039,039	9,169,387
West Fargo Industrial	August 2015	Fargo, ND	6,893,292	7,025,325
300 N.P.	August 2015	Fargo, ND	2,899,694	2,929,563
Research Parkway	August 2015	Colorado Springs, CO	2,319,588	2,375,943
One Park Center	August 2015	Westminster, CO	7,991,809	7,992,420
Shea Center II (5)	December 2015	Highlands Ranch, CO	19,501,998	20,246,645
Mandolin (3)	August 2021	Houston, TX	4,783,985	4,875,696
Baltimore	December 2021	Baltimore, MD	8,690,874	8,891,810
<b>Presidio Property Trust, Inc. properties</b>			92,578,406	103,975,890
<b>Model Home properties (4)</b>	2017 - 2022	FL, TX, WI	37,933,824	34,089,046
Total real estate assets and lease intangibles, net			<u>\$ 130,512,230</u>	<u>\$ 138,064,936</u>

(1) This property was sold during the year ended December 31, 2022.

(2) Genesis Plaza is owned by two tenants-in-common, each of which own 57% and 43%, respectively, and we beneficially own an aggregate of 76.4%, based on our ownership percentages of each tenant-in-common.

(3) A portion of the proceeds from the sale of Highland Court were used in like-kind exchange transactions pursued under Section 1031 of the Code for the acquisition of our Mandolin property. Mandolin is owned by NetREIT Palm Self-Storage LP, through its wholly owned subsidiary NetREIT Highland LLC, and the Company is the sole general partner and owns 61.3% of NetREIT Palm Self-Storage LP.

(4) Includes six Model Homes listed as held for sale as of December 31, 2022.

(5) On December 31, 2022, the lease for our largest tenant, Halliburton Energy Services, Inc., expired. Halliburton Energy Services, Inc. was located in our Shea Center II property in Colorado, and made up approximately 8.57% of our annual base rent. The tenant did not renew the lease and we placed approximately \$1.1 million in a reserve account with our lender to cover future mortgage payments, if necessary. Our management team is working to fill the 45,535 square foot space as quickly as possible, and has already leased approximately 20% of the space to a tenant during January 2023.

(6) Grand Pacific Center, Bismarck, ND, was removed from held for sale after signing a major lease with KLJ Engineering on December 7, 2022 for approximately 33,296 usable square feet, a term of 122 months, starting annualized rent of \$532,736, and a commencement date estimated to be between November 1, 2023 and March 1, 2024.



## 5. LEASE INTANGIBLES

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

	December 31, 2022			December 31, 2021		
	Lease Intangibles	Accumulated Amortization	Lease Intangibles, net	Lease Intangibles	Accumulated Amortization	Lease Intangibles, net
In-place leases	\$ 2,515,264	\$ (2,485,234)	\$ 30,030	\$ 2,515,264	\$ (2,353,782)	\$ 161,482
Leasing costs	1,261,390	(1,236,591)	24,799	1,261,390	(1,165,701)	95,689
Above-market leases	333,485	(333,485)	—	333,485	(333,485)	—
	<u>\$ 4,110,139</u>	<u>\$ (4,055,310)</u>	<u>\$ 54,829</u>	<u>\$ 4,110,139</u>	<u>\$ (3,852,968)</u>	<u>\$ 257,171</u>

At December 31, 2022 and 2021, there were no gross lease intangible assets and accumulated amortization related to the lease intangible assets included in real estate assets held for sale.

The net value of acquired intangible liabilities was approximately \$18,240 and \$73,130 relating to below-market leases at December 31, 2022 and December 31, 2021, respectively.

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

2023	\$	17,526
2024		17,526
2025		15,670
2026		4,107
2027		—
Thereafter		—
Total	<u>\$</u>	<u>54,829</u>

## 6. OTHER ASSETS

Other assets consist of the following:

	December 31, 2022	December 31, 2021
Deferred rent receivable	\$ 1,641,831	\$ 1,660,197
Prepaid expenses, deposits and other	619,621	473,554
Investment in marketable securities	797,749	1,514,483
Accounts receivable, net	67,780	401,927
Right-of-use assets, net	45,843	74,643
Other intangibles, net	22,483	82,483
Notes receivable	316,374	316,374
Deferred offering costs	-	134,843
Total other assets	<u>\$ 3,511,681</u>	<u>\$ 4,658,504</u>

Periodically, the Company may sell an option in the marketable securities it holds to unrelated third parties for the right to purchase certain securities held within its investment portfolios (“covered call options”). These option transactions are designed primarily to increase the total return associated with holding the related securities as earning assets by using fee income generated from these options. These transactions are not designated as hedging relationships pursuant to accounting guidance ASC 815 and, accordingly, changes in fair values of these contracts, are reported in other income (expense). There are several risks associated with transactions in options on securities. For example, there are significant differences between the securities and options markets that could result in an imperfect correlation between these markets, causing a given transaction not to achieve its objectives. A transaction in options or securities may be unsuccessful to some degree because of market behavior or unexpected events. When we write a covered call option, we forgo, during the option’s life, the opportunity to profit from increases in the market value of the security covering the call option above the sum of the premium and the strike price of the call, but retain the risk of loss should the price of the underlying security decline. The writer of an option has no control over the time when it may be required to fulfill its obligation before the sold option expires, and once an option writer has received an exercise notice, it must deliver the underlying security in exchange for the strike price.

As of December 31, 2022, we owned common shares of 18 different publicly traded REITs and an immaterial amount of covered call options in three of those same REITs. The gross fair market value on our publicly traded REIT securities was \$798,206, with covered call options totaling \$457. As of December 31, 2022, the net fair value of our publicly traded REIT securities was \$797,749 based on the December 31, 2022 closing price. As of December 31, 2021, we owned common shares and options of 19 different publicly traded REITs and an immaterial amount of covered call options in ten of those same REITs. The gross fair market value on our publicly traded REIT securities was \$1,529,185, with covered call options totaling \$14,702. As of December 31, 2021, the net fair value of our publicly traded REIT securities was \$1,514,483 based on the December 31, 2021 closing price.

## 7. MORTGAGE NOTES PAYABLE

Mortgage notes payable consist of the following:

	Principal as of		Loan Type	Interest Rate (1)	Maturity
	December 31, 2022	December 31, 2021			
<b>Mortgage note property</b>					
300 N.P. (2)	-	2,232,923	Fixed	4.95%	6/11/2022
Dakota Center	9,442,976	9,677,108	Fixed	4.74%	7/6/2024
Research Parkway	1,648,237	1,705,438	Fixed	3.94%	1/5/2025
Arapahoe Service Center	7,602,273	7,770,887	Fixed	4.34%	1/5/2025
Union Town Center	8,025,300	8,173,568	Fixed	4.28%	1/5/2025
One Park Centre	6,163,177	6,276,849	Fixed	4.77%	9/5/2025
Genesis Plaza	6,055,682	6,168,604	Fixed	4.71%	9/6/2025
Shea Center II	17,229,573	17,494,527	Fixed	4.92%	1/5/2026
West Fargo Industrial (6)	4,030,297	4,148,405	Fixed	3.27%	8/5/2029
Grand Pacific Center (3)	3,496,330	3,619,695	Fixed	4.02%	8/1/2037
Baltimore	5,670,000	—	Fixed	4.67%	4/6/2032
<b>Mandolin</b>	3,635,362	—	Fixed	4.35%	4/20/2029
<b>Subtotal, Presidio Property Trust, Inc. Properties</b>	<b>\$ 72,999,207</b>	<b>\$ 67,268,004</b>			
Model Home mortgage notes (4) (5)	24,752,448	22,154,128	Fixed		2022 - 2025
<b>Mortgage Notes Payable</b>	<b>\$ 97,751,655</b>	<b>\$ 89,422,132</b>			
<b>Unamortized loan costs</b>	<b>(852,956)</b>	<b>(562,300)</b>			
<b>Mortgage Notes Payable, net</b>	<b>\$ 96,898,699</b>	<b>\$ 88,859,832</b>			

- (1) Interest rates as of December 31, 2022.
- (2) The mortgage note payable for 300 N.P. is an amortizing loan with a balloon payment of \$2.2 million due at maturity, on June 11, 2022. The Company paid this note in full on May 11, 2022 with available cash on hand.
- (3) Interest rate is subject to possible reset on September 1, 2023. The lender may, upon not less than sixty (60) days prior written notice to the Company, increase the interest rate effective on September 1, 2023 and September 1, 2030 to the rate then being quoted by the Lender for new seven-year commercial mortgage loans of similar size and quality with like terms and security (provided that in no event shall the new rate be less than the initial rate).
- (4) As of December 31, 2022, there were six model homes included as real estate assets held for sale.
- (5) Our model homes have stand-alone mortgage notes at interest rates ranging from 2.50% to 6.70% per annum as of December 31, 2022.
- (6) The lender may, upon not less than sixty (60) days prior written notice to the Company, increase the interest rate effective on the August 5, 2023 and August 5, 2026, to the rate then being quoted by the lender for new three-year commercial mortgage loans of similar size and quality with like terms and security (provided that in no event shall the new rate be less than the initial rate).

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

Scheduled principal payments of mortgage notes payable were as follows as of December 31, 2022:

Years ending December 31:	Presidio Property Trust, Inc. Notes Payable	Model Homes Notes Payable	Total Principal Payments
2023	\$ 1,470,877	\$ 6,799,272	\$ 8,270,149
2024	10,453,347	10,694,954	21,148,301
2025	28,851,691	7,258,222	36,109,913
2026	16,717,516	—	16,717,516
2027	364,407	—	364,407
Thereafter	15,141,369	—	15,141,369
Total	\$ 72,999,207	\$ 24,752,448	\$ 97,751,655

## 8. NOTE PAYABLE

On April 22, 2020, the Company received an Economic Injury Disaster Loan of \$10,000 from the Small Business Administration ("SBA") to provide economic relief during the COVID-19 pandemic. This loan advance is not required to be repaid, has no stipulations on use, and has been recorded as fees and other income in the condensed consolidated statements of operations during fiscal 2020. On August 17, 2020, we received an additional Economic Injury Disaster Loan ("EIDL") of \$150,000, for which principal and interest payments are deferred for twelve months from the date of issuance, and interest accrues at 3.75% per year. The loan matures on August 17, 2050. We have used the funds for general corporate purposes to alleviate economic injury caused by the COVID-19 pandemic, which economic injury included abating or deferring rent to certain tenants (primarily retail tenants).

As of December 31, 2022, we have issued six promissory notes to our majority owned subsidiaries, Dubose Model Home Investors 202 LP and Dubose Model Home Investors 204 LP, for the refinancing of six model home properties in Texas and Wisconsin, for approximately \$1.36 million with interest rates ranging from 3.0% to 5.76% per annum. These loans were issued between September 3, 2021 through December 15, 2022, with terms of 12 months, and are fully eliminated in consolidation.

On August 17, 2021, we issued a promissory note to our majority owned subsidiary, NetREIT Highland, for the acquisition of the Mandolin property in Houston, Texas, for \$1.56 million with an interest rate of 4.0% per annum and a maturity date of August 17, 2022. This note payable and note receivable, including interest expense and interest income related to this promissory note, were eliminated through consolidation on our financial statements. During April 2022, this loan was refinanced with a loan from a third-party bank totaling \$3.7 million, with the proceeds being used to pay back our \$1.56 million promissory note.

On December 20, 2021, we issued a promissory note to our majority owned subsidiary, PPT Baltimore, for the acquisition of the Baltimore property in Baltimore, Maryland, for \$5.65 million with an interest rate of 4.5% per annum and a maturity date of December 20, 2022. This note payable and note receivable, including interest expense and interest income related to this promissory note, were eliminated through consolidation on our financial statements. During March 2022, this loan was refinanced with a loan from a third-party lender totaling \$5.67 million, with the proceeds being used to pay back our \$5.65 million promissory note.

## 9. COMMITMENTS AND CONTINGENCIES

The Company is obligated under certain tenant leases to fund tenant improvements and the expansion of the underlying leased properties.

**Litigation.** From time to time, we may become involved in various lawsuits or legal proceedings which arise in the ordinary course of business. Neither the Company nor any of the Company's properties are presently subject to any material litigation nor, to the Company's knowledge, is there any material threatened litigation.

**Environmental Matters.** The Company monitors its properties for the presence of hazardous or toxic substances. While there can be no assurance that a material environmental liability does not exist, the Company is not currently aware of any environmental liability with respect to the properties that would have a material effect on the Company's financial condition, results of operations and cash flow. Further, the Company is not aware of any environmental liability or any unasserted claim or assessment with respect to an environmental liability that the Company believes would require additional disclosure or recording of a loss contingency.

**Financial Markets.** The Company monitors concerns over economic recession, the COVID-19 pandemic, interest rate increases, policy priorities of the U.S. presidential administration, trade wars, labor shortages, and inflation, any of which may contribute to increased volatility and diminished expectations for the economy and markets. Additionally, concern over geopolitical issues may also contribute to prolonged market volatility and instability. For example, the conflict between Russia and Ukraine could lead to disruption, instability and volatility in global markets and industries. The U.S. government and other governments in jurisdictions have imposed severe economic sanctions and export controls against Russia and Russian interests, have removed Russia from the SWIFT system, and have threatened additional sanctions and controls. The impact of these measures, as well as potential responses to them by Russia, is unknown. We have not currently experienced a direct material impact to our Company or operations; however, we will continue to monitor the financial markets for events that could impact our commercial real estate properties.

**Sponsorship of Special Purpose Acquisition Company.** On January 7, 2022, we announced our sponsorship, through our wholly-owned subsidiary, Murphy Canyon Acquisition Sponsor, LLC (the "Sponsor"), of a special purpose acquisition company ("SPAC") initial public offering. The registration statement and prospectus relating to the initial public offering ("IPO") of the SPAC, Murphy Canyon Acquisition Corp. ("Murphy Canyon"), was declared effective by the Securities and Exchange Commission (the "SEC") on February 2, 2022 and SPAC units, consisting of one share of Class A common stock, par value \$0.0001 per share, of Murphy Canyon and one redeemable warrant, with each whole warrant entitling the holder thereof to purchase one share of common stock at a price of \$11.50 per share, began trading on the Nasdaq Global Market on February 3, 2022. The Murphy Canyon IPO closed on February 7, 2022, raising gross proceeds for Murphy Canyon of \$132,250,000, including the exercise in full by the underwriters of their over-allotment option. In connection with the IPO, we purchased, through the Sponsor, 754,000 placement units (the "placement units") at a price of \$10.00 per unit, for an aggregate purchase price of \$7,540,000. The Sponsor has agreed to transfer an aggregate of 45,000 placement units (15,000 each) to each of Murphy Canyon's independent directors. In connection with the initial public offering, Murphy Canyon incurred \$7,738,161 in issuance costs, including \$2,645,000 of underwriting discounts and commission, \$4,628,750 of deferred underwriting fees and \$464,411 of other offering costs. These costs were allocated to temporary and permanent equity and offset against the proceeds.

We, through our wholly-owned subsidiary, owned approximately 23.5% of the issued and outstanding stock in the entity upon the initial public offering being declared effective and consummated (excluding the private placement units described below). Following the completion of its initial public offering, the SPAC has operated as a separately managed, publicly traded entity. The SPAC offered 132,250,000 units, with each unit consisting of one share of common stock and three-quarters of one redeemable warrant. The warrants were evaluated using the guidance in ASC 480 "Distinguishing Liabilities from Equity" and we concluded that the warrants are indexed to Murphy Canyon's common stock and meet the criteria to be classified in stockholders' equity.

On November 8, 2022, the SPAC entered into an agreement and plan of merger with Conduit Pharmaceuticals Limited, a Cayman Islands exempted company ("Conduit"), and Conduit Merger Sub, Inc., a Cayman Islands exempted company and the SPAC's wholly owned subsidiary. If the merger agreement is approved by the SPAC's stockholders and the transactions under the merger agreement are consummated, the SPAC's Cayman Island subsidiary will merge with and into Conduit, with Conduit surviving the merger as the SPAC's wholly owned subsidiary. Pursuant to the merger agreement, the outstanding ordinary shares (including the shares issued upon conversion of all outstanding convertible debt, which conversion shall have occurred prior to the consummation of the merger) of Conduit will be converted into an aggregate of 65,000,000 shares of the SPAC's newly issued common stock, with each such outstanding Conduit ordinary share (including the ordinary shares issued upon conversion of all outstanding convertible debt, which conversion shall have occurred prior to the consummation of the merger) converted into newly issued shares of the SPAC's common stock on a pro rata basis.

## [Table of Contents](#)

Initially, the SPAC was required to complete its initial business combination transaction by 12 months from the consummation of its initial public offering or up to 18 months if it extended the period of time to consummate a business combination in accordance with its Certificate of Incorporation. On January 26, 2023, at a special meeting of the stockholders, the stockholders approved a proposal to amend the SPAC's certificate of incorporation to extend the date by which it has to consummate a business combination up to 12 times, each such extension for an additional one month period, from February 7, 2023, to February 7, 2024. The stockholders also approved a related proposal to amend the trust agreement allowing the SPAC to deposit into the trust account, for each one-month extension, one-third of 1% of the funds remaining in the trust account following the redemptions made in connection with the approval of the extension proposal at the special meeting. The Company has committed to provide additional funds if needed to make such a deposit for the extension. In connection with the stockholders' vote at the special meeting, 11,037,272 shares of common stock were tendered for redemption, which were redeemed in February 2023. After the redemptions, there were 2,187,728 shares SPAC Class A common stock subject to possible redemption.

On March 3, 2023 we loaned Murphy Canyon \$300,000 to fund its trust account and for operating expenses, and may lend up to \$1.5 million in total. The loan is non-interest bearing, unsecured and will be repayable in full upon the earlier of (i) the date on which the SPAC consummates its initial business combination and (ii) the date that its winding up is effective.

## 10. STOCKHOLDERS' EQUITY

**Preferred Stock.** The Company is authorized to issue up to 1,000,000 shares of Preferred Stock (the "Preferred Stock"). The Preferred Stock may be issued from time to time in one or more series. The Board of Directors is authorized to fix the number of shares of any series of the Preferred Stock, to determine the designation of any such series, and to set the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each series of Preferred Stock.

On June 15, 2021, the Company completed its secondary offering of 800,000 shares of our Series D Preferred Stock for cash consideration of \$25.00 per share to a syndicate of underwriters led by Benchmark, as representative, resulting in approximately \$18.1 million in net proceeds, after deducting the underwriting discounts and commissions and the offering expenses paid by the Company. The Company granted the underwriters a 45-day option to purchase up to an additional 120,000 shares of Series D Preferred Stock to cover over-allotments, which they exercised on June 17, 2021, resulting in approximately \$2.7 million in net proceeds, after deducting the underwriting discounts and commissions and the offering expenses paid by the Company. In total, the Company issued 920,000 shares of Series D Preferred Stock with net proceeds of approximately \$20.5 million, after deducting the underwriting discounts and commissions and the offering expenses paid by the Company and deferred offering costs. The Series D Preferred Stock is listed for trading on The Nasdaq Capital Market under the symbol SQFTP. The Company has used these proceeds for general corporate and working capital purposes, including acquiring additional properties. Below are some of the key terms of the Series D Preferred Stock:

### *Dividends:*

Holders of shares of the Series D Preferred Stock are entitled to receive cumulative cash dividends at a rate of 9.375% per annum of the \$25.00 per share liquidation preference (equivalent to \$2.34375 per annum per share). Dividends will be payable monthly on the 15th day of each month (each, a "Dividend Payment Date"), provided that if any Dividend Payment Date is not a business day, then the dividend that would otherwise have been payable on that Dividend Payment Date may be paid on the next succeeding business day without adjustment in the amount of the dividend.

### *Voting Rights:*

Holders of shares of the Series D Preferred Stock will generally have no voting rights. However, if the Company does not pay dividends on the Series D Preferred Stock for eighteen or more monthly dividend periods (whether or not consecutive), the holders of the Series D Preferred Stock (voting separately as a class with the holders of all other classes or series of the Company's preferred stock it may issue upon which like voting rights have been conferred and are exercisable and which are entitled to vote as a class with the Series D Preferred Stock in the election referred to below) will be entitled to vote for the election of two additional directors to serve on the Company's Board of Directors until the Company pays, or declares and sets apart funds for the payment of, all dividends that it owes on the Series D Preferred Stock, subject to certain limitations.

In addition, the affirmative vote of the holders of at least two-thirds of the outstanding shares of Series D Preferred Stock (voting together as a class with all other series of parity preferred stock the Company may issue upon which like voting rights have been conferred and are exercisable) is required at any time for the Company to (i) authorize or issue any class or series of its stock ranking senior to the Series D Preferred Stock with respect to the payment of dividends or the distribution of assets on liquidation, dissolution or winding up or (ii) to amend any provision of the Company charter so as to materially and adversely affect any rights of the Series D Preferred Stock or to take certain other actions.



## [Table of Contents](#)

### *Liquidation Preference:*

In the event of the Company's voluntary or involuntary liquidation, dissolution or winding up, the holders of shares of Series D Preferred Stock will be entitled to be paid out of the assets the Company has legally available for distribution to its stockholders, subject to the preferential rights of the holders of any class or series of its stock the Company may issue ranking senior to the Series D Preferred Stock with respect to the distribution of assets upon liquidation, dissolution or winding up, a liquidation preference of \$25.00 per share, plus any accumulated and unpaid dividends to, but not including, the date of payment, before any distribution of assets is made to holders of the Company's common stock or any other class or series of the Company's stock it may issue that ranks junior to the Series D Preferred Stock as to liquidation rights.

In the event that, upon any such voluntary or involuntary liquidation, dissolution or winding up, the Company's available assets are insufficient to pay the amount of the liquidating distributions on all outstanding shares of Series D Preferred Stock and the corresponding amounts payable on all shares of other classes or series of the Company's stock that it issues ranking on parity with the Series D Preferred Stock in the distribution of assets, then the holders of the Series D Preferred Stock and all other such classes or series of stock shall share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

### *Redemption:*

Commencing on or after June 15, 2026, the Company may redeem, at its option, the Series D Preferred Stock, in whole or in part, at a cash redemption price equal to \$25.00 per share, plus any accumulated and unpaid dividends to, but not including the redemption date. Prior to June 15, 2026, upon a Change of Control (as defined in the Articles Supplementary), the Company may redeem, at its option, the Series D Preferred Stock, in whole or part, at a cash redemption price of \$25.00 per share, plus any accumulated and unpaid dividends to, but not including the redemption date. The Series D Preferred Stock has no stated maturity, will not be subject to any sinking fund or other mandatory redemption, and will not be convertible into or exchangeable for any of our other securities.

In accordance with the terms of the Series D Preferred Stock, the Series D monthly dividend has been approved by the Board of Directors through December 2022 in the amount of \$0.19531 per share payable on the 15th of every month to stockholders of record of Series D Preferred Stock as of the last day of the prior month. Total dividends paid to Series D Preferred stockholders during the year ended December 31, 2022 and 2021 was approximately \$2.2 million and \$1.2 million, respectively.

**Common Stock.** The Company is authorized to issue up to 100,000,000 shares of Series A Common Stock, 1,000 shares of Series B Common Stock, and 9,000,000 shares of Series C Common Stock (collectively, the "Common Stock") each with \$0.01 par value per share. Each class of Common Stock has identical rights, preferences, terms, and conditions except that the holders of Series B Common Stock are not entitled to receive any portion of Company assets in the event of the Company's liquidation. No shares of Series B or Series C Common Stock have been issued. Each share of Common Stock entitles the holder to one vote. Shares of our Common Stock are not subject to redemption and do not have any preference, conversion, exchange, or preemptive rights. The Company's charter contains restrictions on the ownership and transfer of the Common Stock that prevents one person from owning more than 9.8% of the outstanding shares of common stock.

On July 12, 2021, the Company entered into a securities purchase agreement with a single U.S. institutional investor for the purchase and sale of 1,000,000 shares of its Series A Common Stock, Common Stock Warrants to purchase up to 2,000,000 shares of Series A Common Stock and Pre-Funded Warrants to purchase up to 1,000,000 shares of Series A Common Stock. Each share of Common Stock and accompanying Common Stock Warrants were sold together at a combined offering price of \$5.00, and each share of Common Stock and accompanying Pre-Funded Warrants were sold together at a combined offering price of \$4.99. The Pre-Funded Warrants were exercised in full during August 2021 at a nominal exercise price of \$0.01 per share. The Common Stock Warrants have an exercise price of \$5.50 per share, were exercisable upon issuance and will expire five years from the date of issuance. In connection with this additional offering, we agreed to issue the Placement Agent Warrants to purchase up to 80,000 shares of Series A Common Stock, representing 4.0% of the Series A Common Stock and shares of Series A Common Stock issuable upon exercise of the Pre-Funded Warrant. The Placement Agent Warrants were issued in August 2021, post exercise of the Pre-Funded Warrants with an exercise price of \$6.25 and will expire five years from the date of issuance.



## [Table of Contents](#)

The Company evaluated the accounting guidance in ASC 480 and ASC 815 regarding the classification of the Pre-Funded Warrant, Common Stock Warrants, and Placement Agent Warrants as equity or a liability and ultimately determined that it should be classified as permanent equity. As of December 31, 2022, none of the Common Stock Warrants and Placement Agent Warrants have been exercised.

**Stock Repurchase Program.** On September 17, 2021, the Board of Directors authorized a stock repurchase program of up to \$10 million of outstanding shares of our Series A Common Stock, which expired in September 2022. On September 15, 2022, the Board of Directors authorized a stock repurchase program of up to \$6.0 million of outstanding shares of our Series A Common Stock and up to \$4.0 million of our Series D Preferred Stock. During the year ended December 31, 2021, the Company repurchased 29,721 shares of our Series A Common Stock at an average price of approximately \$3.7223 per share, including a commission of \$0.035 per share, for a total cost of \$110,631. During the year ended December 31, 2022, the Company repurchased 196,631 shares of our Series A Common Stock at an average price of approximately \$1.59 per share, including a commission of \$0.035 per share, and 6,013 shares of our Series D Preferred Stock at an average price of approximately \$20.31 per share, including a commission of \$0.035 per share, for a total cost of \$313,578 for the Series A Common Stock and \$122,141 for the Series D Preferred Stock. The repurchased shares will be treated as authorized and unissued in accordance with Maryland law and shown as a reduction of stockholders' equity at cost. While we will continue to pursue value creating investments, the Board of Directors believes there is significant embedded value in our assets that is yet to be realized by the market. Therefore, returning capital to stockholders through a repurchase program is an attractive use of capital currently.

**Cash Dividends.** For the years ended December 31, 2022 and December 31, 2021 the Company declared and paid Series A Common Stock cash dividends of approximately \$3.1 million and \$4.5 million, respectively. For the years ended December 31, 2022 and December 31, 2021 the Company declared and paid Series D Preferred Stock cash dividends of approximately \$2.2 million and \$1.2 million, respectively. The following is a summary of distributions declared per share of our Series A Common Stock and for our Series D Preferred Stock for the years ended December 31, 2022 and 2021. The Company intends to continue to pay dividends to our common stockholders on a quarterly basis, and on a monthly basis to holders of our Series D Preferred Stock going forward, but there can be no guarantee the Board of Directors will approve any future dividends. The following is a summary of distributions declared per share of our Series A Common Stock and for our Series D Preferred Stock for the years ended December 31, 2022 and December 31, 2021.

### Series A Common Stock

#### Quarter Ended

	2022	2021
	Distributions Declared	Distributions Declared
March 31	\$ 0.105	\$ 0.101
June 30	0.106	0.102
September 30	0.020	0.103
December 31	0.021	0.104
Total	<u>\$ 0.252</u>	<u>\$ 0.410</u>

### Series D Preferred Stock

#### Month

	2022	2021
	Distributions Declared	Distributions Declared
January	\$ 0.19531	\$ —
February	0.19531	—
March	0.19531	—
April	0.19531	—
May	0.19531	—
June	0.19531	0.10417
July	0.19531	0.19531
August	0.19531	0.19531
September	0.19531	0.19531
October	0.19531	0.19531
November	0.19531	0.19531
December 31	0.19531	0.19531
Total	<u>\$ 2.34372</u>	<u>\$ 1.27603</u>

## [Table of Contents](#)

**Partnership Interests.** Through the Company, its subsidiaries, and its partnerships, we own 12 commercial properties in fee interest, two of which we own partial interests in through our holdings in various affiliates in which we serve as general partner, member and/or manager. Each of the limited partnerships is referred to as a “DownREIT.” In each DownREIT, we have the right, through put and call options, to require our co-investors to exchange their interests for shares of our Common Stock at a stated price after a defined period (generally five years from the date they first invested in the entity’s real property), the occurrence of a specified event or a combination thereof. The Company is a limited partner in five partnerships and sole stockholder in one corporation, which entities purchase and leaseback model homes from homebuilders.

**Warrant Dividend.** In January 2022, we distributed the Series A Warrants to holders of our Series A Common Stock. The Series A Warrants and the shares of Series A Common Stock issuable upon the exercise of the Series A Warrants were registered on a registration statement that was filed with the SEC and was declared effective January 21, 2022. The Series A Warrants commenced trading on the Nasdaq Capital Market under the symbol “SQFTW” on January 24, 2022 and were distributed on that date to persons who held shares of common stock and existing outstanding warrants as of the January 14, 2022 record date, or who acquired shares of Series A Common Stock in the market following the record date, and who continued to hold such shares at the close of trading on January 21, 2022. The Series A Warrants give the holder the right to purchase one share of Series A Common Stock at \$7.00 per share, for a period of five years. Should warrant holders not exercise the Series A Warrants during that holding period, the Series A Warrants will automatically convert to 1/10 of a share of Series A Common Stock at expiration, rounded down to the nearest number of whole shares.

**Dividend Reinvestment Plan.** The Company adopted a distribution reinvestment plan (the “DRIP”) that allowed stockholders to have dividends and other distributions otherwise distributable to them invested in additional shares of the Company’s Common Stock. The Company registered 3,000,000 shares of Common Stock pursuant to the DRIP. The purchase price per share used in the past was 95% of the price the Company sold its shares, or \$19.00 per share. No sales commission or dealer manager fees were paid on shares sold through the DRIP. The Company may amend, suspend or terminate the DRIP at any time. Any such amendment, suspension or termination is effective upon a designated dividend record date and notice of such amendment, suspension or termination is sent to all participants at least thirty (30) days prior to such record date. The DRIP became effective on January 23, 2012, was suspended on December 7, 2018 and adopted on October 6, 2020 in connection with our IPO, and updated to reflect a change in transfer agent and registrar. As of December 31, 2022, approximately \$17.4 million or approximately 917,074 shares of Common Stock have been issued under the DRIP. There have been no shares issued under the DRIP since it was suspended in 2018.

## 11. SHARE-BASED INCENTIVE PLAN

The Company maintains a restricted stock incentive plan for the purpose of attracting and retaining officers, employees, and non-employee board members. Share awards generally vest in equal annual installments over a three to ten year period from date of issuance. Non-vested shares have voting rights and are eligible for any dividends paid to common shares. The Company recognized compensation cost for these fixed awards over the service vesting period, which represents the requisite service period, using the straight-line method. Prior to our IPO, the value of non-vested shares was calculated based on the offering price of the shares in the most recent private placement offering of \$20.00, adjusted for stock dividends since granted and assumed selling costs, which management believed approximated fair market value as of the date of grant. Upon our IPO, the value of non-vested shares granted is generally calculated based on the closing price of our common stock on the date of the grant. During our Annual Stockholders meeting, held on May 26, 2022, the Company’s 2017 Incentive Award Plan was amended to increase the available shares for issuance from 1.1 million to 2.5 million.

A summary of the activity for the Company’s restricted stock was as follows:

<b>Outstanding shares:</b>	<b>Common Shares</b>
Balance at December 31, 2021	295,471
Granted	407,245
Forfeited	(57,371)
Vested	(296,303)
Balance at December 31, 2022	<u>349,042</u>

## [Table of Contents](#)

The non-vested restricted shares outstanding as of December 31, 2022 will vest over the next one to five years.

Share-based compensation expense for the years ended December 31, 2022 and 2021 was approximately \$1.2 million and \$1.6 million, respectively. As of December 31, 2022 and 2021, future unrecognized stock compensation related to unvested shares totaled approximately \$1.5 million and \$1.6 million, respectively.

## 12. SEGMENTS

The Company's reportable segments consist of three types of real estate properties for which the Company's decision-makers internally evaluate operating performance and financial results: Office/Industrial Properties, Model Home Properties and Retail Properties. The Company also has certain corporate-level activities including accounting, finance, legal administration, and management information systems which are not considered separate operating segments. There is no material inter-segment activity.

The Company evaluates the performance of its segments based upon net operating income ("NOI"), which is a non-GAAP supplemental financial measure. The Company defines NOI for its segments as operating revenues (rental income, tenant reimbursements and other operating income) less property and related expenses (property operating expenses, real estate taxes, insurance, asset management fees, impairments and provision for bad debt). NOI excludes certain items that are not considered to be controllable in connection with the management of an asset such as non-property income and expenses, depreciation and amortization, real estate acquisition fees and expenses and corporate general and administrative expenses. The Company uses NOI to evaluate the operating performance of the Company's real estate investments and to make decisions regarding allocation of resources.

The Company evaluates the performance of its segments based upon net operating income ("NOI"), which is a non-GAAP supplemental financial measure. The Company defines NOI for its segments as operating revenues (rental income, tenant reimbursements and other operating income) less property and related expenses (property operating expenses, real estate taxes, insurance, asset management fees, impairments and provision for bad debt) excluding interest expense. NOI excludes certain items that are not considered to be controllable in connection with the management of an asset such as non-property income and expenses, depreciation and amortization, real estate acquisition fees and expenses and corporate general and administrative expenses. The Company uses NOI to evaluate the operating performance of the Company's real estate investments and to make decisions about resource allocations.

The following tables compare the Company's segment activity to its results of operations and financial position as of and for the years ended December 31, 2022 and 2021, respectively.

	<b>Year Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
<b>Office/Industrial Properties:</b>		
Rental, fees and other income	\$ 12,702,986	\$ 13,161,268
Property and related expenses	(5,148,110)	(5,769,843)
Net operating income, as defined	7,554,876	7,391,425
<b>Model Home Properties:</b>		
Rental, fees and other income	2,909,871	3,211,149
Property and related expenses	(102,660)	(129,389)
Net operating income, as defined	2,807,211	3,081,760
<b>Retail Properties:</b>		
Rental, fees and other income	2,224,479	3,023,316
Property and related expenses	(663,681)	(1,056,581)
Net operating income, as defined	1,560,798	1,966,735
<b>Reconciliation to net income (loss):</b>		
Total net operating income, as defined, for reportable segments	11,922,885	12,439,920
General and administrative expenses	(6,163,816)	(6,225,510)
Depreciation and amortization	(5,465,015)	(5,397,498)
Interest expense	(4,712,487)	(4,822,085)
Gain on extinguishment of government debt	—	10,000
Other income (expense), net	2,039,922	(3,417)
Income tax expense	(1,215,873)	47,620
Gain on sale of real estate	5,079,912	2,487,528
Net income (loss)	<u>\$ 1,485,528</u>	<u>\$ (1,463,442)</u>

[Table of Contents](#)

	December 31, 2022	December 31, 2021
<b>Assets by Reportable Segment:</b>		
<b>Office/Industrial Properties:</b>		
Land, buildings and improvements, net (1)	\$ 76,400,983	\$ 78,240,086
Total assets (2)	<u>\$ 79,057,998</u>	<u>\$ 76,453,436</u>
<b>Model Home Properties:</b>		
Land, buildings and improvements, net (1)	\$ 37,933,824	\$ 34,089,046
Total assets (2)	<u>\$ 35,274,545</u>	<u>\$ 31,047,202</u>
<b>Retail Properties:</b>		
Land, buildings and improvements, net (1)	\$ 16,142,613	\$ 25,693,239
Total assets (2)	<u>\$ 16,810,627</u>	<u>\$ 27,579,469</u>
<b>Reconciliation to Total Assets:</b>		
Total assets for reportable segments	\$ 131,143,170	\$ 135,080,107
Other unallocated assets:		
Cash, cash equivalents and restricted cash	8,570,121	6,738,345
Other assets, net	151,638,363	19,378,311
Total Assets	<u>\$ 291,351,654</u>	<u>\$ 161,196,763</u>

- (1) Includes lease intangibles and the land purchase option related to property acquisitions.
- (2) Includes land, buildings and improvements, cash, cash equivalents, and restricted cash, current receivables, deferred rent receivables and deferred leasing costs and other related intangible assets, all shown on a net basis.

	For the Year Ended December 31,	
	2022	2021
<b>Capital Expenditures by Reportable Segment</b>		
<b>Office/Industrial Properties:</b>		
Acquisition of operating properties	\$ —	\$ 8,891,810
Capital expenditures and tenant improvements	1,994,371	1,513,362
<b>Model Home Properties:</b>		
Acquisition of operating properties	15,673,575	8,426,750
<b>Retail Properties:</b>		
Acquisition of operating properties	—	4,906,266
Capital expenditures and tenant improvements	113,134	83,824
<b>Totals:</b>		
Acquisition of operating properties, net	15,673,575	22,224,826
Capital expenditures and tenant improvements	2,107,505	1,597,186
Total real estate investments	<u>\$ 17,781,080</u>	<u>\$ 23,822,012</u>

### 13. SUBSEQUENT EVENTS

#### **Sponsorship of Special Purpose Acquisition Company and Trust Extension**

Initially, the SPAC was required to complete its initial business combination transaction by 12 months from the consummation of its initial public offering or up to 18 months if it extended the period of time to consummate a business combination in accordance with its certificate of incorporation. On January 26, 2023, at a special meeting of the stockholders, the stockholders approved a proposal to amend the SPAC's certificate of incorporation to extend the date by which it has to consummate a business combination up to 12 times, each such extension for an additional one month period, from February 7, 2023, to February 7, 2024. The stockholders also approved a related proposal to amend the trust agreement allowing the SPAC to deposit into the trust account, for each one-month extension, one-third of 1% of the funds remaining in the trust account following the redemptions made in connection with the approval of the extension proposal at the special meeting. At the special meeting the stockholders also approved a proposal to amend the SPAC's certificate of incorporation to expand the methods that it may employ to not become subject to the "penny stock" rules of the SEC. In connection with the stockholders' vote at the special meeting, 11,037,272 shares of common stock were tendered for redemption for a redemption price of approximately \$10.33 per share, leaving 2,187,728 shares of Class A common stock outstanding and subject to possible redemption in connection with a business combination.

On March 7, 2023, the Company, through its subsidiary, entered into a \$1.5 million promissory note with Murphy Canyon Acquisition Corp to fund their trust account and operating expenses. On March 7, 2023 we advanced \$300,000 and will provide additional funds as necessary under the promissory note. These loans are non-interest bearing, unsecured and will be repayable in full upon the earlier of (i) the date on which Murphy Canyon Acquisition Corp consummate their initial business combination and (ii) the date that their winding up is effective.

**Presidio Property Trust, Inc. and Subsidiaries**  
 Schedule III - Real Estate and Accumulated Depreciation and Amortization – as of December 31, 2022

All amounts are in thousands

Property Name/ Location	Initial Cost					Total Cost			(1)		NBV Real Estate	Date Acquired	Year Built/ Renovated
	Encumbrances	Land Cost	Building & Improvements	Acquisition Price	Capitalized Improvements	Land Cost	Building & Improvements	Total Cost	Accumulated Depreciation & Amortization	Reserve for Impairment			
Genesis Plaza, San Diego, CA	\$ 6,056	\$ 1,400	\$ 8,600	\$ 10,000	\$ 2,976	\$ 1,400	\$ 11,576	\$ 12,976	\$ 4,980	\$ —	\$ 7,996	08/10	1989
Dakota Center, Fargo, ND	9,443	832	8,743	9,575	3,199	832	11,942	12,774	4,205	—	8,570	05/11	1982
Grand Pacific Center, Bismarck, ND	3,496	413	4,926	5,339	2,165	413	7,091	7,504	2,276	—	5,228	03/14	1976
Arapahoe Center, Centennial, CO	7,602	1,420	10,430	11,850	675	1,420	11,105	12,525	3,860	—	8,665	12/14	2000
West Fargo Industrial, Fargo, ND	4,030	1,693	6,207	7,900	462	1,693	6,669	8,362	1,469	—	6,893	08/15	1998/2005
300 N.P., Fargo, ND	—	135	3,715	3,850	363	135	4,078	4,213	1,006	308.0	2,899	08/15	1922
One Park Centre, Westminster, CO	6,163	1,206	7,944	9,150	1,927	1,206	9,871	11,077	3,085	—	7,992	08/15	1983
Shea Center II, Highlands Ranch, CO	17,230	2,214	23,747	25,961	2,754	2,214	26,501	28,715	9,213	—	19,502	12/15	2000
McElderry, Baltimore, MD	5,670	215	8,677	8,892	29	215	8,705	8,920	230	—	8,691	12/20	2006
<b>Total Office/ Industrial properties</b>	<b>59,690</b>	<b>9,528</b>	<b>82,989</b>	<b>92,517</b>	<b>14,551</b>	<b>9,528</b>	<b>97,539</b>	<b>107,067</b>	<b>30,323</b>	<b>308.0</b>	<b>76,436</b>		
Union Town Center, Colorado Springs, CO	8,025	1,750	9,462	11,212	174	1,750	9,636	11,386	2,347	—	9,039	12/14	2003
Research Parkway, Colorado Springs, CO	1,648	408	2,442	2,850	(44)	408	2,398	2,806	486	—	2,320	08/16	2003
Mandolin, Houston, TX	3,635	1,330	3,562	4,892	15	1,330	3,577	4,907	122	—	4,784	08/21	2021
<b>Total Retail properties</b>	<b>13,309</b>	<b>3,488</b>	<b>15,466</b>	<b>18,954</b>	<b>145</b>	<b>3,488</b>	<b>15,611</b>	<b>19,099</b>	<b>2,955</b>	<b>—</b>	<b>16,143</b>		
Model Homes-DMH LP #202	178	189	918	1,107	—	189	918	1,107	113	—	994	2017-2018	2017-2018
Model Homes-DMH LP #203	1,870	564	2,490	3,055	—	564	2,490	3,055	247	—	2,808	2017-2019	2017-2019
Model Homes-DMH LP #204	1,169	542	2,799	3,340	—	542	2,799	3,340	251	—	3,089	2018-2020	2018-2020
Model Homes-DMH LP #205	3,655	1,115	4,719	5,834	—	1,115	4,719	5,834	371	—	5,463	2019-2020	2019-2020
Model Homes-DMH LP #206	1,471	289	2,002	2,292	—	289	2,002	2,292	107	—	2,184	2020-2021	2020-2021
Model Homes-NMH Inc.	16,410	3,475	20,357	23,831	—	3,475	20,357	23,831	436	—	23,396	2018-2022	2018-2022
<b>Total Model Home properties</b>	<b>24,752</b>	<b>6,174</b>	<b>33,285</b>	<b>39,459</b>	<b>—</b>	<b>6,174</b>	<b>33,285</b>	<b>39,459</b>	<b>1,525</b>	<b>—</b>	<b>37,934</b>		
<b>CONSOLIDATED TOTALS:</b>	<b>\$ 97,752</b>	<b>\$ 19,190</b>	<b>\$ 131,739</b>	<b>\$ 150,930</b>	<b>\$ 14,695</b>	<b>\$ 19,190</b>	<b>\$ 146,435</b>	<b>\$ 165,625</b>	<b>\$ 34,804</b>	<b>\$ 308</b>	<b>\$ 130,513</b>		

(1) Depreciation is computed on a straight-line basis using useful lives up to 39 years.

**Presidio Property Trust, Inc. and Subsidiaries**

Schedule III - Real Estate and Accumulated Depreciation and Amortization (continued) – as of December 31, 2022

	<b>For the Year Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
<b>Real estate</b>		
Balance at the beginning of the year	\$ 171,013,693	\$ 208,641,166
Acquisitions	15,673,575	22,224,826
Improvements	2,107,503	1,598,105
Impairments	-	(608,000)
Dispositions of real estate	(23,478,763)	(60,842,404)
Balance at the end of the year	<u>\$ 165,316,008</u>	<u>\$ 171,013,693</u>
<b>Accumulated depreciation and amortization</b>		
Balance at the beginning of the year	\$ (32,948,757)	\$ (42,387,199)
Depreciation and amortization expense	(5,015,491)	(5,029,579)
Dispositions of real estate	3,160,470	14,468,021
Balance at the end of the year	<u>\$ (34,803,778)</u>	<u>\$ (32,948,757)</u>
Real estate assets, net	<u>\$ 130,512,230</u>	<u>\$ 138,064,936</u>



**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in Registration Statements (No. 333-251779, No. 333-179029 and No. 333-211384) on Form S-3 and in Registration Statements (No. 333-179030, No. 333-211443, and 333-261958) on Form S-8 of Presidio Property Trust, Inc. of our report dated March 28, 2023, relating to the consolidated financial statements and financial statement schedule, appearing in the Annual Report on Form 10-K of Presidio Property Trust, Inc. for the year ended December 31, 2022.

**/s/ BAKER TILLY US, LLP**

Irvine, California  
March 28, 2023

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

Date: March 28, 2023

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

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

I, Adam Sragovicz, certify that:

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

Date: March 28, 2023

By: /s/ Adam Sragovicz  
Adam Sragovicz,  
Chief Financial Officer

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

I, Ed Bentzen, certify that:

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

Date: March 28, 2023

By: */s/ Ed Bentzen*  
Ed Bentzen  
Chief Accounting Officer

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 CAO, respectively, of Presidio Property Trust, Inc. (the "Company") that, to the best of their knowledge:

- (i) the Annual Report for the year ended December 31, 2022 of the Company on Form 10-K (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and
- (i) the information contained in the Report fairly presents, in all material respects, the financial condition and the results of operations of the Company.

Date: March 28, 2023

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

Date: March 28, 2023

By: /s/ Adam Sragovicz  
Adam Sragovicz,  
Chief Financial Officer

Date: March 28, 2023

By: /s/ Adam Sragovicz  
Adam Sragovicz,  
Chief 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 the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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## Board of Directors

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Jack K. Heilbron  
Chairman of the Board of Directors

Jennifer A. Barnes<sup>^\*</sup>  
Independent Director

Steve Hightower  
Director

David T. Bruen<sup>^</sup>  
Lead Independent Director

James R. Durfey<sup>+</sup>  
Independent Director

Tracie Hager<sup>^+\*</sup>  
Independent Director

<sup>^</sup> *Audit Committee*

<sup>+</sup> *Compensation Committee*

<sup>\*</sup> *Nominating and Corporate Governance Committee*

## Executive Officers and Senior Management

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Jack K. Heilbron  
President & Chief Executive Officer

Adam Sragovicz  
Chief Financial Officer

Ed Bentzen  
Chief Accounting Officer

Gary M. Katz  
Chief Investment Officer

Steve Hightower  
President of Model Home Division

## Investor Services

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### Investor Relations and Corporate Headquarters

Lowell Hartkorn  
Presidio Property Trust, Inc.  
4995 Murphy Canyon Road, Suite 300  
San Diego, CA 92123  
(866) 781-7721

### Transfer Agent

Direct Transfer, LLC  
One Glenwood Avenue, Suite 1001  
Raleigh, NC 27603  
(919) 744-2722

## Independent Auditors

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Baker Tilly US, LLP  
18500 Von Karman Avenue, 10th Floor  
Irvine, CA 92612

## Legal Counsel

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Sichenzia Ross Ference LLP  
1185 Avenue of the Americas, 31<sup>st</sup> Floor  
New York, NY 10036

Venable LLP  
750 E. Pratt Street, Suite 900  
Baltimore, MD 21202

## SEC Form 10-K

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Presidio Property Trust, Inc.'s 2022 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, is contained within this report. Additional copies are available free of charge by writing to or calling the Investor Relations and Corporate Headquarters referenced above.

## Annual Meeting Date

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Presidio Property Trust, Inc. will conduct its Annual Meeting of Stockholders on Thursday, June 1, 2023 at 8:30 A.M., Pacific Time .





**The Contrarian Real Estate Investment Trust**

4995 Murphy Canyon Rd., Suite 300  
San Diego, CA 92123

**(866) 781-7721 TOLL FREE**

**(760) 471-0399 FAX**

[www.PresidioPT.com](http://www.PresidioPT.com)