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

FORM 10-K/A
(Amendment #1)

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

For the fiscal year ended December 31, 2016

or

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

For the transition period from to

Commission File Number 000-54295

Sterling Real Estate Trust
d/b/a Sterling Multifamily Trust
(Exact name of registrant as specified in its charter)

North Dakota **(State or other jurisdiction of incorporation or organization)**	**90-0115411** **(I.R.S. Employer Identification Number)**
1711 Gold Drive South, Suite 100 **Fargo, North Dakota** **(Address of principal executive offices)**	**58103** **(Zip Code)**

(701) 353-2720
(Registrant's telephone number, including area code)

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

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

Common Shares of Beneficial Interest
(Title of Class)

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

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

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

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

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

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

Large accelerated filer	☐	Accelerated filer	☑
Non-accelerated filer	☐	Smaller reporting company	☐

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

The aggregate market value of the common shares of beneficial interest held by non-affiliates as of June 30, 2016 was approximately $108,329,193, computed by reference to the price at which the common shares was last sold as of such date. The common shares of beneficial interest are not listed on any national exchange or over-the-counter market or quoted on any national securities market.

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

Class	Outstanding at March 9, 2017
Common Shares of Beneficial Interest, $0.01 par value per share	8,115,588

Documents Incorporated by Reference: Portions of Sterling's Proxy Statement for its 2017 Annual Meeting of Shareholders, which Sterling intends to file with the Securities and Exchange Commission within 120 days after the end of Sterling's fiscal year ended December 31, 2016, are incorporated by reference into Part III (Items 10, 11, 12, 13 and 14) of this Annual Report on Form 10-K to the extent described herein. If Sterling does not file its Proxy Statement on or before 120 days after the end of its 2016 fiscal year, Sterling will file the required information in an amendment to this Annual Report on Form 10-K.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (the "Amendment") amends the Annual Report on Form 10-K of Sterling Real Estate Trust (the "Company") for the year ended December 31, 2016, originally filed on March 15, 2017 (the "Original Filing"). The Company is filing the Amendment solely to amend and restate in its entirety the Report of the Independent Registered Public Accounting Firm included in Item 8 of the Original Filing to correct the omission of the auditor's electronic signature. Except as described above, no other changes have been made to Item 8 of Part II or are being made to the Annual Report. This Form 10-K/A does not reflect events occurring after the March 15, 2017 filing of the Annual Report nor does it modify or update the disclosure contained in the Annual Report in any way other than described in this Explanatory Note. The Amendment also includes, as did the Annual Report, the certifications of the registrant's executive officers pursuant to Item 15 of the Annual Report. The Amendment presents Item 8 of Part II, as amended in its entirety .

Sterling Real Estate Trust
FORM 10-K/A (Amendment No. 1)

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

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

Report of Independent Registered Public Accounting Firm

Consolidated Financial Statements

Consolidated Balance Sheets at December 31, 2016 and 2015

Consolidated Statements of Operations and Other Comprehensive Income for the Years Ended December 31, 2016, 2015 and 2014

Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2016, 2015 and 2014

Consolidated Statements of Cash Flows for the Years Ended December 31, 2016, 2015 and 2014

Notes to Consolidated Financial Statements

Real Estate and Accumulated Depreciation (Schedule III)

(a)(3) Exhibits

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

STERLING REAL ESTATE TRUST AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF *DECEMBER 31, 2016* AND *2015,*
AND THE RELATED CONSOLIDATED STATEMENTS OF OPERATIONS,
EQUITY AND CASH FLOWS FOR THE YEARS ENDED
DECEMBER 31, 2016, 2015 AND *2014,*
INCLUDING NOTES

and

REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

STERLING REAL ESTATE TRUST AND SUBSIDIARIES

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Sterling Real Estate Trust as of December 31, 2016 and 2015, and the related consolidated statements of operations and other comprehensive income, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2016. Our audits also included the financial statement schedule listed in the accompanying index to the consolidated financial statements. These consolidated financial statements and financial statement schedules are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sterling Real Estate Trust as of December 31, 2016 and 2015 and the results of its operations and cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ Baker Tilly Virchow Krause, LLP

Chicago, Illinois
March 15, 2017

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

STERLING REAL ESTATE TRUST AND SUBSIDIARIES
CONSOLIDATED BALANC E SHEETS
AS OF DECEMBER 31, 2016 AND 2015

	December 31, 2016	December 31, 2015
	(in thousands)	
ASSETS		
Real estate investments	$ 622,975	$ 594,509
Cash and cash equivalents	12,034	6,461
Restricted deposits and funded reserves	7,213	6,115
Investment in unconsolidated affiliates	3,653	9,022
Due from related party	34	60
Receivables	4,258	3,428
Prepaid expenses	433	844
Notes receivable	600	651
Financing and lease costs, less accumulated amortization of $1,720 in 2016 and $1,356 in 2015	950	1,240
Assets held for sale	2,482	1,721
Lease intangible assets, less accumulated amortization of $10,770 in 2016 and $7,655 in 2015	15,852	18,184
Other assets	29	140
Total Assets	$ 670,513	$ 642,375
LIABILITIES		
Mortgage notes payable, net	$ 390,479	$ 379,911
Special assessments payable	480	1,659
Dividends payable	5,925	5,319
Due to related party	957	440
Tenant security deposits payable	3,851	3,763
Subordinated debt	175	200
Lease intangible liabilities, less accumulated amortization of $1,122 in 2016 and $803 in 2015	2,075	2,253
Accounts payable - trade	438	819
Retainage payable	288	6
Liabilities related to assets held for sale	125	659
Fair value of interest rate swaps	145	219
Deferred insurance proceeds	102	69
Accrued expenses and other liabilities	6,818	6,631
Total Liabilities	411,858	401,948
COMMITMENTS and CONTINGENCIES - Note 18		
SHAREHOLDERS' EQUITY		
Noncontrolling interest		
Operating partnership	170,138	154,810
Partially owned properties	3,935	4,537
Beneficial interest	84,727	81,299
Accumulated other comprehensive loss	(145)	(219)
Total Shareholders' Equity	258,655	240,427
	$ 670,513	$ 642,375

See Notes to Consolidated Financial Statements

STERLING REAL ESTATE TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATION S AND OTHER COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31 , 2016, 2015 AND 2014

	Year Ended December 31,		
	2016	**2015**	**2014**
	(in thousands, except per share data)		
Income from rental operations			
Real estate rental income	$ 101,885	$ 93,330	$ 68,706
Tenant reimbursements	6,178	3,852	2,230
	108,063	97,182	70,936
Expenses			
Expenses from rental operations			
Interest	18,366	17,141	12,958
Depreciation and amortization	22,145	19,574	13,575
Real estate taxes	9,524	7,852	5,320
Property management fees	10,852	9,617	6,511
Utilities	7,672	7,220	5,614
Repairs and maintenance	21,267	17,726	11,721
Insurance	1,375	2,292	1,647
Loss on lease terminations	299	—	58
Loss on impairment of property	—	412	—
	91,500	81,834	57,404
Administration of REIT			
Administrative expenses	360	338	281
Advisory fees	2,644	2,401	1,855
Acquisition and disposition expenses	2,081	2,323	4,201
Trustee fees	59	51	56
Legal and accounting	456	534	431
	5,600	5,647	6,824
Total expenses	97,100	87,481	64,228
Income from operations	10,963	9,701	6,708
Other income (expense)			
Equity in income of unconsolidated affiliates	1,019	957	1,086
Other income	78	59	376
Gain (Loss) on sale of real estate investments	(316)	470	69
Gain on change in control of real estate investments	550	—	—
Gain on sale of investment in equity method investee	597	—	—
Gain (Loss) on involuntary conversion	(34)	197	398
Gain on disposal of marketable securities	—	—	666
	1,894	1,683	2,595
Net income	$ 12,857	$ 11,384	$ 9,303
Net income (loss) attributable to noncontrolling interest:			
Operating Partnership	9,034	7,684	6,715
Partially owned properties	(602)	(586)	9
Net income attributable to Sterling Real Estate Trust	$ 4,425	$ 4,286	$ 2,579
Net income per common share, basic and diluted	$ 0.56	$ 0.59	$ 0.47
Comprehensive income:			
Net income	$ 12,857	$ 11,384	$ 9,303
Other comprehensive gain - change in fair value of interest rate swaps	74	53	37
Comprehensive income	12,931	11,437	9,340
Comprehensive income attributable to noncontrolling interest	8,482	7,134	6,750
Comprehensive income attributable to Sterling Real Estate Trust	$ 4,449	$ 4,303	$ 2,590

See Notes to Consolidated Financial Statements

STERLING REAL ESTATE TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

	Common Shares	Paid-in Capital	Accumulated Distributions in Excess of Earnings	Total Beneficial Interest	Noncontrolling Interest Operating Partnership	Noncontrolling Interest Partially Owned Properties	Accumulated Comprehensive Income (Loss)	Total
	(in thousands)							
BALANCE AT DECEMBER 31, 2013	5,454	$ 68,051	$ (12,075)	$ 55,976	$ 141,539	$ —	$ (309)	$ 197,206
Shares issued under trustee compensation plan	2	23		23				23
Contribution of assets in exchange for the issuance of noncontrolling interest shares					17,461	—		17,461
Shares/units redeemed	(238)	(3,338)		(3,338)	(1,566)	—		(4,904)
Dividends declared			(4,948)	(4,948)	(12,954)	—		(17,902)
Dividends reinvested - stock dividend	231	3,238		3,238				3,238
Issuance of shares under optional purchase plan	128	1,892		1,892				1,892
UPREIT units converted to REIT common shares	47	700		700	(700)	—		—
Purchase of subsidiary ownership from noncontrolling interest		(810)		(810)	101			(709)
Change in fair value of interest rate swaps							37	37
Distributions paid to consolidated real estate entity noncontrolling interests					(11)	—		(11)
Net income			2,579	2,579	6,724	—		9,303
BALANCE AT DECEMBER 31, 2014	5,624	$ 69,756	$ (14,444)	$ 55,312	$ 150,594	$ —	$ (272)	$ 205,634
Issuance of common shares	1,677	25,750		25,750				25,750
Shares issued under trustee compensation plan	4	56		56				56
Contribution of assets in exchange for the issuance of noncontrolling interest shares					11,228	—		11,228
Shares/units redeemed	(132)	(1,915)		(1,915)	(633)	—		(2,548)
Dividends declared			(6,885)	(6,885)	(13,976)	—		(20,861)
Dividends reinvested - stock dividend	284	4,160		4,160				4,160
Issuance of shares under optional purchase plan	116	1,783		1,783				1,783
UPREIT units converted to REIT common shares	6	87		87	(87)	—		—
Syndication costs			(1,335)	(1,335)	—	—		(1,335)
Change in fair value of interest rate swaps							53	53
Contributions from consolidated real estate entity noncontrolling interests						5,123	—	5,123
Net income			4,286	4,286	7,684	(586)		11,384
BALANCE AT DECEMBER 31, 2015	7,579	$ 99,677	$ (18,378)	$ 81,299	$ 154,810	$ 4,537	$ (219)	$ 240,427
Shares issued pursuant to trustee compensation plan	4	60		60				60
Contribution of assets in exchange for the issuance of noncontrolling interest shares					23,468	—		23,468
Shares/units redeemed	(80)	(1,194)		(1,194)	(868)	—		(2,062)
Dividends declared			(7,527)	(7,527)	(15,552)	—		(23,079)
Dividends reinvested - stock dividend	315	4,760		4,760				4,760
Issuance of shares under optional purchase plan	136	2,150		2,150				2,150
UPREIT units converted to REIT common shares	47	754		754	(754)	—		—
Change in fair value of interest rate swaps							74	74
Net income			4,425	4,425	9,034	(602)		12,857
BALANCE AT DECEMBER 31, 2016	8,001	$ 106,207	$ (21,480)	$ 84,727	$ 170,138	$ 3,935	$ (145)	$ 258,655

See Notes to Consolidated Financial Statements

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STERLING REAL ESTATE TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW S
FOR THE YEARS ENDED DECEMBER 31 , 2016, 2015 AND 2014

	Year Ended December 31,		
	2016	2015	2014
	(in thousands)		
OPERATING ACTIVITIES			
Net income	$ 12,857	$ 11,384	$ 9,303
Adjustments to reconcile net income to net cash from operating activities			
(Gain) loss on sale of real estate and non-real estate investments	320	(470)	(69)
(Gain) on change in control of real estate investment	(550)	—	—
(Gain) on sale of joint venture interest	(597)	—	—
Loss on extinguishment of debt	—	—	18
Net gain on investment in marketable securities	—	—	(666)
(Gain) loss on involuntary conversion	34	(197)	(398)
Loss on impairment of property	—	412	—
Loss on lease terminations	299	—	58
Equity in income of unconsolidated affiliates	(1,019)	(957)	(1,086)
Distributions of earnings of unconsolidated affiliates	1,014	900	1,086
Depreciation	18,507	16,466	12,116
Amortization	3,539	3,076	1,434
Amortization of debt issuance costs	694	666	463
Effects on operating cash flows due to changes in			
Restricted deposits - tenant security deposits	(120)	(1,169)	(304)
Restricted deposits - real estate tax and insurance escrows	(159)	330	523
Due from related party	26	49	(45)
Receivables	(474)	(475)	199
Prepaid expenses	411	737	(372)
Marketable securities	—	—	666
Other assets	111	(64)	23
Due to related party	179	(2,037)	2,229
Tenant security deposits payable	103	159	244
Accounts payable - trade	(432)	(815)	439
Accrued expenses and other liabilities	(24)	320	2,066
NET CASH PROVIDED BY OPERATING ACTIVITIES	34,719	28,315	27,927
INVESTING ACTIVITIES			
Purchase of real estate investment properties	(9,745)	(23,480)	(43,932)
Capital expenditures and tenant improvements	(10,848)	(5,759)	(10,536)
Proceeds from sale of real estate investments	1,409	1,424	625
Proceeds from involuntary conversion	973	529	906
Proceeds from sale of joint venture interest	2,600	—	—
Investment in unconsolidated affiliates	(67)	(37)	(674)
Distributions in excess of earnings received from unconsolidated affiliates	542	152	274
Restricted deposits - replacement reserve escrows	(841)	1,456	(1,367)
Notes receivable issued	—	(51)	(600)
Notes receivable payments received	9	—	—
NET CASH USED IN INVESTING ACTIVITIES	(15,968)	(25,766)	(55,304)
FINANCING ACTIVITIES			
Payments for financing, debt issuance and lease costs	(446)	(1,938)	(1,668)
Payments on investment certificates and subordinated debt	(50)	(319)	(64)
Reinvested proceeds from investment certificates	—	—	17
Principal payments on special assessments payable	(1,984)	(117)	(35)
Proceeds from issuance of mortgage notes payable and subordinated debt	20,271	36,385	24,540
Principal payments on mortgage notes payable	(13,345)	(27,160)	(7,898)
Advances on lines of credit	6,669	16,305	29,630
Payments on lines of credit	(6,669)	(32,725)	(13,210)
Proceeds from contributions received from noncontrolling interest - partially owned properties	—	5,123	—
Proceeds from issuance of common shares	—	25,750	—
Proceeds from issuance of shares under optional purchase plan	2,150	1,783	1,892
Shares/units redeemed	(2,062)	(2,548)	(4,904)
Dividends/distributions paid	(17,712)	(15,935)	(14,129)
Payment of syndication costs	—	(1,335)	—
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(13,178)	3,269	14,171
NET CHANGE IN CASH AND CASH EQUIVALENTS	5,573	5,818	(13,206)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	6,461	643	13,849
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 12,034	$ 6,461	$ 643

See Notes to Consolidated Financial Statements

STERLING REAL ESTATE TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014 (Continued)

	Year Ended December 31,		
	2016	2015	2014
		(in thousands)	
SCHEDULE OF CASH FLOW INFORMATION			
Cash paid during the period for interest, net of capitalized interest	$ 18,319	$ 16,249	$ 12,395
SUPPLEMENTARY SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Dividends reinvested	$ 4,760	$ 4,160	$ 3,238
Dividends declared and not paid	1,920	1,762	1,264
UPREIT distributions declared and not paid	4,005	3,557	3,290
UPREIT units converted to REIT common shares	754	87	700
Stock issued pursuant to trustee compensation plan	60	56	23
Acquisition of assets in exchange for the issuance of noncontrolling interest units in UPREIT	23,468	11,228	16,771
Contributed assets in real estate venture	—	—	1,316
Purchase of subsidiary ownership from noncontrolling interest in exchange for the issuance of noncontrolling interest units in UPREIT	—	—	810
Increase in land improvements due to increase in special assessments payable	908	850	172
Unrealized gain on interest rate swaps	74	53	37
Acquisition of assets with new financing	2,662	45,830	67,813
Acquisition of assets through assumption of debt and liabilities	78	2,051	2,636
Capitalized interest and real estate taxes related to construction in progress	136	71	224
Construction in progress with new financing	—	3,424	—
Acquisition of assets with accounts payable	(34)	213	1,066

See Notes to Consolidated Financial Statements

STERLING REAL ESTATE TRUST AND SUBSIDIARIES
NOTES TO CONSOLITATED FINANCIAL STATEMENTS
DECEMBER 31, 2016, 2015 AND 2014
(Dollar amounts in thousands, except share and per share data)

NOTE 1 - ORGANIZATION

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

Sterling previously established an operating partnership ("Sterling Properties, LLLP") and transferred all of its assets and liabilities to the operating partnership in exchange for general partnership units. As the general partner, Sterling has management responsibility for all activities of the operating partnership. As of December 31, 2016 and 2015, Sterling owned approximately 32.41% and 33.12%, respectively, of the operating partnership.

NOTE 2 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

Principles of Consolidation

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

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

Principal Business Activity

Sterling currently owns directly and indirectly, 155 properties. The Trust's 105 residential properties are located in North Dakota, Minnesota, Missouri and Nebraska and are principally multifamily apartment buildings. The Trust owns 50 commercial properties primarily located in North Dakota with others located in Arkansas, Colorado, Iowa, Louisiana, Michigan, Minnesota, Mississippi, Nebraska, Texas and Wisconsin. The commercial properties include retail, office, industrial, restaurant and medical properties. The Trust's mix of properties is 69.4% residential and 30.6% commercial (based on cost) at December 31, 2016. Currently our focus is limited to multifamily apartment properties. We currently have no plans with respect to our non-

STERLING REAL ESTATE TRUST AND SUBSIDIARIES
NOTES TO CONSOLITATED FINANCIAL STATEMENTS
DECEMBER 31, 2016, 2015 AND 2014
(Dollar amounts in thousands, except share and per share data)

multifamily apartment properties. Sterling did complete two commercial transactions during the first quarter of 2016 which were initiated prior to January 1, 2016. We currently have no plans to dispose of our existing commercial properties.

Residential Property	Location	No. of Properties	Units
	North Dakota	86	5,484
	Minnesota	16	3,027
	Missouri	1	164
	Nebraska	2	316
		105	8,991

Commercial Property	Location	No. of Properties	Sq. Ft
	North Dakota	21	832,920
	Arkansas	2	29,370
	Colorado	1	13,390
	Iowa	1	32,532
	Louisiana	1	14,560
	Michigan	1	11,737
	Minnesota	15	683,090
	Mississippi	1	14,820
	Nebraska	1	16,480
	Texas	1	7,296
	Wisconsin	5	63,016
		50	1,719,211

Concentration of Credit Risk

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

Real Estate Investments

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

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

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

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

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

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

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

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

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

Depreciation expense for the years ended December 31, 2016, 2015 and 2014 totaled $18,507, $16,466, and $12,116 respectively.

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

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

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

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

- projected operating cash flows considering factors such as vacancy rates, rental rates, lease terms, tenant financial strength, demographics, holding period and property location;

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- projected capital expenditures and lease origination costs;
- projected cash flows from the eventual disposition of an operating property using a property specific capitalization rate;
- comparable selling prices; and
- property specific discount rates for fair value estimates as necessary.

To the extent impairment has occurred, the Company will record an impairment charge calculated as the excess of the carrying value of the asset over its fair value for impairment of real estate investments. Based on evaluation, management recorded a loss on impairment of property of $412 during the year ended December 31, 2015. There were no impairment losses during the years ended December 31, 2016 or 2014.

Properties Held for Sale

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

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

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

The results of operations of a component of an entity that either has been disposed of or is classified as held-for-sale under the requirements of ASC 360 is reported in discontinued operations in accordance with ASC 205, Presentation of Financial Statements ("ASC 205") if such disposal or classification represents a strategic shift that has (or will have) a major effect on our operations and financial results.

There was one retail property classified as held for sale at December 31, 2016 and one medical property classified as held for sale at December 31, 2015. See Note 19.

Construction in Progress

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

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Cash and Cash Equivalents

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

Investment in Unconsolidated Affiliates

We account for unconsolidated affiliates using the equity method of accounting per guidance established under ASC 323, Investments – Equity Method and Joint Ventures ("ASC 323"). The equity method of accounting requires the investment to be initially recorded at cost and subsequently adjusted for our share of equity in the affiliates' earnings and distributions. We evaluate the carrying amount of the investments for impairment in accordance with ASC 323. Unconsolidated affiliates are reviewed for potential impairment if the carrying amount of the investment exceeds its fair value. An impairment charge is recorded when an impairment is deemed to be other-than-temporary. To determine whether impairment is other-than-temporary, we consider whether we have the ability and intent to hold the investment until the carrying amount is fully recovered. The evaluation of an investment in an affiliate for potential impairment can require our management to exercise significant judgments. No impairment losses were recorded related to the unconsolidated affiliates for the years ended December 31, 2016, 2015 and 2014.

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

In determining whether an investment in a limited liability company or tenant in common is a variable interest entity, we consider: the form of our ownership interest and legal structure; the size of our investment; the financing structure of the entity, including the necessity of subordinated debt; estimates of future cash flows; our and our partner's ability to participate in the decision making related to acquisitions, dispositions, budgeting and financing on the entity; and obligation to absorb losses and preferential returns. As of December 31, 2016, we assessed that all three of our tenant in common arrangements do not qualify as variable interest entities and do not meet the control requirements for consolidation, as defined in ASC 810.

As of December 31, 2016 and 2015, the unconsolidated affiliates held total assets of $26,140 and $32,296 and mortgage notes payable of $20,017 and $20,421, respectively.

The operating partnership owns a 40.26% interest in a single asset limited liability company which owns a 144 unit residential, multifamily apartment complex in Bismarck, North Dakota. The property is encumbered by a first mortgage with a balance at December 31, 2016 and 2015 of $2,190 and $2,259, respectively. The Company is jointly and severally liable for the full mortgage balance.

The operating partnership is a 50% owner of Grand Forks Marketplace Retail Center through 100% ownership in a limited liability company. Grand Forks Marketplace Retail Center has approximately 183,000 square feet of commercial space in Grand Forks, North Dakota. The property is encumbered by a non-recourse first mortgage with a balance at December 31, 2016 and 2015 of $10,891 and $11,079, respectively. The Company is jointly and severally liable for the full mortgage balance.

The operating partnership owns a 66.67% interest as tenant in common in an office building with approximately 75,000 square feet of commercial rental space in Fargo, North Dakota. The property is encumbered by a first mortgage with a balance at December 31, 2016 and 2015 of $6,936 and $7,083, respectively. The Company is jointly and severally liable for the full mortgage balance.

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The operating partnership previously owned an 82.50% interest as a tenant in common in a 61 unit residential, multifamily apartment complex in Fargo, North Dakota. The property was unencumbered at December 31, 2015. As of December 1, 2016, there was a change in control over the real estate investment, with the operating partnership acquiring the other tenant in common's 17.50% ownership interest in the property (See Note 20). We estimated the property had a fair value of approximately $4,087. The operating partnership paid total cash consideration of approximately $193 before transaction costs and issued $448 of limited partnership units for a total purchase price of approximately $641. The company accounted for this as a business combination and recognized a gain on change in control of real estate investment of $550 in the fourth quarter of 2016 as a result of remeasuring the carrying value to fair value.

The operating partnership previously was a 99% owner of Michigan Street Transit Center, LLC ("Transit Center") through 100% ownership in a limited liability company. The operating partnership had contributed approximately $644 in cash and $1,316 in property to the Transit Center in May and June 2014, respectively. The new parking ramp constructed on the site was fully operational in October 2016. The property was unencumbered at December 31, 2015. As of December 7, 2016, the operating partnership sold its 99% ownership interest in the Michigan Street Transit Center partnership for $2,600 and recognized a gain of $597.

Receivables

Receivables consist primarily of amounts due for rent and real estate taxes. The receivables are non-interest bearing. The carrying amount of receivables is reduced by an amount that reflects management's best estimates of the amounts that will not be collected. As of December 31, 2016 and 2015, management determined no allowance was necessary for uncollectible receivables.

Financing and Lease Costs

Financing costs have been capitalized and are being amortized over the life of the financing (line of credit) using the effective interest method. Unamortized financing costs are written off when debt is retired before the maturity date and included in amortization expense at that time.

Lease costs incurred in connection with new leases have been capitalized and are being amortized over the life of the lease using the straight-line method. We record the amortization of leasing costs in depreciation and amortization on the consolidated statements of operations and comprehensive income. If an applicable lease terminates prior to the expiration of its initial lease term, we write off the carrying amount of the costs to amortization expense.

Debt Issuance Costs

We amortize external debt issuance costs using the effective interest rate method, over the estimated life of the related debt. We record debt issuance costs related to notes and mortgage notes, net of amortization, on our consolidated balance sheets as an offset to their related debt. We record debt issuance costs related to revolving lines of credit on our consolidated balance sheets as financing fees, regardless of whether a balance on the line of credit is outstanding. We record the amortization of all debt issuance costs as interest expense.

Intangible Assets

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

The carrying amount of intangible assets is regularly reviewed for indicators of impairments in value. Impairment is recognized only if the carrying amount of the intangible asset is considered to be unrecoverable from its undiscounted cash

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flows and is measured as the difference between the carrying amount and the estimated fair value of the asset. Based on the review, management determined no impairment charges were necessary at December 31, 2016 and 2015.

Noncontrolling Interest

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

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

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

Syndication Costs

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

Federal Income Taxes

We have elected to be taxed as a REIT under the Internal Revenue Code, as amended. A REIT calculates taxable income similar to other domestic corporations, with the major difference being a REIT is entitled to a deduction for dividends paid. A REIT is generally required to distribute each year at least 90% of its taxable income. If it chooses to retain the remaining 10% of taxable income, it may do so, but it will be subject to a corporate tax on such income. REIT shareholders are taxed on REIT distributions of ordinary income in the same manner as they are taxed on other corporate distributions.
A summary of the tax characterization of the dividends paid to shareholders of the Company's common stock for the years ended December 31, 2016 and 2015 follows:

	Tax Year Ended December 31,			
	Dividend 2016	% 2016	Dividend 2015	% 2015
Tax status				
Ordinary income	$ 0.8718	90.48 %	$ 0.8671	93.24 %
Capital Gain	0.0267	2.77 %	0.0098	1.05 %
Return of capital	0.0615	6.75 %	0.0531	5.71 %
	$ 0.9600	100.00 %	$ 0.9300	100.00 %

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

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

We follow ASC Topic 740, *Income Taxes,* to recognize, measure, present and disclose in our consolidated financial statements uncertain tax positions that we have taken or expect to take on a tax return. As of December 31, 2016 and 2015 we did not have any liabilities for uncertain tax positions that we believe should be recognized in our consolidated financial statements. We are no longer subject to Federal and State tax examinations by tax authorities for years before 2013.

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

Revenue Recognition

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

We lease commercial space primarily under long-term lease agreements. Commercial tenant rents include base rents, expense reimbursements (such as common area maintenance, real estate taxes and utilities), and a straight-line rent adjustment. We record base rents on a straight-line basis. The monthly base rent income according to the terms of our leases is adjusted so that an average monthly rent is recorded for each tenant over the term of its lease. The straight-line rent adjustment increased revenue by $499 , $325 and $186 for the years ended December 31, 2016, 2015 and 2014, respectively. The straight-line receivable balance included in receivables on the consolidated balance sheets as of December 31, 2016 and 2015 was $3,362 and $2,863, respectively. We receive payments for expense reimbursements from substantially all our multi-tenant commercial tenants throughout the year based on estimates. Differences between estimated recoveries and the final billed amounts, which generally are immaterial, are recognized in the subsequent year.

Earnings per Common Share

Basic earnings per common share is computed by dividing net income available to common shareholders (the "numerator") by the weighted average number of common shares outstanding (the "denominator") during the period. Sterling had no dilutive potential common shares as of December 31, 2016, 2015 and 2014 and therefore, basic earnings per common share was equal to diluted earnings per common share for both periods.

For the years ended December 31, 2016, 2015 and 2014, Sterling's denominators for the basic and diluted earnings per common share were approximately 7,844,000, 7,223,000, and 5,507,000, respectively.

Recent Accounting Pronouncements

In May 2014, the FASB and International Accounting Standards Board issued their final standard on revenue from contracts with customers, which was issued by the FASB as Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* , or ASU 2014-09. ASU 2014-09, which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, supersedes most current GAAP applicable to revenue recognition and converges U.S. and international accounting standards in this area. The core principle of the new guidance is that revenue shall only be recognized when an entity has transferred control of goods or services to a customer and for an amount reflecting the consideration to which the entity expects to be entitled for such exchange. Additionally, lease contracts are specifically excluded from ASU 2014-09. In July 2015, the FASB decided to defer the effective date for annual reporting periods beginning after December 15, 2017. Early adoption is permitted beginning on the original effective date of periods beginning after December 15, 2016. Upon adoption, ASU 2014-09 allows for full retrospective adoption applied to all periods presented or modified retrospective adoption with the cumulative effect of initially applying the standard recognized at the date of initial application. We have performed a review of the requirements of the new guidance and have identified which of our revenue streams will be within the scope of ASU 2014-09. We are working through an adoption plan which includes a review of transactions supporting each revenue stream to determine the impact of accounting treatment under ASU 2014-09, an evaluation of the method of adoption and assessing changes that might be necessary to information technology systems, processes and internal controls to capture new data and address changes in financial reporting. We plan to adopt the new guidance beginning January 1, 2018.

In April 2015, the FASB issued ASU No. 2015-03 *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"). The objective of ASU 2015-03 is to identify, evaluate, and improve areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. To simplify presentation of debt issuance costs, the amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. In August 2015, the FASB issued ASU No. 2015-15, *Interest – Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements* , which clarifies that absent authoritative guidance in ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, the staff of the Securities and Exchange Commission would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. This ASU is effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2015. Upon adoption of the standard, on January 1, 2016, we reclassified unamortized debt issuance costs related to the Company's mortgage notes payable from assets, net to reductions in mortgage notes payable within our consolidated balance sheets as of December 31, 2015 to conform with the new ASU and the presentation of such costs in our consolidated balance sheet as of December 31, 2016.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842),* which amends existing accounting standards for lease accounting, including by requiring lessees to recognize most leases on the balance sheet and making certain changes to lessor accounting. The standard will take effect for fiscal years, and interim periods within those fiscal years, beginning after Dececember 15, 2018 with earlier application permitted. The Company is evaluating the impact of ASU No. 2016-02 on its financial position and results of operations.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation – Amendments to the Consolidation Analysis, which amends the current consolidation guidance affecting both the variable interest entity ("VIE") and voting entity ("VOE") consolidation models. The standard does not add or remove any of the characteristics in determining if an entity is a VIE or VOE, but rather enhances the way the Company assesses some of these characteristics, particularly the rights held by limited partners. The Company adopted this standard on January 1, 2016 and concluded that no change was required to its accounting for its joint ventures. However, the Operating Partnership now meets the criteria of a VIE, the Company is the primary beneficiary and accordingly, the Company continues to consolidate the Operating Partnership. The Company's sole significant asset is its investment in the Operating Partnership, and consequently, substantially all of the Company's assets and liabilities represent those assets and liabilities of the Operating Partnership. All of the Company's debt is an obligation of the Operating Partnership.

In January 2017, the FASB issued ASU No. 2017-01 to amend the guidance for determining whether a transaction involves the purchase or disposal of a business or an asset. The amendments clarify that when substantially all of the fair value of the gross assets acquired or disposed of is concentrated in a single identifiable asset or a group of similar assets, the set of assets and activities is not a business. ASU 2017-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years and early adoption is permitted for transactions which have not been previously reported in financial statements that have been issued. The Company currently anticipates that it will adopt the guidance effective January 1, 2018 and that the guidance will result in acquisitions of operating properties being accounted for as asset acquisitions instead of business combinations. The adoption of this guidance will also change the accounting for the transaction costs for acquisitions of operating properties such that transaction costs will be able to be capitalized as part of the purchase price of the acquisition instead of being expensed as acquisition-related expenses. The ASU is required to be applied prospectively.

In November 2016, the FASB issued ASU No. 2016-18 to require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years and early adoption is permitted. The Company does not currently anticipate that the guidance will have a material impact on our consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15 to provide guidance for areas where there is diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not currently anticipate that the guidance will have a material impact on our consolidated financial statements.

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

NOTE 3 – SEGMENT REPORTING

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

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Segment Revenues and Net Operating Income

The revenues and net operating income for the reportable segments (residential and commercial) are summarized as follows for the years ended December 31, 2016, 2015 and 2014, along with reconciliations to the consolidated financial statements. Segment assets are also reconciled to Total Assets as reported in the consolidated financial statements for the years ended December 31, 2016 and 2015.

	Year ended December 31, 2016			Year ended December 31, 2015			Year ended December 31, 2014		
	Residential	Commercial	Total	Residential	Commercial	Total	Residential	Commercial	Total
		(in thousands)			(in thousands)			(in thousands)	
Income from rental operations	$ 80,497	$ 27,566	$ 108,063	$ 75,914	$ 21,268	$ 97,182	$ 53,499	$ 17,437	$ 70,936
Expenses from rental operations	43,766	6,924	50,690	39,898	4,809	44,707	27,794	3,019	30,813
Net operating income	$ 36,731	$ 20,642	$ 57,373	$ 36,016	$ 16,459	$ 52,475	$ 25,705	$ 14,418	$ 40,123
Interest			18,366			17,141			12,958
Depreciation and amortization			22,145			19,574			13,575
Administration of REIT			5,600			5,647			6,824
Loss on impairment of property			—			412			—
Loss on lease terminations			299			—			58
Other (income)/expense			(1,894)			(1,683)			(2,595)
Net income			$ 12,857			$ 11,384			$ 9,303

Segment Assets and Accumulated Depreciation

As of December 31, 2016	Residential	Commercial	Total
		(in thousands)	
Real estate investments	$ 514,341	$ 200,959	$ 715,300
Accumulated depreciation	(63,148)	(29,177)	(92,325)
	$ 451,193	$ 171,782	622,975
Cash and cash equivalents			12,034
Restricted deposits and funded reserves			7,213
Investment in unconsolidated affiliates			3,653
Receivables and other assets			5,354
Financing and lease costs, less accumulated amortization			950
Assets held for sale			2,482
Intangible assets, less accumulated amortization			15,852
Total Assets			$ 670,513

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As of December 31, 2015	Residential	Commercial	Total
		(in thousands)	
Real estate investments	$ 472,129	$ 197,355	$ 669,484
Accumulated depreciation	(50,668)	(24,307)	(74,975)
	$ 421,461	$ 173,048	594,509
Cash and cash equivalents			6,461
Restricted deposits and funded reserves			6,115
Investment in unconsolidated affiliates			9,022
Receivables and other assets			5,123
Financing and lease costs, less accumulated amortization			1,240
Assets held for sale			1,721
Intangible assets, less accumulated amortization			18,184
Total Assets			$ 642,375

NOTE 4 – REAL ESTATE INVESTMENTS

As of December 31, 2016	Residential	Commercial	Total
		(in thousands)	
Land and land improvements	$ 67,384	$ 37,769	$ 105,153
Building and improvements	419,120	161,724	580,844
Furniture, fixtures and equipment	24,852	1,466	26,318
Construction in progress	2,985	—	2,985
	514,341	200,959	715,300
Less accumulated depreciation	(63,148)	(29,177)	(92,325)
	$ 451,193	$ 171,782	$ 622,975

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

Construction in progress as of December 31, 2016 primarily consists of development and planning costs associated with phase II and III of a multifamily apartment community under construction in Bismarck, North Dakota. Phase II of the project consists of a clubhouse and six 6-plex, two-story townhomes and Phase III may consist of up to six, 4-story apartment buildings with underground parking. The clubhouse was substantially complete in July 2016, the first and second townhome buildings were substantially completed in September 2016 and November 2016, respectively. Site work has commenced on the remaining four townhome buildings of Phase II. Phase III of the development is still in the planning stages and construction has not yet commenced. Phase II of the project is estimated to cost $9,061 and is expected to be substantially completed in third quarter 2017. We have a construction contract of $1,232 for the clubhouse and $7,829 for the townhomes, of which $1,120 and $4,647 have been completed to date, including $56 and $232 of retainage which is included in payables at December 31, 2016, respectively. The Company is working with GOLDMARK Development Corporation, a related party, as the general contractor for Phase II.

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NOTE 5 - RESTRICTED DEPOSITS AND FUNDED RESERVES

	2016	2015
	(in thousands)	
Tenant security deposits	$ 3,836	$ 3,738
Real estate tax and insurance escrows	1,836	1,677
Replacement reserves	1,541	700
	$ 7,213	$ 6,115

Tenant Security Deposits

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

Real Estate Tax and Insurance Escrows

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

Replacement Reserves

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

NOTE 6 – NOTES RECEIVABLE

Notes receivable primarily consisted of a $600 note to an unaffiliated party to provide working capital and for improvements on a residential property bearing interest at a rate of 6.5%. This note is personally guaranteed by the owner. Accrued interest is due monthly beginning until the note is paid in full. The principal plus accrued interest was originally due and payable on August 31, 2016. Upon maturing the note was extended for an additional twelve months to August 31, 2017 with the same terms.

NOTE 7 - LEASE INTANGIBLES

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

As of December 31, 2016	Lease Intangibles	Accumulated Amortization	Lease Intangibles, net
Intangible Assets		(in thousands)	
In-place leases	$ 23,507	$ (9,860)	$ 13,647
Above-market leases	3,115	(910)	2,205
	$ 26,622	$ (10,770)	$ 15,852
Intangible Liabilities			
Below-market leases	$ (3,197)	$ 1,122	$ (2,075)

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

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

Years ending December 31,	Intangible Assets	Intangible Liabilities
	(in thousands)	
2017	$ 2,520	$ 288
2018	2,262	282
2019	1,956	273
2020	1,527	221
2021	1,210	189
Thereafter	6,377	822
	$ 15,852	$ 2,075

The weighted average amortization period for the intangible assets (in-place leases, above-market leases) and intangible liabilities (below-market leases) acquired as of December 31, 2016 was 6.0 years.

NOTE 8 – LINES OF CREDIT

We have a $27,000 variable rate (1-month LIBOR plus 2.25%) line of credit agreement with Wells Fargo Bank, which expires in June 2018; and a $6,315 variable rate (prime rate less 0.5%) line of credit agreement with Bremer Bank, which expires November 2019. The lines of credit are secured by properties in Duluth, Minnesota; Minneapolis/St. Paul, Minnesota; Austin, Texas; Mandan, North Dakota; Fargo, North Dakota; Edina, Minnesota; St. Cloud, Minnesota; Moorhead, Minnesota; and Grand Forks, North Dakota. We also have a $2,000 variable rate (prime rate less 0.5%) unsecured line of credit agreement with Bremer Bank, which expires October 2017; and a $3,000 variable rate (prime rate) unsecured line of credit agreement with Bell State Bank & Trust, which expired December 2016 and was extended to December 2017. At December 31, 2016, there was no balance outstanding on the lines of credit, leaving $37,015 available and unused under the agreements. Certain of the variable lines of credit have limits on availability based on collateral specific criteria.

Certain line of credit agreements include covenants that, in part, impose maintenance of certain debt service coverage and debt to net worth ratios. As of December 31, 2016, one residential property was out of compliance with Bremer's debt service coverage ratio requirement on an individual property basis. A waiver was received from the lender. As of December 31, 2015, four residential properties were out of compliance with Bremer's debt service coverage ratio requirement on an individual property basis. A waiver was received from the lender.

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NOTE 9 - MORTGAGE NOTES PAYABLE

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

	Principal Balance At	
	December 31, 2016	December 31, 2015
	(in thousands)	
Fixed rate mortgage notes payable (a)	$ 393,511	$ 383,292
Less unamortized debt issuance costs	3,032	3,381
	$ 390,479	$ 379,911

(a) Includes $3,056 and $3,158 of variable rate mortgage debt that was swapped to a fixed rate as of December 31, 2016 and 2015, respectively.

The amendments in ASU 2015-03 require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. We adopted this guidance in the first quarter of 2016 and have reclassified the unamortized debt issuance costs into the debt liability as shown in the table above.

As of December 31, 2016, we had 116 fixed rate and no variable rate mortgage loans with effective interest rates ranging from 2.57% to 7.25% per annum and a weighted average effective interest rate of 4.43% per annum.

As of December 31, 2015, we had 108 fixed rate and no variable rate mortgage loans with effective interest rates ranging from 2.57% to 7.65% per annum, and a weighted average effective interest rate of 4.53% per annum.

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

Certain mortgage note agreements include covenants that, in part, impose maintenance of certain debt service coverage and debt to worth ratios. As of December 31, 2016, five loans on residential properties were out of compliance due to various unit renovation and parking lot repair and maintenance costs. The loans were secured by properties located in Fargo and Bismarck, North Dakota with a total outstanding balance of $8,336 at December 31, 2016. Annual waivers have been received from the lenders. As of December 31, 2015, three loans on residential properties and two loans on commercial properties were out of compliance due to various unit renovation and parking lot repair and maintenance costs. The loans were secured by properties located in Fargo and Bismarck, North Dakota with a total outstanding balance of $9,650 at December 31, 2015. Waivers have been received from the lenders.

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

Years ending December 31,	Amount (in thousands)
2017	$ 36,449
2018	17,018
2019	24,321
2020	26,969
2021	44,804
Thereafter	243,950
Total payments	$ 393,511

NOTE 10 – HEDGING ACTIVITIES

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

The carrying amount of the swaps have been adjusted to their fair values at the end of the quarter, which because of changes in forecasted levels of LIBOR, resulted in reporting a liability for the fair value of the future net payments forecasted under the swaps. The interest rate swaps are accounted for as effective hedges in accordance with ASC 815-20 whereby they are recorded at fair value and changes in fair value are recorded to comprehensive income. As of December 31, 2016 and 2015, we have recorded a liability and accumulated other comprehensive loss of $145 and $219, respectively.

NOTE 11 - FAIR VALUE MEASUREMENT

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

	December 31, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in thousands)			
Financial liabilities:				
Mortgage notes payable, net	$ 390,479	$ 402,438	$ 379,911	$ 394,782
Fair value of interest rate swaps	$ 145	$ 145	$ 219	$ 219

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

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

- Level 1 – Quoted prices for identical instruments in active markets;
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose significant inputs are observable;
- Level 3 – Instruments whose significant inputs are unobservable.

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

Recurring Fair Value Measurements

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

	Level 1	Level 2	Level 3	Total
		(in thousands)		
December 31, 2016				
Fair value of interest rate swaps	$ —	$ 145	$ —	$ 145
December 31, 2015				
Fair value of interest rate swaps	$ —	$ 219	$ —	$ 219

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

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2016 and 2015 , the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation. As a result, the Company has determined that its derivative valuations in their entirety are classified within Level 2 of the fair value hierarchy. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered any applicable credit enhancements. The Company's derivative instruments are further described in Note 10.

Nonrecurring Fair Value Measurements

As discussed in Note 2, the Company recorded an impairment charge during the year ended December 31, 2015 to write the carrying value down to estimated fair value for certain real estate investments after determining their carrying value exceeded the projected undiscounted cash flows based upon the estimated holding period for such assets. Estimated fair value is determined by the Company utilizing the discounted cash flow models, third-party broker valuation estimates, appraisals, bona fide purchase offers or the expected sales price from an executed sales agreement. Capitalization and discount rates utilized within discounted cash flows models are based upon observable rates that the Company believes to be within a reasonable range of current market rates for the property.

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Real estate investments measured at fair value on a nonrecurring basis at December 31, 2016 and 2015, respectively, aggregated by the level within the fair value hierarchy in which those measurements fall are as follows:

	Level 1	Level 2	Level 3	Total	Provision for Impairment of Investment Properties
			(in thousands)		
December 31, 2016					
Real estate investments	$ —	$ —	$ —	$ —	$ —
December 31, 2015					
Real estate investments (a)	$ —	$ —	$ 1,087	$ 1,087	$ 412

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

Fair Value Disclosures

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

	Level 1	Level 2	Level 3	Total
		(in thousands)		
December 31, 2016				
Mortgage notes payable, net	$ —	$ —	$ 402,438	$ 402,438
December 31, 2015				
Mortgage notes payable, net	$ —	$ —	$ 394,782	$ 394,782

Mortgage notes payable: The Company estimates the fair value of its mortgage notes payable by discounting the future cash flows of each instrument at rates currently offered to the Company for similar debt instruments of comparable maturities by the Company's lenders. Judgment is used in determining the appropriate rate for each of the Company's individual mortgages and notes payable based upon the specific terms of the agreement, including the term to maturity, the quality and nature of the underlying property and its leverage ratio. The rates used range from 4.00% to 4.35% and from 3.97% to 4.05% December 31, 2016 and 2015 , respectively. The fair value of the Company's matured mortgage notes payable were determined to be equal to the carrying value of the properties because there is no market for similar debt instruments and the properties' carrying value was determined to be the best estimate of fair value as of December 31, 2016. The Company's mortgage notes payable are further described in Note 9.

NOTE 12 – NONCONTROLLING INTEREST OF UNITHOLDERS IN OPERATING PARTNERSHIP

As of December 31, 2016 and 2015, outstanding limited partnership units totaled 16,688,000 and 15,300,000, respectively. Total aggregate distributions per unit for the years ended December 31, 2016 and 2015 were $0.9600 and $0.9300, respectively. The operating partnership declared fourth quarter distributions of $4,005 and $3,557 respectively, to limited partners payable in January 2017 and 2016, respectively.

During the year ended December 31, 2016, Sterling exchanged 47,000 common shares for 47,000 limited partnership units held by limited partners, pursuant to redemption requests. The aggregate value of these transactions was $754. During the year ended December 31, 2015, Sterling exchanged 6,000 common shares for 6,000 limited partnership units held by limited partners, pursuant to redemption requests. The aggregate value of these transactions was $87. During the year

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

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

NOTE 13 – REDEMPTION PLANS

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

Our redemption plans currently provide that the maximum amount that can be redeemed under the plan is $30,000 worth of securities. Currently, the fixed redemption price is $15.00 per share or unit under the plans which price became effective March 24, 2016.

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

During the years ended December 31, 2016, 2015 and 2014, the Company redeemed 80,000, 132,000 and 238,000 common shares valued at $1,194, $1,915 and $3,338, respectively. In addition, during the years ended December 31, 2016, 2015 and 2014, the Company redeemed 59,000, 44,000 and 112,000 units valued at $868 ,$633 and $1,566, respectively.

NOTE 14 – BENEFICIAL INTEREST

We are authorized to issue 100,000,000 common shares of beneficial interest with $0.01 par value and 50,000,000 preferred shares with $0.01 par value, which collectively represent the beneficial interest of Sterling. As of December 31, 2016 and 2015, there were 8,001,000 and 7,579,000 common shares outstanding. We had no preferred shares outstanding as of either date.

Dividends paid to holders of common shares were $0.9600 per share, $0.9300 per share and $0.9000 per share for the years ended December 31, 2016, 2015 and 2014, respectively.

NOTE 15 – DIVIDEND REINVESTMENT PLAN

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

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Under this plan, eligible shareholders can elect to have all or a portion (but not less than 25%) of the cash dividends they receive automatically reinvested in our common shares. If an eligible shareholder elects to reinvest cash dividends under the plan, the shareholder may also make additional optional cash purchases of our common shares, not to exceed $5 per fiscal quarter without our prior approval. The purchase price per common share under the plan equals 95% of the estimated value per common share for dividend reinvestments and equals 100% of the estimated value per common share for additional optional cash purchases, as determined by our Board of Trustees. The estimated value per common share was $16.00 and $15.50 at December 31, 2016 and 2015, respectively. See discussion of determination of estimated value in Note 20.

In December the Trust amended its Dividend Reinvestment Plan to provide that eligible shareholders electing to reinvest cash dividends under the plan, may also make additional optional purchases of Common Shares not to exceed $10 per fiscal quarter and, with the Trust's prior approval, automatic optional cash purchases in excess of $10 per fiscal quarter effective January 1, 2017. In addition, participants may not, in any calendar year, purchase or receive via transfer more than $40 in Common Shares derived from the rights granted to Participants under this amendment.

Therefore, the purchase price per common share for dividend reinvestments was $15.20 and $14.725 and for additional optional cash purchases was $16.00 and $15.50 at December 31, 2016 and 2015, respectively. The Board, in its sole discretion, may amend, suspend or terminate the plan at any time, without the consent of shareholders, upon a ten day notice to participants.

In the year ended December 31, 2016, 315,000 shares were issued pursuant to dividend reinvestments and 136,000 shares were issued pursuant to additional optional cash purchases under the plan. In the year ended December 31, 2015, 284,000 shares were issued pursuant to dividend reinvestments and 116,000 shares were issued pursuant to additional optional cash purchases under the plan. In the year ended December 31, 2014, 231,000 shares were issued pursuant to dividend reinvestments and 128,000 shares were issued pursuant to additional optional cash purchases under the plan.

NOTE 16 – RELATED PARTY TRANSACTIONS

Property Management Fee

During the years ended December 31, 2016, 2015 and 2014, we paid property management fees to GOLDMARK Property Management in an amount equal to approximately 5% of rents of the properties managed. GOLDMARK Property Management is owned in part by Kenneth Regan and James Wieland. For the years ended December 31, 2016, 2015 and 2014, we paid management fees of $9,929, $9,304, and $6,439 respectively, to GOLDMARK Property Management. In addition, during the years ended December 31, 2016, 2015 and 2014, we paid repair and maintenance related payroll and payroll related expenses to GOLDMARK Property Management totaling $4,556, $3,961, and $2,613 respectively.

Board of Trustee Fees

We incurred Trustee fees of $59, $51 and $56 during the years ended December 31, 2016, 2015 and 2014, respectively. As of December 31, 2016, and 2015 we owed our Trustees $26 and $27 for unpaid board of trustee fees, respectively. There is no cash retainer paid to Trustees. Instead, we pay Trustees specific amounts for meetings attended. Our Trustee Compensation Plan provides:

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

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

Advisory Agreement

We are an externally managed trust and as such, although we have a Board of Trustees and executive officers responsible for our management, we have no paid employees. The following is a brief description of the current fees and compensation that may be received by the Advisor under the Advisory Agreement, which must be renewed on an annual basis and approved by a majority of the independent trustees. The Advisory Agreement was approved by the Board of Trustees (including all the independent Trustees) on March 24, 2016, effective January 1, 2016.

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

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

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

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

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

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

TC = Total Project Cost

Management Fees

During the years ended December 31, 2016, 2015 and 2014, we incurred advisory management fees of $2,644, $2,401 and $1,855 with Sterling Management, LLC, our Advisor. As of December 31, 2016 and 2015, we owed our Advisor $226 and $214, respectively, for unpaid advisory management fees. These fees cover the office facilities, equipment, supplies, and staff required to manage our day-to-day operations. In addition, during the years ended December 31, 2016, 2015 and

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2014, we reimbursed the Advisor for operating costs such as travel and meals, legal and office supplies totaling $37, $22, and $4, respectively.

Acquisition Fees

During the years ended December 31, 2016, 2015 and 2014, we incurred acquisition fees of $903, $1,128, and $2,628 respectively, with our Advisor. As of December 31, 2016, we owed our Advisor $226 for unpaid acquisition fees. There were no acquisition fees owed to our Advisor as of December 31, 2015.

Financing Fees

During the years ended December 31, 2016, 2015 and 2014, we incurred financing fees of $68, $270 and $269 with our Advisor for loan financing and refinancing activities. There were no financing fees owed to our Advisor as of December 31, 2016. As of December 31, 2015, we owed our Advisor $23 for unpaid financing fees.

Disposition Fees

During the years ended December 31, 2016, 2015 and 2014, we incurred disposition fees of $100, $36 and $16 with our Advisor. See Note 19. There were no disposition fees owed to our Advisor as of December 31, 2016 and 2015, respectively.

Development Fees

During the years ended December 31, 2016, 2015 and 2014, we incurred $170, $336 and $358 in development fees with our Advisor. As of December 31, 2016 and 2015, we owed our Advisor $81 and $69 for unpaid development fees as part of a 10% hold back, respectively.

Operating Partnership Units Issued in Connection with Acquisitions

During the year ended December 31, 2016, we issued directly or indirectly, 551,000 operating partnership (OP) units to entities affiliated with Messrs. Regan, Wieland, two of our trustees, and Messr. Swenson, one of our officers in connection with the acquisition of various properties. The aggregate value of these units was $8,650.

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

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

Commissions

During the years ended December 31, 2016, 2015 and 2014, we incurred real estate commissions of $953, $1,033, and $1,408 respectively, owed to GOLDMARK Commercial Real Estate Services, Inc., which is controlled by Messrs. Regan and Wieland. There were no outstanding commissions owed as of December 31, 2016 or 2015.

During the year ended December 31, 2016, we did not incur brokerage fees. During the year ended December 31, 2015, we incurred brokerage fees of $931 and $348 to a broker-dealer benefiting Dale Lian and James Echtenkamp, respectively, shareholders of Sterling and members of our Advisor. Brokerage fees were based on 7% of the purchase price of Sterling common shares sold. There were no outstanding brokerage fees owed as of December 31, 2016 or 2015.

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Rental Income

During the years ended December 31, 2016, 2015 and 2014, we received rental income of $215, $215 and $179, respectively, under an operating lease agreement with GOLDMARK Property Management.

During the years ended December 31, 2016, 2015 and 2014, we received rental income of $53, $51 and $50, respectively, under an operating lease agreement with GOLDMARK Commercial Real Estate Services, Inc.

During the years ended December 31, 2016, 2015 and 2014, we received rental income of $45, $43 and $42, respectively, under operating lease agreements with our Advisor.

Construction Costs

As of December 31, 2016, since the project's inception through its completion in 2015, we incurred total costs of $5,767 related to the construction of Phase II of the Bismarck, North Dakota development project which consists of a clubhouse and six 6-plex two-story townhomes to GOLDMARK Development, which is controlled by Messrs. Regan and Wieland. As of December 31, 2016, we owed GOLDMARK Development $288 for retainage and $398 for unpaid construction fees.

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

As of December 31, 2015, we incurred total costs of $117 related to the construction of Phase II of the Bismarck, North Dakota development project to GOLDMARK Development. As of December 31, 2015, we owed GOLDMARK Development $107 for construction fees and $6 for retainage.

NOTE 17 - RENTALS UNDER OPERATING LEASES / RENTAL INCOME

Residential apartment units are rented to individual tenants with lease terms of one year or less. Gross revenues from residential rentals totaled $80,497, $75,914 and $53,499 for the years ended December 31, 2016, 2015 and 2014, respectively.

Commercial properties are leased to tenants under terms expiring at various dates through 2034. Lease terms often include renewal options. For the years ended December 31, 2016, 2015 and 2014, gross revenues from commercial property rentals, including CAM income (common area maintenance) of $6,178, $3,852 and $2,230, respectively, totaled $27,566, $21,268 and $17,437, respectively.

Commercial space is rented under long-term agreements. Minimum future rentals on non-cancelable operating leases as of December 31, 2016 are as follows:

Years ending December 31,	Amount (in thousands)
2017	$ 20,004
2018	18,999
2019	18,238
2020	17,272
2021	13,533
Thereafter	64,483
	$ 152,529

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NOTE 18 - COMMITMENTS AND CONTINGENCIES

Environmental Matters

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

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

Risk of Uninsured Property Losses

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

Litigation

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

NOTE 19 – DISPOSITIONS

During December 2015, the Company received a notice from a tenant to exercise a purchase option for a medical property located in Eau Claire, Wisconsin. This property qualified for held for sale accounting treatment upon meeting all applicable GAAP criteria on or prior to December 31, 2015, at which time depreciation and amortization ceased. As such, the assets and liabilities associated with this property were separately classified as held for sale in the consolidated balance sheet as of December 31, 2015. During the year ended December 31, 2016, the operating partnership sold the Eau Claire, Wisconsin medical property for approximately $1,400 and recognized a loss of $316.

During September 2016, the Company entered into a purchase agreement to sell a retail property located in Fargo, North Dakota. This property qualified for held for sale accounting treatment upon meeting all applicable GAAP criteria on or prior to December 31, 2016, at which time depreciation and amortization ceased. As such, the assets and liabilities associated with this property were separately classified as held for sale in the consolidated balance sheet as of December 31, 2016. The company expects to close on this sale in the first quarter of 2017.

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The following table presents the assets and liabilities associated with the real estate investments held for sale:

	December 31, 2016	December 31, 2015
	(in thousands)	
ASSETS		
Real estate investments	$ 2,365	$ 1,716
Restricted deposits and funded reserves	22	—
Receivables	25	5
Notes receivable	42	—
Financing and lease costs, less accumulated amortization of $87 in 2016	28	—
Total Assets	$ 2,482	$ 1,721
LIABILITIES		
Mortgage notes payable	$ —	$ 655
Special assessments payable	103	—
Tenant security deposits payable	22	—
Accrued expenses and other liabilities	—	4
Total Liabilities	$ 125	$ 659

NOTE 20 – BUSINESS COMBINATIONS AND ACQUISITIONS

The Company closed on the following acquisitions during the year ended December 31, 2016:

Date	Property Name	Location	Property Type	Units/ Square Footage/ Acres	Acquisition Price	Prorata Acquisition Price
1/29/16	Titan Machinery	North Platte, NE	Implement dealership	16,480 sq. ft.	$ 1,769	$ 1,769
2/1/16	Bristol Park Apartments	Grand Forks, ND	Apartment complex	80 units	5,050	5,050
2/1/16	Redpath	White Bear Lake, MN	Office building	25,817 sq. ft.	4,000	4,000
3/1/16	Eagle Sky I Apartments	Bismarck, ND	Apartment complex	20 units	1,525	1,525
3/1/16	Eagle Sky II Apartments	Bismarck, ND	Apartment complex	20 units	1,525	1,525
5/4/16	Garden Grove Apartments	Bismarck, ND	Apartment complex	95 units	7,072	7,072
5/4/16	Washington Apartments	Grand Forks, ND	Apartment complex	17 units	667	667
8/1/16	Roughrider	Grand Forks, ND	Apartment complex	12 units	582	582
8/29/16	West 80 Development Land	Rochester, MN	Land	18.8 acres	900	900
9/13/16	Amberwood Apartments	Grand Forks, ND	Apartment complex	95 units	3,942	3,942
12/19/16	Bridgeport Apartments	Fargo, ND	Apartment complex	120 units	8,280	8,280
					$ 35,312	$ 35,312

Total consideration given for acquisitions through December 31, 2016 was completed through issuing approximately 1,466,000 limited partnership units of the operating partnership valued at $15.50 and $16.00 per unit for an aggregate consideration of approximately $23,020, new loans of $2,662, assumed liabilities of $78 and cash of $9,552. The value of units issued in exchange for property is determined through a value established annually by our Board of Trustees, and reflects the fair value at the time of issuance.

In addition, as of December 1, 2016, the operating partnership acquired the remaining 17.5% ownership interest in a 61 unit property which was previously held as tenant in common (See Note 2). We estimated the property's fair value of approximately $4,087. The Trust paid total cash consideration of approximately $193 before transaction costs and issued $448 of limited partnership units for a total purchase price of approximately $641. The company accounted for this as a

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business combination and recognized a gain on change in control of real estate investment of $550 as a result of remeasuring the carrying value to fair value.

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

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

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

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

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

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

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

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

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

	Year Ended December 31, 2016	2015	2014
Land, building, tenant improvements and FF&E	$ 34,102	$ 71,493	$ 132,990
Acquired lease intangible assets	1,386	12,735	-
Acquired lease intangible liabilities	(176)	(1,642)	-
Mortgages notes payable assumed	-	(719)	(2,637)
Other liabilities	(78)	(1,329)	(1,361)
Net assets acquired	35,234	80,538	128,992
Equity/limited partnership unit consideration	(23,020)	(11,228)	(17,461)
New loans	(2,662)	(45,830)	(67,477)
Net cash consideration (a)	$ 9,552	$ 23,480	$ 44,054

(a) The 2016 total does not include the $193 cash outflow related to the change in control of real estate investment, in which the operating partnership acquired the remaining 17.50% ownership interest in a 61 unit property in December 2016 (described above).

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Estimated Value of Units/Shares

The Board of Trustees determined an estimate of fair value for the trust shares in 2016, 2015 and 2014. In addition, the Board of Trustees, acting as general partner for the operating partnership, determined an estimate of fair value for the limited partnership units in 2016, 2015 and 2014. In determining this value, the Board relied upon experience with, and knowledge about, our real estate portfolio and debt obligations. The Board also relied on valuation methodologies that are commonly used in the real estate industry. The methodology used by our board to determine this value was based on the value of our real estate investments, cash and other assets and debt and other liabilities as of a date certain.

Based on the results of the methodologies, the Board determined the fair value of the shares and limited partnership units to be $14.00 per share/unit for the first three months of 2014 through March 27, 2014. The Board determined the fair value of the shares and limited partnership units to be $15.00 per share/unit effective March 28, 2014. The Board determined the fair value of the shares and limited partnership units to be $15.50 per share/unit effective February 1, 2015.
The Board determined the fair value of the shares and limited partnership units to be $16.00 per share/unit effective March 23, 2016.

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

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

Condensed Pro Forma Financial Information

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

The unaudited condensed pro forma financial information is as follows:

	Year Ended December 31,		
	2016	**2015**	**2014**
	(in thousands, except per share data)		
Total revenues	$ 108,063	$ 101,807	$ 78,735
Net income	$ 12,857	$ 11,457	$ 5,772
Net income attributable to Sterling Real Estate Trust	$ 4,425	$ 5,998	$ 2,657
Earnings per common share, basic and diluted			
Net income per common share attributable to Sterling Real Estate Trust	$ 0.56	$ 0.83	$ 0.48
Weighted average number of common shares outstanding - basic	7,844	7,223	5,507

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NOTE 21 – QUARTERLY FINANCIAL INFORMATION (unaudited)

The following table sets forth selected quarterly financial data for the Company:

2016	Quarter (1) First	Second	Third	Fourth
	(in thousands, except per share data)			
Income from rental operations	$ 26,688	$ 27,046	$ 26,888	$ 27,441
Net Income	$ 3,374	$ 2,706	$ 2,523	$ 4,254
Net Income attributable to Sterling Real Estate Trust	$ 1,273	$ 839	$ 885	$ 1,428
Net Income per common share, basic and diluted	$ 0.17	$ 0.11	$ 0.11	$ 0.17
Weighted average common shares outstanding	7,690,000	7,789,000	7,891,000	8,003,000

2015	Quarter (1) First	Second	Third	Fourth
	(in thousands, except per share data)			
Income from rental operations	$ 22,825	$ 23,552	$ 24,688	$ 26,117
Net Income	$ 3,178	$ 4,596	$ 2,087	$ 1,526
Net Income attributable to Sterling Real Estate Trust	$ 952	$ 1,511	$ 1,078	$ 748
Net Income per common share, basic and diluted	$ 0.15	$ 0.20	$ 0.14	$ 0.10
Weighted average common shares outstanding	6,308,000	7,436,000	7,543,000	7,588,000

(1) With regard to per share calculations, the sum of the quarterly results may not equal full year results due to rounding.

NOTE 22 - SUBSEQUENT EVENTS

On January 15, 2017, we paid a dividend or distribution of $0.2400 per share on our common shares of beneficial interest, to common shareholders and limited unit holders of record on December 31, 2016.

In January 2017, the operating partnership purchased a 36 unit apartment complex in Fargo, North Dakota for approximately $1,710. The purchase price was financed with the issuance of limited partnership units and cash.

In January 2017, the operating partnership purchased an 82 unit apartment complex in Grand Forks, North Dakota for approximately $5,494. The purchase price was financed with the issuance of limited partnership units and cash.

In January 2017, the operating partnership purchased an 18 unit apartment complex in Fargo, North Dakota for approximately $777. The purchase price was financed with the issuance of limited partnership units and cash.

In January 2017, the operating partnership purchased an 18 unit apartment complex in Fargo, North Dakota for approximately $828. The purchase price was financed with the issuance of limited partnership units and cash.

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

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

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Industrial Property	Physical Location	Encumbrances	Initial cost to company Land	Initial cost to company Buildings	Costs capitalized subsequent to acquisition (a) Land	Costs capitalized subsequent to acquisition (a) Buildings	Gross Amount at which carried at close of period Land	Gross Amount at which carried at close of period Buildings	Gross Amount at which carried at close of period Total	Depreciation	Date of Construction or Acquisition	Life on which depreciation on latest income statement is computed
Guardian Building Products	Fargo, ND	$ 2,043	$ 820	$ 2,554	$ 9	$ (94)	$ 829	$ 2,460	$ 3,289	$ 273	08/29/2012	40
Titan Machinery	Bismarck, ND	2,444	950	1,395	7	—	957	1,395	2,352	70	01/28/2015	40
Titan Machinery	Dickinson, ND	896	354	1,096	400	—	754	1,096	1,850	132	07/30/2012	40
Titan Machinery	Fargo, ND	1,060	781	1,947	510	—	1,291	1,947	3,238	207	10/30/2012	40
Titan Machinery	Marshall, MN	2,071	300	3,648	81	—	381	3,648	4,029	479	11/01/2011	40
Titan Machinery	Minot, ND	1,537	618	1,654	—	—	618	1,654	2,272	183	08/01/2012	40
Titan Machinery	North Platte, NE	—	325	1,269	—	—	325	1,269	1,594	33	01/29/2016	40
Titan Machinery	Redwood Falls, MN	1,565	333	3,568	—	—	333	3,568	3,901	349	01/31/2013	40
Titan Machinery	Sioux City, IA	1,474	315	2,472	—	—	315	2,472	2,787	201	10/25/2013	40
Total		$ 13,090	$ 4,796	$19,603	$1,007	$ (94)	$ 5,803	$19,509	$ 25,312	$ 1,927		

Land Property	Physical Location	Encumbrances	Initial cost to company Land	Initial cost to company Buildings	Costs capitalized subsequent to acquisition (a) Land	Costs capitalized subsequent to acquisition (a) Buildings	Gross Amount at which carried at close of period Land	Gross Amount at which carried at close of period Buildings	Gross Amount at which carried at close of period Total	Depreciation	Date of Construction or Acquisition	Life on which depreciation on latest income statement is computed
Taco Bell	Denver, CO	$ 459	$ 669	$ —	$ —	$ —	$ 669	—	669	$ —	06/14/2011	
West 80	Rochester, MN	—	1,364	—	—	—	1,364	—	1,364	—	08/29/2016	
Total		$ 459	$ 2,033	$ —	$ —	$ —	$ 2,033	$ —	$ 2,033	$ —		

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			Initial cost to company		Costs capitalized subsequent to acquisition (a)		Gross Amount at which carried at close of period					Life on which depreciation on latest income statement is computed
Medical Property	Physical Location	Encumbrances	Land	Buildings	Land	Buildings	Land	Buildings	Total	Depreciation	Date of Construction or Acquisition	
Bio-Life Plasma Center	Bismarck, ND	$ 1,232	$ 306	$ 2,255	$ 11	$ 123	$ 317	2,378	2,695	$ 568	01/03/2008	9 - 40
Bio-Life Plasma Center	Grand Forks, ND	1,232	457	2,230	1	158	458	2,388	2,846	590	01/03/2008	10 - 40
Bio-Life Plasma Center	Janesville, WI	1,232	250	1,857	—	123	250	1,980	2,230	476	01/03/2008	9 - 40
Bio-Life Plasma Center	Mankato, MN	1,232	390	2,111	263	1,154	653	3,265	3,918	704	01/03/2008	11 - 40
Bio-Life Plasma Center	Marquette, MI	—	213	2,793	—	123	213	2,916	3,129	685	01/03/2008	9 - 40
Bio-Life Plasma Center	Onalaska, WI	1,232	208	1,853	—	323	208	2,176	2,384	502	01/03/2008	11 - 40
Bio-Life Plasma Center	Oshkosh, WI	1,232	293	1,705	—	146	293	1,851	2,144	465	01/03/2008	10 - 40
Bio-Life Plasma Center	Sheboygan, WI	1,232	645	1,611	—	248	645	1,859	2,504	437	01/03/2008	10 - 40
Bio-Life Plasma Center	Stevens Point, WI	1,232	119	2,184	—	123	119	2,307	2,426	549	01/03/2008	9 - 40
Total		$ 9,856	$ 2,881	$ 18,599	$ 275	$ 2,521	$ 3,156	$ 21,120	$ 24,276	$ 4,976		

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			Initial cost to company		Costs capitalized subsequent to acquisition (a)		Gross Amount at which carried at close of period					
Residential Property	Physical Location	Encumbrances	Land	Buildings	Land	Buildings	Land	Buildings	Total	Depreciation	Date of Construction or Acquisition	Life on which depreciation on latest income statement is computed
Amberwood	Grand Forks, ND	$ —	$ 426	$ 3,304	$ —	$ 21	$ 426	3,325	3,751	$ 28	09/13/2016	20 - 40
Arbor I/400	Bismarck, ND	428	73	516	4	—	77	516	593	46	06/04/2013	40
Arbor II/404	Bismarck, ND	438	73	538	6	14	79	552	631	43	11/01/2013	40
Arbor III/406	Bismarck, ND	435	71	536	7	14	78	550	628	43	11/01/2013	40
Ashbury	Fargo, ND	—	314	3,774	—	—	314	3,774	4,088	8	12/19/2016	40
Auburn II	Fargo, ND	587	105	883	12	64	117	947	1,064	228	03/23/2007	20 - 40
Autumn Ridge	Grand Forks, ND	5,887	1,072	8,875	44	19	1,116	8,894	10,010	2,352	08/16/2004	9 - 40
Barrett Arms	Crookston, MN	914	37	1,001	—	11	37	1,012	1,049	76	01/02/2014	40
Bayview	Fargo, ND	3,226	284	4,077	6	65	290	4,142	4,432	931	12/31/2007	20 - 40
Berkshire	Fargo, ND	261	31	406	4	6	35	412	447	91	03/31/2008	20 - 40
Betty Ann	Fargo, ND	548	74	738	1	60	75	798	873	142	08/31/2009	40
Bridgeport	Fargo, ND	—	613	7,676	—	—	613	7,676	8,289	16	12/19/2016	40
Brighton Village	New Brighton, MN	10,709	2,520	13,985	—	371	2,520	14,356	16,876	737	12/19/2014	5 - 40
Bristol Park	Grand Forks, ND	3,348	985	3,976	—	192	985	4,168	5,153	93	02/01/2016	40
Brookfield	Fargo, ND	885	228	1,958	3	157	231	2,115	2,346	426	08/01/2008	20 - 40
Cambridge (FKA 44th Street)	Fargo, ND	1,715	333	1,845	3	41	336	1,886	2,222	181	02/06/2013	40
Candlelight	Fargo, ND	2,092	613	1,221	(337)	392	276	1,613	1,889	164	11/30/2012	40
Carling Manor	Grand Forks, ND	493	69	656	—	3	69	659	728	144	03/31/2008	40
Carlton Place	Fargo, ND	7,171	703	7,207	14	197	717	7,404	8,121	1,515	09/01/2008	20 - 40
Chandler 1802	Grand Forks, ND	694	133	1,114	—	12	133	1,126	1,259	84	01/02/2014	40
Chandler 1866	Grand Forks, ND	347	31	270	—	28	31	298	329	84	01/03/2005	20 - 40
Cherry Creek (FKA Village)	Grand Forks, ND	993	173	1,435	1	60	174	1,495	1,669	301	11/01/2008	40
Columbia West	Grand Forks, ND	3,186	294	3,406	1	148	295	3,554	3,849	734	09/01/2008	20 - 40
Country Club	Fargo, ND	295	252	1,252	—	97	252	1,349	1,601	186	05/02/2011	20 - 40
Countryside	Fargo, ND	181	135	677	—	14	135	691	826	94	05/02/2011	40
Courtyard	St. Louis Park, MN	4,000	2,270	5,681	—	583	2,270	6,264	8,534	484	09/03/2013	5 - 40
Dakota Manor	Fargo, ND	1,823	249	2,236	—	31	249	2,267	2,516	136	08/07/2014	40
Danbury	Fargo, ND	2,789	381	6,020	9	107	390	6,127	6,517	1,373	12/31/2007	20 - 40
Dellwood Estates	Anoka, MN	7,576	844	9,966	—	324	844	10,290	11,134	908	05/31/2013	40
Eagle Run	West Fargo, ND	4,306	576	5,787	75	61	651	5,848	6,499	930	08/12/2010	40
Eagle Sky I	Bismarck, ND	963	115	1,322	—	(30)	115	1,292	1,407	27	03/01/2016	40
Eagle Sky II	Bismarck, ND	963	135	1,303	—	(24)	135	1,279	1,414	27	03/01/2016	40
Echo Manor	Hutchinson, MN	987	141	875	—	32	141	907	1,048	68	01/02/2014	20 - 40
Emerald Court	Fargo, ND	534	66	830	1	66	67	896	963	194	03/31/2008	20 - 40
Fairview	Bismarck, ND	3,032	267	3,978	35	27	302	4,005	4,307	799	12/31/2008	20 - 40
Flickertail	Fargo, ND	5,607	426	5,652	8	106	434	5,758	6,192	1,142	12/31/2008	40
Forest Avenue	Fargo, ND	433	61	637	—	6	61	643	704	63	02/06/2013	40
Galleria III	Fargo, ND	577	118	681	1	—	119	681	800	105	11/09/2010	40

STERLING REAL ESTATE TRUST AND SUBSIDIARIES
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2016
(Dollar amounts in thousands)

Residential Property	Physical Location	Encumbrances	Initial cost to company Land	Initial cost to company Buildings	Costs capitalized subsequent to acquisition (a) Land	Costs capitalized subsequent to acquisition (a) Buildings	Gross Amount at which carried at close of period Land	Gross Amount at which carried at close of period Buildings	Gross Amount at which carried at close of period Total	Depreciation	Date of Construction or Acquisition	Life on which depreciation on latest income statement is computed
Garden Grove	Bismarck, ND	4,646	606	6,073	—	54	606	6,127	6,733	102	05/04/2016	5 - 40
Georgetown on the River	Fridley, MN	19,008	4,620	25,263	—	490	4,620	25,753	30,373	1,333	12/19/2014	5 - 40
Glen Pond	Eagan, MN	15,330	3,761	20,833	—	200	3,761	21,033	24,794	2,633	12/02/2011	20 - 40
Granger Court I	Fargo, ND	2,389	279	2,619	—	14	279	2,633	2,912	235	06/04/2013	40
Griffin Court	Moorhead, MN	3,461	652	3,914	20	267	672	4,181	4,853	267	06/09/2014	5 - 40
Hannifin	Bismarck, ND	492	81	607	5	28	86	635	721	49	11/01/2013	40
Hunter's Run I	Fargo, ND	282	50	419	2	(2)	52	417	469	100	03/23/2007	40
Hunter's Run II	Fargo, ND	569	44	441	2	—	46	441	487	94	07/01/2008	40
Huntington	Fargo, ND	—	86	309	—	15	86	324	410	11	08/04/2015	40
Islander	Fargo, ND	893	98	884	—	53	98	937	1,035	123	07/01/2011	40
Kennedy	Fargo, ND	473	84	588	1	47	85	635	720	56	02/06/2013	20 - 40
Library Lane	Grand Forks, ND	1,799	301	2,401	12	121	313	2,522	2,835	575	10/01/2007	20 - 40
Madison	Grand Forks, ND	264	95	497	—	52	95	549	644	17	09/01/2015	40
Maple Ridge	Omaha, NE	4,151	766	5,608	—	831	766	6,439	7,205	1,262	08/01/2008	20 - 40
Maplewood	Maplewood, MN	9,844	3,120	12,122	—	244	3,120	12,366	15,486	640	12/19/2014	5 - 40
Maplewood Bend I, II, III. IV, V, VI, VII, VIII & Royale	Fargo, ND	5,192	783	5,839	—	192	783	6,031	6,814	956	01/01/2009	20 - 40
Martha Alice	Fargo, ND	548	74	738	1	83	75	821	896	149	08/31/2009	20 - 40
Mayfair	Grand Forks, ND	735	80	1,043	—	20	80	1,063	1,143	225	07/01/2008	20 - 40
Monticello	Fargo, ND	720	60	752	7	32	67	784	851	61	11/08/2013	20 - 40
Montreal Courts	Little Canada, MN	19,072	5,809	19,687	15	458	5,824	20,145	25,969	1,644	10/02/2013	5 - 40
Oak Court	Fargo, ND	1,762	270	2,354	13	213	283	2,567	2,850	539	04/30/2008	28 - 40
Pacific Park I	Fargo, ND	703	95	777	—	42	95	819	914	79	02/06/2013	40
Pacific Park II	Fargo, ND	602	111	865	—	37	111	902	1,013	88	02/06/2013	40
Pacific South	Fargo, ND	371	58	459	—	—	58	459	517	45	02/06/2013	40
Parkview Arms	Bismarck, ND	143	373	3,845	—	78	373	3,923	4,296	164	05/13/2015	5 - 40
Parkwest Gardens	West Fargo, ND	4,011	713	5,825	—	427	713	6,252	6,965	392	06/30/2014	20 - 40
Parkwood	Fargo, ND	1,079	126	1,143	7	16	133	1,159	1,292	232	08/01/2008	40
Pebble Creek	Bismarck, ND	4,380	260	3,704	—	(300)	260	3,404	3,664	756	03/19/2008	20 - 40
Prairiewood Courts	Fargo, ND	1,289	308	1,815	28	43	336	1,858	2,194	466	09/01/2006	20 - 40
Prairiewood Meadows	Fargo, ND	2,242	736	2,514	8	10	744	2,524	3,268	273	09/30/2012	40
Quail Creek	Springfield, MO	7,164	1,529	8,717	—	67	1,529	8,784	10,313	421	02/03/2015	5 - 40
Richfield/Harrison	Grand Forks, ND	6,028	756	6,346	3	285	759	6,631	7,390	1,560	07/01/2007	5 - 40
Robinwood	Coon Rapids, MN	4,751	1,138	6,133	242	277	1,380	6,410	7,790	318	12/19/2014	40
Rosedale Estates	Roseville, MN	16,103	4,680	20,591	—	321	4,680	20,912	25,592	1,082	12/19/2014	5 - 40
Rosegate	Fargo, ND	2,244	251	2,978	5	84	256	3,062	3,318	676	04/30/2008	20 - 40
Roughrider	Grand Forks, ND	—	100	448	—	7	100	455	555	5	08/01/2016	5 - 40
Saddlebrook	West Fargo, ND	1,014	148	1,262	13	89	161	1,351	1,512	256	12/31/2008	40
Schrock	Fargo, ND	527	71	626	3	6	74	632	706	56	06/04/2013	40

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Residential			Initial cost to company		Costs capitalized subsequent to acquisition (a)		Gross Amount at which carried at close of period				Date of Construction or	Life on which depreciation on latest income statement is
Property	Physical Location	Encumbrances	Land	Buildings	Land	Buildings	Land	Buildings	Total	Depreciation	Acquisition	computed
Sheridan Pointe	Fargo, ND	2,090	292	2,424	21	16	313	2,440	2,753	198	10/01/2013	40
Sierra Ridge	Bismarck, ND	5,597	754	8,795	151	2	905	8,797	9,702	1,633	09/01/2006	40
Somerset	Fargo, ND	3,131	300	3,431	7	—	307	3,431	3,738	729	07/01/2008	40
Southgate	Fargo, ND	2,811	803	5,299	—	(96)	803	5,203	6,006	1,231	07/01/2007	20 - 40
Southview III	Grand Forks, ND	217	99	522	—	68	99	590	689	78	08/01/2011	40
Southview Villages	Fargo, ND	1,967	268	2,519	15	122	283	2,641	2,924	604	10/01/2007	20 - 40
Spring	Fargo, ND	574	76	822	5	15	81	837	918	82	02/06/2013	20 - 40
Stanford Court	Grand Forks, ND	—	291	3,866	—	83	291	3,949	4,240	384	02/06/2013	20 - 40
Stonefield-Clubhouse	Bismarck, ND	—	34	1,147	—	—	34	1,147	1,181	14	07/31/2016	40
Stonefield-Phase I	Bismarck, ND	9,001	2,804	13,353	207	(216)	3,011	13,137	16,148	670	08/01/2014	20 - 40
Stonefield-Phase II	Bismarck, ND	—	1,167	1,181	278	1,275	1,445	2,456	3,901	15	10/23/2014	40
Stonefield-Phase III	Bismarck, ND	—	1,079	—	216	—	1,295	—	1,295	—	10/23/2014	n/a
Stonybrook	Omaha, NE	7,487	1,439	8,003	—	1,344	1,439	9,347	10,786	1,656	01/20/2009	20 - 40
Summerfield	Fargo, ND	123	129	599	1	39	130	638	768	22	08/04/2015	40
Summit Point	Fargo, ND	3,917	681	5,510	21	63	702	5,573	6,275	174	10/01/2015	20 - 40
Sunset Ridge	Bismarck, ND	8,641	1,759	11,012	36	14	1,795	11,026	12,821	2,095	06/06/2008	9 - 40
Sunview	Grand Forks, ND	1,126	144	1,614	1	42	145	1,656	1,801	331	12/31/2008	20 - 40
Sunwood	Fargo, ND	2,875	358	3,520	7	21	365	3,541	3,906	837	07/01/2007	20 - 40
Terrace on the Green	Moorhead, MN	2,063	697	2,588	—	—	697	2,588	3,285	280	09/30/2012	40
Twin Oaks	Hutchinson, MN	940	816	3,245	—	93	816	3,338	4,154	185	10/01/2014	40
Twin Parks	Fargo, ND	2,226	119	2,072	17	56	136	2,128	2,264	435	10/01/2008	20 - 40
Valley Homes Duplexes	Grand Forks, ND	1,066	356	1,668	—	69	356	1,737	2,093	84	01/22/2015	40
Valley View	Golden Valley, MN	4,709	1,190	6,217	—	59	1,190	6,276	7,466	324	12/19/2014	5 - 40
Village Park	Fargo, ND	799	219	1,932	23	34	242	1,966	2,208	424	04/30/2008	40
Village West	Fargo, ND	2,585	357	2,274	24	31	381	2,305	2,686	496	04/30/2008	40
Washington	Grand Forks, ND	459	74	592	—	14	74	606	680	10	05/04/2016	40
Westcourt	Fargo, ND	2,426	287	3,028	—	41	287	3,069	3,356	240	01/02/2014	5 - 40
Westside	Hawley, MN	563	59	360	—	37	59	397	456	64	02/01/2010	40
Westwind	Fargo, ND	297	49	455	1	83	50	538	588	117	04/30/2008	20 - 40
Westwood	Fargo, ND	4,442	597	6,455	13	183	610	6,638	7,248	1,415	06/05/2008	20 - 40
Willow Park	Fargo, ND	4,075	288	5,298	7	323	295	5,621	5,916	1,080	12/31/2008	40
Total		$ 298,911	$66,048	$407,134	$1,336	$11,991	$67,384	$419,125	$486,509	$ 48,850		

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

			Initial cost to company		Costs capitalized subsequent to acquisition (a)		Gross Amount at which carried at close of period					
Office Property	**Physical Location**	**Encumbrances**	**Land**	**Buildings**	**Land**	**Buildings**	**Land**	**Buildings**	**Total**	**Depreciation**	**Date of Construction or Acquisition**	**Life on which depreciation on latest income statement is computed**
32nd Avenue	Fargo, ND	$ 2,099	$ 635	$ 3,300	$ 9	$ 82	$ 644	3,382	4,026	$ 1,064	03/16/2004	3 - 40
Aetna	Bismarck, ND	6,535	1,291	7,372	30	946	1,321	8,318	9,639	1,926	12/06/2006	20 - 40
Bell Plaza (FKA Northland Plaza)	Bloomington, MN	34,855	6,912	36,520	—	656	6,912	37,176	44,088	3,135	08/13/2015	1 - 40
First International Bank & Trust	Moorhead, MN	—	210	712	3	88	213	800	1,013	135	05/13/2011	10 - 40
Four Points	Fargo, ND	—	70	1,238	—	11	70	1,249	1,319	286	10/18/2007	40
Gate City	Grand Forks, ND	938	382	917	1	131	383	1,048	1,431	201	03/31/2008	40
Goldmark Office Park	Fargo, ND	2,796	1,160	14,796	62	1,181	1,222	15,977	17,199	3,779	07/01/2007	1 - 40
Great American Building	Fargo, ND	957	511	1,290	1	362	512	1,652	2,164	434	02/01/2005	28 - 40
Midtown Plaza	Minot, ND	1,283	30	1,213	—	—	30	1,213	1,243	354	01/01/2004	40
Parkway office building (FKA Echelon)	Fargo, ND	1,015	278	1,491	2	29	280	1,520	1,800	363	05/15/2007	20 - 40
Redpath	White Bear Lake, MN	2,755	1,195	1,787	—	—	1,195	1,787	2,982	41	02/01/2016	40
Regis	Edina, MN	—	2,991	7,633	—	—	2,991	7,633	10,624	1,533	01/01/2009	40
SSA	St Cloud, MN	—	100	2,793	—	18	100	2,811	2,911	685	03/20/2007	20 - 40
Wells Fargo Center	Duluth, MN	—	600	7,270	(115)	1,159	485	8,429	8,914	1,789	07/11/2007	4 - 40
Total		$ 53,233	$ 16,365	$ 88,332	$ (7)	$ 4,663	$ 16,358	$ 92,995	$ 109,353	$ 15,725		

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Retail Property	Physical Location	Encumbrances	Initial cost to company Land	Initial cost to company Buildings	Costs capitalized subsequent to acquisition (a) Land	Costs capitalized subsequent to acquisition (a) Buildings	Gross Amount at which carried at close of period Land	Gross Amount at which carried at close of period Buildings	Gross Amount at which carried at close of period Total	Depreciation	Date of Construction or Acquisition	Life on which depreciation on latest income statement is computed
Applebee's	Apple Valley, MN	$ —	$ 560	$ 1,235	$ —	$ —	$ 560	1,235	1,795	$ 185	01/27/2011	40
Applebee's	Bloomington, MN	—	1,000	474	11	—	1,011	474	1,485	81	03/22/2010	40
Applebee's	Coon Rapids, MN	—	750	875	—	—	750	875	1,625	149	03/09/2010	40
Applebee's	Savage, MN	—	690	424	—	—	690	424	1,114	72	01/01/2010	40
Becker Furniture	Waite Park, MN	—	150	2,065	—	(637)	150	1,428	1,578	542	07/12/2006	40
Buffalo Wild Wings	Austin, TX	—	575	1,664	—	—	575	1,664	2,239	270	07/30/2010	40
Dairy Queen	Dickinson, ND	593	329	658	—	—	329	658	987	82	01/19/2012	40
Dairy Queen	Moorhead, MN	—	243	787	1	—	244	787	1,031	112	05/13/2011	20
Family Dollar	Mandan, ND	—	167	649	—	—	167	649	816	99	12/14/2010	40
O'Reilly	Mandan, ND	—	115	449	—	—	115	449	564	68	12/14/2010	40
Walgreen's	Alexandria, LA	1,666	1,090	2,973	—	—	1,090	2,973	4,063	522	12/18/2009	28 - 40
Walgreen's	Batesville, AR	5,968	473	6,405	—	—	473	6,405	6,878	1,201	07/09/2009	40
Walgreen's	Denver, CO	3,524	2,349	2,358	—	—	2,349	2,358	4,707	329	06/14/2011	40
Walgreen's	Fayetteville, AR	4,563	636	4,732	—	—	636	4,732	5,368	887	07/09/2009	40
Walgreen's	Laurel, MS	1,648	1,280	2,984	—	—	1,280	2,984	4,264	485	07/30/2010	40
Total		$ 17,962	$ 10,407	$ 28,732	$ 12	$ (637)	$ 10,419	$ 28,095	$ 38,514	$ 5,084		
Grand Totals		**$ 393,511**	**$102,530**	**$562,400**	**$2,623**	**$18,444**	**$105,153**	**$580,844**	**$685,997**	**$ 76,562**		

Investments in Unconsolidated Affiliates:

Property	Physical Location	Encumbrances	Initial cost to company Land	Initial cost to company Buildings	Costs capitalized subsequent to acquisition (a) Land	Costs capitalized subsequent to acquisition (a) Buildings	Gross Amount at which carried at close of period Land	Gross Amount at which carried at close of period Buildings	Gross Amount at which carried at close of period Total	Depreciation	Date of Construction or Acquisition	Life on which depreciation on latest income statement is computed
Banner	Fargo, ND	$ 6,936	$ 750	$ 8,016	$ 22	$ 311	$ 772	8,327	9,099	$ 1,985	03/15/2007	40
GF Marketplace	Grand Forks, ND	10,891	4,259	15,801	208	108	4,467	15,909	20,376	5,042	07/01/2003	8 - 40
Highland Meadows	Bismarck, ND	2,190	624	2,591	335	40	959	2,631	3,590	1,476	07/31/2011	15 - 40

Notes:

(a) The costs capitalized subsequent to acquisition is net of dispositions.

(b) The changes in total real estate investments for the years ended December 31, 2016, 2015 and 2014 are as follows (in thousands):

STERLING REAL ESTATE TRUST AND SUBSIDIARIES
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	2016	2015	2014
Balance at January 1,	$ 669,484	$ 591,136	$ 450,250
Purchase of real estate investments	48,305	82,111	143,141
Sale and disposal of real estate investment	(1,766)	(1,325)	(2,255)
Property held for sale	(3,234)	(2,058)	—
Provision for asset impairment	—	(412)	—
Construction in progress not yet placed in service	2,511	—	
Reallocation to intangible assets	—	32	—
Balance at December 31,	$ 715,300	$ 669,484	$ 591,136

(c) The changes in accumulated depreciation for the years ended December 31, 2016, 2015 and 2014 are as follows (in thousands):

	2016	2015	2014
Balance at January 1,	$ 74,975	$ 58,873	$ 47,058
Depreciation expense	18,507	16,466	12,116
Property held for sale	(867)	(342)	—
Sale and disposal of real estate investment	(290)	(22)	(301)
Balance at December 31,	$ 92,325	$ 74,975	$ 58,873

(d) The aggregate cost of our real estate for federal income tax purposes is $624,433.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused the report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 22, 2017

STERLING REAL ESTATE TRUST

By: /s/ KENNETH P. REGAN

Kenneth P. Regan
Chief Executive Officer
(Principal Executive Officer)

Exhibit Index

Exhibit number	Exhibit Description	Filed here with	Incorporated by reference: Form	Period ending	Exhibit	Filing date
3.1	Articles of Organization of Sterling Real Estate Trust filed December 3, 2002		10-12G		3.1	03/10/11
3.2	Amendment to Articles of Organization of Sterling Real Estate Trust dated August 1, 2014		8-K		5.02	06/24/14
3.3	Amended and Restated Bylaws dated June 23, 2011		10-12G		3.2	03/10/11
3.4	Amended and Restated Bylaws dated June 23, 2016		8-K		3.1	06/29/16
4.1	Declaration of Trust Sterling Real Estate Trust dated July 21, 2004		10-12G		4.1	03/10/11
4.2	Addendum to Declaration of Trust dated July 25, 2007		10-12G		4.2	03/10/11
4.3	Sterling Third Amended and Restated Declaration of Trust dated March 27, 2014		8-K		4.1	04/02/14
4.4	Sterling Third Amended and Restated Declaration of Trust dated June 23, 2016		8-K		4.1	06/29/16
4.5	First Amended and Restated Declaration of Trust dated February 9, 2011		10-12G		4.3	03/10/11
4.6	Amendment No. 1 to First Amended and Restated Declaration of Trust dated August 1, 2014		8-K		5.01	06/24/14
4.7	Amended and Restated Share Repurchase Plan dated March 24, 2016		8-K		99.1	03/25/16
4.8	Amended and Restated Unit Repurchase Plan dated March 24, 2016		8-K		99.3	03/25/16
10.1	First Amendment and Complete Restatement of Agreement of Limited Liability Limited Partnership of Sterling Properties, LLLP dated April 25, 2003		10-12G		10.2	03/10/11
10.2	Second Amendment to the Agreement of Limited Liability Limited Partnership of Sterling Properties, LLLP dated December 19, 2008		10-12G		10.3	03/10/11
10.3	Third Amendment to the Agreement of Limited Liability Limited Partnership of Sterling Properties, LLLP dated August 5, 2009		10-12G		10.4	03/10/11
10.4	Fourth Amendment to the Agreement of Limited Liability Limited Partnership of Sterling Properties, LLLP dated February 9, 2011		10-12G		10.5	03/10/11
10.5	Fifth Amendment to the Agreement of Limited Liability Limited Partnership of Sterling Properties, LLLP dated June 23, 2011		10-K	12/31/2011	10.6	03/30/12
10.6	Fourth Amended and Restated Advisory Agreement dated January 1, 2016		8-K		10.1	03/25/16
10.7	Second Amended and Restated Agreement of Limited Liability Limited Partnership of Sterling Properties, LLLP dated January 1, 2013		8-K		10.1	12/27/12
10.8	Third Amended and Restated Agreement of Limited Liability Limited Partnership of Sterling Properties LLLP dated August 1, 2104		8-K		5.04	06/24/14
10.9	Dividend Reinvestment Plan dated July 20, 2012		S-3D		A	07/20/12
10.10	First Amendment to Dividend Reinvestment Plan dated September 26, 2013		8-K		99.1	10/02/13
10.11	Amendment to Certificate of Limited LiabilityPartnership of SterlingProperties, LLLP dated August 1, 2014		8-K		5.03	06/24/14
10.12	Form of Purchase and Sale Agreement dated as of November 17, 2014		8-K		10.1	12/23/14
10.13	Form of Amendment to Purchase and Sale Agreement dated as of December 18, 2014		8-K		10.2	12/23/14
10.14	Form of Secured Promissory Note (15-Year Note) dated as of December 19, 2014		8-K		10.3	12/23/14
10.15	Form of Secured Promissory Note (10-Year Note) dated as of December 19, 2014		8-K		10.4	12/23/14
10.16	Form of Mortgage, Security Agreement and Fixture Filing dated as of December 19, 2014		8-K		10.5	12/23/14
10.17	Form of Promissory Note dated as of December 19, 2014		8-K		10.6	12/23/14
10.18	Form of Mortgage dated as of December 19, 2014		8-K		10.7	12/23/14
10.19	Form of Commercial Security Agreement dated as of December 19, 2014		8-K		10.8	12/23/14
10.2	Amended and Restated Sterling Real Estate Trust Independent Trustee Common Shares Plan approved June 18, 2015		8-K		10.1	06/23/15
10.21	Form of Purchase and Sale Agreement dated as of July 1, 2015		8-K		10.1	08/18/15
10.22	Form of Promissory Note dated as of August 13, 2015		8-K		10.2	08/18/15
10.23	Form of Mortgage, Security Agreement and Fixture Filing dated as of August 13, 2015		8-K		10.3	08/18/15
10.24	Second Amendment to Dividend Reinvestment Plan dated December 14, 2016		8-K		99.1	12/20/16
21.1	Subsidiaries of Registrant	X				
23.1	Consent of Independent Registered Public Accounting Firm - Baker Tilly Virchow Krause, LLP	X				
31.1	Section 302 Certification of Chief Executive Officer	X				
31.2	Section 302 Certification of Chief Accounting Officer	X				
32.1	Section 906 Certification of Chief Executive Officer and Chief Accounting Officer	X				
99.1	Financial Statements of Properties Acquired		8-K/A		99.1	01/30/15
	Report of Independent Registered Public Accounting Firm Combined Statement of Revenues and Certain Expenses for the nine months ended September 30, 2014 (unaudited) and the year ended December 31, 2013 Notes to the Combined Statement of Revenues and Certain Expenses for the nine months ended September 30, 2014 (unaudited) and the year ended December 31, 2013					

99.2	Unaudited Pro Forma Consolidated Balance Sheet as of September 30, 2014 Unaudited Pro Forma Consolidated Statement of Operations and Other Comprehensive Income for the nine months ended September 30, 2014 Unaudited Pro Forma Consolidated Statement of Operations and Other Comprehensive Income for the year ended December 31, 2013 Notes to Unaudited Pro Form Consolidated Financial Statements	8-K/A	99.2	01/30/15
101	The following materials from Sterling Real Estate Trust's Annual Report on Form 10-K for the year ended December 31, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at December 31, 2016 and 2015; (ii) Consolidated Statements of Operations and Comprehensive Income for years ended December 31, 2016, 2015 and 2014; (iii) Consolidated Statements of Shareholders' Equity for the years ended December 31, 2016, 2015 and 2014; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015 and 2014, and; (v) Notes to Consolidated Financial Statements.	10-K	101	03/15/17

Exhibit 21.1

	NAME OF SUBSIDIARY	JURISDICTION OF FORMATION
*	Sterling Properties, LLLP	North Dakota
	Bayview Apartments, LLC	North Dakota
	Bismarck Interstate INREIT, LLC	North Dakota
	Candlelight Apartments, LLC	Delaware
	Columbia West Apartments, LLC	North Dakota
	Courtyard Apartments, LLC	Minnesota
	Dellwood Estates Apartments, LLC	Minnesota
	Flickertail Apartments, LLC	North Dakota
	Garden Grove Apartments, LLC	North Dakota
	Grand Forks INREIT, LLC	North Dakota
	INREIT 32nd Street, LLC	Delaware
	INREIT Alexandria, LLC	Delaware
	INREIT Batesville, LLC	North Dakota
	INREIT BL Bismarck, LLC	North Dakota
	INREIT BL Grand Forks, LLC	North Dakota
	INREIT BL Janesville, LLC	North Dakota
	INREIT BL Mankato, LLC	North Dakota
	INREIT BL Marquette, LLC	North Dakota
	INREIT BL Onalaska, LLC	North Dakota
	INREIT BL Oshkosh, LLC	North Dakota
	INREIT BL Sheboygan, LLC	North Dakota
	INREIT BL Stevens Point, LLC	North Dakota
	INREIT Fayetteville, LLC	North Dakota
	INREIT Fed-3 LLC	North Dakota
	INREIT Highland, LLC	North Dakota
	INREIT Laurel, LLC	Delaware
	INREIT Maple Ridge, LLC	North Dakota
	INREIT Somerset, LLC	Delaware
	INREIT Stonybrook, LLC	Delaware
	INREIT Sunset Ridge, LLC	North Dakota
	Maplewood Bend Apartments, LLC	North Dakota
	Michigan Street Ramp, LLC	North Dakota
	Montreal Courts Apartments, LLC	Minnesota
	Pebble Creek Apartments, LLC	North Dakota
	Prairiewood Meadows Apartments, LLC	North Dakota
	Richfield Harrison Apartments, LLC	North Dakota
	Sierra Ridge, LLC	North Dakota
	Sterling Georgetown, LLC	Minnesota
**	Sterling Northland, LLC	Minnesota
	Sterling Parkwest, LLC	North Dakota
	Sterling Quail Creek, LLC	Missouri
	Sterling Stonefield I, LLC	North Dakota
	Sunwood Estates, LLC	North Dakota
	Terrace on the Green Apartments, LLC	Minnesota
	Twin Oaks Apartments, LLC	Minnesota
	Twin Parks, LLC	North Dakota
	Willow Park Apartments, LLC	North Dakota

* 32.4% ownership as of December 31, 2016

** 70% ownership as of December 31, 2016

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-3D (File No. 333-182768) of Sterling Real Estate Trust of our report dated March 15, 2017, relating to the consolidated financial statements and schedule, which appears on page 4 of this annual report on Form 10-K/A (Amendment #1) for the year ended December 31, 2016.

/s/ BAKER TILLY VIRCHOW KRAUSE, LLP

Chicago, Illinois
March 22, 2017

OFFICER'S CERTIFICATE
PURSUANT TO SECTION 302

I, Kenneth P. Regan, certify that:

1. I have reviewed this Annual Report on Form 10-K for Sterling Real Estate Trust;

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-5(e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

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

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

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

Dated: March 22, 2017

By: /s/ Kenneth P. Regan
Kenneth P. Regan
Chief Executive Officer

Exhibit 31.2

OFFICER'S CERTIFICATE
PURSUANT TO SECTION 302

I, Angie D. Stock, certify that:

1. I have reviewed this Annual Report on Form 10-K for Sterling Real Estate Trust;

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-5(e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

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

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

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

Dated: March 22, 2017

By: /s/ Angie D. Stock
Angie D. Stock
Chief Accounting Officer

Exhibit 32.1

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

In connection with the Annual Report on Form 10-K of Sterling Real Estate Trust (the “Company”) for the annual period ended December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, in the capacities and on the dates indicated below, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of their knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Dated: March 22, 2017

By: /s/ Kenneth P. Regan
Kenneth P. Regan
Chief Executive Officer

Dated: March 22, 2017

By: /s/ Angie D. Stock
Angie D. Stock
Chief Accounting Officer

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