

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
**FORM 10-Q**

☒ Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

**For the Quarterly Period Ended March 31, 2024**

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 No.)

**4340 18th Ave South, Suite 200, Fargo, North Dakota**

(Address of principal executive offices)

**58103**

(Zip Code)

**(701) 353-2720**

(Registrant's telephone number, including area code)

(Former name, former address and formal fiscal year, if changed since last report)

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

<u>Title of each class:</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered:</u>
Common Shares, par value \$0.01 per share	N/A	N/A

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

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

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

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

(Do not check if a smaller reporting company)

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

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

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

<u>Class</u>	<u>Outstanding at May 8, 2024</u>
Common Shares of Beneficial Interest, \$0.01 par value per share	11,419,367

STERLING REAL ESTATE TRUST

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## PART I – FINANCIAL INFORMATION

### Item 1. Financial Statements

#### STERLING REAL ESTATE TRUST AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS AS OF MARCH 31, 2024 (UNAUDITED) AND DECEMBER 31, 2023

	March 31, 2024	December 31, 2023
	(in thousands)	
ASSETS		
Real estate investments		
Land and land improvements	\$ 128,006	\$ 127,204
Building and improvements	837,780	835,551
Construction in progress	9,390	8,049
Real estate investments	975,176	970,804
Less accumulated depreciation	(219,795)	(214,584)
Real estate investments, net	755,381	756,220
Cash and cash equivalents	19,063	26,919
Restricted deposits	10,959	10,142
Investment in unconsolidated affiliates	25,209	26,601
Notes receivable	8,080	8,885
Assets held for sale	593	1,568
Lease intangible assets, less accumulated amortization	2,821	2,983
Other assets, net	22,037	21,515
Total Assets	\$ 844,143	\$ 854,833
LIABILITIES		
Mortgage notes payable, net	\$ 513,077	\$ 518,119
Dividends payable	8,595	8,579
Tenant security deposits payable	7,414	7,104
Lease intangible liabilities, less accumulated amortization	434	470
Liabilities related to assets held for sale	290	2
Accrued expenses and other liabilities	14,225	19,239
Total Liabilities	544,035	553,513
COMMITMENTS and CONTINGENCIES - Note 13		
SHAREHOLDERS' EQUITY		
Beneficial interest	124,212	124,095
Noncontrolling interest		
Operating partnership	160,410	163,308
Partially owned properties	2,607	2,555
Accumulated other comprehensive income	12,879	11,362
Total Shareholders' Equity	300,108	301,320
	\$ 844,143	\$ 854,833

See Notes to Consolidated Financial Statements

**STERLING REAL ESTATE TRUST AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE INCOME**  
**(LOSS)**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND 2023 (UNAUDITED)**

	Three Months Ended March 31,	
	2024	2023
	(in thousands, except per share data)	
Income from rental operations		
Real estate rental income	\$ 37,260	\$ 35,180
Expenses		
Expenses from rental operations		
Operating expenses	16,323	18,122
Real estate taxes	4,159	3,799
Depreciation and amortization	5,909	6,552
Interest	5,356	5,355
	31,747	33,828
Administration of REIT	1,345	1,311
Total expenses	33,092	35,139
Income from operations	4,168	41
Other (loss) income		
Equity in (losses) of unconsolidated affiliates	(734)	(1,136)
Other income	393	407
Gain on sale or conversion of real estate investments	815	—
Total other income	474	(729)
Net income	\$ 4,642	\$ (688)
Net income (loss) attributable to noncontrolling interest:		
Operating partnership	2,850	(408)
Partially owned properties	51	(40)
Net income (loss) attributable to Sterling Real Estate Trust	\$ 1,741	\$ (240)
Net income (loss) attributable to Sterling Real Estate Trust per common share, basic and diluted	\$ 0.15	\$ (0.02)
Comprehensive income (loss):		
Net income (loss)	\$ 4,642	\$ (688)
Other comprehensive gain (loss) - change in fair value of interest rate swaps	1,517	(2,378)
Comprehensive income (loss):	6,159	(3,066)
Comprehensive income (loss) attributable to noncontrolling interest	3,843	(1,948)
Comprehensive income (loss) attributable to Sterling Real Estate Trust	\$ 2,316	\$ (1,118)
Weighted average common shares outstanding, basic and diluted	11,339	10,952

See Notes to Consolidated Financial Statements

**STERLING REAL ESTATE TRUST AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND 2023 (UNAUDITED)**

	Common Shares	Paid-in Capital	Accumulated Distributions in Excess of Earnings	Total Beneficial Interest	Noncontrolling Interest		Accumulated Comprehensive Income (Loss)	Total
					Operating Partnership	Partially Owned Properties		
(in thousands)								
BALANCE AT DECEMBER 31, 2022	10,810	\$ 159,003	\$ (35,007)	\$ 123,996	\$ 183,048	\$ 2,640	\$ 13,782	\$ 323,466
Shares/units redeemed	(8)	(181)	—	(181)	(915)	—	—	(1,096)
Dividends and distributions declared	—	—	(3,147)	(3,147)	(5,373)	—	—	(8,520)
Dividends reinvested - stock dividend	90	1,962	—	1,962	—	—	—	1,962
Issuance of shares under optional purchase plan	56	1,291	—	1,291	—	—	—	1,291
Change in fair value of interest rate swaps	—	—	—	—	—	—	(2,378)	(2,378)
Net loss	—	—	(240)	(240)	(408)	(40)	—	(688)
BALANCE AT MARCH 31, 2023	10,948	\$ 162,075	\$ (38,394)	\$ 123,681	\$ 176,352	\$ 2,600	\$ 11,404	\$ 314,037
	Common Shares	Paid-in Capital	Accumulated Distributions in Excess of Earnings	Total Beneficial Interest	Noncontrolling Interest		Accumulated Comprehensive Income (Loss)	Total
					Operating Partnership	Partially Owned Properties		
(in thousands)								
BALANCE AT DECEMBER 31, 2023	11,257	\$ 168,977	(\$ 44,877)	\$ 124,100	\$ 163,303	\$ 2,555	\$ 11,362	\$ 301,320
Shares/units redeemed	(51)	(1,108)	-	(1,108)	(410)	-	-	(1,518)
Dividends and distributions declared	-	-	(3,257)	(3,257)	(5,333)	-	-	(8,590)
Dividends reinvested - stock dividend	87	1,894	-	1,894	-	-	-	1,894
Issuance of shares under optional purchase plan	37	843	-	843	-	-	-	843
Change in fair value of interest rate swaps	-	-	-	-	-	-	1,517	1,517
Net income	-	-	1,740	1,740	2,850	52	-	4,642
BALANCE AT MARCH 31, 2024	11,330	\$ 170,606	(\$ 46,394)	\$ 124,212	\$ 160,410	\$ 2,607	\$ 12,879	\$ 300,108

See Notes to Consolidated Financial Statements

**STERLING REAL ESTATE TRUST AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND 2023 (UNAUDITED)**

	Three Months Ended March 31,	
	2024	2023
	(in thousands)	
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 4,642	\$ (688)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Gain on sale of real estate investments	(815)	—
Change in fair value of securities	—	(109)
Equity in loss of unconsolidated affiliates	734	1,136
Allowance for uncollectible accounts receivable	96	(225)
Depreciation	5,698	5,801
Amortization	211	751
Amortization of debt issuance costs	151	153
Effects on operating cash flows due to changes in		
Other assets	822	434
Tenant security deposits payable	326	201
Accrued expenses and other liabilities	(7,219)	(2,980)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>4,646</b>	<b>4,474</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds from maturities of securities	—	19,369
Capital expenditures and tenant improvements	(4,043)	(1,782)
Proceeds from sale of real estate investments and non-real estate investments	2,223	—
Investment in unconsolidated affiliates	—	(2,261)
Distributions in excess of earnings received from unconsolidated affiliates	658	659
Notes receivable issued net of payments received	805	(1,341)
<b>NET CASH (USED IN) PROVIDED BY PROVIDED BY INVESTING ACTIVITIES</b>	<b>(357)</b>	<b>14,644</b>
<b>FINANCING ACTIVITIES</b>		
Payments for financing, debt issuance	—	(158)
Principal payments on special assessments payable	(34)	—
Proceeds from issuance of mortgage notes payable	—	30,250
Principal payments on mortgage notes payable	(3,939)	(6,637)
Payments on lines of credit	—	(1,008)
Payments on notes payable	—	(26,500)
Proceeds from issuance of shares under optional purchase plan	843	1,291
Shares/units redeemed	(1,518)	(1,096)
Dividends/distributions paid	(6,680)	(6,531)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(11,328)</b>	<b>(10,389)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS</b>	<b>(7,039)</b>	<b>8,729</b>
<b>CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS AT BEGINNING OF PERIOD</b>	<b>37,061</b>	<b>12,580</b>
<b>CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS AT END OF PERIOD</b>	<b>\$ 30,022</b>	<b>\$ 21,309</b>
<b>CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS AT END OF PERIOD</b>		
Cash and cash equivalents	\$ 19,063	\$ 12,064
Restricted deposits	10,959	9,245
<b>TOTAL CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS, END OF PERIOD</b>	<b>\$ 30,022</b>	<b>\$ 21,309</b>

(Continued)

See Notes to Consolidated Financial Statements

**STERLING REAL ESTATE TRUST AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND 2023 (UNAUDITED) (Continued)**

	Three Months Ended	
	March 31,	
	2024	2023
	(in thousands)	
<b>SCHEDULE OF CASH FLOW INFORMATION</b>		
Cash paid during the period for interest, net of capitalized interest	\$ 5,212	\$ 5,061
<b>SUPPLEMENTARY SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Dividends reinvested	\$ 1,899	\$ 1,962
Dividends declared and not paid	3,257	3,147
UPREIT distributions declared and not paid	5,338	5,373
Increase in land improvements due to increase in special assessments payable	1,013	300
Unrealized gain (loss) on interest rate swaps	1,517	(2,378)
Capitalized interest and real estate taxes related to construction in progress	40	—

See Notes to Consolidated Financial Statements

**STERLING REAL ESTATE TRUST AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2024 AND 2023 (UNAUDITED)**

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

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**NOTE 1 - ORGANIZATION**

Sterling Real Estate Trust, d/b/a Sterling Multifamily 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.

Sterling previously established an operating partnership (Sterling Properties, LLLP or the “Operating Partnership”) 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 March 31, 2024 and December 31, 2023, Sterling owned approximately 37.90% and 37.72%, respectively, of the Operating Partnership.

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

*Basis of Presentation*

The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2023, which have previously been filed with the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been omitted from this report on Form 10-Q pursuant to the rules and regulations of the SEC.

The results for the interim periods shown in this report are not necessarily indicative of future financial results. In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments necessary to present fairly our consolidated financial statements as of and for the three months ended March 31, 2024. These adjustments are of a normal recurring nature.

*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.

As of March 31, 2024, the Trust owned approximately 37.90% of the partnership interests (“OP Units”) of the Operating Partnership. The remaining OP Units, consisting exclusively of limited partner interests, are held by persons who contributed their interests in properties to the Operating Partnership in exchange for OP Units. Under the LLLP Agreement and the redemptions plans, these persons have the right to request the Operating Partnership redeem their OP Units following a specified restricted period. All redemptions are at the sole discretion of the Trust, acting for itself or in its capacity as General Partner of the Operating Partnership, and further subject to the conditions and limitations of the LLLP Agreement and redemption plans, as the same may be amended or modified from time to time. If the Trust accepts a redemption request, the redemption of OP Units shall be made in cash in an amount equal to the fair value of an equivalent number of common shares of the Trust. In lieu of delivering cash, however, the Trust, as the Operating Partnership’s general partner, may, at its option and in its sole and absolute discretion, choose to acquire any OP Units so tendered by issuing common shares in exchange for the tendered OP Units. If the Trust so chooses, its common shares will be exchanged for OP Units on a one-for-one basis. This one-for-one exchange ratio is subject to adjustment to prevent dilution. With each such exchange or redemption, the Trust’s percentage ownership in the Operating Partnership will increase. In addition, whenever the Trust issues common or other classes of its shares, it contributes the net proceeds it receives from the issuance to the Operating Partnership and the Operating Partnership issues to the Trust an equal number of OP Units or other partnership interests having preferences and



**STERLING REAL ESTATE TRUST AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2024 AND 2023 (UNAUDITED)**

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

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rights that mirror the preferences and rights of the shares issued. This structure is commonly referred to as an umbrella partnership REIT or “UPREIT.”

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. The Trust will consolidate the operations of a joint venture if the Trust determines that it is the primary beneficiary of a variable interest entity (VIE) and has substantial influence and control of the entity.

In instances where the Trust determines that it is not the primary beneficiary of a VIE and the Trust does not control the joint venture but can exercise influence over the entity with respect to its operations and major decisions, the Trust will use the equity method of accounting. Under the equity method, the operations of a joint venture will not be consolidated with the Trust’s operations but instead its share of operations will be reflected as equity in earnings (losses) of unconsolidated affiliates on its consolidated statements of operations and comprehensive loss. Additionally, the Trust’s net investment in the joint venture will be reflected as investment in unconsolidated affiliates on the consolidated balance sheets. See Note 5 for additional details regarding variable interest entities where the Trust uses the equity method of investing.

The Operating Partnership meets the criteria as a variable interest entity (“VIE”). The Trust’s sole significant asset is its investment in the Operating Partnership. As a result, substantially all of the Trust’s assets and liabilities represent those assets and liabilities of the Operating Partnership. All of the Trust’s debt is an obligation of the Operating Partnership, and the Trust guarantees the unsecured debt obligations of the Operating Partnership.

*Concentration of Credit Risk*

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

*Use of Estimates*

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

*Real Estate Investments*

Real estate investments are recorded at cost less accumulated depreciation. Ordinary repairs and maintenance are expensed as incurred.

The Trust allocates the purchase price of each acquired investment property accounted for as an asset acquisition based upon the relative fair value at acquisition date of the individual assets acquired and liabilities assumed, which generally include (i) land, (ii) building and other improvements, (iii) in-place lease intangibles, (iv) acquired above and below market

**STERLING REAL ESTATE TRUST AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2024 AND 2023 (UNAUDITED)**

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

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lease intangibles, and (v) assumed financing that is determined to be above or below market, if any. Transaction costs related to acquisitions are accounted for as asset acquisitions and capitalized as a cost of the property.

For tangible assets acquired, including land, building and other improvements, the Trust considers available comparable market and industry information in estimating acquisition date fair 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. 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 expensed 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

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

Based on evaluation, there were no impairment losses during the three months ended March 31, 2024 and 2023.

*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 generally taxed on REIT distributions of ordinary income in the same manner as they are taxed on other corporate distributions.

We intend to continue to qualify as a REIT and, 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.

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 March 31, 2024 and December 31, 2023, 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 2018.

**STERLING REAL ESTATE TRUST AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2024 AND 2023 (UNAUDITED)**

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

*Revenue Recognition*

The Trust is the lessor for its residential and commercial leases. Leases are analyzed on an individual basis to determine lease classification. As of March 31, 2024, all leases analyzed under the Trust's lease classification process were determined to be operating leases.

*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 during the three months ended March 31, 2024 and therefore, basic earnings per common share was equal to diluted earnings per common share for both periods.

For the three months ended March 31, 2024 and 2023, Sterling's denominators for the basic and diluted earnings per common share were approximately 11,339,000 and 10,952,000, respectively.

**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 property administrative and management fees). 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.

**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 three months ended March 31, 2024 and 2023, along with reconciliations to the consolidated financial statements. Segment assets are also reconciled to Total Assets as reported in the consolidated financial statements.

	Three months ended March 31, 2024			Three months ended March 31, 2023		
	Residential	Commercial	Total	Residential	Commercial	Total
	(in thousands)			(in thousands)		
Income from rental operations	\$ 32,154	\$ 5,106	\$ 37,260	\$ 29,920	\$ 5,260	\$ 35,180
Expenses from rental operations	19,126	1,356	20,482	20,203	1,718	21,921
Net operating income	<u>\$ 13,028</u>	<u>\$ 3,750</u>	<u>\$ 16,778</u>	<u>\$ 9,717</u>	<u>\$ 3,542</u>	<u>\$ 13,259</u>
Depreciation and amortization			5,909			6,552
Interest			5,356			5,355
Administration of REIT			1,345			1,311
Other (loss) income			(474)			729
Net income (loss)			<u>\$ 4,642</u>			<u>\$ (688)</u>

**STERLING REAL ESTATE TRUST AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2024 AND 2023 (UNAUDITED)**

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

**Segment Assets and Accumulated Depreciation**

<b>As of March 31, 2024</b>	<b>Residential</b>	<b>Commercial</b> <b>(in thousands)</b>	<b>Total</b>
Real estate investments	\$ 794,205	\$ 180,971	\$ 975,176
Accumulated depreciation	(168,875)	(50,920)	(219,795)
Total real estate investments, net	\$ 625,330	\$ 130,051	\$ 755,381
Lease intangible assets, less accumulated amortization	—	2,821	2,821
Cash and cash equivalents			19,063
Restricted deposits			10,959
Investment in unconsolidated affiliates			25,209
Notes receivable			8,080
Assets held for sale			593
Other assets, net			22,037
Total Assets			<u>\$ 844,143</u>

<b>As of December 31, 2023</b>	<b>Residential</b>	<b>Commercial</b> <b>(in thousands)</b>	<b>Total</b>
Real estate investments	\$ 789,249	\$ 181,555	\$ 970,804
Accumulated depreciation	(164,793)	(49,791)	(214,584)
Total real estate investments, net	\$ 624,456	\$ 131,764	\$ 756,220
Lease intangible assets, less accumulated amortization	—	2,983	2,983
Cash and cash equivalents			26,919
Restricted deposits			10,142
Investment in securities			—
Investment in unconsolidated affiliates			26,601
Notes receivable			8,885
Assets held for sale			1,568
Other assets, net			21,515
Total Assets			<u>\$ 854,833</u>

**NOTE 4 – RESTRICTED DEPOSITS AND FUNDED RESERVES**

The following table summarizes the Trust's restricted deposits and funded reserves.

	<b>As of March 31,</b> <b>2024</b>	<b>As of December 31,</b> <b>2023</b>
	<b>(in thousands)</b>	
Tenant security deposits	\$ 7,226	\$ 6,945
Real estate tax and insurance escrows	327	676
Replacement reserves	96	1,443
Other funded reserves	3,310	1,078
	<u>\$ 10,959</u>	<u>\$ 10,142</u>

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**NOTE 5 – INVESTMENT IN UNCONSOLIDATED AFFILIATES**

The Company's investments in unconsolidated real estate ventures, are summarized as follows (in thousands):

Unconsolidated Affiliates	Date Acquired	Trust Ownership Interest	Total Investment in Unconsolidated Affiliates at	
			March 31, 2024	December 31, 2023
Banner Building	2007	66.67%	\$ (489)	\$ (478)
Grand Forks INREIT, LLC	2003	50%	5,189	5,193
SE Savage, LLC	2019	60%	764	954
SE Maple Grove, LLC	2019	60%	567	735
SE Rogers, LLC	2020	60%	1,236	1,419
ST Oak Cliff, LLC	2021	70%	7,602	7,920
SE Brooklyn Park, LLC	2021	60%	1,392	1,748
ST Fossil Creek, LLC	2022	70%	8,948	9,110
			<u>\$ 25,209</u>	<u>\$ 26,601</u>

Banner Building - the operating partnership owns a 66.67% interest as tenant in common in an office building in Fargo, North Dakota. The property is encumbered by a first mortgage with a balance at March 31, 2024 and December 31, 2023 of \$6,677 and \$6,724, respectively. The Trust is jointly and severally liable for the full mortgage balance.

Grand Forks INREIT, LLC - the operating partnership is a 50% owner of a tenant in common through 100% ownership in a limited liability company. The property is located in Grand Forks, North Dakota. The property is encumbered by a non-recourse first mortgage with a balance at March 31, 2024 and December 31, 2023 of \$8,885 and \$8,948, respectively. The Trust is jointly and severally liable for the full mortgage balance.

SE Savage, LLC - the Operating Partnership owns a 60% interest in a limited liability company that holds a multifamily property. The property is encumbered by a first mortgage with a balance of \$30,198 and \$30,305 at March 31, 2024 and December 31, 2023, respectively. The Trust is jointly and severally liable for the full mortgage balance. Additionally, SE Savage, LLC has an outstanding Promissory Note with Sterling Properties, LLLP, for \$124 and \$468 as of March 31, 2024 and December 31, 2023, respectively and is an unsecured obligation of SE Savage, LLC. The note is included in Notes Receivable on the Consolidated Balance Sheet at March 31, 2024 and December 31, 2023.

SE Maple Grove, LLC - the Operating Partnership owns a 60% interest in a limited liability company that holds a multifamily property. The entity is encumbered by a first mortgage with a balance at March 31, 2024 and December 31, 2023 of \$24,515 and \$24,633, respectively. The property is also encumbered by a second mortgage to Sterling Properties, LLLP with a balance of \$3,428 and \$3,643 at March 31, 2024 and December 31, 2023, respectively. The note is included in Notes Receivable on the Consolidated Balance Sheet at March 31, 2024 and December 31, 2023.

SE Rogers, LLC - the Operating Partnership owns a 60% interest in a limited liability company that is currently developing a multifamily property. The LLC holds land located in Rogers, Minnesota, with total assets of \$30,265 and \$30,576 at March 31, 2024 and December 31, 2023, respectively. The entity is encumbered by a first mortgage with a balance of \$25,621 and \$25,742 at March 31, 2024 and December 31, 2023, respectively. The Company is jointly and severally liable for the full mortgage balance. The property is also encumbered by a second mortgage to Sterling Properties, LLLP with a balance at March 31, 2024 and December 31, 2023 of \$2,100 and \$2,117, respectively. The note is included in Notes Receivable on the Consolidated Balance Sheet at March 31, 2024 and December 31, 2023.

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ST Oak Cliff, LLC - the Operating Partnership owns a 70% interest in a limited liability company, with a related party. The entity is currently developing a multifamily property. The entity holds land located in Dallas, Texas with total assets of \$48,263 and \$48,738 at March 31, 2024 and December 31, 2023, respectively. The entity is encumbered by a construction mortgage with a balance of \$36,708 and \$36,246 at March 31, 2024 and December 31, 2023, respectively. The Company is jointly and severally liable for the full mortgage balance.

SE Brooklyn Park, LLC - the Operating Partnership owns a 60% interest in a limited liability company, with an unrelated third party. The entity is located in Brooklyn Park, Minnesota, with total assets of \$29,456 and \$30,325 at March 31, 2024 and December 31, 2023, respectively. The entity is encumbered by a first mortgage with a balance of \$24,592 at both March 31, 2024 and December 31, 2023. The Company is jointly and severally liable for the full mortgage balance. The property is also encumbered by a second mortgage to Sterling Properties, LLLP with a balance of \$2,329 and \$2,538 at March 31, 2024 and December 31, 2023, respectively. The note is included in Notes Receivable on the Consolidated Balance Sheet at March 31, 2024 and December 31, 2023.

ST Fossil Creek, LLC - the Operating Partnership owns a 70% interest in a limited liability company, with a related party. The entity is currently developing a multifamily property. As of March 31, 2024, the Operating Partnership has contributed \$9,275 in cash to the entity. The entity holds land located in Fort Worth, Texas with total assets of \$46,555 and \$43,517 at March 31, 2024 and December 31, 2023, respectively. The entity is encumbered by a construction mortgage with a balance of \$30,443 and \$26,657 at March 31, 2024 and December 31, 2023, respectively. The Company is jointly and severally liable for the full mortgage balance.

The following is a summary of the financial position of the unconsolidated affiliates at March 31, 2024 and December 31, 2023.

	<b>March 31, 2024</b>	<b>December 31, 2023</b>
	<b>(in thousands)</b>	
<b>ASSETS</b>		
Real estate investments	\$ 264,500	\$ 261,901
Accumulated depreciation	(28,652)	(26,191)
	<u>235,848</u>	<u>235,710</u>
Cash and cash equivalents	2,790	3,388
Restricted deposits	1,467	883
Intangible assets, less accumulated amortization	792	813
Other assets, net	512	780
<b>Total Assets</b>	<u><u>\$ 241,409</u></u>	<u><u>\$ 241,574</u></u>
<b>LIABILITIES</b>		
Mortgage notes payable, net	\$ 194,992	\$ 191,890
Tenant security deposits payable	372	340
Accrued expenses and other liabilities	6,177	7,208
<b>Total Liabilities</b>	<u><u>\$ 201,541</u></u>	<u><u>\$ 199,438</u></u>
<b>SHAREHOLDERS' EQUITY</b>		
Total Shareholders' Equity	<u><u>\$ 39,868</u></u>	<u><u>\$ 42,136</u></u>
<b>Total liabilities and shareholders' equity</b>	<u><u>\$ 241,409</u></u>	<u><u>\$ 241,574</u></u>

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The following is a summary of results of operations of the unconsolidated affiliates for the three months ended March 31, 2024 and 2023.

	Three months ended March 31,	
	2024	2023
	(in thousands)	
Income from rental operations	\$ 5,799	\$ 3,707
Expenses from rental operations	2,795	1,778
Net operating income	\$ 3,004	\$ 1,929
Depreciation and Amortization	2,482	2,492
Interest	1,627	1,344
Other expense	-	(85)
Net loss	\$ (1,105)	\$ (1,822)

**NOTE 6 - 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 March 31, 2024	Lease Intangibles	Accumulated Amortization	Lease Intangibles, net
Lease Intangible Assets		(in thousands)	
In-place leases	\$ 13,927	\$ (11,571)	\$ 2,356
Above-market leases	1,413	(948)	465
	<u>\$ 15,340</u>	<u>\$ (12,519)</u>	<u>\$ 2,821</u>
Lease Intangible Liabilities			
Below-market leases	\$ (2,315)	\$ 1,881	\$ (434)
As of December 31, 2023	Lease Intangibles	Accumulated Amortization	Lease Intangibles, net
Lease Intangible Assets		(in thousands)	
In-place leases	\$ 13,927	\$ (11,434)	\$ 2,493
Above-market leases	1,415	(925)	490
	<u>\$ 15,342</u>	<u>\$ (12,359)</u>	<u>\$ 2,983</u>
Lease Intangible Liabilities			
Below-market leases	\$ (2,314)	\$ 1,844	\$ (470)

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)	
2024	\$ 480	\$ 110
2025	641	147
2026	490	77
2027	381	38
2028	311	19
Thereafter	518	43
	<u>\$ 2,821</u>	<u>\$ 434</u>

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**NOTE 7 – LINES OF CREDIT**

We have a \$4,915 variable rate (floating SOFR plus 2.00%) line of credit agreement with Bremer Bank, which expires in December 2026; and a \$5,000 variable rate (floating SOFR plus 2.00%) line of credit agreement with Bremer Bank, which expires December 2026. The lines of credit are secured by specific properties. At March 31, 2024, the Bremer Bank line of credit had \$9,915 available and unused under the agreements. These operating lines are designed to enhance treasury management activities and more effectively manage cash balances. There was no balance outstanding on either line at March 31, 2024 and at December 31, 2023.

Certain lines of credit agreements include covenants that, in part, impose maintenance of certain debt service coverage and debt to net worth ratios.

**NOTE 8 - NOTES PAYABLE**

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

	<b>Principal Balance At</b>	
	<b>March 31, 2024</b>	<b>December 31, 2023</b>
	<b>(in thousands)</b>	
Fixed rate mortgage notes payable (a)	\$ 514,962	\$ 520,155
Variable rate mortgage notes payable	-	-
Mortgage notes payable	514,962	520,155
Less unamortized debt issuance costs	1,885	2,036
	<u>\$ 513,077</u>	<u>\$ 518,119</u>

(a) Includes \$102,534 and \$103,246 of variable rate mortgage debt that was swapped to a fixed rate at March 31, 2024 and December 31, 2023, respectively.

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:

<b>Years ending December 31,</b>	<b>Amount (in thousands)</b>
2024	\$ 18,505
2025	51,964
2026	70,271
2027	77,973
2028	41,564
Thereafter	254,685
Total payments	<u>\$ 514,962</u>



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**NOTE 9 – DERIVATIVES AND HEDGING ACTIVITIES**

As part of our interest rate risk management strategy, we have used derivative instruments to manage our exposure to interest rate movements and add stability to interest expense. Interest rate swaps designated as cash flow hedges involve the receipt of variable rate amounts from a counterparty in exchange for the Trust making fixed rate payments over the life of the agreement without exchange of the underlying notional amount.

As of March 31, 2024, the Trust used 12 interest rate swaps to hedge the variable cash flows associated with variable rate debt. Changes in fair value of the derivatives that are designated and that qualify as cash flow hedges are recorded in accumulated other comprehensive loss and are reclassified into interest expense as interest payments are made on the Trust's variable rate debt. During the next 12 months, the Trust estimates that an additional \$3,833 will be reclassified as a decrease to interest expense.

The following table summarizes the Trust's interest rate swaps as of March 31, 2024, which effectively convert on month floating rate LIBOR to a fixed rate:

Effective Date		Notional	Fixed Interest Rate	Maturity Date
November 1, 2019	\$	6,311	3.15%	November 1, 2029
November 1, 2019	\$	4,390	3.28%	November 1, 2029
January 10, 2020	\$	2,865	3.39%	January 10, 2030
December 2, 2020	\$	11,909	2.91%	December 2, 2027
July 1, 2021	\$	24,836	2.99%	July 1, 2031
November 10, 2021	\$	27,323	3.54%	August 1, 2029
December 1, 2021	\$	10,439	3.32%	December 1, 2031
August 15, 2022	\$	1,432	3.07%	June 15, 2030
August 15, 2022	\$	2,775	3.07%	June 15, 2030
August 15, 2022	\$	1,550	2.94%	June 15, 2030
August 15, 2022	\$	4,101	2.94%	June 15, 2030
May 10, 2023	\$	4,603	2.79%	June 10, 2030

The following table summarizes the Trust's interest rate swaps that were designated as cash flow hedges of interest rate risk:

Interest Rate Derivatives	Number of Instruments		Notional	
	March 31, 2024	December 31, 2023	March 31, 2024	December 31, 2023
Interest rate swaps	12	12	\$ 102,534	\$ 103,246

The table below presents the estimated fair value of the Trust's derivative financial instruments as well as their classification in the accompanying consolidated balance sheets. The valuation techniques are described in Note 10 to the consolidated financial statements.

Derivatives designated as cash flow hedges:	March 31, 2024		December 31, 2023	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate swaps	Other assets, net	\$ 12,879	Other assets, net	\$ 11,362

The carrying amount of the swaps have been adjusted to their fair value at the end of the quarter, which because of changes in forecasted levels of LIBOR, resulted in reporting an asset and liability for the fair value of the future net payments forecasted under the swap. The interest rate swap is accounted for as an effective hedge in accordance with ASC 815-20 whereby it is recorded at fair value and changes in fair value are recorded to comprehensive income.

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The following table presents the effect of the Company's derivative financial instruments on the accompanying consolidated statements of operations and other comprehensive loss (income) for the quarters ended March 31, 2024 and 2023:

Derivatives in Cash Flow Hedging Relationships	Recognized in Other Comprehensive Income on Derivatives	Location of Gain Accumulated other Comprehensive Income (AOCI) into Income	Amount of (Gain)/Loss Reclassified from AOCI into Income
	2024		2024
Interest rate swaps	\$ (1,517)	Interest expense	\$ (1,029)
	2023		2023
Interest rate swaps	\$ 2,378	Interest expense	\$ (765)

*Credit-risk-related Contingent Features*

The Trust's agreements with each of its derivative counterparties also contain a provision whereby if the Trust consolidates with, merges with or into, or transfers all or substantially all of its assets to another entity and the creditworthiness of the resulting, surviving or transferee entity, is materially weaker than the Trust's, the counterparty has the right to terminate the derivative obligations. As of March 31, 2024, the termination value of derivatives in an asset position was \$11,404. As of March 31, 2024, the Trust has pledged the properties related to the loans which are hedged as collateral.

**NOTE 10 - FAIR VALUE MEASUREMENT**

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

	March 31, 2024		December 31, 2023	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in thousands)			
<b>Financial assets:</b>				
Investments	\$ —	\$ —	\$ —	\$ —
Notes receivable	\$ 8,080	\$ 8,235	\$ 8,885	\$ 10,025
Derivative assets	\$ 12,879	\$ 12,879	\$ 11,362	\$ 11,362
<b>Financial liabilities:</b>				
Mortgage notes payable	\$ 514,962	\$ 475,664	\$ 520,155	\$ 477,344

ASC 820-10 established a three-level valuation hierarchy for fair value measurement. Management uses these valuation techniques to establish the fair value of the assets at the measurement date. These valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect management's assumptions.

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

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

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

***Recurring Fair Value Measurements***

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

	Level 1	Level 2	Level 3	Total
	(in thousands)			
<b><u>March 31, 2024</u></b>				
Derivative assets	\$ —	\$ 12,879	\$ —	\$ 12,879
<b><u>December 31, 2023</u></b>				
Derivative assets	\$ —	\$ 11,362	\$ —	\$ 11,362

*Derivatives:* The fair value of interest rate swaps is determined using a discounted cash flow analysis on the expected future cash flows of the derivative.

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.

***Fair Value Disclosures***

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

	Level 1	Level 2	Level 3	Total
	(in thousands)			
<b><u>March 31, 2024</u></b>				
Mortgage notes payable	\$ —	\$ —	\$ 475,664	\$ 475,664
Notes receivable	\$ —	\$ —	\$ 8,235	\$ 8,235
<b><u>December 31, 2023</u></b>				
U.S. Treasury Bills	\$ —	\$ —	\$ —	\$ —
Mortgage notes payable	\$ —	\$ —	\$ 477,344	\$ 477,344
Notes receivable	\$ —	\$ —	\$ 10,025	\$ 10,025

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*Mortgage notes payable:* The Trust estimates the fair value of its mortgage notes payable by discounting the future cash flows of each instrument at rates currently offered to the Trust for similar debt instruments of comparable maturities by the Trust's lenders. The rates used ranged from 5.90% to 6.20% at March 31, 2024 and ranged from 5.85% to 6.00% at December 31, 2023.

*Notes receivable:* The Trust estimates the fair value of its notes receivable by discounting future cash flows of each instrument at rates currently offered to the Trust for similar note instruments of comparable maturities by the Trust's lenders. The rate used was 7.25% at March 31, 2024 and December 31, 2023.

**NOTE 11 – LEASES**

As of March 31, 2024, we derived 86.3% of our revenues from residential leases that are generally for terms of one year or less. The residential leases may include lease income related items such as parking, storage, and non-refundable deposits that we treat as a single lease component because the amenities cannot be leased on their own and the timing and pattern of revenue recognition are the same. The collection of lease payments at lease commencement is probable and therefore we subsequently recognize lease income over the lease term on a straight-line basis. Residential leases are renewable upon consent of both parties on an annual or monthly basis.

As of March 31, 2024, we derived 13.7% of our revenues from commercial leases primarily under long-term lease agreements. Substantially all commercial leases contain fixed escalations, or, in some instances, changes based on the Consumer Price Index, which occur at specified times during the term of the lease. In certain commercial leases, variable lease income, such as percentage rent, is recognized when rents are earned. We recognize rental income and rental abatements from our commercial leases on a straight-line basis over the lease term. Recognition of rental income commences when control of the leased space has been transferred to the tenant.

We recognize variable income from pass-through expenses on an accrual basis over the periods in which the expenses were incurred. Pass-through expenses are comprised of real estate taxes, operating expenses and common area maintenance costs which are reimbursed by tenants in accordance with specific allowable costs per tenant lease agreements. When we pay pass-through expenses, subject to reimbursement by the tenant, they are included within operating expenses, excluding real estate taxes, and reimbursements are included within "real estate rental income" along with the associated base rent in the accompanying consolidated financial statements.

Lease income related to the Company's operating leases is comprised of the following:

	Three months ended March 31, 2024		
	Residential	Commercial (in thousands)	Total
Lease income related to fixed lease payments	\$ 30,855	\$ 3,907	\$ 34,762
Lease income related to variable lease payments	—	1,145	1,145
Other (a)	(220)	14	(206)
Lease Income (b)	<u>\$ 30,635</u>	<u>\$ 5,066</u>	<u>\$ 35,701</u>

(a) For the three months ended March 31, 2024, "Other" is comprised of revenue adjustments related to changes in collectability and amortization of above and below market lease intangibles and lease inducements.

(b) Excludes other rental income for the three months ended March 31, 2024 of \$1,558, which is accounted for under the revenue recognition standard.

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	Three months ended March 31, 2023		
	Residential	Commercial (in thousands)	Total
Lease income related to fixed lease payments	\$ 28,656	\$ 3,943	\$ 32,599
Lease income related to variable lease payments	—	1,197	1,197
Other (a)	(119)	96	(23)
Lease Income (b)	<u>\$ 28,537</u>	<u>\$ 5,236</u>	<u>\$ 33,773</u>

(c) For the three months ended March 31, 2023, “Other” is comprised of revenue adjustments related to changes in collectability and amortization of above and below market lease intangibles and lease inducements.

(d) Excludes other rental income for the three months ended March 31, 2023 of \$1,407, respectively, which is accounted for under the revenue recognition standard.

As of March 31, 2024, non-cancelable commercial operating leases provide for future minimum rental income as follows. Apartment leases are not included as the terms are generally for one year or less.

Years ending December 31,	Amount (in thousands)
2024 (April 1, 2024 - December 31, 2024)	\$ 13,627
2025	15,121
2026	14,363
2027	12,911
2028	11,908
Thereafter	35,640
	<u>\$ 103,570</u>

**NOTE 12 – RELATED PARTY TRANSACTIONS**

Effective January 1, 2021, Trustmark Enterprises, Inc. was formed to act as the holding company for Sterling Management, LLC and GOLDMARK Property Management, Inc. In connection with this restructuring transaction, the owners of Trustmark Enterprises, Inc. indirectly own Sterling Management, LLC and GOLDMARK Property Management, Inc. Trustmark Enterprises, Inc. is owned in part by the Trust’s Chief Executive Officer and Trustee Mr. Kenneth P. Regan, by Trustee Mr. James S. Wieland, by President and Chief Investment Officer Joel S. Thomsen, by Chief Financial Officer and Treasurer Damon K. Gleave, and by General Counsel and Secretary Michael P. Carlson. In addition, Mr. Regan serves as the Executive Chairman, Chief Executive Officer and President of the Advisor, Mr. Thomsen serves as the Chief Investment Officer of the Advisor, Mr. Gleave serves as the Chief Financial Officer and Treasurer of the Advisor and Mr. Carlson serves as the General Counsel and Secretary of the Advisor. Messrs. Regan, Wieland, Thomsen, Gleave and Carlson serve on the Board of Governors of both the Advisor and GOLDMARK Property Management, Inc.

Sterling Management, LLC (the “Advisor”), is a North Dakota limited liability company formed in November 2002. The Advisor is responsible for managing day-to-day affairs, overseeing capital projects, and identifying, acquiring, and disposing investments on behalf of the trust.

GOLDMARK Property Management, Inc., is a North Dakota corporation formed in 1981. GOLDMARK Property Management, Inc. performs property management services for the Trust.

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We have a historical and ongoing relationship with Bell Bank. Bell Bank has provided the Trust certain financial services throughout the relationship. Mr. Wieland, a Trustee, also serves as a Board Member of Bell Bank. Mr. Wieland could have an indirect material interest in any such engagement and related transactions.

The Trust has a historical and ongoing relationship with Trumont Group and Trumont Construction. Trumont Group provides development services for current joint venture projects in which the Operating Partnership is an investor. Trumont Construction has been engaged to construct the properties associated with these joint ventures. Mr. Regan, Chief Executive Officer and trustee, is a partner in both Trumont Group and Trumont Construction and has a direct material interest in any engagement or related transaction, the Trust enters into, with these entities.

*Property Management Fee*

During the three months ended March 31, 2024 and 2023, we paid fees to GOLDMARK Property Management, Inc. related to the management of properties, on-site staff costs and other miscellaneous fees required to run the property of \$4,166 and \$3,633, respectively. Management fees paid the three months ended March 31, 2024 and 2023 approximated 5% of net collected rents. In addition, during the three months ended March 31, 2024 and 2023, we paid repair and maintenance expenses, and payroll related expenses to GOLDMARK Property Management, Inc. totaling \$2,285 and \$2,261, respectively.

*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 and was 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 21, 2024 and is effective until March 31, 2025.

The below table summarizes the fees incurred to our Advisor.

	Three Months ended March 31,	
	2024	2023
	(in thousands)	
<b>Fee:</b>		
Advisory	\$ 943	\$ 955
Acquisition	\$ -	\$ -
Disposition	\$ 84	\$ -
Financing	\$ -	\$ 44
Project Management	\$ 117	\$ 195

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The below table summarizes the fees payable to our Advisor.

	Payable at	
	March 31, 2024	March 31, 2023
	(in thousands)	
<b>Fee:</b>		
Advisory	\$ 5	\$ 336
Acquisition	\$ -	\$ -
Development	\$ -	\$ -
Disposition	\$ -	\$ 7
Project Management	\$ -	\$ 12
<i>Operating Partnership Units Issued in Connection with Acquisitions</i>		

During the three months ended March 31, 2024 and 2023, there were no Operating Partnership units issued.

*Commissions*

During the three months ended March 31, 2024 and 2023, there were no real estate commissions paid to GOLDMARK Commercial Real Estate. As of March 31, 2024 and December 31, 2023, there were no unpaid commissions to GOLDMARK Commercial Real Estate.

During the three months ended March 31, 2024 and 2023, there were no commission paid to GOLDMARK Property Management. As of March 31, 2024 and December 31, 2023, there were no unpaid commissions to GOLDMARK Commercial Real Estate.

*Rental Income*

the three months ended March 31, 2024 and 2023, we received rental income of \$69 and \$67, respectively, under an operating lease agreement with GOLDMARK Property Management, Inc.

During the three months ended March 31, 2024 and 2023, we received rental income of \$33 and \$33, respectively, under operating lease agreements with our Advisor.

During the three months ended March 31, 2024 and 2023, we received rental income of \$283 and \$225, respectively, under an operating lease agreement with Bell Bank.

*Other operational activity*

During the three months ended March 31, 2024 and 2023, the Trust incurred \$81 and \$33, respectively, for general costs related to business operations as well as capital expenditures related to construction in progress that were paid to related parties. At March 31, 2024 and December 31, 2023, operational outstanding liabilities were \$2 and \$ - , respectively.

**STERLING REAL ESTATE TRUST AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2024 AND 2023 (UNAUDITED)**

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

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*Debt Financing*

At March 31, 2024 and December 31, 2023, the Trust had \$59,682 and \$63,543, respectively, of outstanding principal on loans entered into with Bell Bank. During the three months ended March 31, 2024 and 2023, the Trust incurred interest expense on debt held with Bell Bank of \$580 and \$620, respectively. Accrued interest as of March 31, 2024, and December 31, 2023, related to this debt was \$130 and \$128, respectively.

*Mezzanine Financing*

The trust offers mezzanine financing to joint ventures, see note 5 for investment in unconsolidated affiliates. At March 31, 2024, and December 31, 2023, Sterling issued \$7,980 and \$8,766 respectively, in second mortgage financing to related entries.

During the three months ended March 31, 2024 and 2023, the trust earned interest income of \$151 and \$147 respectively, related to the second mortgage financing.

*Insurance Services*

The trust retains insurance services from Bell Insurance. Policies provided by these services provide insurance coverage for the Trust's Commercial segment as well as Director and Officer general and liability coverage. As of March 31, 2024, and December 31, 2023, total premiums incurred for this policy were \$76 and \$165. As of March 31, 2023, total premiums incurred for this policy was \$84.

*Development Arrangements*

During the three months ended March 31, 2024 and 2023, no development fees were paid to Trumont Group. At March 31, 2024, and December 31, 2023, the Trust had no costs owed for development fees to Trumont Group.

During the three months ended March 31, 2024 and 2023, the Trust incurred \$35 and \$113 respectively, in construction fees to Trumont Construction. At March 31, 2024, no construction fees costs were owed. At December 31, 2023, the Trust owed \$37 for construction fees to Trumont Construction.

During the three months ended March 31, 2024 and 2023, the Trust incurred \$84 and \$95 respectively, in general construction costs to Trumont Construction. At March 31, 2024, and December 31, 2023, no general construction costs were owed to Trumont Construction.

**NOTE 13 - 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.



**STERLING REAL ESTATE TRUST AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2024 AND 2023 (UNAUDITED)**

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

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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, tornadoes, 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 Trust 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 Trust.

**NOTE 14 – DISPOSITIONS**

During the three months ended March 31, 2024, the Trust disposed of three properties. One property located in Apple Valley, Minnesota was disposed of for \$1,607 with a recognized loss of \$68. One property located in Fargo, North Dakota was disposed of for \$900 with a recognized gain of \$489. One property located in Hawley, Minnesota was disposed of for \$837 with a recognized gain of \$394. During the three months ended March 31, 2023, the Trust did not dispose of any properties.

**NOTE 15 – ACQUISITIONS**

The Trust had no acquisitions during the three months ended March 31, 2024 and 2023.

**NOTE 16 - SUBSEQUENT EVENTS**

On April 3, 2024, the Trust disposed of a residential property located in Grand Forks, North Dakota for \$675.

On April 15, 2024, we paid a dividend or distribution of \$0.2875 per share on our common shares of beneficial interest or limited partnership units, respectively, to common shareholders and limited partnership unit holders of record on March 31, 2024.

On April 15, 2024, the Trust acquired a residential property located in Fargo, North Dakota for \$44,400.

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.

*All dollar amounts in this Form 10-Q in Part I Items 2. through 4. and Part II Items 2. are stated in thousands with the exception of share and per share amounts, unless otherwise indicated.*

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

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

Certain statements contained in this section and elsewhere in this Form 10-Q constitute “*forward-looking statements*” within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause our actual results, performance, or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Please see “Note Regarding Forward-Looking Statements” and “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2023, for more information. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made and are not guarantees of future performance.

### **Overview**

Sterling Real Estate Trust d/b/a Sterling Multifamily 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. Our real estate portfolio consisted of 180 properties containing 11,302 apartment units and approximately 1,471,000 square feet of leasable commercial space as of March 31, 2024. The portfolio has a net book value of real estate investments (cost less accumulated depreciation) of approximately \$755,381, which includes construction in progress. Sterling’s current acquisition strategy and focus is on multifamily apartment properties.

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

Below are accounting policies and estimates that management believes are critical to the preparation of the unaudited consolidated financial statements included in this Report. Certain accounting policies used in the preparation of these consolidated financial statements are particularly important for an understanding of the financial position and results of operations presented in the historical consolidated financial statements included in this Report. A summary of significant accounting policies is also provided in the aforementioned notes to our consolidated financial statements (see note 2 to the unaudited consolidated financial statements). These policies require the application of judgment and assumptions by management and, as a result, are subject to a degree of uncertainty. Due to this uncertainty, actual results could differ materially from estimates calculated and utilized by management.

### ***Impairment of Real Estate Investments***

The Trust will review each property within its portfolio, every quarter for potential impairment through various screening mechanisms (identifiers) to determine if there are indicators of impairment on a property. If so, the property is further analyzed through an undiscounted cash flow test. An identifier is not an indicator or triggering event for impairment; however, it is a mechanism to highlight an item on a property, which warrants further consideration and analysis to determine if an indicator is present. The following are examples of activities that are review quarterly:

- An individual property’s weighted average cost of capital is not meeting its required rate as calculated by management.
- Significant decline in Operational NOI in relation to individual residential properties.
- Significant decline in NOI in relation to individual commercial properties.
- Significant quarter over quarter decrease in occupancy.

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If the presence of one or more impairment identifier is noted through a screening mechanism at the end of the reporting period or throughout the year with respect to an investment property, the asset is further analyzed to determine if an indicator of impairment exists. If further analysis does not explain the properties performance, the Trust considers this to provide evidence that an indicator of impairment does exist, the property is then subject to additional impairment analysis, and an undiscounted cash flow analysis is performed on the individual property. Indicators of impairment include:

- Sustained reduction in cash flows/NOI that was not due to a planned action taken by the Company to improve long term operations and where discussion and review with the Portfolio management team cannot support a significant decline or insufficient NOI Coverage.

Additionally, Sterling considers certain occurrences at a property to be a triggering event, causing an analysis of impairment to occur, and an undiscounted cash flow analysis is performed. Triggering Events of impairment include:

- Continued difficulty in leasing property or renewing existing leases. Factors considered include:
  - Competitors building significantly newer properties.
  - Competitors are relocating out of the area.
  - Tenant downsizing and needing less square footage.
  - Significant decrease in market prices not in line with general market trends.
  - Property make-up of units is not in line with market trends.
  - Demographics of property.
- A significant adverse change in the extent or manner in which a long-lived asset (asset group) is being used or in its physical condition.
- A significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset (asset group), including an adverse action or assessment by a regulator.
- A current expectation that, “more likely than not,” a long-lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The term more likely than not refers to a level of likelihood that is more than 50 percent. As such, any property approved by the Board of Trustees to be sold, will be evaluated for impairment.

To the extent impairment has occurred, the Trust will record an impairment charge calculated as the excess of the carrying value of the asset over its fair value for impairment of investment properties. Based on evaluation, there were no impairment losses during the three months ended March 31, 2024 and 2023.

There have been no material changes in our Critical Accounting Policies as disclosed in Note 2 to our financial statements for the three months ended March 31, 2024 included elsewhere in this report.

### *Acquisition of Real Estate Investments*

The Company allocates the purchase price of properties that meet the definition of an asset acquisition to net tangible and identified intangible assets acquired based on their relative fair values. In making estimates of relative fair values for purposes of allocating purchase price, the Company utilizes a number of sources, including independent appraisals that may be obtained in connection with the acquisition or financing of the respective property, our own analysis of recently acquired and existing comparable properties in our portfolio and other market data. The Company also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing, and leasing activities in estimating the relative fair value of the tangible and intangible assets acquired.

### *REIT Status*

We operate in a manner intended to enable us to continue to qualify as a REIT under Sections 856-860 of the Internal Revenue Code. Under those sections, a REIT which distributes at least 90% of its REIT taxable income, excluding net capital gains, as a distribution to its shareholders each year and which meets certain other conditions will not be taxed on that portion of its taxable income which is distributed to its shareholders. We intend to distribute to our shareholders 100% of our taxable income. Therefore, no provision for Federal income taxes is required. If we fail to distribute the required

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amount of income to our shareholders, we would fail to qualify as a REIT and substantial adverse tax consequences may result.

***Principal Business Activity***

Sterling currently directly owns 180 properties. The Trust's 141 residential properties are located in North Dakota, Minnesota, Missouri, Nebraska, and Texas and are principally multifamily apartment buildings. The Trust owns 39 commercial properties primarily located in North Dakota with others located in Arkansas, Colorado, Iowa, Louisiana, Michigan, Minnesota, Mississippi, Nebraska, and Wisconsin. The commercial properties include retail, office, industrial, and medical properties. The Trust's mix of properties is 79.5% residential and 20.5% commercial (based on cost) with a total carrying value of \$755,381 at March 31, 2024. Currently our focus is limited to multifamily apartment properties. We will consider unsolicited offers for purchase of commercial properties on a case-by-case basis.

The following table represents the number of properties the Trust owns in each state as of March 31, 2024

<b>Residential Property</b>	<b>Location</b>	<b>No. of Properties</b>	<b>Units</b>
	North Dakota	121	7,188
	Minnesota	14	3,041
	Missouri	1	164
	Nebraska	4	639
	Texas	1	270
		141	11,302
<b>Commercial Property</b>	<b>Location</b>	<b>No. of Properties</b>	<b>Sq. Ft</b>
	North Dakota	20	776,000
	Arkansas	2	28,000
	Colorado	1	17,000
	Iowa	1	36,000
	Louisiana	1	15,000
	Michigan	1	12,000
	Minnesota	6	490,000
	Mississippi	1	15,000
	Nebraska	1	19,000
	Wisconsin	5	63,000
		39	1,471,000

**Results of Operations****Management Highlights**

- Increased revenues from rental operations by \$2,080 or 6.9% for the three months ended March 31, 2024, compared to the same three month-period in 2023.
- Declared and paid dividends aggregating \$0.2875 per common share for the three months ending March 31, 2024.

**Results of Operations for the Three Months Ended March 31, 2024 and 2023**

	Three months ended March 31, 2024			Three months ended March 31, 2023		
	Residential	Commercial (unaudited) (in thousands)	Total	Residential	Commercial (unaudited) (in thousands)	Total
Real Estate Revenues	\$ 32,154	\$ 5,106	\$ 37,260	\$ 29,920	\$ 5,260	\$ 35,180
Real Estate Expenses						
Real Estate Taxes	3,648	511	4,159	3,239	560	3,799
Property Management	4,434	192	4,626	3,875	205	4,080
Utilities	3,240	237	3,477	3,886	326	4,212
Repairs and Maintenance	6,243	377	6,620	8,161	604	8,765
Insurance	1,561	39	1,600	1,042	23	1,065
Total Real Estate Expenses	19,126	1,356	20,482	20,203	1,718	21,921
Net Operating Income	<u>\$ 13,028</u>	<u>\$ 3,750</u>	<u>16,778</u>	<u>\$ 9,717</u>	<u>\$ 3,542</u>	<u>13,259</u>
Interest			5,356			5,355
Depreciation and amortization			5,909			6,552
Administration of REIT			1,345			1,311
Loss on impairment of property			—			—
Other (loss) income			(474)			729
Income from continuing operations			<u>4,642</u>			<u>(688)</u>
Discontinued operations			—			—
Net Income (Loss)			<u>\$ 4,642</u>			<u>\$ (688)</u>
Net (Loss) Income Attributed to:						
Noncontrolling Interest			\$ 2,901			\$ (448)
Sterling Real Estate Trust			\$ 1,741			\$ (240)
Dividends per share <sup>(1)</sup>			\$ 0.2875			\$ 0.2875
Earnings per share			\$ 0.1500			\$ (0.0200)
Weighted average number of common shares			11,339			10,952

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

**Revenues**

Property revenues of \$37,260 for the three months ended March 31, 2024 increased \$2,080 or 5.9% in comparison to the same period in 2023. Residential property revenues increased \$2,234 and commercial property revenues decreased \$154.

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

	March 31, 2024	March 31, 2023
Residential occupancy	92.1 %	90.4 %
Commercial occupancy	90.6 %	88.4 %

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Residential revenues for the three months ended March 31, 2024 increased \$2,234 or 7.5% in comparison to the same period for 2023. The increase is due to increased rent charges at our properties and a decrease in vacancy. Residential revenues comprised 86.3% of total revenues for the three months ended March 31, 2024 compared to 85.0% of total revenues for the three months ended March 31, 2023. The residential occupancy rates for the three months ended March 31, 2024 decreased 1.7% primarily due to increased vacancy.

For the three months ended March 31, 2024, total commercial revenues decreased \$154 or 2.9% in comparison to the same period for 2023. The decrease was primarily attributed to the disposition of two commercial real estate investments in 2023. These properties account for \$161 of decreased commercial rent during the three months ended March 31, 2024. The commercial occupancy rates for the three months ended March 31, 2024 decreased 2.4%.

### ***Expenses***

Residential expenses from operations of \$19,126 during the three months ended March 31, 2024 decreased \$1,077 or 5.3% in comparison to the same period in 2023. The decrease is attributed to a decrease in repairs and maintenance expenses of \$1,918 or 23.5%. Increased project and upgrade costs in 2023 are from deferred projects in previous years, due to Covid restrictions. This is offset by an increase in real estate taxes for \$409, or 12.6% due to an overall increase across the portfolio, along with an increase in property management fees of \$559 or 14.4% during the three months ended March 31, 2024.

Commercial expenses from operations of \$1,356 during the three months ended March 31, 2024 decreased \$361 or 21.0% in comparison to the same period in 2023. The decrease is attributed to a decrease in repairs and maintenance for \$227, or 37.5%, and utilities for \$88 or 27.1%. This is due to a decrease in snow removal expenses, natural gas, and electricity for the three months ended March 31, 2024 in comparison to the same period in 2023.

Interest expense of \$5,356 during the three months ended March 31, 2024 remained the same in comparison to the same period in 2023. Interest expenses related to financing activities increased by \$90 during the three months ended March 31, 2024 as compared to the same period in 2023. Interest expense notes payable decreased \$72 during the three months ended March 31, 2024 due to the payoff of the Bell Bank promissory note at the beginning of 2023. During the three months ended March 31, 2024 interest expense was 14.4% of total revenues.

Depreciation and amortization expense of \$5,909 during the three months ended March 31, 2024 decreased \$643 or 9.8%. Amortization expense will continue to decrease as lease intangibles become fully amortized but will increase upon acquisitions of intangible assets. Depreciation and amortization expense as a percentage of rental income for the three months ended March 31, 2024 and 2023 was 15.9% and 18.6%, respectively.

REIT administration expenses of \$1,345 during the three months ended March 31, 2024 increased \$34 or 2.6% compared to the same period in 2023. The increase is attributable to an increase in the amount of audit fees and the REIT advisory fee.

Other income of \$473 for the three months ended March 31, 2024 increased \$1,202 or 165.0% in comparison to the same period in 2023. The increase is attributed to realized gains on the sale of real estate investments of \$815 in 2024.

## **Construction in Progress and Development Projects**

The Trust 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.

Construction in progress as of March 31, 2024, consists primarily of construction at several residential properties located in North Dakota and Minnesota. The Rosedale Estates project is primarily related to a new parking structure and parking lot. Current expectations for the parking structure will be completed in the second quarter of 2024, and the current budget is approximately \$2,099 of which \$1,677 has been incurred and is included in construction in progress. The Parking Lot has a current budget of \$5,032, of which \$1,323 has been incurred and is included in construction in progress. Remaining construction in progress projects are primarily related to building and roof system, roof replacements on multiple residential properties, residential exterior window systems, and new deck systems on multiple residential properties.

The Trust has one on-going development through ventures in unconsolidated affiliates.

Kessler Apartments, currently being developed in Fort Worth, Texas, is expected to be completed in the third quarter of 2024 and the current project budget approximates \$55,000 of which \$44,167 has been incurred as March 31, 2024.

## **Funds From Operations (FFO)**

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

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

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

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

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

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not necessarily indicative of sufficient cash flow to fund a real estate investment trust's need or its ability to service indebtedness or to pay dividends to shareholders.

The following tables include calculations of FFO and the reconciliations to net income, the three months ended March 31, 2024 and 2023, respectively. We believe these calculations are the most comparable GAAP financial measure:

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

	Three months ended	March 31, 2024	Three months ended	March 31, 2023
		Weighted Avg Shares and		Weighted Avg Shares and
	Amount	Units	Amount	Units
		(unaudited)		
		(in thousands, except per share data)		
Net Income attributable to Sterling Real Estate Trust	\$ 1,741	11,339	\$ (240)	10,952
Add back:				
Noncontrolling Interest - Operating Partnership Units	2,850	18,573	(408)	18,696
Depreciation & Amortization from continuing operations	5,767		6,552	
Pro rata share of unconsolidated affiliate depreciation and amortization	1,522		1,484	
Loss on impairment of real estate investments	—		—	
Subtract:				
Gain on sale of depreciable real estate	(815)		—	
Funds from operations applicable to common shares and limited partnership units (FFO)	\$ 11,065	29,912	\$ 7,388	29,648

## Liquidity and Capital Resources

### Evaluation of Liquidity

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

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

At March 31, 2024, our unrestricted cash resources consisted of cash and cash equivalents totaling approximately \$19,063. Our unrestricted cash reserves can be used for working capital needs and other commitments. In addition, we had unencumbered properties with a gross book value of \$57,398, which could potentially be used as collateral to secure additional financing in future periods.

The Trust has a \$4,915 variable rate (SOFR plus 2.00%) line of credit agreement with Bremer Bank, which expires in December 2026; and a \$5,000 variable rate (SOFR plus 2.00%) line of credit agreement with Bremer Bank, which expires December 2026. The lines of credit are secured by specific properties. The Trust anticipates renewing the line of credit expiring in the next 12 months to continue to hold it as a cash resource to the Trust.

The sale of our securities and issuance of limited partnership units of the Operating Partnership in exchange for property acquisitions and sale of additional common or preferred shares is also expected to be a source of long-term capital for us.



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During the three months ended March 31, 2024, we did not sell any common shares in private placements. During the three months ended March 31, 2024, we issued 87,000 and 37,000 common shares under the dividend reinvestment plan and optional share purchases, respectively, which raised gross proceeds of \$2,742. During the three months ended March 31, 2023, we did not sell any common shares in private placements. During the three months ended March 31, 2023, we issued 90,000 and 56,000 common shares under the dividend reinvestment plan and as optional share purchases, respectively, which raised gross proceeds of \$3,253.

Additionally, to reduce our cash investment and liquidity needs, the Trust utilizes the UPREIT structure whereby we can acquire property in whole or in part by issuing partnership units in lieu of cash payments. No limited partnership units of the Operating Partnership were issued in relation to the acquisition of real estate investments the three months ended March 31, 2024 and 2023.

The Board of Trustees, acting as general partner for the Operating Partnership, determined an estimate of fair value for the limited partnership units exchanged through the UPREIT structure. In determining this value, the Board relied upon their experience with, and knowledge about, the Trust's real estate portfolio and debt obligations. The Board typically determines the fair value on an annual basis. The Trustees determine the fair value, in their sole discretion and use data points to guide their determination which is typically based on a consensus of opinion. Thus, the Trust does not employ any specific valuation methodology or formula. Rather, the Board looks to available data and information, which is often adjusted and weighted to comport more closely with the assets held by the Trust at the time of valuation. The principal valuation methodology utilized is the NAV calculation/direct capitalization method. The information made available to the Board is assembled by the Trust's Advisor. In addition, the Board considers how the price chosen will affect existing share and unit values, redemption prices, dividend coverage ratios, yield percentages, dividend reinvestment factors, and future UPREIT transactions, among other considerations and information. The fair value was not determined based on, nor intended to comply with, fair value standards under US GAAP and the value may not be indicative of the price we would get for selling our assets in their current condition. At this time, no shares are held in street name accounts and the Trust is not subject to FINRA's specific pricing requirements set out in Rule 2340 or otherwise.

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.

Cash on hand, together with cash from operations and access to the lines of credit, is expected to provide sufficient capital to meet the Company's needs for at least the next 12 months and as appropriate, we will use cash flows from operations, net proceeds from share offerings, debt proceeds, and proceeds from the disposition of real estate investments to meet long term liquidity demands.

### *Credit Quality of Tenants*

We are exposed to credit risk within our tenant portfolio, which can reduce our results of operations and cash flow from operations if our tenants are unable to pay their rent. Tenants experiencing financial difficulties may become delinquent on their rent or default on their leases and, if they file for bankruptcy protection, may reject our lease in bankruptcy court, resulting in reduced cash flow. This may negatively impact net asset values and require us to incur impairment charges. Even if a default has not occurred and a tenant is continuing to make the required lease payments, we may restructure or renew leases on less favorable terms, or the tenant's credit profile may deteriorate, which could affect the value of the leased asset and could in turn require us to incur impairment charges.

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

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of tenants, refinancing debt and selling properties, as well as protecting our rights when tenants default or enter into bankruptcy.

*Lease Expirations and Occupancy*

Our residential leases are for a term of one year or less. The Advisor, with the assistance of our property managers, actively manages our real estate portfolio and begins discussing options with tenants in advance of scheduled lease expirations. In certain cases, we may obtain lease renewals from our tenants; however, tenants may elect to move out at the end of their term. In the cases where tenants elect not to renew, we may seek replacement tenants or try to sell the property.

**Cash Flow Analysis**

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

	Year ended March 31,	
	2024	2023
	(in thousands)	
Net cash flows provided by operating activities	\$ 4,646	\$ 4,474
Net cash flows (used in) provided by investing activities	\$ (357)	\$ 14,644
Net cash flows (used in) financing activities	\$ (11,328)	\$ (10,389)

*Operating Activities*

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

Net cash provided by operating activities was \$4,635 and \$4,474 the three months ended March 31, 2024 and 2023, respectively, which consists primarily of net income from property operations adjusted for non-cash depreciation and amortization.

*Investing Activities*

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

Net cash provided by investing activities was \$346 and used in investing activities was \$14,644 for the three months ended March 31, 2024 and 2023, respectively (this does not include the value of UPREIT units issued in connection with investing activities). For the three months ended March 31, 2024 and 2023, cash flows used in investing activities related to the acquisition of properties and capital expenditures was \$4,041 and \$1,782, respectively. Cash outlays related to investments in unconsolidated affiliates was \$ - and \$2,261 during the three months ended March 31, 2024 and 2023, respectively. During the three months ended March 31, 2024, there were no proceeds from the maturity of securities. During the three months ended March 31, 2023, there were proceeds from the maturity of securities for \$19,369. During the three months ended March 31, 2024, proceeds from sale of real estate investments were \$815. There were no proceeds from the sale of real estate investments during the three months ended March 31, 2023.

### *Financing Activities*

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

Net cash used in financing activities was \$11,328 and provided by financing activities was \$10,389 for the three months ended March 31, 2024 and 2023. During the three months ended March 31, 2024, we paid \$6,680 in dividends and distributions, redeemed \$1,518 of shares and units, received proceeds of \$— from new mortgage notes, and made mortgage principal payments of \$3,939. For the three months ended March 31, 2023, we paid \$6,531 in dividends and distributions, redeemed \$1,096 of shares and units, received proceeds of \$30,250 from new mortgage notes, and made mortgage principal payments of \$6,637.

### *Dividends and Distributions*

#### *Common Stock*

We declared cash dividends to our shareholders during the period from January 1, 2024 to March 31, 2024 totaling \$3,257 or \$0.2875 per share, of which \$1,419 were cash dividends and \$1,838 were reinvested under the dividend reinvestment plan. The cash dividends were paid from the \$4,635 from our cash flows from operations.

We declared cash dividends to our shareholders during the period from January 1, 2023 to March 31, 2023 totaling \$3,147 or \$0.2875 per share, of which \$1,151 were cash dividends and \$1,996 were reinvested under the dividend reinvestment plan. The cash dividends were paid from the \$4,474 from our cash flows from operations.

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

The following table presents certain information regarding our dividend coverage:

	Year ended March 31,	
	2024	2023
	(in thousands)	
Cash flows provided by operations (net income of \$4,642 and (\$687), respectively)	\$ 4,646	\$ 4,474
Distributions in excess of earnings received from unconsolidated affiliates	658	659
Gain on sales of real estate and non-real estate investments	815	—
Dividends declared	(3,257)	(3,147)
Excess	<u>\$ 2,862</u>	<u>\$ 1,986</u>

### *Limited Partnership Units*

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

For the three months ended March 31, 2024, we declared quarterly distributions totaling \$5,338 to holders of limited partnership units in our Operating Partnership, which we paid on April 15, 2024. Distributions were paid at a rate of \$0.2875 per unit per quarter, which is equal to the per share distribution rate paid to the common shareholders.

For the three months ended March 31, 2023, we declared quarterly distributions totaling \$5,373 to holders of limited partnership units in our Operating Partnership, which we paid on April 17, 2023. Distributions were paid at a rate of \$0.2875 per unit per quarter, which is equal to the per share distribution rate paid to the common shareholders.

### ***Sources of Dividends and Distributions***

For the three months ended March 31, 2024, aggregate dividends and distributions of \$3,257, are funded with cash flows provided by operating activities and distributions from unconsolidated affiliates. Our funds from operations, or FFO, was \$11,065 for the three months ended March 31, 2023; therefore, we believe our dividend and distribution policy is sustainable over time. For the three months ended March 31, 2023, we paid aggregate dividends and distributions of \$3,147 with cash flows provided by operating activities and distributions from unconsolidated affiliates. Our FFO was \$7,388 as of the three months ended March 31, 2023. For a further discussion of FFO, including a reconciliation of FFO to net income, see “Funds from Operations” above.

### **Recently Issued Accounting Pronouncements**

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

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The Trust is exposed to certain risk arising from both its business operations and economic conditions and principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Trust manages economic risks, liquidity, and credit risk primarily by managing the amount, sources, and duration of its assets and liabilities. The principal material financial market risk to which we are exposed, is interest-rate risk, which the Trust manages through the use of derivative financial instruments. Specifically, the Trust enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. During the three months ended March 31, 2024, the Trust used 12 interest rate swaps to hedge the variable cash flows associated with market interest rate risk. These swaps have an aggregated notional amount of \$102,534 the three months ended March 31, 2024. We do not enter into derivative instruments for trading or speculative purposes. The interest rate swaps expose us to credit risk in the event of non-performance by the counterparty under the terms of the agreement.

As of March 31, 2024 the Trust had \$102,534 of variable-rate borrowings, with the total outstanding balance fixed through interest rate swaps. Even though our goal is to maintain a fairly low exposure to interest rate risk, we may become vulnerable to significant fluctuations in interest rates on any future repricing or refinancing of our fixed or variable rate debt or future debt.

### **Item 4. Controls and Procedures**

#### **Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and interim-Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and interim-Chief Financial Officer have concluded that, as of March 31, 2024, such disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and is accumulated and communicated to management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

## **Changes in Internal Controls over Financial Reporting**

There were no changes in our internal controls over financial reporting that occurred during the first fiscal quarter of 2024 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

From time to time we may be involved in disputes or litigation relating to claims arising out of our operations. We are not currently a party to any legal proceedings that could reasonably be expected to have a material adverse effect on our business, financial condition or results of operation.

### **Item 1A. Risk Factors.**

We maintain our cash and cash equivalents at insured financial institutions. The combined account balances at each institution periodically exceeds the FDIC insurance coverage of \$250,000, and, as a result, there is a concentration of credit risk related to amounts in excess of FDIC insurance coverage. We do not have any bank accounts, loans from, or any other amounts due to or from any recently failed financial institution, nor have we experienced any losses to date on our cash and cash equivalents held in bank accounts. However, there is no assurance that financial institutions in which we hold our cash and cash equivalents will not fail, in which case we may be subject to a risk of loss or delay in accessing all or a portion of our funds exceeding the FDIC insurance coverage, which could adversely impact our short-term liquidity, ability to operating our business, and financial performance.

Other than as described above, there have been no material changes to the risk factors set forth in our Annual Report on Form 10-K for the period ended December 31, 2023.

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

#### **Sale of Securities**

Neither Sterling nor the Operating Partnership issued any unregistered securities during the three months ended March 31, 2024.

#### *Other Sales*

During the three months ended March 31, 2024, we did not issue any common shares in exchange for limited partnership units of the Operating Partnership.

## Redemptions of Securities

Set forth below is information regarding common shares and limited partnership units redeemed during the three months ended March 31, 2024:

Period	Total Number of Common Shares Redeemed	Total Number of Limited Partner Units Redeemed	Average Price Paid per Common Share/Unit	Total Number of Shares Redeemed as Part of Publicly Announced Plans or Programs	Total Number of Units Redeemed as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares (or Units) that May Yet Be Redeemed Under Publicly Announced Plans or Programs
January 1-31, 2024	31,000	3,000	\$ 21.85	1,610,000	1,300,000	\$ 8,937
February 1-29, 2024	14,000	8,000	\$ 21.85	1,624,000	1,308,000	\$ 8,452
March 1-31, 2024	5,000	8,000	\$ 21.85	1,629,000	1,316,000	\$ 8,170
Total	50,000	19,000				

For the three months ended March 31, 2024, the Trust redeemed all shares or units for which we received redemption requests. In addition, for the three months ended March 31, 2024, all common shares and units redeemed were redeemed as part of the publicly announced plans.

The Amended and Restated Share Redemption Plan, effective January 1, 2022, permits us to repurchase common shares held by our shareholders and limited partnership units held by partners of our Operating Partnership, up to a maximum amount of \$55,000 worth of shares and units, upon request by the holders after they have held them for at least one year and subject to other conditions and limitations described in the plan. The amount remaining to be redeemed as of March 31, 2024, was \$8,170. The redemption price for such shares and units redeemed under the plan was fixed at \$21.85 per share or unit, which became effective January 1, 2022. The redemption plan will terminate in the event the shares become listed on any national securities exchange, the subject of bona fide quotes on any inter-dealer quotation system or electronic communications network or are the subject of bona fide quotes in the pink sheets. Additionally, the Board, in its sole discretion, may terminate, amend, or suspend the redemption plan at any time if it determines to do so is in our best interest.

### Item 3. Defaults Upon Senior Securities.

None.

### Item 4. Mine Safety Disclosures.

Not applicable.

### Item 5. Other Information.

None.

**Item 6. Exhibits.**

<u>Exhibit Number</u>	<u>Title of Document</u>
10.1	<a href="#"><u>Thirteenth Amended and Restated Advisory Agreement, effective April 1, 2024 (incorporated by reference to Exhibit No. 10.1 to the Trust's current report on Form 8-K filed April 18, 2024).</u></a>
31.1	<a href="#"><u>Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
31.2	<a href="#"><u>Certification of the Interim-Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
32.1	<a href="#"><u>Certification of Chief Executive Officer and Interim-Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the of the Sarbanes-Oxley Act of 2002.</u></a>
101	The following materials from Sterling Real Estate Trust's Quarterly Report on Form 10-Q for the quarter ended March 31, 2024, formatted in iXBRL (Inline iXtensible Business Reporting Language): (i) Consolidated Balance Sheets at March 31, 2024 and December 31, 2023; (ii) Consolidated Statements of Operations and Other Comprehensive Income for the three months ended March 31, 2024 and 2023; (iii) Consolidated Statements of Shareholders' Equity for three months ended March 31, 2024 and 2023; (iv) Consolidated Statements of Cash Flows for the three months ended March 31, 2024 and 2023, and; (v) Notes to Consolidated Financial Statements.
104	Cover Page Interactive Data File, formatted in iXBRL and contained in Exhibit 101.

**SIGNATURES**

Pursuant to the requirements 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: May 8, 2024

**STERLING REAL ESTATE TRUST**

By: /s/ Kenneth P. Regan  
Kenneth P. Regan  
Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Megan E. Schreiner  
Megan E. Schreiner  
Interim-Chief Financial Officer  
(Principal Financial Officer)



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

I, Kenneth P. Regan, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me 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 my 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 my 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: May 8, 2024

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

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

I, Megan E. Schreiner, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me 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 my 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 my 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: May 8, 2024

By: /s/ Megan E. Schreiner  
Interim Chief Financial Officer

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

In connection with the Quarterly Report of Sterling Real Estate Trust (the “Company”) on Form 10-Q for the period ended March 31, 2024 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 certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; 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: May 8, 2024

By: /s/ Kenneth P. Regan

Chief Executive Officer

By: /s/ Megan E. Schreiner

Interim Chief Financial Officer

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

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