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

**FORM 10-Q**

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

**For the Quarterly Period Ended March 31, 2017**

Or

☐ Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition Period from ------------to------------

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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** | **90-0115411** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **1711 Gold Drive South, Suite 100, Fargo, North Dakota** | **58103** |
| (Address of principal executive offices) | (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)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 | ☐ | Accelerated filer | ☒ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| Emerging growth company | ☒ | | |
| (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.

| Class | Outstanding at May 5, 2017 |
|---|---|
| Common Shares of Beneficial Interest, $0.01 par value per share | 8,229,441 |

# STERLING REAL ESTATE TRUST

## INDEX

# PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

### STERLING REAL ESTATE TRUST AND SUBSIDIARIES
### CONSOLIDATED BALANC E SHEETS
### AS OF MARCH 31, 2017 (UNAUDITED) AND DECEMBER 31, 2016

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| | (in thousands) | |
| **ASSETS** | | |
| Real estate investments | $ 629,725 | $ 622,975 |
| Cash and cash equivalents | 20,997 | 12,034 |
| Restricted deposits and funded reserves | 7,886 | 7,213 |
| Investment in unconsolidated affiliates | 3,543 | 3,653 |
| Due from related party | — | 34 |
| Receivables | 4,496 | 4,258 |
| Prepaid expenses | 1,238 | 433 |
| Notes receivable | 600 | 600 |
| Financing and lease costs, less accumulated amortization of $1,799 in 2017 and $1,720 in 2016 | 939 | 950 |
| Assets held for sale | 2,480 | 2,482 |
| Lease intangible assets, less accumulated amortization of $11,381 in 2017 and $10,770 in 2016 | 15,111 | 15,852 |
| Other assets | 22 | 29 |
| Total Assets | $ 687,037 | $ 670,513 |
| **LIABILITIES** | | |
| Mortgage notes payable, net | $ 400,828 | $ 390,479 |
| Special assessments payable | 469 | 480 |
| Dividends payable | 6,239 | 5,925 |
| Due to related party | 829 | 957 |
| Tenant security deposits payable | 3,967 | 3,851 |
| Subordinated debt | 175 | 175 |
| Lease intangible liabilities, less accumulated amortization of $1,188 in 2017 and $1,122 in 2016 | 1,988 | 2,075 |
| Accounts payable - trade | 311 | 438 |
| Retainage payable | 336 | 288 |
| Liabilities related to assets held for sale | 140 | 125 |
| Fair value of interest rate swaps | 121 | 145 |
| Deferred insurance proceeds | 1,586 | 102 |
| Accrued expenses and other liabilities | 6,114 | 6,818 |
| Total Liabilities | 423,103 | 411,858 |
| COMMITMENTS and CONTINGENCIES - Note 17 | | |
| **SHAREHOLDERS' EQUITY** | | |
| Beneficial interest | 85,498 | 84,727 |
| Noncontrolling interest | | |
| Operating partnership | 174,707 | 170,138 |
| Partially owned properties | 3,850 | 3,935 |
| Accumulated other comprehensive loss | (121) | (145) |
| Total Shareholders' Equity | 263,934 | 258,655 |
| | $ 687,037 | $ 670,513 |

See Notes to Consolidated Financial Statements

## STERLING REAL ESTATE TRUST AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE INCOME
## FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016 (UNAUDITED)

| | Three Months Ended March 31, 2017 | Three Months Ended March 31, 2016 |
|---|---|---|
| | (in thousands, except per share data) | |
| Income from rental operations | | |
| Real estate rental income | $ 26,406 | $ 25,212 |
| Tenant reimbursements | 1,623 | 1,476 |
| | 28,029 | 26,688 |
| Expenses | | |
| Expenses from rental operations | | |
| Interest | 4,639 | 4,542 |
| Depreciation and amortization | 5,363 | 5,645 |
| Real estate taxes | 2,594 | 2,316 |
| Property management fees | 3,036 | 2,569 |
| Utilities | 2,498 | 2,193 |
| Repairs and maintenance | 4,958 | 4,158 |
| Insurance | 368 | 348 |
| Loss on lease terminations | 115 | — |
| | 23,571 | 21,771 |
| Administration of REIT | | |
| Administrative expenses | 96 | 99 |
| Advisory fees | 696 | 643 |
| Acquisition and disposition expenses | 512 | 712 |
| Trustee fees | 13 | 22 |
| Legal and accounting | 186 | 182 |
| | 1,503 | 1,658 |
| Total expenses | 25,074 | 23,429 |
| Income from operations | 2,955 | 3,259 |
| Other income (expense) | | |
| Equity in income of unconsolidated affiliates | 212 | 247 |
| Other income | 25 | 17 |
| Gain (Loss) on sale of real estate and non-real estate investments | (23) | (4) |
| Gain on sale of investment in equity method investee | 3 | — |
| Gain (Loss) on involuntary conversion | 28 | (145) |
| | 245 | 115 |
| Net income | $ 3,200 | $ 3,374 |
| Net income (loss) attributable to noncontrolling interest: | | |
| Operating Partnership | 2,228 | 2,256 |
| Partially owned properties | (85) | (155) |
| Net income attributable to Sterling Real Estate Trust | $ 1,057 | $ 1,273 |
| | | |
| Net income per common share, basic and diluted | $ 0.13 | $ 0.17 |
| | | |
| Comprehensive income: | | |
| Net income | $ 3,200 | $ 3,374 |
| Other comprehensive gain (loss) - change in fair value of interest rate swaps | 24 | (14) |
| Comprehensive income | 3,224 | 3,360 |
| Comprehensive income attributable to noncontrolling interest | 2,160 | 2,092 |
| Comprehensive income attributable to Sterling Real Estate Trust | $ 1,064 | $ 1,268 |

See Notes to Consolidated Financial Statements

## STERLING REAL ESTATE TRUST AND SUBSIDIARIES
## CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
## FOR THE THREE MONTHS ENDED MARCH 31, 2017 (UNAUDITED)

| | Common Shares | Paid-in Capital | Accumulated Distributions in Excess of Earnings | Total Beneficial Interest | Noncontrolling Interest: Operating Partnership | Noncontrolling Interest: Partially Owned Properties | Accumulated Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|---|---|
| | | | | (in thousands) | | | | |
| BALANCE AT DECEMBER 31, 2016 | 8,001 | $ 106,207 | $ (21,480) | $ 84,727 | $ 170,138 | $ 3,935 | $ (145) | $ 258,655 |
| Contribution of assets in exchange for the issuance of noncontrolling interest shares | | | | | 6,760 | — | | 6,760 |
| Shares/units redeemed | (15) | (232) | | (232) | (187) | — | | (419) |
| Dividends declared | | | (2,008) | (2,008) | (4,232) | — | | (6,240) |
| Dividends reinvested - stock dividend | 82 | 1,252 | | 1,252 | | | | 1,252 |
| Issuance of shares under optional purchase plan | 44 | 702 | | 702 | | | | 702 |
| Change in fair value of interest rate swaps | | | | | | | 24 | 24 |
| Net income | | | 1,057 | 1,057 | 2,228 | (85) | | 3,200 |
| BALANCE AT MARCH 31, 2017 | 8,112 | $ 107,929 | $ (22,431) | $ 85,498 | $ 174,707 | $ 3,850 | $ (121) | $ 263,934 |

See Notes to Consolidated Financial Statements

**STERLING REAL ESTATE TRUST AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOW S**
**FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016 (UNAUDITED)**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| | (in thousands) | |
| OPERATING ACTIVITIES | | |
| Net income | $ 3,200 | $ 3,374 |
| Adjustments to reconcile net income to net cash from operating activities | | |
| (Gain) loss on sale of real estate and non-real estate investments | 23 | 4 |
| (Gain) loss on involuntary conversion | (28) | 145 |
| Loss on lease terminations | 115 | — |
| Equity in income of unconsolidated affiliates | (212) | (247) |
| Distributions of earnings of unconsolidated affiliates | 212 | 243 |
| Depreciation | 4,705 | 4,601 |
| Amortization | 641 | 1,013 |
| Amortization of debt issuance costs | 184 | 165 |
| Effects on operating cash flows due to changes in | | |
| Restricted deposits - tenant security deposits | (104) | (74) |
| Restricted deposits - real estate tax and insurance escrows | 1,058 | 796 |
| Due from related party | 34 | 60 |
| Receivables | (301) | (370) |
| Prepaid expenses | (806) | (367) |
| Other assets | 7 | 125 |
| Due to related party | (534) | (106) |
| Tenant security deposits payable | 116 | 76 |
| Accounts payable - trade | (127) | (503) |
| Accrued expenses and other liabilities | (727) | (1,399) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 7,456 | 7,536 |
| INVESTING ACTIVITIES | | |
| Purchase of real estate investment properties | (2,049) | (4,145) |
| Capital expenditures and tenant improvements | (2,212) | (1,187) |
| Proceeds from sale of real estate investments | 42 | 4 |
| Proceeds from involuntary conversion | 1,576 | 140 |
| Investment in unconsolidated affiliates | (20) | (64) |
| Distributions in excess of earnings received from unconsolidated affiliates | 130 | 160 |
| Restricted deposits - replacement reserve escrows | (1,627) | 294 |
| Notes receivable payments received | 2 | 3 |
| NET CASH USED IN INVESTING ACTIVITIES | (4,158) | (4,795) |
| FINANCING ACTIVITIES | | |
| Payments for financing, debt issuance and lease costs | (232) | (144) |
| Principal payments on special assessments payable | (59) | (151) |
| Proceeds from issuance of mortgage notes payable and subordinated debt | 13,223 | 4,937 |
| Principal payments on mortgage notes payable | (2,877) | (2,837) |
| Advances on lines of credit | — | 6,669 |
| Payments on lines of credit | — | (967) |
| Proceeds from issuance of shares under optional purchase plan | 702 | 605 |
| Shares/units redeemed | (419) | (672) |
| Dividends/distributions paid | (4,673) | (4,183) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 5,665 | 3,257 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 8,963 | 5,998 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 12,034 | 6,461 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $ 20,997 | $ 12,459 |

See Notes to Consolidated Financial Statements

## STERLING REAL ESTATE TRUST AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CASH FLOWS
## FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016 (UNAUDITED) (Continued)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| | (in thousands) | |
| SCHEDULE OF CASH FLOW INFORMATION | | |
| Cash paid during the period for interest, net of capitalized interest | $ 4,627 | $ 4,316 |
| | | |
| SUPPLEMENTARY SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES | | |
| Dividends reinvested | $ 1,252 | $ 1,136 |
| Dividends declared and not paid | 2,008 | 1,845 |
| UPREIT distributions declared and not paid | 4,232 | 3,772 |
| UPREIT units converted to REIT common shares | — | 9 |
| Acquisition of assets in exchange for the issuance of noncontrolling interest units in UPREIT | 6,760 | 7,057 |
| Increase in land improvements due to increase in special assessments payable | 48 | 34 |
| Unrealized gain (loss) on interest rate swaps | 24 | (14) |
| Acquisition of assets with new financing | — | 2,662 |
| Acquisition of assets through assumption of debt and liabilities | — | 5 |
| Capitalized interest and real estate taxes related to construction in progress | 37 | 11 |
| Acquisition of assets with accounts payable | — | 480 |

See Notes to Consolidated Financial Statements

**STERLING REAL ESTATE TRUST AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**MARCH 31, 2017 AND 2016 (UNAUDITED)**
(Dollar amounts in thousands, except share and per share data)

## NOTE 1 - ORGANIZATION

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

Sterling previously established an operating partnership ("Sterling Properties, LLLP") and transferred all of its assets and liabilities to the operating partnership in exchange for general partnership units. As the general partner, Sterling has management responsibility for all activities of the operating partnership. As of March 31, 2017 and December 31, 2016, Sterling owned approximately 32.18% and 32.41%, 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, 2016, 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. The accompanying consolidated balance sheets as of March 31, 2017 and consolidated statements of operations and other comprehensive income, consolidated statement of shareholders' equity, and consolidated statements of cash flows for the three months ended March 31, 2017 and 2016, as applicable, have not been audited by our independent registered public accounting firm. 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, 2017 and 2016. 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.

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.

**STERLING REAL ESTATE TRUST AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**MARCH 31, 2017 AND 2016 (UNAUDITED)**
(Dollar amounts in thousands, except share and per share data)

*Principal Business Activity*

Sterling currently owns directly and indirectly 159 properties. The Trust's 109 residential properties are located in North Dakota, Minnesota, Missouri and Nebraska and are principally multifamily apartment buildings. The Trust owns 50 commercial properties primarily located in North Dakota with others located in Arkansas, Colorado, Iowa, Louisiana, Michigan, Minnesota, Mississippi, Nebraska, Texas and Wisconsin. The commercial properties include retail, office, industrial, restaurant and medical properties. Presently, the Trust's mix of properties is 69.9% residential and 30.1% commercial (based on cost) and total $629,725 in real estate investments at March 31, 2017. Effective January 1, 2016, Sterling's acquisition strategy and focus is solely on multifamily apartment properties. We currently have no plans to dispose of our existing commercial properties.

| Residential Property | Location | No. of Properties | Units |
|---|---|---|---|
| | North Dakota | 90 | 5,644 |
| | Minnesota | 16 | 3,027 |
| | Missouri | 1 | 164 |
| | Nebraska | 2 | 316 |
| | | 109 | 9,151 |

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

*Concentration of Credit Risk*

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

*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*

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

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

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

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

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

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

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

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

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

Depreciation expense for the three months ended March 31, 2017 and 2016 totaled $4,705 and $4,601, respectively.

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

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

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

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

- projected operating cash flows considering factors such as vacancy rates, rental rates, lease terms, tenant financial strength, demographics, holding period and property location;
- projected capital expenditures and lease origination costs;
- projected cash flows from the eventual disposition of an operating property using a property specific capitalization rate;
- comparable selling prices; and
- property specific discount rates for fair value estimates as necessary.

To the extent impairment has occurred, the Company will record an impairment charge calculated as the excess of the carrying value of the asset over its fair value for impairment of investment properties. Based on evaluation, there were no impairment losses during the three months ended March 31, 2017 and 2016.

*Properties Held for Sale*

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

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

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

- given the actions required to complete the plan to sell the asset, it is unlikely that significant changes to the plan would be made or that the plan would be withdrawn.

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

There was one retail property classified as held for sale at March 31, 2017 and December 31, 2016. See Note 18.

*Construction in Progress*

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

*Cash and Cash Equivalents*

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

*Investment in Unconsolidated Affiliates*

We account for unconsolidated affiliates using the equity method of accounting per guidance established under ASC 323, Investments – Equity Method and Joint Ventures ("ASC 323"). The equity method of accounting requires the investment to be initially recorded at cost and subsequently adjusted for our share of equity in the affiliates' earnings and distributions. We evaluate the carrying amount of the investments for impairment in accordance with ASC 323. Unconsolidated affiliates are reviewed for potential impairment if the carrying amount of the investment exceeds its fair value. An impairment charge is recorded when an impairment is deemed to be other-than-temporary. To determine whether impairment is other-than-temporary, we consider whether we have the ability and intent to hold the investment until the carrying amount is fully recovered. The evaluation of an investment in an affiliate for potential impairment can require our management to exercise significant judgments. No impairment losses were recorded related to the unconsolidated affiliates for the three months ended March 31, 2017 and 2016.

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

In determining whether an investment in a limited liability company or tenant in common is a variable interest entity, we consider: the form of our ownership interest and legal structure; the size of our investment; the financing structure of the entity, including the necessity of subordinated debt; estimates of future cash flows; our and our partner's ability to participate in the decision making related to acquisitions, dispositions, budgeting and financing on the entity; and obligation to absorb losses and preferential returns. As of March 31, 2017, our tenant in common arrangements do not qualify as variable interest entities and do not meet the control requirements for consolidation, as defined in ASC 810.

As of March 31, 2017 and December 31, 2016, the unconsolidated affiliates held total assets of $25,293 and $26,140 and mortgage notes payable of $19,911 and $20,017, respectively.

The operating partnership owns a 40.26% interest as a tenant in common in a single asset limited liability company which owns a 144 unit residential, multifamily apartment complex in Bismarck, North Dakota. The property is encumbered by a first mortgage with a balance at March 31, 2017 and December 31, 2016 of $2,173 and $2,190, respectively. The Company is jointly and severally liable for the full mortgage balance.

The operating partnership is a 50% owner of Grand Forks Marketplace Retail Center as a tenant in common through 100% ownership in a limited liability company. Grand Forks Marketplace Retail Center has approximately 183,000 square feet of commercial space in Grand Forks, North Dakota. The property is encumbered by a non-recourse first mortgage with a balance at March 31, 2017 and December 31, 2016 of $10,841 and $10,891, respectively. The Company is jointly and severally liable for the full mortgage balance.

The operating partnership owns a 66.67% interest as tenant in common in an office building with approximately 75,000 square feet of commercial rental space in Fargo, North Dakota. The property is encumbered by a first mortgage with a balance at March 31, 2017 and December 31, 2016 of $6,897 and $6,936, respectively. The Company is jointly and severally liable for the full mortgage balance.

*Receivables*

Receivables consist primarily of amounts due for rent. The receivables are non-interest bearing. The carrying amount of receivables is reduced by an amount that reflects management’s best estimates of the amounts that will not be collected. As of March 31, 2017 and December 31, 2016, management determined no allowance was necessary for uncollectible receivables.

*Financing and Lease Costs*

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

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

*Debt Issuance Costs*

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

*Intangible Assets*

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

The carrying amount of intangible assets is regularly reviewed for indicators of impairments in value. Impairment is recognized only if the carrying amount of the intangible asset is considered to be unrecoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and the estimated fair value of the asset. Based on the review, management determined no impairment charges were necessary at March 31, 2017 and December 31, 2016.

*Noncontrolling Interest*

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

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

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

*Syndication Costs*

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

*Federal Income Taxes*

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

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.

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

We follow ASC Topic 740, *Income Taxes,* to recognize, measure, present and disclose in our consolidated financial statements uncertain tax positions that we have taken or expect to take on a tax return. As of March 31, 2017 and December 31, 2016 we did not have any liabilities for uncertain tax positions that we believe should be recognized in our consolidated financial statements. We are no longer subject to Federal and State tax examinations by tax authorities for years before 2013.

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

*Revenue Recognition*

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

We lease commercial space primarily under long-term lease agreements. Commercial tenant rents include base rents, expense reimbursements (such as common area maintenance, real estate taxes and utilities), and a straight-line rent adjustment. We record base rents on a straight-line basis. The monthly base rent income according to the terms of our leases is adjusted so that an average monthly rent is recorded for each tenant over the term of its lease. The straight-line rent adjustment increased revenue by $73 and $174 for the three months ended March 31, 2017 and 2016, respectively. The straight-line receivable balance included in receivables on the consolidated balance sheets as of March 31, 2017 and December 31, 2016 was $3,435 and $3,362, respectively. We receive payments for expense reimbursements from substantially all our multi-tenant commercial tenants throughout the year based on estimates. Differences between estimated recoveries and the final billed amounts, which generally are immaterial, are recognized in the subsequent year.

*Earnings per Common Share*

Basic earnings per common share is computed by dividing net income available to common shareholders (the "numerator") by the weighted average number of common shares outstanding (the "denominator") during the period. Sterling had no dilutive potential common shares as of March 31, 2017 and 2016, 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, 2017 and 2016, Sterling's denominators for the basic and diluted earnings per common share were approximately 8,117,000 and 7,690,000, respectively.

*Recent Accounting Pronouncements*

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

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

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

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

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

**STERLING REAL ESTATE TRUST AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**MARCH 31, 2017 AND 2016 (UNAUDITED)**
(Dollar amounts in thousands, except share and per share data)

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

## NOTE 3 – SEGMENT REPORTING

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

### 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, 2017 and 2016, 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, 2017 | | | Three months ended March 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Residential | Commercial (in thousands) | Total | Residential | Commercial (in thousands) | Total |
| Income from rental operations | $ 21,047 | $ 6,982 | $ 28,029 | $ 19,769 | $ 6,919 | $ 26,688 |
| Expenses from rental operations | 11,620 | 1,834 | 13,454 | 10,001 | 1,583 | 11,584 |
| Net operating income | $ 9,427 | $ 5,148 | $ 14,575 | $ 9,768 | $ 5,336 | $ 15,104 |
| Interest | | | 4,639 | | | 4,542 |
| Depreciation and amortization | | | 5,363 | | | 5,645 |
| Administration of REIT | | | 1,503 | | | 1,658 |
| Loss on lease terminations | | | 115 | | | — |
| Other (income)/expense | | | (245) | | | (115) |
| Net income | | | $ 3,200 | | | $ 3,374 |

### Segment Assets and Accumulated Depreciation

| As of March 31, 2017 | Residential | Commercial (in thousands) | Total |
|---|---|---|---|
| Real estate investments | $ 525,444 | $ 201,242 | $ 726,686 |
| Accumulated depreciation | (66,419) | (30,542) | (96,961) |
| | $ 459,025 | $ 170,700 | 629,725 |
| Cash and cash equivalents | | | 20,997 |
| Restricted deposits and funded reserves | | | 7,886 |
| Investment in unconsolidated affiliates | | | 3,543 |
| Receivables and other assets | | | 6,356 |
| Financing and lease costs, less accumulated amortization | | | 939 |
| Assets held for sale | | | 2,480 |
| Intangible assets, less accumulated amortization | | | 15,111 |
| Total Assets | | | $ 687,037 |

**STERLING REAL ESTATE TRUST AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**MARCH 31, 2017 AND 2016 (UNAUDITED)**
(Dollar amounts in thousands, except share and per share data)

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

**NOTE 4 – REAL ESTATE INVESTMENTS**

| As of March 31, 2017 | Residential | Commercial | Total |
|---|---|---|---|
| | | (in thousands) | |
| Land and land improvements | $ 68,570 | $ 37,769 | $ 106,339 |
| Building and improvements | 429,267 | 161,690 | 590,957 |
| Furniture, fixtures and equipment | 24,868 | 1,466 | 26,334 |
| Construction in progress | 2,739 | 317 | 3,056 |
| | 525,444 | 201,242 | 726,686 |
| Less accumulated depreciation | (66,419) | (30,542) | (96,961) |
| | $ 459,025 | $ 170,700 | $ 629,725 |

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

Construction in progress as of March 31, 2017 consists of development and planning costs associated with phase II and III of a multifamily apartment community under construction in Bismarck, North Dakota. Phase II of the project consists of a clubhouse and six 6-plex, two-story townhomes and Phase III consists of up to six, 4-story apartment buildings with underground parking. The clubhouse was substantially complete in July 2016 and three townhome buildings were substantially completed September 2016, November 2016 and February 2017, respectively. Site work has commenced on the remaining three townhome buildings of Phase II. Phase III of the development is still in the planning stages and construction has not yet commenced. Phase II of the project is estimated to cost $9,027 and is expected to be substantially completed in third quarter 2017. We have a construction contract of $1,198 for the clubhouse and $7,829 for the townhomes, of which $1,198 and $5,596 have been completed to date, including $56 and $280 of retainage which is included in payables at March 31, 2017, respectively. The Company is working with GOLDMARK Development Corporation, a related party, as the general contractor for Phase II.

**NOTE 5 – NOTES RECEIVABLE**

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

**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, 2017 | Lease Intangibles | Accumulated Amortization | Lease Intangibles, net |
|---|---|---|---|
| Lease Intangible Assets | | (in thousands) | |
| In-place leases | $ 23,377 | $ (10,415) | $ 12,962 |
| Above-market leases | 3,115 | (966) | 2,149 |
| | $ 26,492 | $ (11,381) | $ 15,111 |
| Lease Intangible Liabilities | | | |
| Below-market leases | $ (3,176) | $ 1,188 | $ (1,988) |

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

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

| Years ending December 31, | Intangible Assets | Intangible Liabilities |
|---|---|---|
| | (in thousands) | |
| 2017 (April 1, 2017 to December 31, 2017) | $ 1,848 | $ 212 |
| 2018 | 2,237 | 278 |
| 2019 | 1,932 | 269 |
| 2020 | 1,507 | 218 |
| 2021 | 1,210 | 189 |
| Thereafter | 6,377 | 822 |
| | $ 15,111 | $ 1,988 |

The weighted average amortization period for the intangible assets, in-place leases, above-market leases, and below-market leases acquired as of March 31, 2017 was 6.0 years.

**NOTE 7 – LINES OF CREDIT**

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

Certain line of credit agreements include covenants that, in part, impose maintenance of certain debt service coverage and debt to net worth ratios. As of December 31, 2016, one residential property was out of compliance with Bremer's debt service coverage ratio requirement on an individual property basis. A waiver was received from the lender. As of March 31, 2017, we were in compliance with all covenants.

**NOTE 8 - MORTGAGE NOTES PAYABLE**

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

| | Principal Balance At | |
|---|---|---|
| | March 31, 2017 | December 31, 2016 |
| | (in thousands) | |
| Fixed rate mortgage notes payable (a) | $ 403,857 | $ 393,511 |
| Less unamortized debt issuance costs | 3,029 | 3,032 |
| | $ 400,828 | $ 390,479 |

(a) Includes $3,030 and $3,056 of variable rate mortgage debt that was swapped to a fixed rate at March 31, 2017 and December 31, 2016, respectively.

As of March 31, 2017, we had 121 mortgage loans with effective interest rates ranging from 2.57% to 7.25% per annum and a weighted average effective interest rate of 4.42% per annum.

As of December 31, 2016, we had 117 mortgage loans with effective interest rates ranging from 2.57% to 7.25% per annum, and a weighted average effective interest rate of 4.44% per annum.

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

Certain mortgage note agreements include covenants that, in part, impose maintenance of certain debt service coverage and debt to worth ratios. As of December 31, 2016, five loans on residential properties were out of compliance due to various unit renovation and parking lot repair and maintenance costs. The loans were secured by properties located in Fargo and Bismarck, North Dakota with a total outstanding balance of $8,336 at December 31, 2016. Annual waivers have been received from the lenders. As of March 31, 2017, we were in compliance with all covenants.

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

| Years ending December 31, | Amount (in thousands) |
|---|---|
| 2017 (April 1, 2017 to December 31, 2017) | $ 33,813 |
| 2018 | 17,303 |
| 2019 | 24,619 |
| 2020 | 27,277 |
| 2021 | 45,126 |
| Thereafter | 255,719 |
| Total payments | $ 403,857 |

**NOTE 9 – HEDGING ACTIVITIES**

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

The carrying amount of the swaps have been adjusted to their fair values at the end of the quarter, which because of changes in forecasted levels of LIBOR, resulted in reporting a liability for the fair value of the future net payments forecasted under the swaps. The interest rate swaps are accounted for as effective hedges in accordance with ASC 815-20 whereby they are recorded at fair value and changes in fair value are recorded to accumulated comprehensive income. As of March 31, 2017 and December 31, 2016, we recorded a liability and other comprehensive loss of $121 and $145, respectively.

**NOTE 10 - FAIR VALUE MEASUREMENT**

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

| | March 31, 2017 | | December 31, 2016 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| | (in thousands) | | | |
| **Financial liabilities:** | | | | |
| Mortgage notes payable, net | $ 400,828 | $ 404,781 | $ 390,479 | $ 402,438 |
| Fair value of interest rate swaps | $ 121 | $ 121 | $ 145 | $ 145 |

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

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

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

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

***Recurring Fair Value Measurements***

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

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | | (in thousands) | | |
| **March 31, 2017** | | | | |
| Fair value of interest rate swaps | $ — | $ 121 | $ — | $ 121 |
| **December 31, 2016** | | | | |
| Fair value of interest rate swaps | $ — | $ 145 | $ — | $ 145 |

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

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of March 31, 2017 and December 31, 2016 , the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation. As a result, the Company has determined that its derivative valuations in their entirety are classified within Level 2 of the fair value hierarchy. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered any applicable credit enhancements. The Company's derivative instruments are further described in Note 9.

***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) | | |
| **March 31, 2017** | | | | |
| Mortgage notes payable, net | $ — | $ — | $ 404,781 | $ 404,781 |
| **December 31, 2016** | | | | |
| Mortgage notes payable, net | $ — | $ — | $ 402,438 | $ 402,438 |

*Mortgage notes payable:* The Company estimates the fair value of its mortgage notes payable by discounting the future cash flows of each instrument at rates currently offered to the Company for similar debt instruments of comparable maturities by the Company's lenders. Judgment is used in determining the appropriate rate for each of the Company's individual mortgages and notes payable based upon the specific terms of the agreement, including the term to maturity, the quality and nature of the underlying property and its leverage ratio. The rates used range from 4.25% to 4.50% and from 4.00% to 4.35% at March 31, 2017 and December 31, 2016 , respectively. The fair value of the Company's matured mortgage notes payable were determined to be equal to the carrying value of the properties because there is no market for similar debt instruments and the properties' carrying value was determined to be the best estimate of fair value as of March 31, 2017 and December 31, 2016. The Company's mortgage notes payable are further described in Note 8.

**NOTE 11 – NONCONTROLLING INTEREST OF UNITHOLDERS IN OPERATING PARTNERSHIP**

As of March 31, 2017 and December 31, 2016, outstanding limited partnership units totaled 17,098,000 and 16,688,000 respectively. As of March 31, 2017 and 2016, the operating partnership declared distributions of $4,232 and $3,772 respectively, to limited partners paid on April 15, 2017 and 2016, respectively. Distributions per unit were $0.2475 and $0.2400 during the three months ended March 31, 2017 and 2016, respectively.

During the three months ended March 31, 2017, there were no limited partnership units exchanged for common shares pursuant to redemption requests. During the three months ended March 31, 2016, Sterling exchanged 1,000 common shares for 1,000 limited partnership units held by limited partners, pursuant to redemption requests. The aggregate value of these transactions was $9.

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

**NOTE 12 – REDEMPTION PLANS**

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

Our redemption plans currently provide that the maximum amount that can be redeemed under the plan is $30,000 worth of securities. Currently, the fixed redemption price is $15.50 per share or unit under the plans, which price became effective March 29, 2017.

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

During the three months ended March 31, 2017 and 2016, the Company redeemed 15,000 and 8,000 common shares valued at $232 and $117, respectively. In addition, during the three months ended March 31, 2017 and 2016, the Company redeemed 12,000 and 38,000 units valued at $187 and $555, respectively.

**NOTE 13 – BENEFICIAL INTEREST**

We are authorized to issue 100,000,000 common shares of beneficial interest with $0.01 par value and 50,000,000 preferred shares with $0.01 par value, which collectively represent the entire beneficial interest of Sterling. As of March 31, 2017 and December 31, 2016, there were 8,112,000 and 8,001,000 common shares outstanding, respectively. We had no preferred shares outstanding as of either date.

Dividends paid to holders of common shares were $0.2475 per share and $0.2400 per share for the three months ended March 31, 2017 and 2016, respectively.

**NOTE 14 – DIVIDEND REINVESTMENT PLAN**

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

Under this plan, eligible shareholders may elect to have all or a portion (but not less than 25%) of the cash dividends they receive automatically reinvested in our common shares. If an eligible shareholder elects to reinvest cash dividends under the plan, the shareholder may also make additional optional cash purchases of our common shares, not to exceed $5 per fiscal quarter without our prior approval. The purchase price per common share under the plan equals 95% of the estimated value per common share for dividend reinvestments and equals 100% of the estimated value per common share for additional optional cash purchases, as determined by our Board of Trustees. The estimated value per common share was $16.50 and $16.00 at March 31, 2017 and December 31, 2016, respectively. See discussion of determination of estimated value in Note 19.

Therefore, the purchase price per common share for dividend reinvestments was $15.68 and $15.20 and for additional optional cash purchases was $16.50 and $16.00 at March 31, 2017 and December 31, 2016, respectively. The Board, in its sole discretion, may amend, suspend or terminate the plan at any time, without the consent of shareholders, upon a ten day notice to participants.

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

In the three months ended March 31, 2017, 82,000 shares were issued pursuant to dividend reinvestments and 44,000 shares were issued pursuant to additional optional cash purchases under the plan. In the three months ended March 31, 2016, 77,000 shares were issued pursuant to dividend reinvestments and 39,000 shares were issued pursuant to additional optional cash purchases under the plan.

**NOTE 15 – RELATED PARTY TRANSACTIONS**

*Property Management Fee*

During the three months ended March 31, 2017 and 2016, we paid property management fees to GOLDMARK Property Management in an amount equal to 5% of rents of the properties managed by GOLDMARK. GOLDMARK Property Management is owned in part by Kenneth Regan and James Wieland. For the three months ended March 31, 2017 and 2016, we paid management fees of $2,769 and $2,369, respectively, to GOLDMARK Property Management. In addition, during the three months ended March 31, 2017 and 2016, we paid repair and maintenance related payroll and payroll related expenses to GOLDMARK Property Management totaling $1,247 and $1,116, respectively.

*Board of Trustee Fees*

We incurred Trustee fees of $13 and $22 during the three months ended March 31, 2017 and 2016, respectively. As of March 31, 2017, and December 31, 2016 we owed our Trustees $40 and $26 for unpaid board of trustee fees, respectively. There is no cash retainer paid to Trustees. Instead, we pay Trustees specific amounts for meetings attended.

The plan provides:

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

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

*Advisory Agreement*

We are an externally managed trust and as such, although we have a Board of Trustees and executive officers responsible for our management, we have no paid employees. The following is a brief description of the current fees and compensation that may be received by the Advisor under the Advisory Agreement, which must be renewed on an annual basis and approved by a majority of the independent trustees. The Advisory Agreement was approved by the Board of Trustees (including all the independent Trustees) on April 6, 2017, effective January 1, 2017.

Management Fee: 0.35% of our total assets (before depreciation and amortization), annually. Total assets are our gross assets (before depreciation and amortization) as reflected on our consolidated financial statements, taken as of the end of the fiscal quarter last preceding the date of computation. The management fee will be payable monthly in cash or our common shares, at the option of the Advisor, not to exceed one-twelfth of 0.35% of the total assets as of the last day of the

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immediately preceding month. The management fee calculation is subject to quarterly and annual reconciliations. The management fee may be deferred at the option of the Advisor, without interest.

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

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

Financing Fee: 0.25% of all amounts made available to us pursuant to any loan, refinance (excluding rate and/or term modifications of an existing loan with the same lender), line of credit or other credit facility. The finance fee shall be capped at $38 per loan, refinance, line of credit or other credit facility.

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

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

TC = Total Project Cost

Management Fees

During the three months ended March 31, 2017 and 2016, we incurred advisory management fees of $696 and $643 with Sterling Management, LLC, our Advisor. As of March 31, 2017 and December 31, 2016, we owed our Advisor $233 and $226, respectively, for unpaid advisory management fees. These fees cover the office facilities, equipment, supplies, and staff required to manage our day-to-day operations. During the three months ended March 31, 2017 and 2016, we did not reimburse the Advisor for any operating costs.

Acquisition Fees

During the three months ended March 31, 2017 and 2016, we incurred acquisition fees of $220 and $348, respectively, with our Advisor. There were no acquisition fees owed to our Advisor as of March 31, 2017. As of December 31, 2016, we owed our Advisor $226 for unpaid acquisition fees.

Financing Fees

During the three months ended March 31, 2017 and 2016, we incurred financing fees of $33 and $34 with our Advisor for loan financing and refinancing activities. There were no financing fees owed to our Advisor as of March 31, 2017 or December 31, 2016, respectively.

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Disposition Fees

During the three months ended March 31, 2017 and 2016, there were no disposition fees incurred with our Advisor. See Note 18. There were no disposition fees owed to our Advisor as of March 31, 2017 and December 31, 2016, respectively.

Development Fees

During the three months ended March 31, 2017, we incurred $233 in development fees incurred with our Advisor. During the three months ended March 31, 2016, there were no development fees incurred with our Advisor. As of March 31, 2017 and December 31, 2016, we owed our Advisor a total of $89 and $82 for unpaid development fees, of which $82 and $81 were for unpaid development fees as part of a 10% hold back, respectively.

*Operating Partnership Units Issued in Connection with Acquisitions*

During the three months ended March 31, 2017, we issued directly or indirectly, 50,000 operating partnership units to entities affiliated with Messrs. Regan and Wieland, two of our trustees, and Messr. Swenson, one of our officers, in connection with the acquisition of various properties. The aggregate value of these units was $808.

During the three months ended March 31, 2016, we issued directly or indirectly, 150,000 operating partnership units to entities affiliated with Messrs. Regan and Wieland, two of our trustees, in connection with the acquisition of various properties. The aggregate value of these units was $2,319.

*Commissions*

During the three months ended March 31, 2017 and 2016, we incurred real estate commissions of $264 and $316, respectively, owed to GOLDMARK Commercial Real Estate Services, Inc. (f/k/a GOLDMARK SCHLOSSMAN Commercial Real Estate Services, Inc.), which is controlled by Messrs. Regan and Wieland. There were no outstanding commissions owed as of March 31, 2017 and December 31, 2016.

*Rental Income*

During the three months ended March 31, 2017 and 2016, we received rental income of $54 and $54, respectively, under an operating lease agreement with GOLDMARK Property Management.

During the three months ended March 31, 2017 and 2016, we received rental income of $13 and $13, respectively, under an operating lease agreement with GOLDMARK Commercial Real Estate Services, Inc.

During the three months ended March 31, 2017 and 2016, we received rental income of $11 and $11, respectively, under operating lease agreements with our Advisor.

*Construction Costs*

As of March 31, 2017, since the project's inception, we incurred total costs of $6,763 related to the construction of Phase II of the Bismarck, North Dakota development project which consists of a clubhouse and six 6-plex two-story townhomes to GOLDMARK Development. As of March 31, 2017, we owed GOLDMARK Development $336 for retainage and $411 for unpaid construction fees.

As of December 31, 2016, since the project's inception through its completion in 2015, we incurred total costs of $5,767 related to the construction of Phase II of the Bismarck, North Dakota development project which consists of a clubhouse and six 6-plex two-story townhomes to GOLDMARK Development, which is controlled by Messrs. Regan and Wieland. As of December 31, 2016, we owed GOLDMARK Development $355 for retainage and $411 for unpaid construction fees.

**NOTE 16 - RENTALS UNDER OPERATING LEASES / RENTAL INCOME**

Residential apartment units are rented to individual tenants with lease terms of one year or less. Gross revenues from residential rentals totaled $21,047 and $19,769 for the three months ended March 31, 2017 and 2016, respectively.

Commercial properties are leased to tenants under terms expiring at various dates through 2034. Lease terms often include renewal options. For the three months ended March 31, 2017 and 2016, gross revenues from commercial property rentals, including CAM income (common area maintenance) of $1,623 and $1,476, respectively, totaled $6,982 and $6,919, respectively.

**NOTE 17 - COMMITMENTS AND CONTINGENCIES**

*Environmental Matters*

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

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

*Risk of Uninsured Property Losses*

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

*Litigation*

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

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## NOTE 18 – DISPOSITIONS

During September 2016, the Company entered into a purchase agreement to sell a retail property located in Fargo, North Dakota. This property qualified for held for sale accounting treatment upon meeting all applicable GAAP criteria on or prior to September 30, 2016, at which time depreciation and amortization ceased. As such, the assets and liabilities associated with this property were separately classified as held for sale in the consolidated balance sheet as of March 31, 2017 and December 31, 2016. The Company expects to close on this sale in the second quarter of 2017.

The following table presents the assets and liabilities associated with the investment properties held for sale:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| | (in thousands) | |
| **ASSETS** | | |
| Real estate investments | $ 2,365 | $ 2,365 |
| Restricted deposits and funded reserves | 22 | 22 |
| Receivables | 24 | 25 |
| Notes receivable | 40 | 42 |
| Prepaid expenses | 1 | — |
| Financing and lease costs, less accumulated amortization of $87 in 2017 and 2016 | 28 | 28 |
| Total Assets | $ 2,480 | $ 2,482 |
| **LIABILITIES** | | |
| Special assessments payable | $ 103 | $ 103 |
| Tenant security deposits payable | 22 | 22 |
| Accrued expenses and other liabilities | 15 | — |
| Total Liabilities | $ 140 | $ 125 |

## NOTE 19 – BUSINESS COMBINATIONS AND ACQUISITIONS

The Company closed on the following acquisitions during the three months ended March 31, 2017:

| Date | Property Name | Location | Property Type | Units/ Square Footage/ Acres | Acquisition Price | Prorata Acquisition Price |
|---|---|---|---|---|---|---|
| 1/10/17 | Sargent Apartments | Fargo, ND | Apartment complex | 36 units | $ 1,710 | $ 1,710 |
| 1/11/17 | Arrowhead | Grand Forks, ND | Apartment complex | 82 units | 5,494 | 5,494 |
| 1/17/17 | West Oak | Fargo, ND | Apartment complex | 18 units | 777 | 777 |
| 1/17/17 | Carr | Fargo, ND | Apartment complex | 18 units | 828 | 828 |
| | | | | | $ 8,809 | $ 8,809 |

Total consideration given for acquisitions through March 31, 2017 was completed through issuing approximately 423,000 limited partnership units of the operating partnership valued at $16.00 per unit for an aggregate consideration of approximately $6,760 and cash of $2,049. The value of units issued in exchange for property is determined through a value established annually by our Board of Trustees, and reflects the fair value at the time of issuance.

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The Company closed on the following acquisitions during the three months ended March 31, 2016:

| Date | Property Name | Location | Property Type | Units/ Square Footage/ Acres | Acquisition Price | Prorata Acquisition Price |
|---|---|---|---|---|---|---|
| 1/29/16 | Titan Machinery | North Platte, NE | Implement dealership | 16,480 sq. ft. | $ 1,769 | $ 1,769 |
| 2/1/16 | Bristol Park Apartments | Grand Forks, ND | Apartment complex | 80 units | 5,050 | 5,050 |
| 2/1/16 | Redpath | White Bear Lake, MN | Office building | 25,817 sq. ft. | 4,000 | 4,000 |
| 3/1/16 | Eagle Sky I Apartments | Bismarck, ND | Apartment complex | 20 units | 1,525 | 1,525 |
| 3/1/16 | Eagle Sky II Apartments | Bismarck, ND | Apartment complex | 20 units | 1,525 | 1,525 |
| | | | | | $ 13,869 | $ 13,869 |

Total consideration given for acquisitions through March 31, 2016 was completed through issuing approximately 455,000 limited partnership units of the operating partnership valued at $15.50 per unit for an aggregate consideration of approximately $7,057, new loans of $2,662, assumed liabilities of $5 and cash of $4,145. The value of units issued in exchange for property is determined through a value established annually by our Board of Trustees, and reflects the fair value at the time of issuance.

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

| | Three Months Ended March 31, 2017 | Three Months Ended March 31, 2016 |
|---|---|---|
| Land, building, tenant improvements and FF&E | $ 8,809 | $ 12,659 |
| Acquired lease intangible assets | - | 1,386 |
| Acquired lease intangible liabilities | - | (176) |
| Mortgages notes payable assumed | - | (5) |
| Net assets acquired | 8,809 | 13,864 |
| Equity/limited partnership unit consideration | (6,760) | (7,057) |
| New loans | - | (2,662) |
| Net cash consideration (a) | $ 2,049 | $ 4,145 |

***Estimated Value of Units/Shares***

The Board of Trustees determined an estimate of fair value for the trust shares in the first three months of 2017 and 2016. In addition, the Board of Trustees, acting as general partner for the operating partnership, determined an estimate of fair value for the limited partnership units in the first three months of 2017 and 2016. In determining the fair value of the shares and limited partnership units, the board relied upon their experience with, and knowledge about, our real estate portfolio and debt obligations. The board typically determines the share price in March of each year. The trustees determine the price in their discretion and use data points to guide their determination which is typically based on a consensus of opinion. 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.

Determination of price is a matter within the board’s sole discretion. The Trust does not determine price based on any rote formula or specific factors and is not based on, or intended to comply with, fair value standards under U.S. GAAP. The value may not be indicative of the price received for selling the 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. 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 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.

Based on the results of the methodologies, the Board determined the fair value of the shares and limited partnership units to be $16.00 per share/unit effective March 23, 2016. The Board determined the fair value of the shares and limited partnership units to be $16.50 per share/unit effective March 29, 2017.

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 fair values of our real estate, as determined by GAAP, as our book value for most real estate is based on the amortized cost of the property, subject to certain adjustments.

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

**NOTE 20 - SUBSEQUENT EVENTS**

On April 17, 2017, we paid a dividend or distribution of $0.2475 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, 2017.

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. Such factors include, but are not limited to: (i) trends affecting our financial condition or results of operations; (ii) our business and growth strategies; (iii) the real estate industry; (iv) our financing plans; and (v) other risks detailed in the Company's periodic reports filed with the Securities and Exchange Commission. The words *"believe", "expect", "anticipate", "may", "plan", "should",* and similar expressions identify forward-looking statements. 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**

We operate as an Umbrella Partnership Real Estate Investment Trust (UPREIT), which is a REIT that holds all or substantially all of its assets through a partnership which the REIT controls as general partner. Therefore, we hold all or substantially all of our assets through our operating partnership. We control the operating partnership as the sole general partner and own approximately 32.18% of the operating partnership as of March 31, 2017. For purposes of satisfying the asset and income tests for qualification as a REIT for tax purposes, our proportionate shares of the assets and income of our operating partnership are deemed to be assets and income of the trust.

We use this UPREIT structure to facilitate acquisitions of real estate properties. A sale of property directly to a REIT is generally a taxable transaction to the property seller. However, in an UPREIT structure, if a property seller exchanges the property with one of its operating partnerships in exchange for limited partnership units, the seller may defer taxation of gain in such exchange until the seller resells its limited partnership units or exchanges its limited partnership units for the REIT's common stock. By offering the ability to defer taxation, we may gain a competitive advantage in acquiring desired properties over other buyers who cannot offer this benefit. In addition, investing in our operating partnership, rather than directly in Sterling, may be more attractive to certain institutional or other investors due to their business or tax structure. If an investor is interested in making a substantial investment in our operating partnership, our structure provides us the flexibility to accommodate different terms for each investment, while applicable tax laws generally restrict a REIT from charging different fee rates among its shareholders. Finally, if our shares become publicly traded, the former property seller may be able to achieve liquidity for the investment in order to pay taxes.

***Operating Partnership***

Our operating partnership, Sterling Properties, LLLP, was formed as a North Dakota limited liability limited partnership on April 25, 2003 to acquire, own and operate properties on our behalf. The operating partnership holds a diversified portfolio of multifamily and commercial properties located principally in the upper and central Midwest United States.

As of March 31, 2017, approximately 69.9% of our properties were apartment communities located primarily in North Dakota with others located in Minnesota, Missouri and Nebraska. Most multifamily properties are leased to a variety of tenants under short-term leases.

As of March 31, 2017, approximately 30.1% of our properties were comprised of office, retail, industrial, restaurant and medical commercial property located primarily in North Dakota with others located in Arkansas, Colorado, Iowa, Louisiana, Michigan, Minnesota, Mississippi, Nebraska, Texas and Wisconsin. We have both single and multi-tenant properties in the commercial portfolio, most of which are under long-term leases.

Our real estate portfolio consisted of 159 properties containing 9,151 apartment units and approximately 1,719,000 square feet of leasable commercial space as of March 31, 2017. The portfolio has a net book value of real estate investments (cost less accumulated depreciation) of approximately $629,725, which includes construction in progress. Effective January 1, 2016, Sterling's acquisition strategy and focus is solely on multifamily apartment properties. We currently have no plans to dispose of our existing commercial properties.

***Our Board of Trustees and Executive Officers***

We operate under the direction of our Board of Trustees, the members of which are accountable to us and our shareholders. Our trustees are elected annually by our shareholders. In addition, the Board has a duty to supervise our relationship with the Advisor and evaluates the performance of and fees paid to the Advisor on an annual basis. The Advisory Agreement was approved by the Board of Trustees (including all the independent trustees) on April 6, 2017, effective January 1, 2017. Our Board of Trustees has provided investment guidance for the Advisor to follow, and must approve each investment recommended by the Advisor. Currently, we have nine members on our board, seven of whom are independent.

***Our Advisor***

Our external Advisor is Sterling Management, LLC, a North Dakota limited liability company formed on November 14, 2002. Our Advisor, with offices in Fargo, North Dakota, is responsible for managing our day-to-day affairs and for identifying, acquiring and disposing investments on our behalf.

***Conflicts of Interest***

We are subject to various conflicts of interest arising out of our relationship with our trustees, executive officers, key personnel and our Advisor and its affiliates. Some of the conflicts of interest in our transactions with our Advisor and others are described below.

Our trustees and officers and the officers and key personnel of our Advisor (herein individually and collectively our "Leadership") may spend a portion of their time on activities unrelated to us, which may significantly reduce the amount of time to be spent by one or more of our Leadership on Sterling activities. Each of our Leadership, including Messrs. Regan and Weiland, is currently expected to spend a significant portion of their time on our behalf, but may not always spend a majority of their time on our behalf.

One or more of our Leadership, including Messrs. Regan and Weiland, may also serve as trustees, directors, governors, members, officers or key personnel of other: (a) affiliated entities, including our Advisor; (b) real estate programs, real estate entities, or REITs; (c) advisors to other real estate programs, real estate entities or REITs; or (d) property managers to real estate programs, real estate entities or REITs (herein collectively "Other Real Estate Related Activities"). In addition, from time to time, members of our Leadership may purchase real estate or interests in real estate for themselves, which may conflict with Sterling's activities or objectives. Leadership's management of Other Real Estate Related Activities may significantly reduce the amount of time our Leadership is able to spend on Sterling related activities. Given Leadership is or may become involved in Other Real Estate Related Activities, there may be times where Sterling's fundraising, acquisition, disposition and liquidation activities overlap with similar activities of Leadership's Other Real Estate Related Activities. This overlap may cause conflicts of interest to arise with respect to, among other things, finding investors, locating and acquiring real estate investments, leasing activities and disposing of investments. The conflicts of interest faced could generally cause our operating results to suffer.

Certain members of Leadership will have fiduciary duties relating to their Other Real Estate Related Activities. These fiduciary duties may conflict with Leadership's duties to Sterling and its shareholders. Leadership's Other Real Estate Related Activities could result in actions or inactions detrimental to Sterling, which could harm the implementation of Sterling's business strategies and Sterling's investments. If Sterling does not successfully implement its business strategy, we may be unable to generate cash needed to pay dividends to shareholders and to maintain or increase the value of our assets.

Conflicts with Sterling's business and interests are most likely to arise from Leadership's involvement in activities related to: (a) allocation of new investments and management time and services between Sterling and Leadership's Other Real Estate Related Activities, (b) allocation of time and services between Sterling and Leadership's Other Real Estate Related Activities; (c) Sterling's purchase of properties from, or sale of properties to, affiliated entities, (d) the timing and terms of the investment in or sale of an asset, (e) development of our properties by affiliates, (f) investments with or activities of affiliates of our Advisor and (g) compensation to our Advisor.

To the extent Leadership engages in future Other Real Estate Related Activities, Sterling may compete for investors with such activities. Any overlap of capital raising efforts of Other Real Estate Related Activities with Sterling's capital raising efforts or other activities could adversely affect our ability to raise capital in the future and the amount of proceeds we have to spend on real estate investments.

Sterling may, in the future, purchase real estate investments at the same time as Leadership is purchasing real estate investments via Other Real Estate Related Activities. As a result, Leadership may owe duties to both Sterling and the Other Real Estate Related Activities, their members and limited partners and these investors, which duties may from time to time conflict with the duties they owe to Sterling and its shareholders.

Leadership may engage for their own account in business activities of the types conducted or to be conducted by Sterling or our subsidiaries. To the extent Leadership takes actions that are more favorable to other entities than to us, these actions could have a negative impact on Sterling's financial performance and, consequently, on dividends to our shareholders and the value of our stock.

**Interests in Other Real Estate Programs**

Leadership and entities owned by Leadership may, in the future, acquire real estate investments for their own accounts, and have done so in the past. Furthermore, Leadership and entities owned or managed by Leadership may form additional real estate investment entities in the future, including additional REITs, which can be expected to have the same or similar investment objectives and policies as we do and which may be involved in the same geographic areas. Leadership is not obligated to present to us any particular investment opportunity that comes to their attention, unless such opportunity is of a character that might be suitable for investment by us. Leadership likely will experience conflicts of interest as they simultaneously perform services for us and Other Real Estate Related Activities.

Any affiliated entity, whether or not currently existing, could compete with us in the purchase, sale or operation of real estate investments. We will seek to achieve any operating efficiency or similar savings that may result from affiliated management of competitive investments. However, to the extent that affiliates own or acquire an investment that is adjacent or its underlying property is adjacent, or in close proximity, to a property we own, our property may compete with the affiliate's property for tenants or purchasers. Every transaction that we enter into with Leadership is subject to an inherent conflict of interest. Leadership may encounter conflicts of interest in enforcing our rights against any affiliate in the event of a default by or disagreement with an affiliate or in invoking powers, rights or options pursuant to any agreement between us and our Advisor or any of its affiliates.

**Other Activities of Our Advisor and Its Affiliates**

We rely on our Advisor for the day-to-day operation of our business. As a result of the current and/or future interests of Leadership in any other program and the fact that they also are engaged, or may continue to engage, in Other Real Estate Related Activities, Leadership has conflicts of interest in allocating their time between us and any other programs and other activities in which they are involved. Our Advisor presently believes that it and its affiliates have sufficient personnel to discharge fully their responsibilities to all of the sponsored programs and other ventures in which they are or may become involved.

In addition, each of our executive officers also serves or may serve in the future as an officer of one or more affiliated entities, including our Advisor, and/or other affiliated entities. As a result, these individuals owe or will owe fiduciary duties to these other entities, which may conflict with the fiduciary duties that they owe to us and our shareholders.

We may purchase real estate investments from affiliates of our Advisor. The prices we pay to affiliates of our Advisor for these investments will not be the subject of arm's-length negotiations, which could mean that the acquisitions may be on terms less favorable to us than those negotiated with unaffiliated parties.

**Competition in Acquiring, Leasing and Operating of Properties**

Conflicts of interest will exist to the extent Sterling acquires, or seeks to acquire, properties in the same geographic areas where properties owned by Leadership or Leadership's Other Real Estate Related Activities are located. In such a case, a conflict could arise in the acquisition or leasing of properties if we and one of Leadership's Other Real Estate Related Activities were to compete for the same properties or tenants in negotiating leases, or a conflict could arise in connection with the resale of properties if we were to attempt to sell similar properties at the same time.

Conflicts of interest also may exist at such time as we or our affiliates managing property on our behalf seek to employ developers, contractors or building managers, as well as under other circumstances. Leadership will seek to reduce conflicts relating to the employment of developers, contractors or building managers. Leadership will also seek to reduce conflicts that may arise with respect to properties available for sale or rent. However, these conflicts cannot be fully avoided in that there may be established differing compensation arrangements at different properties or differing terms for resales or leasing of the various properties.

**Joint Ventures with Affiliates**

We may enter into joint ventures with Leadership's Other Real Estate Related Activities (as well as other parties) for the acquisition of real estate investments. Leadership may have conflicts of interest in determining whether its Other Real Estate Related Activity should enter into any particular joint venture agreement. The co-venturer may have economic or business interests or goals which are or which may become inconsistent with Sterling's business interests or goals. In addition, should any such joint venture be consummated, Leadership may face a conflict in structuring the terms of the relationship between Sterling's interests and the interest of the co-venturer and in managing the joint venture. Since Leadership may control both us and any affiliated co-venturer, agreements and transactions between the co-venturers with respect to any such joint venture may not have the benefit of arm's-length negotiation of the type normally conducted between unrelated co-venturers.

**Conflict Resolution**

Every transaction that we enter into with Leadership will be subject to an inherent conflict of interest. Our Board of Trustees may encounter conflicts of interest in enforcing our rights or options against a member of Leadership in the event of a disagreement.

***Critical Accounting Estimates***

Preparation of our financial statements requires estimates and judgments to be made that affect the amounts of assets, liabilities, revenues and expenses reported. Such decisions include the selection of the appropriate accounting principles to be applied and the assumptions on which to base accounting estimates. We evaluate these estimates based on assumptions we believe to be reasonable under the circumstances.

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, 2017 included elsewhere in this report.

**Specific Achievements**

- Increased revenues from rental operations by $1,341 or 5.0% for the three months ended March 31, 2017, compared to same three month period in 2016.
- Acquired four residential apartment properties totaling 154 units for a total of $8,809 during the three months ended March 31, 2017. In addition, we placed in service a six unit townhome building.
- Declared and paid dividends aggregating $0.2475 per common share for the first three months of 2017.

**Results of Operations for the Three Months Ended March 31, 2017 and 2016**

| | Three months ended March 31, 2017 | | | Three months ended March 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Residential | Commercial | Total | Residential | Commercial | Total |
| | | (unaudited) (in thousands) | | | (unaudited) (in thousands) | |
| Real Estate Revenues | $ 21,047 | $ 6,982 | $ 28,029 | $ 19,769 | $ 6,919 | $ 26,688 |
| Real Estate Expenses | | | | | | |
| Real Estate Taxes | 1,872 | 722 | 2,594 | 1,698 | 618 | 2,316 |
| Property Management Fees | 2,794 | 242 | 3,036 | 2,373 | 196 | 2,569 |
| Utilities | 2,145 | 353 | 2,498 | 1,858 | 335 | 2,193 |
| Repairs and Maintenance | 4,465 | 493 | 4,958 | 3,737 | 421 | 4,158 |
| Insurance | 344 | 24 | 368 | 335 | 13 | 348 |
| Total Real Estate Expenses | 11,620 | 1,834 | 13,454 | 10,001 | 1,583 | 11,584 |
| Net Operating Income | $ 9,427 | $ 5,148 | 14,575 | $ 9,768 | $ 5,336 | 15,104 |
| Interest | | | 4,639 | | | 4,542 |
| Depreciation and amortization | | | 5,363 | | | 5,645 |
| Administration of REIT | | | 1,503 | | | 1,658 |
| Loss on lease terminations | | | 115 | | | — |
| Other (income)/expense | | | (245) | | | (115) |
| Net Income | | | $ 3,200 | | | $ 3,374 |
| | | | | | | |
| Net Income Attributed to: | | | | | | |
| Noncontrolling Interest | | | $ 2,143 | | | $ 2,101 |
| Sterling Real Estate Trust | | | $ 1,057 | | | $ 1,273 |
| Dividends per share [(1)] | | | $ 0.2475 | | | $ 0.2400 |
| Earnings per share | | | $ 0.1300 | | | $ 0.1700 |
| Weighted average number of common shares | | | 8,117 | | | 7,690 |

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

***Revenues***

Property revenues of $28,029 for the three months ended March 31, 2017 increased $1,341 or 5.0% in comparison to the same period in 2016. Residential property revenues increased $1,278 and commercial property revenues increased $63.

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

| | March 31, 2017 | March 31, 2016 |
|---|---|---|
| Residential occupancy | 94.8 % | 95.6 % |
| Commercial occupancy | 97.2 % | 94.5 % |

Residential revenues for the three months ended March 31, 2017 increased $1,278 in comparison to the same period for 2016. Residential properties acquired since January 1, 2016 contributed approximately $1,164 to the increase in total residential revenues in the three months ended March 31, 2017. Rental income from residential properties owned for more than one year increased approximately $114 in comparison to the three months ended March 31, 2016. Residential revenues comprised 75.1% of total revenues for the three months ended March 31, 2017 compared to 74.1% of total revenues for the three months ended March 31, 2016. The residential occupancy rates for the three months ended March 31, 2017 decreased 0.8% primarily due to considerable multifamily development in the Fargo-Moorhead market, which has caused increased competition.

For the three months ended March 31, 2017, total commercial revenues increased $63 in comparison to the same period for 2016. Commercial properties acquired since January 1, 2016, contributed approximately $ 45 to the increase in total commercial revenues in the three months ended March 31, 2017. Rental income from commercial properties owned for more than one year increased approximately $18 in comparison to the three months ended March 31, 2016. Commercial revenues comprised 24.9% of the total revenues for the three months ended March 31, 2017 compared to 25.9% of total revenues for the three months ended March 31, 2016. The commercial occupancy rates for the three months ended March 31, 2017 increased 2.7% primarily due to lease up at two properties including a Fargo retail property and Minot office property.

***Expenses***

Residential expenses from operations of $11,620 during the three months ended March 31, 2017 increased $1,619 or 16.2% in comparison to the same period in 2016. This increase was attributed to the increase in the number of residential properties owned during the three months ended March 31, 2017 versus the same period in 2016. In addition, repair and maintenance expenses increased $728 or 19.5% reflecting investments made to position these properties for continued rate increases, tenant retention, and market competitiveness. In addition, property management fees increased $421 or 17.7% due to market pressure on base wage amounts and changes in payroll laws.

Commercial expenses from operations of $1,834 during the three months ended March 31, 2017 increased $251 or 15.9% in comparison to the same period in 2016. The increase was primarily attributed to increases in real estate taxes for an office property acquired in Bloomington, Minnesota.

Interest expense of $4,639 during the three months ended March 31, 2017 increased $97 in comparison to the same period in 2016 due to increased levels of debt outstanding. Interest expense was approximately 16.6% and 17.0% of rental income for the three months ended March 31, 2017 and 2016, respectively.

Depreciation and amortization expense decreased 5.0% from $5,645 for the three months ended March 31, 2016 to $5,363 for the three months ended March 31, 2017. The $282 decrease was primarily attributed to the office property acquired in Bloomington, Minnesota in August 2015 which has intangible lease assets that have been fully amortized since March 31, 2016. Depreciation and amortization expense as a percentage of rental income for the three months ended March 31, 2017 and 2016 was 19.1% and 21.2%, respectively.

REIT administration expenses decreased from $1,658 for the three months ended March 31, 2016 to $1,503 for the three months ended March 31, 2017 due to an decrease in acquisition expenses related to lower acquisition activity in the three months ended March 31, 2017 in comparison to the same period in 2016.

***Net Operating Income***

We measure the performance of our segments based on net operating income ("NOI"), which we define as total revenue from rental operations less expenses from rental operations and real estate taxes (excluding depreciation and amortization related to real estate investments and impairment of real estate investments). We believe that NOI is an important supplemental measure of operating performance for a REIT because it provides a measure of core operations unaffected by depreciation, amortization, financing, and administration expense. NOI does not represent cash generated by operating activities in accordance with GAAP and should not be considered an alternative to net income, net income available for non-controlling interests and shareholders of the Trust or cash flow from operating activities as a measure of financial performance.

Residential NOI decreased $341 or 3.5% for the three months ended March 31, 2017 in comparison to the same three month period in 2016 due primarily to a $728 increase in repairs and maintenance and snow removal and a $421 increase in property management expenses. Significant repair funds were spent for unit rehabilitation including flooring, painting and applicances as well as exterior painting work in the residential segment. Commercial NOI decreased $188 or 3.5% for the three months ended March 31, 2017 in comparison to the same three month period in 2016 due primarily to increases in real estate taxes and snow removal.

***Net Income***

Net income for the three months ended March 31, 2017 was $3,200 compared to $3,374 for the three months ended March 31, 2016. The decrease in net income is primarily attributable to an increase of $800 in repairs and maintenance activities which reflect investments made to position the Trust's properties for continued rate increases, tenant retention and market competitiveness.

***Property Acquisitions and Dispositions***

*Property Acquisitions and Dispositions during the three months ended March 31, 2017*

We acquired four properties for a total of $8,809 during the three months ended March 31, 2017. Total consideration for the acquisitions was the issuance of approximately $6,760 in limited partnership units of the operating partnership and cash of $2,049.

*Property Acquisitions and Dispositions during the three months ended March 31, 2016*

We acquired five properties and two parcels of land for a total of $13,869 during the three months ended March 31, 2016. Total consideration for the acquisitions was the issuance of approximately $7,057 in limited partnership units of the operating partnership, new loans of $2,662, assumed liabilities of $5 and cash of $4,145.

See Notes 18 and 19 to the Consolidated Financial Statements included above for more information regarding our acquisitions and dispositions during the three months ended March 31, 2017 and 2016.

**Funds From Operations and Modified Funds From Operations (FFO and MFFO)**

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 than before to compare the results of one REIT with another.

In addition to FFO, management also uses Modified Funds From Operations ("MFFO") as a non-GAAP supplemental performance measure. MFFO as defined by us adds back to FFO acquisition related costs which are required to be expensed in accordance with GAAP. Our definition of MFFO also adds back disposition costs related to sales of investment properties. Acquisition and disposition related expenses include those paid to our Advisor and third parties.

Management believes that adding back acquisition and disposition related costs to calculate MFFO provides useful supplemental performance information that is comparable over the long-term and that this measure is consistent with management's analysis of the operating performance of the REIT.

While FFO and MFFO 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 and MFFO or calculate FFO and MFFO in the same way. The FFO and MFFO reconciliation presented here is not necessarily comparable to FFO and MFFO presented by other real estate investment trusts. FFO and MFFO 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 rather 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 and MFFO applicable to common shares and limited partnership units does not represent cash generated from operating activities in accordance with GAAP, and is not necessarily indicative of sufficient cash flow to fund a real estate investment trust's needs or its ability to service indebtedness or to pay dividends to shareholders.

The following tables include calculations of FFO and MFFO, and the reconciliations to net income, for the three months ended March 31, 2017 and 2016, respectively. We believe these calculations are the most comparable GAAP financial measure (in thousands):

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

| | Three months ended March 31, 2017 | | | Three months ended March 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Amount | Weighted Avg Shares and Units(1) | Per Share and Unit (2) | Amount | Weighted Avg Shares and Units(1) | Per Share and Unit (2) |
| | (unaudited) (in thousands, except per share data) | | | | | |
| Net Income attributable to Sterling Real Estate Trust | $ 1,057 | 8,117 | $ 0.13 | $ 1,273 | 7,690 | $ 0.17 |
| Add back: | | | | | | |
| Noncontrolling Interest - OPU | 2,228 | 17,104 | | 2,256 | 15,520 | |
| Depreciation & Amortization from continuing operations | 5,363 | | | 5,645 | | |
| Pro rata share of unconsolidated affiliate depreciation & amortization | 101 | | | 118 | | |
| Subtract: | | | | | | |
| Gain on sales of land, depreciable real estate, investment in equity method investee, and change in control of real estate investments | (3) | | | — | | |
| Funds from operations applicable to common shares and limited partnership units (FFO) | 8,746 | 25,221 | $ 0.35 | 9,292 | 23,210 | $ 0.40 |
| Add back: | | | | | | |
| Acquisition, and disposition expenses | 512 | | | 712 | | |
| Modified Funds from Operations applicable to common shares and limited partnership units (MFFO) | $ 9,258 | 25,221 | $ 0.37 | $ 10,004 | 23,210 | $ 0.43 |

(1) Please see Note 11 and Note 13 to the consolidated financial statements included above for more information.
(2) Net Income is calculated on a per share basis. FFO and MFFO are calculated on a per share and unit basis.

**Liquidity and Capital Resources**

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, and (v) redemptions of our securities under our redemption plans. 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. We expect to meet cash needs for acquisitions and other real-estate investments from cash flow from operations, net proceeds of share offerings and debt proceeds.

*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, credit quality of tenants and lease expirations.

*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.

Historically, the geographic location of our properties and credit-worthiness of our tenants have resulted in minimal to no property impairments or write-offs on uncollectible rental revenues. We currently anticipate the trend to continue. It is possible, however, that tenants may file for bankruptcy or default on their leases in the future and that economic conditions may deteriorate.

To mitigate credit risk on commercial properties, we have historically looked to invest in assets that we believe are critically important to our tenant's operations and have attempted to diversify our portfolio by tenant, tenant industry and geography. We also monitor all of our properties 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 of tenants, refinancing debt and selling properties, as well as protecting our rights when tenants default or enter into bankruptcy.

*Lease Expirations and Occupancy*

No significant leases are scheduled to expire or renew in the next twelve months. 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.

| | Three Months Ended March 31, 2017 | Three Months Ended March 31, 2016 |
|---|---|---|
| | (in thousands) | |
| Net cash flows provided by operating activities | $ 7,456 | $ 7,536 |
| Net cash flows used in investing activities | $ (4,158) | $ (4,795) |
| Net cash flows provided by financing activities | $ 5,665 | $ 3,257 |

*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 $7,456 and $7,536 for the three months ended March 31, 2017 and 2016, respectively, which consists primarily of net income from property operations adjusted for non-cash depreciation and amortization. The funds generated for the three months ended March 31, 2017 and 2016 were primarily from property operations of our real estate portfolio.

*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 used in investing activities was $4,158 and $4,795 for the three months ended March 31, 2017 and 2016, respectively (this does not include the value of UPREIT units issued in connection with investing activities). For the three months ended March 31, 2017 and 2016, cash flows used in investing activities related primarily to the acquisition of properties and capital expenditures was $4,261 and $5,332, respectively, and the changes in restricted cash for replacement reserve escrows was $ (1,627) and $294, respectively.

*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 provided by financing activities was $5,665 for the three months ended March 31, 2017. Net cash provided by financing activities was $3,257 for the three months ended March 31, 2016. During the three months ended March 31, 2017, we paid $4,673 in dividends and distributions, redeemed $419 of shares and units, received proceeds from new mortgage notes payable of $13,223, and made mortgage principal payments of $2,877. For the three months ended March 31, 2016, we paid $4,183 in dividends and distributions, redeemed $672 of shares and units, received proceeds from new mortgage notes payable of $4,937, made mortgage principal payments of $2,837, and received net proceeds of $5,702 on short-term borrowings.

***Dividends***

*Common Stock*

We declared cash dividends to our shareholders during the period from January 1, 2017 to March 31, 2017 totaling $2,008 or $0.2475 per share, including amounts reinvested through the dividend reinvestment plan. During the three months ended March 31, 2017, we paid cash dividends of $715 and dividends of $1,293 were reinvested under the dividend reinvestment plan. The cash dividends were paid with the $7,456 from our cash flows from operations and $130 provided by distributions from unconsolidated affiliates.

We declared cash dividends to our shareholders during the period from January 1, 2016 to March 31, 2016 totaling $1,845 or $0.2400 per share, including amounts reinvested through the dividend reinvestment plan. During the three months ended March 31, 2016, we paid cash dividends of $664 and dividends of $1,181 were reinvested under the dividend reinvestment plan. The cash dividends were paid with the $7,536 from our cash flows from operations and $160 provided by distributions from unconsolidated affiliates.

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:

| | Three Months Ended March 31, | |
|---|---|---|
| | **2017** | **2016** |
| | (in thousands) | |
| Cash flows provided by operations (includes net income of $3,200 and $3,374, respectively) | $ 7,456 | $ 7,536 |
| Distributions from unconsolidated affiliates | 130 | 160 |
| Gain (Loss) on sales of real estate and non-real estate investments | (23) | (4) |
| Dividends declared | (2,008) | (1,845) |
| Excess | $ 5,555 | $ 5,847 |

*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, 2017, we declared quarterly distributions totalling $4,232 to holders of limited partnership units in our operating partnership, which we paid on April 17, 2017. Distributions were paid at a rate of $0.2475 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, 2016, we declared quarterly distributions totalling $3,772 to holders of limited partnership units in our operating partnership, which we paid on April 15, 2016. Distributions were paid at a rate of $0.2400 per unit per quarter, which is equal to the per share distribution rate paid to the common shareholders.

***Sources of Dividends***

For the three months ended March 31, 2017, we paid aggregate dividends of $2,008, which were paid with cash flows provided by operating activities and distributions from unconsolidated affiliates. Our funds from operations, or FFO, was $8,746 while our modified funds from operations, or MFFO, for the three months ended March 31, 2017 was $9,258; therefore our management believes our distribution policy is sustainable over time. For the three months ended March 31, 2016, we paid aggregate dividends of $1,845 which were paid with cash flows provided by operating activities and distributions from unconsolidated affiliates. Our FFO was $9,292 while our MFFO, as of the three months ended March 31, 2016 was $10,004. For a further discussion of FFO and MFFO, including a reconciliation of FFO and MFFO to net income, see “Funds from Operations and Modified Funds from Operations” above.

***Cash Resources***

At March 31, 2017, our cash resources consisted of cash and cash equivalents totaling approximately $20,997. Our cash reserves can be used for working capital needs and other commitments. In addition, we had unencumbered properties with a gross book value of $14,042, which could potentially be used as collateral to secure additional financing in future periods.

At March 31, 2017, there was no balance outstanding on the lines of credit, leaving $37,015 available and unused under the agreements. See Note 7 to the accompanying consolidated financial statements for additional details regarding our line of credit agreements.

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. During the three months ended March 31, 2017, we did not sell any common shares in a private placement. During the three months ended March 31, 2017, we issued 82,000 and 44,000 common shares under the dividend reinvestment plan, through dividends reinvested and the optional share purchases, respectively, and raised gross proceeds of $1,954. During the three months ended March 31, 2016, we did not sell any common shares in a private placement. During the three months ended March 31, 2016, we issued 77,000 and 39,000 common shares under the dividend reinvestment plan, through dividends reinvested and the optional share repurchases, respectively, and raised gross proceeds of $1,741.

During the three months ended March 31, 2017, we issued limited partnership units valued at approximately $6,760 in connection with the acquisition of properties.

During the three months ended March 31, 2016, we issued limited partnership units valued at approximately $7,057 in connection with the acquisitions of properties.

**Off-Balance Sheet Arrangements**

As of March 31, 2017 and December 31, 2016, we had no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

**Inflation**

Substantially all of our multifamily property leases are for a term of one year or less. In an inflationary environment, this may allow us to realize increased rents upon renewal of existing leases or the beginning of new leases. Short-term leases generally will minimize our risk from the adverse effects of inflation, although these leases generally permit residents to leave at the end of the lease term and therefore will expose us to the effect of a decline in market rents. In a deflationary rent environment, we may be exposed to declining rents more quickly under these shorter term leases.

As of March 31, 2017, most of our commercial leases require tenants to reimburse us for a share of our operating expenses. As a result, we are able to pass on much of any increases to our property operating expenses that might occur due to inflation by correspondingly increasing our expense reimbursement revenues. During the three months ended March 31, 2017, inflation did not have a material impact on our revenues or net income.

**Item 3. Quantitative and Qualitativ e Disclosures about Market Risk**

The principal material financial market risk to which we are exposed is interest-rate risk. Our exposure to market risk for changes in interest rates relates primarily to refinancing long-term fixed rate obligations, the opportunity cost of fixed rate obligations in a falling interest rate environment and our variable rate lines of credit.

As virtually all of our outstanding debt is long-term, fixed rate debt, our interest rate risk has not changed significantly from what was disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the Securities and Exchange Commission on March 15, 2017.

**Item 4. Controls and Procedures.**

**Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Accounting 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 Chief Accounting Officer have concluded that, as of March 31, 2017, 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 2017 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

# PART II
# OTHER INFORMATION

## 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, 2017, except as noted below:

In connection with the completion of the acquisition of certain contributed properties, the operating partnership issued units as a portion of the purchase price, at a price per unit, as applicable, of $16.00, as set forth in the table below, during the three months ended March 31, 2017 (in thousands, except per unit data) pursuant to Section 4(2) and Rule 506 of Regulation D.

| Property | Property Acquisition Date | Number of Units | Aggregate Consideration |
|---|---|---|---|
| Sargent Apartments, Fargo, ND | 01/10/17 | 93,516 | $ 1,496 |
| Arrowhead Apartments, Grand Forks, ND | 01/11/17 | 269,558 | 4,313 |
| Carr Apartments, Fargo, ND | 01/17/17 | 31,312 | 501 |
| West Oak Apartments, Fargo, ND | 01/17/17 | 28,125 | 450 |
| | | 422,511 | $ 6,760 |

*Other Sales*

During the three months ended March 31, 2017, we did not issued any common shares in exchange for limited partnership units of the operating partnership on a one-for-one basis pursuant to redemption requests made by accredited investors pursuant to Section 4(2) and Rule 506 of Regulation D.

### Redemptions of Securities

Set forth below is information regarding common shares and limited partnership units redeemed during the three months ended March 31, 2017:

| 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, 2017 | 5,000 | 4,000 | $ 15.00 | 1,044,000 | 626,000 | $ 7,578 |
| February 1-28, 2017 | 6,000 | — | $ 15.00 | 1,050,000 | 626,000 | $ 7,474 |
| March 1-31, 2017 | 4,000 | 8,000 | $ 15.50 | 1,054,000 | 634,000 | $ 7,291 |
| Total | 15,000 | 12,000 | | | | |

For the three months ended March 31, 2017, we redeemed all shares or units for which we received redemption requests. In addition, for the three months ended March 31, 2017, all common shares and units redeemed were redeemed as part of the publicly announced plans.

The Amended and Restated Share Repurchase Plan 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 $30,000 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 repurchase price for such shares and units repurchased under the plan was fixed at $15.00 per share or unit, which was increased to $15.50 effective March 29, 2017 and is the current repurchase price. The repurchase 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 repurchase plan at any time if it determines to do so is in our best interest.

**Item 6. Exhibits.**

| Exhibit Number | Title of Document |
| --- | --- |
| 31.1 | 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. |
| 31.2 | Certification of the Chief Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer and Chief Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the of the Sarbanes-Oxley Act of 2002. |
| 101 | The following materials from Sterling Real Estate Trust's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at March 31, 2017 and December 31, 2016; (ii) Consolidated Statements of Operations and Other Comprehensive Income for the three months ended March 31, 2017 and 2016; (iii) Consolidated Statement of Shareholders' Equity for three months ended March 31, 2017; (iv) Consolidated Statements of Cash Flows for the three months ended March 31, 2017 and 2016, and; (v) Notes to Consolidated Financial Statements. |

**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 9, 2017

**STERLING REAL ESTATE TRUST**

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

By: /s/ Angie D. Stock
Angie D. Stock
Chief Accounting Officer
(Principal Financial and Accounting Officer)

**Exhibit 31.1**

**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. I am 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. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant’s auditors and 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 9, 2017

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

**Exhibit 31.2**

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

I, Angie D. Stock, certify that:

1. I have reviewed this 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. I am 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. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant’s auditors and 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 9, 2017

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

**Exhibit 32.1**

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

In connection with the Quarterly Report of Sterling Real Estate Trust (the "Company") on Form 10-Q for the period ended March 31, 2017 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 9, 2017

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

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