UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2017

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

For the transition period from to

Commission File Number: 001-38010

CLIPPER REALTY INC.

(Exact name of Registrant as specified in its charter)

Maryland	**47-4579660**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

4611 12th Avenue, Suite 1L
Brooklyn, New York 11219
(Address of principal executive offices) (Zip Code)
(718) 438-2804
(Registrant's telephone number, including area code)

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

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, par value $0.01 per share	New York Stock Exchange

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

None

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

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

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 x No o

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definition 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 x
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
	Emerging growth company x

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. o

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter, based on the June 30, 2017, closing price of our Class A common stock on the New York Stock Exchange – $182,284,209

As of March 14, 2018, there were 17,812,755 shares of the Registrants' Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant intends to file a Proxy Statement relating to its 2018 Annual Meeting of Shareholders no later than 120 days after the end of its fiscal year, which will include the information required by Part III of Form 10-K.

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PART I

ITEM 1. BUSINESS

In this Annual Report on Form 10-K, when we use the terms the "Company," "Clipper Realty," "we," "us," or "our," unless the context otherwise requires, we are referring to Clipper Realty Inc. and its consolidated subsidiaries. Certain disclosures included in this Annual Report on Form 10-K constitute forward-looking statements that are subject to risks and uncertainties. See Item 1A, "Risk Factors," and "Cautionary Note Concerning Forward-Looking Statements."

Overview

Clipper Realty Inc. is a self-administered and self-managed real estate company that acquires, owns, manages, operates and repositions multifamily residential and commercial properties in the New York metropolitan area, with a portfolio in Manhattan and Brooklyn. The Company was formed to continue and expand the commercial real estate business of the 50/53 JV LLC (a Delaware limited liability company), Renaissance Equity Holdings LLC (a Delaware limited liability company), Berkshire Equity LLC (a Delaware limited liability company) and Gunki Holdings LLC (a Delaware limited liability company) (collectively, the "Predecessor" or the "predecessor entities"). Our primary focus is to continue to own, manage and operate our portfolio, and to acquire and re-position additional multifamily residential and commercial properties in the New York metropolitan area.

We were incorporated on July 7, 2015. On August 3, 2015, we closed a private offering of shares of our common stock, in which we raised net proceeds of approximately $130.2 million. In connection with the private offering, we consummated a series of investment and other formation transactions that were designed, among other things, to enable us to qualify as a real estate investment trust (a "REIT") for U.S. federal income tax purposes, and we elected to be treated as a REIT commencing with the taxable year ended December 31, 2015.

On February 9, 2017, the Company priced an initial public offering of 6,390,149 primary shares of its common stock (including the exercise of the over-allotment option, which closed on March 10, 2017) at a price of $13.50 per share (the "IPO"). The net proceeds of the IPO were approximately $78.7 million. We contributed the proceeds of the IPO to Clipper Realty L.P., our operating partnership subsidiary (the "Operating Partnership"), in exchange for units in the Operating Partnership.

On May 9, 2017, the Company completed the purchase of 107 Columbia Heights, a 161-unit apartment community located in Brooklyn Heights, New York, in vacant condition, for $87.5 million, financed with a $59.0 million secured mortgage loan. The Company also entered into a construction loan secured by the building that will provide up to $14.7 million for eligible capital improvements and carrying costs.

On October 27, 2017, the Company completed the acquisition of an 82-unit residential property at 10 West 65th Street in Manhattan, New York, for $79.0 million, financed with a $34.4 million secured mortgage loan.

As of December 31, 2017, the properties owned by the Company consist of the following (collectively, the "Properties"):

- Tribeca House in Manhattan, comprising two buildings, one with 21 stories and one with 12 stories, containing residential and retail space with an aggregate of approximately 481,000 square feet of residential rental Gross Leasable Area ("GLA") and 77,000 square feet of retail rental and parking GLA;
- Flatbush Gardens in Brooklyn, a 59-building residential housing complex with 2,496 rentable units;
- 141 Livingston Street in Brooklyn, a 15-story office building with approximately 216,000 square feet of GLA;
- 250 Livingston Street in Brooklyn, a 12-story office and residential building with approximately 381,000 square feet of GLA (fully remeasured);
- Aspen in Manhattan, a 7-story building containing residential and retail space with approximately 166,000 square feet of residential rental GLA and approximately 21,000 square feet of retail rental GLA;

- 107 Columbia Heights in Brooklyn, a 10-story residential building with approximately 154,000 gross square feet of space; and
- 10 West 65th Street in Manhattan, a 6-story building with approximately 76,000 square feet of residential rental GLA.

These properties are located in the most densely populated major city in the United States, each with immediate access to mass transportation.

The Company's ownership interest in its initial portfolio of properties was acquired in the formation transactions in connection with the private offering. These properties are owned by the predecessor entities, which after the formation transactions are referred to as the "LLC subsidiaries." The LLC subsidiaries are managed by the Company through the Operating Partnership. The Operating Partnership's interest in the LLC subsidiaries generally entitles the Operating Partnership to all cash distributions from, and the profits and losses of, the LLC subsidiaries, other than the preferred distribution to the continuing investors who hold Class B LLC units in these LLC subsidiaries (described below). In connection with the formation transactions, holders of interests in the predecessor entities received Class B LLC units in the Operating Partnership or shares of our common stock. At December 31, 2017, the continuing investors owned an aggregate amount of 26,317,396 Class B LLC units, representing 58.8% of the Company's common stock on a fully diluted basis. Accordingly, the Operating Partnership's interests in the LLC subsidiaries entitles it to receive approximately 41.2% of the aggregate distributions from the LLC subsidiaries.

The Tribeca House properties were purchased in December 2014 and consist of two nearly adjacent properties in the Tribeca neighborhood of Manhattan, New York. They comprise approximately 481,000 square feet of leasable residential area, with 506 apartment units, 11-foot ceilings and extensive amenities, and approximately 77,000 square feet of retail space, including an externally managed garage.

The Flatbush Gardens property complex was purchased in September 2005 and consists of 59 primarily six-story buildings, approximately 1.7 million leasable residential square feet and 2,496 apartment units, in East Flatbush, Brooklyn. The property is subject to rent control regulations of New York City. Since acquisition, the management team has undertaken a comprehensive renovation and repositioning strategy that has included upgrades to both the exteriors and the interiors of the buildings.

The 141 Livingston Street property in the Downtown Brooklyn neighborhood was purchased in 2002, along with the below-mentioned 250 Livingston Street property. It is a 15-story commercial building with a gross leasable area of 206,084 square feet. The property's main commercial tenant, the City of New York, executed a new 10-year lease in December 2015. Under the agreement, the City of New York has an option to terminate the lease after five years; if it decides to continue to occupy the building at such time, the annual rent will increase by 25% beginning the sixth year of the lease.

The 250 Livingston Street property in the Downtown Brooklyn neighborhood was purchased in 2002 (along with the 141 Livingston Street property), and consists of a 12-story commercial and residential building. It has approximately 294,000 square feet gross leasable area of commercial space and approximately 26,800 square feet of residential space. The property's sole office tenant, the City of New York, has its two leases expiring in 2020. The office space has been remeasured to approximately 353,000 square feet, according to Real Estate Board of New York ("REBNY") standards.

The Aspen property, purchased in June 2016, is located at 1955 1st Avenue in Manhattan, New York. It is a seven-story building that consists of approximately 187,000 square feet, 232 residential rental units, three retail units and a parking garage. The residential units are subject to regulations established by the New York City Housing Development Corporation (the "HDC"), under which there are no rental restrictions on approximately 55% of the property's units, and low- and middle-income rental restrictions on approximately 45% of the units.

The 107 Columbia Heights property, purchased in May 2017 in vacant condition, is located in the Brooklyn Heights neighborhood of Brooklyn, New York. The property currently consists of approximately 154,000 gross square feet of space. Renovations are underway to create 159 well-appointed studio, one- and two-bedroom units, with amenities and indoor parking for 68 cars.

The 10 West 65th Street property, purchased in October 2017, is located in the Upper West Side neighborhood of Manhattan, New York, less than a block from Central Park. The property consists of approximately 76,000 square feet of leasable residential area, with 82 apartment units, plus an additional 53,000 square feet of air rights. Approximately 50% of the apartments are subject to a sale-leaseback agreement with Touro College, from whom the Company purchased the property, through 2019.

History

The Company's Predecessor is a combination of four limited liability companies - Renaissance Equity Holdings LLC, Berkshire Equity LLC, Gunki Holdings LLC and 50/53 JV LLC - which were formed by principals of our management team from 2002 to 2014. Upon completion of the private offering and the formation transactions, we assumed responsibility for managing the predecessor LLCs.

Business and Growth Strategies

Our primary business objective is to enhance stockholder value by increasing cash flow from operations and total return to stockholders through the following strategies:

- Increase existing below-market rents – capitalize on the successful repositioning of our portfolio and solid market fundamentals to increase rents at several of our properties.
- Disciplined acquisition strategy – opportunistically acquire additional properties, with a focus on premier submarkets and assets, by utilizing the significant experience of our senior management team.
- Proactive asset and property management – utilize our proactive, service-intensive approach to help increase occupancy and rental rates, and manage operating expenses.
- Reposition assets – execute on our targeted capital program to selectively reposition properties and achieve rent growth in an expedited fashion.

Competitive Strengths

We believe that the following competitive strengths distinguish us from other owners and operators of multifamily residential and commercial properties:

- Diverse portfolio of properties in the New York metropolitan area, which is characterized by supply constraints, high barriers to entry, near- and long-term prospects for job creation, vacancy absorption and long-term rental rate growth.
- Expertise in repositioning and managing multifamily residential properties.
- Experienced management team with proven track record over generations.
- Balance sheet well-positioned for future growth.
- Strong internal rent growth prospects.

Regulation

Environmental and Related Matters

Under various federal, state and local laws, ordinances and regulations, as a current or former owner and operator of real property, we may be liable for costs and damages resulting from the presence or release of hazardous substances (such as lead, asbestos and polychlorinated biphenyls), waste, petroleum products and other miscellaneous products (including but not limited to natural products such as methane and radon gas) at, on, in, under or from such property, including costs for investigation or remediation, natural resource damages or third-party liability for personal injury or property damage.

In addition, our properties are subject to various federal, state and local environmental and health and safety laws and regulations. As the owner or operator of real property, we may also incur liability based on various building conditions. We are not presently aware of any material liabilities related to building conditions, including any instances of material noncompliance with asbestos requirements or any material liabilities related to asbestos.

In addition, our properties may contain or develop harmful mold or suffer from other indoor air quality issues, which could lead to liability for adverse health effects or property damage, or costs for remediation. We are not presently aware of any material adverse indoor air quality issues at our properties.

Americans with Disabilities Act and Similar Laws

Our properties must comply with Title III of the ADA to the extent that such properties are "public accommodations" as defined by the ADA. We have not conducted a recent audit or investigation of all of our properties to determine our compliance with these or other federal, state or local laws. Noncompliance with the ADA could result in imposition of fines or an award of damages to private litigants. The obligation to make readily achievable accommodations is an ongoing one, and we will continue to assess our properties and to make alterations as appropriate in this respect.

Insurance

We carry commercial general liability insurance coverage on our properties, with limits of liability customary within the industry to insure against liability claims and related defense costs. Similarly, we are insured against the risk of direct and indirect physical damage to our properties including coverage for the perils of flood and earthquake shock. Our policies also cover the loss of rental revenue during any reconstruction period. Our policies reflect limits and deductibles customary in the industry and specific to the buildings and portfolio. We also obtain title insurance policies when acquiring new properties, which insure fee title to our real properties. We currently have coverage for losses incurred in connection with both domestic and foreign terrorist-related activities. While we do carry commercial general liability insurance, property insurance and terrorism insurance with respect to our properties, these policies include limits and terms we consider commercially reasonable. In addition, there are certain losses (including, but not limited to, losses arising from known environmental conditions or acts of war) that are not insured, in full or in part, because they are either uninsurable or the cost of insurance makes it, in our belief, economically impractical to maintain such coverage. Should an uninsured loss arise against us, we would be required to use our own funds to resolve the issue, including litigation costs. In addition, for properties we may self-insure certain portions of our insurance program, and therefore, use our own funds to satisfy those limits, when applicable. We believe the policy specifications and insured limits are adequate given the relative risk of loss, the cost of the coverage and industry practice and, in the opinion of our management, the properties in our portfolio are adequately insured.

Competition

The leasing of real estate is highly competitive in Manhattan, Brooklyn and the greater New York metropolitan market in which we operate. We compete with numerous acquirers, developers, owners and operators of commercial and residential real estate, many of which own or may seek to acquire or develop properties similar to ours in the same markets in which our properties are located. The principal means of competition are rents charged, location, services provided and the nature and condition of the facility to be leased.

In addition, we face competition from numerous developers, real estate companies and other owners and operators of real estate for buildings for acquisition and pursuing buyers for dispositions. We expect competition from other real estate investors, including other REITs, private real estate funds, domestic and foreign financial institutions, life insurance companies, pension trusts, partnerships, individual investors and others that may have greater financial resources or access to capital than we do or that are willing to acquire properties in transactions which are more highly leveraged or are less attractive from a financial viewpoint than we are willing to pursue.

Employees

As of December 31, 2017, we had 177 employees who provide property management, maintenance, landscaping, construction management and accounting services. Certain of these employees are covered by union-sponsored, collectively bargained, multiemployer defined benefit pension and profit-sharing plans, and health insurance, legal and training plans. Contributions to the plans are determined in accordance with the provisions of the negotiated labor contract. The Local 32BJ Service Employees International Union contract is in effect through December 31, 2019.

Company Information

Our principal executive offices are located at 4611 12th Avenue, Brooklyn, New York 11219. Our current facilities are adequate for our present and future operations. Our telephone number is (718) 438-2804. Our website address is *www.clipperrealty.com.* You can also read and copy any materials we file with the SEC at its Public Reference Room at 100 F Street, NE, Washington, DC 20549 (1-800-SEC-0330). The SEC maintains an Internet site (http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

ITEM 1A. RISK FACTORS

Set forth below are certain risk factors that could harm our business, results of operations and financial condition. You should carefully read the following risk factors, together with the financial statements, related notes and other information contained in this Annual Report on Form 10-K. Our business, financial condition and operating results may suffer if any of the following risks are realized. If any of these risks or uncertainties occur, the trading price of our common stock could decline and you might lose all or part of your investment. This Annual Report on Form 10-K contains forward-looking statements that contain risks and uncertainties; please refer to the discussion under "Cautionary Note Concerning Forward-Looking Statements."

Risks Related to Real Estate

Unfavorable market and economic conditions in the United States and globally and in the specific markets or submarkets where our properties are located could adversely affect occupancy levels, rental rates, rent collections, operating expenses, and the overall market value of our assets, impair our ability to sell, recapitalize or refinance our assets and have an adverse effect on our results of operations, financial condition, cash flow and our ability to make distributions to our stockholders.

Unfavorable market conditions in the areas in which we operate and unfavorable economic conditions in the United States and/or globally may significantly affect our occupancy levels, rental rates, rent collections, operating expenses, the market value of our assets and our ability to strategically acquire, dispose, recapitalize or refinance our properties on economically favorable terms or at all. Our ability to lease our properties at favorable rates may be adversely affected by increases in supply of commercial, retail and/or residential space in our markets and is dependent upon overall economic conditions, which are adversely affected by, among other things, job losses and increased unemployment levels, recession, stock market volatility and uncertainty about the future. Some of our major expenses, including mortgage payments and real estate taxes, generally do not decline when related rents decline. We expect that any declines in our occupancy levels, rental revenues and/or the values of our buildings would cause us to have less cash available to pay our indebtedness, fund necessary capital expenditures and to make distributions to our stockholders, which could negatively affect our financial condition and the market value of our common stock. Our business may be affected by volatility and illiquidity in the financial and credit markets, a general global economic recession and other market or economic challenges experienced by the real estate industry or the U.S. economy as a whole. Our business may also be adversely affected by local economic conditions, as all of our revenue is currently derived from properties located in New York City, with our entire portfolio located in Manhattan and Brooklyn.

Factors that may affect our occupancy levels, our rental revenues, our income from operations, our funds from operations ("FFO"), our adjusted funds from operations ("AFFO"), our adjusted earnings before interest, income tax, depreciation and amortization ("Adjusted EBITDA"), our net operating income ("NOI"), our cash flow and/or the value of our properties include the following, among others:

- downturns in global, national, regional and local economic and demographic conditions;
- declines in the financial condition of our tenants, which may result in tenant defaults under leases due to bankruptcy, lack of liquidity, operational failures or other reasons, and declines in the financial condition of buyers and sellers of properties;
- declines in local, state and/or federal government budgets and/or increases in local, state and/or federal government budget deficits, which among other things could have an adverse effect on the financial condition of our only office tenant, the City of New York, and may result in tenant defaults under leases and/or cause such tenant to seek alternative office space arrangements;
- the inability or unwillingness of our tenants to pay rent increases, or our inability to collect rents and other amounts due from our tenants;
- significant job losses in the industries in which our commercial and/or retail tenants operate, and/or from which our residential tenants derive their incomes, which may decrease demand for our commercial, retail and/or residential space, causing market rental rates and property values to be affected negatively;
- an oversupply of, or a reduced demand for, commercial and/or retail space and/or apartment homes;
- declines in household formation;
- unfavorable residential mortgage rates;
- changes in market rental rates in our markets and/or the attractiveness of our properties to tenants, particularly as our buildings continue to age, and our ability to fund repair and maintenance costs;
- competition from other available commercial and/or retail lessors and other available apartments and housing alternatives, and from other real estate investors with significant capital, such as other real estate operating companies, other REITs and institutional investment funds;
- economic conditions that could cause an increase in our operating expenses, such as increases in property taxes (particularly as a result of increased local, state and national government budget deficits and debt and potentially reduced federal aid to state and local governments), utilities, insurance, compensation of on-site personnel and routine maintenance;
- opposition from local community or political groups with respect to the development and/or operations at a property;
- investigation, removal or remediation of hazardous materials or toxic substances at a property;
- changes in, and changes in enforcement of, laws, regulations and governmental policies, including without limitation, health, safety, environmental and zoning laws;
- rent control or stabilization laws, or other laws regulating rental housing, which could prevent us from raising rents to offset increases in operating costs; and
- changes in rental housing subsidies provided by the government and/or other government programs that favor single-family rental housing or owner-occupied housing over multifamily rental housing.

All of our properties are located in New York City, and adverse economic or regulatory developments in New York City or parts thereof, including the boroughs of Brooklyn and Manhattan, could negatively affect our results of operations, financial condition, cash flow, and ability to make distributions to our stockholders.

All of our properties are located in New York City, with all of our current portfolio being in the boroughs of Manhattan and Brooklyn. As a result, our business is dependent on the condition of the economy in New York City and the views of potential tenants regarding living and working in New York City, which may expose us to greater economic risks than if we owned a more geographically diverse portfolio. We are susceptible to adverse developments in New York City (such as business layoffs or downsizing, industry slowdowns, relocations of businesses, terror attacks, increases in real estate and other taxes, costs of complying with governmental regulations or increased regulation). Such adverse developments could materially reduce the value of our real estate portfolio and our rental revenues, and thus adversely affect our ability to meet our debt obligations and to make distributions to our stockholders.

We depend on a single government tenant in our office buildings, which could cause an adverse effect on us, including our results of operations and cash flow, if the City of New York were to suffer financial difficulty.

Our rental revenue depends on entering into leases with and collecting rents from tenants. As of December 31, 2017, Kings County Court, the Human Resources Administration, and the Department of Environmental Protection, all of which are agencies of the City of New York, leased an aggregate of 500,228 rentable square feet of commercial space at our commercial office properties at 141 Livingston Street and 250 Livingston Street, representing approximately 16% of the total rentable square feet in our portfolio and approximately 17% of our total portfolio's annualized rent. General and regional economic conditions may adversely affect the City of New York and potential tenants in our markets. The City of New York may experience a material business downturn or suffer negative effects from declines in local, state and/or federal government budgets and/or increases in local, state and/or federal government budget debt and deficits, which could potentially result in a failure to make timely rental payments and/or a default under its leases. In many cases, through tenant improvement allowances and other concessions, we have made substantial upfront investments in the applicable leases that we may not be able to recover. In the event of a tenant default, we may experience delays in enforcing our rights and may also incur substantial costs to protect our investments.

The bankruptcy or insolvency of a major tenant may adversely affect the income produced by our properties and may delay our efforts to collect past due balances under the relevant leases and could ultimately preclude collection of these sums altogether. If a lease is rejected by a tenant in bankruptcy, we would have only a general unsecured claim for damages that is limited in amount and which may only be paid to the extent that funds are available and in the same percentage as is paid to all other holders of unsecured claims. If any of our significant tenants were to become bankrupt or insolvent, suffer a downturn in their business or a reduction in funds available to them, default under their leases, fail to renew their leases or renew on terms less favorable to us than their current terms, our results of operations and cash flow could be adversely affected.

The leases for the Human Resources Administration and the Department of Environmental Protection, which comprise 59% of the rentable square feet rented by the City of New York, will each expire in 2020.

Our portfolio's rent is currently generated from six properties.

As of December 31, 2017, our portfolio consisted of seven properties, our Tribeca House properties, the Flatbush Gardens complex, the 141 Livingston Street property, the 250 Livingston Street property, the Aspen property, the 10 West 65th Street property and the 107 Columbia Heights property, which accounted for 34.4%, 36.0%, 11.3%, 11.0%, 6.7%, 0.5% and 0.0%, respectively, of our portfolio's total rent for the year ended December 31, 2017. Our results of operations and cash available for distribution to our stockholders would be adversely affected if any of these properties were materially damaged or destroyed.

We may be unable to renew leases or lease currently vacant space or vacating space on favorable terms or at all as leases expire, which could adversely affect our financial condition, results of operations and cash flow.

As of December 31, 2017, we had approximately 110,000 rentable square feet of vacant residential space (excluding leases signed but not yet commenced) at our operating properties, and leases representing approximately 64% of the square footage of residential space at the operating properties will expire during the year ending December 31, 2018 (including month-to-month leases). As of December 31, 2017, we had no vacant commercial and retail space. We cannot assure you that expiring leases will be renewed or that our properties will be re-leased at net effective rental rates equal to or above the current average net effective rental rates. If the rental rates for our commercial and/or residential space decrease, our existing commercial tenants do not renew their leases or we do not re-lease a significant portion of our available and soon-to-be-available commercial and/or residential space, our financial condition, results of operations, cash flow, the market value of our common stock and our ability to satisfy our debt obligations and to make distributions to our stockholders would be adversely affected.

The actual rents we receive for the properties in our portfolio may be less than market rents, and we may experience a decline in realized rental rates, which could adversely affect our financial condition, results of operations and cash flow. Short-term leases with respect to our residential tenants expose us to the effects of declining market rents.

As a result of potential factors, including competitive pricing pressure in our markets, a general economic downturn and the desirability of our properties compared to other properties in our markets, we may be unable to realize market rents across the properties in our portfolio. In addition, depending on market rental rates at any given time as compared to expiring leases in our portfolio, from time to time rental rates for expiring leases may be higher than starting rental rates for new leases. A majority of our apartment leases are for a term of one year. Because these leases generally permit the residents to leave at the end of the lease term without penalty, our rental revenues for residential space in our properties are affected by declines in market rents more quickly than if those leases were for longer terms. If we are unable to obtain sufficient rental rates across our portfolio, then our ability to generate cash flow growth will be negatively affected.

We may engage in development, redevelopment or repositioning activities, which could expose us to different risks that could adversely affect us, including our financial condition, cash flow and results of operations.

We may engage in development, redevelopment or repositioning activities with respect to our properties as we believe market conditions dictate. For example, we plan to continue to execute on our comprehensive renovation and modernization program at our Flatbush Gardens property, which will include improvements to the common areas of the complex and upgrades to individual apartments. We are also reviewing the regulatory, architectural and financial considerations regarding an upward expansion of up to approximately 500,000 additional square feet at Flatbush Gardens by adding floors above certain of our fifty-nine buildings at the property; such further development would require significant capital investment. Separately, we are in the process of repositioning our 107 Columbia Heights property, including improvements to common areas of the building and upgrades to individual apartments.

If we engage in these activities, we will be subject to certain risks, which could adversely affect us, including our financial condition, cash flow and results of operations. These risks include, without limitation:

- the availability and pricing of financing on favorable terms or at all;
- the availability and timely receipt of zoning and other regulatory approvals;
- the potential for the fluctuation of occupancy rates and rents at development and redeveloped properties, which may result in our investment not being profitable;
- start up, development, repositioning and redevelopment costs may be higher than anticipated;
- cost overruns and untimely completion of construction (including risks beyond our control, such as weather or labor conditions or material shortages); and
- changes in the pricing and availability of buyers and sellers of such properties.

These risks could result in substantial unanticipated delays or expenses and could prevent the initiation or the completion of development and redevelopment activities, any of which could have an adverse effect on our financial condition, results of operations, cash flow, the market value of our common stock and our ability to satisfy our debt obligations and to make distributions to our stockholders.

We may be required to make rent or other concessions and/or significant capital expenditures to improve our properties in order to retain and attract tenants, generate positive cash flows or to make real estate properties suitable for sale, which could adversely affect us, including our financial condition, results of operations and cash flow.

In the event that there are adverse economic conditions in the real estate market and demand for commercial, retail and/or residential space decreases with respect to our current vacant space and as leases at our properties expire, we may be required to increase tenant improvement allowances or concessions to tenants, accommodate increased requests for renovations, build-to-suit remodeling (with respect to our commercial and retail space) and other improvements or provide additional services to our tenants, all of which could negatively affect our cash flow. If the necessary capital is unavailable, we may be unable to make these potentially-significant capital expenditures. This could result in non-renewals by tenants upon expiration of their leases and our vacant space remaining untenanted, which could adversely affect our financial condition, results of operations, cash flow and the market value of our common stock.

Our dependence on rental revenue may adversely affect us, including our profitability, our ability to meet our debt obligations and our ability to make distributions to our stockholders

Our income is derived from rental revenue from real property. As a result, our performance depends on our ability to collect rent from tenants. Our income and funds for distribution would be adversely affected if a significant number of our tenants, or any of our major tenants:

- delay lease commencements;
- decline to extend or renew leases upon expiration;
- fail to make rental payments when due; or
- declare bankruptcy.

Any of these actions could result in the termination of such tenants' leases with us and the loss of rental revenue attributable to the terminated leases. In these events, we cannot assure you that such tenants will renew those leases or that we will be able to re-lease spaces on economically advantageous terms or at all. The loss of rental revenues from our tenants and our inability to replace such tenants may adversely affect us, including our profitability, our ability to meet our debt and other financial obligations and our ability to make distributions to our stockholders.

Real estate investments are relatively illiquid and may limit our flexibility.

Equity real estate investments are relatively illiquid, which may tend to limit our ability to react promptly to changes in economic or other market conditions. Our ability to dispose of assets in the future will depend on prevailing economic and market conditions. Our inability to sell our properties on favorable terms or at all could have an adverse effect on our sources of working capital and our ability to satisfy our debt obligations. In addition, real estate can at times be difficult to sell quickly at prices we find acceptable. The Internal Revenue Code, as amended (the "Code"), also imposes restrictions on REITs, which are not applicable to other types of real estate companies, regarding the disposal of properties. These potential difficulties in selling real estate in our markets may limit our ability to change, or reduce our exposure to, the properties in our portfolio promptly in response to changes in economic or other conditions.

Competition could limit our ability to acquire attractive investment opportunities and increase the costs of those opportunities, which may adversely affect us, including our profitability, and impede our growth.

We compete with numerous commercial developers, real estate companies and other owners and operators of real estate for properties for acquisition and pursuing buyers for dispositions. We expect that other real estate investors, including insurance companies, private equity funds, sovereign wealth funds, pension funds, other REITs and other well-capitalized investors will compete with us to acquire existing properties and to develop new properties. Our markets are each generally characterized by high barriers-to-entry to construction and limited land on which to build new commercial, retail and residential space, which contribute to the competition we face to acquire existing properties and to develop new properties in these markets. This competition could increase prices for properties of the type we may pursue and adversely affect our profitability and impede our growth.

Competition may impede our ability to attract or retain tenants or re-lease space, which could adversely affect our results of operations and cash flow.

The leasing of real estate in our markets is highly competitive. The principal means of competition are rents charged, location, services provided and the nature and condition of the premises to be leased. The number of competitive properties in our markets, which may be newer or better located than our properties, could have an adverse effect on our ability to lease space at our properties and on the effective rents that we are able to charge. If other lessors and developers of similar spaces in our markets offer leases at prices comparable to or less than the prices we offer, we may be unable to attract or retain tenants or re-lease space in our properties, which could adversely affect our results of operations and cash flow.

We are subject to potential losses that are either uninsurable, not economically insurable or that are in excess of our insurance coverage.

Our properties are located in areas that could be subject to, among other things, flood and windstorm losses. Insurance coverage for flood and windstorms can be costly because of limited industry capacity. As a result, we may experience shortages in desired coverage levels if market conditions are such that insurance is not available or the cost of insurance makes it, in our belief, economically impractical to maintain such coverage. In addition, our properties may be subject to a heightened risk of terrorist attacks. We carry commercial general liability insurance, property insurance and terrorism insurance with respect to our properties with limits and on terms we consider commercially reasonable. We cannot assure you, however, that our insurance coverage will be sufficient or that any uninsured loss or liability will not have an adverse effect on our business and our financial condition and results of operations.

We are subject to risks from natural disasters such as severe weather.

Natural disasters and severe weather such as hurricanes or floods may result in significant damage to our properties. The extent of our casualty losses and loss in operating income in connection with such events is a function of the severity of the event and the total amount of exposure in the affected area. With our geographic concentration of exposures, a single catastrophe or destructive weather event (such as a hurricane) affecting New York City may have a significant negative effect on our financial condition, results of operations and cash flows. As a result, our operating and financial results may vary significantly from one period to the next. Our financial results may be adversely affected by our exposure to losses arising from natural disasters or severe weather. We also are exposed to risks associated with inclement winter weather, including increased need for maintenance and repair of our buildings.

Actual or threatened terrorist attacks may adversely affect our ability to generate revenues and the value of our properties.

All of our properties are located in New York City, which has been and may in the future be the target of actual or threatened terrorist attacks. As a result, some tenants in these markets may choose to relocate their businesses or homes to other markets or buildings within New York City that may be perceived to be less likely to be affected by future terrorist activity. This could result in an overall decrease in the demand for commercial, retail and/or residential space in these markets generally or in our properties in particular, which could increase vacancies in our properties or necessitate that we lease our properties on less favorable terms, or both. In addition, future terrorist attacks in these markets could directly or indirectly damage our properties, both physically and financially, or cause losses that materially exceed our insurance coverage. As a result of the foregoing, our ability to generate revenues and the value of our properties could decline materially.

We may become subject to liability relating to environmental and health and safety matters, which could have an adverse effect on us, including our financial condition and results of operations.

Under various federal, state and/or local laws, ordinances and regulations, as a current or former owner or operator of real property, we may be liable for costs and damages resulting from the presence or release of hazardous substances (such as lead, asbestos and polychlorinated biphenyls), waste, petroleum products and other miscellaneous products (including but not limited to natural products such as methane and radon gas) at, on, in, under or from such property, including costs for investigation or remediation, natural resource damages, or third-party liability for personal injury or property damage. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence or release of such materials, and the liability may be joint and several. Some of our properties may be affected by contamination arising from current or prior uses of the property or from adjacent properties used for commercial, industrial or other purposes. Such contamination may arise from spills of petroleum or hazardous substances or releases from tanks used to store such materials. We also may be liable for the costs of remediating contamination at off-site disposal or treatment facilities when we arrange for disposal or treatment of hazardous substances at such facilities, without regard to whether we comply with environmental laws in doing so. The presence of contamination or the failure to remediate contamination on our properties may adversely affect our ability to attract and/or retain tenants and our ability to develop or sell or borrow against those properties. In addition to potential liability for cleanup costs, private plaintiffs may bring claims for personal injury, property damage or for similar reasons. Environmental laws also may create liens on contaminated sites in favor of the government for damages and costs it incurs to address such contamination. Moreover, if contamination is discovered on our properties, environmental laws may impose restrictions on the manner in which that property may be used or how businesses may be operated on that property.

In addition, our properties are subject to various federal, state and local environmental and health and safety laws and regulations. Noncompliance with these environmental and health and safety laws and regulations could subject us or our tenants to liability. These liabilities could affect a tenant's ability to make rental payments to us. Moreover, changes in laws could increase the potential costs of compliance with such laws and regulations or increase liability for noncompliance. This may result in significant unanticipated expenditures or may otherwise adversely affect our operations and/or cash flow, or those of our tenants, which could in turn have an adverse effect on us.

Certain of our properties have only temporary certificates of occupancy or are awaiting a certificate of occupancy which, if not granted, would require us to stop using the property.

As the owner or operator of real property, we may also incur liability based on various building conditions. For example, buildings and other structures on properties that we currently own or those we acquire or operate in the future contain, may contain, or may have contained, asbestos-containing material ("ACM"). Environmental and health and safety laws require that ACM be properly managed and maintained and may impose fines or penalties on owners, operators or employers for non-compliance with those requirements. These requirements include special precautions, such as removal, abatement or air monitoring, if ACM would be disturbed during maintenance, renovation or demolition of a building, potentially resulting in substantial costs. In addition, we may be subject to liability for personal injury or property damage sustained as a result of exposure to ACM or releases of ACM into the environment.

In addition, our properties may contain or develop harmful mold or suffer from other indoor air quality issues. Indoor air quality issues also can stem from inadequate ventilation, chemical contamination from indoor or outdoor sources, and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of our properties could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants or to increase ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to liability from our tenants or others if property damage or personal injury occurs.

We cannot assure you that costs or liabilities incurred as a result of environmental issues will not affect our ability to make distributions to our stockholders or that such costs, liabilities, or other remedial measures will not have an adverse effect on our financial condition, results of operations and cash flows.

We may incur significant costs complying with the Americans with Disabilities Act of 1990 ("ADA") and similar laws (including but not limited to the Fair Housing Amendments Act of 1988 ("FHAA") and the Rehabilitation Act of 1973), which could adversely affect us, including our future results of operations and cash flows.

Under the ADA, all public accommodations must meet federal requirements related to access and use by disabled persons. The FHAA requires apartment communities first occupied after March 13, 1991, to comply with design and construction requirements for disabled access. For projects receiving federal funds, the Rehabilitation Act of 1973 also has requirements regarding disabled access. We have not conducted a recent audit or investigation of all of our properties to determine our compliance with these or other federal, state or local laws. If one or more of our properties were not in compliance with such laws, then we could be required to incur additional costs to bring the property into compliance. We cannot predict the ultimate amount of the cost of compliance with such laws. Noncompliance with these laws could also result in the imposition of fines or an award of damages to private litigants. Substantial costs incurred to comply with such laws, as well as fines or damages resulting from actual or alleged noncompliance with such laws, could adversely affect us, including our future results of operations and cash flows.

Multifamily residential properties are subject to rent stabilization regulations, which limit our ability to raise rents above specified maximum amounts and could give rise to claims by tenants that their rents exceed such specified maximum amounts.

Numerous municipalities, including New York City where our multi-family residential properties are located, impose rent control or rent stabilization on apartment buildings. The rent stabilization regulations applicable to our multifamily residential properties set maximum rates for annual rent increases, entitle our tenants to receive required services from us and entitle our tenants to have their leases renewed. The rent stabilization regulations applicable to our multi-family residential properties permit luxury deregulation of rent-stabilized apartments, generally providing that apartments that became vacant before June 24, 2011 with a legal regulated rent of $2,000 or more per month are made permanently exempt from rent stabilization. That amount was increased to $2,500 or more per month where an apartment becomes vacant on or after June 24, 2011. In 2015, New York City's Mayor de Blasio released a series of proposals that, if enacted, would alter the rent stabilization guidelines and make it harder for property owners, such as us, to implement luxury deregulation of rent-stabilized apartments, including eliminating vacancy decontrol and eliminating vacancy allowance. Although Mayor de Blasio's proposals were not enacted, there can be no assurances that they will not be pursued in the future.

The limitations established by present or future rent stabilization regulations may impair our ability to maintain rents at market levels. For example, our Flatbush Gardens property is subject to rent stabilization and current in-place rents are generally below the maximum rent that could be charged under rent stabilization. However, we have been able to consistently increase rents as a result of our comprehensive renovation and repositioning strategy. If our current and planned renovation and modernization program at Flatbush Gardens is successful, certain apartments may reach the maximum rents permitted under rent stabilization, which could happen even sooner if rent increases are frozen in subsequent years. Therefore, our future ability to attain market rents would be limited until such apartments are eligible for luxury deregulation, which generally requires both a legal maximum rent of $2,500 or more per month and a vacancy (although we can apply to destabilize an apartment where the legal maximum rent is $2,500 or more per month without a vacancy if the tenant's income exceeds certain levels). However, if Mayor de Blasio's rent stabilization proposals are enacted in future years, luxury deregulation may no longer be available.

In addition, we are subject to claims from tenants that the rent charged by us exceeds the amount permitted by rent stabilization. Although we believe that all of our rents are compliant with applicable rent stabilization regulation, tenants have in the past made claims that their rents exceed the maximum rent that could be charged under rent stabilization. These claims include claims that the annual increases in the maximum rent have in the past been inapplicable as a result of a failure to provide essential services by us or the prior owners. The number of these claims may increase as our rents approach the maximum rent that could be charged under rent stabilization. Tenants could also claim that our determination that luxury deregulation was applicable to their apartment was incorrect and seek a reduction in rent and/or return of rents paid in excess of the maximum legal rent. Finally, a tenant in an apartment eligible for tax benefits, such as Section 421-g of the Real Property Tax Law, could claim that rent stabilization applies to the tenant's apartment while those tax benefits are available, even if the apartment is eligible for luxury deregulation. For example, in 2017, certain present and former tenants of apartment units at our Tribeca House properties brought an action against the Company alleging that they were subject to applicable rent stabilization laws. For more information regarding these claims, see "Legal Proceedings."

The application of rent stabilization to apartments in our multifamily residential properties could limit the amount of rent we are able to collect, which could have a material adverse effect on our adjusted EBITDA and our ability to fully take advantage of the investments that we are making in our properties. In addition, there can be no assurances that changes to rent stabilization laws, such as those proposed by New York City Mayor de Blasio, will not have a similar or greater negative impact on our ability to collect rents.

As we increase rents and improve our properties, we could become the target of public scrutiny and investigations similar to the public scrutiny and investigations that other apartment landlords in Brooklyn and other neighborhoods in the New York metropolitan area have experienced, which could lead to negative publicity and require that we expend significant resources to defend ourselves, all of which could adversely affect our operating results and our ability to pay distributions to our stockholders.

Other apartment landlords in gentrifying neighborhoods in Brooklyn and other parts of the New York metropolitan area have come under public scrutiny, and in a few cases have been the subject of civil and criminal investigations, for their alleged treatment of tenants who cannot afford the rent increases that often result from neighborhood gentrification and landlord improvements to properties. It is possible that we or members of our management team could come under similar public scrutiny or become the target of similar investigations regardless of whether we have done anything wrong, which could lead to negative publicity and require that we expend significant resources to defend ourselves, all of which could adversely affect our operating results and our ability to pay distributions to our stockholders.

We may be unable to identify and successfully complete acquisitions and, even if acquisitions are identified and completed, we may fail to successfully operate acquired properties, which could adversely affect us and impede our growth.

Our ability to identify and acquire properties on favorable terms and successfully develop, redevelop and/or operate them may be exposed to significant risks. Agreements for the acquisition of properties are subject to customary conditions to closing, including completion of due diligence investigations and other conditions that are not within our control, which may not be satisfied. In this event, we may be unable to complete an acquisition after incurring certain acquisition-related costs. In addition, if mortgage debt is unavailable at reasonable rates, we may be unable to finance the acquisition on favorable terms in the time period we desire, or at all. We may spend more than budgeted to make necessary improvements or renovations to acquired properties and may not be able to obtain adequate insurance coverage for new properties. Further, acquired properties may be located in new markets where we may face risks associated with a lack of market knowledge or understanding of the local economy, lack of business relationships in the area and unfamiliarity with local governmental and permitting procedures. We may also be unable to integrate new acquisitions into our existing operations quickly and efficiently, and as a result, our results of operations and financial condition could be adversely affected. Any delay or failure on our part to identify, negotiate, finance and consummate such acquisitions in a timely manner and on favorable terms, or operate acquired properties to meet our financial expectations, could impede our growth and have an adverse effect on us, including our financial condition, results of operations, cash flow and the market value of our common stock.

Should we decide at some point in the future to expand into new markets, we may not be successful, which could adversely affect our financial condition, results of operations, cash flow and the market value of our common stock.

If opportunities arise, we may explore acquisitions of properties in new markets. Each of the risks applicable to our ability to acquire and integrate successfully and operate properties in our current markets is also applicable in new markets. In addition, we will not possess the same level of familiarity with the dynamics and market conditions of the new markets we may enter, which could adversely affect the results of our expansion into those markets, and we may be unable to build a significant market share or achieve our desired return on our investments in new markets. If we are unsuccessful in expanding into new markets, it could adversely affect our financial condition, results of operations, cash flow, the market value of our common stock and ability to satisfy our debt obligations and to make distributions to our stockholders.

We may acquire properties or portfolios of properties through tax-deferred contribution transactions, which could result in stockholder dilution and limit our ability to sell such assets.

In the future we may acquire properties or portfolios of properties through tax-deferred contribution transactions in exchange for partnership interests in our operating partnership, which may result in stockholder dilution. This acquisition structure may have the effect of, among other things, reducing the amount of tax depreciation we could deduct over the tax life of the acquired properties, and may require that we agree to protect the contributors' ability to defer recognition of taxable gain through restrictions on our ability to dispose of the acquired properties and/or the allocation of partnership debt to the contributors to maintain their tax bases. These restrictions could limit our ability to sell an asset at a time, or on terms, that would be favorable absent such restrictions.

We may experience a decline in the fair value of our assets, which may have a material impact on our financial condition, liquidity and results of operations and adversely impact the market value of our common stock.

A decline in the fair market value of our assets may require us to recognize an other-than-temporary impairment against such assets under GAAP if we were to determine that we do not have the ability and intent to hold any assets in unrealized loss positions to maturity or for a period of time sufficient to allow for recovery to the amortized cost of such assets. In such event, we would recognize unrealized losses through earnings and write down the amortized cost of such assets to a new cost basis, based on the fair value of such assets on the date they are considered to be other-than-temporarily impaired. Such impairment charges will reflect non-cash losses at the time of recognition. Subsequent disposition or sale of such assets could further affect our future losses or gains, as they will be based on the difference between the sale price received and adjusted amortized cost of such assets at the time of sale, which may adversely affect our financial condition, liquidity and results of operations.

From time to time, we may enter into joint venture relationships or other arrangements regarding the joint ownership of property. Our investments in and through such arrangements could be adversely affected by our lack of sole decision-making authority regarding major decisions, our reliance on our joint venture partners' financial condition, any disputes that may arise between us and our joint venture partners and our exposure to potential losses from the actions of our joint venture partners. Risks associated with joint venture arrangements may include but are not limited to the following:

- our joint venture partners might experience financial distress, become bankrupt or fail to fund their share of required capital contributions, which may delay construction or development of a property or increase our financial commitment to the joint venture;
- we may be responsible to our partners for indemnifiable losses;
- our joint venture partners may have business interests or goals with respect to a property that conflict with our business interests and goals, which could increase the likelihood of disputes regarding the ownership, management or disposition of the property;
- we may be unable to take actions that are opposed by our joint venture partners under arrangements that require us to share decision-making authority over major decisions affecting the ownership or operation of the joint venture and any property owned by the joint venture, such as the sale or financing of the property or the making of additional capital contributions for the benefit of the property;
- our joint venture partners may take actions that we oppose;
- our ability to sell or transfer our interest in a joint venture to a third party without prior consent of our joint venture partners may be restricted;
- we may disagree with our joint venture partners about decisions affecting a property or a joint venture, which could result in litigation or arbitration that increases our expenses, distracts our officers and directors and disrupts the day-to-day operations of the property, including by delaying important decisions until the dispute is resolved;
- we may suffer losses as a result of actions taken by our joint venture partners with respect to our joint venture investments; and
- in the event that we obtain a minority position in a joint venture, we may not have significant influence or control over such joint venture or the performance of our investment therein.

If there is a transfer of a controlling interest in any of our properties (or in the entities through which we hold our properties), including as a result of the private offering or the IPO, issuances of our common stock in exchange for Class B LLC units pursuant to the exchange right granted to holders of Class B LLC units, sales of Class B LLC units by the holders thereof or the issuance of LLC interests to our Operating Partnership in connection with the private offering or a subsequent offering of our stock, or as a result of any of those transfers being aggregated, we may be obligated to pay New York City and New York State transfer tax based on the fair market value of the New York City and/or New York State real property transferred.

Subject to certain exceptions, New York City and New York State impose a tax on the transfer of New York City and/or New York State real property or the transfer of a controlling interest in New York City and/or New York State real property, generally at a current combined rate of 3.025% of the fair market value of the New York City and/or New York State real property. A direct or indirect transfer of a 50% or greater interest in any of our properties (or in the entities that own our properties) generally would constitute a transfer of a controlling interest in real property. Certain aggregation rules apply in determining whether a transfer of a controlling interest has occurred. For example, transfers made within a three-year period generally are presumed to be aggregated. Therefore, a transfer of a controlling interest could occur as a result of the combination of one or more of the private offering, the IPO, other offerings of common stock by us resulting of an increase in our investment in the entities that own our properties, issuances of our common stock to our continuing investors in exchange for Class B LLC units pursuant to the exchange right granted to holders of Class B LLC units, sales of Class B LLC units by the holders thereof, the issuance of LLC interests to our Operating Partnership in connection with the private offering or a subsequent offering of our stock, or as a result of any combination of such transfers being aggregated. In addition to any transfer tax that may be imposed upon us, we have agreed with our continuing investors to pay any such transfer taxes imposed upon a continuing investor as a result of the private offering and the related formation transactions (including subsequent issuances of additional LLC units or interests, issuances of OP units by the Operating Partnership or issuances of our common stock by the Company), issuances of our common stock in exchange for Class B LLC units, dispositions of property by any LLC subsidiary, the issuance of LLC interests to our Operating Partnership in connection with a subsequent offering of our stock, or as a result of any combination of such transfers being aggregated. If a transfer of a controlling interest in an entity owning our properties occurs, New York City and/or New York State transfer tax could be payable based on the fair market value of the New York City and/or New York State property at the time of each such transfer (including any transfers that are treated as a part of the transfer of the controlling interest that occur prior to the transfer that caused the 50% threshold to be met). For example, if exchanges of Class B LLC units resulted in our ownership of the entities that own our properties increasing to greater than 50%, we could be subject to New York City and New York State transfer tax at a current combined rate of 3.025% of the fair market value of such New York City and/or New York State properties. In addition, we may or may not be eligible to take advantage of the 50% reduction to the New York City and New York State transfer tax rates that could apply with respect to transfers of real property to certain REITs.

Climate change may adversely affect our business.

To the extent that climate change does occur, we may experience extreme weather and changes in precipitation and temperature, all of which may result in physical damage or a decrease in demand for our properties located in the areas affected by these conditions. Should the impact of climate change be material in nature or occur for lengthy periods of time, our financial condition or results of operations would be adversely affected. In addition, changes in federal and state legislation and regulation on climate change could result in increased capital expenditures to improve the energy efficiency of our existing properties in order to comply with such regulations.

Risks Related to Our Business and Operations

Capital and credit market conditions may adversely affect our access to various sources of capital or financing and/or the cost of capital, which could affect our business activities, dividends, earnings and common stock price, among other things.

In periods when the capital and credit markets experience significant volatility, the amounts, sources and cost of capital available to us may be adversely affected. We primarily use third-party financing to fund acquisitions of properties and to refinance indebtedness as it matures. As of December 31, 2017, we had no corporate debt and $855.1 million in property-level debt. As described in Note 7 of the accompanying “Notes to Consolidated and Combined Financial Statements,” the Company refinanced its outstanding Flatbush Gardens and Tribeca House loans on February 21, 2018. If sufficient sources of external financing are not available to us on cost effective terms, we could be forced to limit our acquisition, development and redevelopment activities and/or take other actions to fund our business activities and repayment of debt, such as selling assets, reducing our cash dividend or paying out less than 100% of our taxable income. To the extent that we are able and/or choose to access capital at a higher cost than we have experienced in recent years (reflected in higher interest rates for debt financing or a lower stock price for equity financing), our earnings per share and cash flow could be adversely affected. In addition, the price of our common stock may fluctuate significantly and/or decline in a high interest rate or volatile economic environment. If economic conditions deteriorate, the ability of lenders to fulfill their obligations under working capital or other credit facilities that we may have in the future may be adversely affected.

The form, timing and amount of dividend distributions in future periods may vary and be affected by economic and other considerations.

The form, timing and amount of dividend distributions will be authorized at the discretion of our board of directors and will depend on actual cash from operations, our financial condition, capital requirements, the annual distribution requirements applicable to REITs under the Code and other factors as our board of directors may consider relevant. See "Distribution Policy."

We may from time to time be subject to litigation that could have an adverse effect on our financial condition, results of operations, cash flow and the market value of our common stock.

We are a party to various claims and routine litigation arising in the ordinary course of business. Some of these claims or others to which we may be subject from time to time may result in defense costs, settlements, fines or judgments against us, some of which are not, or cannot be, covered by insurance. Payment of any such costs, settlements, fines or judgments that are not insured could have an adverse effect on our financial position and results of operations. In addition, certain litigation or the resolution of certain litigation may affect the availability or cost of some of our insurance coverage, which could adversely affect our results of operations and cash flow, expose us to increased risks that would be uninsured, and/or adversely affect our ability to attract officers and directors.

We may be subject to unknown or contingent liabilities related to properties or businesses that we acquire for which we may have limited or no recourse against the sellers.

Assets and entities that we have acquired or may acquire in the future may be subject to unknown or contingent liabilities for which we may have limited or no recourse against the sellers. Unknown or contingent liabilities might include liabilities for clean-up or remediation of environmental conditions, claims of tenants, vendors or other persons dealing with the acquired entities, tax liabilities and other liabilities whether incurred in the ordinary course of business or otherwise. In the future we may enter into transactions with limited representations and warranties or with representations and warranties that do not survive the closing of the transactions or that only survive for a limited period, in which event we would have no or limited recourse against the sellers of such properties. While we usually require the sellers to indemnify us with respect to breaches of representations and warranties that survive, such indemnification is often limited and subject to various materiality thresholds, a significant deductible or an aggregate cap on losses.

As a result, there is no guarantee that we will recover any amounts with respect to losses due to breaches by the sellers of their representations and warranties. In addition, the total amount of costs and expenses that we may incur with respect to liabilities associated with acquired properties and entities may exceed our expectations, which may adversely affect our business, financial condition, results of operations and cash flow. Finally, indemnification agreements between us and the sellers typically provide that the sellers will retain certain specified liabilities relating to the assets and entities acquired by us. While the sellers are generally contractually obligated to pay all losses and other expenses relating to such retained liabilities, there can be no guarantee that such arrangements will not require us to incur losses or other expenses as well.

We depend on key personnel, and the loss of services of one or more members of our senior management team, or our inability to attract and retain highly qualified personnel, could adversely affect our business, diminish our investment opportunities and weaken our relationships with lenders, business partners and existing and prospective industry participants, which could negatively affect our financial condition, results of operations, cash flow and the market value of our common stock.

There is substantial competition for qualified personnel in the real estate industry and the loss of our key personnel could have an adverse effect on us. Our continued success and our ability to manage anticipated future growth depend, in large part, upon the efforts of key personnel, particularly David Bistricer, our Chief Executive Officer, who has extensive market knowledge and relationships and exercises substantial influence over our acquisition, development, redevelopment, financing, operational and disposition activities. Among the reasons that David Bistricer is important to our success is that he has a reputation that attracts business and investment opportunities and assists us in negotiations with financing sources and industry personnel. If we lose his services, our business and investment opportunities and our relationships with such financing sources and industry personnel would diminish.

Our other senior executives - Lawrence Kreider, our Chief Financial Officer, JJ Bistricer, our Chief Operating Officer, and Jacob Schwimmer, our Chief Property Management Officer - also have extensive experience and strong reputations in the real estate industry, which aid us in identifying or attracting investment opportunities and negotiating with sellers of properties. The loss of services of one or more members of our senior management team, or our inability to attract and retain highly qualified personnel, could adversely affect our business, diminish our investment opportunities and weaken our relationships with lenders, business partners and industry participants, which could negatively affect our financial condition, results of operations, cash flow and the market value of our common stock.

Breaches of our data security could adversely affect our business, including our financial performance and reputation.

We collect and retain certain personal information provided by our tenants and employees. While we have implemented a variety of security measures to protect the confidentiality of this information and periodically review and improve our security measures, we can provide no assurance that we will be able to prevent unauthorized access to this information. Any breach of our data security measures and/or loss of this information may result in legal liability and costs (including damages and penalties) that could adversely affect our business, including our financial performance and reputation.

Our subsidiaries may be prohibited from making distributions and other payments to us.

All of our properties are owned indirectly by subsidiaries, in particular our LLC subsidiaries, and substantially all of our operations are conducted by our Operating Partnership. As a result, we depend on distributions and other payments from our Operating Partnership and subsidiaries in order to satisfy our financial obligations and make payments to our investors. The ability of our subsidiaries to make such distributions and other payments depends on their earnings and cash flow and may be subject to statutory or contractual limitations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Property-Level Debt." As an equity investor in our subsidiaries, our right to receive assets upon their liquidation or reorganization will be effectively subordinated to the claims of their creditors. To the extent that we are recognized as a creditor of such subsidiaries, our claims may still be subordinate to any security interest in, or other lien on, their assets and to any of such subsidiaries' debt or other obligations that are senior to our claims.

Risks Related to Our Organization and Structure

Our continuing investors hold shares of our special voting stock that entitle them to vote together with holders of our common stock on an as-exchanged basis, based on their ownership of Class B LLC units in our predecessor entities, and are generally able to significantly influence the composition of our board of directors, our management and the conduct of our business.

Our continuing investors hold shares of our special voting stock, which generally allows them to vote together as a single class with holders of our common stock on all matters (other than matters considered at a special election meeting, the removal or re-election of directors initially elected at a special election meeting, the expansion of the size of the board of directors and amendments to certain provisions of our charter and bylaws relating to any special election meeting or the vote required to amend such provisions) brought before our common stockholders, including the election of directors, on an as-exchanged basis, as if our continuing investors had exchanged their Class B LLC units in our predecessor entities and shares of our special voting stock for shares of our common stock. As a result, our continuing investors are generally entitled to exercise 66.7% of the voting power in our company. Even though none of our continuing investors is, by himself or together with his affiliates, entitled to exercise a majority of the total voting power in our company, for so long as any continuing investor continues to be entitled to exercise a significant percentage of our voting power, our continuing investors are generally able to significantly influence the composition of our board of directors and the approval of actions requiring stockholder approval, and have significant influence with respect to our management, business plans and policies, including appointing and removing our officers, issuing additional shares of our common stock and other equity securities, paying dividends, incurring additional debt, making acquisitions, selling properties or other assets, acquiring or merging with other companies and undertaking other extraordinary transactions. In any of these matters, any of our continuing investors may have interests that differ or conflict with the interests of our other stockholders, and they may exercise their voting power in a manner that is not consistent with the interests of other stockholders. For so long as our continuing investors continue to own shares of our stock entitling them to exercise a significant percentage of our voting power, the concentration of voting power in our continuing investors may discourage unsolicited acquisition proposals and may delay, defer or prevent any change of control of our company that might involve a premium price for holders of our common stock or otherwise be in their best interest.

The ability of stockholders to control our policies and effect a change of control of our company is limited by certain provisions of our charter and bylaws and by Maryland law.

Certain provisions in our charter and bylaws may discourage a third party from making a proposal to acquire us, even if some of our stockholders might consider the proposal to be in their best interests. These provisions include the following:

- Our continuing investors hold shares of our special voting stock and shares of our common stock that generally entitle them to exercise 66.7% of the voting power in our company, including in connection with a merger or other acquisition of our company or a change in the composition of our board of directors. As a result, our continuing investors as a group or individually could delay, defer or prevent any change of control of our company and, as a result, adversely affect our stockholders' ability to realize a premium for their shares of common stock.

- Our charter authorizes our board of directors to, without common stockholder approval, amend our charter to increase or decrease the aggregate number of our authorized shares of stock or the authorized number of shares of any class or series of our stock, authorize us to issue additional shares of our common stock or preferred stock and classify or reclassify unissued shares of our common stock or preferred stock and thereafter authorize us to issue such classified or reclassified shares of stock. We believe these charter provisions provide us with increased flexibility in structuring possible future financings and acquisitions and in meeting other needs that might arise. The additional classes or series, as well as the additional authorized shares of our common stock, will be available for issuance without further action by our common stockholders, unless such action is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded. Although our board of directors does not currently intend to do so, it could authorize us to issue a class or series of stock that could, depending upon the terms of the particular class or series, delay, defer or prevent a transaction or a change of control of our company that might involve a premium price for holders of our common stock or that our common stockholders otherwise believe to be in their best interests.

- In order to qualify as a REIT, not more than 50% in value of our outstanding stock may be owned, directly or indirectly, by or for five or fewer individuals (as defined in the Code to include certain entities such as private foundations) at any time during the last half of any taxable year (beginning with our second taxable year as a REIT). In order to help us qualify as a REIT, among other reasons, our charter generally prohibits any person or entity from owning or being deemed to own by virtue of the applicable constructive ownership provisions, more than 9.8% in value or number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our common stock or 9.8% of the aggregate value of all our outstanding stock. We refer to these restrictions as the "ownership limit." The ownership limit may prevent or delay a change in control and, as a result, could adversely affect our stockholders' ability to realize a premium for their shares of our common stock.

- The provisions in our charter regarding the removal of directors and the advance notice provisions of our bylaws, among others, could delay, defer or prevent a transaction or a change of control of our company that might involve a premium price for holders of our common stock or otherwise be in their best interest.

In addition, certain provisions of the Maryland General Corporation Law ("MGCL") may have the effect of deterring a third party from making a proposal to acquire us or of impeding a change of control under circumstances that otherwise could provide the holders of shares of our common stock with the opportunity to realize a premium over the then-prevailing market price of such shares, including the Maryland business combination and control share provisions. These provisions include the following:

- The "business combination" provisions of the MGCL, subject to limitations, prohibit certain business combinations between us and an "interested stockholder" (defined generally as any person who beneficially owns 10% or more of our then-outstanding voting shares or an affiliate or associate of ours who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of our then-outstanding voting shares) or an affiliate of an interested stockholder for five years after the most recent date on which the stockholder becomes an interested stockholder and, thereafter, imposes special appraisal rights and supermajority stockholder approval requirements on these combinations. As permitted by the MGCL, our board of directors has adopted a resolution exempting any business combinations between us and any other person or entity from the business combination provisions of the MGCL, if such business combination is approved by our board of directors, including a majority of our directors who are not affiliated or associated with the interested stockholder.

- The "control share" provisions of the MGCL provide that "control shares" of a Maryland corporation (defined as shares which, when aggregated with all other shares controlled by the stockholder (except solely by virtue of a revocable proxy), entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a "control share acquisition" (or the direct or indirect acquisition of ownership or control of control shares) have no voting rights unless approved by a supermajority vote of our stockholders excluding the acquirer of control shares, our officers and our directors who are also our employees. As permitted by the MGCL, our bylaws contain a provision exempting from the control share acquisition provisions of the MGCL any and all acquisitions by any person of shares of our stock.

- Title 3, Subtitle 8 of the MGCL permits our board of directors, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to implement certain takeover defenses, including adopting a classified board. Such takeover defenses may have the effect of deterring a third party from making an acquisition proposal for us or of delaying, deferring or preventing a change in control of us under circumstances that otherwise could provide our common stockholders with the opportunity to realize a premium over the then-current market price.

Each item discussed above may delay, deter or prevent a change in control of our company, even if a proposed transaction is at a premium over the then-current market price for our common stock. Further, these provisions may apply in instances where some stockholders consider a transaction beneficial to them. As a result, our stock price may be negatively affected by these provisions.

Our board of directors may change our policies without stockholder approval.

Our policies, including any policies with respect to investments, leverage, financing, growth, debt and capitalization, will be determined by our board of directors or those committees or officers to whom our board of directors may delegate such authority. Our board of directors will also establish the amount of any dividends or other distributions that we may pay to our stockholders. Our board of directors or the committees or officers to which such decisions are delegated have the ability to amend or revise these and our other policies at any time without stockholder approval. For example, we have established a policy for our target leverage ratio in a range of 45% to 55%. Under the policy, our leverage ratio may be greater than or less than the target range from time to time and our board of directors may amend our target leverage ratio range at any time without stockholder approval. Accordingly, while not intending to do so, we may adopt policies that may have an adverse effect on our financial condition, results of operations our ability to pay dividends or make other distributions to our stockholders and the market value of our common stock.

Our rights and the rights of our stockholders to take action against our directors and officers are limited, which could limit your recourse in the event of actions that you do not believe are in your best interests.

Maryland law generally provides that a director has no liability in that capacity if he or she satisfies his or her duties to us. As permitted by the MGCL, our charter eliminates the liability of our directors and officers to us and our stockholders for money damages to the maximum extent permitted by Maryland law. Under current Maryland law and our charter, our directors and officers do not have any liability to us or our stockholders for money damages, except for liability resulting from:

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

In addition, our charter authorizes us to agree to indemnify our present and former directors and officers for liability and expenses arising from actions taken by them in those and other capacities to the maximum extent permitted by Maryland law. Our bylaws require us to indemnify each present and former director or officer, to the maximum extent permitted by Maryland law, in any proceeding to which he or she is made, or threatened to be made, a party or witness by reason of his or her service to us in those and other capacities. We are obligated to pay or reimburse the defense costs incurred by our present and former directors and officers without requiring a preliminary determination of their ultimate entitlement to indemnification. Indemnification agreements that we have entered into with our directors and executive officers also require us to indemnify such directors and executive officers for actions taken by them in those and certain other capacities to the maximum extent permitted by Maryland law. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist. Accordingly, in the event that actions taken by any of our directors or officers impede the performance of our company, your ability to recover damages from such director or officer will be limited.

Conflicts of interest may exist or could arise in the future between the interests of our stockholders and the interests of holders of OP units and of LLC units in our predecessor entities, which may impede business decisions that could benefit our stockholders.

Conflicts of interest may exist or could arise in the future as a result of the relationships between us and our affiliates, on the one hand, and our Operating Partnership or any of its partners or our predecessor entities and their members, on the other. Our directors and officers have duties to our company under Maryland law in connection with their management of our company. At the same time, we, as the general partner of our Operating Partnership, and our Operating Partnership, as managing member of our predecessor entities, have fiduciary duties and obligations to our Operating Partnership and its limited partners and our predecessor entities and their members under Delaware and New York law, the partnership agreement of our Operating Partnership in connection with the management of our Operating Partnership, and the limited liability company agreements of our predecessor entities in connection with the management of those entities. Our fiduciary duties and obligations as the general partner of our Operating Partnership and managing member of our predecessor entities may come into conflict with the duties of our directors and officers to our company. We have adopted policies that are designed to eliminate or minimize certain potential conflicts of interest, and the members of our predecessor entities have agreed that, in the event of a conflict in the duties owed by us to our stockholders and the fiduciary duties owed by our Operating Partnership, in its capacity as managing member of our predecessor entities, to such members, we may give priority to the separate interests of our company or our stockholders, including with respect to tax consequences to limited partners, LLC members, assignees or our stockholders. Nevertheless, the duties and obligations of the general partner of our Operating Partnership and the duties and obligations of the managing member of our predecessor entities may come into conflict with the duties of our directors and officers to our company and our stockholders.

Our charter contains a provision that expressly permits certain of our directors and officers to compete with us.

Our directors and officers have outside business interests and may compete with us for investments in properties and for tenants. There is no assurance that any conflicts of interest created by such competition will be resolved in our favor. Our charter provides that we renounce any interest or expectancy in, or right to be offered or to participate in, any business opportunity identified in any investment policy or agreement with any of our directors or officers unless the policy or agreement contemplates that the director or officer must present, communicate or offer such business opportunity to us. We have adopted an Investment Policy that provides that our directors and officers, including David Bistricer, Sam Levinson, JJ Bistricer and Jacob Schwimmer, are not required to present certain identified investment opportunities to us, including assets located outside the New York metropolitan area, for-sale condominium or cooperative conversions, development projects, projects that would require us to obtain guarantees from third parties or to backstop obligations of other parties, and land acquisitions. As a result, except to the extent that our officers and directors must present certain identified business opportunities to us, our officers and directors have no duty to refrain from engaging, directly or indirectly, in the same business activities or similar business activities or lines of business in which we or our subsidiaries engage or propose to engage or to refrain from otherwise competing with us. These individuals also may pursue acquisition opportunities that may be complementary to our business, and, as a result, those acquisition opportunities may not be available to us. These provisions may limit our ability to pursue business or investment opportunities that we might otherwise have had the opportunity to pursue, which could have an adverse effect on our financial condition, our results of operations, our cash flow, the market value of our common stock and our ability to meet our debt obligations and to make distributions to our stockholders.

The consideration given by us in exchange for our interests in the predecessor entities in connection with the formation transactions may have exceeded their fair market value.

We did not obtain any third-party appraisals of the properties in which we have invested in connection with the formation transactions. As a result, the value that forms the basis for the consideration given by us for our interest in the predecessor entities may have exceeded the fair market value of those properties owned by such entities.

We may have assumed unknown liabilities in connection with the formation transactions, which, if significant, could adversely affect our business.

As part of the formation transactions, we acquired indirect interests in the properties and assets of our predecessor entities, subject to existing liabilities, some of which may have been unknown at the time the private offering was consummated. As part of the formation transactions, each of the predecessor entities made limited representations, warranties and covenants to us regarding the predecessor entities and their assets. Because many liabilities, including tax liabilities, may not have been identified, we may have no recourse for such liabilities. Any unknown or unquantifiable liabilities to which the properties and assets previously owned by our predecessor entities are subject could adversely affect the value of those properties and as a result adversely affect us. See “Risks Related to Real Estate” for discussion as to the possibility of undisclosed environmental conditions potentially affecting the value of the properties in our portfolio.

The terms of the formation transactions may not have been as favorable to us as if all of the terms were negotiated at arm's length.

Certain of our directors and executive officers, including David Bistricer, our Co-Chairman and Chief Executive Officer and Sam Levinson, our Co-Chairman and the Head of the Investment Committee, own interests, directly or indirectly, in our predecessor entities that own properties included in the Company's initial portfolio of properties and as such had interests in the formation transactions. As a result, the terms of the formation transactions may not have been as favorable to us as if all of the terms were negotiated at arm's length.

We may pursue less vigorous enforcement of terms of employment agreements with certain of our executive officers, which could negatively impact our stockholders.

Upon completion of the private offering, certain of our executive officers, including David Bistricer, Lawrence Kreider, JJ Bistricer and Jacob Schwimmer, entered into employment agreements with us. We may choose not to enforce, or to enforce less vigorously, our rights under these agreements because of our desire to maintain our ongoing relationships with members of our senior management or our board of directors and their affiliates, with possible negative impact on stockholders. Moreover, these agreements were not negotiated at arm's length and in the course of structuring the formation transactions, certain of our executive officers had the ability to influence the types and level of benefits that they receive from us under these agreements.

David Bistricer, our Co-Chairman and Chief Executive Officer, and Sam Levinson, our Co-Chairman and the Head of the Investment Committee, have outside business interests that will take their time and attention away from us, which could materially and adversely affect us. In addition, notwithstanding the Investment Policy, members of our senior management may in certain circumstances engage in activities that compete with our activities or in which their business interests and ours may be in conflict.

Our Co-Chairman and Chief Executive Officer, David Bistricer, our Co-Chairman and the Head of the Investment Committee, Sam Levinson, and other members of our senior management team continue to own interests in properties and businesses that were not contributed to us in the formation transactions. For instance, each of David Bistricer, our Co-Chairman and Chief Executive Officer, and JJ Bistricer, our Chief Operating Officer, is an officer of Clipper Equity and each of Sam Levinson, our Co-Chairman and the Head of the Investment Committee, and Jacob Schwimmer, our Chief Property Management Officer, has ownership interests in Clipper Equity. Clipper Equity owns interests in, and controls and manages entities that own interests in, multifamily and commercial properties in the New York metropolitan area.

We have adopted an Investment Policy that provides that our directors and officers, including David Bistricer, Sam Levinson, JJ Bistricer and Jacob Schwimmer, are not required to present certain identified investment opportunities to us, including assets located outside the New York metropolitan area, for-sale condominium or cooperative conversions, development projects, projects that would require us to obtain guarantees from third parties or to backstop obligations of other parties, and land acquisitions. As a result, except to the extent that our officers and directors must present certain identified business opportunities to us, our officers and directors have no duty to refrain from engaging, directly or indirectly, in the same business activities or similar business activities or lines of business in which we or our subsidiaries engage or propose to engage or to refrain from otherwise competing with us, and therefore may compete with us for investments in properties and for tenants. These individuals also may pursue acquisition opportunities that may be complementary to our business, and, as a result, those acquisition opportunities may not be available to us.

We and members of our senior management may also determine to enter into joint ventures or co-investment relationships with respect to one or more properties. As a result of the foregoing, there may at times be a conflict between the interests of members of our senior management and our business interests. Further, although David Bistricer, JJ Bistricer and Jacob Schwimmer will devote such portion of their business time and attention to our business as is appropriate and will be compensated on that basis, under their employment agreements, they will also devote substantial time to other business and investment activities.

We may experience conflicts of interest with certain of our directors and officers and significant stockholders as a result of their tax positions.

We have entered into a tax protection agreement with our continuing investors pursuant to which we have agreed to indemnify the continuing investors against certain tax liabilities incurred during the 8-year period following the private offering (or with respect to item (iv) below, certain tax liabilities resulting from certain transfers occurring during the 8-year period following the private offering) if those tax liabilities result from (i) the sale, transfer, conveyance or other taxable disposition of any of the properties of our LLC subsidiaries, (ii) any of Renaissance, Berkshire or Gunki LLC failing to maintain a level of indebtedness allocable for U.S. federal income tax purposes to any of the continuing investors such that any of the continuing investors is allocated less than a specified minimum indebtedness in each such LLC subsidiary (in order to comply with this requirement, (1) Renaissance needs to maintain approximately $101.3 million of indebtedness, (2) Berkshire needs to maintain approximately $125.8 million of indebtedness and (3) Gunki needs to maintain approximately $34.4 million of indebtedness), (iii) in a case that such level of indebtedness cannot be maintained, failing to make available to such a continuing investor the opportunity to execute a guarantee of indebtedness of the LLC subsidiary meeting certain requirements that would enable the continuing investor to continue to defer certain tax liabilities, or (iv) the imposition of New York City or New York State real estate transfer tax liability upon a continuing investor as a result of the formation transactions, private offering, this offering and/or certain subsequent transactions (including subsequent issuances of additional LLC units or interests, issuances of OP units by the Operating Partnership, issuances of common stock by Clipper Realty, issuances of common stock in exchange for Class B LLC units or dispositions of property by any LLC subsidiary), or as a result of any of those transfers being aggregated. We estimate that had all of their assets subject to the tax protection agreement been sold in a taxable transaction immediately after the private offering, the amount of our LLC subsidiaries' indemnification obligations (based on then current tax rates and the valuations of our assets based on the private offering price of $13.50 per share, and including additional payments to compensate the indemnified continuing investors for additional tax liabilities resulting from the indemnification payments) would have been approximately $364.9 million. In addition, we estimate that if New York City or New York State real estate transfer taxes had been imposed on our continuing investors, the maximum amount of our LLC subsidiaries' indemnification obligations pursuant to the tax protection agreement in respect of New York City or New York State real estate transfer tax liability (based on then current tax rates and the valuations of our assets based on the private offering price of $13.50 per share, and including additional payments to compensate the indemnified continuing investors for additional tax liabilities resulting from the indemnification payments) would have been approximately $74.9 million (although the amount may be significantly less). We do not presently intend to sell or take any other action that would result in a tax protection payment with respect to the properties covered by the tax protection agreement.

In addition, David Bistricer and Sam Levinson may be subject to tax on a disproportionately large amount of the built-in gain that would be realized upon the sale or refinancing of certain properties. David Bistricer and Sam Levinson may therefore influence us to not sell or refinance certain properties, even if such sale or refinancing might be financially advantageous to our stockholders, or to enter into tax deferred exchanges with the proceeds of such sales when such a reinvestment might not otherwise be in our best interest, as they may wish to avoid realization of their share of the built-in gains in those properties. Alternatively, to avoid realizing such built-in gains, they may have to agree to additional reimbursements or guarantees involving additional financial risk.

Our tax protection agreement could limit our ability to sell or otherwise dispose of certain properties including through condominium or cooperative conversions.

In connection with the formation transactions, we entered into a tax protection agreement pursuant to which we agreed to indemnify the continuing investors against certain tax liabilities incurred during the 8-year period following the private offering (or with respect to certain transfers occurring during the 8-year period following the private offering) if those tax liabilities result from the sale, transfer, conveyance or other taxable disposition of any of the properties of our LLC subsidiaries. Therefore, although it may be in our stockholders' best interests that we sell one of these properties or convert all or a portion of the property into a condominium or cooperative and sell condominium or cooperative units, it may be economically prohibitive for us to do so because of these obligations.

Deficiencies in our internal control over financial reporting could adversely affect our ability to present accurately our financial statements and could materially and adversely affect us, including our business, reputation, results of operations, financial condition or liquidity.

Effective internal control is necessary for us to accurately report our financial results. There can be no guarantee that our internal control over financial reporting will be effective in accomplishing all control objectives all of the time. In connection with the audit of our Predecessor's historical financial statements, our registered independent public accounting firm identified certain significant deficiencies in our internal control over financial reporting and we are taking steps to remediate them. As we grow our business, our internal control will become more complex, and we may require significantly more resources to ensure our internal control remains effective. Deficiencies, including any material weakness, in our internal control over financial reporting which may occur in the future could result in misstatements of our results of operations that could require a restatement, failing to meet our reporting obligations and causing investors to lose confidence in our reported financial information. These events could materially and adversely affect us, including our business, reputation, results of operations, financial condition or liquidity.

Risks Related to Our Indebtedness and Financing

We have a substantial amount of indebtedness that may limit our financial and operating activities and may adversely affect our ability to incur additional debt to fund future needs.

As of December 31, 2017, we had approximately $855.1 million of total indebtedness, all of which was property-level debt. As described in Note 7 of the accompanying "Notes to Consolidated and Combined Financial Statements," the Company refinanced its outstanding Flatbush Gardens and Tribeca House loans on February 21, 2018.

Payments of principal and interest on borrowings may leave us with insufficient cash resources to operate our properties, fully implement our capital expenditure, acquisition and redevelopment activities, or meet the REIT distribution requirements imposed by the Code. Our level of debt and the limitations imposed on us by our debt agreements could have significant adverse consequences, including the following:

- require us to dedicate a substantial portion of cash flow from operations to the payment of principal, and interest on, indebtedness, thereby reducing the funds available for other purposes;
- make it more difficult for us to borrow additional funds as needed or on favorable terms, which could, among other things, adversely affect our ability to meet operational needs;
- force us to dispose of one or more of our properties, possibly on unfavorable terms (including the possible application of the 100% tax on income from prohibited transactions) or in violation of certain covenants to which we may be subject;
- subject us to increased sensitivity to interest rate increases;
- make us more vulnerable to economic downturns, adverse industry conditions or catastrophic external events;
- limit our ability to withstand competitive pressures;
- limit our ability to refinance our indebtedness at maturity or result in refinancing terms that are less favorable than the terms of our original indebtedness;
- reduce our flexibility in planning for or responding to changing business, industry and economic conditions; and/or
- place us at a competitive disadvantage to competitors that have relatively less debt than we have.

If any one of these events were to occur, our financial condition, results of operations, cash flow and the market value of our common stock could be adversely affected. Furthermore, foreclosures could create taxable income without accompanying cash proceeds, which could hurt our ability to meet the REIT distribution requirements imposed by the Code.

Our tax protection agreement requires our Operating Partnership to maintain certain debt levels that otherwise would not be required to operate our business.

Under our tax protection agreement, we undertake that our LLC subsidiaries will maintain a certain level of indebtedness and, in the case that level of indebtedness cannot be maintained, we are required to provide our continuing investors the opportunity to guarantee debt. If we fail to maintain such debt levels, or fail to make such opportunities available, we will be required to deliver to each applicable continuing investor a cash payment intended to approximate the continuing investor's tax liability resulting from our failure and the tax liabilities incurred as a result of such tax protection payment. We agreed to these provisions in order to assist our continuing investors in deferring the recognition of taxable gain as a result of and after the formation transactions. These obligations require us to maintain more or different indebtedness than we would otherwise require for our business.

We may be unable to refinance current or future indebtedness on favorable terms, if at all.

We may not be able to refinance existing debt on terms as favorable as the terms of existing indebtedness, or at all, including as a result of increases in interest rates or a decline in the value of our portfolio or portions thereof. If principal payments due at maturity cannot be refinanced, extended or paid with proceeds from other capital transactions, such as new equity capital, our operating cash flow will not be sufficient in all years to repay all maturing debt. As a result, we may be forced to postpone capital expenditures necessary for the maintenance of our properties, we may have to dispose of one or more properties on terms that would otherwise be unacceptable to us or we may be forced to allow the mortgage holder to foreclose on a property. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Property-Level Debt." We also may be forced to limit distributions and may be unable to meet the REIT distribution requirements imposed by the Code. Foreclosure on mortgaged properties or an inability to refinance existing indebtedness would likely have a negative impact on our financial condition and results of operations and could adversely affect our ability to make distributions to our stockholders.

We may not have sufficient cash flow to meet the required payments of principal and interest on our debt or to pay distributions on our common stock at expected levels.

In the future, our cash flow could be insufficient to meet required payments of principal and interest or to pay distributions on our shares at expected levels. In this regard, we note that in order for us to qualify as a REIT, we are required to make annual distributions generally equal to at least 90% of our taxable income, computed without regard to the dividends paid deduction and excluding net capital gain. In addition, as a REIT, we will be subject to U.S. federal income tax to the extent that we distribute less than 100% of our taxable income (including capital gains) and will be subject to a 4% nondeductible excise tax on the amount by which our distributions in any calendar year are less than a minimum amount specified by the Code. These requirements and considerations may limit the amount of our cash flow available to meet required principal and interest payments.

If we are unable to make required payments on indebtedness that is secured by a mortgage on our property, the asset may be transferred to the lender resulting in the loss of income and value to us, including adverse tax consequences related to such a transfer.

Mortgage debt obligations expose us to the possibility of foreclosure, which could result in the loss of our investment in a property or group of properties subject to mortgage debt.

Incurring mortgage and other secured debt obligations increases our risk of property losses because defaults on indebtedness secured by property may result in foreclosure actions initiated by lenders and ultimately our loss of the property securing any loans for which we are in default. Any foreclosure on a mortgaged property or group of properties could adversely affect the overall value of our portfolio of properties. For tax purposes, a foreclosure of any of our properties that is subject to a nonrecourse mortgage loan would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds, which could hurt our ability to meet the distribution requirements applicable to REITs under the Code.

Our debt agreements include restrictive covenants and default provisions which could limit our flexibility, our ability to make distributions and require us to repay the indebtedness prior to its maturity.

The mortgages on our properties contain customary negative covenants that, among other things, limit our ability, without the prior consent of the lender, to further mortgage the property and to reduce or change insurance coverage. As of December 31, 2017, we had $855.1 million principal amount of combined property mortgages and other secured debt. As described in Note 7 of the accompanying "Notes to Consolidated and Combined Financial Statements," the Company refinanced its outstanding Flatbush Gardens and Tribeca House loans on February 21, 2018. Additionally, our debt agreements contain customary covenants that, among other things, restrict our ability to incur additional indebtedness and, in certain instances, restrict our ability to engage in material asset sales, mergers, consolidations and acquisitions, and restrict our ability to make capital expenditures. These debt agreements, in some cases, also subject us to guarantor and liquidity covenants. Some of our debt agreements contain certain cash flow sweep requirements and mandatory escrows, and our property mortgages generally require certain mandatory prepayments upon disposition of underlying collateral. In addition, early repayment of certain mortgages may be subject to prepayment penalties.

Variable rate debt is subject to interest rate risk that could increase our interest expense, increase the cost to refinance and increase the cost of issuing new debt.

As of December 31, 2017, approximately $470.1 million of our outstanding consolidated debt was subject to instruments which bear interest at variable rates, and we may also borrow additional money at variable interest rates in the future. As described in Note 7 of the accompanying "Notes to Consolidated and Combined Financial Statements," the Company refinanced its outstanding Flatbush Gardens and Tribeca House loans on February 21, 2018. Unless we have made arrangements that hedge against the risk of rising interest rates, increases in interest rates would increase our interest expense under these instruments, increase the cost of refinancing these instruments or issuing new debt, and adversely affect cash flow and our ability to service our indebtedness and make distributions to our stockholders, which could adversely affect the market price of our common stock. Based on our aggregate variable rate debt outstanding as of December 31, 2017, an increase of 100 basis points in interest rates would result in a hypothetical increase of approximately $4.7 million in interest expense on an annual basis. The amount of this change includes the benefit of swaps and caps we currently have in place.

Hedging activity may expose us to risks, including the risks that a counterparty will not perform and that the hedge will not yield the economic benefits we anticipate, which could adversely affect us.

We may, in a manner consistent with our qualification as a REIT, seek to manage our exposure to interest rate volatility by using interest rate hedging arrangements that involve risk, such as the risk that counterparties may fail to honor their obligations under these arrangements, and that these arrangements may not be effective in reducing our exposure to interest rate changes. Moreover, there can be no assurance that our hedging arrangements will qualify for hedge accounting or that our hedging activities will have the desired beneficial impact on our results of operations. Should we desire to terminate a hedging agreement, there could be significant costs and cash requirements involved to fulfill our obligations under the hedging agreement. Generally, failure to hedge effectively against interest rate changes may adversely affect our results of operations.

When a hedging agreement is required under the terms of a mortgage loan, it is often a condition that the hedge counterparty maintains a specified credit rating. With the current volatility in the financial markets, there is an increased risk that hedge counterparties could have their credit rating downgraded to a level that would not be acceptable under the loan provisions. If we were unable to renegotiate the credit rating condition with the lender or find an alternative counterparty with an acceptable credit rating, we could be in default under the loan and the lender could seize that property through foreclosure, which could adversely affect us.

Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities.

The REIT provisions of the Code limit our ability to hedge our liabilities. Generally, income from a hedging transaction we enter into either to manage risk of interest rate changes with respect to borrowings incurred or to be incurred to acquire or carry real estate assets, or to manage the risk of currency fluctuations with respect to any item of income or gain (or any property which generates such income or gain) that constitutes "qualifying income" for purposes of the 75% or 95% gross income tests applicable to REITs, does not constitute "gross income" for purposes of the 75% or 95% gross income tests, provided that we properly identify the hedging transaction pursuant to the applicable sections of the Code and Treasury regulations. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of both gross income tests. As a result of these rules, we may need to limit our use of otherwise advantageous hedging techniques or implement those hedges through a taxable REIT subsidiary (a "TRS"). The use of a TRS could increase the cost of our hedging activities (because our TRS would be subject to tax on income or gain resulting from hedges entered into by it) or expose us to greater risks than we would otherwise want to bear. In addition, net losses in any of our TRSs will generally not provide any tax benefit except for being carried forward for use against future taxable income in the TRSs.

A portion of our distributions may be treated as a return of capital for U.S. federal income tax purposes, which could reduce the basis of a stockholder's investment in shares of our common stock and may trigger taxable gain.

A portion of our distributions may be treated as a return of capital for U.S. federal income tax purposes. As a general matter, a portion of our distributions will be treated as a return of capital for U.S. federal income tax purposes if the aggregate amount of our distributions for a year exceeds our current and accumulated earnings and profits for that year. To the extent that a distribution is treated as a return of capital for U.S. federal income tax purposes, it will reduce a holder's adjusted tax basis in the holder's shares, and to the extent that it exceeds the holder's adjusted tax basis, will be treated as gain resulting from a sale or exchange of such shares.

Risks Related to Our Status as a REIT

Failure to qualify or to maintain our qualification as a REIT would have significant adverse consequences to the value of our common stock.

We elected to qualify to be treated as a REIT commencing with our first taxable year ended December 31, 2015. The Code generally requires that a REIT distribute at least 90% of its taxable income (without regard to the dividends paid deduction and excluding net capital gains) to stockholders annually, and a REIT must pay tax at regular corporate rates to the extent that the REIT distributes less than 100% of its taxable income (including capital gains) in a given year. In addition, a REIT is required to pay a 4% nondeductible excise tax on the amount, if any, by which the distributions the REIT makes in a calendar year are less than the sum of 85% of the REIT's ordinary income, 95% of the REIT's capital gain net income and 100% of the REIT's undistributed income from prior years. To avoid entity-level U.S. federal income and excise taxes, we anticipate distributing at least 100% of our taxable income.

We believe that we are organized, have operated and will continue to operate in a manner that will allow us to qualify as a REIT commencing with our first taxable year ended December 31, 2015. However, we cannot assure you that we are organized, have operated and will continue to operate as such. This is because qualification as a REIT involves the application of highly technical and complex provisions of the Code as to which there may only be limited judicial and administrative interpretations and involves the determination of facts and circumstances not entirely within our control. We have not requested and do not intend to request a ruling from the Internal Revenue Service ("IRS") that we qualify as a REIT. Moreover, in order to qualify as a REIT, we must meet, on an ongoing basis, various tests regarding the nature and diversification of our assets and our income, the ownership of our outstanding stock and the amount of our distributions. Our ability to satisfy the asset tests depends upon our analysis of the characterization and fair market values of our assets, some of which are not susceptible to a precise determination, and for which we will not obtain independent appraisals. Our compliance with the REIT gross income and quarterly asset requirements also depends upon our ability to manage successfully the composition of our gross income and assets on an ongoing basis. Future legislation, new regulations, administrative interpretations or court decisions may significantly change the tax laws or the application of the tax laws with respect to qualification as a REIT for U.S. federal income tax purposes or the U.S. federal income tax consequences of such qualification. Accordingly, it is possible that we may not meet the requirements for qualification as a REIT.

If, with respect to any taxable year, we fail to maintain our qualification as a REIT, we would not be allowed to deduct distributions to stockholders in computing our taxable income. If we were not entitled to relief under the relevant statutory provisions, we would also be disqualified from treatment as a REIT for the four subsequent taxable years. If we fail to qualify as a REIT, we would be subject to entity-level income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate tax rates. As a result, the amount available for distribution to holders of our common stock would be reduced for the year or years involved, and we would no longer be required to make distributions. In addition, our failure to qualify as a REIT could impair our ability to expand our business and raise capital, and adversely affect the value of our common stock.

If our special voting stock and the Class B LLC units are treated as a single stock interest in the Company, we could fail to qualify as a REIT.

We believe that the special voting stock and Class B LLC units will be treated as separate interests in the Company and its predecessor entities, respectively. However, no assurance can be given that the IRS will not argue, or that a court would not find or hold, that the special voting stock and the Class B LLC units should be treated as a single stock interest in the Company for U.S. federal income tax purposes. If the special voting stock and Class B LLC units were treated as a single stock interest in the Company, it is possible that more than 50% in value of the outstanding stock of the Company could be treated as held by five or fewer individuals. In such a case, we could be treated as "closely held" and we could therefore fail to qualify as a REIT. Such failure would have significant adverse consequences. See "Risks Related to Our Status as a REIT."

We may owe certain taxes notwithstanding our qualification as a REIT.

Even if we qualify as a REIT, we will be subject to certain U.S. federal, state and local taxes on our income and property, on taxable income that we do not distribute to our stockholders, on net income from certain "prohibited transactions," and on income from certain activities conducted as a result of foreclosure. We may, in certain circumstances, be required to pay an excise or penalty tax (which could be significant in amount) in order to utilize one or more relief provisions under the Code to maintain our qualification as a REIT. In addition, we may provide services that are not customarily provided by a landlord, hold properties for sale and engage in other activities through TRSs, and the income of those subsidiaries will be subject to U.S. federal income tax at regular corporate rates.

The effect of the Tax Act is uncertain.

On December 22, 2017, the President signed into law H.R. 1, informally titled the Tax Cuts and Jobs Act (the "Tax Act"), with most provisions having an initial effective date of January 1, 2018. The Tax Act makes major changes to the Code, including several provisions that may affect the taxation of REITs and their security holders. The Tax Act is not expected to have a material impact on our REIT or subsidiary entities, the size and character of our dividends, our ability to continue to qualify as a REIT or on our results of operations. In addition, the Tax Act is expected to have a favorable impact on the effective tax rate of our shareholders and our residents. However, the complete impact of the Tax Act is not yet fully known and there can be no assurances that it will have a neutral or favorable impact. Technical corrections or other amendments to the Tax Act or administrative guidance interpreting the Tax Act may be forthcoming at any time. Prospective and current shareholders should consult with their tax advisors with respect to the effect of the Tax Act and any other regulatory or administrative developments and proposals and their potential effect on your investment.

Complying with the REIT requirements may cause us to forego otherwise attractive opportunities or liquidate certain of our investments.

To qualify as a REIT for U.S. federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. We may be required to make distributions to our stockholders at disadvantageous times or when we do not have funds readily available for distribution. Thus, compliance with the REIT requirements may, for instance, hinder our ability to make certain otherwise attractive investments or undertake other activities that might otherwise be beneficial to us and our stockholders, or may require us to borrow or liquidate investments in unfavorable market conditions and, therefore, may hinder our investment performance.

As a REIT, at the end of each calendar quarter, at least 75% of the value of our assets must consist of cash, cash items, government securities and qualified real estate assets. The remainder of our investments in securities (other than cash, cash items, government securities, securities issued by a TRS and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our total assets (other than cash, cash items, government securities, securities issued by a TRS and qualified real estate assets) can consist of the securities of any one issuer, no more than 20% of the value of our total securities can be represented by securities of one or more TRSs (25% for taxable years ending on or before December 31, 2017), and no more than 25% of the value of our total assets may consist of "nonqualified" debt instruments issued by publicly offered REITs. After meeting these requirements at the close of a calendar quarter, if we fail to comply with these requirements at the end of any subsequent calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification. As a result, we may be required to liquidate from our portfolio otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

We may be subject to a 100% penalty tax on any prohibited transactions that we enter into, or may be required to forego certain otherwise beneficial opportunities in order to avoid the penalty tax on prohibited transactions.

If we are found to have held, acquired or developed property primarily for sale to customers in the ordinary course of business, we may be subject to a 100% "prohibited transactions" tax under U.S. federal tax laws on the gain from disposition of the property unless the disposition qualifies for one or more safe harbor exceptions for properties that have been held by us for at least two years and satisfy certain additional requirements (or the disposition is made through a TRS and, therefore, is subject to corporate U.S. federal income tax).

Under existing law, whether property is held primarily for sale to customers in the ordinary course of a trade or business is a question of fact that depends on all the facts and circumstances. We intend to hold, and, to the extent within our control, to have any joint venture to which our Operating Partnership is a partner hold, properties for investment with a view to long-term appreciation, to engage in the business of acquiring, owning, operating and developing the properties, and to make sales of our properties and other properties acquired subsequent to the date hereof as are consistent with our investment objectives. Based upon our investment objectives, we believe that overall, our properties should not be considered property held primarily for sale to customers in the ordinary course of business. However, it may not always be practical for us to comply with one of the safe harbors, and, therefore, we may be subject to the 100% penalty tax on the gain from dispositions of property if we otherwise are deemed to have held the property primarily for sale to customers in the ordinary course of business.

The potential application of the prohibited transactions tax could cause us to forego potential dispositions of other property or to forego other opportunities that might otherwise be attractive to us, or to hold investments or undertake such dispositions or other opportunities through a TRS, which would generally result in corporate income taxes being incurred. For example, we anticipate that we would have to conduct any potential condominium or cooperative conversion of our Tribeca House properties and 141 Livingston Street property through a TRS.

REIT distribution requirements could adversely affect our liquidity and adversely affect our ability to execute our business plan.

In order to maintain our qualification as a REIT and to meet the REIT distribution requirements, we may need to modify our business plans. Our cash flow from operations may be insufficient to fund required distributions, for example, as a result of differences in timing between our cash flow, the receipt of income for GAAP purposes and the recognition of income for U.S. federal income tax purposes, the effect of non-deductible capital expenditures, the creation of reserves, payment of required debt service or amortization payments, or the need to make additional investments in qualifying real estate assets. The insufficiency of our cash flow to cover our distribution requirements could require us to (i) sell assets in adverse market conditions, (ii) borrow on unfavorable terms, (iii) distribute amounts that would otherwise be invested in future acquisitions or capital expenditures or used for the repayment of debt, (iv) pay dividends in the form of "taxable stock dividends" or (v) use cash reserves, in order to comply with the REIT distribution requirements. As a result, compliance with the REIT distribution requirements could adversely affect the market value of our common stock. The inability of our cash flow to cover our distribution requirements could have an adverse impact on our ability to raise short- and long-term debt or sell equity securities. In addition, if we are compelled to liquidate our assets to repay obligations to our lenders or make distributions to our stockholders, we may be subject to a 100% tax on any resultant gain if we sell assets that are treated as property held primarily for sale to customers in the ordinary course of business.

The ability of our board of directors to revoke our REIT qualification without stockholder approval may cause adverse consequences to our stockholders.

Our charter provides that our board of directors may revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interest to continue to qualify as a REIT. If we cease to be a REIT, we will not be allowed a deduction for dividends paid to stockholders in computing our taxable income and will be subject to U.S. federal income tax at regular corporate rates and state and local taxes, which may have adverse consequences on our total return to our stockholders.

Our ability to provide certain services to our tenants may be limited by the REIT rules, or may have to be provided through a TRS.

As a REIT, we generally cannot provide services to our tenants other than those that are customarily provided by landlords, nor can we derive income from a third party that provides such services. If we forego providing such services to our tenants, we may be at a disadvantage to competitors who are not subject to the same restrictions. However, we can provide such non-customary services to tenants or share in the revenue from such services if we do so through a TRS, though income earned through the TRS will be subject to corporate income taxes.

Although our use of TRSs may partially mitigate the impact of meeting certain requirements necessary to maintain our qualification as a REIT, there are limits on our ability to own TRSs, and a failure to comply with the limits would jeopardize our REIT qualification and may result in the application of a 100% excise tax.

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may hold assets and earn income that would not be qualifying assets or income if held or earned directly by a REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 20% of the value of a REIT's assets may consist of securities of one or more TRSs (25% for taxable years ended on or before December 31, 2017). In addition, rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. Rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are treated as not being conducted on an arm's-length basis.

Any TRSs that we form will pay U.S. federal, state and local income tax on the TRSs' taxable income, and the TRSs' after-tax net income will be available for distribution to us but is not required to be distributed to us unless necessary to maintain our REIT qualification. Although we will monitor the aggregate value of the securities of such TRSs and intend to conduct our affairs so that such securities will represent less than 20% of the value of our total assets, there can be no assurance that we will be able to comply with the TRS limitation in all market conditions.

Possible legislative, regulatory or other actions could adversely affect our stockholders and us.

The rules dealing with U.S. federal, state and local income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department. Changes to tax laws (which changes may have retroactive application) could adversely affect our stockholders or us. In recent years, many such changes have been made and changes are likely to continue to occur in the future. We cannot predict whether, when, in what form, or with what effective dates, tax laws, regulations and rulings may be enacted, promulgated or decided, which could result in an increase in our, or our stockholders', tax liability or require changes in the manner in which we operate in order to minimize increases in our tax liability. A shortfall in tax revenues for states and municipalities in which we operate may lead to an increase in the frequency and size of such changes. If such changes occur, we may be required to pay additional taxes on our assets or income and/or be subject to additional restrictions. These increased tax costs could, among other things, adversely affect our financial condition, the results of operations and the amount of cash available for the payment of dividends. Stockholders are urged to consult with their own tax advisors with respect to the impact that recent legislation may have on their investment and the status of legislative, regulatory or administrative developments and proposals and their potential effect on their investment in our shares.

Our property taxes could increase due to property tax rate changes or reassessment, which could impact our cash flow.

Even if we qualify as a REIT for U.S. federal income tax purposes, we will be required to pay state and local taxes on our properties. The real property taxes on our properties may increase as property tax rates change or as our properties are assessed or reassessed by taxing authorities. Therefore, the amount of property taxes we pay in the future may increase substantially from what we have paid in the past and such increases may not be covered by tenants pursuant to our lease agreements. If the property taxes we pay increase, our financial condition, results of operations, cash flow, per share trading price of our common stock and our ability to satisfy our principal and interest obligations and to make distributions to our stockholders could be adversely affected.

Risks Related to Ownership of Our Common Stock

The market price and trading volume of our common stock may be volatile, which could result in rapid and substantial losses for our stockholders.

Our financial performance, government regulatory action, tax laws, interest rates and market conditions in general could have a significant impact on the future market price of our common stock. Some of the factors that could negatively affect or result in fluctuations in the market price of our common stock include:

- actual or anticipated variations in our quarterly or annual operating results;
- increases in market interest rates that lead purchasers of our shares to demand a higher yield;
- changes in market valuations of similar companies;
- adverse market reaction to any increased indebtedness we incur in the future;
- additions or departures of key personnel;
- actions by stockholders;
- speculation in the press or investment community;
- general market, economic and political conditions, including an economic slowdown or dislocation in the global credit markets;
- our operating performance and the performance of other similar companies;
- negative publicity regarding us specifically or our business lines generally;
- changes in accounting principles; and
- passage of legislation or other regulatory developments that adversely affect us or our industry.

Broad market and industry factors may decrease the market price of our common stock, regardless of our actual operating performance. The stock market in general has from time to time experienced extreme price and volume fluctuations, including in recent months. In addition, in the past, following periods of volatility in the overall market and the market price of a company’s securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management’s attention and resources.

There are restrictions on ownership and transfer of our common stock.

To assist us in qualifying as a REIT, among other purposes, our charter generally limits beneficial ownership by any person to no more than 9.8% in value or number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our common stock or 9.8% of the aggregate value of all our outstanding stock. In addition, our charter contains various other restrictions on the ownership and transfer of shares of our stock. As a result, an investor that purchases shares of our common stock may not be able to readily resell such common stock.

Future sales of our common stock or other securities convertible into our common stock could cause the market value of our common stock to decline and could result in dilution.

Our board of directors is authorized, without approval of our common stockholders, to cause us to issue additional shares of our stock or to raise capital through the issuance of preferred stock, options, warrants and other rights on terms and for consideration as our board of directors in its sole discretion may determine.

Sales of substantial amounts of our common stock could dilute current ownership and could cause the market price of our common stock to decrease significantly. We cannot predict the effect, if any, of future sales of our common stock, or the availability of our common stock for future sales, on the value of our common stock. Sales of substantial amounts of our common stock, or the perception that such sales could occur, may adversely affect the market price of our common stock.

In addition, our Operating Partnership may issue additional OP units and our LLC subsidiaries may issue additional LLC units to third parties without the consent of our stockholders, which would reduce our ownership percentage in our Operating Partnership or LLC subsidiaries, as applicable, and would have a dilutive effect on the amount of distributions made to us by our Operating Partnership and, if applicable, to our Operating Partnership by our LLC subsidiaries and, therefore, the amount of distributions we can make to our stockholders. Any such issuances, or the perception of such issuances, could materially and adversely affect the market price of our common stock.

Future offerings of debt securities or preferred stock, which would rank senior to our common stock upon our bankruptcy liquidation, and future offerings of equity securities that may be senior to our common stock for the purposes of dividend and liquidating distributions, may adversely affect the market price of our common stock.

In the future, we may attempt to raise additional capital by making offerings of debt securities or additional offerings of equity securities, including preferred stock. Upon bankruptcy or liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common stock. Our preferred stock, if issued, could have a preference on liquidating distributions or a preference on dividend payments or both that could limit our ability to pay a dividend or other distribution to the holders of our common stock. Our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control. As a result, we cannot predict or estimate the amount, timing or nature of our future offerings, and purchasers of our common stock bear the risk of our future offerings reducing the market price of our common stock and diluting their ownership interest in our company.

We are an "emerging growth company" and as a result of the reduced disclosure and governance requirements applicable to emerging growth companies, our common stock may be less attractive to investors.

We are an "emerging growth company" as defined in the JOBS Act, and we currently take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, an extended transition period for complying with new or revised accounting standards and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile. We may take advantage of these reporting exemptions until we are no longer an emerging growth company. We will remain an emerging growth company until the earlier of (1) the earliest of the last day of the fiscal year (a) following the fifth anniversary of the completion of our IPO, (b) in which we have total annual gross revenue of at least \$1 billion, or (c) in which we are deemed to be a large accelerated filer, which means, among other things, the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the prior June 30th, and (2) the date on which we have issued more than \$1 billion in non-convertible debt during the prior three-year period.

CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

Various statements contained in this Annual Report on Form 10-K, including those that express a belief, expectation or intention, as well as those that are not statements of historical fact, are forward-looking statements. These forward-looking statements may include projections and estimates concerning the timing and success of specific projects and our future production, revenues, income and capital spending. Our forward-looking statements are generally accompanied by words such as "estimate," "project," "predict," "believe," "expect," "intend," "anticipate," "potential," "plan," "goal" or other words that convey the uncertainty of future events or outcomes. The forward-looking statements in this Annual Report on Form 10-K speak only as of the date of this Report; we disclaim any obligation to update these statements unless required by law, and we caution you not to rely on them unduly. We have based these forward-looking statements on our current expectations and assumptions about future events. While our management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. These and other important factors, including those discussed under "Risk Factors," may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. These risks, contingencies and uncertainties include, but are not limited to, the following:

- market and economic conditions affecting occupancy levels, rental rates, the overall market value of our properties, our access to capital and the cost of capital and our ability to refinance indebtedness;
- economic or regulatory developments in New York City;
- the single government tenant in our commercial buildings may suffer financial difficulty;
- our ability to control operating costs to the degree anticipated;
- the risk of damage to our properties, including from severe weather, natural disasters, climate change, and terrorist attacks;
- risks related to financing, cost overruns, and fluctuations in occupancy rates and rents resulting from development or redevelopment activities and the risk that we may not be able to pursue or complete development or redevelopment activities or that such development or redevelopment activities may not be profitable;
- concessions or significant capital expenditures that may be required to attract and retain tenants;
- the relative illiquidity of real estate investments;
- competition affecting our ability to engage in investment and development opportunities or attract or retain tenants;
- unknown or contingent liabilities in properties acquired in formative and future transactions;
- changes in rent stabilization regulations or claims by tenants in rent-stabilized units that their rents exceed specified maximum amounts under current regulations;
- the possible effects of departure of key personnel in our management team on our investment opportunities and relationships with lenders and prospective business partners;
- conflicts of interest faced by members of management relating to the acquisition of assets and the development of properties, which may not be resolved in our favor; and
- a transfer of a controlling interest in any of our properties that may obligate us to pay transfer tax based on the fair market value of the real property transferred.

ITEM 2. PROPERTIES

Our Portfolio Summary

As of December 31, 2017, our portfolio consisted of seven properties totaling approximately 3.1 million rentable square feet (plus an approximate 154,000 square feet under development) and was approximately 96.4% leased. These properties include Tribeca House (two nearly adjacent residential properties with street-level and mezzanine-level retail space and an externally managed parking garage), the Flatbush Gardens complex (a 59-building residential complex), two properties in Downtown Brooklyn (one exclusively commercial, one mixed commercial and residential), the Aspen property (a residential building with street-level retail space and an externally managed parking garage), the 10 West 65th Street residential property and the 107 Columbia Heights residential property.

The table below presents an overview of the Company's portfolio as of December 31, 2017:

Address	Submarket	Year Built	Leasable Sq. Ft.	# Units	Percent Leased	Annual Base Rental Revenue (millions)	Net Effective Rent Per Square Foot
Multifamily							
50 Murray Street	Manhattan	1964	395,693	390	91.3%	$ 24.3	$ 69.31
53 Park Place	Manhattan	1921	86,288	116	90.5%	$ 5.3	$ 68.09
Flatbush Gardens complex	Brooklyn	1950	1,734,885(1)	2,496	97.1%	$ 37.6	$ 22.47
250 Livingston Street	Brooklyn	1920	26,819(2)	36	94.4%	$ 1.2	$ 51.46
Aspen	Manhattan	2004	165,542	232	96.1%	$ 5.5	$ 35.07
10 West 65th Street	Manhattan	1939	75,678	82	87.8%	$ 3.0	$ 44.48
			2,484,905	3,352	95.6%	$ 76.9	$ 32.38
Commercial							
141 Livingston Street	Brooklyn	1959	206,084	1	100.0%	$ 8.2	$ 40.00
250 Livingston Street	Brooklyn	1920	294,144(3)	1	100.0%	$ 8.2	$ 27.90
			500,228	2	100.0%	$ 16.4	$ 32.77
Retail							
50 Murray Street (retail)	Manhattan		44,436	7	100.0%	$ 2.4	$ 52.50
50 Murray Street (parking)	Manhattan		24,200	1	100.0%	$ 1.2	$ 50.67
53 Park Place (retail)	Manhattan		8,600	1	100.0%	$ 0.3	$ 40.27
141 Livingston Street (parking/other)	Brooklyn		14,853	1	100.0%	$ 0.3	$ 21.88
250 Livingston Street (retail)	Brooklyn		990	1	100.0%	$ 0.1	$ 113.97
250 Livingston Street (parking)	Brooklyn		—	—	—	$ 0.2	—
Aspen (retail)	Manhattan		21,060	3	100.0%	$ 0.9	$ 44.18
Aspen (parking)	Manhattan		—	—	—	$ 0.4	—
			114,139	14	100.0%	$ 5.8	$ 51.19
Total			**3,099,272**	**3,368**	**96.4%**	**$ 99.1**	**$ 33.17**
Real Estate Under Development							
107 Columbia Heights	Brooklyn	1959	154,058				

(1) Comprises 59 buildings.

(2) Conversion of floors 9-12 into residential units occurred in 2003-2005, 2008-2009 and 2013, with renovation of residential units on the 12th floor from 2014 to 2017.

(3) Has been remeasured to approximately 353,000 square feet according to REBNY standards.

The table below presents an overview of commercial and retail lease expirations for the next ten years, beginning in 2018.

Year	Number of Tenants	Total Area Square Feet	Gross Annual Rent	% Gross Annual Rental
2018	—	—	—	—
2019	4	210,622	8,941,044	40.2%
2020	3	302,771	8,692,759	39.1%
2021	—	—	—	—
2022	3	57,200	2,468,157	11.1%
2023	2	10,812	746,562	3.4%
2024	1	1,500	145,200	0.7%
2025	—	—	—	—
2026	—	—	—	—
2027	1	7,568	380,204	1.7%

Descriptions of Our Properties

Tribeca House

The Company purchased the 50 Murray Street and 53 Park Place buildings on December 15, 2014.

These buildings were built in 1964 and 1921, respectively, renovated in 2001, and comprise a total of 506 units which include studio and one- and two-bedroom apartments as well as retail space and parking. The buildings are both full-service luxury rentals which include building finishes such as ceilings as high as 11 feet, stainless steel appliances and granite countertops and amenities such as a doorman, elevator, landscaped roof deck, rooftop basketball court, tenant lounge, game room, toddlers' play room, in-house valet service and screening room. 50 Murray Street includes 390 units and 395,693 square feet and 53 Park Place includes 116 units and 86,288 square feet. Both buildings are unencumbered by rent regulation.

The properties also feature approximately 77,200 square feet of retail space, comprising approximately 53,000 square feet of street-level and mezzanine-level retail space and an externally-managed garage. Tenants in this space include Equinox (a premium fitness club), and the Amish Market (a food market). Other tenants include AT&T, Starbucks and Apple Bank. The weighted average remaining lease duration of the retail tenants at December 31, 2017 is approximately eight years.

Property highlights include:

Location	• 50 Murray Street and 53 Park Place
Building Type	• Residential • Retail
Number of Units	• 506 units
Amenities	• Doorman • Landscaped roof deck • Rooftop basketball court • Tenant lounge • Game room • Toddler's play room • In house valet service • Screening room
Nearby Rapid Transit Access	• MTA Subway A, C, E, N, R, 1, 2, 3 trains • PATH train

Flatbush Gardens

Flatbush Gardens is a 59-building complex located along Foster Avenue between Nostrand and Brooklyn Avenues in the East Flatbush neighborhood of Brooklyn. The property's buildings are located on seven tax parcels. The complex was constructed around 1950 and contains 2,496 studio, one-bedroom, two-bedroom, and three-bedroom apartments, and four below-grade garages. The aggregate site area is 898,940 square feet, the aggregate gross building area is 1,926,180 square feet and the gross leasable area is 1,734,885 square feet.

Address	**Block**	**Lot**	**Site Area (Sq. Ft.)**	**Net Leasable Area (Sq. Ft.)**	**No. of Units**
3101 Foster Avenue	4964	47	60,000	118,320	168
1405 Brooklyn Avenue	5000	200	47,500	86,850	144
1402 Brooklyn Avenue	4981	50	161,655	292,920	420
1368 New York Avenue	4964	40	195,865	352,800	504
3505 Foster Avenue	4967	40	182,300	353,520	504
3202-24 Foster Avenue	4995	30	112,875	237,360	336
1401 New York Avenue	4981	1	138,745	293,115	420
Total			**898,940**	**1,734,885**	**2,496**

Community District 17 is a mixed-income community. We believe Flatbush Gardens represents an entry-level, low-cost option in the market and that we will increasingly draw tenants who have been priced out of other New York City sub-markets. The neighborhood surrounding the Flatbush Gardens complex is residential on all sides. The Newkirk Avenue subway station, which is serviced by the No. 2 and No. 5 trains, is located on the west side of the complex. Brooklyn College is located 0.6 miles along Nostrand Avenue to the south of Flatbush Gardens. The No. 2 and No. 5 trains, which service both Flatbush Gardens and Brooklyn College, provide direct access to the west side and east side, respectively, of Manhattan, as well as other points in Brooklyn. Two larger regional medical centers are located within a mile of the complex.

Property highlights include:

Building Type	•	Residential
Number of Units	•	2,496 units
Amenities	•	Park-like space between buildings
	•	Parking lots
Nearby Rapid Transit Access	•	MTA Subway 2, 5 trains

141 Livingston Street

The 141 Livingston Street property is a 15-story commercial property totaling 206,084 square feet, located on a 0.26-acre site at 141 Livingston Street in Downtown Brooklyn. The property's main commercial tenant, the City of New York, executed a new 10-year lease in December 2015. Under the agreement, the City of New York has an option to terminate the lease after five years; however, if it decides to continue to occupy the building at that time, the rent will increase by 25%, or $2.1 million annually, beginning the sixth year of the lease. The property is located in Downtown Brooklyn, approximately 500 feet from the Jay Street-Metrotech, Hoyt-Schermerhorn, Hoyt Street, and Borough Hall subway stops, offering direct one-stop access to the east and west sides of Manhattan, as well as access to surrounding regions of Brooklyn and Queens, and connections to every other New York City subway line. The property is located near the Fulton Street Mall, a pedestrian mall that runs along Fulton Street between Boerum Place and Flatbush Avenue, and is within walking distance of Barclays Center and Atlantic Avenue. In addition, the property includes an adjacent lot at 22 Smith Street currently used as a parking lot having approximately 5,000 square feet.

Property highlights include:

Location	• 141 Livingston Street
Building Type	• Commercial
	• Retail (parking)
Tenant	• City of New York
Amenities	• Elevators
	• Parking
Nearby Rapid Transit Access	• MTA Subway A, C, F, G, R, 2, 3, 4, 5 trains

250 Livingston Street

250 Livingston Street is a 12-story mixed-use building with commercial and residential uses on the upper floors and office and retail at grade. The total land area of the site is 29,707 square feet. There is 294,144 square feet of office space which is currently 100% leased to the City of New York's Department of Environmental Protection and Human Resources Administration under two leases that expire in August 2020; this space has been remeasured according to REBNY standards to approximately 353,000 square feet, an increase consistent with a previous remeasurement at the nearby 141 Livingston Street property, which features a similar class of office space. Additionally, the property includes 36 units (26,819 square feet) of multifamily residential apartment units, which were developed by Clipper Equity from 2003 through 2013.

Property highlights include:

Location	• 250 Livingston Street
Building Type	• Commercial
	• Residential
	• Retail
Commercial Tenant	• City of New York
Amenities	• Elevators
Nearby Rapid Transit Access	• MTA Subway A, B, C, F, G, Q, R, 2, 3, 4, 5 trains

Aspen

In June 2016, the Company purchased the Aspen property located at 1955 1st Avenue in Manhattan for $103 million. The property fronts the west side of First Avenue on the full block between 100th and 101st Streets, and comprises 186,602 square feet, 232 residential rental units, three retail units and a parking garage. The residential units are subject to regulations established by the HDC under which there are no rental restrictions on approximately 55% of the units and low- and middle-income restrictions on approximately 45% of the units. The residential units feature stainless steel appliances including a range, oven, refrigerator, microwave, and dishwasher. Property amenities include a courtyard, game room, fitness center, clubhouse, laundry facilities and onsite below-grade garage parking.

Property highlights include:

Location	• 1955 1st Avenue
Building Type	• Residential
	• Retail
Amenities	• Courtyard, game room, fitness center
Nearby Rapid Transit Access	• MTA Subway 4, 5, 6 trains

107 Columbia Heights

In May 2017, the Company purchased the 107 Columbia Heights property in the historic Brooklyn Heights district in Brooklyn for $87.5 million, in vacant condition. The property consists of 161 residential units, an indoor parking garage and approximately 154,000 gross square feet. The property is located near the Clark Street subway stop, the Brooklyn-Queens Expressway, the Brooklyn Bridge, the Manhattan Bridge and multiple bus lines. The Company is in the process of repositioning the property; based on current market prices in the area, the units are expected to be leased at an average rental rate of $65-$75 per rentable square foot. Amenities will include various unit terraces, a rooftop terrace, a fitness center and a landscaped garden. We believe these improvements will allow us to achieve maximum rents over time.

Property highlights include:

Location	• 107 Columbia Heights
Building Type	• Residential
Amenities	• Courtyard, rooftop terrace, fitness center
Nearby Rapid Transit Access	• MTA Subway 2, 3, A, C, F trains

10 West 65th Street

In October 2017, the Company purchased the 10 West 65th Street property in the Upper West Side neighborhood of Manhattan for $79 million. The property, located less than a block from Central Park, consists of approximately 76,000 square feet of leasable residential area, with 82 apartment units, plus an additional 53,000 square feet of air rights. The property is located near Lincoln Center and several prominent museums. The Company plans to invest incremental capital to enhance the property and achieve maximum rents over time. Approximately 50% of the apartments are subject to a sale-leaseback agreement with Touro College, from whom the Company purchased the property, through 2019.

Property highlights include:

Location	•	10 West 65th Street
Building Type	•	Residential
Amenities	•	Elevator
Nearby Rapid Transit Access	•	MTA Subway A, B, C, D, 1, 2, 3 trains

ITEM 3. LEGAL PROCEEDINGS

On July 3, 2017, the New York Supreme Court (the "Court") ruled in favor of 41 present or former tenants of apartment units at the Company's buildings located at 50 Murray Street and 53 Park Place in Manhattan, New York, who brought an action against the Company alleging that they were subject to applicable rent stabilization laws with the result that rental payments charged by the Company exceeded amounts permitted under these laws because the buildings were receiving certain tax abatements under Real Property Tax Law 421-g. The Court also awarded the plaintiffs, their attorney's fees and costs. The Court declared that the plaintiff-tenants were subject to rent stabilization requirements and referred the matter to a special referee to determine the amount of rent over-charges, if any. On July 18, 2017, the Court stayed the above decision; the Company subsequently appealed the decision to the Appellate Division, First Department. On January 18, 2018, the Appellate Division unanimously ruled in favor of the Company, holding that the Company acted properly in de-regulating the apartments. The Appellate Division decision and order is subject to a motion for leave to appeal and there can be no assurance as to the outcome of the appeal if leave to appeal is granted.

In addition to the above, the Company is subject to certain legal proceedings and claims arising in connection with its business. Management believes, based in part upon consultation with legal counsel, that the ultimate resolution of all such claims will not have a material adverse effect on the Company's consolidated results of operations, financial position, or cash flows.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

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

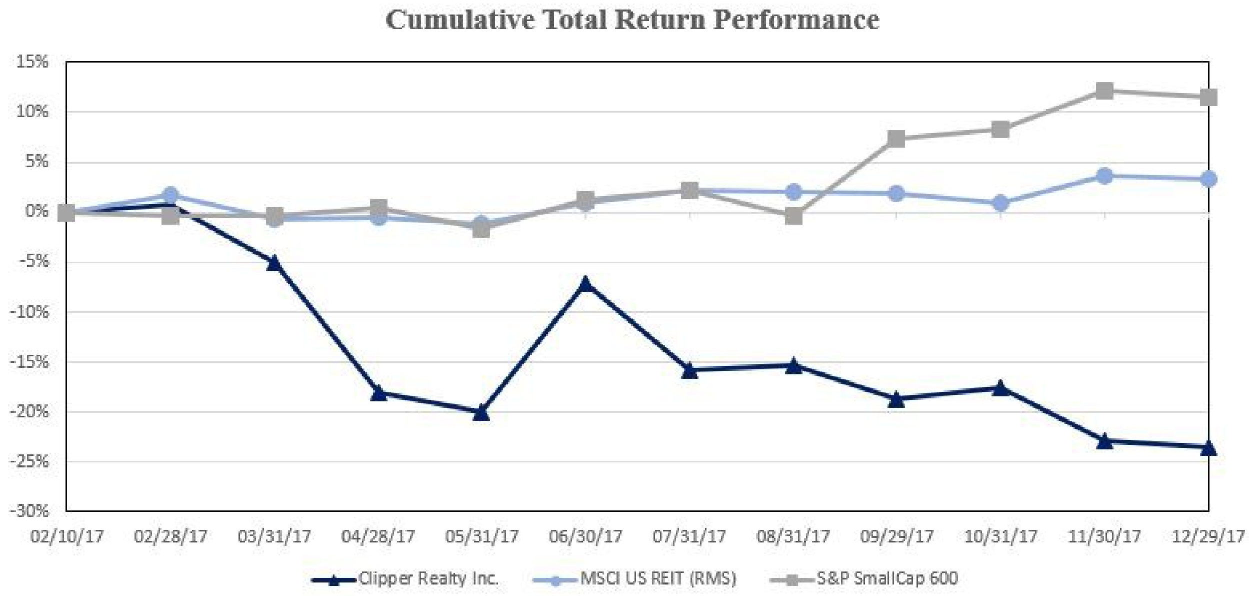
Market Information:

Our common stock is traded on the NYSE under the ticker symbol CLPR; the stock began trading on February 10, 2017. The following table sets forth the quarterly high and low sales prices per share of our common stock for 2017.

	Sales Price	
	High	Low
Quarter ended March 31, 2017 (Beginning February 10, 2017)	$ 15.00	$ 12.75
Quarter ended June 30, 2017	$ 13.37	$ 10.07
Quarter ended September 30, 2017	$ 12.61	$ 9.98
Quarter ended December 31, 2017	$ 11.72	$ 9.43

Stock Performance Graph:

The following graph sets forth the cumulative total stockholder return (assuming reinvestment of dividends) to our stockholders during the period from February 10, 2017 (the date our common stock began trading on the NYSE) through December 31, 2017, as well as the corresponding returns on an overall stock market index (S&P SmallCap 600) and a peer group index (MSCI US REIT Index). Historical total stockholder return is not necessarily indicative of future results.



Holders:

As of March 14, 2018, there were 1,288 holders of record of our common stock.

Dividends:

There is no guarantee that we will make quarterly cash distributions to holders of our common stock. We may make distributions only when, as and if authorized by our board of directors from funds legally available for distribution. Our cash distribution policy may be changed at any time and is subject to certain restrictions, including the following:

- we may lack sufficient cash to pay distributions on shares of our common stock for a number of reasons, including as a result of increases in our operating or general and administrative expenses, principal and interest payments on our debt, working capital requirements or cash needs;
- our ability to make cash distributions to holders of our common stock depends on the performance of our subsidiaries and their ability to distribute cash to us, and on the performance of our properties and tenants; and
- the ability of our subsidiaries to make distributions to us may be restricted by, among other things, covenants in the instruments governing current or future debt of these subsidiaries.

U.S. federal income tax law requires that we distribute annually at least 90% of our taxable income (without regard to the dividends paid deduction and excluding net capital gains). As a result, we expect to generally distribute a significant percentage of our available cash to holders of our common stock. Therefore, our growth may not be as fast as businesses that reinvest their available cash to expand ongoing operations. We expect that we will rely primarily upon external financing sources, including commercial bank borrowings and the issuance of debt and equity securities to fund our acquisitions and capital expenditures. As a result, to the extent we are unable to finance growth externally, our cash distribution policy will significantly impair our ability to grow. To the extent we issue additional shares of common stock, our operating partnership issues OP units or our existing or new LLC subsidiaries issue LLC units in connection with any acquisitions or other transactions, the payment of distributions on those additional securities may increase the risk that we will be unable to maintain or increase our distributions to stockholders.

The following table sets forth cash dividends paid per share, for the dates indicated.

	Cash Dividend Paid Per Share	
December 4, 2015	$	0.043
March 11, 2016	$	0.065
June 3, 2016	$	0.065
September 2, 2016	$	0.065
December 2, 2016	$	0.065
April 17, 2017	$	0.085
June 2, 2017	$	0.095
August 14, 2017	$	0.095
November 13, 2017	$	0.095

Any future distributions we make will be at the discretion of our board of directors and will depend on a number of factors, including prohibitions or restrictions under financing agreements, our charter or applicable law and other factors described below.

We cannot assure you that our board of directors will not change our distribution policy in the future. Any distributions we pay in the future will depend upon our actual results of operations, liquidity, cash flows, financial condition, economic conditions, debt service requirements and other factors that could differ materially from our current expectations. Our actual results of operations, liquidity, cash flows and financial condition will be affected by a number of factors, including the revenue we receive from our properties, our operating expenses, interest expense, the ability of our tenants to meet their obligations and unanticipated expenditures. For more information regarding risk factors that could materially adversely affect our ability to pay dividends and make other distributions to our stockholders, see "Risk Factors."

Securities Authorized For Issuance Under Equity Compensation Plans:

We have the following shares of our common stock reserved for future issuance under our 2015 Omnibus Plan and 2015 Director Plan.

Equity Compensation Plan Information

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders			
2015 Omnibus Plan	521,483	—	478,517
2015 Director Plan	131,853	—	218,147
Equity compensation plans not approved by security holders	—	—	—
Total	653,336	-	696,664

Recent Sales of Unregistered Securities:

None.

Use of Proceeds from Registered Securities:

On February 9, 2017, our registration statement on Form S-11 (File No. 333-214021) was declared effective by the SEC for our IPO, pursuant to which we sold an aggregate of 6,390,149 primary shares of our common stock (including the exercise of the over-allotment option) at a price to the public of $13.50 per share. FBR Capital Markets & Co., Raymond James & Associates, Inc., Janney Montgomery Scott LLC and Wunderlich Securities, Inc., served as underwriters. On February 13, 2017, we closed the sale of such shares and on March 10, 2017, we closed the sale of the over-allotment option, resulting in aggregate net proceeds of approximately $78.7 million after deducting underwriting discounts and commissions of $5.1 million and other offering expenses of approximately $2.2 million. No payments were made by us to directors, officers or persons owning ten percent or more of our common stock or to their associates, or to our affiliates. Together with cash-on-hand at December 31, 2016, we used the net IPO proceeds to purchase the 107 Columbia Heights ($28.6 million) and 10 West 65th Street ($45.4 million) properties, pay associated loan costs ($4.9 million) and fund property capital expenditures ($20.3 million) during 2017.

ITEM 6. SELECTED HISTORICAL FINANCIAL DATA.

The following table shows selected consolidated financial data for the Company and the Predecessor for the periods indicated. You should read the selected historical financial data in conjunction with the more detailed information contained in the audited financial statements and related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing elsewhere in this Form 10-K.

	(in thousands, except per share data)			
	Year ended December 31,			
	2017	2016	2015	2014
Consolidated Statement of Operations				
Revenues				
Residential rental income	$ 73,667	$ 67,165	$ 60,784	$ 31,413
Commercial income	21,914	18,558	17,256	12,382
Tenant recoveries	5,102	4,061	3,477	2,415
Garage and other income	3,269	3,221	3,087	1,562
Total revenues	103,952	93,005	84,604	47,772
Operating Expenses				
Property operating expenses	27,029	25,442	23,283	19,673
Real estate taxes and insurance	20,685	17,740	14,926	6,560
General and administrative	9,944	8,405	5,296	2,358
Acquisition costs	69	326	75	326
Depreciation and amortization	16,721	15,295	12,521	4,472
Total operating expenses	74,448	67,208	56,101	33,389
Income from operations	29,504	25,797	28,503	14,383
Interest expense, net	(35,505)	(38,136)	(36,703)	(9,145)
Net loss	$ (6,001)	$ (12,339)	(8,200)	$ 5,238
Net loss attributable to Predecessor and non-controlling interests	3,644	8,604	6,835	
Dividends attributable to preferred shares	(8)	(19)	—	
Net loss attributable to common stockholders	$ (2,365)	$ (3,754)	$ (1,365)	
Basic and diluted net loss per share	$ (0.15)	$ (0.34)	$ (0.12)	
Weighted average common shares / OP units:				
Common shares outstanding	17,021	11,423	11,423	
OP units outstanding	26,317	26,317	26,317	
Diluted shares outstanding	43,338	37,740	37,740	
Cash flow data				
Operating activities	$ 10,440	$ 9,350	$ 9,440	$ 7,472
Investing activities	(187,656)	(121,285)	(9,025)	(226,822)
Financing activities	147,609	24,150	115,760	224,707
Non-GAAP financial measures(1)				
FFO	$ 10,720	$ 2,956	$ 4,321	$ 9,710
AFFO	16,682	9,998	9,247	8,266
Adjusted EBITDA	49,554	43,743	41,531	18,482
Net Operating Income (NOI)	56,388	49,625	46,118	20,840

	(in thousands)			
	Year ended December 31,			
	2017	2016	2015	2014
Balance Sheet Data				
Investment in real estate, net	$ 996,892	$ 823,077	$ 726,107	$ 728,744
Cash and cash equivalents	7,940	37,547	125,332	9,157
Restricted cash	13,730	11,105	9,962	5,876
Total assets	1,052,085	905,208	881,118	766,856
Notes payable, net of unamortized debt costs	843,946	754,459	713,440	708,228
Total liabilities	866,494	778,992	734,741	729,659
Stockholders' equity	74,912	38,201	44,303	—
Total equity	185,591	126,216	146,377	37,197
Property-Related Data (unaudited)				
Residential property rentable square feet				
Flatbush Gardens	1,734	1,734	1,734	1,734
% leased	97.1%	96.9%	96.2%	94.4%
Tribeca House	482	481	479	479
% leased	91.1%	90.2%	83.5%	94.5%
250 Livingston Street	27	27	27	27
% leased	94.4%	87.6%	94.4%	90.0%
Aspen	166	166	—	—
% leased	96.1%	98.7%	—	—
10 West 65th Street	75	—	—	—
% leased	87.8%	—	—	—
Commercial and retail property rentable square feet				
141 Livingston Street (remeasured)	216	216	216	159
% leased	100%	100%	100.0%	100.0%
250 Livingston Street (remeasured)	353	353	353	353
% leased	100%	100%	99.7%	99.7%
Tribeca House	77	77	77	77
% leased	100%	100%	95.9%	95.9%
Aspen	21	21	—	—
% leased	100%	100%	—	—

(1) In this Annual Report on Form 10-K, we disclose and discuss FFO, AFFO, Adjusted EBITDA and NOI, all of which meet the definition of "non-GAAP financial measure" set forth in Item 10(e) of Regulation S-K promulgated by the SEC. For further discussion about our use of FFO, AFFO, Adjusted EBITDA and NOI as non-GAAP financial measures, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures."

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations in conjunction with the more detailed information set forth under the captions "Selected Historical Financial Data" and "Cautionary Note Concerning Forward-Looking Statements," and in our financial statements and the related notes thereto appearing elsewhere in this Annual Report on Form 10-K. The financial statements for periods and as of dates prior to the formation transactions represent consolidated historical financials of the Predecessor.

Overview of Our Company

We are a self-administered and self-managed real estate company that acquires, owns, manages, operates and repositions multifamily residential and commercial properties in the New York metropolitan area, with a current portfolio in Manhattan and Brooklyn. Our primary focus is to own, manage and operate our portfolio and to acquire and reposition additional multifamily residential and commercial properties in the New York metropolitan area. The Company has been organized and operates in conformity with the requirements for qualification and taxation as a real estate investment trust ("REIT") under the U.S. federal income tax law and elected to be treated as a REIT commencing with the taxable year ended December 31, 2015.

Clipper Realty was incorporated on July 7, 2015. On August 3, 2015, we closed a private offering of shares of our common stock, in which we raised net proceeds of approximately $130.2 million. In connection with the private offering, we consummated a series of investment and other formation transactions that were designed, among other things, to enable us to qualify as a REIT for U.S. federal income tax purposes.

In February 2017, the Company sold 6,390,149 primary shares of common stock (including the exercise of the over-allotment option, which closed on March 10, 2017) to investors in an initial public offering ("IPO") at $13.50 per share. The proceeds, net of offering costs, were approximately $78.7 million. The Company contributed the IPO proceeds to the Operating Partnership in exchange for units in the Operating Partnership

On May 9, 2017, the Company completed the acquisition of 107 Columbia Heights, a 161-unit apartment community located in Brooklyn Heights, New York, for $87.5 million.

On October 27, 2017, the Company completed the acquisition of an 82-unit residential property at 10 West 65th Street in Manhattan, New York, for $79.0 million.

As of December 31, 2017, the Company owns:

- two neighboring residential/retail rental properties at 50 Murray Street and 53 Park Place in the Tribeca neighborhood of Manhattan;
- one residential property complex in the East Flatbush neighborhood of Brooklyn consisting of 59 buildings;
- two primarily commercial properties in Downtown Brooklyn (one of which includes 36 residential apartment units);
- one residential/retail rental property at 1955 1st Avenue in Manhattan;
- one residential rental property at 107 Columbia Heights in the Brooklyn Heights neighborhood of Brooklyn; and
- one residential rental property at 10 West 65th Street in the Upper West Side neighborhood of Manhattan.

These properties are located in the most densely populated major city in the United States, each with immediate access to mass transportation.

The Company's ownership interest in its initial portfolio of properties, which includes the Tribeca House, Flatbush Gardens and two Livingston Street properties, was acquired in the formation transactions in connection with the private offering. These properties are owned by the LLC subsidiaries, which are managed by the Company through the Operating Partnership. The Operating Partnership's interest in the LLC subsidiaries generally entitles the Operating Partnership to all cash distributions from, and the profits and losses of, the LLC subsidiaries other than the preferred distributions to the continuing investors who hold Class B LLC units in these LLC subsidiaries (described below). The continuing investors own an aggregate amount of 26,317,396 Class B LLC units, representing 58.8% of the Company's common stock on a fully diluted basis. Accordingly, the Operating Partnership's interests in the LLC subsidiaries entitle the Operating Partnership to receive approximately 41.2% of the aggregate distributions from the LLC subsidiaries. The Company, through the Operating Partnership, owns all of the ownership interests in the Aspen property, the 107 Columbia Heights property and the 10 West 65th Street property.

How We Derive Our Revenue

Our revenue consists primarily of rents received from our residential, commercial and, to a lesser extent, retail properties.

Trends

During 2017, 2016 and 2015, the Company's properties generally experienced increasing demand. At the 141 Livingston Street property, in the Downtown Brooklyn neighborhood, the Company entered into a new lease with the City of New York in December 2015 that provided for a 94% increase in rent per square foot and a 29% increase in rentable square feet through a remeasurement. At the nearby 250 Livingston Street property, the Company entered into a lease renewal with the City of New York in December 2016 for a portion of the office space that provided for an 86% increase in rent per square foot and a 35% increase in rentable square feet through a remeasurement; both City of New York leases at the property expire in August 2020. At the Flatbush Gardens residential apartment complex, the Company increased average rent per square foot from $20.63 at December 31, 2015, to $21.24 at December 31, 2016 and $22.47 at December 31, 2017. At the Tribeca House property, the Company increased average residential rent per square foot from $65.50 at December 31, 2015, to $68.05 at December 31, 2016 and $69.18 at December 31, 2017. At the Aspen property, the Company increased average residential rent per square foot from $30.72 at acquisition in June 2016, to $33.05 at December 31, 2016 and $35.07 at December 31, 2017. The Company did not have any significant retail lease renewals during this time period.

Throughout 2017, 2016 and 2015, we continued to benefit from relatively low interest rates. Our weighted average interest rate as of December 31, 2017, was approximately 4.6% per annum. Although interest rates have recently increased in conjunction with an improving economy, they continue to be at relatively low levels vs. historical norms.

Factors that May Influence Future Results of Operations

We derive approximately 73% of our revenues from rents received from residents in our apartment rental properties and the remainder from commercial and retail rental customers. We believe that we have expertise in operating, renovating and repositioning our properties. As we grow, we will likely add personnel as necessary to provide outstanding customer service to our residents in order to maintain or increase occupancy levels at our apartment communities and to preserve the ability to increase rents. This is likely to result in an increase in our operating and general and administrative expenses over time.

A majority of the leases at our apartment communities are for approximately one-year terms, which generally enables us to seek increased rents upon renewal of existing leases or commencement of new leases. This may offset the potential adverse effect of inflation or deflation on rental revenue, although residents may leave without penalty at the end of their lease terms for any reason. Our ability to seek increased rents at our Flatbush Gardens property is limited, however, as a result of the rent stabilization laws and regulations of New York City. These regulations generally limit rental increases we can charge at our Flatbush Gardens property upon lease renewal for our legacy tenants; effective October 1, 2017, such increases are 1.25% for a one-year lease and 2% for a two-year lease. The regulations also limit the maximum rent we can charge at our Flatbush Gardens property on new leases, although, on average, such maximum rent is approximately 30% above our actual average rental rates for such leases. At our Aspen property, the residential units are subject to regulation established by the HDC, under which there are no rental restrictions on approximately 55% of the units and low- and middle-income restrictions on approximately 45% of the units. There are no such rent stabilization restrictions at the Tribeca House properties, the 250 Livingston Street property, the 107 Columbia Heights property and the 10 West 65th Street property.

We also incur costs on turnover of residents when one resident moves out and we prepare the apartment for a new resident. The costs include the costs of repainting and repairing apartment units, replacing obsolete or damaged appliances and re-leasing the units. While we budget for turnover and the costs associated therewith, our turnover cost may be affected by certain factors we cannot control. Excessive turnover and failure to properly manage turnover cost may adversely affect our operations and could adversely affect our financial condition, results of operations, cash flows and ability to pay distributions on, and the market price of, our common stock.

We seek earnings growth primarily through increasing rents and occupancy at existing properties, and acquiring additional apartment communities in markets complementing our existing portfolio locations. Our apartment and commercial properties are concentrated in six neighborhoods within the boroughs of Manhattan and Brooklyn in New York City which makes us susceptible to adverse developments in these markets. As a result, we are particularly affected by the local economic conditions in these markets, including, but not limited to, changes in supply of or demand for apartment units in our markets, competition for real property investments in our markets, changes in government rules, regulations and fiscal policies, including those governing real estate usage and tax, and any environmental risks related to the presence of hazardous or toxic substances or materials at or in the vicinity of our properties, which could negatively affect our overall performance.

We may be unable to accurately predict future changes in national, regional or local economic, demographic or real estate market conditions. For example, continued volatility and uncertainty in the global, national, regional and local economies could make it more difficult for us to lease apartment, commercial and retail space and may require us to lease our apartment, commercial and retail space at lower rental rates than projected and may lead to an increase in resident defaults. In addition, these conditions may also lead to a decline in the value of our properties and make it more difficult for us to dispose of these properties at competitive prices. These conditions, or others we cannot predict, could adversely affect our financial condition, results of operations, cash flows and ability to pay distributions on, and the market price of, our common stock.

As a public company with shares listed on a U.S. exchange, we incur general and administrative expenses, including legal, accounting and other expenses, related to corporate governance, public reporting and compliance with various provisions of the Sarbanes-Oxley Act, related regulations of the SEC, including compliance with the reporting requirements of the Exchange Act, and the requirements of the national securities exchange on which our stock is listed.

Significant Accounting Policies

The accompanying consolidated and combined financial statements include the accounts and operations of the Company and its Predecessor. The entities that comprised the Predecessor have been combined on the basis that, for the periods presented, such entities were under common control.

Basis of Consolidation and Combination

The consolidated and combined financial statements of the Company and its Predecessor included elsewhere herein are prepared in accordance with generally accepted accounting principles in the United States (“GAAP”). The effect of all significant intercompany balances and transactions has been eliminated. The consolidated and combined financial statements include the accounts of all entities in which the Company and its Predecessor has a controlling interest. All significant intercompany transactions and balances are eliminated in consolidation/combination.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of commitments and contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management adjusts such estimates when facts and circumstances dictate. The most significant estimates made include the recoverability of accounts receivable, allocation of property purchase price to tangible and intangible assets acquired and liabilities assumed, and the useful lives of long-lived assets. Actual results could materially differ from these estimates.

Investment in Real Estate

Real estate assets held for investment are carried at historical cost and consist of land, buildings and improvements, furniture, fixtures and equipment and real estate under development. Expenditures for ordinary repair and maintenance costs are charged to expense as incurred. Expenditures for improvements, renovations, and replacements of real estate assets are capitalized and depreciated over their estimated useful lives if the expenditures qualify as betterment or the life of the related asset will be substantially extended beyond the original life expectancy.

Upon the adoption of ASU 2017-01, "Business Combinations – Clarifying the Definition of a Business,” the Company evaluates each acquisition of real estate or in-substance real estate to determine if the integrated set of assets and activities acquired meets the definition of a business and needs to be accounted for as a business combination. If either of the following criteria is met, the integrated set of assets and activities acquired would not qualify as a business:

• Substantially all of the fair value of the gross assets acquired is concentrated in either a single identifiable asset or a group of similar identifiable assets; or

• The integrated set of assets and activities is lacking, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs (i.e., revenue generated before and after the transaction).

An acquired process is considered substantive if:

• The process includes an organized workforce (or includes an acquired contract that provides access to an organized workforce) that is skilled, knowledgeable and experienced in performing the process;

• The process cannot be replaced without significant cost, effort or delay; or

• The process is considered unique or scarce.

Generally, the Company expects that acquisitions of real estate or in-substance real estate will not meet the revised definition of a business because substantially all of the fair value is concentrated in a single identifiable asset or group of similar identifiable assets (i.e., land, buildings and related intangible assets) or because the acquisition does not include a substantive process in the form of an acquired workforce or an acquired contract that cannot be replaced without significant cost, effort or delay.

Upon acquisition of real estate, the Company assesses the fair values of acquired tangible and intangible assets including land, buildings, tenant improvements, above and below-market leases, in-place leases and any other identified intangible assets and assumed liabilities. The Company allocates the purchase price to the assets acquired and liabilities assumed based on their fair values. In estimating fair value of tangible and intangible assets acquired, the Company assesses and considers fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates, estimates of replacement costs, net of depreciation, and available market information. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant.

The Company records acquired above-market and below-market lease values initially based on the present value, using a discount rate which reflects the risks associated with the leases acquired based on the difference between (i) the contractual amounts to be paid pursuant to each in-place lease and (ii) management's estimate of fair market lease rates for each corresponding in-place lease, measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the term of any below-market fixed renewal options for the below-market leases. Other intangible assets acquired include amounts for in-place lease values and tenant relationship values (if any) that are based on management's evaluation of the specific characteristics of each tenant's lease and the Company's overall relationship with the respective tenant. Factors to be considered by management in its analysis of in-place lease values include an estimate of carrying costs to execute similar leases. In estimating carrying costs, management includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, depending on local market conditions. In estimating costs to execute similar leases, management considers leasing commission, legal and other related expenses.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. A property's value is impaired if management's estimate of the aggregate future cash flows (undiscounted and without interest charges) to be generated by the property is less than the carrying value of the property. To the extent impairment has occurred, a write-down is recorded and measured by the amount of the difference between the carrying value of the asset and the fair value of the asset. Management of the Company does not believe that any of its properties within the portfolio are impaired as of December 31, 2017.

For long-lived assets to be disposed of, impairment losses are recognized when the fair value of the assets less estimated cost to sell is less than the carrying value of the assets. Properties classified as real estate held for sale generally represent properties that are actively marketed or contracted for sale with closing expected to occur within the next twelve months. Real estate held for sale is carried at the lower of cost, net of accumulated depreciation, or fair value less cost to sell, determined on an asset-by-asset basis. Expenditures for ordinary repair and maintenance costs on held for sale properties are charged to expense as incurred. Expenditures for improvements, renovations, and replacements related to held-for-sale properties are capitalized at cost. Depreciation is not recorded on real estate held for sale.

If a tenant vacates its space prior to the contractual termination of the lease and no rental payments are being made on the lease, any unamortized balances of the related intangibles are written off. The tenant improvements and origination costs are amortized to expense over the remaining life of the lease (or charged against earnings if the lease is terminated prior to its contractual expiration date).

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Building and improvements (years)	10 – 44
Tenant improvements	Shorter of useful life or lease term
Furniture, fixtures and equipment (years)	3 – 15

Capitalized above-market lease values are amortized as a reduction of base rental revenue over the remaining term of the respective leases, and capitalized below-market lease values are amortized as an increase to base rental revenue over the remaining initial terms plus the terms of any below-market fixed rate renewal options of the respective leases. The value of in-place leases is amortized to expense over the remaining initial terms of the respective leases.

Tenant and Other Receivables and Allowance for Doubtful Accounts

Tenant and other receivables are comprised of amounts due for monthly rents and other charges. The Company periodically performs a detailed review of amounts due from tenants to determine if accounts receivable balances are impaired based on factors affecting the collectability of those balances. If a tenant fails to make contractual payments beyond any allowance, the Company may recognize additional bad debt expense in future periods.

Deferred Costs

Deferred lease costs consist of fees incurred to initiate and renew operating leases. Lease costs are being amortized using the straight-line method over the terms of the respective leases. Deferred financing costs represent commitment fees, legal and other third-party costs associated with obtaining financing. These costs are amortized over the term of the financing and are recorded in interest expense in the combined financial statements. Unamortized deferred financing costs are expensed when the associated debt is refinanced or repaid before maturity. Costs incurred in seeking financing transactions which do not close are expensed in the period the financing transaction is terminated.

Revenue Recognition

Rental revenue for commercial leases is recognized on a straight-line basis over the terms of the respective leases. Rental income attributable to residential leases and parking is recognized as earned, which is not materially different from the straight-line basis. Leases entered into by residents for an apartment unit are generally for a one-year term, renewable upon consent of both parties on an annual or monthly basis. Deferred rents receivable represents the amount by which straight-line rental revenue exceeds rents currently billed in accordance with lease agreements.

Reimbursements for operating expenses due from tenants pursuant to their lease agreements are recognized as revenue in the period the applicable expenses are incurred. These costs generally include real estate taxes, utilities, insurance, common area maintenance costs and other recoverable costs.

Historical Results of Operations

Our focus throughout the years ended December 31, 2017, 2016 and 2015, has been to manage our properties to optimize revenues and control costs at each property, while continuing to renovate and reposition certain properties. The discussion below highlights the specific properties contributing to the changes in the results of operations, and focuses on the properties the Company owned for the full period in each comparison.

Income Statement for the Years Ended December 31, 2017 and 2016 (in thousands)

	2017	Less: Aspen	Less: 10 West 65th Street	2017 excluding Aspen and 10 West 65th Street	2016	Less: Aspen	2016 excluding Aspen	Increase (decrease)	%
Revenues									
Residential rental income	$ 73,667	$ 5,473	$ 544	$ 67,650	$ 67,165	$ 2,669	$ 64,496	$ 3,154	4.9%
Commercial income	21,914	1,454	-	20,460	18,558	736	17,822	2,638	14.8%
Tenant recoveries	5,102	47	-	5,055	4,061	2	4,059	996	24.5%
Garage and other income	3,269	20	-	3,249	3,221	5	3,216	33	1.0%
Total revenues	103,952	6,994	544	96,414	93,005	3,412	89,593	6,821	7.6%
Operating Expenses									
Property operating expenses	27,029	1,104	95	25,830	25,442	587	24,855	975	3.9%
Real estate taxes and insurance	20,685	792	143	19,750	17,740	339	17,401	2,349	13.5%
General and administrative	9,944	390	19	9,535	8,405	162	8,243	1,292	15.7%
Acquisition costs	69	-	16	53	326	132	194	(141)	(72.5)%
Depreciation and amortization	16,721	1,240	375	15,106	15,295	1,473	13,822	1,284	9.3%
Total operating expenses	74,448	3,526	648	70,274	67,208	2,693	64,515	5,759	8.9%
Income from operations	29,504	3,468	(104)	26,140	25,797	719	25,078	1,062	4.2%
Interest expense, net	(35,505)	(2,807)	(227)	(32,471)	(38,136)	(1,432)	(36,704)	(4,233)	(11.5)%
Net loss	$ (6,001)	$ 661	$ (331)	$ (6,331)	$ (12,339)	$ (713)	$ (11,626)	$ 5,295	45.5%

Revenue. Residential rental income for same properties increased from $64,496 for the year ended December 31, 2016, to $67,650 for the year ended December 31, 2017, due to higher revenues on new leases and routine annual increases on renewed rentals primarily at the Flatbush Gardens property complex and higher average occupancy levels at Tribeca House. Base rent per square foot increased at the Flatbush Gardens property from $21.24 (96.9% occupancy) at December 31, 2016 to $22.47 (96.4% occupancy) at December 31, 2017. Rent increases on new leases for 2017 were approximately 19.0%.

Commercial income for same properties increased from $17,822 for the year ended December 31, 2016, to $20,460 for the year ended December 31, 2017, primarily due to a new lease effective January 1, 2017 at 250 Livingston Street for floors 1-3.

Tenant recoveries for same properties increased from $4,059 for the year ended December 31, 2016, to $5,055 for the year ended December 31, 2017, primarily due to approximately $600 of recoveries from resolution of a prior year lease interpretation at 141 Livingston Street and higher expenses at 141 Livingston Street.

Garage and other income for same properties increased from $3,216 for the year ended December 31, 2016, to $3,249 for the year ended December 31, 2017, primarily due to resident fees at Tribeca House and Flatbush Gardens and higher damage fees at Tribeca House mostly offset by the effect of a July 2017 change to monthly billing for air conditioning at Flatbush Gardens.

Property Operations Expense. Property operating expenses for same properties include property-level costs including compensation costs for property-level personnel, repairs and maintenance, supplies, utilities and landscaping. Property operating expenses increased from $24,855 for the year ended December 31, 2016, to $25,830 for the year ended December 31, 2017, primarily due to higher collection and payroll expense (including workers' compensation audit costs) at Flatbush Gardens, generally higher utilities costs due to colder weather partially offset by generally lower repairs and maintenance expenses and lower payroll and commissions at Tribeca House.

Real estate taxes and insurance expenses for same properties increased from $17,401 for the year ended December 31, 2016, to $19,750 for the year ended December 31, 2017, primarily due to increased taxes at our Flatbush Gardens and Tribeca House properties as a result of higher assessments.

General and Administrative Expense. General and administrative expense for same properties increased from $8,243 for the year ended December 31, 2016, to $9,535 for the year ended December 31, 2017, primarily due to higher staffing levels, an increase in non-cash LTIP amortization of $586,000 and higher public company costs.

Depreciation and Amortization. Depreciation and amortization expense for same properties increased from $13,822 for the year ended December 31, 2016, to $15,106 for the year ended December 31, 2017, due to additions to fixed assets.

Interest Expense, Net. Interest expense, net, for same properties decreased from $36,704 for the year ended December 31, 2016, to $32,471 for the year ended December 31, 2017, primarily due to lower average debt outstanding as a result of the refinancing at Tribeca House in November 2016 and lower amortization of debt costs due to the refinancing in 2016 at 141 Livingston St and Tribeca House. Interest expense includes amortization of loan costs and change in fair value of interest rate cap of $3,160 and $5,061 for the years ended December 31, 2017 and 2016, respectively.

Net Loss. As a result of the foregoing, net loss for same properties decreased from $11,626 for the year ended December 31, 2016 to $6,331 for the year ended December 31, 2017.

Income Statement for the Years Ended December 31, 2016 and 2015 (in thousands)

	2016	Less: Aspen	2016 excluding Aspen	2015	Increase (decrease)	%
Revenues						
Residential rental income	$ 67,165	$ 2,669	$ 64,496	$ 60,784	$ 3,712	6.1%
Commercial income	18,558	736	17,822	17,256	566	3.3%
Tenant recoveries	4,061	2	4,059	3,477	582	16.7%
Garage and other income	3,221	5	3,216	3,087	129	4.2%
Total revenues	93,005	3,412	89,593	84,604	4,989	5.9%
Operating Expenses						
Property operating expenses	25,442	587	24,855	23,283	1,572	6.7%
Real estate taxes and insurance	17,740	339	17,401	14,926	2,475	16.6%
General and administrative	8,405	162	8,243	5,296	2,947	55.6%
Acquisition costs	326	132	194	75	119	158.7%
Depreciation and amortization	15,295	1,473	13,822	12,521	1,301	10.4%
Total operating expenses	67,208	2,693	64,515	56,101	8,414	15.0%
Income from operations	25,797	719	25,078	28,503	(3,425)	(12.0)%
Interest expense, net	(38,136)	(1,432)	(36,704)	(36,703)	(1)	(1.1)%
Net loss	$ (12,339)	$ (713)	$ (11,626)	$ (8,200)	$ (3,426)	(41.8)%

Revenue. Residential rental income, excluding Aspen, increased from $60,784 for the year ended December 31, 2015 to $64,496 for the year ended December 31, 2016 due to higher revenues on new leases and routine annual increases on renewed rentals primarily at the Flatbush Gardens property complex and higher revenues on new leases at Tribeca House. Base rent per square foot increased at the Flatbush Gardens property from $20.63 (97.0% occupancy) at December 31, 2015 to $21.24 (96.9% occupancy) at December 31, 2016. Rent increases on new leases for 2016 were approximately 25% and routine annual rent increases on renewed leases at Flatbush Gardens were approximately 3.4%.

Commercial income, excluding Aspen, increased from $17,256 for the year ended December 31, 2015 to $17,822 for the year ended December 31, 2016 primarily due to the commencement of the new retail lease at our Tribeca House property.

Tenant recoveries, excluding Aspen, increased from $3,477 for the year ended December 31, 2015 to $4,059 for the year ended December 31, 2016 primarily due to recoveries for higher real estate taxes and terms in one of the retail leases at our Tribeca House property which called for no escalation payments until July 2015.

Garage and other income, excluding Aspen, increased from $3,087 for the year ended December 31, 2015 to $3,216 for the year ended December 31, 2016, primarily due to increased storage fees at our Tribeca House property and damage fees collected at our 250 Livingston Street property.

Property Operations Expense. Property operating expenses, excluding Aspen, include property-level costs including compensation costs for property-level personnel, repairs and maintenance, supplies, utilities and landscaping. Property operating expenses increased from $23,283 for the year ended December 31, 2015 to $24,855 for the year ended December 31, 2016 primarily due to higher payroll at Flatbush Gardens and higher payroll and commissions at Tribeca House.

Real estate taxes and insurance expenses, excluding Aspen, increased from $14,926 for the year ended December 31, 2015 to $17,401 for the year ended December 31, 2016 primarily due to increased taxes at our Flatbush Gardens and Tribeca House properties, the latter due in part to the cessation of real estate tax abatements.

General and Administrative Expense. General and administrative expense, excluding Aspen, increased from $5,296 for the year ended December 31, 2015 to $8,243 for the year ended December 31, 2016 primarily due to executive compensation effected by the REIT formation transactions in August of 2015, which includes an increase in non-cash LTIP amortization of $1,814.

Depreciation and Amortization. Depreciation and amortization expense, excluding Aspen, increased from $12,521 for the year ended December 31, 2015 to $13,822 for the year ended December 31, 2016, due to additions to fixed assets.

Interest Expense, Net. Interest expense, net, excluding Aspen, was $36,703 for the year ended December 31, 2015 and $36,704 for the year ended December 31, 2016. This results from higher average outstanding debt in 2016 as a result of the refinancing of the 141 Livingston Street property in May 2016 and slightly higher LIBOR rate on the Tribeca House property loans partially offset by lower amortization of debt costs. Interest expense includes amortization of loan costs and change in fair value of interest rate cap of $5,061 and $6,558 for the year ended December 31, 2016 and 2015, respectively.

Net Loss. As a result of the foregoing, net loss, excluding Aspen, increased from $8,200 for the year ended December 31, 2015 to $11,626 for the year ended December 31, 2016**.**

Liquidity and Capital Resources

As of December 31, 2017, we had $843.9 million of indebtedness (net of unamortized issuance costs) secured by our properties, and $7.9 million of cash. As described in Note 7 of the accompanying "Notes to Consolidated and Combined Financial Statements," the Company refinanced its outstanding Flatbush Gardens and Tribeca House loans on February 21, 2018. As a result, we do not have any debt maturing in 2018. No assurance can be given that we will be able to refinance any of our outstanding indebtedness on favorable terms or at all.

In February 2017, we completed an IPO which provided net proceeds of approximately $78.7 million, including the exercise of the underwriters' over-allotment option in March 2017 and after deducting underwriting discounts and commissions and other offering expenses paid by us.

As a REIT, we are required to distribute at least 90% of our REIT taxable income, computed without regard to the dividends paid deduction and excluding net capital gains, to stockholders on an annual basis. We expect that these needs will be met from cash generated from operations and other sources, including proceeds from secured mortgages and unsecured indebtedness, proceeds from additional equity issuances and cash generated from the sale of property.

Short-Term and Long-Term Liquidity Needs

Our short-term liquidity needs will primarily be to fund operating expenses, recurring capital expenditures, property taxes and insurance, interest and scheduled debt principal payments, general and administrative expenses and distributions to stockholders and unit holders. We generally expect to meet our short-term liquidity requirements through net cash provided by operations, and we believe we will have sufficient resources to meet our short-term liquidity requirements.

Our principal long-term liquidity needs will primarily be to fund additional property acquisitions, major renovation and upgrading projects, and debt payments and retirements at maturity. We do not expect that net cash provided by operations will be sufficient to meet all of these long-term liquidity needs. We anticipate meeting our long-term liquidity requirements by using cash as an interim measure and funds from public and private equity offerings and long-term secured and unsecured debt offerings.

We believe that as a publicly traded REIT, we will have access to multiple sources of capital to fund our long-term liquidity requirements. These sources include the incurrence of additional debt and the issuance of additional equity. However, we cannot provide assurance that this will be the case. Our ability to secure additional debt will depend on a number of factors, including our cash flow from operations, our degree of leverage, the value of our unencumbered assets and borrowing restrictions that may be imposed. Our ability to access the equity capital markets will depend on a number of factors as well, including general market conditions for REITs and market perceptions about our company.

We believe that our current cash flows from operations, coupled with additional mortgage debt, will be sufficient to allow us to continue operations, satisfy our contractual obligations and make distributions to our stockholders and the members of our LLC subsidiaries for at least the next twelve months.

Property-Level Debt

The mortgages, loans and mezzanine notes which are collateralized by their respective properties, members' interests in the properties and assignment of leases, and the principal amounts outstanding as of December 31, 2017, are as follows (in thousands):

Property	Maturity	Interest Rate	December 31, 2017
Flatbush Gardens, Brooklyn, NY	10/1/2024	3.88%	$ 148,438
Flatbush Gardens, Brooklyn, NY	10/1/2024	3.88%	19,792
250 Livingston Street, Brooklyn, NY	5/6/2023	4.00%	34,294
141 Livingston Street, Brooklyn, NY	6/1/2028	3.875%	78,792
Tribeca House, Manhattan, NY	11/9/2018	LIBOR + 3.75%	410,000
Aspen, Manhattan, NY	7/1/2028	3.68%	69,383
107 Columbia Heights, Brooklyn, NY	5/9/2020	LIBOR + 3.85%	60,067
10 West 65th Street, Manhattan, NY	11/1/2027	3.375%	34,350
			$ 855,116

Tribeca House properties

There is $410.0 million of mortgage and mezzanine debt related to the Tribeca House properties, as of December 31, 2017, in the form of a mortgage note of $335.0 million to Deutsche Bank and a $75.0 million mezzanine note to SL Green Finance. Both the mortgage note and the mezzanine note mature on November 9, 2018, and give us the option to extend the maturity date up to three one-year terms. The notes bear interest at a blended rate of one-month LIBOR plus 3.75%. Under the mortgage note, we have the option to prepay the balance in whole, but not in part, without a prepayment penalty. Under the mezzanine note, we have the option to prepay the balance in whole, but not in part. In connection with both the mortgage and mezzanine debt, our Co-Chairman/Chief Executive Officer and entities controlled by our Co-Chairman/Head of Investment Committee entered into guaranties of certain recourse obligations. As described in Note 7 of the accompanying "Notes to Consolidated and Combined Financial Statements," the Company refinanced its Tribeca House loans on February 21, 2018.

Flatbush Gardens

There is $168.2 million of mortgage debt secured by Flatbush Gardens, as of December 31, 2017, in the form of two mortgage notes to New York Community Bank. A $150 million principal-amount mortgage note matures on October 1, 2024, and has a fixed interest rate of 3.88%. A $20 million principal-amount mortgage note also matures on October 1, 2024, and has an interest rate of 3.88% through September 2019, after which the interest rate is equal to the prime rate plus 2.75% (subject to an option to fix the rate). Both loans began principal amortization in May 2017 on a 30-year basis. Under both notes, we have the option to prepay all (but not less than all) of the unpaid balance of the loan prior to the maturity date, but must pay a prepayment premium of 2% if it occurs from October 1, 2017 through September 30, 2018, and 1% if it occurs from October 1, 2018 through June 30, 2019. Our Co-Chairman/Chief Executive Officer entered into guaranties of certain recourse obligations in connection with both notes. As described in Note 7 of the accompanying "Notes to Consolidated and Combined Financial Statements," the Company refinanced its Flatbush Gardens loans on February 21, 2018.

141 Livingston Street

There is $78.8 million in mortgage debt secured by 141 Livingston Street, as of December 31, 2017, in the form of a mortgage note to New York Community Bank. The note matures on June 1, 2028, bears interest at 3.875% and began principal amortization in July 2017 on a 30-year basis. We may prepay the debt in whole or in part, subject to a prepayment premium. Our Co-Chairman/Chief Executive Officer and entities controlled by our Co-Chairman/Head of Investment Committee entered into a guaranty of certain recourse obligations in connection with this loan for which we will indemnify them.

250 Livingston Street

There is $34.3 million in mortgage debt secured by 250 Livingston Street, as of December 31, 2017, in the form of a mortgage note to Citigroup Global Markets Realty Corp, which has been securitized. The note matures on May 6, 2023, bears interest at 4.0% and requires monthly principal and interest payments of $179,000. We may prepay the debt within two months of maturity, in whole, without having to pay a prepayment premium. Our Co-Chairman/Chief Executive Officer entered into a guaranty of certain recourse obligations in connection with this loan for which we will indemnify him.

Aspen

There is $69.4 million in mortgage debt secured by Aspen, as of December 31, 2017, in the form of a mortgage note to Capital One Multifamily Finance LLC. The note matures on July 1, 2028, and bears interest at 3.68%. The note requires interest-only payments through July 2017, and monthly principal and interest payments of $321,000 thereafter based on a 30-year amortization schedule.

107 Columbia Heights

There is $59.0 million in mortgage debt secured by 107 Columbia Heights as of December 31, 2017, in the form of a mortgage note to a unit of Blackstone Mortgage Trust, Inc., entered into in connection with the acquisition of the property. There is also a construction loan secured by the building with the same lender that will provide up to $14.7 million for 100% of eligible capital improvements and carry costs, of which approximately $1.1 million was drawn as of December 31, 2017. The notes mature on May 9, 2020, are subject to two one-year extensions and bear interest at one-month LIBOR plus 3.85%.

10 West 65th Street

There is $34.4 million in mortgage debt secured by 10 West 65th Street as of December 31, 2017, in the form of a mortgage note to New York Community Bank, entered into in connection with the acquisition of the property. The note matures on November 1, 2027, and bears interest at 3.375% for the first five years and thereafter at the prime rate plus 2.75%, subject to an option to fix the rate. The note requires interest-only payments through October 2019, and monthly principal and interest payments thereafter based on a 30-year amortization schedule.

Contractual Obligations and Commitments

The following table summarizes principal and interest payment requirements on our debt under terms as of December 31, 2017:

	(in thousands)		
	Principal	**Interest**	**Total**
2018	$ 416,482	$ 37,935	$ 454,417
2019	7,016	17,591	24,607
2020	67,910	15,500	83,410
2021	8,159	13,747	21,906
2022	8,477	13,429	21,906
Thereafter	347,072	42,194	389,266
Total	$ 855,116	$ 140,396	$ 995,512

As described in Note 7 of the accompanying "Notes to Consolidated and Combined Financial Statements," the Company refinanced its outstanding Flatbush Gardens and Tribeca House loans on February 21, 2018.

The Company is obligated to provide parking availability through August 2020 under a lease with a tenant at the 250 Livingston Street property; the current cost to the Company is approximately $240,000 per year.

Cash Flows for the Years ended December 31, 2017 and 2016 (in thousands)

	Year Ended December 31, 2017	Year Ended December 31, 2016
Operating activities	$ 10,440	$ 9,350
Investing activities	(187,656)	(121,285)
Financing activities	147,609	24,150

Cash flows provided by (used in) operating activities, investing activities and financing activities for the years ended December 31, 2017 and 2016, are as follows:

Net cash flow provided by operating activities was $10,440 for the year ended December 31, 2017, compared to $9,350 for the years ended December 31, 2016. The change principally reflects increased revenue from the new lease at 250 Livingston beginning January 2017, a full year of operating results from Aspen acquired in June 2016 and reduced interest expense as described above, partially offset by timing of payments into escrow accounts in 2017.

Net cash used in investing activities was $187,656 for the year ended December 31, 2017, compared to $121,285 for the year ended December 31, 2016. The increase in 2017 as compared to 2016 reflects the acquisitions of the 107 Columbia Heights property ($87,500) and the 10 West 65th Street property ($79,000) in 2017, compared to the acquisition of the Aspen property ($103,000) in 2016. We spent approximately $20,276 and $18,162 on capital projects for the years ended December 31, 2017 and 2016, respectively, in connection with our property development plans.

Net cash provided by financing activities was $147,609 for the year ended December 31, 2017, compared to $24,150 for the year ended December 31, 2016. The increase in 2017 principally reflects proceeds from the sale of common stock and debt issued in connection with the 107 Columbia Heights and 10 West 65th Street acquisitions, vs. in 2016, debt issued in connection with the Aspen acquisition and a debt increase from refinancing the mortgage at the 141 Livingston Street property, less debt repaid in refinancing higher-cost debt at the Tribeca House property. The 2017 increase was partially offset by an increase in dividends and distributions as compared to 2016.

Cash Flows for the Years ended December 31, 2016 and 2015 (in thousands)

	Year Ended December 31, 2016	Year Ended December 31, 2015
Operating activities	$ 9,350	$ 9,440
Investing activities	(121,285)	(9,025)
Financing activities	24,150	115,760

Cash flows provided by (used in) operating activities, investing activities and financing activities for the years ended December 31, 2016 and 2015, are as follows:

Net cash flow provided by operating activities was $9,350 for the year ended December 31, 2016, compared to $9,440 for the years ended December 31, 2015. The change principally reflects executive compensation recorded for only five months in 2015 following the offering of common stock under Rule 144A on August 5, 2015, the collection in 2015 of a large prior year outstanding receivable on the 141 Livingston Street property, offset by an increase in receivables at the Flatbush Gardens property.

Net cash used in investing activities was $121,285 for the year ended December 31, 2016, compared to $9,025 for the year ended December 31, 2015. The increase in 2016 as compared to 2015 reflects the cost of acquisition of the Aspen property acquired in June 2016 and higher capital costs in 2016 of apartment and building renovations at the Flatbush Gardens, Tribeca House and 141 Livingston Street properties in connection with our property development plans.

Net cash provided by financing activities was $24,150 for the year ended December 31, 2016, compared to $115,760 for the year ended December 31, 2015. The decrease from 2015 reflects the 2015 proceeds from the sale of common stock, the 2016 net repayment of debt in refinancing higher cost debt at Tribeca House offset by the new mortgage relating to the Aspen acquisition and the net increase in debt from refinancing the mortgage at the 141 Livingston Street property.

Income Taxes

No provision has been made for income taxes since all of the Company's operations are held in pass-through entities and accordingly the income or loss of the Company is included in the individual income tax returns of the partners or members.

We elected to be treated as a REIT for U.S. federal income tax purposes, beginning with our first taxable three months ended March 31, 2015. As a REIT, we generally will not be subject to federal income tax on income that we distribute to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income at regular corporate tax rates. We believe that we are organized and operate in a manner that will enable us to qualify and be taxed as a REIT and we intend to continue to operate so as to satisfy the requirements for qualification as a REIT for federal income tax purposes.

Inflation

Inflation in the United States has been relatively low in recent years and did not have a significant impact on the results of operations for the Company's business for the periods shown in the consolidated financial statements. We do not believe that inflation currently poses a material risk to the Company. The leases at our residential rental properties, which comprise approximately 73% of our revenue, are short-term in nature. Our longer-term commercial and retail leases would generally allow us to recover some increased costs in the event of significant inflation.

Although the impact of inflation has been relatively insignificant in recent years, it does remain a factor in the United States economy and could increase the cost of acquiring or replacing properties in the future.

Off-Balance Sheet Arrangements

As of December 31, 2017, we do not have any off-balance sheet arrangements that have had or are reasonably likely to have a material effect on our financial condition, revenues or expenses, results of operations, liquidity, capital resources or capital expenditures.

Non-GAAP Financial Measures

In this Annual Report on Form 10-K, we disclose and discuss funds from operations ("FFO"), adjusted funds from operations ("AFFO"), adjusted earnings before interest, income taxes, depreciation and amortization ("Adjusted EBITDA"), and net operating income ("NOI"), all of which meet the definition of "non-GAAP financial measure" set forth in Item 10(e) of Regulation S-K promulgated by the SEC.

While management and the investment community in general believe that presentation of these measures provides useful information to investors, neither FFO, AFFO, Adjusted EBITDA, nor NOI should be considered as an alternative to net income or income from operations as an indication of our performance. We believe that to understand our performance further, FFO, AFFO, Adjusted EBITDA, and NOI should be compared with our reported net income or income from operations and considered in addition to cash flows computed in accordance with GAAP, as presented in our consolidated financial statements.

Funds from Operations and Adjusted Funds from Operations

FFO is defined by the National Association of Real Estate Investment Trusts ("NAREIT") as net income (computed in accordance with GAAP), excluding gains (or losses) from sales of property and impairment adjustments, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Our calculation of FFO is consistent with FFO as defined by NAREIT.

AFFO is defined by us as FFO excluding amortization of identifiable intangibles incurred in property acquisitions, straight-line rent adjustments to revenue from long-term leases, amortization costs incurred in originating debt, interest rate cap mark-to-market, amortization of non-cash equity compensation and acquisition costs, less recurring capital expenditures.

Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. In fact, real estate values have historically risen or fallen with market conditions. FFO is intended to be a standard supplemental measure of operating performance that excludes historical cost depreciation and valuation adjustments from net income. We consider FFO useful in evaluating potential property acquisitions and measuring operating performance. We further consider AFFO useful in determining funds available for payment of distributions. Neither FFO nor AFFO represent net income or cash flows from operations computed in accordance with GAAP. You should not consider FFO and AFFO to be alternatives to net income as reliable measures of our operating performance; nor should you consider FFO and AFFO to be alternatives to cash flows from operating, investing or financing activities (computed in accordance with GAAP) as measures of liquidity.

Neither FFO nor AFFO measure whether cash flow is sufficient to fund all of our cash needs, including principal amortization, capital improvements and distributions to stockholders. FFO and AFFO do not represent cash flows from operating, investing or financing activities computed in accordance with GAAP. Further, FFO and AFFO as disclosed by other REITs might not be comparable to our calculations of FFO and AFFO.

The following table sets forth a reconciliation of FFO and AFFO for the periods presented to net loss before allocation to non-controlling interests, computed in accordance with GAAP (amounts in thousands):

	Years ended December 31,		
	2017	**2016**	**2015**
FFO			
Net loss	$ (6,001)	$ (12,339)	$ (8,200)
Real estate depreciation and amortization	16,721	15,295	12,521
FFO	$ 10,720	$ 2,956	$ 4,321
AFFO			
FFO	$ 10,720	$ 2,956	$ 4,321
Amortization of real estate tax intangible	1,568	1,476	1,328
Amortization of above- and below-market leases	(1,729)	(1,730)	(1,714)
Straight-line rent adjustments	311	56	109
Amortization of debt origination costs	2,899	5,200	6,036
Interest rate cap mark-to-market	261	(139)	522
Amortization of LTIP awards	3,110	2,523	709
Acquisition costs	69	326	75
Recurring capital spending	(527)	(670)	(2,139)
AFFO	$ 16,682	$ 9,998	$ 9,247

Adjusted Earnings Before Interest, Income Taxes, Depreciation and Amortization

We believe that Adjusted EBITDA is a useful measure of our operating performance. We define Adjusted EBITDA as net loss before allocation to non-controlling interests, plus real estate depreciation and amortization, amortization of identifiable intangibles, straight-line rent adjustments to revenue from long-term leases, amortization of non-cash equity compensation, interest expense (net) and acquisition costs.

We believe that this measure provides an operating perspective not immediately apparent from GAAP income from operations or net income. We consider Adjusted EBITDA to be a meaningful financial measure of our core operating performance.

However, Adjusted EBITDA should only be used as an alternative measure of our financial performance. Further, other REITs may use different methodologies for calculating Adjusted EBITDA, and accordingly, our Adjusted EBITDA may not be comparable to that of other REITs.

The following table sets forth a reconciliation of Adjusted EBITDA for the periods presented to net loss before allocation to non-controlling interests, computed in accordance with GAAP (amounts in thousands):

	Years ended December 31,		
	2017	2016	2015
Adjusted EBITDA			
Net loss	$ (6,001)	$ (12,339)	$ (8,200)
Real estate depreciation and amortization	16,721	15,295	12,521
Amortization of real estate tax intangible	1,568	1,476	1,328
Amortization of above- and below-market leases	(1,729)	(1,730)	(1,714)
Straight-line rent adjustments	311	56	109
Amortization of LTIP awards	3,110	2,523	709
Interest expense, net	35,505	38,136	36,703
Acquisition costs	69	326	75
Adjusted EBITDA	$ 49,554	$ 43,743	$ 41,531

Net Operating Income

We believe that NOI is a useful measure of our operating performance. We define NOI as income from operations plus real estate depreciation and amortization, general and administrative expenses, acquisition costs, amortization of identifiable intangibles and straight-line rent adjustments to revenue from long-term leases. We believe that this measure is widely recognized and provides an operating perspective not immediately apparent from GAAP operating income or net income. We use NOI to evaluate our performance because NOI allows us to evaluate the operating performance of our company by measuring the core operations of property performance and capturing trends in rental housing and property operating expenses. NOI is also a widely used metric in valuation of properties.

However, NOI should only be used as an alternative measure of our financial performance. Further, other REITs may use different methodologies for calculating NOI, and accordingly, our NOI may not be comparable to that of other REITs.

The following table sets forth a reconciliation of NOI for the periods presented to income from operations, computed in accordance with GAAP (amounts in thousands):

	Years ended December 31,		
	2017	2016	2015
NOI			
Income from operations	$ 29,504	$ 25,797	$ 28,503
Real estate depreciation and amortization	16,721	15,295	12,521
General and administrative expenses	9,944	8,405	5,296
Acquisition costs	69	326	75
Amortization of real estate tax intangible	1,568	1,476	1,328
Amortization of above- and below-market leases	(1,729)	(1,730)	(1,714)
Straight-line rent adjustments	311	56	109
NOI	$ 56,388	$ 49,625	$ 46,118

Recent Accounting Pronouncements

See Note 3 to the consolidated financial statements included in Item 15 for information relating to recent accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our future income, cash flows and fair value relevant to our financial instruments depends upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. Based upon the nature of our operations, the principal market risk to which we are exposed is the risk related to interest rate fluctuations. Many factors, including governmental monetary and tax policies, domestic and international economic and political considerations, and other factors that are beyond our control contribute to interest rate risk. To manage this risk, we purchased interest rate caps on approximately $470.1 million of the $855.1 million principal amount of debt outstanding as of December 31, 2017, that would provide interest protection if one-month LIBOR exceeds 2.0% for the Tribeca House loans and 3.0% for the 107 Columbia Heights loans.

A one percent change in interest rates on our $470.1 million of variable rate debt as of December 31, 2017, would impact annual net income by approximately $4.7 million.

The fair value of the Company's notes payable was approximately $839.8 million and $749.3 million as of December 31, 2017, and December 31, 2016, respectively.

As described in Note 7 of the accompanying "Notes to Consolidated and Combined Financial Statements," the Company refinanced its outstanding Flatbush Gardens and Tribeca House loans on February 21, 2018.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements beginning on Page F-1 of this Annual Report on Form 10-K are incorporated herein by reference.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this Annual Report on Form 10-K. Based on such evaluation, our CEO and CFO have concluded that as of December 31, 2017, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the period covered by this Annual Report on Form 10-K that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2017, based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2017.

As long as we qualify as an “emerging growth company” as defined by the Jumpstart our Business Startups Act of 2012, we will not be required to obtain an auditor’s attestation report on our internal controls in future Annual Reports on Form 10-K as otherwise required by Section 404(b) of the Sarbanes-Oxley Act. Accordingly, our independent registered public accounting firm did not perform an audit of our internal control over financial reporting for the fiscal year ended December 31, 2017.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 will be set forth in the Company’s Proxy Statement, to be filed no later than 120 days after the end of our fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 will be set forth in the Company’s Proxy Statement, to be filed no later than 120 days after the end of our fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 12 will be set forth in the Company’s Proxy Statement, to be filed no later than 120 days after the end of our fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

The information required by Item 13 will be set forth in the Company’s Proxy Statement, to be filed no later than 120 days after the end of our fiscal year.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 14 will be set forth in the Company’s Proxy Statement, to be filed no later than 120 days after the end of our fiscal year.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENTS AND SCHEDULE

(a) The following documents are filed as part of this Annual Report on Form 10-K

1) Consolidated Financial Statements: See Index to Consolidated Financial Statements and Schedule on page F-1 of this Form 10-K

2) Financial Statement Schedule: See Index to Consolidated Financial Statements and Schedule on page F-1 of this Form 10-K

3) Exhibits: See the Exhibit Index

Exhibit Index

Exhibit Number	Description
3.1*	Articles of Amendment and Restatement
3.2*	Bylaws
3.3*	Articles Supplementary
10.1*	Amended and Restated Limited Liability Company Agreement of Berkshire Equity LLC
10.2*	Amended and Restated Limited Liability Company Agreement of 50/53 JV LLC
10.3*	Second Amended and Restated Limited Liability Company Agreement of Renaissance Equity Holdings LLC
10.4*	Amended and Restated Limited Liability Company Agreement of Gunki Holdings LLC
10.5*	Registration Rights Agreement, made and entered into as of August 3, 2015, between Clipper Realty Inc. and FBR Capital Markets & Co.
10.6*	Registration Rights Agreement, made and entered into as of August 3, 2015, by and among Clipper Realty Inc. and each of the Holders from time to time party thereto.
10.7†*	Employment Agreement, made and entered into as of August 3, 2015, by and among Clipper Realty Inc. and David Bistricer
10.8†*	Employment Agreement, made and entered into as of August 3, 2015, by and among Clipper Realty Inc. and Lawrence Kreider
10.9†*	Employment Agreement, made and entered into as of August 3, 2015, by and among Clipper Realty Inc. and Jacob Schwimmer
10.10†*	Employment Agreement, made and entered into as of August 3, 2015, by and among Clipper Realty Inc. and JJ Bistricer
10.11†*	Clipper Realty Inc. 2015 Omnibus Incentive Compensation Plan
10.12†*	Clipper Realty Inc. 2015 Non-Employee Director Plan
10.13†*	Clipper Realty Inc. 2015 Executive Incentive Compensation Plan
10.14†*	Clipper Realty Inc. 2015 Omnibus Incentive Compensation Plan Restricted LTIP Unit Agreement
10.15†*	Clipper Realty Inc. 2015 Non-Employee Director Plan Restricted LTIP Unit Agreement
10.16*	Investment Agreement, made and entered into as of August 3, 2015, by and among Clipper Realty L.P. and Renaissance Equity Holdings LLC
10.17*	Investment Agreement, made and entered into as of August 3, 2015, by and among Clipper Realty L.P. and Berkshire Equity LLC

10.18*	Investment Agreement, made and entered into as of August 3, 2015, by and among Clipper Realty L.P. and Gunki Holdings LLC
10.19*	Investment Agreement, made and entered into as of August 3, 2015, by and among Clipper Realty L.P. and 50/53 JV LLC
10.20*	Tax Protection Agreement, made and entered into as of August 3, 2015, by and among Clipper Realty Inc., Clipper Realty L.P., Renaissance Equity Holdings LLC, Berkshire Equity LLC, Gunki Holdings LLC, 50/53 JV LLC, and each of the Continuing Investors listed on Schedules A-D thereto
10.21*	Shared Services Agreement, made and entered into as of August 3, 2015, by and among Clipper Equity LLC and Clipper Realty L.P.
10.22*	Shared Services Agreement, made and entered into as of August 3, 2015, by and among Clipper Realty L.P. and Clipper Equity LLC
10.23*	Loan Indemnification Agreement, made and entered into as of August 3, 2015, by and among Clipper Realty Inc., Clipper Realty L.P. and the Guarantor defined therein
10.24*	Loan Indemnification Agreement, made and entered into as of August 3, 2015, by and among Clipper Realty Inc., Clipper Realty L.P. and the Guarantor defined therein
10.25*	Loan Indemnification Agreement, made and entered into as of August 3, 2015, by and among Clipper Realty Inc., Clipper Realty L.P. and the Guarantor defined therein
10.26*	Loan Indemnification Agreement, made and entered into as of August 3, 2015, by and among Clipper Realty Inc., Clipper Realty L.P. and the Guarantor defined therein
10.27*	Loan Indemnification Agreement, made and entered into as of August 3, 2015, by and among Clipper Realty Inc., Clipper Realty L.P. and the Guarantor defined therein
10.28*	Indemnification Agreement, made and entered into as of August 3, 2015, by and among David Bistricer, Trapeze Inc., Clipper Realty Inc., Clipper Realty L.P., and Berkshire Equity LLC
10.29*	Amended and Restated Loan Agreement, made and entered into as of December 15, 2014, by and among 50 Murray Street Acquisition LLC, German American Capital Corporation, and Deutsche Bank AG, New York Branch
10.30*	Joinder, Reaffirmation and Ratification of Guaranty of Recourse Obligations and Environmental Indemnity Agreement, made and entered into as of August 3, 2015, by and among David Bistricer, Trapeze Inc., Clipper Realty L.P., and Deutsche Bank AG, New York Branch
10.31*	First Mezzanine Loan Agreement, made and entered into as of December 15, 2014, by and among 50 Murray Mezz LLC, 50 Murray Mezz Funding LLC, and 50 Murray Mezz Funding LLC
10.32*	Joinder, Reaffirmation and Ratification of First Mezzanine Guaranty of Recourse Obligations and First Mezzanine Environmental Indemnity Agreement, made and entered into as of August 3, 2015, by and among David Bistricer, Trapeze Inc., Clipper Realty L.P., and 50 Murray Mezz Funding LLC
10.33*	Loan Agreement, made and entered into as of December 12, 2014, by and among 141 Livingston Owner LLC and Citibank, N.A.
10.34*	First Amendment to Loan Agreement, Guaranty, Environmental Indemnity and other Loan Documents, made and entered into as of August 3, 2015, by and among 141 Livingston Owner LLC, Citibank, N.A., Clipper Realty L.P., David Bistricer, and Sam Levinson
10.35*	Loan Agreement, made and entered into as of May 1, 2013, by and among 250 Livingston Owner LLC and Citigroup Global Markets Realty Corp.

10.36*	Consolidation, Modification, Extension and Spreader Agreement, Assignment of Lease and Rents and Security Agreement, made and entered into as of September 24, 2012, by and among Renaissance Equity Holdings LLC A, Renaissance Equity Holdings LLC B, Renaissance Equity Holdings LLC C, Renaissance Equity Holdings LLC D, Renaissance Equity Holdings LLC E, Renaissance Equity Holdings LLC F, Renaissance Equity Holdings LLC G, and New York Community Bank
10.37*	Mortgage, Assignment of Leases and Rents, and Security Agreement, made and entered into as of October 31, 2014, by and among Renaissance Equity Holdings LLC A, Renaissance Equity Holdings LLC B, Renaissance Equity Holdings LLC C, Renaissance Equity Holdings LLC D, Renaissance Equity Holdings LLC E, Renaissance Equity Holdings LLC F, Renaissance Equity Holdings LLC G, and New York Community Bank
10.38*	Lease, made and entered into as of December 17, 2015, by and between Berkshire Equity LLC and the City of New York.
10.39*	Lease, made and entered into as of January 1, 1997, by and between NPMM Realty Inc. and the City of New York
10.40*	Letter Regarding Option to Renew Lease, dated as of December 28, 2010, from the City of New York to Berkshire Equity LLC
10.41*	Lease, made and entered into as of July 30, 1999, by and between Livingston Acquisition, LLC and the City of New York
10.42*	Consent Agreement, made and entered into as of December 7, 2015, by and among Deutsche Bank Trust Company Americas, as trustee on behalf of the registered holders of GS Mortgage Securities Corporation II, Commercial Mortgage Pass Through Certificates, Series 2013-GCJ12, and 250 Livingston Owner LLC
10.43*	Amendment No. 1 to Registration Rights Agreement, made and entered into as of July 7, 2016, between Clipper Realty Inc. and FBR Capital Markets & Co.
10.44*	Multifamily Loan and Security Agreement (Non-Recourse), dated as of June 27, 2016, by and between Aspen 2016 LLC and Capital One Multifamily Finance, LLC
10.45*	Consolidation, Modification and Extension Agreement, Assignment of Leases and Rents and Security Agreement, made as of May 11, 2016, between 141 Livingston Owner LLC and New York Community Bank
10.46*	Guaranty of Recourse Obligations, dated as of May 11, 2016, made by Clipper Realty Inc. to and in favor of New York Community Bank
10.47*	Guaranty, dated as of May 11, 2016, made by Clipper Realty Inc. to and in favor of New York Community Bank
10.48*	First Mezzanine Loan Agreement, made and entered into as of November 9, 2016, by and among 50 Murray Mezz LLC, 50 Murray Mezz Funding LLC
10.49*	Loan Agreement, made and entered into as of November 9, 2016, by and among 50 Murray Street Acquisition LLC and Deutsche Bank AG, New York Branch, as Lender and as Agent thereto

10.50*	Amendment No. 2 to Registration Rights Agreement, made and entered into as of November 3, 2016, between Clipper Realty Inc. and FBR Capital Markets & Co.
10.51*	Lease Renewal and Amendment Agreement, made and entered into as of December 15, 2016, by and between 250 Livingston Owner, LLC and the City of New York
10.52*	Limited Partnership Agreement of Clipper Realty L.P., dated as of August 3, 2015
10.53*	Amendment No. 3 to Registration Rights Agreement, made and entered into February 2, 2017, between Clipper Realty Inc. and FBR Capital Markets & Co.
10.54**	Loan Agreement, dated February 21, 2018, between 50 Murray Street Acquisition LLC and Deutsche Bank AG, New York Branch
10.55**	First Mezzanine Loan Agreement, dated February 21, 2018, between 50 Murray Mezz One LLC and Deutsche Bank AG, New York Branch
10.56**	Second Mezzanine Loan Agreement, dated February 21, 2018, between 50 Murray Mezz Two LLC and Deutsche Bank AG, New York Branch
10.57**	Consolidation, Modification and Extension Agreement, Assignment of Leases and Rents and Security Agreement, dated February 21, 2018, between Renaissance Equity Holdings LLC A, Renaissance Equity Holdings LLC B, Renaissance Equity Holdings LLC C, Renaissance Equity Holdings LLC D, Renaissance Equity Holdings LLC E, Renaissance Equity Holdings LLC F, and Renaissance Equity Holdings LLC G and New York Community Bank
21.1***	List of subsidiaries
24.1	Power of Attorney (included on signature page hereto)
31.1***	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
31.2***	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
32.1***	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2***	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS****	XBRL Instance Document
101.SCH****	XBRL Taxonomy Extension Schema Document
101.CAL****	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB****	XBRL Taxonomy Extension Label Linkbase Document
101.PRE****	XBRL Taxonomy Extension Presentation Linkbase Document
101 DEF****	XBRL Taxonomy Extension Definition Linkbase Document

* Incorporated by reference to the Company's registration statement on Form S-11 (No. 333-214021)
† Indicates management contract or compensation plan
** Incorporated by reference to the Company's Form 8-K dated February 21, 2018, filed on February 27, 2018
*** Filed herewith
**** Submitted electronically with the report

Index to Consolidated Financial Statements and Schedule

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors of Clipper Realty Inc. and Predecessor
Brooklyn, NY 11219

Opinion on the Consolidated and Combined Financial Statements

We have audited the accompanying consolidated balance sheets of Clipper Realty Inc. and Predecessor (the "Company") as of December 31, 2017 and 2016, the related consolidated and combined statements of operations, equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the "consolidated and combined financial statements"). In our opinion, the consolidated and combined financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries as December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017.

Basis for Opinion

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

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

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

/s/ BDO USA, LLP

We have served as the Company's auditor since 2014.

New York, NY
March 14, 2018

Clipper Realty Inc.
Consolidated Balance Sheets
(In thousands, except for share data)

	December 31, 2017	December 31, 2016
ASSETS		
Investment in real estate		
Land and improvements	$ 497,343	$ 433,666
Building and improvements	463,727	435,318
Tenant improvements	3,023	2,986
Furniture, fixtures and equipment	10,245	9,281
Real estate under development	96,268	—
Total investment in real estate	1,070,606	881,251
Accumulated depreciation	(73,714)	(58,174)
Investment in real estate, net	996,892	823,077
Cash and cash equivalents	7,940	37,547
Restricted cash	13,730	11,105
Tenant and other receivables, net of allowance for doubtful accounts of $2,524 and $2,768, respectively	6,569	4,485
Deferred rent	3,514	3,825
Deferred costs and intangible assets, net	11,894	13,953
Prepaid expenses and other assets	11,546	11,216
TOTAL ASSETS	**$ 1,052,085**	**$ 905,208**
LIABILITIES AND EQUITY		
Liabilities:		
Notes payable, net of unamortized loan costs of $11,170 and $10,134, respectively	$ 843,946	$ 754,459
Accounts payable and accrued liabilities	8,595	8,982
Security deposits	6,048	6,248
Below-market leases, net	5,075	6,862
Other liabilities	2,830	2,441
TOTAL LIABILITIES	**866,494**	**778,992**
Equity:		
Preferred stock, $0.01 par value, 12.5% Series A cumulative non-voting, $137,500 liquidation preference; zero and 132 shares issued and outstanding, respectively	—	—
Common stock, $0.01 par value; 500,000,000 shares authorized, 17,812,755 and 11,422,606 shares issued and outstanding, respectively	178	114
Additional paid-in-capital	92,273	46,671
Accumulated deficit	(17,539)	(8,584)
Total stockholders' equity	74,912	38,201
Non-controlling interests	110,679	88,015
TOTAL EQUITY	**185,591**	**126,216**
TOTAL LIABILITIES AND EQUITY	**$ 1,052,085**	**$ 905,208**

See accompanying notes to these consolidated and combined financial statements.

Clipper Realty Inc. and Predecessor
Consolidated and Combined Statements of Operations
(In thousands, except for share data)

	Year Ended December 31,		
	2017	**2016**	**2015**
REVENUES			
Residential rental income	$ 73,667	$ 67,165	$ 60,784
Commercial income	21,914	18,558	17,256
Tenant recoveries	5,102	4,061	3,477
Garage and other income	3,269	3,221	3,087
TOTAL REVENUES	**103,952**	**93,005**	**84,604**
OPERATING EXPENSES			
Property operating expenses	27,029	25,442	23,283
Real estate taxes and insurance	20,685	17,740	14,926
General and administrative	9,944	8,405	5,296
Acquisition costs	69	326	75
Depreciation and amortization	16,721	15,295	12,521
TOTAL OPERATING EXPENSES	**74,448**	**67,208**	**56,101**
INCOME FROM OPERATIONS	29,504	25,797	28,503
Interest expense, net	(35,505)	(38,136)	(36,703)
Net loss	**(6,001)**	**(12,339)**	**(8,200)**
Net loss attributable to Predecessor	—	—	3,690
Net loss attributable to non-controlling interests	3,644	8,604	3,145
Dividends attributable to preferred shares	(8)	(19)	—
Net loss attributable to common stockholders	**$ (2,365)**	**$ (3,754)**	**$ (1,365)**
Basic and diluted net loss per share	$ (0.15)	$ (0.34)	$ (0.12)

See accompanying notes to these consolidated and combined financial statements.

Clipper Realty Inc. and Predecessor
Consolidated and Combined Statements of Equity
(In thousands, except for share data)

	Number of preferred shares	Number of common shares	Common Stock	Additional paid-in-capital	Accumulated deficit	Predecessor equity	Total stockholders' and predecessor equity	Non-controlling interests	Total equity
Predecessor									
Balance December 31, 2014	—	—	$ —	$ —	$ —	$ 37,197	$ 37,197	$ —	$ 37,197
Contributions	—	—	$ —	$ —	$ —	$ 2,357	$ 2,357	$ —	$ 2,357
Distributions	—	—	—	—	—	(14,233)	(14,233)	—	(14,233)
Net Loss	—	—	—	—	—	(3,690)	(3,690)	—	(3,690)
Balance August 3, 2015	—	—	$ —	$ —	$ —	$ 21,631	$ 21,631	$ —	$ 21,631
Clipper Realty Inc.									
Net proceeds from sale of common shares	—	10,666,667	$ 107	$ 130,092	$ —	$ —	$ 130,199	$ —	$ 130,199
Formation transaction	—	755,939	7	(84,043)	—	(21,631)	(105,667)	105,667	—
Amortization of LTIP grants	—	—	—	—	—	—	—	709	709
Dividends and distributions	—	—	—	—	(495)	—	(495)	(1,157)	(1,652)
Net loss	—	—	—	—	(1,365)	—	(1,365)	(3,145)	(4,510)
Balance December 31, 2015	—	11,422,606	$ 114	$ 46,049	$ (1,860)	$ —	$ 44,303	$ 102,074	$ 146,377
Costs in connection with issuance of common and preferred shares	—	—	$ —	$ (526)	$ —	$ —	$ (526)	$ —	$ (526)
Issuance of preferred shares	132	—	—	132	—	—	132	—	132
Amortization of LTIP grants	—	—	—	—	—	—	—	2,523	2,523
Dividends and distributions	—	—	—	—	(2,989)	—	(2,989)	(6,962)	(9,951)
Net loss	—	—	—	—	(3,735)	—	(3,735)	(8,604)	(12,339)
Reallocation of noncontrolling interest	—	—	—	1,016	—	—	1,016	(1,016)	—
Balance December 31, 2016	132	11,422,606	$ 114	$ 46,671	$ (8,584)	$ —	$ 38,201	$ 88,015	$ 126,216
Issuance of common stock	—	6,390,149	$ 64	$ 78,912	$ —	$ —	$ 78,976	$ —	$ 78,976
Redemption of preferred shares	(132)	—	—	(145)	—	—	(145)	—	(145)
Amortization of LTIP grants	—	—	—	—	—	—	—	3,110	3,110
Dividends and distributions	—	—	—	—	(6,598)	—	(6,598)	(9,967)	(16,565)
Net loss	—	—	—	—	(2,357)	—	(2,357)	(3,644)	(6,001)
Reallocation of noncontrolling interests	—	—	—	(33,165)	—	—	(33,165)	33,165	—
Balance December 31, 2017	—	17,812,755	$ 178	$ 92,273	$ (17,539)	$ —	$ 74,912	$ 110,679	$ 185,591

See accompanying notes to these consolidated and combined financial statements.

Clipper Realty Inc. and Predecessor
Consolidated and Combined Statements of Cash Flows
(In thousands)

	Year Ended December 31,		
	2017	**2016**	**2015**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$ (6,001)	$ (12,339)	$ (8,200)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation	15,540	13,502	11,662
Amortization of deferred financing costs	2,899	5,200	6,036
Amortization of deferred costs and intangible assets	2,750	3,269	2,187
Amortization of above- and below-market leases	(1,729)	(1,730)	(1,714)
Deferred rent	311	56	109
Stock-based compensation	3,110	2,523	709
Change in fair value of interest rate caps	261	(139)	522
Changes in operating assets and liabilities:			
Restricted cash	(2,625)	(768)	(4,086)
Tenant and other receivables	(2,084)	(3,009)	2,635
Prepaid expenses, other assets and deferred costs	(1,620)	(979)	(2,004)
Accounts payable and accrued liabilities	(561)	3,656	382
Security deposits	(200)	238	98
Other liabilities	389	(130)	1,104
Net cash provided by operating activities	**10,440**	**9,350**	**9,440**
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to land, buildings, and improvements	(20,276)	(18,162)	(9,025)
Cash paid in connection with acquisition of real estate	(167,380)	(103,123)	—
Net cash used in investing activities	**(187,656)**	**(121,285)**	**(9,025)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds and costs from sale of common stock	78,685	(1,590)	130,199
(Redemption) sale of preferred stock	(145)	132	—
Payments of mortgage notes	(3,895)	(515,650)	(737)
Proceeds from mortgage notes	94,417	559,500	—
Contributions	—	—	2,357
Dividends and distributions	(16,565)	(9,951)	(15,884)
Loan costs and other	(4,888)	(8,291)	(175)
Net cash provided by financing activities	**147,609**	**24,150**	**115,760**
Net (decrease) increase in cash and cash equivalents	(29,607)	(87,785)	116,175
Cash and cash equivalents - beginning of period	37,547	125,332	9,157
Cash and cash equivalents - end of period	**$ 7,940**	**$ 37,547**	**$ 125,332**
Supplemental cash flow information:			
Cash paid for interest, net of capitalized interest of $2,852 in 2017	$ 33,614	$ 33,536	$ 31,005
Other non-cash items capitalized to real estate under development	2,448	—	—

See accompanying notes to these consolidated and combined financial statements.

1. Organization

Clipper Realty Inc. (the "Company" or "We") was organized in the state of Maryland on July 7, 2015. On August 3, 2015, we completed certain formation transactions and the sale of shares of common stock in a private offering. We contributed the net proceeds of the private offering to Clipper Realty L.P., our operating partnership subsidiary (the "Operating Partnership"), in exchange for units in the Operating Partnership. The Operating Partnership in turn contributed such net proceeds to the limited liability companies ("LLC's") that comprised the predecessor of the Company (the "Predecessor") in exchange for class A LLC units in such LLC's and became the managing member of such LLC's. The owners of the LLC's exchanged their interests for class B LLC units and an equal number of special, non-economic, voting stock in the Company. The class B LLC units, together with the special voting shares, are convertible into common shares of the Company on a one-for-one basis and are entitled to distributions.

The Predecessor was a combination of four limited liability companies, including one formed in 2014 in connection with the acquisition of a property on December 15, 2014. The Predecessor did not represent a legal entity. The LLC's that comprised the Predecessor and the Company at formation were under common control.

On June 27, 2016, the Operating Partnership acquired the property at 1955 First Avenue in Manhattan, New York.

On February 9, 2017, the Company priced an initial public offering of 6,390,149 primary shares of its common stock (including the exercise of the over-allotment option, which closed on March 10, 2017) at a price of $13.50 per share (the "IPO"). The net proceeds of the IPO were approximately $78.7 million. We contributed the proceeds of the IPO to our Operating Partnership, in exchange for units in the Operating Partnership.

On May 9, 2017, the Company completed the purchase of 107 Columbia Heights, a 161-unit apartment community located in Brooklyn Heights, New York, in vacant condition, for $87.5 million, financed with a $59.0 million secured mortgage loan. The Company also entered into a construction loan secured by the building that will provide up to $14.7 million for eligible capital improvements and carrying costs.

On October 27, 2017, the Company completed the acquisition of an 82-unit residential property at 10 West 65th Street in Manhattan, New York, for $79.0 million, financed with a $34.4 million secured mortgage loan.

As of December 31, 2017, the properties owned by the Company consist of the following (collectively, the "Properties"):

- Tribeca House in Manhattan, comprising two buildings, one with 21 stories and one with 12 stories, containing residential and retail space with an aggregate of approximately 481,000 square feet of residential rental Gross Leasable Area ("GLA") and 77,000 square feet of retail rental and parking GLA;
- Flatbush Gardens in Brooklyn, a 59-building residential housing complex with 2,496 rentable units;
- 141 Livingston Street in Brooklyn, a 15-story office building with approximately 216,000 square feet of GLA;
- 250 Livingston Street in Brooklyn, a 12-story office and residential building with approximately 381,000 square feet of GLA (fully remeasured);
- Aspen in Manhattan, a 7-story building containing residential and retail space with approximately 166,000 square feet of residential rental GLA and approximately 21,000 square feet of retail rental GLA;

- 107 Columbia Heights in Brooklyn, a 10-story residential building with approximately 154,000 gross square feet of space; and
- 10 West 65th Street in Manhattan, a 6-story building with approximately 76,000 square feet of residential rental GLA.

The operations of Clipper Realty, Inc. and its consolidated subsidiaries are carried on primarily through the Operating Partnership. The Company has elected to be taxed as a Real Estate Investment Trust ("REIT") under Sections 856 through 860 of the Internal Revenue Code. The Company is the sole general partner of the Operating Partnership and the Operating Partnership is the sole managing member of the LLC's that comprised the Predecessor.

At December 31, 2017, the Company's interest, through the Operating Partnership, in the LLC's that own the properties generally entitles it to 40.4% of the aggregate cash distributions from, and the profits and losses of, the LLC's.

As further discussed in Note 3, upon adoption of Accounting Standards Update ("ASU") 2015-02, the Company determined that the Operating Partnership and the LLC's are variable interest entities ("VIEs") and that the Company was the primary beneficiary. The assets and liabilities of these VIEs represented substantially all of the Company's assets and liabilities.

2. Sale of Common Stock, Formation Transactions and Preferred Stock Redemption

As discussed in Note 1, in February 2017, the Company sold an aggregate of 6,390,149 primary shares of common stock (including the exercise of the over-allotment option, which closed on March 10, 2017) to investors in a public offering at $13.50 per share. The proceeds, net of offering costs, were approximately $78,976.

On August 3, 2015, the Company sold 10,666,667 shares of common stock to private investors at a price of $13.50 per share. The proceeds, net of offering costs, were approximately $130,199.

The Company contributed the net proceeds of the common stock offerings to the Operating Partnership in exchange for units in the Operating Partnership as described in Note 1.

On June 21, 2017, the Company redeemed its preferred stock with a payment of $145.

The following is a summary of the Company's Statement of Operations for the period from August 3, 2015 through December 31, 2015, and the Predecessor's Statements of Operations for the period from January 1, 2015 through August 2, 2015. These amounts are included in the consolidated and combined statement of operations herein for the year ended December 31, 2015.

	Clipper Realty Inc. August 3, 2015 – December 31, 2015	Predecessor January 1, 2015 – August 2, 2015
REVENUES		
Residential rental income	$ 24,902	$ 35,882
Commercial income	7,091	10,165
Tenant recoveries	1,433	2,044
Garage and other income	1,779	1,308
TOTAL REVENUES	**35,205**	**49,399**
OPERATING EXPENSES		
Property operating expenses	9,611	13,672
Real estate taxes and insurance	6,774	8,152
General and administrative	2,861	2,435
Acquisition costs	75	—
Depreciation and amortization	5,292	7,229
TOTAL OPERATING EXPENSES	**24,613**	**31,488**
INCOME FROM OPERATIONS	10,592	17,911
Interest expense, net	(15,102)	(21,601)
Net loss	**(4,510)**	**$ (3,690)**
Less:		
Net loss attributable to non-controlling interests	3,145	
Net loss attributable to stockholders	**$ (1,365)**	

3. Significant Accounting Policies

Basis of Consolidation and Combination

The accompanying consolidated and combined financial statements of the Company are prepared in accordance with generally accepted accounting principles in the United States ("GAAP"). The effect of all intercompany balances has been eliminated. The consolidated and combined financial statements include the accounts of all entities in which the Company has a controlling interest. The ownership interests of other investors in these entities are recorded as non-controlling interest.

Use of Estimates

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

Investment in Real Estate

Real estate assets held for investment are carried at historical cost and consist of land, buildings and improvements, furniture, fixtures and equipment. Expenditures for ordinary repair and maintenance costs are charged to expense as incurred. Expenditures for improvements, renovations, and replacements of real estate assets are capitalized and depreciated over their estimated useful lives if the expenditures qualify as betterment or the life of the related asset will be substantially extended beyond the original life expectancy.

Upon the adoption of ASU 2017-01, "Business Combinations – Clarifying the Definition of a Business," the Company evaluates each acquisition of real estate or in-substance real estate to determine if the integrated set of assets and activities acquired meets the definition of a business and needs to be accounted for as a business combination. If either of the following criteria is met, the integrated set of assets and activities acquired would not qualify as a business:

• Substantially all of the fair value of the gross assets acquired is concentrated in either a single identifiable asset or a group of similar identifiable assets; or

• The integrated set of assets and activities is lacking, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs (i.e., revenue generated before and after the transaction).

An acquired process is considered substantive if:

• The process includes an organized workforce (or includes an acquired contract that provides access to an organized workforce) that is skilled, knowledgeable and experienced in performing the process;

• The process cannot be replaced without significant cost, effort or delay; or

• The process is considered unique or scarce.

Generally, the Company expects that acquisitions of real estate or in-substance real estate will not meet the revised definition of a business because substantially all of the fair value is concentrated in a single identifiable asset or group of similar identifiable assets (i.e., land, buildings and related intangible assets) or because the acquisition does not include a substantive process in the form of an acquired workforce or an acquired contract that cannot be replaced without significant cost, effort or delay.

Upon acquisition of real estate, the Company assesses the fair values of acquired tangible and intangible assets including land, buildings, tenant improvements, above-market and below-market leases, in-place leases and any other identified intangible assets and assumed liabilities. The Company allocates the purchase price to the assets acquired and liabilities assumed based on their fair values. In estimating fair value of tangible and intangible assets acquired, the Company assesses and considers fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates, estimates of replacement costs, net of depreciation, and available market information. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant.

The Company records acquired above-market and below-market lease values initially based on the present value, using a discount rate which reflects the risks associated with the leases acquired based on the difference between (i) the contractual amounts to be paid pursuant to each in-place lease and (ii) management's estimate of fair market lease rates for each corresponding in-place lease, measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the term of any below-market fixed renewal options for the below-market leases. Other intangible assets acquired include amounts for in-place lease values and tenant relationship values (if any) that are based on management's evaluation of the specific characteristics of each tenant's lease and the Company's overall relationship with the respective tenant. Factors to be considered by management in its analysis of in-place lease values include an estimate of carrying costs to execute similar leases. In estimating carrying costs, management includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, depending on local market conditions. In estimating costs to execute similar leases, management considers leasing commissions, legal and other related expenses.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. A property's value is impaired if management's estimate of the aggregate future cash flows (undiscounted and without interest charges) to be generated by the property is less than the carrying value of the property. To the extent impairment has occurred, a write-down is recorded and measured by the amount of the difference between the carrying value of the asset and the fair value of the asset. Management of the Company does not believe that any of its properties within the portfolio are impaired as of December 31, 2017.

For long-lived assets to be disposed of, impairment losses are recognized when the fair value of the assets less estimated cost to sell is less than the carrying value of the assets. Properties classified as real estate held-for-sale generally represent properties that are actively marketed or contracted for sale with closing expected to occur within the next twelve months. Real estate held-for-sale is carried at the lower of cost, net of accumulated depreciation, or fair value less cost to sell, determined on an asset-by-asset basis. Expenditures for ordinary repair and maintenance costs on held-for-sale properties are charged to expense as incurred. Expenditures for improvements, renovations, and replacements related to held-for-sale properties are capitalized at cost. Depreciation is not recorded on real estate held-for-sale.

If a tenant vacates its space prior to the contractual termination of the lease and no rental payments are being made on the lease, any unamortized balances of the related intangibles are written off. The tenant improvements and origination costs are amortized to expense over the remaining life of the lease (or charged against earnings if the lease is terminated prior to its contractual expiration date).

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Building and improvements (years)	10 – 44
Tenant improvements	Shorter of useful life or lease term
Furniture, fixtures and equipment (years)	3 – 15

The capitalized above-market lease values are amortized as a reduction to base rental revenue over the remaining terms of the respective leases, and the capitalized below-market lease values are amortized as an increase to base rental revenue over the remaining initial terms plus the terms of any below-market fixed rate renewal options of the respective leases. The value of in-place leases is amortized to expense over the remaining initial terms of the respective leases.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand and in banks, plus all short-term investments with a maturity of three months or less when purchased. The Company maintains some of its cash in bank deposit accounts, which, at times, may exceed the federally insured limit. No losses have been experienced related to such accounts.

Restricted Cash

Restricted cash generally consists of escrows for future real estate taxes and insurance expenditures, repairs and capital improvements and security deposits.

Tenant and Other Receivables and Allowance for Doubtful Accounts

Tenant and other receivables are comprised of amounts due for monthly rents and other charges. The Company periodically performs a detailed review of amounts due from tenants to determine if accounts receivable balances are impaired based on factors affecting the collectability of those balances. If a tenant fails to make contractual payments beyond any allowance, the Company may recognize additional bad debt expense in future periods.

Deferred Costs

Deferred lease costs consist of fees incurred to initiate and renew operating leases. Lease costs are being amortized using the straight-line method over the terms of the respective leases.

Deferred financing costs represent commitment fees, legal and other third-party costs associated with obtaining financing. These costs are amortized over the term of the financing and are recorded in interest expense in the consolidated financial statements. Unamortized deferred financing costs are expensed when the associated debt is refinanced or repaid before maturity. Costs incurred in seeking financing transactions which do not close are expensed in the period the financing transaction is terminated.

Comprehensive Income

Comprehensive loss is comprised of net loss adjusted for changes in unrealized gains and losses, reported in equity, for financial instruments required to be reported at fair value under GAAP. For the years ended December 31, 2017, 2016 and 2015, the Company did not own any financial instruments for which the change in value was not reported in net loss accordingly and its comprehensive loss was its net loss as presented in the consolidated statements of operations.

Revenue Recognition

Rental revenue for commercial leases is recognized on a straight-line basis over the terms of the respective leases. Rental income attributable to residential leases and parking is recognized as earned, which is not materially different from the straight-line basis. Leases entered into by residents for apartment units are generally for one-year terms, renewable upon consent of both parties on an annual or monthly basis. Deferred rents receivable represents the amount by which straight-line rental revenue exceeds rents currently billed in accordance with lease agreements.

Reimbursements for operating expenses due from tenants pursuant to their lease agreements are recognized as revenue in the period the applicable expenses are incurred. These costs generally include real estate taxes, utilities, insurance, common area maintenance costs and other recoverable costs.

Beginning in 2019, the Company will apply ASU 2014-09, “Revenue with Contracts with Customers.” This ASU does not apply to the Company’s lease revenues, which made up substantially all revenue in 2017. As such, management does not anticipate any significant changes to the timing of the Company’s revenue recognition. The Company intends to implement the standard retrospectively at the date of adoption.

Beginning in 2020, the Company will be required to apply ASU 2016-02, "Leases," to its lease revenues. For lessors, the accounting remains largely unchanged from the current model, but updated to align with certain changes to the lessee model and ASU 2014-09 discussed above.

Stock-based Compensation

The Company accounts for stock-based compensation pursuant to Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") Topic 718, "Compensation — Stock Compensation." As such, all equity-based awards are reflected as compensation expense in the Company's consolidated financial statements over their vesting period based on the fair value at the date of grant.

The following is a summary of awards during the years ended December 31, 2017, 2016 and 2015.

Unvested Restricted Shares and LTIP Units	LTIP Units		Weighted Grant-Date Fair Value
Unvested at December 31, 2014	—	$	—
Granted	378,333		13.50
Vested	—		—
Forfeited	—		—
Unvested at December 31, 2015	378,333	$	13.50
Granted	123,150	$	13.50
Vested	(20,742)		—
Forfeited	—		—
Unvested at December 31, 2016	480,741	$	13.50
Granted	151,853	$	11.15
Vested	(11,112)		—
Forfeited	—		—
Unvested at December 31, 2017	621,482	$	12.93

As of December 31, 2017 and 2016, the Company had $2.1 million and $3.5 million, respectively, of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under share incentive plans. As of December 31, 2017, the weighted average period over which the unrecognized compensation expense will be recorded is approximately 1.4 years.

On March 27, 2017 and August 8, 2016, the Company granted a non-employee director 11,112 and 15,742 LTIP units with estimated fair values of approximately $150,000 and $212,000, respectively.

Income Taxes

The Company elected to be taxed and to operate in a manner that will allow it to qualify as a REIT under the U.S. Internal Revenue Code (the "Code") commencing with its taxable year ended December 31, 2015. To qualify as a REIT, the Company is required to distribute dividends equal to at least 90% of the REIT taxable income (computed without regard to the dividends paid deduction and net capital gains) to its stockholders, and meet the various other requirements imposed by the Code relating to matters such as operating results, asset holdings, distribution levels and diversity of stock ownership. Provided the Company qualifies for taxation as a REIT, it is generally not subject to U.S. federal corporate-level income tax on the earnings distributed currently to its stockholders. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to U.S. federal and state income tax on its taxable income at regular corporate tax rates and any applicable alternative minimum tax. In addition, the Company may not be able to re-elect as a REIT for the four subsequent taxable years. The entities comprising the Predecessor are limited liability companies and are treated as pass-through entities for income tax purposes. Accordingly, no provision has been made for federal, state or local income or franchise taxes in the accompanying consolidated financial statements.

In accordance with FASB ASC Topic 740, the Company believes that it has appropriate support for the income tax positions taken and, as such, does not have any uncertain tax positions that, if successfully challenged, could result in a material impact on its or the Predecessor's financial position or results of operations. The prior three years' income tax returns are subject to review by the Internal Revenue Service.

The Tax Cuts and Jobs Act was enacted in December 2017 and is generally effective for tax years beginning in 2018. This new legislation is not expected to have a material adverse effect on the Company's business and contains several potentially favorable provisions.

The Company has determined that the cash distributed to the stockholders is characterized as follows for Federal income tax purposes:

	Year Ended December 31,		
	2017	2016	2015
Ordinary income	50%	—	—
Capital gain	—	—	—
Return of capital	50%	100%	100%
Total	100%	100%	100%

Fair Value Measurements

Refer to Note 9, "Fair Value of Financial Instruments".

Derivative Financial Instruments

FASB derivative and hedging guidance establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As required by FASB guidance, the Company records all derivatives on the consolidated balance sheets at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation.

Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecast transactions, are considered cash flow hedges. For derivatives designated as fair value hedges, changes in the fair value of the derivative and the hedged item related to the hedged risk are recognized in earnings. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings) and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. The Company assesses the effectiveness of each hedging relationship by comparing the changes in the fair value or cash flows of the derivative hedging instrument with the changes in the fair value or cash flows of the designated hedged item or transaction. For derivatives not designated as hedges, changes in fair value would be recognized in earnings. As of December 31, 2017, the Company has no derivatives for which it applies hedge accounting.

Earnings (Loss) Per Share

Basic and diluted loss per share is computed by dividing net loss attributable to common stockholders by the weighted average common shares outstanding. As of December 31, 2017, 2016 and 2015, the Company has unvested LTIP Units which provide for non-forfeitable rights to dividend equivalent payments. Accordingly, these unvested LTIP Units are considered participating securities and are included in the computation of basic and diluted loss per share pursuant to the two-class method. The Company does not have dilutive securities as of December 31, 2017, 2016 or 2015.

The effect of the conversion of the 26,317 Class B LLC units outstanding is not reflected in the computation of basic and diluted loss per share, as the effect would be anti-dilutive. The net loss allocable to such units is reflected as noncontrolling interests in the accompanying consolidated and combined financial statements.

The following table sets forth the computation of basic and diluted loss per share for the periods indicated:

	Year Ended December 31,		
(in thousands, except per share amounts)	2017	2016	2015
Numerator			
Net loss attributable to common stockholders	$ (2,365)	$ (3,754)	$ (1,365)
Less: income attributable to participating securities	(229)	(120)	(16)
Subtotal	(2,594)	(3,874)	(1,381)
Denominator			
Weighted average common shares outstanding	17,021	11,423	11,423
Basic and diluted net loss per share attributable to common stockholders	$ (0.15)	$ (0.34)	$ (0.12)

Recently Issued Pronouncements

In August 2017, FASB issued ASU 2017-12, “Derivatives and Hedging (Topic 815) – Targeted Improvements to Accounting for Hedging Activities.” This new standard simplifies and expands the eligible hedging strategies for financial and nonfinancial risks. It also enhances the transparency of how hedging results are presented and disclosed. Further, the new standard provides partial relief on the timing of certain aspects of hedge documentation and eliminates the requirement to recognize hedge ineffectiveness separately in earnings. The ASU becomes effective for public companies and for emerging growth companies for fiscal years beginning after December 15, 2018 and 2019, respectively, and for interim periods within those fiscal years. Early adoption is permitted. The adoption of ASU 2017-05 is not expected to have a material impact on our consolidated financial statements.

In May 2017, FASB issued ASU 2017-09, “Compensation – Stock Compensation (Topic 718) Scope of Modification Accounting.” ASU 2017-09 clarifies Topic 718 such that an entity must apply modification accounting to changes in the terms or conditions of a share-based payment award *unless* all of the following criteria are met:

1. The fair value of the modified award is the same as the fair value of the original award immediately before the modification. The standard indicates that if the modification does not affect any of the inputs to the valuation technique used to value the award, the entity is not required to estimate the value immediately before and after the modification.

2. The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the modification.

3. The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the modification.

The amendments are effective for all entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The adoption of ASU 2017-05 is not expected to have a material impact on our consolidated financial statements.

In February 2017, FASB issued ASU 2017-05, “Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20),” to add guidance for partial sales of nonfinancial assets, including partial sales of real estate. Historically, U.S. GAAP contained several different accounting models to evaluate whether the transfer of certain assets qualified for sale treatment. ASU 2017-05 reduces the number of potential accounting models that might apply and clarifies which model does apply in various circumstances. ASU 2017-05 is effective for public companies and for emerging growth companies for annual reporting periods after December 16, 2017 and 2018, respectively, including interim reporting periods beginning after December 15, 2017 and December 15, 2019, respectively. The adoption of ASU 2017-05 is not expected to have a material impact on our consolidated financial statements.

In January 2017, FASB issued ASU 2017-01, "Business Combinations – Clarifying the Definition of a Business." ASU 2017-01 clarifies that to be considered a business, the elements must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. The new standard illustrates the circumstances under which real estate with in-place leases would be considered a business and provides guidance for the identification of assets and liabilities in purchase accounting. ASU 2017-01 is effective for public companies for periods beginning after December 15, 2017, and early adoption is permitted. The Company adopted ASU 2017-01 in 2017. The new standard is expected to reduce the number of future real estate acquisitions that will be accounted for as business combinations and, therefore, reduce the amount of acquisition costs that will be expensed.

In November 2016, FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230) – Restricted Cash.” ASU 2016-18 requires 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 should 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 does not provide a definition of restricted cash or restricted cash equivalents. ASU 2016-18 is effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, including emerging growth companies, ASU 2016-18 is effective for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating when to adopt ASU 2016-18.

In August 2016, FASB issued Accounting Standards Update ASU 2016-15, “Statement of Cash Flows (Topic 230)”, which is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. This standard will be effective for public companies and for emerging growth companies for the first annual reporting period beginning after December 15, 2017 and 2018, respectively. The Company is currently evaluating the effect that ASU 2016-15 will have on its consolidated financial statements.

In February 2016, FASB issued ASU 2016-02, “Leases (Topic 842).” The new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing. If the lessor does not convey risks and rewards or control, an operating lease results. The new standard is effective for public companies and for emerging growth companies for fiscal years beginning after December 15, 2018 and 2019, respectively, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessors for sales-type, direct financing, and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are currently evaluating the impact of our pending adoption of the new standard on our consolidated financial statements.

4. Acquisitions

On October 27, 2017, the Company acquired the 10 West 65th Street property for $79,764, including acquisition costs of $764.

The purchase price was allocated as follows:

Land	$	63,677
Building		14,983
Tenant improvements		18
Furniture and office equipment		336
Leasing commissions		13
In-place leases		732
Other lease-up costs		5
Total	$	79,764

We have prepared the following unaudited pro forma income statement information for the year ended December 31, 2017, as if the 10 West 65th Street acquisition had occurred as of January 1, 2017. The pro forma data is not necessarily indicative of the results that actually would have occurred if the acquisition had been consummated on January 1, 2017.

		Year Ended December 31, 2017
Revenues	$	106,375
Total expenses		(113,849)
Net loss	$	(7,474)

On May 9, 2017, the Company acquired the 107 Columbia Heights property, in vacant condition, for $87,616, including acquisition costs of $116.

The purchase price was allocated as follows:

Land	$	43,433
Building		44,100
Site improvements		83
Total	$	87,616

On June 27, 2016, the Company acquired the Aspen property for $103,000.

The purchase price was allocated as follows:

Land	$	49,139
Building		42,753
Tenant improvements		26
Site improvements		91
Furniture, fixtures and equipment		302
Above-market leases		444
Below-market leases		(783)
In-place leases		1,093
Lease origination costs		793
Real estate tax abatements		9,142
Total	$	103,000

We have prepared the following unaudited pro forma income statement information for the years ended December 31, 2016 and 2015 as if the Aspen acquisition had occurred as of January 1, 2015. The pro forma data is not necessarily indicative of the results that actually would have occurred if the acquisition had been consummated on January 1, 2015.

		Year Ended December 31, 2016		Year Ended December 31, 2015
Revenues	$	96,164	$	91,085
Total expenses		(108,930)		(99,937)
Net loss	$	(12,764)	$	(8,852)

Revenues and earnings (losses) included in our consolidated statement of operations relating to acquisitions for the years ended December 31, 2017 and 2016, were $7,538 and $331, and $3,412 and $(713), respectively.

5. Deferred Costs and Intangible Assets

Deferred costs and intangible assets consist of the following:

	December 31, 2017	December 31, 2016
Deferred costs	$ 266	$ 266
Above-market leases	480	480
Lease origination costs	3,110	3,092
In-place lease	8,078	7,347
Real estate tax abatements	12,571	12,571
Total deferred costs and intangible assets	24,505	23,756
Less accumulated amortization	(12,611)	(9,803)
Total deferred costs and intangible assets, net	$ 11,894	$ 13,953

Amortization of lease origination costs and in-place lease intangible assets was $1,182, $1,793 and $860 for the years ended December 31, 2017, 2016 and 2015, respectively. Amortization of real estate abatements of $1,568, $1,476 and $1,328 for the years ended December 31, 2017, 2016 and 2015, respectively, is included in real estate taxes and insurance in the consolidated and combined statements of operations. Amortization of above-market leases of $58, $39 and $8 for the years ended December 31, 2017, 2016 and 2015, respectively, is included in commercial income in the consolidated and combined statements of operations.

Deferred costs and intangible assets as of December 31, 2017 amortize to in future years as follows:

2018	$ 1,954
2019	1,134
2020	798
2021	768
2022	737
Thereafter	6,503
Total	$ 11,894

6. Below-Market Lease Intangibles

The Company's below-market lease intangibles liabilities are as follows:

	December 31, 2017	December 31, 2016
Below-market leases	$ 23,178	$ 23,178
Less accumulated amortization	(18,103)	(16,316)
Below-market leases, net	$ 5,075	$ 6,862

Rental income includes amortization of below-market leases of $1,787, $1,769 and $1,714 for the years ended December 31, 2017, 2016 and 2015, respectively.

Below-market leases as of December 31, 2017, amortize in future years as follows:

2018	$ 2,151
2019	1,299
2020	517
2021	493
2022	423
Thereafter	192
Total	$ 5,075

7. Notes Payable

The first mortgages, loans and mezzanine notes payable collateralized by the respective properties, or the Company's interest in the entities that own the properties and assignment of leases, are as follows:

Property	Maturity	Interest Rate	December 31, 2017	December 31, 2016
Flatbush Gardens, Brooklyn, NY (a)	10/1/2024	3.88%	$ 148,438	$ 150,000
Flatbush Gardens, Brooklyn, NY (b)	10/1/2024	3.88%	19,792	20,000
250 Livingston Street, Brooklyn, NY (c)	5/6/2023	4.00%	34,294	35,093
141 Livingston Street, Brooklyn, NY (d)	6/1/2028	3.875%	78,792	79,500
Tribeca House, Manhattan, NY (e)	11/9/2018	LIBOR + 3.75%	410,000	410,000
Aspen, Manhattan, NY (f)	7/1/2028	3.68%	69,383	70,000
107 Columbia Heights, Brooklyn, NY (g)	5/9/2020	LIBOR + 3.85%	60,067	—
10 West 65th Street, Manhattan, NY (h)	11/1/2027	3.375%	34,350	—
			$ 855,116	$ 764,593
Unamortized debt issuance costs			(11,170)	(10,134)
Total debt, net of debt issuance costs			$ 843,946	$ 754,459

(a) The $150,000 mortgage note agreement with New York Community Bank ("NYCB") matures on October 1, 2024, and bears interest at 3.88%. The note required interest-only payments through April 2017 and monthly principal and interest payments of $705 thereafter based on a 30-year amortization schedule.

(b) The additional $20,000 note with NYCB matures coterminous with the $150,000 mortgage, and bears interest at 3.88% through September 2019 and thereafter at the prime rate plus 2.75%, subject to an option to fix the rate. The note required interest-only payments through April 2017, monthly principal and interest payments of $94 from May 2017 through September 2019 based on a 30-year amortization schedule and monthly principal and interest payments thereafter based on the remaining period of the initial 30-year amortization schedule.

On February 21, 2018, the Company refinanced the above two Flatbush Gardens loans with a ten-year $246,000 initial fixed rate secured first mortgage loan with New York Community Bank which matures March 2028, bears interest at a fixed rate of 3.5% per annum for the first five years and is interest-only for 30 months.

(c) The $37,500 mortgage note agreement with Citigroup Global Markets Realty Corp. matures on May 6, 2023, and bears interest at 4.00%. The note requires monthly principal and interest payments of $179.

(d) On May 11, 2016, the Company repaid a $55,000 loan secured by the property with the proceeds of a $79,500 loan from NYCB. The NYCB loan matures on June 1, 2028, and bears interest at 3.875%. The note requires interest-only payments through June 2017, and monthly principal and interest payments of $374 thereafter based on a 30-year amortization schedule.

(e) On November 9, 2016, the Company repaid $360,000 of mortgage notes and $100,000 of mezzanine notes assumed in connection with the acquisition of the Tribeca House properties, with the proceeds of a $410,000 loan package with Deutsche Bank and SL Green Finance, and cash on hand. The loan package matures on November 9, 2018, is subject to three one-year extension options and bears interest at one-month LIBOR plus 3.75% (5.3% as of December 31, 2017).

On February 21, 2018, the Company repaid the $410,000 Tribeca House loan package using the proceeds of a $360,000 fixed rate financing package which matures March 2028 and cash on hand. The $360,000 financing bears interest at a fixed rate of 4.506% per annum and requires interest-only payments for the entire term.

(f) On June 27, 2016, the Company entered into a $70,000 mortgage note agreement with Capital One Multifamily Finance LLC, related to the Aspen acquisition. The note matures on July 1, 2028, and bears interest at 3.68%. The note required interest-only payments through July 2017, and monthly principal and interest payments of $321 thereafter based on a 30-year amortization schedule.

(g) On May 9, 2017, the Company entered into a $59,000 mortgage note agreement with a unit of Blackstone Mortgage Trust, Inc., related to the 107 Columbia Heights acquisition. The Company also entered into a construction loan secured by the building with the same lender that will provide up to $14,700 for eligible capital improvements and carrying costs, of which $1,067 was drawn as of December 31, 2017. The notes mature on May 9, 2020, are subject to two one-year extension options and requires interest only payments based on one-month LIBOR plus 3.85% (5.4% as of December 31, 2017).

(h) On October 27, 2017, the Company entered into a $34,350 mortgage note agreement with New York Community Bank, related to the 10 West 65th Street acquisition. The note matures on November 1, 2027, and bears interest at 3.375% for the first five years and thereafter at the prime rate plus 2.75%, subject to an option to fix the rate. The note requires interest-only payments through October 2019, and monthly principal and interest payments thereafter based on a 30-year amortization schedule.

The following table summarizes principal payment requirements under terms as of December 31, 2017 (as noted above, the Company refinanced the Flatbush Gardens and Tribeca House loans on February 21, 2018):

2018	$	416,482
2019		7,016
2020		67,910
2021		8,159
2022		8,477
Thereafter		347,072
Total	$	855,116

8. Rental Income under Operating Leases

The Company's commercial properties are leased to commercial tenants under operating leases with fixed terms of varying lengths. As of December 31, 2017, the minimum future cash rents receivable (excluding tenant reimbursements for operating expenses) under non-cancelable operating leases for the commercial tenants in each of the next five years and thereafter are as follows:

2018	$	22,219
2019		17,335
2020		10,316
2021		4,695
2022		4,260
Thereafter		12,680
Total	$	71,505

The Company has commercial leases with the City of New York that comprised 20%, 19% and 20% of total revenues for the years ended December 31, 2017, 2016 and 2015, respectively.

9. Fair Value of Financial Instruments

GAAP requires the measurement of certain financial instruments at fair value on a recurring basis. In addition, GAAP requires the measure of other financial instruments and balances at fair value on a non-recurring basis (e.g., carrying value of impaired real estate and long-lived assets). Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The GAAP fair value framework uses a three-tiered approach. Fair value measurements are classified and disclosed in one of the following three categories:

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

When available, the Company utilizes quoted market prices from an independent third-party source to determine fair value and classifies such items in Level 1 or Level 2. In instances where the market for a financial instrument is not active, regardless of the availability of a nonbinding quoted market price, observable inputs might not be relevant and could require the Company to make a significant adjustment to derive a fair value measurement. Additionally, in an inactive market, a market price quoted from an independent third party may rely more on models with inputs based on information available only to that independent third party. When the Company determines the market for a financial instrument owned by the Company to be illiquid or when market transactions for similar instruments do not appear orderly, the Company uses several valuation sources (including internal valuations, discounted cash flow analysis and quoted market prices) and establishes a fair value by assigning weights to the various valuation sources.

Changes in assumptions or estimation methodologies can have a material effect on these estimated fair values. In this regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, may not be realized in an immediate settlement of the instrument.

The financial assets and liabilities in the consolidated balance sheets include cash and cash equivalents, restricted cash, receivables, interest rate caps, accounts payable and accrued liabilities, and notes payable. The carrying amount of cash and cash equivalents, restricted cash, receivables, and accounts payable and accrued liabilities reported in the consolidated balance sheets approximates fair value due to the short-term nature of these instruments. The fair value of notes payable, which are classified as Level 2, is estimated by discounting the contractual cash flows of each debt instrument to their present value using adjusted market interest rates.

The carrying amount and estimated fair value of the notes payable are as follows:

		December 31, 2017		December 31, 2016
Carrying amount (excluding unamortized debt issuance costs)	$	855,116	$	764,593
Estimated fair value	$	839,753	$	749,324

The Company purchased interest rate caps in connection with the Tribeca House loans on November 9, 2016, and in connection with the 107 Columbia Heights acquisition on May 9, 2017. The fair value of the interest rate caps, which are classified as Level 2, is estimated using market inputs and credit valuation inputs.

The estimated fair values of the interest rate caps are as follows:

Notional Amount	Related Property Loans	Maturity Date	Strike Rate		Estimated Fair Value at December 31, 2017		Estimated Fair Value at December 31, 2016
$410,000	Tribeca House	December 15, 2018	2.0%	$	148	$	409
$73,700	107 Columbia Heights	May 9, 2020	3.0%		34		NA
Total fair value of derivative instruments included in prepaid expenses and other assets				$	182	$	409

These interest rate caps were not designated as hedges. The changes in fair value of the instrument of $261, $(139) and $522 for the years ended December 31, 2017, 2016 and 2015, respectively, are included in interest expense. The change in fair value of the 107 Columbia Heights instrument of $99 for the year ended December 31, 2017 was recognized in interest and capitalized to real estate under development.

The above disclosures regarding fair value of financial instruments are based on pertinent information available as of December 31, 2017, December 31, 2016, and December 31, 2015, respectively. Although the Company is not aware of any factors that would significantly affect the reasonableness of the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since those dates, and current estimates of fair value may differ significantly from the amounts presented herein.

10. Commitments and Contingencies

Legal

On July 3, 2017, the New York Supreme Court (the "Court") ruled in favor of 41 present or former tenants of apartment units at the Company's buildings located at 50 Murray Street and 53 Park Place in Manhattan, New York, who brought an action against the Company alleging that they were subject to applicable rent stabilization laws with the result that rental payments charged by the Company exceeded amounts permitted under these laws because the buildings were receiving certain tax abatements under Real Property Tax Law 421-g. The Court also awarded the plaintiffs, their attorney's fees and costs. The Court declared that the plaintiff-tenants were subject to rent stabilization requirements and referred the matter to a special referee to determine the amount of rent over-charges, if any. On July 18, 2017, the Court stayed the above decision; the Company subsequently appealed the decision to the Appellate Division, First Department. On January 18, 2018, the Appellate Division unanimously ruled in favor of the Company, holding that the Company acted properly in de-regulating the apartments. The Appellate Division decision and order is subject to a motion for leave to appeal and there can be no assurance as to the outcome of the appeal if leave to appeal is granted.

In addition to the above, the Company is subject to certain legal proceedings and claims arising in connection with its business. Management believes, based in part upon consultation with legal counsel, that the ultimate resolution of all such claims will not have a material adverse effect on the Company's consolidated results of operations, financial position, or cash flows.

Commitments

The Company is obligated to provide parking availability through August 2020 under a lease with a tenant at the 250 Livingston Street property; the current cost to the Company is approximately $240 per year.

Concentrations

The Company's properties are located in the Boroughs of Manhattan and Brooklyn in New York City, which exposes the Company to greater economic risks than if it owned a more geographically dispersed portfolio.

The breakdown between commercial and residential revenues is as follows:

	Commercial	Residential	Total
Year ended December 31, 2017	27%	73%	100%
Year ended December 31, 2016	26%	74%	100%
Year ended December 31, 2015	26%	74%	100%

11. Related-Party Transactions

For the year ended December 31, 2015, the Predecessor recorded management fees of approximately $574, pertaining to related companies or individuals, in general and administrative expense.

For the years ended December 31, 2017 and 2016, the Company recorded office and overhead expenses of approximately $387 and $275, respectively, pertaining to a related company, in general and administrative expense.

For the year ended December 31, 2017, the Company paid approximately $797 for legal and advisory services to firms in which two of our directors were principals or partners.

12. Segment Reporting

The Company has classified its reporting segments into commercial and residential rental properties. The commercial reporting segment includes the 141 Livingston Street property and portions of the 250 Livingston Street, Tribeca House and Aspen properties. The residential reporting segment includes the Flatbush Gardens property, the 107 Columbia Heights property, the 10 West 65th Street property and portions of the 250 Livingston Street, Tribeca House and Aspen properties.

The Company's income from operations by segment for the years ended December 31, 2017, 2016 and 2015, is as follows:

Year ended December 31, 2017	Commercial	Residential	Total
Rental revenues	$ 21,914	$ 73,667	$ 95,581
Tenant recoveries	5,102	—	5,102
Garage and other income	875	2,394	3,269
Total revenues	27,891	76,061	103,952
Property operating expenses	4,328	22,701	27,029
Real estate taxes and insurance	4,438	16,247	20,685
General and administrative	801	9,143	9,944
Acquisition costs	—	69	69
Depreciation and amortization	3,277	13,444	16,721
Total operating expenses	12,844	61,604	74,448
Income from operations	$ 15,047	$ 14,457	$ 29,504

Year ended December 31, 2016	Commercial	Residential	Total
Rental revenues	$ 18,558	$ 67,165	$ 85,723
Tenant recoveries	4,061	—	4,061
Garage and other income	1,587	1,634	3,221
Total revenues	24,206	68,799	93,005
Property operating expenses	4,113	21,329	25,442
Real estate taxes and insurance	4,024	13,716	17,740
General and administrative	748	7,657	8,405
Acquisition costs	—	326	326
Depreciation and amortization	2,688	12,607	15,295
Total operating expenses	11,573	55,635	67,208
Income from operations	$ 12,633	$ 13,164	$ 25,797

Year ended December 31, 2015	Commercial	Residential	Total
Rental revenues	$ 17,256	$ 60,784	$ 78,040
Tenant recoveries	3,477	—	3,477
Garage and other income	1,578	1,509	3,087
Total revenues	22,311	62,293	84,604
Property operating expenses	4,217	19,066	23,283
Real estate taxes and insurance	3,705	11,221	14,926
General and administrative	840	4,456	5,296
Acquisition costs	—	75	75
Depreciation and amortization	2,471	10,050	12,521
Total operating expenses	11,233	44,868	56,101
Income from operations	$ 11,078	$ 17,425	$ 28,503

The Company's total assets by segment are as follows, as of:

	Commercial	Residential	Total
December 31, 2017	$ 222,288	$ 829,797	$ 1,052,085
December 31, 2016	225,608	679,600	905,208
December 31, 2015	196,563	684,555	881,118

The Company's interest expense by segment for the years ended December 31, 2017, 2016 and 2015, is as follows:

	Commercial	Residential	Total
Year ended December 31, 2017	$ 7,569	$ 27,936	$ 35,505
Year ended December 31, 2016	7,421	30,715	38,136
Year ended December 31, 2015	7,346	29,357	36,703

The Company's capital expenditures by segment for the years ended December 31, 2017, 2016 and 2015, are as follows:

	Commercial	Residential	Total
Year ended December 31, 2017	$ 4,187	$ 18,538	$ 22,725
Year ended December 31, 2016	2,653	15,509	18,162
Year ended December 31, 2015	245	8,780	9,025

13. Multiemployer Union Agreement and Pension Plan

Certain of the Company's employees are covered by a union sponsored, collectively bargained, multiemployer defined benefit pension, profit sharing, health insurance, legal and training plans. Contributions to the plans are determined in accordance with the provisions of the negotiated labor contract. The Local 32BJ Service Employees International Union ("Local 32BJ") contract is in effect through December 31, 2019.

Contributions to the Local 32BJ are not segregated or otherwise restricted to provide benefits only to the Company's employees. The risks of participating in a multiemployer pension plan differ from those of a single-employer pension plan in the following aspects: (a) assets contributed to a multiemployer pension plan by one employer may be used to provide benefits to employees of other participating employers; (b) if a participating employer stops contributing to the plan, the unfunded obligation of the plan may be borne by the remaining participating employers and (c) if the Company chooses to stop participating in the multiemployer plan, it may be required to pay the plan an amount based on the unfunded status of the plan, which is referred to as the withdrawal liability. The Company has no intention of withdrawing from the plan.

The information for the Union's multiemployer pension plan is as follows:

Legal name	Building Services 32BJ Pension Plan
Employer identification number	13-1879376
Plan number	001
Type of plan	Defined benefit pension plan
Plan year-end date	June 30
Certified Zone Status for 2017, 2016 and 2015*	Red
Funding improvement plan/rehabilitation plan*	Implemented
Surcharges paid to plan	None

Pension contribution made for 2017, 2016 and 2015, respectively	$370,	$374	and	$359
Minimum weekly required pension contribution per employee for 2017, 2016 and 2015, respectively (in dollars)	$106.15,	$102.75	and	$98.75

* *Certified pension zone status (as defined by the Pension Protection Act) represents the level at which the pension plan is funded. Plans in the red zone are less than* 65% *funded; plans in the yellow zone are less than* 80% *funded; and plans in the green zone are at least* 80% *funded. The rehabilitation plan* may *involve a surcharge on employers or a reduction or elimination of certain employee adjustable benefits.*

The information provided above is from the pension plan's most current annual report, which for Local 32BJ is for the year ended June 30, 2017. The Pension Protection Act Zone Status, the most recent zone status available, was provided to the Company by the plan and is certified by the plans' actuary. The Company's contributions to the pension plan are less than 5% of all the employers' contributions to the plan.

Clipper Realty Inc. and Predecessor
Schedule III – Real Estate and Accumulated Depreciation
(In thousands)

Encumbrances at December 31, 2017				Initial Costs				Gross Amounts At Which Carried at December 31, 2017					
Property	**Location**	**Description**	**Encum-brances**	**Land**	**Building and Improv-ements**	**Real Estate Under Develop.**	**Cost Capitalized Subsequent to Acquisition**	**Land**	**Building and Improv-ements**	**Real Estate Under Develop.**	**Total**	**Accumu-lated Deprecia-tion**	**Date Acquired**
Tribeca House	Manhattan, NY	Residential/Commercial	$410,000	$ 273,103	$ 283,137	-	$ 12,120	$273,103	$ 295,257	-	$ 568,360	$ 24,482	Dec-14
Aspen	Manhattan, NY	Residential/Commercial	69,383	49,230	43,080	-	78	49,230	43,158	-	92,388	1,645	June-16
Flatbush Gardens	Brooklyn, NY	Residential	168,230	89,965	49,607	-	30,729	90,051	80,250	-	170,301	32,403	Oct-05
107 Columbia Hghts	Brooklyn, NY	Residential	60,067	-	-	87,616	8,652	-	-	96,268	96,268	-	May-17
10 West 65th St.	Manhattan, NY	Residential	34,350	63,677	15,337	-	14	63,677	15,351	-	79,028	111	Oct-17
250 Livingston St.	Brooklyn, NY	Commercial/Residential	34,294	10,452	20,204	-	4,881	10,452	25,085	-	35,537	10,156	May-02
141 Livingston St.	Brooklyn, NY	Commercial	78,792	10,830	12,079	-	5,815	10,830	17,894	-	28,724	4,917	May-02
			$855,116	$ 497,257	$ 423,444	$ 87,616	$ 62,289	$497,343	$ 476,995	$ 96,268	$1,070,606	$ 73,714	

(1) At December 31, 2017, the aggregate cost for Federal tax purposes of our real estate assets was $809,414.

(2) The following summarizes activity for real estate and accumulated depreciation, for the years ended December 31, 2017, 2016 and 2015:

	2017	**2016**	**2015**
Investment in real estate:			
Balance at beginning of period	$ 881,251	$ 770,779	$ 761,754
Acquisition of real estate	166,630	92,310	—
Additions during period	22,725	18,162	9,025
Writeoff of fully depreciated assets	—	—	—
Balance at end of year	$ 1,070,606	$ 881,251	$ 770,779
Accumulated depreciation:			
Balance at beginning of period	$ 58,174	$ 44,672	$ 33,010
Depreciation expense	15,540	13,502	11,662
Writeoff of fully depreciated assets	—	—	—
Balance at end of year	$ 73,714	$ 58,174	$ 44,672

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned.

CLIPPER REALTY INC.

March 14, 2018

By: /s/ David Bistricer
David Bistricer
Co-Chairman and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints David Bistricer and Sam Levinson his or her true and lawful attorneys-in-fact (with full power to each of them to act alone), with full power of substitution and re-substitution, for him or her and in his or her name, place and stead, in any and all capacities to sign any and all amendments (including post-effective amendments) to this Annual Report on Form 10-K, and to file the same, with the exhibits thereto, and other documents in connection herewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agent, full power and authority to do and perform each and every act and thing required and necessary to be done in and about the foregoing as fully for all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agent or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange of 1934, as amended, this Annual Report on Form 10-K has been signed by the following persons in the capacities and on the dates indicated.

Name	Title	Date
/s/ David Bistricer David Bistricer	Co-Chairman of the Board and Chief Executive Officer *(Principal Executive Officer)*	March 14, 2018
/s/ Lawrence E. Kreider, Jr. Lawrence E. Kreider, Jr.	Chief Financial Officer *(Principal Financial Officer and Principal Accounting Officer)*	March 14, 2018
/s/ Sam Levinson Sam Levinson	Co-Chairman of the Board	March 14, 2018
/s/ Howard M. Lorber Howard M. Lorber	Director	March 14, 2018
/s/ Robert J. Ivanhoe Robert J. Ivanhoe	Director	March 14, 2018
/s/ Roberto A. Verrone Roberto A. Verrone	Director	March 14, 2018
/s/ Richard Burger Richard Burger	Director	March 14, 2018
/s/ Harmon Spolan Harmon Spolan	Director	March 14, 2018

Exhibit 21.1

Subsidiaries of Clipper Realty Inc.

Name of Subsidiary	Jurisdiction of Incorporation/Formation
10 West 65 Owner LLC	New York
50 Murray Mezz LLC	Delaware
50 Murray Street Acquisition LLC	Delaware
50/53 JV LLC	Delaware
141 Livingston Owner LLC	Delaware
250 Livingston Owner LLC	Delaware
Aspen 2016 LLC	Delaware
Berkshire Equity LLC	Delaware
Clipper 107 CH LLC	Delaware
Clipper 107 CH Member LLC	Delaware
Clipper Realty Construction LLC	Delaware
Clipper Realty L.P.	Delaware
Clipper TRS LLC	Delaware
Gunki Holdings LLC	Delaware
Kent Realty, LLC	New York
Renaissance Equity Holdings LLC	New York
Renaissance Equity Holdings LLC A	New York
Renaissance Equity Holdings LLC B	New York
Renaissance Equity Holdings LLC C	New York
Renaissance Equity Holdings LLC D	New York
Renaissance Equity Holdings LLC E	New York
Renaissance Equity Holdings LLC F	New York
Renaissance Equity Holdings LLC G	New York

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

I, David Bistricer, certify that:

1. I have reviewed this annual report on Form 10-K of Clipper Realty Inc.;

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

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

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

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

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

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

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

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

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

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

Date:	March 14, 2018	By:	/s/ David Bistricer
			David Bistricer
			Chief Executive Officer

Exhibit 31.2

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

I, Lawrence E. Kreider, certify that:

1. I have reviewed this annual report on Form 10-K of Clipper Realty Inc.;

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

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

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

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

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

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

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

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

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

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

Date: March 14, 2018

By: /s/ Lawrence E. Kreider
Lawrence E. Kreider
Chief Financial 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 this Annual Report on Form 10-K of Clipper Realty Inc. (the "Company") for the period ended December 31, 2017, as filed with the Securities and Exchange Commission (the "Report"), the undersigned, as the Chief Executive Officer of the Company, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or Section 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 operations of the Company.

Date: March 14, 2018

Signed: /s/ David Bistricer

David Bistricer
Chief Executive Officer

Exhibit 32.2

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 this Annual Report on Form 10-K of Clipper Realty Inc. (the "Company") for the period ended December 31, 2017, as filed with the Securities and Exchange Commission (the "Report"), the undersigned, as the Chief Financial Officer of the Company, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or Section 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 operations of the Company.

Date:	March 14, 2018	Signed:	/s/ Lawrence E. Kreider
			Lawrence E. Kreider
			Chief Financial Officer