UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2019

☐ **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)

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

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

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

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

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

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value $0.01 per share	CLPR	New York Stock Exchange

As of August 1, 2019, there were 17,814,672 shares of the Registrant's Common Stock outstanding.

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PART I – FINANCIAL INFORMATION

CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

All statements other than statements of historical fact included in this Quarterly Report on Form 10-Q for Clipper Realty Inc. (the "Company"), including, without limitation, statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations," regarding the Company's financial position, business strategy and the plans, objectives, expectations, or assumptions of management for future operations, are forward-looking statements. When used in this Quarterly Report on Form 10-Q, words such as "may," "will," "should," "could," "expect," "anticipate," "believe," "estimate," "project," "predict," "believe," "expect," "intend," "continue," "potential," "plan," "goal" or other words that convey the uncertainty of future events or outcomes are intended to identify forward-looking statements, which are generally not historical in nature. These statements involve risks and uncertainties that could cause actual results to differ materially from those described in such 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;
- changes in rent stabilization regulations or claims by tenants in rent-stabilized units that their rents exceed specified maximum amounts under current regulations;
- 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;
- 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;
- a transfer of a controlling interest in any of our properties may obligate us to pay transfer tax based on the fair market value of the real property transferred; and
- other risks and risk factors or uncertainties identified from time to time in our filings with the Securities and Exchange Commission ("SEC").

Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Reference is made to a more complete discussion of forward-looking statements and applicable risks contained under the captions "Cautionary Note Concerning Forward-Looking Statements" and "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on March 7, 2019, and other reports filed from time to time with the SEC. Clipper Realty Inc. undertakes no obligation to update or revise any of its forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2019 (unaudited)	December 31, 2018
ASSETS		
Investment in real estate		
Land and improvements	$497,343	$497,343
Building and improvements	489,383	479,360
Tenant improvements	3,051	3,051
Furniture, fixtures and equipment	11,364	10,978
Real estate under development	139,061	125,467
Total investment in real estate	1,140,202	1,116,199
Accumulated depreciation	(99,217)	(90,462)
Investment in real estate, net	1,040,985	1,025,737
Cash and cash equivalents	56,349	37,028
Restricted cash	16,455	8,836
Tenant and other receivables, net of allowance for doubtful accounts of $2,930 and $2,624, respectively	3,358	3,580
Deferred rent	1,669	2,485
Deferred costs and intangible assets, net	9,373	9,964
Prepaid expenses and other assets	13,193	13,378
TOTAL ASSETS	**$1,141,382**	**$1,101,008**
LIABILITIES AND EQUITY		
Liabilities:		
Notes payable, net of unamortized loan costs of $10,862 and $12,049, respectively	$963,335	$913,564
Accounts payable and accrued liabilities	12,711	12,550
Security deposits	7,035	6,637
Below-market leases, net	2,034	2,923
Other liabilities	3,751	3,849
TOTAL LIABILITIES	**988,866**	**939,523**
Equity:		
Preferred stock, $0.01 par value; 100,000 shares authorized (including 140 shares of 12.5% Series A cumulative non-voting preferred stock), zero shares issued and outstanding	—	—
Common stock, $0.01 par value; 500,000,000 shares authorized, 17,814,672 and 17,812,755 shares issued and outstanding, respectively	178	178
Additional paid-in-capital	93,235	92,945
Accumulated deficit	(31,847)	(27,941)
Total stockholders' equity	61,566	65,182
Non-controlling interests	90,950	96,303
TOTAL EQUITY	**152,516**	**161,485**
TOTAL LIABILITIES AND EQUITY	**$1,141,382**	**$1,101,008**

See accompanying notes to these consolidated financial statements.

Clipper Realty Inc.
Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
REVENUES				
Residential rental income	$21,146	$20,096	$41,918	$39,775
Commercial rental income	7,300	7,204	14,180	14,393
TOTAL REVENUES	**28,446**	**27,300**	**56,098**	**54,168**
OPERATING EXPENSES				
Property operating expenses	6,747	6,581	14,310	13,837
Real estate taxes and insurance	5,707	5,362	11,438	10,710
General and administrative	2,579	2,606	4,247	5,744
Depreciation and amortization	4,590	4,435	9,139	9,031
TOTAL OPERATING EXPENSES	**19,623**	**18,984**	**39,134**	**39,322**
INCOME FROM OPERATIONS	8,823	8,316	16,964	14,846
Interest expense, net	(8,210)	(8,008)	(16,484)	(16,551)
Loss on extinguishment of debt	(1,771)	—	(1,771)	(6,981)
Net (loss) income	**(1,158)**	**308**	**(1,291)**	**(8,686)**
Net loss (income) attributable to non-controlling interests	691	(184)	770	5,180
Net (loss) income attributable to common stockholders	**$(467)**	**$124**	**$(521)**	**$(3,506)**
Basic and diluted net loss per share	$(0.03)	$0.00	$(0.04)	$(0.20)

See accompanying notes to these consolidated financial statements.

Clipper Realty Inc.
Consolidated Statements of Equity
Three and Six Months Ended June 30, 2019 and 2018
(In thousands, except for share data)
(Unaudited)

	Number of common shares	Common stock	Additional paid-in-capital	Accumulated deficit	Total stockholders' equity	Non-controlling interests	Total equity
Balance December 31, 2018	17,812,755	$178	$92,945	$(27,941)	$65,182	$96,303	$161,485
Amortization of LTIP grants	—	—	—	—	—	156	156
Dividends and distributions	—	—	—	(1,692)	(1,692)	(2,569)	(4,261)
Net loss	—	—	—	(54)	(54)	(79)	(133)
Reallocation of noncontrolling interests	—	—	35	—	35	(35)	—
Balance March 31, 2019	17,812,755	178	92,980	(29,687)	63,471	93,776	157,247
Issuance of common stock	1,917	—	25	—	25	—	25
Redemption of LTIP grants	—	—	(25)	—	(25)	—	(25)
Amortization of LTIP grants	—	—	—	—	—	704	704
Dividends and distributions	—	—	—	(1,693)	(1,693)	(2,584)	(4,277)
Net loss	—	—	—	(467)	(467)	(691)	(1,158)
Reallocation of noncontrolling interests	—	—	255	—	255	(255)	—
Balance June 30, 2019	17,814,672	$178	$93,235	$(31,847)	$61,566	$90,950	$152,516

	Number of common shares	Common stock	Additional paid-in-capital	Accumulated deficit	Total stockholders' equity	Non-controlling interests	Total equity
Balance December 31, 2017	17,812,755	$178	$92,273	$(17,539)	$74,912	$110,679	$185,591
Issuance of common stock	—	—	(6)	—	(6)	—	(6)
Amortization of LTIP grants	—	—	—	—	—	568	568
Dividends and distributions	—	—	—	(1,692)	(1,692)	(2,562)	(4,254)
Net loss	—	—	—	(3,630)	(3,630)	(5,364)	(8,994)
Reallocation of noncontrolling interests	—	—	208	—	208	(208)	—
Balance March 31, 2018	17,812,755	178	92,475	(22,861)	69,792	103,113	172,905
Issuance of common stock	—	—	(1)	—	(1)	—	(1)
Amortization of LTIP grants	—	—	—	—	—	691	691
Dividends and distributions	—	—	—	(1,692)	(1,692)	(2,569)	(4,261)
Net income	—	—	—	124	124	184	308
Reallocation of noncontrolling interests	—	—	252	—	252	(252)	—
Balance June 30, 2018	17,812,755	$178	$92,726	$(24,429)	$68,475	$101,167	$169,642

See accompanying notes to these consolidated financial statements.

Clipper Realty Inc.
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2019	**2018**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(1,291)	$(8,686)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	8,755	8,167
Amortization of deferred financing costs	928	752
Amortization of deferred costs and intangible assets	623	1,100
Amortization of above- and below-market leases	(830)	(959)
Loss on extinguishment of debt	1,771	6,981
Deferred rent	816	513
Stock-based compensation	860	1,259
Change in fair value of interest rate caps	—	(237)
Changes in operating assets and liabilities:		
Tenant and other receivables	222	3,886
Prepaid expenses, other assets and deferred costs	70	(886)
Accounts payable and accrued liabilities	(1,781)	719
Security deposits	398	632
Other liabilities	(98)	464
Net cash provided by operating activities	**10,443**	**13,705**
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to land, buildings, and improvements	(21,383)	(19,246)
Proceeds from sale of interest rate caps	—	385
Net cash used in investing activities	**(21,383)**	**(18,861)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds and costs from sale of common stock	—	(7)
Payments of mortgage notes	(76,416)	(579,989)
Proceeds from mortgage notes	125,000	608,585
Dividends and distributions	(8,538)	(8,515)
Loan issuance and extinguishment costs	(2,166)	(8,338)
Net cash provided by financing activities	**37,880**	**11,736**
Net increase in cash and cash equivalents and restricted cash	26,940	6,580
Cash and cash equivalents and restricted cash - beginning of period	45,864	21,670
Cash and cash equivalents and restricted cash - end of period	**$72,804**	**$28,250**
Cash and cash equivalents and restricted cash – beginning of period:		
Cash and cash equivalents	$37,028	$7,940
Restricted cash	8,836	13,730
Total cash and cash equivalents and restricted cash – beginning of period	$45,864	$21,670
Cash and cash equivalents and restricted cash – end of period:		
Cash and cash equivalents	$56,349	$15,794
Restricted cash	16,455	12,456
Total cash and cash equivalents and restricted cash – end of period	$72,804	$28,250
Supplemental cash flow information:		
Cash paid for interest, net of capitalized interest of $3,761 and $2,541 in 2019 and 2018, respectively	$17,193	$15,744
Non-cash interest capitalized to real estate under development	678	579
Additions to investment in real estate included in accounts payable and accrued liabilities	7,940	2,686

See accompanying notes to these consolidated financial statements.

Clipper Realty Inc.
Notes to Consolidated Financial Statements
(In thousands, except for share and per share data and as noted)
(Unaudited)

INTRODUCTION TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited condensed consolidated financial statements of Clipper Realty Inc. (the "Company" or "we") and subsidiaries have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") have been condensed or omitted pursuant to such rules and regulations. We believe that the disclosures are adequate to make the information presented not misleading when read in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on March 7, 2019.

The financial information presented reflects all adjustments (consisting of normal recurring adjustments) which are, in our opinion, necessary for a fair presentation of the results of operations, cash flows and financial position for the interim periods presented. Certain reclassifications have been made to the prior period financial statements in order to conform to the current year presentation. These reclassifications did not have an impact on net income previously reported. These results are not necessarily indicative of a full year's results of operations.

1. Organization

The Company 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 ("LLCs") that comprised the predecessor of the Company (the "Predecessor") in exchange for Class A LLC units in such LLCs and became the managing member of such LLCs. The owners of the LLCs 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.

On June 27, 2016, the Operating Partnership acquired the Aspen 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 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.

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 June 30, 2019, 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 483,000 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 370,000 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 11-story residential building with approximately 102,000 square feet of residential rental GLA; and
- 10 West 65th Street in Manhattan, a 6-story residential 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 "Code"). The Company is the sole general partner of the Operating Partnership and the Operating Partnership is the sole managing member of the LLCs that comprised the Predecessor.

At June 30, 2019, the Company's interest, through the Operating Partnership, in the LLCs that own the properties generally entitles it to 40.4% of the aggregate cash distributions from, and the profits and losses of, the LLCs.

The Company determined that the Operating Partnership and the LLCs 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. Issuance of Common Stock

On April 9, 2019, the Company issued 1,917 primary shares of its common stock to one of our directors, in connection with the conversion of vested long-term incentive plan ("LTIP") units on a one-for-one basis. The Company did not receive any proceeds from the issuance.

3. Significant Accounting Policies

Segments

At June 30, 2019, the Company had two reportable operating segments, Residential Rental Properties and Commercial Rental Properties. The Company's chief operating decision maker may review operational and financial data on a property basis.

Basis of Consolidation

The accompanying consolidated financial statements of the Company are prepared in accordance with GAAP. The effect of all intercompany balances has been eliminated. The consolidated 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 interests.

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.

In accordance with 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. In the event that the Company obtains proceeds through an insurance policy due to impairment, the proceeds are offset against the write-down in calculating gain/loss on disposal of assets. Management of the Company does not believe that any of its properties within the portfolio are impaired as of June 30, 2019.

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

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 uncollectible 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 (Loss) Income

Comprehensive (loss) income is comprised of net (loss) income 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 three and six months ended June 30, 2019 and 2018, the Company did not own any financial instruments for which the change in value was not reported in net (loss) income accordingly and its comprehensive (loss) income was its net (loss) income 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.

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.

In March 2019, the Company granted 152,734 LTIP units with a weighted average grant date fair value of $13.35 per unit. In May 2019, the Company granted 5,800 LTIP units with a weighted average grant date fair value of $12.92 per unit to our Chief Financial Officer that vested June 30, 2019, representing a prorated bonus in connection with his retirement effective on that date and provision of consulting services through June 30, 2020; additionally, the Company accelerated the vesting of his outstanding unvested LTIP units to vest in full on June 30, 2019.

At June 30, 2019 and December 31, 2018, there were 881,065 and 724,448 LTIP units outstanding, respectively, with a weighted grant-date fair value of $12.70 and $12.56 per unit, respectively. As of June 30, 2019, and December 31, 2018, there was $2.1 million and $0.8 million, respectively, of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under share incentive plans. As of June 30, 2019, the weighted average period over which the unrecognized compensation expense will be recorded is approximately 1.3 years.

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 Code. 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 beginning in 2018. This new legislation is not expected to have a material adverse effect on the Company's business and allows non-corporate shareholders to deduct a portion of the Company's qualified REIT dividends.

Fair Value Measurements

Refer to Note 8, "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 June 30, 2019, the Company has no derivatives for which it applies hedge accounting.

(Loss) Income Per Share

Basic and diluted (loss) income per share is computed by dividing net (loss) income attributable to common stockholders by the weighted average common shares outstanding. As of June 30, 2019 and 2018, the Company had 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) income per share pursuant to the two-class method. The Company did not have dilutive securities as of June 30, 2019 or 2018.

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) income per share, as the effect would be anti-dilutive. The net (loss) income allocable to such units is reflected as noncontrolling interests in the accompanying consolidated financial statements.

The following table sets forth the computation of basic and diluted net (loss) income per share for the periods indicated (unaudited):

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(in thousands, except per share amounts)	**2019**	**2018**	**2019**	**2018**
Numerator				
Net (loss) income attributable to common stockholders	$(467)	$124	$(521)	$(3,506)
Less: income attributable to participating securities	(83)	(69)	(152)	(131)
Subtotal	$(550)	$55	$(673)	$(3,637)
Denominator				
Weighted average common shares outstanding	17,815	17,813	17,814	17,813
Basic and diluted net loss per share attributable to common stockholders	$(0.03)	$0.00	$(0.04)	$(0.20)

Recently Issued Pronouncements

In March 2019, FASB issued ASU 2019-01, "Leases (Topic 842), Codification Improvements." There are three codification updates to Topic 842 covered by this ASU: Issue 1 provides guidance on how to compute fair value of leased items for lessors who are non-dealers or manufacturers; Issue 2 relates to cash flow presentation for lessors of sales-type and direct financing leases; and Issue 3 clarifies that certain transition disclosures will only be required in annual disclosures.

In December 2018, FASB issued ASU 2018-20, "Leases (Topic 842), Narrow-Scope Improvements for Lessors." This ASU modifies ASU 2016-02 to permit lessors, as an accounting policy election, not to evaluate whether certain sales taxes and other similar taxes are lessor costs or lessee costs. Instead, those lessors will account for those costs as if they are lessee costs. Consequently, a lessor making this election will exclude from the consideration in the contract and from variable payments not included in the consideration in the contract all collections from lessees of taxes within the scope of the election and will provide certain disclosures (includes sales, use, value-added, and some excise taxes and excludes real estate taxes). The Company has elected not to evaluate whether the aforementioned costs are lessor or lessee costs. This ASU also provides that certain lessor costs require lessors to exclude from variable payments, and therefore revenue, specifically lessor costs paid by lessees directly to third parties. The amendments also require lessors to account for costs excluded from the consideration of a contract that are paid by the lessor and reimbursed by the lessee as variable payments. A lessor will record those reimbursed costs as revenue.

In May 2014, FASB issued ASU 2014-09, "Revenue from Contracts with Customers," which prescribes a single, common revenue standard that supersedes nearly all existing revenue recognition guidance under U.S. GAAP, including most industry-specific requirements. The core principle of ASU 2014-09 is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 outlines a five-step model to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Company's revenues are primarily derived from rental income, which is scoped out from this standard and is currently accounted for in accordance with ASC Topic 840, Leases. Less than 5% of the Company's revenues in 2018 would have fallen under the scope of this standard and comprises, principally, commercial operating expense reimbursements and garage and other income from residential tenants; for these revenues, the Company adopted this standard effective January 1, 2019, using the modified retrospective approach, applying the provisions to open contracts as of the date of adoption. The adoption of this standard did not have a material impact on the timing or amounts of the Company's revenues.

For the approximate 5% of rental revenue that is subject to the new revenue recognition standard, the Company's disaggregated revenue streams are disclosed in the tables below for the three and six months ended June 30, 2019 and 2018:

Three Months Ended June 30, 2019

		Amount of Rental Income			
Revenue Stream	**Applicable Standard**	**Residential**	**Commercial**	**Total**	**% of Rental Income**
Leasing	Leases	$20,722	$6,399	$27,121	95.4%
Operating expense recoveries	Revenue Recognition	116	745	861	3.0%
Other	Revenue Recognition	308	156	464	1.6%
Total revenues		$21,146	$7,300	$28,446	100.0%

Three Months Ended June 30, 2018					
		Amount of Rental Income			
Revenue Stream	**Applicable Standard**	**Residential**	**Commercial**	**Total**	**% of Rental Income**
Leasing	Leases	$19,671	$6,283	$25,954	95.0%
Operating expense recoveries	Revenue Recognition	114	746	860	3.2%
Other	Revenue Recognition	311	175	486	1.8%
Total revenues		$20,096	$7,204	$27,300	100.0%

Six Months Ended June 30, 2019					
		Amount of Rental Income			
Revenue Stream	**Applicable Standard**	**Residential**	**Commercial**	**Total**	**% of Rental Income**
Leasing	Leases	$41,072	$12,339	$53,411	95.2%
Operating expense recoveries	Revenue Recognition	236	1,540	1,776	3.2%
Other	Revenue Recognition	610	301	911	1.6%
Total revenues		$41,918	$14,180	$56,098	100.0%

Six Months Ended June 30, 2018					
		Amount of Rental Income			
Revenue Stream	**Applicable Standard**	**Residential**	**Commercial**	**Total**	**% of Rental Income**
Leasing	Leases	$38,968	$12,554	$51,522	95.1%
Operating expense recoveries	Revenue Recognition	236	1,481	1,717	3.2%
Other	Revenue Recognition	571	358	929	1.7%
Total revenues		$39,775	$14,393	$54,168	100.0%

In February 2016, FASB issued ASU 2016-02, “Leases.” ASU 2016-02 supersedes the current accounting for leases and while retaining two distinct types of leases, finance and operating, requires lessees to recognize most leases on their balance sheets and makes targeted changes to lessor accounting. In July 2018, FASB issued ASU 2018-10, “Codification Improvements to Topic 842, Leases,” which provides minor clarifications and corrections to ASU 2016-02, “Leases (Topic 842).” Further, in July 2018, the FASB issued ASU 2018-11, “Leases (Topic 842): Targeted Improvements.” This amendment provides a new practical expedient that allows lessors, by class of underlying asset, to avoid separating lease and associated non-lease components within a contract if certain criteria are met: (i) the timing and pattern of transfer for the non-lease component and the associated lease component are the same and (ii) the stand-alone lease component would be classified as an operating lease if accounted for separately. These pronouncements are effective for fiscal years beginning after December 15, 2019, and early adoption is permitted. The Company will adopt this standard effective January 1, 2020 and is currently evaluating the impact of adoption on its consolidated financial statements. As lessor, the Company expects that the adoption of ASU 2016-02 (as amended by subsequent ASUs) will not change the timing of revenue recognition of the Company’s rental revenues. As lessee, the Company is party to certain office equipment leases with future payment obligations for which the Company expects to record right-of-use assets and lease liabilities at the present value of the remaining minimum rental payments upon adoption of this standard.

In August 2018, FASB issued ASU 2018-13, “Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement,” which removes, modifies, and adds certain disclosure requirements related to fair value measurements in ASC 820. This guidance is effective in fiscal years beginning after December 15, 2019 with early adoption permitted. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

In August 2018, the Securities and Exchange Commission issued a final rule that amends certain of its disclosure requirements. The rule simplifies various disclosure requirements for public companies including primarily that it (i) eliminates the requirement for public companies to disclose in their filings a schedule of earnings to fixed charges, (ii) requires an analysis of changes in stockholders' equity for the current and comparative year-to-date interim periods in interim reports, and (iii) reduces the requirements for market price information disclosures in annual reports. These changes were effective for public companies beginning on November 5, 2018.

In July 2018, FASB issued ASU 2018-09, "Codification Improvements." These amendments provide clarifications and corrections to certain ASC subtopics including the following: 470-50 (Debt – Modifications and Extinguishments), 480-10 (Distinguishing Liabilities from Equity – Overall), 718-740 (Compensation – Stock Compensation – Income Taxes), 805-740 (Business Combinations – Income Taxes), 815-10 (Derivatives and Hedging – Overall) and 820-10 (Fair Value Measurement – Overall). The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

In June 2018, FASB issued ASU 2018-07, "Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting." These amendments provide specific guidance for transactions for acquiring goods and services from nonemployees and specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide (i) financing to the issuer or (ii) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, "Revenue from Contracts with Customers." This guidance is effective for the Company for fiscal years beginning after December 15, 2019, and interim periods beginning after December 15, 2020. Early adoption is permitted but not earlier than the adoption of Topic 606. The Company does not believe that this guidance will have a material effect on its consolidated financial statements as it has not historically issued share-based payments in exchange for goods or services to be consumed within its operations.

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 the Company for its annual reporting beginning after December 15, 2018, including interim reporting periods beginning after December 15, 2019. The Company adopted this standard effective January 1, 2019. The adoption of this standard did not have a material impact on our consolidated financial statements.

In November 2016, FASB issued ASU 2016-18 "Statement of Cash Flows (Topic 230) – Restricted Cash". The ASU 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. The ASU does not provide a definition of restricted cash or restricted cash equivalents. The ASU is effective for the Company beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The Company has adopted this standard effective January 1, 2019.

In August 2016, FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (A consensus of the Emerging Issues Task Force)," which provides specific guidance on eight cash flow classification issues and how to reduce diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The ASU is effective for the Company beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company has adopted this standard effective January 1, 2019.

4. Deferred Costs and Intangible Assets

Deferred costs and intangible assets consist of the following:

	June 30, 2019	December 31, 2018
	(unaudited)	
Deferred costs	$347	$286
Above-market leases	480	480
Lease origination costs	3,122	3,110
In-place leases	7,347	8,078
Real estate tax abatements	9,143	12,571
Total deferred costs and intangible assets	20,439	24,525
Less accumulated amortization	(11,066)	(14,561)
Total deferred costs and intangible assets, net	$9,373	$9,964

Amortization of lease origination costs and in-place lease intangible assets was $196 and $311 for the three months ended June 30, 2019 and 2018, respectively, and $384 and $864 for the six months ended June 30, 2019 and 2018, respectively; $749 of fully amortized lease origination costs and in-place leases was written off during the six months ended June 30, 2019. Amortization of real estate tax abatements of $120 and $118 for the three months ended June 30, 2019 and 2018, respectively, and $239 and $236 for the six months ended June 30, 2019 and 2018, respectively, is included in real estate taxes and insurance in the consolidated statements of operations; $3,428 of fully amortized real estate tax abatements was written off during the six months ended June 30, 2019. Amortization of above-market leases of $29 and $58 for the three months ended June 30, 2019 and 2018, respectively, and $59 and $117 for the six months ended June 30, 2019 and 2018, respectively, is included in commercial rental income in the consolidated statements of operations.

Deferred costs and intangible assets as of June 30, 2019, amortize in future years as follows:

2019 (Remainder)	$527
2020	801
2021	775
2022	743
2023	597
Thereafter	5,930
Total	$9,373

5. Below-Market Lease Intangibles

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

	June 30, 2019	December 31, 2018
	(unaudited)	
Below-market leases	$23,178	$23,178
Less accumulated amortization	(21,144)	(20,255)
Below-market leases, net	$2,034	$2,923

Rental income included amortization of below-market leases of $435 and $538 for the three months ended June 30, 2019 and 2018, respectively, and $889 and $1,076 for the six months ended June 30, 2019 and 2018, respectively.

Below-market leases as of June 30, 2019, amortize in future years as follows:

2019 (Remainder)	$409
2020	517
2021	493
2022	423
2023	192
Thereafter	—
Total	$2,034

6. Notes Payable

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

Property	Maturity	Interest Rate	June 30, 2019	December 31, 2018
			(unaudited)	
Flatbush Gardens, Brooklyn, NY (a)	3/1/2028	3.50%	$246,000	$246,000
250 Livingston Street, Brooklyn, NY (b)	12/9/2020	LIBOR + 2.15%	—	75,000
250 Livingston Street, Brooklyn, NY (b)	6/6/2029	3.63%	125,000	—
141 Livingston Street, Brooklyn, NY (c)	6/1/2028	3.875%	76,582	77,333
Tribeca House, Manhattan, NY (d)	3/6/2028	4.506%	360,000	360,000
Aspen, Manhattan, NY (e)	7/1/2028	3.68%	67,534	68,199
107 Columbia Heights, Brooklyn, NY (f)	5/9/2020	LIBOR + 3.85%	64,731	64,731
10 West 65th Street, Manhattan, NY (g)	11/1/2027	3.375%	34,350	34,350
Total debt			$974,197	$925,613
Unamortized debt issuance costs			(10,862)	(12,049)
Total debt, net of unamortized debt issuance costs			$963,335	$913,564

(a) The $246,000 mortgage note agreement with New York Community Bank ("NYCB"), entered into on February 21, 2018, matures on March 1, 2028, and bears interest at 3.5% for the first five years and thereafter at the prime rate plus 2.75%, with an option to fix the rate subject to the payment of a fee that fluctuates depending on the date the election is made. The note requires interest-only payments through August 2020, and monthly principal and interest payments thereafter based on a 30-year amortization schedule. The Company has the option to prepay all (but not less than all) of the unpaid balance of the note prior to the maturity date, subject to certain prepayment premiums, as defined.

(b) On May 31, 2019, the Company repaid the debt secured by the 250 Livingston Street property that was scheduled to mature in 2020, from the proceeds of a $125,000 first mortgage loan with Citi Real Estate Funding Inc. The loan matures on June 6, 2029, bears interest at 3.63% and requires interest-only payments for the entire term. The Company has the option to prepay all (but not less than all) of the unpaid balance of the note within three months of maturity, without a prepayment premium.

(c) The $79,500 mortgage note agreement with NYCB matures on June 1, 2028, and bears interest at 3.875%. The note required interest-only payments through June 2017, and monthly principal and interest payments of $374 thereafter based on a 30-year amortization schedule.

(d) The $360,000 loan with Deutsche Bank, entered into on February 21, 2018, matures on March 6, 2028, bears interest at 4.506% and requires interest-only payments for the entire term. The Company has the option to prepay all (but not less than all) of the unpaid balance of the loan prior to the maturity date, subject to a prepayment premium if it occurs prior to December 6, 2027.

(e) The $70,000 mortgage note agreement with Capital One Multifamily Finance LLC 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. The Company has the option to prepay the note prior to the maturity date, subject to a prepayment premium.

(f) 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 $5,731 was drawn as of June 30, 2019. The notes mature on May 9, 2020, are subject to two one-year extension options, require interest-only payments and bear interest at one-month LIBOR plus 3.85% (6.2% as of June 30, 2019).

(g) On October 27, 2017, the Company entered into a $34,350 mortgage note agreement with NYCB, 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 of notes payable as of June 30, 2019 (unaudited):

2019 (Remainder)	$1,546
2020	69,919
2021	8,553
2022	8,866
2023	9,191
Thereafter	876,122
Total	$974,197

The Company recognized a loss on extinguishment of debt of $1,771 during the three months ended June 30, 2019, in connection with the refinancing of debt on the 250 Livingston Street property; the loss consisted of the write-off of unamortized debt costs. The Company recognized a loss on extinguishment of debt of $6,981 during the six months ended June 30, 2018, in connection with the refinancing of debt on the Flatbush Gardens and Tribeca House properties; the loss consisted of prepayment and other fees and the write-off of unamortized debt costs.

7. 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 June 30, 2019, 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 (unaudited):

2019 (Remainder)	$11,008
2020	23,901
2021	19,636
2022	19,361
2023	17,579
Thereafter	35,766
Total	$127,251

The Company has commercial leases with the City of New York that comprised approximately 19% of total revenues for each of the three months ended June 30, 2019 and 2018, and 19% of total revenues for each of the six months ended June 30, 2019 and 2018.

8. 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, security deposits and notes payable. The carrying amount of cash and cash equivalents, restricted cash, receivables, accounts payable and accrued liabilities, and security deposits 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:

	June 30, 2019	**December 31, 2018**
	(unaudited)	
Carrying amount (excluding unamortized debt issuance costs)	$974,197	$925,613
Estimated fair value	$1,019,601	$927,561

The Company purchased interest rate caps in connection with the Tribeca House loans obtained on November 9, 2016, the loans obtained for the 107 Columbia Heights acquisition and the 250 Livingston Street loan obtained on December 6, 2018. On April 27, 2018, the Company terminated the Tribeca House instrument for net proceeds of $385. 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 Loan	Maturity Date	Strike Rate	Estimated Fair Value at June 30, 2019	Estimated Fair Value at December 31, 2018
				(unaudited)	
$73,700	107 Columbia Heights	May 9, 2020	3.0%	$—	$24
$75,000	250 Livingston Street	December 15, 2020	4.0%	—	—
Total fair value of derivative instruments included in prepaid expenses and other assets				$—	$24

These interest rate caps were not designated as hedges; accordingly, changes in fair value of the Tribeca House and 250 Livingston Street instruments are recognized in earnings, and changes in fair value of the 107 Columbia Heights instrument are recognized in real estate under development. Increases in fair value of the Tribeca House and 250 Livingston Street instruments of $0 and $(10) for the three months ended June 30, 2019 and 2018, respectively, and $0 and $(237) for the six months ended June 30, 2019 and 2018, respectively, are included in interest expense. Decreases (increases) in fair value of the 107 Columbia Heights instrument of $2 and $6 for the three months ended June 30, 2019 and 2018, respectively, and $24 and $(63) for the six months ended June 30, 2019 and 2018, respectively, are recognized in interest expense and capitalized to real estate under development.

The above disclosures regarding fair value of financial instruments are based on pertinent information available as of June 30, 2019, and December 31, 2018, 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.

9. Commitments and Contingencies

Legal

On July 3, 2017, the Supreme Court of the State of New York (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 ("RPTL") 421-g. The Court also awarded the plaintiffs-tenants their attorney's fees and costs. The Court declared that the plaintiffs-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, pursuant to the parties' agreement, stayed the Court's ruling; the Company subsequently appealed the decision to the Appellate Division, First Department. On January 18, 2018, the Appellate Division unanimously reversed the Court's ruling and ruled in favor of the Company, holding that the Company acted properly in de-regulating the apartments. The plaintiffs-tenants thereafter moved for leave to appeal to the Court of Appeals, which motion was granted on April 24, 2018. On June 25, 2019, the New York Court of Appeals reversed the Appellate Division's order and ruled in favor of the plaintiffs-tenants, holding that apartments in buildings receiving RPTL 421-g tax benefits are not subject to luxury deregulation. As a result of the Court of Appeals' order, Company management believes that payments may be required to be made to the 41 present or former tenants comprising the plaintiff group, that other tenants may attempt to make similar claims, and that the special referee process referred to above will be used to determine the timing and the amount of any claims that must be paid. The Company is still evaluating the decision. On July 25, 2019, the Company filed a motion for reargument with the New York Court of Appeals, which is expected to stay proceedings of any potential over-charge collection. The Company cannot predict what the timing or ultimate resolution of this matter will be, and accordingly, at this time, the Company has not recorded any liability for the potential settlement of this matter.

In addition to the above, the Company is subject to certain legal proceedings and claims arising in connection with its business, including a claim under the Americans with Disabilities Act of 1990 at the 141 Livingston Street property. 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 $205 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 revenue is as follows (unaudited):

	Commercial	Residential	Total
Three months ended June 30, 2019	26%	74%	100%
Three months ended June 30, 2018	26%	74%	100%
Six months ended June 30, 2019	25%	75%	100%
Six months ended June 30, 2018	27%	73%	100%

10. Related-Party Transactions

The Company recorded office and overhead expenses pertaining to a related company in general and administrative expense of $84 and $86 for the three months ended June 30, 2019 and 2018, respectively, and $171 and $175 for the six months ended June 30, 2019 and 2018, respectively.

The Company paid legal and advisory fees to firms in which two of our directors were principals or partners of $313 and $0 for the three months ended June 30, 2019 and 2018, respectively, and $313 and $1,880 for the six months ended June 30, 2019 and 2018, respectively.

11. 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 three and six months ended June 30, 2019 and 2018, is as follows (unaudited):

Three months ended June 30, 2019	Commercial	Residential	Total
Rental income	$7,300	$21,146	$28,446
Total revenues	7,300	21,146	28,446
Property operating expenses	1,036	5,711	6,747
Real estate taxes and insurance	1,236	4,471	5,707
General and administrative	409	2,170	2,579
Depreciation and amortization	970	3,620	4,590
Total operating expenses	3,651	15,972	19,623
Income from operations	$3,649	$5,174	$8,823

Three months ended June 30, 2018	Commercial	Residential	Total
Rental income	$7,204	$20,096	$27,300
Total revenues	7,204	20,096	27,300
Property operating expenses	1,040	5,541	6,581
Real estate taxes and insurance	1,111	4,251	5,362
General and administrative	218	2,388	2,606
Depreciation and amortization	896	3,539	4,435
Total operating expenses	3,265	15,719	18,984
Income from operations	$3,939	$4,377	$8,316

Six months ended June 30, 2019	Commercial	Residential	Total
Rental income	$14,180	$41,918	$56,098
Total revenues	14,180	41,918	56,098
Property operating expenses	2,177	12,133	14,310
Real estate taxes and insurance	2,472	8,966	11,438
General and administrative	688	3,559	4,247
Depreciation and amortization	1,916	7,223	9,139
Total operating expenses	7,253	31,881	39,134
Income from operations	$6,927	$10,037	$16,964

Six months ended June 30, 2018	Commercial	Residential	Total
Rental income	$14,393	$39,775	$54,168
Total revenues	14,393	39,775	54,168
Property operating expenses	2,250	11,587	13,837
Real estate taxes and insurance	2,217	8,493	10,710
General and administrative	536	5,208	5,744
Depreciation and amortization	1,771	7,260	9,031
Total operating expenses	6,774	32,548	39,322
Income from operations	$7,619	$7,227	$14,846

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

	Commercial	Residential	Total
June 30, 2019 (unaudited)	$286,560	$854,822	$1,141,382
December 31, 2018	245,940	855,068	1,101,008

The Company's interest expense by segment for the three and six months ended June 30, 2019 and 2018, is as follows (unaudited):

	Commercial	Residential	Total
Three months ended June 30,			
2019	$1,721	$6,489	$8,210
2018	1,707	6,301	8,008
Six months ended June 30,			
2019	$3,455	$13,029	$16,484
2018	3,528	13,023	16,551

The Company's capital expenditures by segment for the three and six months ended June 30, 2019 and 2018, are as follows (unaudited):

	Commercial	Residential	Total
Three months ended June 30,			
2019	$1,239	$11,549	$12,788
2018	809	9,132	9,941
Six months ended June 30,			
2019	$2,147	$21,856	$24,003
2018	1,047	21,463	22,510

ITEM 2. 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 caption, "Cautionary Note Concerning Forward-Looking Statements," and in our financial statements and the related notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q.

Overview of Our Company

Clipper Realty Inc. (the "Company" or "we") 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 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.

The Company 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 purchase 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 June 30, 2019, 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.

On March 25, 2019, the Company announced that it signed a lease with the City of New York for renewal of its commercial leases at the 250 Livingston Street property; the City countersigned the lease on May 8, 2019. The new lease has a ten-year term commencing upon expiration of the current leases in August 2020, and combines the two existing leases into one; the City holds one-time termination options at the end of the fifth year and the seventh year. The lease encompasses 342,496 remeasured square feet at an initial $43.62 blended rent per square foot, with rent escalators beginning in the third year, and contemplates the Company making certain alterations and improvements to the property.

Touro College, which had leased 40 apartment units at the 10 West 65th Street property in accordance with an agreement entered into when the Company purchased the property, exercised its option to terminate the leases, effective January 31, 2019. The Company is in the process of repositioning the apartments and leasing them at market rates.

On June 14, 2019, the Housing Stability and Tenant Protection Act of 2019 was signed into law in New York State. The legislation affects rent-stabilized apartments in New York City. Provisions of the law include repeal of vacancy decontrol and high-income deregulation, repeal of vacancy and longevity bonuses, establishment of a preferential rent as the base rent at lease renewal, and reductions in / limitations on rent increases associated with major capital improvements and individual apartment improvements. The new law took effect immediately, is permanent and will reduce the Company's ability to raise rents on its rent-stabilized units.

Both the Flatbush Gardens and 107 Columbia Heights properties are located in newly designated qualified opportunity zones, in connection with the opportunity zone community development program offered through the Tax Cuts and Jobs Act of 2017. The federal program encourages private investment in low-income urban and rural communities. Opportunity zones are designed to spur economic development and job creation in specified communities by providing tax benefits to investors, including the potential deferral and exclusion of prior capital gains from taxable income.

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 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 LLCs that comprised the Predecessor.

At June 30, 2019, the Company's interest, through the Operating Partnership, in the LLCs that own the properties generally entitles it to 40.4% of the aggregate cash distributions from, and the profits and losses of, the LLCs.

Results of Operations

Our focus throughout 2018 and year-to-date 2019 has been to manage our properties to optimize revenues and control costs, while continuing to renovate and reposition certain properties. The discussion below highlights the specific properties contributing to the changes in the results of operations.

Income Statement for the Three Months Ended June 30, 2019 and 2018 (in thousands)

	2019	2018	Increase (decrease)	%
Revenues				
Residential rental income	$21,146	$20,096	$1,050	5.2%
Commercial rental income	7,300	7,204	96	1.3%
Total revenues	28,446	27,300	1,146	4.2%
Operating Expenses				
Property operating expenses	6,747	6,581	166	2.5%
Real estate taxes and insurance	5,707	5,362	345	6.4%
General and administrative	2,579	2,606	(27)	(1.0)%
Depreciation and amortization	4,590	4,435	155	3.5%
Total operating expenses	19,623	18,984	639	3.4%
Income from operations	8,823	8,316	507	6.1%
Interest expense, net	(8,210)	(8,008)	202	2.5%
Loss on extinguishment of debt	(1,771)	—	1,771	NM
Net (loss) income	$(1,158)	$308	$(1,466)	(476.0)%

Revenue. Residential rental income increased from $20,096 for the three months ended June 30, 2018, to $21,146 for the three months ended June 30, 2019, primarily due to increases in rental rates and occupancy at the Flatbush Gardens and Tribeca House properties. Base rent per square foot increased at the Flatbush Gardens property from $22.89 (97.5% leased occupancy) at June 30, 2018, to $24.30 (98.9% leased occupancy) at June 30, 2019. Base rent per square foot increased at the Tribeca House property from $67.79 (97.6% leased occupancy) at June 30, 2018, to $68.77 (99.6% leased occupancy) at June 30, 2019.

Commercial rental income increased from $7,204 for the three months ended June 30, 2018, to $7,300 for the three months ended June 30, 2019, primarily due to increased tenant recoveries resulting from higher billable expenses.

Property operating expenses. Property operating expenses include property-level costs such as compensation costs for property-level personnel, repairs and maintenance, supplies, utilities and landscaping. Property operating expenses increased slightly for the three months ended June 30, 2019, compared to the three months ended June 30, 2018.

Real estate taxes and insurance. Real estate taxes and insurance expenses increased from $5,362 for the three months ended June 30, 2018, to $5,707 for the three months ended June 30, 2019, primarily due to increased real estate taxes across the portfolio and an increase in property insurance expense at the Flatbush Gardens property.

General and administrative. General and administrative expenses decreased from $2,606 for the three months ended June 30, 2018, to $2,579 for the three months ended June 30, 2019, primarily due to decreases in executive cash bonuses and public company professional fees, partially offset by an increase in legal expenses associated with a litigation matter at the Tribeca House property.

Depreciation and amortization. Depreciation and amortization expense increased from $4,435 for the three months ended June 30, 2018, to $4,590 for the three months ended June 30, 2019, due to additions to real estate, offset by reduced intangibles amortization at the 10 West 65th Street property.

Interest expense, net. Interest expense, net, increased from $8,008 for the three months ended June 30, 2018, to $8,210 for the three months ended June 30, 2019. The increase in interest expense from the May 2019 and December 2018 refinancings of the 250 Livingston Street property was partially offset by increased interest expense capitalization in connection with property development. Interest expense included amortization of loan costs and changes in fair value of interest rate caps of $424 and $221 for the three months ended June 30, 2019 and 2018, respectively.

Loss on extinguishment of debt. Loss on extinguishment of debt related to the refinancing of the 250 Livingston Street loan in May 2019. The amount included the write-off of unamortized debt costs.

Net (loss) income. As a result of the foregoing, net loss increased from net income of $308 for the three months ended June 30, 2018, to net loss of $1,158 for the three months ended June 30, 2019.

Income Statement for the Six Months Ended June 30, 2019 and 2018 (in thousands)

	2019	2018	Increase (decrease)	%
Revenues				
Residential rental income	$41,918	$39,775	$2,143	5.4%
Commercial rental income	14,180	14,393	(213)	(1.5)%
Total revenues	56,098	54,168	1,930	3.6%
Operating Expenses				
Property operating expenses	14,310	13,837	473	3.4%
Real estate taxes and insurance	11,438	10,710	728	6.8%
General and administrative	4,247	5,744	(1,497)	(26.1)%
Depreciation and amortization	9,139	9,031	108	1.2%
Total operating expenses	39,134	39,322	(188)	(0.5)%
Income from operations	16,964	14,846	2,118	14.3%
Interest expense, net	(16,484)	(16,551)	(67)	(0.4)%
Loss on extinguishment of debt	(1,771)	(6,981)	(5,210)	(74.6)%
Net loss	$(1,291)	$(8,686)	$(7,395)	(85.1)%

Revenue. Residential rental income increased from $39,775 for the six months ended June 30, 2018, to $41,918 for the six months ended June 30, 2019, primarily due to increases in rental rates and occupancy at the Flatbush Gardens and Tribeca House properties.

Commercial rental income decreased from $14,393 for the six months ended June 30, 2018, to $14,180 for the six months ended June 30, 2019, primarily due to a non-recurring non-cash write-off of a straight-line rent balance related to a tenant lease amendment, partially offset by increased tenant recoveries resulting from higher billable expenses.

Property operating expenses. Property operating expenses include property-level costs such as compensation costs for property-level personnel, repairs and maintenance, supplies, utilities and landscaping. Property operating expenses increased from $13,837 for the six months ended June 30, 2018, to $14,310 for the six months ended June 30, 2019, primarily due to a higher provision for bad debts.

Real estate taxes and insurance. Real estate taxes and insurance expenses increased from $10,710 for the six months ended June 30, 2018, to $11,438 for the six months ended June 30, 2019, primarily due to increased real estate taxes across the portfolio and an increase in property insurance expense at the Flatbush Gardens property.

General and administrative. General and administrative expenses decreased from $5,744 for the six months ended June 30, 2018, to $4,247 for the six months ended June 30, 2019, primarily due to decreases in executive cash bonuses, LTIP amortization expense and public company professional fees.

Depreciation and amortization. Depreciation and amortization expense increased from $9,031 for the six months ended June 30, 2018, to $9,139 for the six months ended June 30, 2019, due to additions to real estate, offset by reduced intangibles amortization at the 10 West 65th Street property.

Interest expense, net. Interest expense, net, decreased from $16,551 for the six months ended June 30, 2018, to $16,484 for the six months ended June 30, 2019. The increase in interest expense from the May 2019 and December 2018 refinancings of the 250 Livingston Street property was offset by the lower interest rate and loan amount obtained in refinancing the Tribeca House property in February 2018 and increased interest expense capitalization in connection with property development. Interest expense included amortization of loan costs and changes in fair value of interest rate caps of $928 and $515 for the six months ended June 30, 2019 and 2018, respectively.

Loss on extinguishment of debt. Loss on extinguishment of debt for the six months ended June 30, 2019, related to the refinancing of the 250 Livingston Street loan in May 2019; the amount included the write-off of unamortized debt costs. Loss on extinguishment of debt for the six months ended June 30, 2018, related to the refinancings of the Flatbush Gardens and Tribeca House loans in February 2018; the amount included charges for early extinguishment of the debt and the associated write-off of unamortized debt costs.

Net loss. As a result of the foregoing, net loss decreased from $8,686 for the six months ended June 30, 2018, to $1,291 for the six months ended June 30, 2019.

Liquidity and Capital Resources

As of June 30, 2019, we had $963.3 million of indebtedness (net of unamortized issuance costs) secured by our properties, $56.3 million of cash and cash equivalents, and $16.5 million of restricted cash. As described in Note 6 of the accompanying "Notes to Consolidated Financial Statements," the Company refinanced its outstanding Flatbush Gardens and Tribeca House loans on February 21, 2018, and its outstanding 250 Livingston Street loan on May 31, 2019.

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. However, no assurance can be given that we will be able to refinance any of our outstanding indebtedness in the future on favorable terms or at all.

Distributions

In order to qualify as a REIT for Federal income tax purposes, we must currently distribute at least 90% of our taxable income to our shareholders. During the three months ended June 30, 2019 and 2018, we paid dividends and distributions on our common shares, Class B LLC units and LTIP units totaling $4.3 million and $4.3 million, respectively, and during the six months ended June 30, 2019 and 2018, we paid dividends and distributions on our common shares, Class B LLC units and LTIP units totaling $8.5 million and $8.5 million, respectively.

Cash Flows for the Six Months Ended June 30, 2019 and 2018 (in thousands)

	Six Months Ended June 30,	
	2019	2018
Operating activities	$10,443	$13,705
Investing activities	(21,383)	(18,861)
Financing activities	37,880	11,736

Cash flows provided by (used in) operating activities, investing activities and financing activities for the six months ended June 30, 2019 and 2018, were as follows:

Net cash flow provided by operating activities was $10,443 for the six months ended June 30, 2019, compared to $13,705 for the six months ended June 30, 2018. The net decrease during the 2019 period reflected a decrease of $6,004 of cash generated by operating assets and liabilities, offset by an increase of $2,742 of cash flow from operating results.

Net cash used in investing activities was $21,383 for the six months ended June 30, 2019, compared to $18,861 for the six months ended June 30, 2018. We spent $21,383 and $19,246 on capital projects for the six months ended June 30, 2019 and 2018, respectively. For the six months ended June 30, 2018, we received $385 of net proceeds from the sale of interest rate caps.

Net cash provided by financing activities was $37,880 for the six months ended June 30, 2019, compared to $11,736 for the six months ended June 30, 2018. Cash was primarily provided in the six months ended June 30, 2019, by proceeds from the new loan on the 250 Livingston Street property ($125,000), offset by repayment of the existing loan on the property ($75,000), loan issuance and extinguishment costs ($2,166), and scheduled debt amortization ($1,416); and in the six months ended June 30, 2018, by proceeds from new loans on the Flatbush Gardens and Tribeca House properties ($606,000), offset by repayment of existing loans on the properties (approximately $578,000), and loan issuance and extinguishment costs ($8,338). The Company paid distributions of $8,538 and $8,515 in the six months ended June 30, 2019 and 2018, respectively.

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 June 30, 2019, 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 Quarterly Report on Form 10-Q, 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 adjustments, amortization of non-cash equity compensation and loss on extinguishment of debt, 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) income before allocation to non-controlling interests, computed in accordance with GAAP (amounts in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
FFO				
Net (loss) income	$(1,158)	$308	$(1,291)	$(8,686)
Real estate depreciation and amortization	4,590	4,435	9,139	9,031
FFO	$3,432	$4,743	$7,848	$345
AFFO				
FFO	$3,432	$4,743	$7,848	$345
Amortization of real estate tax intangible	120	118	239	236
Amortization of above- and below-market leases	(406)	(480)	(830)	(959)
Straight-line rent adjustments	182	257	816	513
Amortization of debt origination costs	424	231	928	752
Interest rate cap mark-to-market adjustments	—	(10)	—	(237)
Amortization of LTIP awards	704	691	860	1,259
Loss on extinguishment of debt	1,771	—	1,771	6,981
Recurring capital spending	(127)	(101)	(280)	(242)
AFFO	$6,100	$5,449	$11,352	$8,648

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 income (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 loss on extinguishment of debt.

We believe that this measure provides an operating perspective not immediately apparent from GAAP income from operations or net income (loss). 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) income before allocation to non-controlling interests, computed in accordance with GAAP (amounts in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Adjusted EBITDA				
Net (loss) income	$(1,158)	$308	$(1,291)	$(8,686)
Real estate depreciation and amortization	4,590	4,435	9,139	9,031
Amortization of real estate tax intangible	120	118	239	236
Amortization of above- and below-market leases	(406)	(480)	(830)	(959)
Straight-line rent adjustments	182	257	816	513
Amortization of LTIP awards	704	691	860	1,259
Interest expense, net	8,210	8,008	16,484	16,551
Loss on extinguishment of debt	1,771	—	1,771	6,981
Adjusted EBITDA	$14,013	$13,337	$27,188	$24,926

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, 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 income from operations or net income (loss). 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):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
NOI				
Income from operations	$8,823	$8,316	$16,964	$14,846
Real estate depreciation and amortization	4,590	4,435	9,139	9,031
General and administrative expenses	2,579	2,606	4,247	5,744
Amortization of real estate tax intangible	120	118	239	236
Amortization of above- and below-market leases	(406)	(480)	(830)	(959)
Straight-line rent adjustments	182	257	816	513
NOI	$15,888	$15,252	$30,575	$29,411

Critical Accounting Policies

Management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Management bases its estimates on historical experience and assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe that there have been no material changes to the items that we disclosed as our critical accounting policies under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our Form 10-K for the year ended December 31, 2018.

Recent Accounting Pronouncements

See Note 3, "Significant Accounting Policies" of our consolidated financial statements for a discussion of recent accounting pronouncements.

ITEM 3. 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 the $410.0 million of Tribeca House debt outstanding (prior to the Tribeca House debt refinancing on February 21, 2018), the $64.7 million of 107 Columbia Heights debt outstanding and the $75.0 million of 250 Livingston Street debt outstanding (prior to the 250 Livingston Street debt refinancing on May 31, 2019) as of June 30, 2019, that would provide interest rate protection if one-month LIBOR exceeds 2.0% for the Tribeca House loans, 3.0% for the 107 Columbia Heights loans and 4.0% for the 250 Livingston Street loan. On April 27, 2018, we terminated the Tribeca House interest rate cap.

A one percent change in interest rates on our $64.7 million of variable rate debt as of June 30, 2019, would impact annual net income by approximately $0.6 million.

The fair value of the Company's notes payable was approximately $1,019.6 million and $927.6 million as of June 30, 2019, and December 31, 2018, respectively.

ITEM 4. 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 Quarterly Report on Form 10-Q. Based on such evaluation, our CEO and CFO have concluded that as of June 30, 2019, 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 Quarterly Report on Form 10-Q that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On July 3, 2017, the Supreme Court of the State of New York (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 ("RPTL") 421-g. The Court also awarded the plaintiffs-tenants their attorney's fees and costs. The Court declared that the plaintiffs-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, pursuant to the parties' agreement, stayed the Court's ruling; the Company subsequently appealed the decision to the Appellate Division, First Department. On January 18, 2018, the Appellate Division unanimously reversed the Court's ruling and ruled in favor of the Company, holding that the Company acted properly in de-regulating the apartments. The plaintiffs-tenants thereafter moved for leave to appeal to the Court of Appeals, which motion was granted on April 24, 2018. On June 25, 2019, the New York Court of Appeals reversed the Appellate Division's order and ruled in favor of the plaintiffs-tenants, holding that apartments in buildings receiving RPTL 421-g tax benefits are not subject to luxury deregulation. As a result of the Court of Appeals' order, Company management believes that payments may be required to be made to the 41 present or former tenants comprising the plaintiff group, that other tenants may attempt to make similar claims, and that the special referee process referred to above will be used to determine the timing and the amount of any claims that must be paid. The Company is still evaluating the decision. On July 25, 2019, the Company filed a motion for reargument with the New York Court of Appeals, which is expected to stay proceedings of any potential over-charge collection. The Company cannot predict what the timing or ultimate resolution of this matter will be, and accordingly, at this time, the Company has not recorded any liability for the potential settlement of this matter.

In addition to the above, the Company is subject to certain legal proceedings and claims arising in connection with its business, including a claim under the Americans with Disabilities Act of 1990 at the 141 Livingston Street property. 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 1A. RISK FACTORS

The risk factors disclosed in the section entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018, set forth information relating to various risks and uncertainties that could materially adversely affect our business, financial condition and operating results. Such risk factors continue to be relevant to an understanding of our business, financial condition and operating results. As of the date of this Quarterly Report on Form 10-Q, there have been no material changes with respect to such risk factors.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 6. EXHIBITS

Exhibit Number	Description
*10.1	Loan Agreement, dated May 31, 2019, between 250 Livingston Owner LLC and Citi Real Estate Funding Inc.
*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

*Filed herewith
**Submitted electronically with the report

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.

August 1, 2019

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