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Zacks Small-Cap Research

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Presidio Property Trust (SQFT-NASDAQ)

SQFT: Initiatives To Enhance Portfolio & Deliver Growth and Shareholder Value

Presidio Property Trust is a REIT that holds properties primarily in markets characterized by strong growth. The company's portfolio consists of diversified commercial properties and model homes, with minimal exposure to the retail real estate market. SQFT believes that the diversified nature of its portfolio has been a competitive advantage during the economic downturn associated with the pandemic.

Current Price (05/18/21)	$3.08
Valuation	**$6.25**

OUTLOOK

Presidio achieved an average rental collection rate of 96% during the first quarter of 2021. Management attributes this high rate to the diversified nature of its property portfolio. In addition, SQFT recently filed to issue 500,000 shares of redeemable preferred stock and expects to raise net proceeds of about $11 million, or nearly $13 million if the green shoe is exercised. Among other uses, SQFT has earmarked a portion of the proceeds to acquire real estate as it continues to analyze its portfolio for opportunities to add and dispose of assets in order to generate growth, realize gains and deliver shareholder value.

SUMMARY DATA

52-Week High	**$5.56**
52-Week Low	**$2.63**
One-Year Return (%)	**N/A**
Beta	**N/A**
Average Daily Volume (sh)	**334,917**
Shares Outstanding (mil)	**10**
Market Capitalization ($mil)	**$29**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**3**
Insider Ownership (%)	**6**
Annual Cash Dividend	**$0.40**
Dividend Yield (%)	**13.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2021 Estimate	**N/A**
P/E using 2022 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**N/A,**
Type of Stock	**Small-Value**
Industry	**Real Estate**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2019	7 A	7 A	7 A	7 A	29 A
2020	7 A	6 A	6 A	6 A	24 A
2021	6 A	6 E	6 E	6 E	23 E
2022					24 E

Per Share Earnings / Loss

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2019	-$0.10 A	-$0.14 A	$0.27 A	-$0.10 A	-$0.07 A
2020	-$0.12 A	-$0.22 A	-$0.20 A	-$0.31 A	-$0.85 A
2021	-$0.28 A	-$0.15 E	-$0.14 E	-$0.13 E	-$0.70 E
2022					-$0.38 E

Quarters might not sum due to rounding & (PF) share counts

Disclosures on page 9

KEY POINTS

What's New? 1Q21 Results
Preferred stock offering

- **Strong rental collection highlights benefits of portfolio strategy** Presidio Property Trust reported 1Q21 results. SQFT achieved an average rental collection rate of 96% during the first quarter period. Management attributes this high rate to the diversified nature of its property portfolio. Revenue fell by roughly $1.3 million, primarily reflecting the sale of four properties subsequent to 1Q20.

- **Uptick in lease activity bodes well for resumed growth** In addition, SQFT signed 15 office leases in the quarter. Of these, five were leases with new tenants and ten were renewals with existing tenants. The company believes this reflects the general resumption of business activity as markets begin to re-open following the closures mandated by the COVID-19 pandemic. Management is optimistic that it bodes well for continued tenant renewals and new lease signings going forward.

- **Same-store rental revenue down slightly …** SQFT recorded 1Q21 revenue of $5.7 million, down about 19% from $7.0 million in 1Q20, primarily reflecting the sale of several properties subsequent to 1Q20 and lower average occupancy. On what the company calls a *same-store* basis – looking only at properties held during both periods – rental revenue of $4.5 million was down about 5% year-over-year and occupancy of 82.4% at the end of 1Q21 was down somewhat from 86.4% on the same basis in 1Q20.

- **… Continued Deleveraging** As SQFT has made clear through actions in recent quarters, debt reduction remains a key target. The company also repaid some $7.5 million of notes payable. In addition, In addition, following asset sales, net mortgage notes payable were 9.4% lower quarter-over-quarter at $108.7 million compared to $120.0 million.

- **Financing** SQFT recently filed to issue 500,000 shares of redeemable preferred stock and expects to raise net proceeds of about $11.1 million, or nearly $13 million if the underwriters' allotment is exercised. SQFT intends to use the proceeds to acquire real estate, as well as for general corporate and working capital purposes.

- **Strong cash position** The company ended 1Q21 with about $7.0 million in cash, cash equivalents and restricted cash. Pro forma for the above-noted preferred stock offering, cash, cash equivalents and restricted cash would be about $18.1 million.

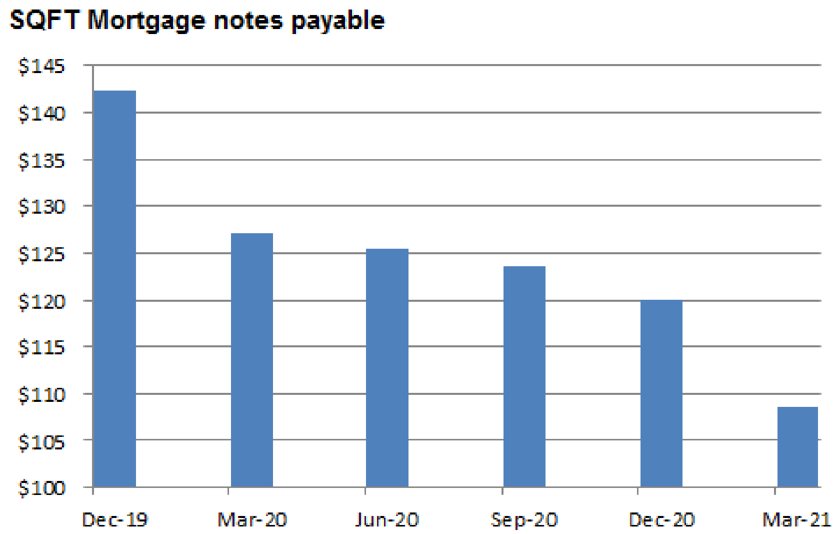
- **Real estate portfolio** SQFT continues to analyze its real estate portfolio for opportunities to dispose of assets in order to realize gains with which to reinvest in its portfolio. In 2021, SQFT generated nearly $15 million in proceeds from asset sales through March 30.

DELEVERAGING & FINANCING MEASURES

Debt reduction is a key target for San Diego, California-based Presidio Property Trust (NASDAQ: SQFT). The company generally finances its investment in its property portfolio through secured asset-backed mortgage loans. Thus, the company's debt fluctuates based on the financed assets in its portfolio.

However, the company has initiated deleveraging measures regarding corporate debt. At the end of 1Q21, SQFT had mortgage notes payable (see below) of about $109 million, down from $120 million and

$142.4 million at year-end 2020 and year-end 2019, respectively. Most of SQFT's debt (over 95%) is fixed rate. Moreover, the weighted average interest rate on SQFT's outstanding mortgage debt declined to 3.9% at the end of 1Q21, down from 4.6% at year-end 2019. The majority of mortgage loans are non-recourse and the weighted average maturity is over four years.



In 1Q21, SQFT paid the roughly $7.7 million remaining on promissory notes related to its Polar Multi-Strategy Master Fund prior to their quarter-end maturity. SQFT used cash on its balance sheet and proceeds of property sales to pare the debt. With the repayment in full of this debt, SQFT believes it is poised for growth in 2021 and beyond.

Preferred Stock Offering

SQFT recently filed to issue 500,000 shares of 9.375% Series D cumulative redeemable preferred shares. Based on the expected $25.00 per share offering price, the company estimates net proceeds of about $11.1 million, or nearly $13 million if the underwriters' allotment is exercised. SQFT intends to use the proceeds to acquire real estate, as well as for general corporate and working capital purposes. The company ended 1Q21 with nearly $7.0 million in cash, cash equivalents and restricted cash compared to $11.5 million at year-end 2020. The offering also would result in pro forma cash of about $18.1 million.

Following the upcoming preferred stock offering, SQFT expects to have 500,000 shares of Series D preferred stock outstanding. (In advance of the company's recent IPO, SQFT redeemed of all then outstanding preferred shares.)

RECENT RESULTS

1Q21, SQFT recorded revenue of $5.7 million, down 19% from $7.0 million in 1Q20. The lower revenue primarily reflects the sale of four properties subsequent to 1Q20. In fact, same-store rental revenue declined only slightly compared to 1Q20. Looking only at properties held consistently during both periods, rental revenue of $4.5 million was down about 5% year-over-year and occupancy of 82.4% at the end of 1Q21 was down somewhat from 86.4% on the same basis in 1Q20.

Rental collection remained strong, highlighting the benefits of SQFT's portfolio strategy. Presidio achieved an average rental collection rate of 96% during the period. Management attributes this high rate to the diversified nature of its property portfolio.

The company recorded an uptick in lease activity, which management believes bodes well for resumed growth. SQFT signed 15 office leases in the quarter. Of these, five were leases with new tenants and ten were renewals with existing tenants. The company believes this reflects the general resumption of business activity as markets begin to re-open following the closures mandated by the COVID-19 pandemic. Management is optimistic about tenant renewals and new lease signings going forward.

1Q21 results would appear to support SQFT's smaller market strategy The company believes that smaller markets it targets have been more stable during the COVID-19 pandemic than larger metropolitan markets, in part because of lower reliance on public transportation. Moreover, the company's strategy targets smaller regional markets that are characterized by population and economic growth. These are factors behind the company's stable consolidated occupancy rates.

Rental operating costs declined 23% year-over-year to $1.8 million, down from $2.4 million in 1Q20, reflecting the aforementioned asset divestitures. As a result of fairly stable occupancy rates, SQFT's rental operating margin held relatively steady at 33.6% compared to 35.1% for the same period of 2020.

G&A expenses of $1.5 million increased by about 13.8% compared to 1Q20. The increase primarily reflects higher payroll related and stock compensation expenses. SQFT reported a loss per share of ($0.28) compared to a loss per share of ($0.12) in last year's first quarter.

REAL ESTATE ASSET PORTFOLIO

The company actively analyzes its real estate portfolio to maximize its value, disposing and acquiring assets at times that management deems appropriate. In 2020, the company made several acquisitions and dispositions (see below).

SQFT generated nearly $15 million in proceeds from asset sales in 2021 through March 30. The company has several non-retail properties in its pipeline that it is evaluating for possible acquisition.

2020-2021 Asset Transaction Highlights (through 3/21)

Dispositions

- Union Terrace for approximately $11.3 million - gain of approximately $688,000
- 46 model homes for approximately $18.1 million – gain of approximately $1.6 million
- Centennial Tech Center for approximately $15.0 million – loss of approximately $913,000
- Executive Office Park building for $2.275 million – loss of approximately $75k
- Waterman Plaza retail center for roughly $3.5 million – loss of approximately $0.2 million
- Garden Gateway for roughly $11.2 million – loss of approximately $1.4 million
- 12 model homes for roughly $4.9 million – gain of approximately $0.4 million

Source: Company reports

The company has two California properties in escrow and anticipates these sales will close later in 2021. The company also has identified additional properties that it might consider acquiring, depending on market conditions.

VALUATION

We are optimistic that SQFT can continue to manage its property portfolio to produce attractive returns. As the company continues to transition its portfolio away from retail and into attractive commercial and industrial and model home properties, we estimate resumed steady growth commencing in approximately 2022 – 2023. Moreover, SQFT intends to use much of the cumulative gains realized on asset sales to pare debt, as indicated earlier.

We value SQFT on a price-to forward FFO basis. The company reported total FFO of $1.5 million in 2020 compared to roughly $2.4 million in 2019. The reduction primarily reflects asset divestitures during 2020 and in 2019. We estimate FFO of $2.6 million and $3.5 million in 2021 and 2022, respectively.

This puts the shares at just over 9x forward FFO, which we think does not fully reflect the fundamental value of the company's portfolio, particularly as SQFT continues to shift into properties that management believes are more attractive. At $6.25 in the near-term, the shares would trade at a multiple of roughly 16x, which is a multiple that many other REITS command.

As the portfolio reaches the targeted property type composition and the economy stabilizes, we believe SQFT can achieve steady FFO growth in the 20% to 25% range, consistent with historical trends, and we would anticipate further share price appreciation. While a longer than currently anticipated economic downturn represents a potential risk to our valuation, we believe the risk / reward ratio could be attractive for investors who have a higher than average risk tolerance and longer time horizon.

RECENT NEWS

- On May 11, 2021, the company reported 1Q21 results.
- On March 9, 2021, the company signed a lease with the Make-A-Wish Foundation of San Diego.
- SQFT declared a 1Q21 dividend on February 24, 2021.
- SQFT sold its Garden Gateway Property on February 22, 2021.
- Presidio announced the results of 2020 leasing activity on February 11, 2021.
- SQFT announced the signing of a major lease with the U.S. General Services Administration on Feb 3, 2021.
- On January 28, 2021, Presidio sold the Waterman Plaza retail center.
- Presidio announced that it had completed the sale of a building at Executive Office Park on December 4, 2020.
- Presidio declared a $0.10 4Q20 dividend on November 4, 2020
- SQFT completed its IPO on October 9, 2020

RISKS

Risks to SQFT achieving its objectives, and to our valuation, include the following.

- The economic downturn might last longer than currently expected.
- A decrease in real estate values could have a negative impact on SQFT's portfolio.
- Competition from other REITs and/or property developers could increase.
- A default by one of SQFT's tenants could have a negative impact on FFO.
- The company's might need to raise additional capital sooner than management anticipates.

PROJECTED FINANCIALS

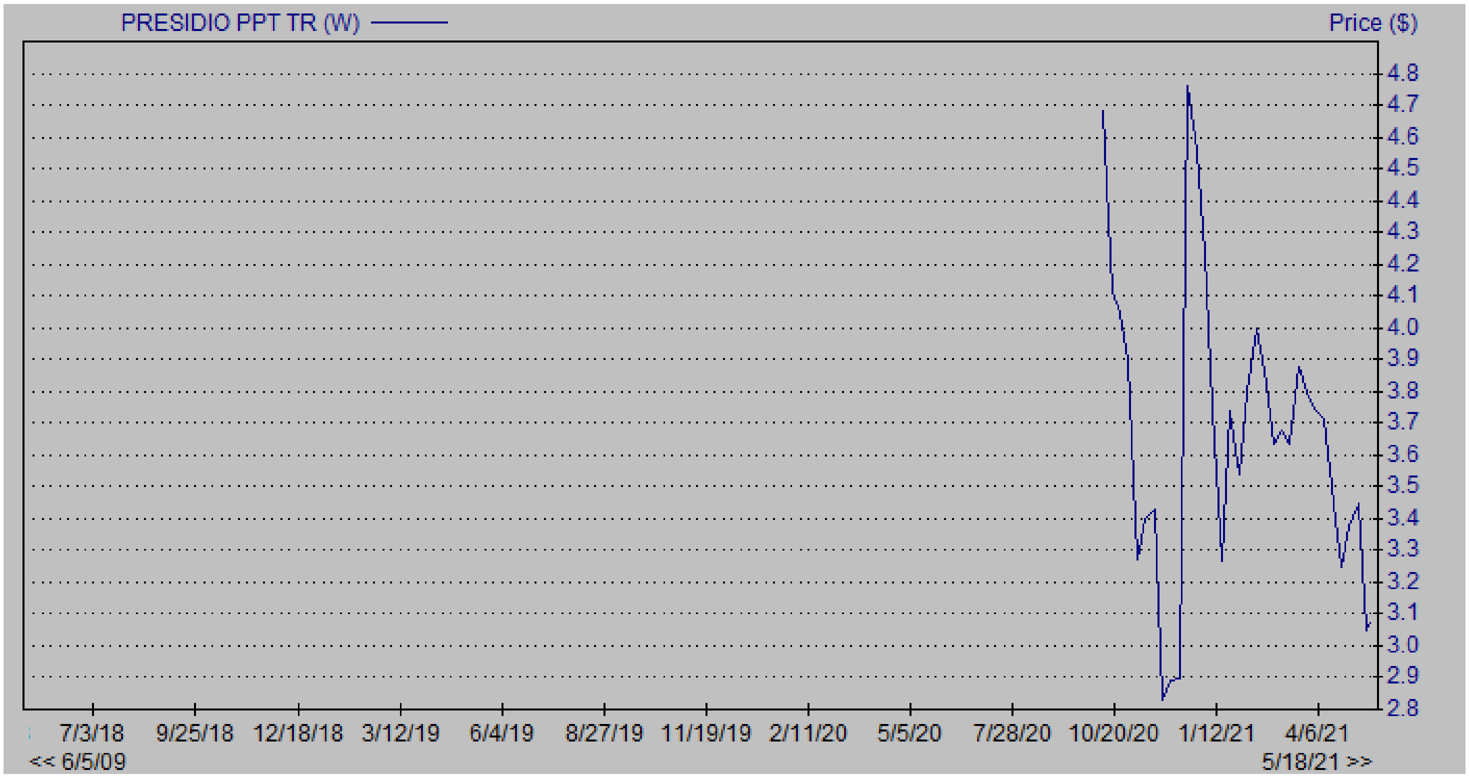
Presidio Property Income Statement & Projections ($)

	2019	1Q20	2Q20	3Q20	4Q20A	2020A	1Q21A	2Q21E	3Q21E	4Q21E	2021E	2022E
Revenues:												
Rental income	$27,467,410	$6,785,685	$5,879,526	$5,433,303	$5,345,605	$23,444,119	$5,477,223	$5,597,938	$5,653,917	$5,710,456	$22,439,533	$22,954,919
Fees and other income	1,173,701	243,466	241,878	230,265	192,064	907,673	191,531	237,242	239,615	242,011	910,399	963,299
Total revenue	28,641,111	7,029,151	6,121,404	5,663,568	5,537,669	24,351,792	5,668,754	5,835,180	5,893,532	5,952,467	23,349,932	23,918,218
Rental operating costs	10,410,574	2,381,092	1,999,834	2,108,621	2,328,736	8,818,283	1,838,923	2,071,237	2,091,949	2,055,764	8,057,873	8,034,222
General and administrative	5,268,315	1,351,345	1,278,971	1,366,380	1,755,058	5,751,754	1,537,265	1,371,267	1,384,980	1,398,830	5,692,342	5,262,008
Depreciation and amortization	7,364,688	1,574,526	1,622,230	1,626,917	1,450,648	6,274,321	1,428,934	1,643,022	1,626,592	1,610,326	6,308,873	6,408,766
Impairment of real estate assets	-	-	845,674	-	885,177	1,730,851	300,000	-	-	-	300,000	-
Total costs and expenses	23,043,577	5,306,963	5,746,709	5,101,918	6,419,619	22,575,209	5,105,122	5,085,526	5,103,521	5,064,920	20,359,088	19,704,996
Operating income	5,597,534	1,722,188	374,695	561,650	(881,950)	1,776,583	563,632	749,654	790,011	887,547	2,990,844	4,213,222
Operating margin	20%	25%	6%	10%	-16%	7%	10%	13%	13%	15%	13%	18%
Interest expense mortgage notes / other	(2,226,101)	-	-				(1,305,021)				(1,305,021)	
Interest expense	(8,423,545)	(2,553,846)	(2,273,356)	(2,143,960)	6,971,162		(279,373)	(2,080,282)	(2,059,479)	(2,038,885)	(6,458,019)	(7,865,944)
Interest and other income (expense)	141,306	(6,995)	8,400	(12,270)	(8,822,838)	(8,833,703)	(32,785)	(12,642)	(12,768)	(12,896)	(71,091)	(48,281)
Gain /(loss) on sales of real estate	6,319,272	(9,835)	334,096	332,714	588,485	1,245,460	(1,161,328)	342,796	346,224	349,686	(122,623)	1,405,669
Other	(635,532)	(83,631)	(51,369)	(122,602)	(192,136)	(449,738)	10,000	(59,437)	(53,494)	(54,029)	(156,960)	(180,647)
Total other income (expense)	(4,824,600)	(2,654,307)	(1,982,229)	(1,946,118)	(1,455,327)	(8,037,981)	(2,768,507)	(1,809,566)	(1,779,518)	(1,756,123)	(8,113,714)	(6,689,204)
Net (loss) income	772,934	(932,119)	(1,607,534)	(1,384,468)	(2,337,277)	(6,261,398)	(2,204,875)	(1,059,912)	(989,507)	(868,576)	(5,122,870)	(2,475,982)
Taxes							(50,199)				(50,199)	
Net income / (loss)							(2,255,074)	(1,059,912)	(989,507)	(868,576)	(5,173,069)	
Less: (Loss) income - noncontrolling intere	(1,383,140)	(175,011)	(315,282)	(363,777)	(558,437)	(1,412,507)	(406,608)	(374,800)	(378,548)	(382,333)	(1,542,289)	(1,205,416)
Net to Presidio Property Trust stockholders	(610,206)	(1,107,130)	(1,922,816)	(1,748,245)	(2,895,714)	(7,673,905)	(2,661,682)	(1,434,712)	(1,368,055)	(1,250,909)	(6,715,358)	(3,681,398)
EPS/(LPS)	($0.07)	($0.12)	($0.22)	($0.20)	($0.31)	($0.85)	($0.28)	($0.15)	($0.14)	($0.13)	($0.70)	($0.38)
Avg shares out (FD)*	8,862,957	8,881,842	8,897,037	8,922,525	9,394,253	9,023,914	9,508,363	9,614,325	9,614,425	9,615,325	9,588,110	9,615,275

Source: Company reports, Zacks estimates

*Pro forma for reverse stock split.

HISTORICAL STOCK PRICE



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