MNP

MERCHANTS' NATIONAL PROPERTIES, INC.
10 Grand Central, 155 East 44th Street, New York, NY 10017

April 30, 2019

To our Shareholders:

Merchants' National Properties, Inc. ("MNP") had many notable achievements in 2018, with the signing of several new leases and various projects completed or underway. Significant highlights of the year include:

- In August 2017, the Board hired Craig Deitelzweig as the new President and CEO of MNP and Marx Realty. Under his leadership and experience, the Company has shown tremendous growth in our key assets across the portfolio.

- For the first time in over a decade, Marx Realty, the management arm of MNP, produced a profitable year in 2018 generating a net income before taxes of over $2.3M from its operations.

- The Cross County Shopping Center ("CCSC") in Yonkers, New York continues to perform strongly in an otherwise difficult retail leasing environment, with its current occupancy level exceeding 98%. Multiple tenants renewed their leases in 201, and we continue to curate the tenant mix for a profitable future.

- In Q1 2018, Marx Realty took over the management of 10 Grand Central (formerly known as 708 Third Avenue) and 201 East 57th from CBRE, Inc. allowing ownership to more effectively realize efficiencies, operating expense savings and revenue enhancements at these properties. Marx Realty also now manages 135 and 161 Bowery Street, NYC and 819 7th Street NW, Washington, DC properties and is providing its hands-on management approach to these assets.

- 2018 was a stand-out year for 10 Grand Central as it has become the "it" Building in Manhattan. The dramatic transformation of the Building is now complete. 708 Third Avenue was rebranded as 10 Grand Central to better connect with the higher rental rate district of Grand Central and highlight the Building's premier location. As part of its repositioning, the Third Avenue entrance was closed creating a new 1,900 sf retail space which has now been leased to a café. The renovated and widened 44th Street entrance now leads into a vibrant new lobby. Construction of the 7th floor tenant amenity lounge, terrace and conference facility was also completed, and has attracted rave reviews from the media as well as the real estate community. With the completion of the lobby and the 7th floor amenity space, the building is experiencing a dramatic increase in the leasing rental rates and has attracted many high profile new tenants to the Building. In addition, a new cooling tower, code-mandated sprinklering work, elevator modernization, and other capital improvements are either completed or expected to be completed in 2019.

- We effectuated the sale of the retail strip on Bell Blvd., in Queens, NY in December 2017 for $13.5M, as well as the acquisition of the fifth and mezzanine floors in the Chinatown section of Washington, DC at 819 7th Avenue NW in 2018 as part of a 1031-exchange. With this acquisition, MNP and other Marx Realty managed entities now control over 99% of this retail/office building.

- We completed the sale in March 2018 of the Louisville, KY Shopping Center (excluding the Taco Bell parcel), for $10.7 million followed by the purchase of a 21,300 SF commercial condominium building at 135 Bowery Street, New York City as part of a 1031-exchange. This new acquisition is located in the thriving and ever-improving Bowery neighborhood in the lower east side of Manhattan.

- Marx Realty also has overseen the repositioning of 207 Peachtree in downtown Atlanta and rebranded it as the Department Building. A new lease was executed in the lobby of the building with a retail tenant. Interest from household name tenants has increased as the construction nears completion.

Financial Highlights:

The table below provides a side-by-side comparison of MNP's 2017-18 Consolidated Income Statement "As Audited" in accordance with GAAP (Generally Accepted Accounting Principles) and "As Grossed-up" which provides more transparency to MNP's share of the underlying assets' revenue and expenses which flow up to MNP from various real estate investments.

MNP & SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	YEAR ENDING 12/31/2018		YEAR ENDING 12/31/2017	
	AS AUDITED	AS GROSSED-UP	AS AUDITED	AS GROSSED-UP
RENTAL & OTHER INCOME	9,937,825	46,454,180	6,956,410	42,803,291
EQUITY IN EARNINGS OF REAL ESTATE VENTURES	15,561,902		14,129,342	
INVESTMENT INCOME	1,071,961	2,218,277	904,037	1,011,704
EXPENSES	6,530,686	19,560,908	5,613,788	18,178,902
EBITDA	**20,041,002**	**29,111,549**	**16,376,001**	**25,636,093**
NON-RECURRING GAINS (LOSS)	-	4,393,091	-	5,015,690
FINANCING EXPENSE	862,732	5,829,279	893,469	5,750,865
TAXES (STATE & FEDERAL)	3,463,811	4,158,108	2,051,795	2,987,127
TAXES (STATE & FEDERAL) - DEFERRED	750,466	750,466	(3,685,135)	(3,685,135)
DEPRECIATION/AMORTIZATION	883,314	8,686,108	815,965	9,299,019
NET INCOME	**14,080,679**	**14,080,679**	**16,299,907**	**16,299,907**

Beyond the income statement, it is worth noting that:

The 2017 Net Income includes a net reduction of deferred income tax expense of $3.6 million which is attributable to $1.9 million of expense related to various adjustments and a $5.5 million one-time net benefit attributable to the 2017 Tax Cuts and Jobs Act (“TCJA”). The TCJA reduced the corporate income tax rate from 35% to 21% effective with the 2018 calendar year, which resulted in a reduction in the deferred income tax liabilities, net of deferred tax assets, of approximately $5.5 million.

Included in 2018 “Equity in earnings of real estate ventures” of $15,561,902 is a $4,393,091 gain on the sale of the Preston Place Shopping Center, Louisville, KY property, as compared to the 2017 gain of $5,015,690 on the sale of the Bell Blvd., Queens and Knights Road Shopping Center, Philadelphia properties. <u>Excluding the impact of this non-recurring item from the Net Income, the 2018 basic and diluted earnings per share was $114.97 compared to $73.61 in 2017.</u>

Dividends paid in 2017 and 2018 totaled $40 and $47.50 per share respectively. On March 28, 2019, the MNP Board approved payment of a $20 per share dividend for the first half of 2019 to shareholders of record as of April 30, 2019, compared to $10 per share dividend the prior year. Checks are being mailed simultaneously with this letter.

Stockholders’ equity increased by $6.3 million with a corresponding increase in book value per share to $1,989 at the end of 2018 from $1,923 at the end of 2017.

Property Management/Asset Management - Marx Realty & Improvement Co., Inc.:

We have continued to strengthen the Marx Realty team by recruiting best-in-class new asset management/acquisition and property management personnel. With this enhanced team, Marx is better positioned to increase shareholder value through both improving the value of its existing assets and acquiring new quality assets. We are focused on enhancing the tenant experience at our properties, tightening cost controls, and increasing rents. For example, since assuming the direct management of 10 Grand Central and 201 East 57th Street, we have achieved reduced rates from third-party vendors and realized significant savings through a more hands-on approach to management, while improving the tenant experience in these buildings.

For 2018, the entire portfolio generated rental revenues of $134.8 million, representing a 4% increase over $129.5 million in 2017, and a 48% increase over the $91.9 million in 2008 rental revenues. Within the directly managed Marx portfolio rental revenues increased 4.9% to $53.6 million in 2018 vs. $51.1 million in 2017.

Marx Realty has been and will continue to sell assets with little or no rental income growth in non-core markets in which we believe the upside potential is limited in comparison to the investment required and reinvesting the proceeds from these sales into assets in higher barrier to entry markets with more attractive long-term appreciation potential.

As has been our practice, as long as most of the owners of any given property agree, in case of a sale in excess of $2 million, we will continue to roll over the proceeds into tax-deferred exchanges for other assets in one of the following markets - New York City, Atlanta and Washington, DC.

In 2018, the portfolio was comprised of 62 properties. While Marx Realty actively oversees all of the properties in the portfolio, Cross County Shopping Center is managed on a day-to-day basis by The Macerich Company. Prior to January 5, 2018, the 201 East 57th Street retail building a/k/a "The M&B Building" and 10 Grand Central building f/k/a 708 Third Avenue office building were managed by CBRE, Inc. Midwood Investment and Development continues to manage several jointly owned properties. Marx Realty will take over the management of 532 Madison as of May 1, 2019.

Leasing:

Over the course of 2018, Marx Realty oversaw the signing of new leases (excluding leases for Midwood Management joint venture properties) totaling approximately 74,000 square feet of space and approximately $2.7 million in annual rental income. In addition to the new leases, lease renewals were signed for approximately 50,000 square feet of space and $1.6 million in annual rental income. We had an incredibly strong Q1 2019 and signed new and renewal leases for approximately 102,000 sf with $5.2 million in annual rental income. Not including Cross County Shopping Center, we currently have leases out with 10 tenants for 57,000 sf of new leases and 2 tenants for 35,000 sf of renewals and expansions.

Acquisitions and Redevelopment:

Acquisitions:

As we implemented our strategy of relocating our assets from weaker non-growth markets to stronger urban markets with rental rate growth and appreciation potential, the focus remained on pursuing 1031-Exchange transactions.

As noted above, the Preston Place Shopping Center in Louisville, KY sold for $10.7 million, and we purchased as part of a 1031 exchange a retail/office commercial condominium building for $24.5 million at 135 Bowery Street, New York City.

Similarly, the MNP and Midwood Groups' jointly owned retail strip on Bell Blvd., in Queens, NY was sold in December 2017 for $13.5 million and we purchased as part of a 1031 exchange the fifth and the mezzanine floor commercial condominium unit for $5.1 million in the Chinatown section at 819 7th Street NW, in Washington, DC.

With the introduction of the Qualified Opportunity Zone Program and the associated tax incentives, MNP is seeking investments in qualified opportunity zones within our core markets.

Development/Redevelopment & Entitlements:

Projects which are currently under development/renovation or in planning stages are:

- The façade renovation work on the 75,000 square foot building at Southgate Shopping Center in Orlando, FL is part of a new lease for a 20,000 sf store with DD's, a division of the Ross Stores. DD's is expected to open for business this fall. The façade renovation and overall upgrade of the shopping center will result in an increase in Aldi's base rent (which has been reduced by 30% until the completion of this work). We also have extended the leases for EZ Pawn 15,000 sf and Aaron's Furniture 15,000 sf with increases in base rent.

- The demolition of a 23,000 square foot vacant building in State College, PA to create a mixed-use retail and student housing project on the site. As we noted last year, this project will complement the previously approved student housing project on the rear vacant parcel. At this time, we have a memorandum of understanding with a nationally recognized student housing developer to obtain funding and develop this project in exchange for our contributing the land for the planned student housing and associated amenities. Upon completion, and depending upon what is finally designed and approved, this project is expected to have as many as 500 beds of student housing plus retail space.

- The renovated lobby and gut renovation of two long-vacant upper-level floors and one lower level floor in downtown Atlanta, GA in a former department store to create contemporary office space for creative users who desire spaces with character, high ceilings, and open layouts. Work is underway for the renovation and upgrade of the lobby and one of the two elevators. Part of the previously vacant lobby space has now been leased to a highly regarded sushi bar operator, which is expected to open for business this fall.

- In Washington Street, Boston, we have changed our development plans, and now intend to pursue an as of right development on that site. Planning is currently underway and the plan is to start construction in late 2021 with an expected completion date of late 2023.

Review of Core Properties:

MNP has varying interest in 50 properties in 15 states and District of Columbia. The following 6 real estate holdings represent over 75% of MNP's direct and indirect gross income.

Cross County Shopping Center – Yonkers, NY (MNP – 37.62% Interest) – As stated earlier, the occupancy rate at the Cross County Shopping Center stands at over 98%. Victoria's Secret and Bath & Body Works, each have agreed to renew their leases for a ten year period in their current locations. Both stores will renovate to showcase the most up to date concept. Other renewals include Aldo Shoes, Suzette's Lingerie, Haagen Dazs, Aeropostale, Express and Forever 21. The leasing team has also had successful meetings with high profile tenants for future opportunities and is continuing to work with Westchester Community College, Forever 21 and H&M on right sizing their spaces and utilizing lower level space as well. We are working on a plan to future-proof the Center by ensuring a dynamic mix.

Between 2018 and 2019 Macy's has undergone a multi-million dollar renovation as one of the company's top 50 locations. The renovation included both enhancements to overall aesthetics and fixtures and includes the addition of better brands, Tiffany's, Apple and Gucci. This month Macy's opened STORY, a new concept with over 70 brands which will feature new merchandise and themes every two months.

There have been several changes at Cross County Shopping Center's surrounding competitors. The Mall at Cross County, adjacent to Cross County Shopping Center, opened a new Michael's Arts & Crafts store in April 2019, after a year of delays. A lease is out with Five Below for the former National Wholesale Liquidators space. Westchester's Ridge Hill, 3 miles from Cross County Shopping Center and owned by QIC, an Australia-based firm, is in the current stage of building a second residential tower with rental and owned apartments, managed by Monarch. A new Forever 21 store and P.F. Changs restaurant opened as well. At Bay Plaza, located 5 miles south in the Bronx, Hook & Reel restaurant will open in the former Joe's Crab Shack location. At The Westchester, a Simon mall, 15 minutes north of Cross County, Weekend Max Mara, Vans, Altar'd State, UNTUCKit, Bonobos have opened and Anthropologie and Crabtree & Evelyn closed their stores.

Cross County ended 2018 with a 3% increase over 2017 in sales at $823 psf. Overall the fast food, restaurants, shoe and general categories showed increases year over year and apparel and jewelry were down slightly. As of March 2019, sales are currently trending down about 1% over 2018 (this is mainly due to starting 2019 off with 4 weeks in 2019 compared to 5 weeks in 2018 calculation). Some key retailers who are showing year to date increases include Call it Spring, Finish Line, Chipotle, Starbucks, Olive Garden, Shake Shack and Zales.

10 Grand Central, 155 East 44th Street (formerly 708 Third Avenue), New York, NY (MNP – 35.71% Interest) – Leasing velocity and tour volume has been robust. The repositioning has succeeded in changing the image (and achieving higher rents) of the Building. Over the past twelve months we executed approximately 85,000 RSF of new and renewal leases. Presently the Building has a vacancy rate of 15% with leases out for 27,000 sf. We have relocated certain tenants to the lower floors within the Building to provide full-floor spaces on the valuable tower floors. 10 Grand Central has experienced an average rental rate increase of 26% on the leases that we have renewed or expanded for existing tenants. For new tenants the average rental rate increase has been 48% compared to the prior rental rate. Through the end of Q1 2019, we already have signed 50,290 RSF, all at our new higher rental rates. The higher rents reflect the appeal of the quality renovations completed.

In terms of Cap-Ex, most of the large capital projects i.e. sprinkler system and backbone installation, major cooling tower improvements, rebranding to 10 Grand Central, renovation of the lobby, the building marquee and creation of amenities space with conference facilities, terrace and a lounge on the 7th floor, and the program of pre-building the smaller office suites have all been completed.

430 Park Avenue, New York, NY – (MNP – 8.22% Interest) - This property consists of the entire western block front of Park Avenue between East 55th and 56th Streets. The property is improved with a sixteen-story class-A building and retail space on the ground floor. The building contains 287,000 SF of rentable space including 10,400 SF of ground floor retail space, the south half of which is leased to TD Ameritrade while the northern half is leased to three other tenants. Currently the building has 57,000 SF of vacancy but negotiations have been underway to lease approximately 49,000 SF of office space to a nationally recognized co-working tenant. In order to fund the leasing costs of the vacancies, in May 2018 the master partnership obtained a $27 million loan from Bank of America. Part of the loan proceeds was used to retire the then outstanding mortgage on the property and the rest to pay for the leasing related costs. The landlord has an option to terminate the lease on March 31, 2027.

545 Madison Avenue, New York, NY – (MNP - 23.33% Interest) - The 17-story office building with ground floor retail had been net leased to LCOR and was sold to Thor Equities in the fourth quarter of 2013 for a reported $55 million. In November 2018, Avison Young took over the management and leasing of the building from Thor. Since then, Dunhill (Richemont) which occupied the retail space, has vacated their store. While the ground lessee continues to make the monthly lease payments, we have reason to believe the ground lessee is facing financial stress and we are monitoring the situation carefully.

605 West 181st Street, New York, NY – (MNP – 100% Interest) – In October 2018, America's Kids, who occupied this 25,000 SF three-story retail building, vacated pursuant to an early termination agreement. In early Q1, 2019, we signed a 10-year lease with Foot Locker, which plans to open a "Power Store" this fall. Besides selling its usual merchandise, this new Foot Locker experiential store will feature a barbershop, sneaker cleaning, and gaming zones. Negotiations are underway to place a first mortgage on this property to pay-off the existing $4.5M debt and pay for the landlord work as well as the tenant improvement costs as per the lease and leasing commissions.

201 East 57th Street, New York, NY – (MNP – 23.33% Interest) – This 4-story showroom building is fully leased to TD Bank on the ground floor, Design Within Reach on second and third floors plus part of the ground floor and Mansour Rugs on the fourth floor. The property is encumbered with a 10-year self-amortizing $13 million loan with an interest rate of 3.07%. The 2018 NOI of the property increased by 15% over 2017.

A complete list of the company's properties is attached to this letter as Schedule A.

More detailed information on MNP's various real estate holdings and investments can be found on the Marx website (http://www.marxrealty.com). Shareholders, without a username and password, may write to Pattie.j@marxrealty.com to request a username and password.

Securities Portfolio:

The MNP portfolio of marketable securities was valued at approximately $40 million as of December 31, 2018, with a cost basis of $2.1 million. For the year, the portfolio value decreased by $4.5 million or 10.2% in market value compared to a 6.59% drop in the S&P 500 Index.

Bank Line of Credit:

In September 2018, MNP secured a $30 million Term Note ("Note") with Capital One Bank which is secured by a pledge of MNP's portfolio of marketable securities and carries interest at LIBOR plus 1.35% with a maturity date of May 1, 2021.

Under the terms of the secured line, if the value of portfolio declines so that the value of the Note is greater than 75% of liquid assets, MNP shall supply additional liquid assets or risk the sale of some or all of the securities with attendant tax consequences. As of December 31, 2018, the entire $4.5 million borrowed in August 2018 to pay off the then maturing Peoples Bank $4.5 million loan on 181st Street, NYC property and the $1.5 million borrowed in August 2016 to fund the capital needs of the 85 North 3rd Street, Brooklyn property still remain outstanding.

Executive Compensation and Mr. Deitelzweig's Employment Agreement:

In August 2017, MNP entered into a three-year employment contract with Mr. Deitelzweig with an automatic one-year renewal option. Under this contract, in addition to the base salary, Mr. Deitelzweig is entitled to an annual bonus equal to at least 50% of the base salary plus a long-term cash incentive award equal to $750,000, which shall vest in three equal installments. The incentive shall be notionally invested in MNP shares and shall be subject to upward or downward adjustments based on the price of the stock.

Board Attendance and Compensation Practices:

Non-Executive Board Members (excluding the Chairman) received $3,000 for attending each scheduled meeting. In 2018, MNP's board met in person four times, and the total board compensation was $160,000. In addition to the in-person meetings, the board spent (collectively) many hours in attendance at meetings, teleconferences, interviews, site visits, negotiations, on-site events, and promotions, etc. Of the $160,000 paid in 2018, Mr. Better received $60,000 as the Chairman of the Board. A supplementary honorarium of $2,000 per meeting was paid to both Messrs. Better and Usdan for their services as MNP's representatives on the Dollar Land Board of Managers.

Respectfully submitted,

Craig M. Deitelzweig	James M. Better
President and Chief Executive Officer	Chairman

MERCHANTS' NATIONAL PROPERTIES, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

AND

INDEPENDENT AUDITORS' REPORT

FRIEDMAN LLP®

ACCOUNTANTS AND ADVISORS

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Merchants' National Properties, Inc.

We have audited the accompanying consolidated financial statements of Merchants' National Properties, Inc. and Subsidiaries (collectively, the "Company"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of one of the investments in real estate ventures discussed in Note 5 of the consolidated financial statements. The Company's investment in this real estate venture approximates 14% and 13% of consolidated total assets at December 31, 2018 and 2017, respectively, and the equity in earnings of such investee approximates 32% and 34%, respectively, of the consolidated total income for the years then ended. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers

(Continued)

internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Merchants' National Properties, Inc. and Subsidiaries as of December 31, 2018 and 2017, and the consolidated results of their operations and their consolidated cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Friedman LLP

April 29, 2019

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2018	December 31, 2017
ASSETS		
Rental properties, net	$ 43,344,928	$ 43,717,266
Marketable securities, available-for-sale	40,066,103	44,604,509
Investments in real estate ventures	130,831,412	120,044,030
Intangible asset available-for-sale	749,036	749,036
Cash and cash equivalents	12,835,429	14,017,163
Restricted cash	1,104,794	861,270
Receivables		
Loans receivable, real estate ventures	2,275,000	2,200,000
Affiliated real estate ventures	1,031,556	906,978
Employees	895,151	285,438
Related parties	2,593,742	918,715
State tax credit refunds	2,161,091	1,170,255
Other	15,424	154,423
Tenant security deposits in escrow	315,989	323,743
Prepaid expenses and other assets	1,154,731	1,137,520
Prepaid income taxes	-	1,141,676
Deferred tax assets	1,578,575	1,220,261
	$ 240,952,961	$ 233,452,283
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued expenses	$ 850,498	$ 674,256
Accrued rent and lease deposits	583,188	514,966
Mortgages payable, less unamortized debt issuance costs of $69,402 and $71,795 in 2018 and 2017, respectively	15,077,294	20,094,218
Line of credit	6,000,000	1,500,000
Income taxes payable	1,461,919	-
Deferred tax liabilities	24,348,044	24,236,988
	48,320,943	47,020,428
Commitments and contingencies		
Stockholders' Equity		
Common stock, $1 par value; 187,000 shares authorized, 105,199 shares issued, (shares outstanding, 93,064 in 2018 and 2017)	105,199	105,199
Additional paid-in capital	1,146,317	1,146,317
Accumulated other comprehensive income	29,650,653	33,188,038
Retained earnings	167,185,788	157,525,633
Treasury stock, at cost (12,135 shares in 2018 and 2017)	(13,048,118)	(13,048,118)
Total Merchants' National Properties, Inc. stockholders' equity	185,039,839	178,917,069
Noncontrolling interests	7,592,179	7,514,786
	192,632,018	186,431,855
	$ 240,952,961	$ 233,452,283

See notes to consolidated financial statements.

MERCHANTS’ NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,	
	2018	2017
Revenues		
Rental revenue	$ 3,798,152	$ 3,725,181
Management fees	1,916,717	1,124,820
Leasing commissions	910,818	826,232
Asset acquisition/disposition fee	1,817,000	518,350
Other revenues	1,495,138	761,827
	9,937,825	6,956,410
Less - Direct operating expenses		
Real estate taxes	927,497	910,540
Depreciation and amortization	883,314	815,965
Other operating expenses	718,205	393,373
Financing expenses	758,392	849,577
Total direct operating expenses	3,287,408	2,969,455
Net revenues from rentals and other income	6,650,417	3,986,955
Equity in earnings of real estate ventures*	15,561,902	14,129,342
Investment income	1,071,961	904,037
Total income	23,284,280	19,020,334
General and administrative expenses and other costs		
Financing expenses	104,340	43,892
Professional fees	302,648	1,058,392
Salaries and other general expenses	4,559,614	3,224,134
	4,966,602	4,326,418
Income before income tax expense (benefit)	18,317,678	14,693,916
Income tax expense (benefit) (see Note 10)	4,214,277	(1,633,340)
Net income	14,103,401	16,327,256
Less - Noncontrolling interests in income of consolidated subsidiaries	(22,722)	(27,349)
Net income attributable to Merchants’ National Properties, Inc.	$ 14,080,679	$ 16,299,907
Basic and diluted earnings per share	$ 151.30	$ 175.15
Weighted average number of common shares outstanding		
Basic and diluted	93,064	93,064

* Includes equity in earnings from gain on sale of property held by real estate venture of $4,393,091 and $5,015,690 in 2018 and 2017, respectively.

See notes to consolidated financial statements.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,	
	2018	2017
Net income	$14,103,401	$16,327,256
Other comprehensive income (loss)		
Unrealized gain (loss) on marketable securities arising during the year, net of deferred tax of $(997,724) and $1,498,998	(3,540,682)	5,317,805
Reversal of deferred tax related to change in tax rate	-	5,004,800
	(3,540,682)	10,322,605
Comprehensive income	10,562,719	26,649,861
Less - Comprehensive income attributable to noncontrolling interests	(19,425)	(30,526)
Comprehensive income attributable to Merchants' National Properties, Inc.	$10,543,294	$26,619,335

See notes to consolidated financial statements.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Merchants' National Properties, Inc.									
	Common Stock		Additional Paid-In	Accumulated Other Comprehensive	Retained	Treasury Stock		Noncontrolling	Total
	Shares	Amount	Capital	Income (Loss)	Earnings	Shares	Amount	Interests	Equity
Balance, January 1, 2017	105,199	$ 105,199	$ 1,146,317	$ 22,868,610	$ 144,948,272	12,135	$ (13,048,118)	$ 7,570,586	$ 163,590,866
Net income	-	-	-	-	16,299,907	-	-	27,349	16,327,256
Dividends paid	-	-	-	-	(3,722,546)	-	-	(126,776)	(3,849,322)
Capital contributions	-	-	-	-	-	-	-	40,450	40,450
Other comprehensive income, net of tax	-	-	-	10,319,428	-	-	-	3,177	10,322,605
Balance, December 31, 2017	105,199	105,199	1,146,317	33,188,038	157,525,633	12,135	(13,048,118)	7,514,786	186,431,855
Net income	-	-	-	-	14,080,679	-	-	22,722	14,103,401
Dividends paid	-	-	-	-	(4,420,524)	-	-	(110,499)	(4,531,023)
Capital contributions	-	-	-	-	-	-	-	168,467	168,467
Other comprehensive loss, net of tax	-	-	-	(3,537,385)	-	-	-	(3,297)	(3,540,682)
Balance, December 31, 2018	105,199	$ 105,199	$ 1,146,317	$ 29,650,653	$ 167,185,788	12,135	$ (13,048,118)	$ 7,592,179	$ 192,632,018

See notes to consolidated financial statements.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2018	2017
Cash flows from operating activities		
Net income	$ 14,103,401	$ 16,327,256
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	883,314	815,965
Amortization of debt issuance costs included in financing expenses	39,893	66,980
Provision for deferred taxes	750,466	(3,685,135)
Accrued interest on loans receivable, real estate ventures	(75,000)	-
Equity in earnings of investments in real estate ventures	(15,561,902)	(14,129,342)
Distributions from investments in real estate ventures	8,733,494	7,979,433
Changes in assets and liabilities		
Receivables - affiliated real estate ventures	(124,578)	296,967
Receivables - employees	(609,713)	94,334
Receivables - related parties	(1,675,027)	517,553
Receivables - state tax credit refunds	(990,836)	(28,543)
Receivables - other	138,999	136,343
Tenant security deposits in escrow	7,754	(124,783)
Prepaid expenses and other assets	(17,211)	(300,460)
Prepaid income taxes	1,141,676	(377,856)
Accounts payable and accrued expenses	176,242	(213,837)
Accrued rent and lease deposits	68,222	124,355
Income taxes payable	1,461,919	(298,671)
Net cash provided by operating activities	8,451,113	7,200,559
Cash flows from investing activities		
Restricted cash	(243,524)	198,152
Contributions to investments in real estate ventures	(3,958,974)	(851,219)
Capital contributions from noncontrolling interests	168,467	40,450
Purchase of rental properties	(510,976)	(526,378)
Advances of loans receivable, real estate ventures, net	-	373,220
Net cash used in investing activities	(4,545,007)	(765,775)
Cash flows from financing activities		
Payment of dividends	(4,420,524)	(3,722,546)
Payment of dividends to noncontrolling interests	(110,499)	(126,776)
Proceeds from (payments of) line of credit, net	4,500,000	(500,000)
Principal payments of mortgages payable	(5,056,817)	(730,899)
Net cash used in financing activities	(5,087,840)	(5,080,221)
Net increase (decrease) in cash and cash equivalents	(1,181,734)	1,354,563
Cash and cash equivalents, beginning of year	14,017,163	12,662,600
Cash and cash equivalents, end of year	$ 12,835,429	$ 14,017,163
Supplemental cash flow disclosures		
Interest paid	$ 821,700	$ 827,247
Income taxes paid - net of refunds	1,894,667	2,788,376

See notes to consolidated financial statements.

1 - ORGANIZATION

Merchants' National Properties, Inc. ("Merchants"), Guest Realty Company ("Guest"), Marx Realty & Improvement Co. Inc. ("Marx"), Maryland Stores Corporation ("Maryland"), Rier Realty Co., Inc. ("Rier"), East Putnam Ave. I, LLC ("Putnam"), The M&B Building Owners II, LLC ("Bethpage"), Brahmin Realty Associates, LLC ("Brahmin), Madison Syndicate ("Madison"), and University Plaza Joint Venture ("University") own, manage, develop and lease various commercial real estate properties and invest in real estate ventures in the United States (collectively these entities are referred to as the "Company"). Guest, Marx, Maryland and Rier (the "Acquired Entities") were acquired in the transaction discussed below.

On November 21, 2006, Merchants acquired certain shares of stock and partnership interests in the Acquired Entities and other joint venture interests from the estate of Merchants' former stockholder (the "Seller") for a total cost of $41,661,149 in cash. There were no significant liabilities assumed upon acquisition. The purchase price was allocated to the real estate and partnership interests based on their fair values. No goodwill or intangible assets were recorded.

On November 8, 2012, Putnam was formed to acquire property which is being developed into a commercial and residential project. Merchants owns 92.75% of Putnam.

On July 16, 2013, Bethpage was formed to acquire land for the purpose of net leasing or developing it into a commercial project. Merchants owns 95.70% of Bethpage.

In October 2014, Brahmin was formed to acquire a 50% tenancy-in-common interest in three real properties. Merchants owns 59.40% of Brahmin.

On September 11, 2015, Merchants acquired an additional 8.05% interest in the members' equity of University, which resulted in 57.88% interest in the members' equity of University.

Principles of Consolidation

The consolidated financial statements include the accounts of Merchants and its subsidiaries; Guest, a 100% owned subsidiary; Maryland, an 80% owned subsidiary; Marx, a 100% owned subsidiary; Rier, a 94.64% owned subsidiary; Putnam, a 92.75% owned limited liability company; Madison, a 52.93% owned partnership; Bethpage, a 95.70% owned limited liability company; Brahmin, a 59.40% owned limited liability company; and University, a 57.88% owned partnership. All significant intercompany accounts and transactions have been eliminated in consolidation.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Noncontrolling Interests
Accounting principles generally accepted in the United States of America ("GAAP") require that noncontrolling interests in subsidiaries and affiliates be reported in the equity section of a company's balance sheet. In addition, the amounts attributable to the net income and other comprehensive income of these subsidiaries and affiliates are reported separately in the consolidated statements of income, comprehensive income and changes in stockholders' equity for all periods presented.

Use of Estimates
Management uses estimates and assumptions in preparing consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. The most significant estimates and assumptions relate to depreciable lives, impairment of long-lived assets and the recovery of receivables. Actual results could differ from those estimates.

Rental Properties, Net
Real estate is recorded at cost. Maintenance and repairs are charged to operations at the time the expenditures are made, whereas betterments and improvements are capitalized. Upon sale or other disposition of real estate, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations.

Marketable Securities, Available-for-Sale
Marketable securities consist of equity securities that are classified as available-for-sale, and are carried in the accompanying consolidated financial statements at fair value. Realized gains and losses are included in net income based on the specific identification method; unrealized holding gains and losses are included in other comprehensive income.

Investments in Real Estate Ventures
Investments in unconsolidated affiliated companies, in which the Company has a less than 50% interest and significant influence, but not control, are accounted for using the equity method. Distributions declared but not paid are recorded as receivables from affiliated real estate ventures. On a periodic basis, management assesses whether there are any indicators that the carrying value of the Company's investments in real estate ventures may be impaired. An investment is impaired only if management's estimate of the fair value of the investment is less than the carrying value of the investment, and such decline in value is deemed to be other than temporary. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying amount of the investment over the fair value of the investment. The Company's estimates of fair value for each investment are based on a number of assumptions that are subject to economic and market uncertainties, including, among others, demand for space, competition for tenants,

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in Real Estate Ventures (Continued)
changes in market rental rates, and operating costs. As these factors are difficult to predict and are subject to future events that may alter management's assumptions, the fair values estimated by management in its impairment analyses may not be realized. As of December 31, 2018 and 2017, management determined that no impairment of the recoverability of the carrying amount of its investments has occurred.

Intangible Asset Available-for-Sale
Intangible asset available for sale consists of a liquor license that is not amortized as it has an indefinite life. The Company reviews intangible assets with indefinite lives for impairment annually or more frequently if impairment indicators arise. As permitted under GAAP, the Company took a qualitative approach in determining whether it was more likely than not that the intangible asset was impaired. To the extent the qualitative factors indicate that there is more than a 50% likelihood that the intangible asset is impaired or when the qualitative approach is not used, the Company performs a quantitative impairment test. The quantitative impairment test consists of a comparison of the fair value of the asset with its carrying amount. If the carrying amount of the intangible asset exceeds its fair value, the Company recognizes an impairment loss in an amount equal to that excess. The liquor license has been classified as available for sale. As of December 31, 2018 and 2017, management determined that no impairment provision was necessary.

Long-Lived Assets
The Company reviews the carrying values of its long-lived assets, such as rental properties, whenever events or changes in circumstances indicate that the carrying values may no longer be appropriate. Recoverability of carrying values is assessed by estimating future net cash flows from the assets. Impairment assessment inherently involves judgment as to assumptions about expected future cash flows and the impact of market conditions on those assumptions. Future events and changing market conditions may impact management's assumptions as to rental rates, costs, holding periods or other factors that may result in changes in the Company's estimates of future cash flows. Although management believes the assumptions used in testing for impairment are reasonable, changes in any one of the assumptions could produce a significantly different result. Based on management's evaluations, no impairment charges were deemed necessary at December 31, 2018 and 2017.

Cash and Cash Equivalents
The Company considers cash and cash equivalents to include cash on hand, cash in banks, and short-term investments in institutional money market funds with initial maturities of three months or less. Cash balances in banks in the United States of America are insured by the Federal Deposit Insurance Corporation subject to certain limitations. Cash balances in institutional money market funds are insured by the Securities Investor Protection Corporation subject to certain limitations.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Cash

Restricted cash represents funds held in escrow for tenant and capital improvements and leasing commissions as required by the lenders.

Debt Issuance Costs

Debt issuance costs represent amounts incurred in connection with obtaining debt financing. These costs are being amortized on the straight-line basis over the term of the related loan, which approximates the effective interest method. For the years ended December 31, 2018 and 2017, amortization of deferred financing costs was $39,893 and $66,980, respectively. These amounts are included in financing expenses.

Income Taxes

The Company files a combined income tax return for New York State and New York City except for Madison, Putnam, Bethpage, Brahmin and University. Merchants and Marx file a consolidated federal income tax return and separate income tax returns for all states except New York. Guest, Maryland and Rier file separate federal income tax returns and for all states except New York. Madison, Putnam, Bethpage, Brahmin and University file separate federal and state income tax returns.

The Company applies the provisions of Financial Accounting Standards Board Accounting Standards Codification ("ASC") Topic 740, "Income Taxes". The Company files income tax returns in the U.S. federal jurisdiction and in various states.

The Company does not have any uncertain tax positions. As a result, there are no unrecognized tax benefits in the accompanying consolidated balance sheets. If the Company were to incur any interest and penalties in connection with income tax deficiencies, the Company would classify interest in the "interest expense" category and classify penalties in the "non-interest expense" category within the consolidated statements of income.

Deferred Income Taxes

The Company uses the asset and liability method of accounting for income taxes in accordance with ASC Topic 740. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Rental Revenue
The Company recognizes rental revenue as earned. All leases between the Company and the tenants of the properties are considered to be operating leases. Receivables from tenants are stated at the amount management expects to collect. Account balances are written off after all means of collection have been exhausted and the potential for recovery is considered remote. Accounts are considered past due or delinquent based on contractual terms and how recently payments have been received. No allowance against tenant receivables is considered necessary at December 31, 2018 and 2017.

Sales of Real Estate
The Company accounts for sales of real estate under the full accrual method, whereby gain is not recognized until the collectability of the sales price is reasonably assured and the earnings process is virtually complete. When a sale does not meet such requirements, gain is deferred until the requirements for income recognition are met.

Depreciation
Properties are stated at cost. Depreciation of rental properties is computed using the straight-line method over the estimated useful lives of the assets.

Earnings Per Share
The Company computes basic earnings per share by dividing net income attributable to Merchants by the weighted average number of shares outstanding for the year. Diluted earnings per share are calculated utilizing the weighted average number of common shares outstanding adjusted for the effect of any common stock equivalents.

Comprehensive Income
Comprehensive income consists of two components, consolidated net income and other comprehensive income (loss). Other comprehensive income (loss) refers to revenue, expenses, gains and losses that, under GAAP, are recorded as an element of equity but are excluded from consolidated net income.

Fair Value Measurements
The Company follows the provisions of ASC Topic 820, "Fair Value Measurements and Disclosures", which establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

Level 2: Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and model-derived valuations whose inputs or significant value drivers are observable.

Level 3: Unobservable inputs are used when little or no market data is available.

Fair Value of Financial Instruments

ASC Topic 825, "Disclosures about Fair Value of Financial Instruments", as amended, requires certain entities to disclose the fair values of specified financial instruments for which it is practicable to estimate those values. The carrying values of cash and cash equivalents, restricted cash, receivables, and accounts payable and accrued expenses approximate their fair values due to their short-term nature. The fair value of marketable securities are measured on a recurring basis using Level 1 inputs (see Note 4). It was not practicable to reasonably estimate the fair value of the loans receivable from real estate ventures, line of credit and mortgages payable as there are no quoted market prices of similar products and management has not developed a valuation model necessary to make such estimates.

Derivative Instruments

In accordance with GAAP, the Company recognizes derivatives as either assets or liabilities in the consolidated balance sheets and measures those instruments at fair value. Changes in fair value will affect either accumulated other comprehensive income or loss, which is a component of equity, if the derivative qualifies as a hedge and is effective, or net income or loss, if the derivative does not qualify as a hedge or if the hedge is ineffective.

The Company has a receive-variable (LIBOR plus 1.625%), pay-fixed (3.9%) interest rate swap agreement related to its variable rate loan (see Note 8). The interest rate swap agreement is effective as of October 1, 2015, matures on October 1, 2025, and has an original notional amount of $9,000,000 with a notional amount of $8,288,588 and $8,523,292 at December 31, 2018 and 2017, respectively. The notional amount is reduced based on the terms of the agreement. The interest rate swap agreement is intended to hedge the Company's exposure to possible increases in interest rates and the resulting increase in cash outflows.

The interest rate swap was not designated as a cash flow hedge and, accordingly, changes in fair value are recognized in earnings. As of December 31, 2018 and 2017, the Company did not record the fair value of the interest rate swap agreement as it was not material to its consolidated financial statements.

Stock-Based Compensation

The Company follows the provisions of ASC Topic 718, "Compensation - Stock Compensation", which requires compensation costs related to stock-based payment transactions to be measured and recorded at the fair value of the equity instrument issued.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risks and Uncertainties
The Company is subject to risks incidental to the ownership, development and management of real estate. These include the risks normally associated with the changes in the general economic climate, trends in the real estate industry, availability of land for development, changes in tax laws and interest rates, availability of financing, and the potential liability under environmental and other laws.

The Company's investments include marketable equity securities. Due to the risks associated with equity securities, it is at least reasonably possible that changes in market conditions in the near term could materially affect the value of investments reported in the consolidated financial statements.

Reclassifications
Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications had no impact on previously reported net income.

Subsequent Events
These consolidated financial statements were approved by management and available for issuance on April 29, 2019. Management has evaluated subsequent events through this date.

3 - RENTAL PROPERTIES, NET

Rental properties consist of the following:

	December 31,	
	2018	2017
Land	$ 20,094,019	$ 20,094,019
Buildings and improvements	27,120,003	26,651,735
Furniture and fixtures	1,045,556	1,002,848
Equipment	79,124	79,124
	48,338,702	47,827,726
Less - Accumulated depreciation	4,993,774	4,110,460
	$ 43,344,928	$ 43,717,266

4 - MARKETABLE SECURITIES

Cost and fair value data for common stock classified as available-for-sale securities are as follows:

	December 31,	
	2018	2017
Cost	$ 2,113,886	$ 2,113,886
Fair value	40,066,103	44,604,509
Net unrealized gain	$ 37,952,217	$ 42,490,623

During the years ended December 31, 2018 and 2017, there were no purchases or sales of marketable securities.

5 - INVESTMENTS IN REAL ESTATE VENTURES

The Company holds investments in various real estate ventures. Changes in the Company's investments in real estate ventures for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Balance, beginning of year	$ 120,044,030	$ 113,042,902
Contributions	3,958,974	851,219
Distributions	(8,733,494)	(7,979,433)
Equity in earnings	15,561,902	14,129,342
Net investments, end of year	$ 130,831,412	$ 120,044,030

5 - INVESTMENTS IN REAL ESTATE VENTURES (Continued)

The following information summarizes the total assets, liabilities, revenues and expenses of the investees in the aggregate prior to allocating the Company's share indicated by the percentages listed on the following page:

	December 31,	
	2018 (Unaudited) *	2017 (Unaudited) *
Assets	$ 548,152,007	$ 514,031,176
Liabilities	317,162,936	306,204,471
Equity	$ 230,989,071	$ 207,826,705
Rental and other revenues	$ 134,797,394	$ 125,844,743
Net gains on disposal of rental property	8,851,405	18,419,015
Total income	143,648,799	144,263,758
Direct operating expenses	52,516,247	49,650,670
Financing expenses	14,436,552	14,460,388
Depreciation and amortization expense	25,246,324	27,299,649
Income taxes	2,948,080	3,900,078
Net income	$ 48,501,596	$ 48,952,973

*The investments in real estate ventures are accounted for using the equity method. The above amounts, which represent 100% of the assets, liabilities, equity, revenues and expenses of the real estate joint ventures, have not been audited, except as noted in the independent auditors' report, however, one of the investments in real estate ventures is audited by other auditors. The assets and liabilities of this investment in real estate ventures are approximately 36% and 39%, respectively, of the total assets and liabilities above for 2018 and 38% and 43%, respectively, for 2017. The net income of this investment in real estate ventures is approximately 40% and 35% of the total net income above for the years ended December 31, 2018 and 2017, respectively.

5 - INVESTMENTS IN REAL ESTATE VENTURES (Continued)

Investments in real estate ventures consist of the following at December 31:

	% of Ownership*	
Investee	2018	2017
135 Bowery	9.0000%	0.000%
430 Park Avenue Syndicate **	7.0828	7.0828
532 Madison Syndicate	10.4099	10.4099
708 Third Avenue Holdings, LLC ***	35.7135	35.7135
Arlington Joint Venture	18.0625	18.0625
Athens Joint Venture	45.3332	45.3332
Avon Joint Venture	40.5938	40.5938
Bell Blvd. Partners	32.0000	32.0000
BSC Empire	37.6214	37.6214
Belle Haven Realty LLC	42.5700	42.5700
Bellflower Joint Venture	17.1667	17.1667
Bey Lea Joint Venture **	9.0050	9.0050
Boston Syndicate	25.0000	25.0000
Dollar Land Associates LLC	37.6214	37.6214
East Rutherford Joint Venture	0.7500	0.7500
Farmingville Associates **	10.5598	10.5598
Fort Lee Joint Venture	30.0000	30.0000
Ithaca Joint Venture	21.0000	21.0000
Joseph E. Marx Co. Inc.	23.3330	23.3330
Knights Road Shopping Center LP **	11.4044	11.4044
LM of Greenwich	16.9125	16.9125
Louisville Syndicate	49.3097	49.3097
Marlton Joint Venture	34.9167	34.9167
Newbury Street Partners **	18.7084	18.7084
Ocean County Ventures **	30.0981	30.0981
Orange Syndicate **	48.5607	48.5607
Pequannock Joint Venture LLC	22.5953	22.5953
Peters Land Syndicate	26.7644	26.7644
Queens Blvd. Joint Venture	12.6867	12.6867
Seaford Joint Venture	22.6781	22.6781

* % of Company's beneficial interest in the underlying asset.

** Excludes indirect interest through Joseph E. Marx Co. Inc.

*** Represents 35.7135% of 10 Grand Central (formerly known as 708 Third Avenue) and 17.85675% of 712 Third Avenue.

6 - LOANS RECEIVABLE, REAL ESTATE VENTURES

Loans receivable from two real estate venture affiliates in the combined amounts of $2,275,000 and $2,200,000 as of December 31, 2018 and 2017, respectively, are due on demand and bear interest at 5.0%. As of December 31, 2018, accrued interest of $75,000 was included in the receivable balance. There was no accrued interest at December 31, 2017. Management believes that these loans are fully collectible, and no allowance for loan loss is required at December 31, 2018 and 2017.

7 - LINE OF CREDIT

Merchants has a $30,000,000 credit facility (the "Facility"), expiring on May 1, 2021. In May 2018, the secured line was modified and increased to $30,000,000 from $20,000,000. At December 31, 2018 and 2017, the Facility included an unsecured line of credit of $0 and $5,000,000, respectively. The secured line is subject to a borrowing base of 70% of the fair value of Merchants' marketable securities and 100% of the value of cash and cash equivalents. The interest rate on the secured borrowings is LIBOR plus 1.35% (3.73% and 2.68% at December 31, 2018 and 2017, respectively). As of December 31, 2018 and 2017, the Company had $6,000,000 and $1,500,000, respectively, of outstanding borrowings under the secured line of credit.

The Facility is subject to certain covenants and allows Merchants to request that the bank issue standby letters of credit on its behalf.

Interest expense was $104,340 and $43,892 for the years ended December 31, 2018 and 2017, respectively.

8 - MORTGAGES PAYABLE

In April 2009, Merchants obtained a $6,500,000 mortgage payable, secured by a first mortgage lien on the property located at 605-609 West 181st Street, New York, New York. The mortgage required monthly payments of $41,084 based on a 30-year amortization, including interest at 6.5% a year through April 30, 2014. In July 2013, the terms were modified on the outstanding mortgage balance of $6,155,902. The modified mortgage requires monthly payments of $42,762 based on a 15-year amortization, including interest at 3.04%. The loan matured on August 1, 2018 and was paid off with proceeds from the line of credit. Interest expense was $102,056 and $148,745 for the years ended December 31, 2018 and 2017, respectively. The mortgage payable balance at December 31, 2017 was $4,628,727.

8 - MORTGAGES PAYABLE (Continued)

In October 2014, Brahmin obtained three mortgages totaling $2,790,000, which collectively are secured by a first mortgage lien on the properties located at 10-14 Bosworth Street, 41 Bromfield Street and 45 Bromfield Street, Boston, Massachusetts. The mortgages require monthly payments in the aggregate of $15,211 based on a 25-year adjustable interest rate, with interest to adjust every ten years through November 2039. The initial interest rate during the first ten years is fixed at 4.25%. Merchants is a limited guarantor of this loan. Interest expense was $110,028 and $112,757 for the years ended December 31, 2018 and 2017, respectively. The mortgage payable balances at December 31, 2018 and 2017 were $2,512,611 and $2,585,108, respectively.

On April 3, 2015, Putnam obtained a construction loan in the amount of $4,000,000 for the development of its property, with an option to convert it to a permanent facility at the issuance of a certificate of occupancy after closing. The loan bears interest at the Wall Street Journal Prime Rate plus a margin of 0.123% on the outstanding balance. On December 29, 2016, the outstanding construction loan in the amount of $3,965,429 was converted into a permanent mortgage of $4,500,000, maturing on January 1, 2024. The mortgage requires monthly payments in the aggregate of $21,484, including principal and interest based on a 30-year amortization schedule. The interest rate during the term of the note is 4%. For the years ended December 31, 2018 and 2017, interest expense was $175,393 and $179,970, respectively. The mortgage payable balances at December 31, 2018 and 2017 were $4,346,475 and $4,428,886, respectively. The loan is subject to a debt service ratio of 1.25, which shall be tested annually. Putnam is currently not in compliance with the ratio as of December 31, 2018; however, Putnam is current in its payment of debt service.

On September 11, 2015, University obtained a loan in the amount of $9,000,000. The loan requires monthly payments of approximately $19,000, including interest equal to LIBOR plus 1.625% (4.03% and 2.98% at December 31, 2018 and 2017, respectively), and has a maturity date of September 11, 2025. Merchants is the guarantor of this loan. University has entered into a receive-variable (LIBOR plus 1.625%), pay-fixed (3.9%) interest rate swap agreement related to its variable rate loan (see Note 2). The loan can be prepaid in whole or in part from time to time without penalty. The loan is subject to a debt service ratio. If the debt service ratio falls below 1.30, University is required to provide cash collateral or an unconditional standby letter of credit. In April 2018, University deposited $300,000 in a debt service reserve at the request of the lender in order to satisfy this covenant due to noncompliance as of December 31, 2017. For the years ended December 31, 2018 and 2017, interest expense was $331,022 and $341,125, respectively. The mortgage payable balance at December 31, 2018 and 2017 was $8,287,610 and $8,523,292, respectively.

8 - MORTGAGES PAYABLE (Continued)

Future minimum payments are as follows:

Year Ending December 31,		
2019	$	405,455
2020		421,506
2021		439,382
2022		457,422
2023		476,204
Thereafter		12,946,727
		15,146,696
Less - Unamortized debt issuance costs		69,402
	$	15,077,294

9 - LEASE ARRANGEMENTS

Building space is leased under noncancelable operating leases. Certain tenant leases provide for the payment of minimum rentals plus a percentage of the tenant's sales in excess of stipulated amounts. Minimum rental revenues under existing noncancelable leases as of December 31, 2018 are approximately as follows:

Year Ending December 31,		
2019	$	1,956,000
2020		1,735,000
2021		1,654,000
2022		1,319,000
2023		1,246,000
Thereafter		6,301,000
	$	14,211,000

Common area maintenance and real estate tax escalation charges included in rental income were $232,294 and $303,837 for the years ended December 31, 2018 and 2017, respectively.

For the years ended December 31, 2018 and 2017, two tenants represented approximately 41% and 40% of rental income, respectively.

10 - INCOME TAXES

The Company's effective tax rate differs from the statutory tax rate due to state credits, as discussed below.

The Company's income tax provision (benefit) consists of the following:

	Year Ended December 31,	
	2018	2017
Current		
Federal	$ 3,272,926	$ 2,504,802
State	1,389,683	717,248
New York State Empire Zone and Qualified Empire Zone Enterprise credit*	(1,198,798)	(1,170,255)
	3,463,811	2,051,795
Deferred		
Federal	485,471	(2,726,972)
State	264,995	(958,163)
	750,466	(3,685,135)
Income tax expense (benefit) per consolidated statements of income	$ 4,214,277	$ (1,633,340)
Deferred tax effect of other comprehensive income	$ (997,724)	$ (3,505,802)

In 2017, due to the United States tax legislation enacted, the corporate tax rate was reduced to 21% from 35%, which resulted in a decrease of approximately $5,542,000 in deferred income tax and a decrease of approximately $5,005,000 in deferred tax effect of other comprehensive income. This revised tax rate was used by management in calculating the income tax expense and effect on the deferred tax balances for the federal and states taxes applicable to the Company.

*Dollar Land Associates LLC ("Dollar Land") is the owner of Cross County Shopping Center in Yonkers, New York and one of the entities listed in Note 5. Dollar Land applied for and was accepted into the New York State Empire Zone program, which entitled its members to obtain a Qualified Empire Zone Enterprise ("QEZE") credit against their New York State income taxes based on property tax payments made under the Payment-in-Lieu-of-Taxes program. In April 2009, the State of New York issued QEZE Certification, allowing the Dollar Land members to claim a refundable tax credit equal to 75% of the PILOT amount for ten years through 2018. Merchants' share of the QEZE credit as of December 31, 2018 and 2017 was $1,198,798 and $1,170,255, respectively.

10 - INCOME TAXES (Continued)

Components of deferred tax assets and liabilities are as follows:

	December 31,			
	2018		2017	
	Components	Tax Effect	Components	Tax Effect
Deferred tax assets				
Depreciation - state	$ 12,719,957	$ 1,399,195	$ 10,173,177	$ 1,119,049
Prepaid rent	447,424	132,840	184,144	54,672
Other	156,754	46,540	156,754	46,540
	13,324,135	1,578,575	10,514,075	1,220,261
Deferred tax liabilities				
Unrealized gain on marketable securities	38,013,564	8,362,911	42,548,673	9,360,635
Depreciation	716,352	150,434	2,815,260	591,205
Amortization	1,843,786	547,420	1,798,981	534,118
Deferred gain on disposal of rental property	26,174,368	7,771,170	22,389,647	6,647,486
Deferred revenue*	16,150,016	4,798,395	14,782,357	4,392,337
Tangible property regulations	7,086,287	2,108,535	6,644,980	1,977,511
Other	2,048,534	609,179	2,467,925	733,696
	92,032,907	24,348,044	93,447,823	24,236,988
Net deferred tax liability	$ 78,708,772	$ 22,769,469	$ 82,933,748	$ 23,016,727

*Includes revenue from straight-lining of rents pursuant to ASC Topic 840, "Leases", for various properties. For the years ended December 31, 2018 and 2017, deferred revenue components of $1,166,205 and $1,409,062, respectively, apply to Dollar Land. For the years ended December 31, 2018 and 2017, deferred revenue components of $12,551,688 and $11,587,353, respectively, apply to Joseph E. Marx Co. Inc.

Components of deferred tax assets and liabilities include book to tax differences arising from investments in real estate ventures.

11 - RELATED PARTY TRANSACTIONS

The Company manages various properties and several entities through which investments in real estate ventures are held. Management fees, leasing commissions, supervisory and other miscellaneous fees earned from related parties for the years ended December 31, 2018 and 2017 were $4,233,036, and $2,493,798, respectively.

11 - RELATED PARTY TRANSACTIONS (Continued)

The amount due from related parties for management fees, leasing commissions, supervisory fees and other charges at December 31, 2018 and 2017 was $2,593,742 and $918,715, respectively. These amounts are noninterest-bearing and are due on demand.

Loans to employees for the purchase of membership interests in certain subsidiaries totaling $895,151 and $285,438 at December 31, 2018 and 2017, respectively, are included in receivables from employees on the accompanying consolidated balance sheets. The loans bear interest at 6%, and any unpaid balance, including accrued interest, is due within 12 months of termination of employment with the Company. The loans to employees are collateralized by the employees' respective ownership interest in these subsidiaries.

12 - RETIREMENT PLAN

The Company makes matching contributions to a retirement plan equivalent to 50% of participants' contributions, not to exceed 2% of such employees' base compensation, or the Internal Revenue Code imposed maximum of $5,400 per year. The Company's matching contributions for the years ended December 31, 2018 and 2017 were $43,996 and $20,272, respectively.

13 - COMMITMENTS AND CONTINGENCIES

Guarantees and Indemnification

The Company has signed limited suretyship and guarantee agreements with the mortgagees of two investees which own rental real properties with mortgages outstanding of approximately $18,597,000 at December 31, 2018 and 2017. In addition, the Company has provided indemnification for any environmental issues to the lenders of these investees. Management believes that there is no liability under these guarantees at December 31, 2018 and 2017.

13 - COMMITMENTS AND CONTINGENCIES (Continued)

Lease

The Company leases office space from 708 Third Avenue Holdings, LLC, in which it has an investment. The lease expires on January 23, 2029. For the years ended December 31, 2018 and 2017, rent expense, including real estate tax and operating expense escalations, was $219,755 and $219,726, respectively. Minimum rental expense under this lease as of December 31, 2018 is as follows:

Year Ending December 31,	
2019	$ 203,921
2020	204,746
2021	204,746
2022	204,746
2023	204,746
Thereafter	1,103,155
	$ 2,126,060

Employment Agreement

The Company is committed under a three-year employment agreement with its Chief Executive Officer (the "CEO") ending in August 2020, with an automatic extension of one year thereafter, pursuant to which the Company agrees to pay a base annual salary of $480,000, with an annual increase of the lesser of the increase in the consumer price index or 3% per year, and a first year guaranteed minimum bonus of $100,000, payable no later than March 15, 2018, provided he has not resigned or been terminated. In subsequent years, the CEO is eligible for an annual performance bonus award providing a target bonus opportunity of no less than 50% of the current base salary. During 2018, the Company paid the CEO a base salary of $448,608 and the first year guaranteed bonus of $100,000. During the year ended December 31, 2017, the Company paid the CEO a prorated base salary of approximately $188,000.

In August 2017, the Company granted the CEO a long-term incentive award equal to $750,000 (the "LT Cash Incentive"). The LT Cash Incentive shall be invested by the CEO in shares of the Company's common stock and shall be adjusted upwards or downwards, as the case may be, based on the value of the Company's common stock, as reasonably determined by the Board of Directors in good faith, at the end of the period commencing on August 10, 2017, the date of hire (the "Effective Date") and ending on the third anniversary of the Effective Date. The LT Cash Incentive shall vest in three equal installments, subject to the CEO's continued employment through the respective vesting dates. As of December 31, 2018, $250,000 was vested and included in accounts payable and accrued expenses. As of December 31, 2017, no vesting has occurred and no stock compensation was recorded.

13 - COMMITMENTS AND CONTINGENCIES (Continued)

Employment Agreement (Continued)

In addition, when the Company enters into new investments, as defined in the employment agreement, the CEO is required to make a personal investment at the level of 5% of the Company's investment. The funds for the CEO's personal investments would be loaned by the Company on a non-recourse basis, with interest at 6% a year, using the acquired equity as collateral. As of December 31, 2018, the loan balance was $608,581, including accrued interest of $6,042. These amounts are included in receivables from employees on the accompanying balance sheets. There were no loans outstanding at December 31, 2017.

Capital Calls and Investment Funding

In the normal course of business, the Company may request additional capital contributions from its investees.

Litigation

In the normal course of business, the Company is a party to various legal claims, actions and complaints relating to its real estate activities. Management does not expect that the results of any of these proceedings will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.