

Whitestone REIT
Form S-11/A
August 03, 2010
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As filed with the Securities and Exchange Commission on August 3, 2010

Registration No. 333-162859

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 4

to

Form S-11

FOR REGISTRATION UNDER THE SECURITIES ACT OF 1933

OF SECURITIES OF CERTAIN REAL ESTATE COMPANIES

Whitestone REIT

(Exact name of registrant as specified in governing instruments)

2600 South Gessner, Suite 500

Houston, Texas 77063

(713) 827-9595

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(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

James C. Mastandrea

President and Chief Executive Officer

Whitestone REIT

2600 South Gessner, Suite 500

Houston, Texas 77063

(713) 827-9595

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the Securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box: "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. "

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such dates as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to completion, dated August 3, 2010

3,333,333 Class B Common Shares

Whitestone REIT is a fully integrated, internally managed real estate company founded in 1998 that seeks to own and operate Community Centered Properties, which we define as visibly located properties in established or developing, culturally diverse neighborhoods in our target markets. We conduct our operations so as to qualify as a real estate investment trust, or REIT, for federal income tax purposes.

We are selling all of the Class B common shares of beneficial interest offered by this prospectus. We currently expect the public offering price to be between \$14.00 and \$16.00 per share. Our Class B common shares are currently not listed or traded on an exchange or in any other public market. Our Class B common shares have been approved for listing on the NYSE Amex, subject to official notice of issuance, under the symbol WSR.

Our declaration of trust contains certain restrictions relating to the ownership and transfer of our Class B common shares, including, subject to certain exceptions, a limit on ownership of more than 9.8% in value or number of shares, whichever is more restrictive, of our outstanding Class B common shares. See Description of Securities Restrictions on Ownership and Transfer.

Investing in our Class B common shares involves a high degree of risk. See Risk Factors beginning on page 15 of this prospectus for a discussion of the following and other risks that you should consider before investing:

Recent market disruptions have continued to adversely affect our occupancy, rental rates and access to capital and may significantly and negatively affect our financial condition and results of operations in the future.

Current conditions in the credit markets could adversely affect our ability to refinance existing indebtedness or obtain additional financing on acceptable terms or at all.

Current lack of geographic diversification of our portfolio leaves us vulnerable to an economic downturn in Texas, and particularly the Houston metropolitan area.

We lease our properties to approximately 800 tenants and face the risk of non-renewal on approximately 10% to 20% of our leases which expire each year, along with the corresponding cost of re-leasing that space.

If we fail to maintain our status as a REIT for federal income tax purposes, our distributions to shareholders will not be deductible by us, and we will pay substantial corporate-level income and excise taxes, reducing our earnings available for distribution.

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There can be no assurance that we will be able to pay or maintain cash dividends or that dividends will increase over time.

	Per Share	Total
Public offering price	\$	\$
Underwriting discount and commissions	\$	\$
Net proceeds to us, before expenses	\$	\$

We have granted the underwriters an option to purchase up to an additional 500,000 Class B common shares from us at the public offering price, less underwriting discount and commissions, within 30 days after the date of this prospectus solely to cover over-allotments, if any.

The underwriters expect to deliver the Class B common shares on or about _____, 2010.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Wunderlich Securities

Ladenburg Thalmann & Co. Inc.

J.J.B. Hilliard, W.L. Lyons, LLC

Maxim Group LLC

National Securities Corporation

Southwest Securities, Inc.

The date of this prospectus is _____, 2010.

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Whitestone REIT Corporate Headquarters 2600 S. Gessner, Suite 500 Houston, TX 77063

713.827.9595; 866.789.7348 ; www.whitestonereit.com

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information that is different from that contained in this prospectus. We are offering to sell Class B common shares and seeking offers to buy Class B common shares only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of Class B common shares.

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PROSPECTUS SUMMARY

*You should read the following summary together with the more detailed information regarding our company and the financial statements appearing elsewhere in this prospectus, including under the caption Risk Factors. Unless the context suggests otherwise, references in this prospectus to our company, we, us, and our mean Whitestone REIT, a Maryland real estate investment trust, and its consolidated subsidiaries, including Whitestone REIT Operating Partnership, L.P., a Delaware limited partnership, of which we are the sole general partner and to which we refer in this prospectus as our Operating Partnership. Unless otherwise indicated, the information included in this prospectus assumes (1) the effectiveness of our Articles of Amendment to our declaration of trust, or the Articles of Amendment, to change the name of our common shares to Class A common shares, (2) a 1-for-3 reverse share split of our Class A common shares and OP units to be effected in connection with this offering, (3) the effectiveness of our Articles Supplementary to our declaration of trust, or the Articles Supplementary, to create a new class of common shares entitled Class B common shares, (4) no exercise by the underwriters of the over-allotment option to purchase up to an additional 500,000 Class B common shares, (5) that the Class B common shares to be sold in this offering are sold at \$15.00 per share, which is the midpoint of the range indicated on the front cover of this prospectus, and (6) that the per unit value of the units of partnership interest in our Operating Partnership, or OP units, that we will purchase with the proceeds of this offering is equal to the public offering price per share of the Class B common shares indicated on the front cover of this prospectus. Each OP unit is redeemable at the election of the holder for cash, or, at our option, one of our Class A common shares. For more information on our classes of common shares, see *Reclassification of Common Shares* below.*

Overview

We are a fully integrated real estate company that owns and operates commercial properties in culturally diverse markets in major metropolitan areas. Founded in 1998, we are internally managed with a portfolio of 36 commercial properties in Texas, Arizona and Illinois.

In October 2006, our current management team joined the company and adopted a strategic plan to acquire, redevelop, own and operate Community Centered Properties. We define Community Centered Properties as visibly located properties in established or developing culturally diverse neighborhoods in our target markets. We market, lease, and manage our centers to match tenants with the shared needs of the surrounding neighborhood. Those needs may include specialty retail, grocery, restaurants and medical, educational and financial services. Our goal is for each property to become a Whitestone-branded business center or retail community that serves a neighboring five-mile radius around our property. We employ and develop a diverse group of associates who understand the needs of our multicultural communities and tenants.

Our current portfolio is concentrated in Houston, with additional properties in the Phoenix, Chicago, Dallas and San Antonio metropolitan areas. According to the United States Census Bureau's *Estimates of Population Change for Metropolitan Statistical Areas and Rankings: July 1, 2008 to July 1, 2009*, Dallas and Houston ranked first and second, respectively, in population growth out of 366 metropolitan statistical areas, and Phoenix, Chicago and San Antonio ranked seventh, eighth and sixteenth, respectively. We believe the management infrastructure and capacity we have built can accommodate substantial growth in those markets. We also believe that those cities have expanding multi-cultural neighborhoods, providing us with excellent opportunities to execute our strategic plan in those markets.

We believe that over the next three years we will have opportunities to acquire quality properties at historically attractive prices. Many of these properties will be distressed due to over-leverage, mismanagement or the lack of liquidity in the financial markets. We have extensive relationships with community banks, attorneys, title companies and others in the real estate industry which we believe will enable us to take advantage of these market opportunities and maintain an active acquisition pipeline.

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Our Strengths

We believe a number of factors differentiate us from other commercial real estate owners in our markets, including:

Investment Focus. We seek to invest in properties that are or can become Community Centered Properties from which our tenants deliver needed services to the surrounding community. We focus on niche properties with smaller rental spaces that present opportunities for attractive returns. We target properties that: (1) typically require relatively low capital investment, are management and leasing intensive and do not draw the interest of larger national real estate companies; (2) can be redeveloped at a low cost utilizing our internal management capabilities; and/or (3) can be Whitestone-branded and re-tenanted, resulting in lower tenant turnover and higher occupancy and rental rates, together with corresponding increases in tenant reimbursement of operating expenses.

Multi-Cultural Community Focus. Our multi-cultural community focus sets us apart from traditional commercial real estate operators. We value diversity in our team and maintain in-house leasing, property management, marketing, construction and maintenance departments with culturally diverse and multi-lingual associates who understand the particular needs of our tenants and neighborhoods.

Proactive Marketing and Leasing. Our proactive marketing and leasing programs are designed to utilize market research to determine the common and distinctive characteristics and needs of the neighborhood and attract tenants who meet those needs. Our in-depth local knowledge in each of our major markets and in-house research capabilities allow us to quickly access and analyze neighborhood demographics and cultural nuances, market rental trends and valuation metrics. Our streamlined and efficient leasing process allows us to attract tenants and to lease spaces quickly. We typically market and lease our properties to smaller tenants who rent on average less than 3,000 square feet. As of June 30, 2010, our average rent per square foot for our smaller tenants represents a 42% premium over rent paid by our larger tenants.

Proven Real Estate and Turn-Around Track Record. Our eight-person senior management team has more than 125 years of collective experience acquiring, developing, redeveloping, owning, managing and operating commercial real estate properties, portfolios and companies. Our senior management team has extensive national real estate contacts and investment expertise in our target markets. In particular, our management team has significant expertise in turning around properties with complex problems. Our team executes a coordinated strategy, utilizing our corporate branding, philosophy and culture, operational systems and experience to renovate and re-tenant properties, with an intention to increase their net operating income and value.

Commitment to Associate Training and Development. Our annual in-house Real Estate Executive Development, or REED, program is designed to provide us with knowledgeable and well-trained associates to meet our strategic goals and provide continuity in our leadership and management. The 12-month REED program promotes in-depth understanding of all aspects of investing in, owning and operating commercial real estate by providing select associates with detailed training from real estate professionals from both within and outside Whitestone.

Our Strategy

Our primary business objective is to increase shareholder value by acquiring, owning and operating Community Centered Properties. The key elements of our strategy include:

Strategically Acquiring Properties.

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Seeking High Growth Markets. We seek to strategically acquire commercial properties in high-growth markets. Our acquisition targets are located in densely populated, culturally diverse neighborhoods, primarily in and around Phoenix, Chicago, Dallas, San Antonio and Houston, five of the top 20 markets in the United States in terms of population growth.

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Diversifying Geographically. Our current portfolio is concentrated in Houston. We believe that continued geographic diversification into markets where we have substantial knowledge and experience will help offset the economic risk from a single market concentration. We intend to focus our expansion efforts on the Phoenix, Chicago, Dallas and San Antonio markets. We believe our management infrastructure and capacity can accommodate substantial growth in those markets. We may also pursue opportunities in other Southwestern and Western regions that are consistent with our Community Centered Property strategy.

Capitalizing on Availability of Distressed Assets. We believe that during the next several years there will be excellent opportunities in our target markets to acquire quality properties at historically attractive prices. We intend to acquire distressed assets directly from owners or financial institutions holding foreclosed real estate and debt instruments that are either in default or on bank watch lists. Many of these assets may benefit from our corporate strategy and our management team's experience in turning around distressed properties, portfolios and companies. We have extensive relationships with community banks, attorneys, title companies, and others in the real estate industry with whom we regularly work to identify properties for potential acquisition.

Redeveloping and Re-tenanting Existing Properties. We turn around properties and seek to add value through renovating and re-tenanting our properties to create Whitestone-branded Community Centered Properties. We seek to accomplish this by (1) stabilizing occupancy, with per property occupancy goals of 90% or higher; (2) adding leasable square footage to existing structures; (3) developing and building on excess land; (4) upgrading and renovating existing structures; and (5) investing significant effort in recruiting tenants whose goods and services meet the needs of the surrounding neighborhood.

Recycling Capital for Greater Returns. We seek to continually upgrade our portfolio by opportunistically selling properties that do not have the potential to meet our Community Centered Property strategy and redeploying the sale proceeds into properties that better fit our strategy. Some of our properties which were acquired prior to the tenure of our current management team may not fit our Community Centered Property strategy, and we may look for opportunities to dispose of these properties as we continue to execute our strategy.

Prudent Management of Capital Structure. We intend to use the net proceeds of this offering to fund acquisitions and selective redevelopment of existing properties. We currently have 15 properties that are not mortgaged. We may seek to add mortgage indebtedness to existing and newly acquired unencumbered properties to provide additional capital for acquisitions. As a general policy, we intend to maintain a ratio of total indebtedness to undepreciated book value of real estate assets that is less than 60%. As of June 30, 2010, our ratio of total indebtedness to undepreciated book value of real estate assets was 52%.

Investing in People. We believe that our people are the heart of our culture, philosophy and strategy. We continually focus on developing associates who are self-disciplined and motivated and display at all times a high degree of character and competence. We provide them with equity incentives to align their interests with those of our shareholders.

Summary Risk Factors

You should carefully consider the risks discussed in the section entitled "Risk Factors" before deciding to invest in our common shares. Some of these risks include:

Recent market disruptions have continued to adversely affect our occupancy, rental rates and access to capital and may significantly and negatively affect our financial condition and results of operations in the future.

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Current conditions in the credit markets could adversely affect our ability to refinance existing indebtedness or obtain additional financing on acceptable terms or at all, which could adversely affect our ability to grow, our interest costs and our results of operations.

Current lack of geographic diversification of our portfolio leaves us vulnerable to an economic downturn in Texas, and particularly the Houston metropolitan area, which could adversely impact our operations and ability to pay dividends to our shareholders.

We lease our properties to approximately 800 tenants, with approximately 10% to 20% of our leases expiring annually. Each year we face the risk of non-renewal of a material percentage of our leases and the cost of re-leasing a significant amount of our available space, and our failure to meet leasing targets and control the cost of re-leasing our properties could adversely affect our rental revenue, operating expenses and results of operations.

Many of our tenants are small businesses that depend on cash flows from their businesses to pay their rent and are therefore at a higher risk of bankruptcy or insolvency than larger, national tenants. The bankruptcy or insolvency of a number of smaller tenants may have an adverse impact on our income and our ability to pay dividends.

We may not be successful in identifying suitable properties or other assets that meet our acquisition criteria or in consummating acquisitions or investments on satisfactory terms or at all. Failure to identify or consummate acquisitions or investment opportunities, or to integrate successfully any acquired properties without substantial expense, delay or other operational or financial problems, would slow our growth, which could in turn adversely affect our Class B common share price.

Our acquisition strategy is focused on distressed and foreclosed commercial real estate, and we could face significant competition from other investors, such as publicly-traded REITs, hedge funds, private equity funds and other private real estate investors with greater financial resources and access to capital than us. This could result in competition for accretive acquisition opportunities and delay our business plan, our ability to successfully invest the proceeds of this offering and our ability to maintain our current dividend rate.

Our Community Centered Property strategy is newly adopted and requires intensive management of a large number of small spaces and small tenant relationships. Lack of market acceptance of our Community Centered Property strategy or our inability to successfully manage a large number of tenant relationships could adversely affect our occupancy rates, operating results and dividend rate.

We depend on key personnel, particularly our eight senior managers, the loss of any of whom could threaten our ability to execute our strategy and operate our business successfully.

If we fail to maintain our status as a REIT for federal income tax purposes, our distributions to shareholders will not be deductible by us, and we will pay substantial corporate-level income and excise taxes, reducing our earnings available for distribution.

There can be no assurance that we will be able to pay or maintain cash dividends or that dividends will increase over time. The amount of cash available for dividends will be affected by many factors, such as our ability to buy properties, the yields on securities of other real estate programs that we invest in, and our operating expense levels, as well as many other variables.

Reclassification of Common Shares

Our Board of Trustees, or our Board, has approved Articles of Amendment to our declaration of trust that (i) change the name of all of our common shares to Class A common shares and (ii) effect a 1-for-3 reverse share split of our Class A common shares. In addition, our Board has

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approved Articles Supplementary to our declaration of trust that creates a new class of shares entitled Class B common shares. The rights of the Class A common shareholders will not change with the change in the title of the class. Each Class B common share will have the following rights:

the right to vote together with Class A common shareholders on all matters submitted to our shareholders;

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one vote on all matters voted upon by our shareholders;

the right to receive dividends equal to any dividends declared on the Class A common shares; and

liquidation rights equal to the liquidation rights of each Class A common share.

In this prospectus, we refer to Class A and Class B common shares collectively as our common shares. We are offering our Class B common shares in this offering, and our Class B common shares have been approved for listing on the NYSE Amex subject to official notice of issuance. We do not intend to list our Class A common shares on a national securities exchange. We do intend to conduct one or more exchange offers in the future, no earlier than , 2010, which is six months from the date of this prospectus, that will allow for the exchange of one Class A common share into one Class B common share. For more information, see Shares Eligible for Future Sale Exchange Offers. The terms of our Class A and Class B common shares are described more fully under Description of Securities in this prospectus.

The Articles of Amendment and the Articles Supplementary will be filed with the State Department of Assessments and Taxation of Maryland prior to the closing of this offering. Unless otherwise indicated, all information in this prospectus assumes the redesignation of the common shares into Class A common shares, a 1-for-3 reverse share split of our Class A common shares and OP units and the creation of the Class B common shares.

Our Properties

We currently own 36 commercial properties, including 31 properties in Houston, two properties in Dallas, one property in Windcrest, Texas, a suburb of San Antonio, one property in Carefree, Arizona, which is adjacent to North Scottsdale in the Phoenix metropolitan statistical area, and one property in Buffalo Grove, Illinois, a suburb of Chicago. While we are examining prospective acquisitions, we have not contracted to acquire any property with the proceeds of this offering, nor are we at a stage of negotiations with respect to the acquisition of any property such that the acquisition of any property is probable.

Our tenants consist of national, regional and local businesses. Our properties generally attract a mix of tenants who provide basic staples, convenience items and services tailored to the specific cultures, needs and preferences of the surrounding community. These types of tenants are the core of our strategy of creating Whitestone-brand Community Centered Properties. We also believe daily sales of these basic items are less sensitive to fluctuations in the business cycle than higher priced retail items. We typically market and lease our properties to smaller tenants who rent on average less than 3,000 square feet. Our largest tenant represented less than 3% of total revenues for the six months ended June 30, 2010.

We directly manage the operations and leasing of our properties. Substantially all of our revenues consist of base rents received under leases that generally have terms that range from month-to-month to over 15 years. Approximately 72% of our existing leases as of June 30, 2010 contain step up rental clauses that provide for increases in the base rental payments. We estimate that approximately 14% of our properties have expandable redevelopment potential to add approximately 300,000 revenue producing square feet. The following table summarizes certain information relating to our properties as of June 30, 2010:

	Leasable Square Feet	Average Occupancy as of 6/30/10	Annualized Base Rental Revenue (in thousands) ⁽¹⁾	Average Annualized Base Rental Revenue Per Sq. Ft. ⁽²⁾
Commercial Properties				
Retail	1,180,751	82%	\$ 9,915	\$ 10.26
Office/Flex	1,201,672	85%	8,291	8.12
Office	631,841	76%	7,715	16.04
Total	3,014,264	82%	\$ 25,921	\$ 10.51

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- (1) Calculated as the tenant's actual June 30, 2010 base rent multiplied by 12. Excludes vacant space as of June 30, 2010. Because annualized base rental revenue is not derived from historical results that were accounted for in accordance with generally accepted accounting principles, historical results differ from the annualized amounts.
- (2) Calculated as annualized base rent divided by net rentable square feet leased at June 30, 2010. Excludes vacant space at June 30, 2010.

Our Ownership Structure

Our properties are owned and substantially all of our business is conducted through Whitestone REIT Operating Partnership, L.P., a Delaware limited partnership organized in 1998, which we refer to as our Operating Partnership, and its wholly-owned subsidiaries. Whitestone REIT is the sole general partner of the Operating Partnership. As of June 30, 2010, we owned approximately a 65% interest in our Operating Partnership, and other limited partners collectively own approximately a 35% limited partnership interest. Each unit of limited partnership interest in our Operating Partnership, which we call an OP unit, are redeemable at the election of the holder for cash or, at our option, one of our Class A common shares. This operating structure is sometimes referred to as an Umbrella Partnership Real Estate Investment Trust, or UPREIT. Our UPREIT structure enables a seller to contribute property to our Operating Partnership on a tax-deferred basis in exchange for OP units while affording us the opportunity to issue equity on an efficient basis without commissions and without a lag period to invest the equity proceeds in productive assets. We believe this structure allows us to pursue acquisition opportunities that might not otherwise be available if the only consideration that could be offered to the seller was cash. See The Operating Partnership Agreement.

The following chart illustrates our operating structure and ownership as of June 30, 2010:

- (1) Whitestone REIT is the 65% owner and the general partner of our Operating Partnership. This percentage will increase to 79% after completion of this offering.
- (2) Management and Board ownership of Class A common shares and OP units currently represents 9.3% of all Class A common shares assuming conversion of all OP units, excluding OP units held by Whitestone REIT.

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Restriction on Ownership and Transfer

Our Articles of Amendment and Restatement, or our declaration of trust, with certain exceptions, authorize our trustees to take such actions as are necessary and desirable to preserve our qualification as a REIT. Unless exempted by our Board, no person or entity may beneficially own, or be deemed to own by virtue of the applicable constructive ownership provisions of the Internal Revenue Code of 1986, as amended, or the Code, more than 9.8% (by value or by number of shares, whichever is more restrictive) of our outstanding Class A or Class B common shares or more than 9.8% (by value or by number of shares, whichever is more restrictive) of the outstanding shares of any class or series of our preferred shares. See [Description of Securities](#) [Restrictions on Ownership and Transfer](#). These restrictions on transferability and ownership will not apply if our Board determines that it is no longer in our best interests to continue to qualify as a REIT.

With certain limited exceptions, our OP units may not be transferred, in whole or in part, without our written consent as the general partner, which consent we may withhold at our sole discretion. We may not consent to any transfer that would cause our Operating Partnership to be treated as a corporation for federal income tax purposes.

Our Tax Status

We elected to be treated as a REIT for federal income tax purposes commencing with our taxable year ended December 31, 1999. To maintain our REIT status, we must meet a number of organizational and operational requirements, including a requirement that we annually distribute to our shareholders at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gains. As a REIT, we generally are not subject to federal income tax on our REIT taxable income that we distribute currently to our shareholders. If we fail to maintain our status as a REIT in any taxable year, we will be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. Even if we qualify for taxation as a REIT, we may be subject to some federal, state and local taxes on our income or property. See [Material U.S. Federal Income Tax Considerations](#).

Our REIT status depends upon our ability to meet, for each taxable year, various requirements imposed under the Code. Those requirements involve the percentage of income that we earn from specified sources, the percentage of our assets that falls within specified categories, the diversity of our share ownership, and the percentage of our earnings that we distribute. For a discussion of the tax consequences of our failure to qualify as a REIT, see [Material U.S. Federal Income Tax Considerations](#) [Requirements for Qualification as a REIT](#) [Failure to Qualify as a REIT](#).

Our REIT status also depends upon our Operating Partnership continuing to be treated as a partnership for federal income tax purposes and not as a publicly traded partnership taxable as a corporation under the Code. This treatment is dependent upon at least 90% of our Operating Partnership's gross income for each taxable year being specified passive income including real property rents, gains from the sale or other disposition of real property, interest and dividends. If our Operating Partnership fails to qualify for taxation as a partnership, we will fail certain asset and income tests required for REIT status.

Our Distribution Policy

In order to maintain our status as a REIT, we must annually distribute to our shareholders an amount at least equal to: (i) 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gains; plus (ii) 90% of the excess of our net income from foreclosure property over the tax imposed on such income by the Code; less (iii) any excess non-cash income, as determined under Section 857 of the Code.

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We declared the following distributions to our shareholders and holders of OP units with respect to 2007, 2008, 2009 and the six months ended June 30, 2010:

	Distributions Per Share⁽¹⁾/OP Unit
2007	
First Quarter	\$ 0.4500
Second Quarter	0.4500
Third Quarter	0.4500
Fourth Quarter	0.4500
2008	
First Quarter	\$ 0.4500
Second Quarter	0.4500
Third Quarter	0.3375
Fourth Quarter	0.3375
2009	
First Quarter	\$ 0.3375
Second Quarter	0.3375
Third Quarter	0.3375
Fourth Quarter	0.3375
2010	
First Quarter	\$ 0.3375
Second Quarter	0.2850

⁽¹⁾ Distributions paid with respect to Class A common shares.

The timing and frequency of all distributions will be authorized by our Board and declared by us based upon a number of factors, including:

our funds from operations;

our debt service requirements;

our capital expenditure requirements for our properties;

our taxable income, combined with the annual distribution requirements necessary to maintain REIT qualification;

requirements of Maryland law;

our overall financial condition; and

other factors deemed relevant by our Board.

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Effective with the quarterly dividend declared for the third quarter 2008, we lowered our quarterly distribution rate to \$0.3375 per share and OP unit from \$0.4500 per share and OP unit in the prior quarter. Our distribution rate for the year ended December 31, 2009 was approximately 80% of our funds from operations per share. We typically declare our distributions quarterly and pay our distributions in three equal monthly installments. For the second quarter 2010, we declared a distribution per share and OP unit of \$0.2850, which was or will be paid as follows: \$0.0950 on July 8, 2010, \$0.0950 on August 6, 2010 and \$0.0950 on September 7, 2010. This represents a decrease from the quarterly distribution rate of \$0.3375 per share and OP unit declared since the third quarter 2008. We intend to pay a pro rata distribution, covering the partial quarter commencing on the closing of this offering and ending on September 30, 2010, to the purchasers of Class B common shares in this offering.

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We cannot assure you that our distributions will be made or sustained. Our actual results of operations may differ materially from our current expectations. Our actual results of operations will be affected by a number of factors, including the revenue we receive from our properties, our operating expenses, our ability to attract and retain tenants, interest expense, the ability of our tenants to meet their obligations and unanticipated expenditures. There can be no assurance that we will be able to pay or maintain cash distributions or that distributions will increase over time.

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The Offering

Class B common shares offered by us 3,333,333

Common shares and OP units outstanding after this offering:

Class A common shares 3,487,031⁽¹⁾

Class B common shares 3,333,333⁽²⁾

OP units 1,814,599⁽³⁾

Dividend rights Each Class B common share will be entitled to dividends equal to the dividends with respect to each Class A common share.

Voting rights Each Class A and Class B common share entitles its holder to one vote on all matters submitted to shareholders. The Class B common shares will vote together with the Class A common shares as a single class.

Use of proceeds We estimate that the net proceeds from this offering will be approximately \$45.0 million, based upon the assumed price of \$15.00 per Class B common share and after deducting the underwriting discount and estimated offering expenses of \$5.0 million payable by us. If the underwriters' over-allotment option is exercised in full, our net proceeds will be approximately \$52.0 million. We will contribute the net proceeds from this offering to our Operating Partnership in exchange for OP units. Our Operating Partnership intends to use the net proceeds from the offering (1) to acquire commercial properties in our target markets, (2) to acquire loans with the intent to acquire the underlying property through foreclosure or deed in lieu of foreclosure within a short period of time, (3) to redevelop and re-tenant existing properties to create Whitestone-branded Community Centered Properties and (4) for general corporate purposes. Pending these uses, we intend to invest the net offering proceeds in interest-bearing, short-term, marketable investment grade securities or money market accounts that are consistent with our intention to qualify as a REIT.

Proposed NYSE Amex symbol for Class B common shares WSR

⁽¹⁾ Excludes 478,550 Class A common shares available for issuance under our 2008 Long-Term Equity Incentive Ownership Plan.

⁽²⁾ Excludes up to 500,000 Class B common shares that may be issued by us upon exercise of the underwriters' over-allotment option.

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⁽³⁾ OP units are redeemable for cash or, at our option, Class A common shares on a one-for-one basis.

Our Principal Office

Our principal office is located at 2600 South Gessner, Suite 500, Houston, Texas 77063. Our telephone number is (713) 827-9595. We maintain an Internet site at www.whitestonereit.com. Our internet website and the information contained therein or connected thereto do not constitute a part of this prospectus.

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The following table sets forth our summary historical consolidated financial, operating and other data. You should read the following historical information in conjunction with our historical consolidated financial statements and notes thereto included elsewhere in this prospectus.

Our historical consolidated balance sheet data as of December 31, 2009, 2008 and 2007 and consolidated statement of operations data for the years ended December 31, 2009, 2008 and 2007 have been derived from our audited historical combined financial statements.

Our unaudited historical consolidated balance sheet data as of June 30, 2010 and the unaudited historical consolidated statement of operations data for the six months ended June 30, 2010 and 2009 are derived from our unaudited historical consolidated financial statements. In the opinion of our management, the unaudited historical combined balance sheet data as of June 30, 2010 and the historical consolidated statements of operations for the six months ended June 30, 2010 and 2009 include all adjustments, consisting only of normal and recurring adjustments, necessary for a fair presentation of the results for those periods.

All per share data set forth below has been adjusted to give effect to the 1-for-3 reverse share split of our Class A common shares to be effected in connection with this offering.

Our historical consolidated financial data included below and set forth elsewhere in this prospectus are not necessarily indicative of our future performance.

You should read the following summary financial and other data together with Business and Properties, Management's Discussion and Analysis of Financial Condition and Results of Operations and our historical financial statements and related notes appearing elsewhere in this prospectus.

	Six Months Ended June 30,		Year Ended December 31,		
	2010	2009	2009	2008	2007
	(in thousands)				
Operating Data:					
Revenues	\$ 15,541	\$ 16,247	\$ 32,685	\$ 31,201	\$ 29,374
Property expenses	5,992	6,505	12,991	12,835	12,236
General and administrative ⁽¹⁾	2,472	3,054	6,072	6,708	6,721
Depreciation and amortization	3,493	3,418	6,958	6,859	6,048
Involuntary conversion		190	(1,542)	358	
Interest expense, net	2,797	2,876	5,713	5,675	4,825
Other expense (income), net					30
Income (loss) from continuing operations before loss on disposal of assets and income taxes	787	204	2,493	(1,234)	(486)
Provision for income taxes	(156)	(111)	(222)	(219)	(217)
Loss on disposal of assets	(41)	(53)	(196)	(223)	(9)
Income (loss) from continuing operations	590	40	2,075	(1,676)	(712)
Income (loss) from discontinued operations				(188)	589
Gain on sale of properties from discontinued operations				3,619	
Net income (loss)	590	40	2,075	1,755	(123)
Less: net income (loss) attributable to noncontrolling interests	207	14	733	621	(46)
Net income (loss) attributable to Whitestone REIT	\$ 383	\$ 26	\$ 1,342	\$ 1,134	\$ (77)

(1)

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General and administrative expenses for the years ended December 31, 2008 and 2007 include approximately \$1.5 million and \$2.2 million, respectively, of legal costs resulting from litigation with our former CEO and our former external advisor.

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	Six Months Ended June 30,		Year Ended December 31,		
	2010	2009	2009	2008	2007
Earnings per common share basic					
Income (loss) from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	\$ 0.12	\$ 0.00	\$ 0.41	\$ (0.32)	\$ (0.13)
Income from discontinued operations attributable to Whitestone REIT				0.67	0.11
Net income (loss) attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$ 0.12	\$ 0.00	\$ 0.41	\$ 0.35	\$ (0.02)
Earnings per common share diluted					
Income (loss) from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	\$ 0.12	\$ 0.00	\$ 0.40	\$ (0.32)	\$ (0.13)
Income from discontinued operations attributable to Whitestone REIT				0.67	0.11
Net income (loss) attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$ 0.12	\$ 0.00	\$ 0.40	\$ 0.35	\$ (0.02)

	Six Months Ended June 30,		Year Ended December 31,		
	2010	2009	2009	2008	2007
	(in thousands, except per share data and gross leasable area)				
Balance Sheet Data:					
Real estate (net)	\$ 156,444	\$ 159,407	\$ 158,398	\$ 150,847	\$ 146,460
Real estate (net), discontinued operations					7,932
Other assets	19,848	27,948	23,602	27,098	20,752
Total assets	\$ 176,292	\$ 187,355	\$ 182,000	\$ 177,945	\$ 175,144
Liabilities	\$ 111,642	\$ 119,495	\$ 115,141	\$ 110,773	\$ 94,262
Whitestone REIT shareholders' equity	42,304	44,086	43,590	45,891	52,843
Noncontrolling interest in subsidiary	22,346	23,774	23,269	21,281	28,039
	\$ 176,292	\$ 187,355	\$ 182,000	\$ 177,945	\$ 175,144

Other Data:

Proceeds from issuance of common shares	\$		\$	\$	\$ 261
Additions to real estate	929	7,302	9,230	5,153	10,205
Dividends and distributions per share ⁽²⁾	0.68	0.68	1.35	1.59	1.80
Funds from operations ⁽³⁾	3,860	3,189	8,618	4,236	6,001
Occupancy at period end	82%	82%	82%	84%	86%
Average aggregate gross leasable area	3,014,264	3,039,300	3,039,300	3,008,085	3,093,063
Average annualized rent per square foot	10.31	10.69	10.76	10.37	9.50

⁽²⁾ The dividends per share represent total cash payments divided by weighted average common shares.

⁽³⁾ We believe that Funds From Operations (FFO) is an appropriate supplemental measure of operating performance because it helps our investors compare our operating performance relative to other REITs. The National Association of Real Estate Investment Trusts (NAREIT) defines FFO as net income (loss) available to common shareholders computed in accordance with GAAP, excluding gains or losses from sales of operating properties and extraordinary items, plus depreciation and amortization of real estate assets, including our share of unconsolidated partnerships and joint ventures. We calculate FFO in a manner consistent with the NAREIT definition.

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	Six Months		Year Ended December 31,		
	Ended June 30, 2010	2009	2009	2008	2007
	(in thousands)				
Net income (loss) attributable to Whitestone REIT	\$ 383	\$ 26	\$ 1,342	\$ 1,134	\$ (77)
Depreciation and amortization of real estate assets ⁽¹⁾	3,229	3,096	6,347	5,877	6,108
(Gain) loss on sale or disposal of assets ⁽¹⁾	41	53	196	(3,396)	16
Net income (loss) attributable to noncontrolling interests	207	14	733	621	(46)
FFO	\$ 3,860	\$ 3,189	\$ 8,618	\$ 4,236	\$ 6,001

⁽¹⁾ Including amounts for discontinued operations.

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RISK FACTORS

An investment in our common shares involves risks. In addition to other information contained in this prospectus, you should carefully consider the following factors before acquiring our Class B common shares offered by this prospectus. The occurrence of any of the following risks might cause you to lose all or a part of your investment. Some statements in this prospectus, including statements in the following risk factors, constitute forward-looking statements, as described in the section entitled Forward-Looking Statements.

Risks Associated with Real Estate

The recent market disruptions may significantly and adversely affect our financial condition and results of operations.

The United States is currently in a recession that has resulted in increased unemployment, weakening of tenant financial condition, large-scale business failures and tight credit markets. Our results of operations may be sensitive to changes in overall economic conditions that impact tenant leasing practices. A continuation of ongoing adverse economic conditions affecting tenant income, such as employment levels, business conditions, interest rates, tax rates, fuel and energy costs and other matters, could reduce overall tenant leasing or cause tenants to shift their leasing practices. In addition, periods of economic slowdown or recession, rising interest rates or declining demand for real estate, or the public perception that any of these events may occur, could result in a general decline in rents or an increased incidence of defaults under existing leases. At this time, it is difficult to determine the breadth and duration of the economic and financial market problems and the many ways in which they may affect our tenants and our business in general. A general reduction in the level of tenant leasing could adversely affect our ability to maintain our current tenants and gain new tenants, affecting our growth and profitability. Accordingly, continuation or further worsening of these difficult financial and macroeconomic conditions could have a significant adverse effect on our cash flows, profitability and results of operations.

Real estate property investments are illiquid due to a variety of factors and therefore we may not be able to dispose of properties when appropriate or on favorable terms.

Our strategy includes opportunistically selling properties that do not have the potential to meet our Community Centered Property strategy. However, real estate property investments generally cannot be disposed of quickly. In addition, the Code imposes restrictions on the ability of a REIT to dispose of properties that are not applicable to other types of real estate companies. Therefore, we may not be able to vary our portfolio in response to economic or other conditions promptly or on favorable terms, which could cause us to incur extended losses, reduce our cash flows and adversely affect distributions to shareholders.

We cannot predict whether we will be able to sell any property for the price or on the terms set by us or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. To the extent we are unable to sell any properties for our book value, we may be required to take a non-cash impairment charge or loss on the sale, either of which would reduce our net income.

We may be required to expend funds and time to correct defects or to make improvements before a property can be sold. We cannot assure you that we will have funds available to correct those defects or to make those improvements, which may impede our ability to sell a property. Further, we may agree to transfer restrictions that materially restrict us from selling that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property. These transfer restrictions would impede our ability to sell a property even if we deem it necessary or appropriate. These facts and any others that would further contribute to the illiquid character of real estate properties and impede our ability to respond to adverse changes in the performance of our properties may have a material adverse effect on our business, financial condition, results of operations, our ability to make distributions to our shareholders and the trading price of our Class B common shares.

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Our business is dependent upon our tenants successfully operating their businesses and their failure to do so could have a material adverse effect on our ability to successfully and profitably operate our business.

We depend on our tenants to operate the properties we own in a manner which generates revenues sufficient to allow them to meet their obligations to us, including their obligations to pay rent, maintain certain insurance coverage, pay real estate taxes and maintain the properties in a manner so as not to jeopardize their operating licenses or regulatory status. The ability of our tenants to fulfill their obligations under our leases may depend, in part, upon the overall profitability of their operations. Cash flow generated by certain tenant businesses may not be sufficient for a tenant to meet its obligations to us. Our financial position could be weakened and our ability to fulfill our obligations under our indebtedness could be limited if a number of our tenants were unable to meet their obligations to us or failed to renew or extend their relationship with us as their lease terms expire, or if we were unable to lease or re-lease our properties on economically favorable terms. These adverse developments could arise due to a number of factors, including those described in the risk factors discussed in this prospectus.

Turmoil in capital markets could adversely impact acquisition activities and pricing of real estate assets.

Volatility in capital markets could adversely affect acquisition activities by impacting certain factors, including the tightening of underwriting standards by lenders and credit rating agencies and the significant inventory of unsold collateralized mortgage backed securities in the market. These factors directly affect a lender's ability to provide debt financing as well as increase the cost of available debt financing. As a result, we may not be able to obtain favorable debt financing in the future or at all. This may impair our ability to acquire properties or result in future acquisitions generating lower overall economic returns, which may adversely affect our results of operations and distributions to shareholders. Furthermore, any turmoil in the capital markets could adversely impact the overall amount of capital available to invest in real estate, which may result in price or value decreases of real estate assets.

The value of investments in our common shares will be directly affected by general economic and regulatory factors we cannot control or predict.

Investments in real estate typically involve a high level of risk as the result of factors we cannot control or predict. One of the risks of investing in real estate is the possibility that our properties will not generate income sufficient to meet operating expenses or will generate income and capital appreciation, if any, at rates lower than those anticipated or available through investments in comparable real estate or other investments. The following factors may affect income from properties and yields from investments in properties and are generally outside of our control:

conditions in financial markets;

over-building in our markets;

a reduction in rental income as a result of the inability to maintain occupancy levels;

adverse changes in applicable tax, real estate, environmental or zoning laws;

changes in general economic conditions;

a taking of any of our properties by eminent domain;

adverse local conditions (such as changes in real estate zoning laws that may reduce the desirability of real estate in the area);

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acts of God, such as hurricanes, earthquakes or floods and uninsured losses;

changes in supply of or demand for similar or competing properties in an area;

changes in interest rates and availability of debt capital, which may render the sale of a property difficult or unattractive; and

periods of high interest rates, inflation or tight money supply.

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Some or all of these factors may affect our properties, which could adversely affect our operations and ability to pay dividends to shareholders.

All of our properties are subject to property taxes that may increase in the future, which could adversely affect our cash flow.

Our properties are subject to property taxes that may increase as property tax rates change and as the properties are assessed or reassessed by taxing authorities. As the owner of the properties, we are ultimately responsible for payment of the taxes to the government. If property taxes increase, our tenants may be unable to make the required tax payments, ultimately requiring us to pay the taxes. In addition, we will generally be responsible for property taxes related to any vacant space in our properties.

Compliance or failure to comply with laws requiring access to our properties by disabled persons could result in substantial cost.

The Americans with Disabilities Act, or ADA, and other federal, state and local laws generally require public accommodations be made accessible to disabled persons. Noncompliance could result in the imposition of fines by the government or the award of damages to private litigants. These laws may require us to modify our existing properties. These laws may also restrict renovations by requiring improved access to such buildings by disabled persons or may require us to add other structural features which increase our construction costs. Legislation or regulations adopted in the future may impose further burdens or restrictions on us with respect to improved access by disabled persons. We may incur unanticipated expenses that may be material to our financial condition or results of operations to comply with ADA and other federal, state and local laws, or in connection with lawsuits brought by private litigants.

We face intense competition, which may decrease, or prevent increases of, the occupancy and rental rates of our properties.

We compete with a number of developers, owners and operators of commercial real estate, many of which own properties similar to ours in the same markets in which our properties are located. If our competitors offer space at rental rates below current market rates, or below the rental rates we currently charge our tenants, we may lose existing or potential tenants and we may be pressured to reduce our rental rates below those we currently charge or to offer more substantial rent abatements, tenant improvements, early termination rights or below-market renewal options in order to retain tenants when our tenants' leases expire. This competitive environment could have a material adverse effect on our ability to lease our properties or any newly developed or acquired property, as well as on the rents charged.

Risks Associated with Our Operations

Because of the current lack of geographic diversification of our portfolio, an economic downturn in the Houston metropolitan area could adversely impact our operations and ability to pay dividends to our shareholders.

The majority of our assets and revenues are currently derived from properties located in the Houston metropolitan area. As of June 30, 2010, we had 79% of our gross leasable square feet in Houston. Our results of operations are directly contingent on our ability to attract financially sound commercial tenants. A significant economic downturn may adversely impact our ability to locate and retain financially sound tenants and could have an adverse impact on our tenants' revenues, costs and results of operations and may adversely affect their ability to meet their obligations to us. Likewise, we may be required to lower our rental rates to attract desirable tenants in such an environment. Consequently, because of the lack of geographic diversity among our current assets, if the Houston metropolitan area experiences an economic downturn, our operations and ability to pay dividends to our shareholders could be adversely impacted.

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We lease our properties to approximately 800 tenants, with 10% to 20% of our leases expiring annually. Each year we face the risk of non-renewal of a material percentage of our leases and the cost of re-leasing a significant amount of our available space, and our failure to meet leasing targets and control the cost of re-leasing our properties could adversely affect our rental revenue, operating expenses and results of operations.

The nature of our business model warrants shorter term leases to smaller, non-national tenants, and substantially all of our revenues consist of base rents received under these leases. As of June 30, 2010, approximately 41% of the aggregate gross leasable area of our properties is subject to leases that expire prior to December 31, 2012, which includes our largest tenant, which accounted for less than 3% of our total revenues for the three months ended June 30, 2010. We are subject to the risk that:

tenants may choose not to, or may not have the financial resources to, renew these leases;

we may experience significant costs associated with re-leasing a significant amount of our available space;

we may not be able to easily re-lease the space subject to these leases, which may cause us to fail to meet our leasing targets or control the costs of re-leasing; and

the terms of any renewal or re-lease may be less favorable than the terms of the current leases.

We routinely seek to renew leases with our existing tenants prior to their expiration and typically begin discussions with tenants as early as 18 months prior to the expiration date of the existing lease. While our early renewal program and other leasing and marketing efforts target these expiring leases, and while we hope to re-lease most of that space prior to expiration of the leases at rates comparable to or slightly in excess of the current rates, market conditions, including new supply of properties, and macroeconomic conditions in Houston and nationally could adversely impact our renewal rate and/or the rental rates we are able to negotiate. If any of these risks materialize, our rental revenue, operating expenses and results of operations could be adversely affected.

Many of our tenants are small businesses, which may have a higher risk of bankruptcy or insolvency.

Many of our tenants are small, local businesses with little capital that depend on cash flows from their businesses to pay their rent and are therefore at a higher risk of bankruptcy or insolvency than larger, national tenants. The bankruptcy or insolvency of a number of smaller tenants may have an adverse impact on our income and our ability to pay dividends.

We receive substantially all of our income as rent payments under leases of our properties. We have no control over the success or failure of our tenants' businesses and, at any time, any of our tenants may experience a downturn in its business that may weaken its financial condition. As a result, our tenants may fail to make rent payments when due or declare bankruptcy. For example, on November 10, 2008, one of our tenants, Circuit City, which leased space at one of our properties and represented approximately 1.3% of our total rent for the year ended December 31, 2008, filed for reorganization under Chapter 11 of the Bankruptcy Code. The tenant elected to reject our lease.

If tenants are unable to comply with the terms of the leases, we may be forced to modify the leases in ways that are unfavorable to us. Alternatively, the failure of a tenant to perform under a lease could require us to declare a default, repossess the space and find a suitable replacement tenant. There is no assurance that we would be able to lease the space on substantially equivalent or better terms than the prior lease, or at all, or successfully reposition the space for other uses.

If any lease expires or is terminated, we could be responsible for all of the operating expenses for that portion of the property until it is re-leased. If we experience a significant number of un-leased spaces, our operating expenses could increase significantly. Any significant increase in our operating expenses may have a material adverse effect on our business, financial condition and results of operations, our ability to make distributions to our shareholders and the trading price of our Class B common shares.

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Any bankruptcy filing by or relating to one of our tenants could bar all efforts by us to collect pre- bankruptcy debts from that tenant or seize its property. A tenant bankruptcy could also delay our efforts to collect past due balances under the leases and could ultimately preclude collection of all or a portion of these sums. It is possible that we may recover substantially less than the full value of any unsecured claims we hold, if any, which may have a material adverse effect on our business, financial condition and results of operations, our ability to make distributions to our shareholders and the trading price of our Class B common shares. Furthermore, dealing with a tenant's bankruptcy or other default may divert management's attention and cause us to incur substantial legal and other costs.

If one or more of our tenants files for bankruptcy relief, the Bankruptcy Code provides that a debtor has the option to assume or reject the unexpired lease within a certain period of time. The Bankruptcy Code generally requires that a debtor must assume or reject a contract in its entirety. Thus, a debtor cannot choose to keep the beneficial provisions of a contract while rejecting the burdensome ones; the contract must be assumed or rejected as a whole. However, where under applicable law a contract (even though it is contained in a single document) is determined to be divisible or severable into different agreements, or similarly, where a collection of documents is determined to constitute separate agreements instead of a single, integrated contract, then in those circumstances a debtor/trustee may be allowed to assume some of the divisible or separate agreements while rejecting the others.

Uninsured losses relating to real property or excessively expensive premiums for insurance coverage may adversely affect our returns.

We attempt to adequately insure all of our properties to cover casualty losses. However, there are types of losses, generally catastrophic in nature, such as losses due to wars, acts of terrorism, earthquakes, floods, hurricanes, pollution or environmental matters, which are uninsurable or not economically insurable, or may be insured subject to limitations, such as large deductibles or co-payments. Our current geographic concentration in the Houston metropolitan area potentially increases the risk of damage to our portfolio due to hurricanes. Insurance risks associated with potential terrorism acts could sharply increase the premiums we pay for coverage against property and casualty claims. In some instances, we may be required to provide other financial support, either through financial assurances or self-insurance, to cover potential losses. We cannot assure you that we will have adequate coverage for these losses. Also, to the extent we must pay unexpectedly large insurance premiums, we could suffer reduced earnings that would result in less cash to be distributed to shareholders as dividends.

Discovery of previously undetected environmentally hazardous conditions may adversely affect our operating results.

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the cost of removal or remediation of hazardous or toxic substances on, under or in its property. The costs of removal or remediation could be substantial. These laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of any hazardous or toxic substances. Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require substantial expenditures. Environmental laws provide for sanctions in the event of noncompliance and may be enforced by governmental agencies or, in certain circumstances, by private parties. Certain environmental laws and common law principles could be used to impose liability for release of and exposure to hazardous substances, including asbestos containing materials into the air. In addition, third parties may seek recovery from owners or operators of real properties for personal injury or property damage associated with exposure to released hazardous substances. The cost of defending against claims of liability, of compliance with environmental regulatory requirements, of remediating any contaminated property, or of paying personal injury claims could materially adversely affect our business, assets or results of operations and, consequently, amounts available for payments of dividends to our shareholders.

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We may not be successful in consummating suitable acquisitions or investment opportunities, which may impede our growth and negatively affect our results of operations.

Our ability to expand through acquisitions is integral to our business strategy and requires us to consummate suitable acquisition or investment opportunities that meet our criteria and are compatible with our growth strategy. We may not be successful in consummating acquisitions or investments in properties that meet our acquisition criteria on satisfactory terms or at all. Failure to consummate acquisitions or investment opportunities, or to integrate successfully any acquired properties without substantial expense, delay or other operational or financial problems, would slow our growth, which could in turn adversely affect our Class B common share price.

Our ability to acquire properties on favorable terms may be constrained by the following significant risks:

competition from other real estate investors with significant capital, including other publicly-traded REITs and institutional investment funds;

competition from other potential acquirers which may significantly increase the purchase price for a property we acquire, which could reduce our growth prospects;

unsatisfactory results of our due diligence investigations or failure to meet other customary closing conditions; and

failure to finance an acquisition on favorable terms or at all.

If any of these risks are realized, our business, financial condition and results of operations, our ability to make distributions to our shareholders and the trading price of our Class B common shares may be materially and adversely affected.

We may face significant competition in our efforts to acquire financially distressed properties and debt.

Our acquisition strategy is focused on distressed commercial real estate, and we could face significant competition from other investors, such as publicly-traded REITs, hedge funds, private equity funds and other private real estate investors with greater financial resources and access to capital than us. Therefore, we may not be able to compete successfully for investments. In addition, the number of entities and the amount of purchasers competing for suitable investments may increase, all of which could result in competition for accretive acquisition opportunities and adversely affect our business plan, our ability to successfully invest the proceeds of this offering and our ability to maintain our current dividend rate.

Our success depends in part on our ability to execute our Community Centered Property strategy.

Our Community Centered Property strategy is newly adopted and requires intensive management of a large number of small spaces and small tenant relationships. Our success will depend in part upon our management's ability to identify potential Community Centered Properties and find and maintain the appropriate tenants to create such a property. Lack of market acceptance of our Community Centered Property strategy or our inability to successfully attract and manage a large number of tenant relationships could adversely affect our occupancy rates, operating results and dividend rate.

Loss of our key personnel, particularly our eight senior managers, could threaten our ability to execute our strategy and operate our business successfully.

We are dependent on the experience and knowledge of our key executive personnel, particularly our eight senior managers who have been instrumental in setting our strategic direction, operating our business, identifying, recruiting and training key personnel and arranging necessary financing. Losing the services of any of these individuals could adversely affect our business until qualified replacements could be found. We also believe that they could not quickly be replaced with managers of equal experience and capabilities and their successors may not be as effective.

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Our systems may not be adequate to support our growth, and our failure to successfully oversee our portfolio of properties could adversely affect our results of operations.

We cannot assure you that we will be able to adapt our portfolio management, administrative, accounting and operational systems, or hire and retain sufficient operational staff, to support any growth we may experience. Our failure to successfully oversee our current portfolio of properties or any future acquisitions or developments could have a material adverse effect on our results of operations and financial condition and our ability to make distributions.

There can be no assurance that we will be able to pay or maintain cash dividends or that dividends will increase over time.

There are many factors that can affect the availability and timing of cash dividends to shareholders. Dividends will be based principally on cash available from our properties, real estate securities, mortgage loans and other investments. The amount of cash available for dividends will be affected by many factors, such as our ability to buy properties, the yields on securities of other real estate programs that we invest in, and our operating expense levels, as well as many other variables. We can give no assurance that we will be able to pay or maintain dividends or that dividends will increase over time. In addition, we can give no assurance that rents from the properties will increase, that the securities we buy will increase in value or provide constant or increased dividends over time, or that future acquisitions of real properties, mortgage loans or our investments in securities will increase our cash available for dividends to shareholders. Our actual results may differ significantly from the assumptions used by our Board in establishing the dividend rate to shareholders.

If we experience decreased cash flows, we may need to use other sources of cash to fund dividends or we may be unable to pay dividends.

Actual cash available for dividends may vary substantially from estimates. If our cash dividends exceed the amount of cash available for dividends, we may need to fund the shortage out of working capital or by obtaining other debt, which would reduce the amount of proceeds available for real estate investments.

Our assets may be subject to impairment charges.

We periodically evaluate our real estate investments and other assets for impairment indicators. The judgment regarding the existence of impairment indicators is based on factors such as market conditions, tenant performance and legal structure. If we determine that a significant impairment has occurred, we would be required to make an adjustment to the net carrying value of the asset, which could have a material adverse effect on our results of operations and funds from operations in the period in which the write-off occurs.

Recent healthcare reform legislation may affect our revenue and financial condition.

On March 23, 2010, the President signed into law the Patient Protection and Affordable Care Act of 2010 and on March 30, 2010, the President signed into law the Health Care and Education Reconciliation Act, which in part modified the Patient Protection and Affordable Care Act. Together, the two Acts serve as the primary vehicle for comprehensive health care reform in the United States. The Acts are intended to reduce the number of individuals in the United States without health insurance and effect significant other changes to the ways in which health care is organized, delivered and reimbursed. The complexities and ramifications of the new legislation are significant, and will be implemented in a phased approach beginning in 2010 and concluding in 2018. At this time, the effects of health care reform and its impact on our business, our revenues and financial condition and those of our tenants are not yet known. Accordingly, the reform could adversely affect the cost of providing healthcare coverage generally and the financial success of our tenants and consequently us.

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Risks Associated with Our Indebtedness and Financing

Current market conditions could adversely affect our ability to refinance existing indebtedness or obtain additional financing for growth on acceptable terms or at all, which could adversely affect our ability to grow, our interest cost and our results of operations.

The United States credit markets have recently experienced significant dislocations and liquidity disruptions, including the bankruptcy, insolvency or restructuring of certain financial institutions. These circumstances have materially impacted liquidity in the debt markets, making financing terms for borrowers less attractive, and in certain cases have resulted in the unavailability of various types of debt financing. Reductions in our available borrowing capacity, or inability to establish a credit facility when required or when business conditions warrant, could have a material adverse effect on our business, financial condition and results of operations. In addition, we mortgage most of our properties to secure payment of indebtedness. If we are not successful in refinancing our mortgage debt upon maturity, then the property could be foreclosed upon or transferred to the mortgagee, or we might be forced to dispose of some of our properties upon disadvantageous terms, with a consequent loss of income and asset value. A foreclosure or disadvantageous disposal on one or more of our properties could adversely affect our ability to grow, financial condition, interest cost, results of operations, cash flow and ability to pay dividends to our shareholders.

Furthermore, if prevailing interest rates or other factors at the time of refinancing result in higher interest rates upon refinancing, then the interest expense relating to that refinanced indebtedness would increase. Higher interest rates on newly incurred debt may negatively impact us as well. If interest rates increase, our interest costs and overall costs of capital will increase, which could adversely affect our transaction and development activity, financial condition, results of operation, cash flow, our ability to pay principal and interest on our debt and our ability to pay dividends to our shareholders.

If we invest in mortgage loans, such investments may be affected by unfavorable real estate market conditions, including interest rate fluctuations, which could decrease the value of those loans and the return on your investment.

If we invest in mortgage loans, we will be at risk of defaults by the borrowers on those mortgage loans as well as interest rate risks. To the extent we incur delays in liquidating such defaulted mortgage loans, we may not be able to obtain all amounts due to us under the mortgage loans. Further, we will not know whether the values of the properties securing the mortgage loans will remain at the levels existing on the dates of origination of those mortgage loans or the dates of our investment in the loans. If the values of the underlying properties fall, our risk will increase because of the lower value of the security associated with such loans.

We may incur losses on interest rate hedging arrangements.

Periodically, we have entered into agreements to reduce the risks associated with increases in interest rates, and may continue to do so. Although these agreements may partially protect against rising interest rates, they also may reduce the benefits to us if interest rates decline. If a hedging arrangement is not indexed to the same rate as the indebtedness which is hedged, we may be exposed to losses to the extent which the rate governing the indebtedness and the rate governing the hedging arrangement change independently of each other. Finally, nonperformance by the other party to the hedging arrangement may subject us to increased credit risks.

Our failure to hedge effectively against interest rate changes may adversely affect results of operations.

We currently have mortgages that bear interest at a variable rate and we may incur additional variable rate debt in the future. Accordingly, increases in interest rates on variable rate debt would increase our interest expense, which could reduce net earnings and cash available for payment of our debt obligations and distributions to our shareholders.

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We may seek to manage our exposure to interest rate volatility by using interest rate hedging arrangements, such as interest cap agreements and interest rate swap agreements. These agreements involve risks, such as the risk that counterparties may fail to honor their obligations under these arrangements, that these arrangements may not be effective in reducing our exposure to interest rate changes and that a court could rule that such an agreement is not legally enforceable. In the past, we have used derivative financial instruments to hedge interest rate risks related to our variable rate borrowings. We will not use derivatives for speculative or trading purposes and intend only to enter into contracts with major financial institutions based on their credit rating and other factors, but we may choose to change this practice in the future. We may enter into interest rate swap agreements for our variable rate debt, which totals \$25.7 million as of June 30, 2010. Hedging may reduce the overall returns on our investments. Failure to hedge effectively against interest rate changes may materially adversely affect our results of operations.

We currently have and may incur additional mortgage indebtedness and other borrowings, which may increase our business risks and our ability to make distributions to our shareholders.

If it is determined to be in our best interests, we may, in some instances, acquire real properties by using either existing financing or borrowing new funds. In addition, we may incur or increase our current mortgage debt to obtain funds to acquire additional properties. We may also borrow funds if necessary to satisfy the REIT distribution requirement described above, or otherwise as may be necessary or advisable to assure that we maintain our qualification as a REIT for federal income tax purposes.

We may incur mortgage debt on a particular property if we believe the property's projected cash flow is sufficient to service the mortgage debt. As of June 30, 2010, we had approximately \$100.8 million of mortgage debt secured by 21 of our properties. If there is a shortfall in cash flow, however, the amount available for dividends to shareholders may be affected. In addition, incurring mortgage debt increases the risk of loss because defaults on such indebtedness may result in loss of property in foreclosure actions initiated by lenders. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds. We may give lenders full or partial guarantees for mortgage debt incurred by the entities that own our properties. When we give a guaranty on behalf of an entity that owns one of our properties, we will be responsible to the lender for satisfaction of the debt if it is not paid by that entity. If any mortgages contain cross-collateralization or cross-default provisions, there is a risk that more than one property may be affected by a default. If any of our properties are foreclosed upon due to a default, our ability to pay cash dividends to our shareholders will be adversely affected. For more discussion, see Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.

If we set aside insufficient working capital or are unable to secure funds for future tenant improvements, we may be required to defer necessary property improvements, which could adversely impact our ability to pay cash distributions to our shareholders.

When tenants do not renew their leases or otherwise vacate their space, it is possible that, in order to attract replacement tenants, we may be required to expend substantial funds for tenant improvements and tenant refurbishments to the vacated space. If we have insufficient working capital reserves, we will have to obtain financing from other sources. Because most of our leases will provide for tenant reimbursement of operating expenses, we do not anticipate that we will establish a permanent reserve for maintenance and repairs for our properties. However, to the extent that we have insufficient funds for such purposes, we may establish reserves for maintenance and repairs of our properties from gross proceeds of this offering, out of cash flow generated by operating properties or out of non-liquidating net sale proceeds. If these reserves or any reserves otherwise established are insufficient to meet our cash needs, we may have to obtain financing from either affiliated or unaffiliated sources to fund our cash requirements. We cannot assure you that sufficient financing will be

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available or, if available, will be available on economically feasible terms or on terms acceptable to us. Additional borrowing for working capital purposes will increase our interest expense, and therefore our financial condition and our ability to pay cash distributions to our shareholders may be adversely affected. In addition, we may be required to defer necessary improvements to our properties that may cause our properties to suffer from a greater risk of obsolescence or a decline in value, or a greater risk of decreased cash flow as a result of fewer potential tenants being attracted to our properties. If this happens, we may not be able to maintain projected rental rates for affected properties, and our results of operations may be negatively impacted.

We may structure acquisitions of property in exchange for limited partnership units in our Operating Partnership on terms that could limit our liquidity or our flexibility.

We may acquire properties by issuing limited partnership units in our Operating Partnership in exchange for a property owner contributing property to the Operating Partnership. If we enter into such transactions, in order to induce the contributors of such properties to accept units in our Operating Partnership, rather than cash, in exchange for their properties, it may be necessary for us to provide them with additional incentives. For instance, our Operating Partnership's limited partnership agreement provides that any holder of units may redeem limited partnership units for cash, or, at our option, Class A common shares on a one-for-one exchange basis. We may, however, enter into additional contractual arrangements with contributors of property under which we would agree to redeem a contributor's units for our Class A common shares or cash, at the option of the contributor, at set times. If the contributor required us to redeem units for cash pursuant to such a provision, it would limit our liquidity and thus our ability to use cash to make other investments, satisfy other obligations or pay distributions to you. Moreover, if we were required to redeem units for cash at a time when we did not have sufficient cash to fund the redemption, we might be required to sell one or more properties to raise funds to satisfy this obligation. Furthermore, we might agree that if distributions the contributor received as a limited partner in our Operating Partnership did not provide the contributor with a defined return, then upon redemption of the contributor's units we would pay the contributor an additional amount necessary to achieve that return. Such a provision could further negatively impact our liquidity and flexibility. Finally, in order to allow a contributor of a property to defer taxable gain on the contribution of property to our Operating Partnership, we might agree not to sell a contributed property for a defined period of time or until the contributor redeemed the contributor's units for cash or our Class A common shares. Such an agreement would prevent us from selling those properties, even if market conditions made such a sale favorable to us.

We may issue preferred shares with a preference in distributions over our common shares, and our ability to issue preferred shares and additional common shares may deter or prevent a sale of our common shares in which you could profit.

Our declaration of trust authorizes our Board to issue up to 50,000,000 Class A common shares, 350,000,000 Class B common shares and 50,000,000 preferred shares. Our Board may amend our declaration of trust from time to time to increase or decrease the aggregate number of shares or the number of shares of any class or series that we have authority to issue. In addition, our Board may classify or reclassify any unissued common shares or preferred shares and may set the preferences, rights and other terms of the classified or reclassified shares. The terms of preferred shares could include a preference in distributions over our common shares. If we authorize and issue preferred shares with a distribution preference over our common shares, payment of any distribution preferences of outstanding preferred shares would reduce the amount of funds available for the payment of distributions on our common shares. Further, holders of preferred shares are normally entitled to receive a preference payment in the event we liquidate, dissolve or wind up before any payment is made to our common shareholders, likely reducing the amount our common shareholders would otherwise receive upon such an occurrence. In addition, under certain circumstances, the issuance of preferred shares or a separate class or series of common shares may render more difficult or tend to discourage:

a merger, tender offer or proxy contest;

assumption of control by a holder of a large block of our shares; or

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removal of incumbent management.

Risks Associated with Income Tax Laws

If we fail to qualify as a REIT, our operations and dividends to shareholders would be adversely impacted.

We intend to continue to be organized and to operate so as to qualify as a REIT under the Code. A REIT generally is not taxed at the corporate level on income it currently distributes to its shareholders. Qualification as a REIT involves the application of highly technical and complex rules for which there are only limited judicial or administrative interpretations. The determination of various factual matters and circumstances not entirely within our control may affect our ability to continue to qualify as a REIT. In addition, new legislation, new regulations, administrative interpretations or court decisions could significantly change the tax laws, possibly with retroactive effect, with respect to qualification as a REIT or the federal income tax consequences of such qualification.

If we were to fail to qualify as a REIT in any taxable year:

we would not be allowed to deduct our distributions to shareholders when computing our taxable income;

we would be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates;

we would be disqualified from being taxed as a REIT for the four taxable years following the year during which qualification was lost, unless entitled to relief under certain statutory provisions;

our cash available for dividends to shareholders would be reduced; and

we may be required to borrow additional funds or sell some of our assets in order to pay corporate tax obligations that we may incur as a result of our disqualification.

If the Internal Revenue Service, or IRS, were to determine that (i) we failed the 5% asset test for the first quarter of our 2009 taxable year and (ii) our failure of that test was not attributable to reasonable cause, but rather, willful neglect, we would fail to qualify as a REIT for our 2009 taxable year, which would adversely affect our operations and our shareholders.

We recently discovered that we may have inadvertently violated the 5% asset test for the quarter ended March 31, 2009 as a result of utilizing a certain cash management arrangement with a commercial bank. If this investment in a commercial paper investment account is not treated as cash, and is instead treated as a security for purposes of the quarterly 5% asset test applicable to REITs, then we have failed that test for the first quarter of our 2009 taxable year.

If the IRS were to assert that we failed the 5% asset test for the first quarter of our 2009 taxable year and that such failure was not due to reasonable cause, and the courts were to sustain that position, our status as a REIT would terminate as of December 31, 2008. We would not be eligible to again elect REIT status until our 2014 taxable year. Consequently, we would be subject to federal income tax on our taxable income at regular corporate rates and our cash available for distributions to shareholders would be reduced. See Material U.S. Federal Income Tax Considerations Failure to Qualify as a REIT, which describes the consequences of our failure to qualify as a REIT.

Additionally, if we in fact failed the 5% test, but failure is considered due to reasonable cause and not willful neglect, we would be subject to a tax equal to the greater of \$50,000 or 35% of the net income from the commercial paper investment account during the period in which we failed to satisfy the 5% asset test. The amount of such tax is \$50,000 and we paid such tax on April 27, 2010.

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We may need to incur additional borrowings to meet the REIT minimum distribution requirement and to avoid excise tax.

In order to maintain our qualification as a REIT, we are required to distribute to our shareholders at least 90% of our annual real estate investment trust taxable income (excluding any net capital gain and before application of the dividends paid deduction). In addition, we are subject to a 4% nondeductible excise tax on the amount, if any, by which certain distributions paid by us with respect to any calendar year are less than the sum of (i) 85% of our ordinary income for that year, (ii) 95% of our net capital gain for that year and (iii) 100% of our undistributed taxable income from prior years. Although we intend to pay dividends to our shareholders in a manner that allows us to meet the 90% distribution requirement and avoid this 4% excise tax, we cannot assure you that we will always be able to do so.

Our income consists almost solely of our share of our Operating Partnership's income, and the cash available for distribution by us to our shareholders consists of our share of cash distributions made by our Operating Partnership. Because we are the sole general partner of our Operating Partnership, our Board determines the amount of any distributions made by it. Our Board may consider a number of factors in authorizing distributions, including:

the amount of the cash available for distribution;

our Operating Partnership's financial condition;

our Operating Partnership's capital expenditure requirements; and

our annual distribution requirements necessary to maintain our qualification as a REIT.

Differences in timing between the actual receipt of income and actual payment of deductible expenses and the inclusion of income and deduction of expenses when determining our taxable income, as well as the effect of nondeductible capital expenditures and the creation of reserves or required debt amortization payments could require us to borrow funds on a short-term or long-term basis or make taxable distributions to our shareholders of our shares or debt securities to meet the REIT distribution requirement and to avoid the 4% excise tax described above. In these circumstances, we may need to borrow funds to avoid adverse tax consequences even if our management believes that the then prevailing market conditions generally are not favorable for borrowings or that borrowings would not be advisable in the absence of the tax consideration.

If our Operating Partnership were classified as a publicly traded partnership taxable as a corporation for federal income tax purposes under the Code, we would cease to qualify as a REIT and would suffer other adverse tax consequences.

We structured our Operating Partnership so that it would be classified as a partnership for federal income tax purposes. In this regard, the Code generally classifies publicly traded partnerships (as defined in Section 7704 of the Code) as associations taxable as corporations (rather than as partnerships), unless substantially all of their taxable income consists of specified types of passive income. In order to minimize the risk that the Code would classify our Operating Partnership as a publicly traded partnership for tax purposes, we placed certain restrictions on the transfer and/or redemption of partnership units in our Operating Partnership. If the IRS were to assert successfully that our Operating Partnership is a publicly traded partnership, and substantially all of its gross income did not consist of the specified types of passive income, the Code would treat our Operating Partnership as an association taxable as a corporation.

These topics are discussed in greater detail in the Material U.S. Federal Income Tax Considerations Tax Aspects of Our Investments in Our Operating Partnership section of this prospectus. In such event, the character of our assets and items of gross income would change and would prevent us from continuing to qualify as a REIT. In addition, the imposition of a corporate tax on our Operating Partnership would reduce our amount of cash available for payment of distributions by us to our shareholders.

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

To qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our shareholders and the ownership of our shares. In order to meet these tests, we may be required to forego investments we might otherwise make. Thus, compliance with the REIT requirements may hinder our performance.

In particular, we must ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified real estate assets. The remainder of our investment in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, and no more than 25% of the value of our total assets can be represented by the securities of one or more taxable REIT subsidiaries. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our shareholders.

We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our Class B common shares.

At any time, the federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. We cannot predict when or if any new federal income tax law, regulation, or administrative interpretation, or any amendment to any existing federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective and any such law, regulation, or interpretation may take effect retroactively. We and our shareholders could be adversely affected by any such change in, or any new, federal income tax law, regulation or administrative interpretation.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

The maximum tax rate applicable to income from qualified dividends payable to U.S. shareholders that are individuals, trusts and estates has been reduced by legislation to 15% (through the end of 2010). Dividends payable by REITs, however, generally are not eligible for the reduced rates. Although this legislation does not adversely affect the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our common shares.

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

The REIT provisions of the Code substantially limit our ability to hedge our liabilities. Any income from a hedging transaction that we enter into to manage risk of interest rate changes, price changes or currency fluctuations with respect to borrowings made or to be made to acquire or carry real estate assets does not constitute gross income for purposes of the 75% or 95% gross income tests. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of both of the gross income tests. See Material U.S. Federal Income Tax Considerations Requirements for Qualification as a REIT Hedging Transactions. As a result of these rules, we may need to limit our use of advantageous hedging techniques or implement those hedges through taxable REIT subsidiaries.

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This could increase the cost of our hedging activities because any taxable REIT subsidiary that we may form would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in taxable REIT subsidiaries will generally not provide any tax benefit, except for being carried forward against future taxable income in the taxable REIT subsidiaries.

Risks Related to This Offering and Ownership of our Class B Common Shares

There is currently no public market for our common shares, and an active trading market for our Class B common shares may not develop following this offering.

Prior to this offering, there has been no public market for our common shares. Our Class B common shares have been approved for listing on the NYSE Amex, subject to official notice of issuance, in connection with this offering. We cannot assure you that an active trading market for our Class B common shares will develop or, if one develops, be sustained. Our Class B common shares may have limited trading volume, and many investors may not be interested in owning our Class B common shares because of the inability to acquire or sell a substantial block of our Class B common shares at one time. Such illiquidity could have an adverse effect on the market price of our Class B common shares. In addition, a shareholder may not be able to borrow funds using our Class B common shares as collateral because lenders may be unwilling to accept the pledge of securities having such a limited market.

A substantial sale of our Class B common shares, or the perception that a substantial sale might occur, could cause the market price of our Class B common shares to decline.

The market price and trading volume of our Class B common shares may be volatile following this offering.

Even if an active trading market develops for our Class B common shares after this offering, the market price of our Class B common shares may fluctuate widely. In addition, the trading volume in our Class B common shares may fluctuate and cause significant price variations to occur. If the market price of our Class B common shares declines significantly, you may be unable to resell your Class B common shares at or above the public offering price. We cannot assure you that the market price of our Class B common shares will not fluctuate or decline significantly, including a decline below the public offering price, in the future.

Some of the factors that could negatively affect our share price or result in fluctuations in the market price or trading volume of our Class B common shares include:

actual or anticipated declines in our quarterly operating results or distributions;

reductions in our funds from operations or earnings estimates;

publications of research reports about us or the real estate industry;

increases in market interest rates that lead purchasers of our common shares to demand a higher yield;

changes in market valuations of similar companies;

adverse market reaction to any increased indebtedness we incur in the future;

additions or departures of key management personnel;

actions by institutional shareholders;

speculation in the press or investment community;

the realization of any of the other risk factors presented in this prospectus; and

general market and economic conditions.

The public offering price does not necessarily bear any relationship to our book value or the fair market value of our assets.

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An increase in market interest rates may have an adverse effect on the market price of our Class B common shares.

One of the factors that investors may consider in deciding whether to buy or sell our Class B common shares is our distribution rate as a percentage of our share price, relative to market interest rates. If market interest rates increase, prospective investors may desire a higher distribution rate on our Class B common shares or seek securities paying higher distributions or interest. The market price of our Class B common shares likely will be based primarily on the earnings that we derive from rental income with respect to our properties and our distributions to shareholders, and not from the underlying appraised value of the properties themselves. As a result, interest rate fluctuations and capital market conditions can affect the market price of our Class B common shares. For instance, if interest rates rise without an increase in our distribution rate, the market price of our Class B common shares could decrease because potential investors may require a higher yield on our Class B common shares as market rates on interest-bearing securities, such as bonds, rise. In addition, rising interest rates would result in increased interest expense on our variable rate debt, thereby adversely affecting cash flow and our ability to service our indebtedness and make distributions to our shareholders.

Broad market fluctuations could negatively impact the market price of our Class B common shares.

The stock market has experienced extreme price and volume fluctuations that have affected the market price of many companies in industries similar or related to ours and that have been unrelated to these companies' operating performances. These broad market fluctuations could reduce the market price of our Class B common shares. Furthermore, our operating results and prospects may be below the expectations of public market analysts and investors or may be lower than those of companies with comparable market capitalizations. Either of these factors could lead to a material decline in the market price of our Class B common shares.

The number of shares available for future sale could adversely affect the market price of our Class B common shares.

We cannot predict whether future issuances of common shares or the availability of shares for resale in the open market will decrease the market price per share of our Class B common shares. Our Class A common shares will not be listed on a national securities exchange. Other than Class A common shares and OP units held by our officers and trustees, none of our outstanding Class A common shares or OP units are subject to any lock-up agreement. We intend to conduct one or more exchange offers in the future, no earlier than _____, 2010, which is six months from the date of this prospectus, that will allow for the exchange of one Class A common share into one Class B common share and the exchange of one OP unit into one Class B common share. Sales of a substantial number of Class B common shares in the public market, or upon exchange of Class A common shares or OP units, or the perception that such sales might occur could materially adversely affect the market price of our Class B common shares. For a more detailed description, see Shares Eligible for Future Sale.

Our trustees and executive officers have agreed with the underwriters not to offer, sell, contract to sell, pledge or otherwise dispose of any common shares or other securities convertible or exchangeable into our common shares for a period of 180 days after the date of this prospectus. If any or all of these holders cause a large number of their shares to be sold in the public market, the sales could reduce the trading price of our Class B common shares and could impede our ability to raise future capital.

The exercise of the underwriters' over-allotment option, the exchange of Class A common shares or OP units for Class B common shares, the exercise of any options granted to certain trustees, executive officers and other employees under our long-term equity incentive plan, the issuance of our common shares or OP units in connection with property, portfolio or business acquisitions and other issuances of our common shares could have an adverse effect on the market price of our Class B common shares, and the existence of OP units, options and common shares reserved for issuance as restricted common shares or upon exchange of Class A common shares or OP units may materially adversely affect the terms upon which we may be able to obtain additional

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capital through the sale of equity securities. In addition, future sales of our common shares may be dilutive to existing shareholders.

If you purchase shares in this offering, you will experience immediate dilution.

We expect the public offering price of our Class B common shares to be higher than the book value per Class B common share immediately following this offering. Accordingly, if you purchase Class B common shares in this offering, you will experience immediate dilution of approximately \$2.56 in book value per share. This means that investors who purchase shares will likely pay a price per share that exceeds the book value of our assets after subtracting our liabilities.

Maryland takeover statutes may deter others from seeking to acquire us and prevent you from making a profit in such transactions.

The Maryland General Corporation Law, or the MGCL, contains many provisions, such as the business combination statute and the control share acquisition statute, that are designed to prevent, or have the effect of preventing, someone from acquiring control of us. The business combination statute, subject to limitations, prohibits certain business combinations between us and an interested shareholder (defined generally as any person who beneficially owns 10% or more of the voting power of our outstanding voting shares or an affiliate or associate of our company who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of our then outstanding shares) or an affiliate of an interested shareholder for five years after the most recent date on which the person becomes an interested shareholder and thereafter imposes supermajority voting requirements on these combinations. The control share acquisition statute provides that control shares of our company (defined as shares which, when aggregated with other shares controlled by the shareholder (except solely by virtue of a revocable proxy), entitle the shareholder to exercise one of three increasing ranges of voting power in electing trustees) acquired in a control share acquisition (defined as the direct or indirect acquisition of ownership or control of issued and outstanding control shares) have no voting rights except to the extent approved by our shareholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

We are currently subject to the control share acquisition statute, although our Board may amend our bylaws, without shareholder approval, to exempt any acquisition of our shares from the statute. Our Board has adopted a resolution exempting any business combination with any person from the business combination statute. The business combination statute (if our Board revokes the foregoing exemption) and the control share acquisition statute could delay or prevent offers to acquire us and increase the difficulty of consummating any such offers, even if such a transaction would be in our shareholders' best interest.

The MGCL, the Maryland REIT Law and our organizational documents limit your right to bring claims against our officers and trustees.

The MGCL and the Maryland REIT Law provide that a trustee will not have any liability as a trustee so long as he performs his duties in good faith, in a manner he reasonably believes to be in our best interests, and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, our declaration of trust provides that no trustee or officer will be liable to us or to any shareholder for money damages except to the extent that (a) the trustee or officer actually received an improper benefit or profit in money, property or services, for the amount of the benefit or profit in money, property, or services actually received; or (b) a judgment or other final adjudication adverse to the trustee or officer is entered in a proceeding based on a finding in the proceeding that the trustee's or officer's action or failure to act was the result of active and deliberate dishonesty and was material to the cause of action adjudicated in the proceeding. Finally, our declaration of trust authorizes our company to obligate itself, and our bylaws obligate us, to indemnify and advance expenses to our trustees and officers to the maximum extent permitted by Maryland law.

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Our classified Board may prevent others from effecting a change in the control of our Board.

We believe that classification of our Board will help to assure the continuity and stability of our business strategies and policies as determined by the Board. However, the classified board provision could have the effect of making the replacement of incumbent trustees more time-consuming and difficult. At least two annual meetings of shareholders, instead of one, will generally be required to effect a change in a majority of our Board. Thus, the classified board provision could increase the likelihood that incumbent trustees will retain their positions. The staggered terms of trustees may delay, defer or prevent a transaction or a change in control that might involve a premium price for our common shares or otherwise be in the best interest of the shareholders.

Future offerings of debt, which would be senior to our common shares upon liquidation, and/or preferred equity securities that may be senior to our common shares for purposes of dividends or other distributions or upon liquidation, may adversely affect the market price of our Class B common shares.

In the future, we may attempt to increase our capital resources by making additional offerings of debt or preferred equity securities, including medium-term notes, trust preferred securities, senior or subordinated notes and preferred shares. Upon liquidation, holders of our debt securities and preferred shares and lenders with respect to other borrowings will receive distributions of our available assets prior to the holders of our common shares. Additional equity offerings may dilute the holdings of our existing shareholders or reduce the market price of our common shares, or both. Holders of our common shares are not entitled to preemptive rights or other protections against dilution. Our preferred shares, if issued, could have a preference on liquidating distributions or a preference on dividend payments that could limit our ability to pay a dividend or make another distribution to the holders of our common shares. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our Class B common shareholders bear the risk of our future offerings reducing the market price of our Class B common shares and diluting their share holdings in us.

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FORWARD-LOOKING STATEMENTS

We make statements in this prospectus that are forward-looking statements within the meaning of the federal securities laws. In particular, statements pertaining to our capital resources, portfolio performance and results of operations contain forward-looking statements. Likewise, all of our statements regarding anticipated growth in our funds from operations and anticipated market conditions, demographics and results of operations are forward-looking statements. You can identify forward-looking statements by the use of forward-looking terminology such as believes, expects, may, will, should, could, would, seeks, approximately, intends, plans, pro forma, estimates or any of these words and phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans or intentions.

Forward-looking statements involve numerous risks and uncertainties and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data or methods which may be incorrect or imprecise and we may not be able to realize them. We do not guarantee that the transactions and events described will happen as described (or that they will happen at all). The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

adverse economic or real estate developments in Texas, Arizona or Illinois;

general economic conditions;

market trends;

projected capital expenditures;

use of the proceeds of this offering;

estimates relating to our ability to make distributions to our shareholders in the future;

our understanding of our competition and our ability to compete effectively;

defaults on or non-renewal of leases by tenants;

increased interest rates and operating costs;

our failure to obtain necessary outside financing;

decreased rental rates or increased vacancy rates;

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difficulties in identifying properties to complete, and consummating, real estate acquisitions, developments, joint ventures and dispositions;

our failure to successfully operate acquired properties and operations;

our failure to maintain our status as a REIT;

government approvals, actions or initiatives, including the need for compliance with environmental requirements;

environmental uncertainties and risks related to natural disasters;

financial market fluctuations;

changes in foreign currency exchange rates;

changes in real estate and zoning laws and increases in real property tax rates; and

other factors affecting real estate markets generally.

While forward-looking statements reflect our good faith beliefs, they are not guaranties of future performance. We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, of new information, data or methods, future events or other changes. For a further discussion of these and other factors that could impact our future results, performance or transactions, see the section above entitled Risk Factors.

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USE OF PROCEEDS

We estimate that the net proceeds from this offering will be approximately \$45.0 million, based upon the assumed price of \$15.00 per Class B common share and after deducting the underwriting discount and estimated offering expenses of \$5.0 million payable by us. If the underwriters over-allotment option is exercised in full, our net proceeds will be approximately \$52.0 million. We will contribute the net proceeds from this offering to our Operating Partnership in exchange for OP units. Our Operating Partnership intends to use the net proceeds from the offering (1) to acquire commercial properties in our target markets, (2) to acquire loans with the intent to acquire the underlying property through foreclosure or deed in lieu of foreclosure within a short period of time, (3) to redevelop and re-tenant existing properties to create Whitestone-branded Community Centered Properties and (4) for general corporate purposes. Pending these uses, we intend to invest the net offering proceeds in interest-bearing, short-term, marketable investment grade securities or money market accounts that are consistent with our intention to qualify as a REIT.

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RECLASSIFICATION OF COMMON SHARES

Our Board has approved Articles of Amendment to our declaration of trust that (i) change the name of all of our common shares to Class A common shares and (ii) effect a 1-for-3 reverse share split of our Class A common shares. In addition, our Board has approved Articles Supplementary to our declaration of trust that creates a new class of common shares entitled Class B common shares. The rights of the Class A common shareholders will not change with the change in the title of the class. Each Class B common share will have the following rights:

the right to vote together with Class A common shareholders on all matters submitted to our shareholders;

one vote on all matters voted upon by our shareholders;

the right to receive dividends equal to any dividends declared on the Class A common shares; and

liquidation rights equal to the liquidation rights of each Class A common share.

Our Class B common shares have been approved for listing on the NYSE Amex, subject to official notice of issuance, and we do not intend to list our Class A common shares on a national securities exchange. We do intend to conduct one or more exchange offers in the future, no earlier than _____, 2010, which is six months from the date of this prospectus, that will allow for the exchange of one Class A common share or one OP unit into one Class B common share. As of June 30, 2010, we had 3,487,034 Class A common shares outstanding and 1,814,599 OP units, not held by us, outstanding. For more information, see Shares Eligible for Future Sale Exchange Offers. The terms of our Class A and Class B common shares are described more fully under Description of Securities in this prospectus.

The Articles of Amendment and the Articles Supplementary will be filed with the State Department of Assessments and Taxation of Maryland prior to the closing of this offering.

Table of Contents**DISTRIBUTION POLICY**

Subsequent to this offering, we intend to continue to declare distributions to holders of our common shares and OP units, payable monthly. U.S. federal income tax law generally requires that a REIT distribute annually to its shareholders at least 90% of its REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gains, and that it pay tax at regular corporate rates on any taxable income that it does not distribute. We generally intend over time to pay dividends in an amount equal to our taxable income. You should read the following discussion and in the information set forth in the table and footnotes below together with Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and related notes that are located elsewhere in this prospectus.

Any distributions we make will be at the discretion of our Board and we cannot assure you that our distributions will be made or sustained.

The timing and frequency of distributions will be authorized by our Board and declared by us based upon a number of factors, including:

our funds from operations;

our debt service requirements;

our capital expenditure requirements for our properties;

our taxable income, combined with the annual distribution requirements necessary to maintain REIT qualification;

requirements of Maryland law;

our overall financial condition; and

other factors deemed relevant by our Board.

We declared the following distributions to our shareholders and holders of OP units with respect to the fiscal years ended 2007 and 2008, 2009 and the six months ended June 30, 2010:

	Distributions Per Share/OP Unit⁽¹⁾
2007	
First Quarter	\$ 0.4500
Second Quarter	0.4500
Third Quarter	0.4500
Fourth Quarter	0.4500
2008	
First Quarter	\$ 0.4500
Second Quarter	0.4500
Third Quarter	0.3375
Fourth Quarter	0.3375
2009	

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First Quarter	\$	0.3375
Second Quarter		0.3375
Third Quarter		0.3375
Fourth Quarter		0.3375
2010		
First Quarter	\$	0.3375
Second Quarter		0.2850

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⁽¹⁾ Distributions declared with respect to Class A common shares and OP units which reflect the effect of a 1-for-3 reverse share split. Effective with the quarterly dividend declared for the third quarter 2008, we lowered our quarterly distribution rate to \$0.3375 per share and OP unit from \$0.4500 per share and OP unit in the prior quarter. Our distribution rate for the year ended December 31, 2009 was approximately 80% of our funds from operations per share. We typically declare our distributions quarterly and pay our distributions in three equal monthly installments. For the second quarter 2010, we declared a distribution per share and OP unit of \$0.2850, which was or will be paid as follows: \$0.0950 on July 8, 2010, \$0.0950 on August 6, 2010 and \$0.0950 on September 7, 2010. This represents a decrease from the quarterly distribution rate of \$0.3375 per share and OP unit declared since the third quarter 2008. We intend to pay a pro rata distribution, covering the partial quarter commencing on the closing of this offering and ending on September 30, 2010, to the purchasers of Class B common shares in this offering.

We cannot assure you that our distributions will be made or sustained. Our actual results of operations may differ materially from our current expectations. Our actual results of operations will be affected by a number of factors, including the revenue we receive from our properties, our operating expenses, our ability to attract and retain tenants, interest expense, the ability of our tenants to meet their obligations and unanticipated expenditures. There can be no assurance that we will be able to pay or maintain cash distributions or that distributions will increase over time.

Table of Contents**CAPITALIZATION**

The following table sets forth as of June 30, 2010:

our historical capitalization; and

our as-adjusted capitalization after application of the net proceeds of this offering as described in Use of Proceeds.

This table should be read in conjunction with the sections captioned Use of Proceeds, Management's Discussion and Analysis of Financial Condition and Results of Operations and our audited and unaudited financial information and related notes included elsewhere in this prospectus. All share data set forth below has been adjusted to give effect to the 1-for-3 reverse share split of our Class A common shares to be effected in connection with this offering.

	As of June 30, 2010	
	Historical	As Adjusted⁽¹⁾
Notes payable	\$ 100,837	\$ 100,837
Equity:		
Preferred shares, \$0.001 par value per share, 50,000,000 shares authorized and no shares issued and outstanding		
Class A common shares, \$0.001 par value per share; 50,000,000 shares authorized, 3,487,034 shares issued and outstanding	10	10
Class B common shares, \$0.001 par value per share; 350,000,000 shares authorized, no shares issued and outstanding, 3,333,333 shares issued and outstanding as adjusted		3
Additional paid in capital	70,330	115,327
Accumulated deficit	(28,036)	(28,036)
Noncontrolling interest in subsidiary	22,346	22,346
Total equity	64,650	109,650
Total capitalization	\$ 165,487	\$ 210,487

⁽¹⁾ Assumes no exercise of the underwriters' option to purchase up to an additional 500,000 Class B common shares.

Table of Contents**DILUTION**

Purchasers of our Class B common shares in this offering will experience an immediate and substantial dilution of the net tangible book value of our Class B common shares from the initial public offering price. Prior to this offering, we had no Class B common shares outstanding. Only Class B common shares are being issued in this offering. We intend to conduct one or more exchange offers in the future, no earlier than _____, 2010, which is six months from the date of this prospectus, that will allow for the exchange of one Class A common share into one Class B common share. As of June 30, 2010, we had a net tangible book value of approximately \$39.9 million, or \$11.43 per Class A common share. The net tangible book value per Class A common share is determined by subtracting our total liabilities from our total tangible assets (total assets less deferred costs) and dividing the difference by the total number of our Class A common shares outstanding.

After giving effect to the sale of our Class B common shares offered hereby, the deduction of underwriting discounts and commissions and estimated offering expenses, the pro forma net tangible book value at June 30, 2010 attributable to Class A common shareholders would have been \$84.9 million, or \$12.44 per Class A common share. This amount represents an immediate increase in net tangible book value of \$1.01 per share to existing Class A common shareholders and an immediate dilution in pro forma net tangible book value of \$2.56 per share from the public offering price of \$15.00 per share of our Class B common shares to new public investors. The following table illustrates this per share dilution:

Public offering price per Class B common share	\$ 15.00
Net tangible book value per Class A common share before this offering ⁽¹⁾	\$ 11.43
Increase in net tangible book value per Class A common share to existing Class A common shareholders attributable to this offering	1.01
Net tangible book value per Class A common share assuming the completion of this offering ⁽²⁾	12.44
Dilution in pro forma net tangible book value per Class B common share to new investors ⁽³⁾	\$ 2.56

(1) Net tangible book value per Class A common share before this offering is determined by dividing our net tangible book value (total tangible assets less total liabilities) by 3,487,034 Class A common shares outstanding.

(2) Based on net tangible book value of approximately \$84.9 million divided by 3,487,034 Class A common shares outstanding and 3,333,333 Class B common shares outstanding.

(3) Dilution is determined by subtracting net tangible book value per Class B common share after this offering from the public offering price paid by a new investor for a Class B common share.

The table below summarizes, as of June 30, 2010 on the basis discussed above, the net consideration paid and the average net price per share paid by our existing Class A common shareholders and by the investors in this offering, based on an assumed initial public offering price of \$15.00 per Class B common share, the midpoint of the range set forth on the cover of this prospectus.

	Common Shares Purchased		Net Consideration		Average Net Price Per Share
	Number (000 s)	Percent	Amount (000 s)	Percent	
Existing Class A common shareholders	3,487	51%	\$ 70,330	61%	\$ 20.17
New Class B investors	3,333	49%	\$ 45,000	39%	\$ 13.50
Total	6,820	100%	\$ 115,330	100%	

If the underwriters' option to purchase additional Class B common shares to cover any over-allotment is exercised in full, the pro forma net tangible book value per share as of June 30, 2010 would be approximately \$12.55 per share and the dilution in pro forma net tangible book value per share to new Class B common shareholders would be \$2.45 per share. Furthermore, the percentage of our common shares held by existing equity owners would decrease to approximately 48%, and the percentage of our common shares on a fully-diluted basis held by new common shareholders would increase to approximately 52%.

Table of Contents**SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA**

The following table sets forth our selected historical consolidated financial, operating and other data for our historical consolidated balance sheet data as of December 31, 2009, 2008, 2007, 2006 and 2005, and consolidated statement of operations data for the years ended December 31, 2009, 2008, 2007, 2006 and 2005, have been derived from our audited historical combined financial statements.

Our unaudited historical consolidated balance sheet data as of June 30, 2010 and the unaudited historical consolidated statement of operations data for the six months ended June 30, 2010 and 2009 are derived from our unaudited historical consolidated financial statements. In the opinion of our management, the unaudited historical combined balance sheet data as of June 30, 2010 and the historical consolidated statements of operations for the six months ended June 30, 2010 and 2009 include all adjustments, consisting only of normal and recurring adjustments, necessary for a fair presentation of the results for those periods.

All per share data set forth below has been adjusted to give effect to the 1-for-3 reverse share split of our Class A common shares to be effected in connection with this offering.

Our historical consolidated financial data included below and set forth elsewhere in this prospectus are not necessarily indicative of our future performance.

You should read the following summary financial and other data together with Business and Properties, Management's Discussion and Analysis of Financial Condition and Results of Operations and our historical financial statements and related notes appearing elsewhere in this prospectus.

	Six Months Ended		Year Ended December 31,				
	June 30, 2010	2009	2009	2008	2007	2006	2005
	(in thousands)						
Operating Data:							
Revenues	\$ 15,541	\$ 16,247	\$ 32,685	\$ 31,201	\$ 29,374	\$ 28,378	\$ 23,490
Property expenses	5,992	6,505	12,991	12,835	12,236	11,438	8,624
General and administrative ⁽¹⁾	2,472	3,054	6,072	6,708	6,721	2,299	567
Property and other asset management fees to an affiliate						1,482	1,319
Depreciation and amortization	3,493	3,418	6,958	6,859	6,048	6,181	5,733
Involuntary conversion		190	(1,542)	358			
Interest expense, net	2,797	2,876	5,713	5,675	4,825	4,910	3,469
Other expense (income), net					30	(30)	
Income (loss) from continuing operations before loss on disposal of assets and income taxes	787	204	2,493	(1,234)	(486)	2,098	3,778
Provision for income taxes	(156)	(111)	(222)	(219)	(217)		
Loss on disposal of assets	(41)	(53)	(196)	(223)	(9)	197	
Income (loss) from continued operations	590	40	2,075	(1,676)	(712)	2,295	3,778
Income (loss) from discontinued operations				(188)	589	554	561
Gain on sale of properties from discontinued operations				3,619			
Net income (loss)	590	40	2,075	1,755	(123)	2,849	4,339
Less: net income (loss) attributable to noncontrolling interests	207	14	733	621	(46)	1,068	1,891
Net income (loss) attributable to Whitestone REIT	\$ 383	\$ 26	\$ 1,342	\$ 1,134	\$ (77)	\$ 1,781	\$ 2,448

(1)

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General and administrative expenses for the years ended December 31, 2008, 2007 and 2006 include approximately \$1.5 million, \$2.2 million and \$0.9 million, respectively, of legal costs resulting from litigation with our former CEO and our former external advisor.

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	Six Months Ended June 30,		2009	Year Ended December 31,			
	2010	2009		2008	2007	2006	2005
Earnings per common share basic:							
Income (loss) from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	\$ 0.12	\$ 0.00	\$ 0.41	\$ (0.32)	\$ (0.13)	\$ 0.45	\$ 0.81
Income from discontinued operations attributable to Whitestone REIT				0.67	0.11	0.11	0.12
Net income (loss) attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$ 0.12	\$ 0.00	\$ 0.41	\$ 0.35	\$ (0.02)	\$ 0.55	\$ 0.93
Earnings per common share diluted:							
Income (loss) from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	\$ 0.12	\$ 0.00	\$ 0.40	\$ (0.32)	\$ (0.13)	\$ 0.45	\$ 0.81
Income from discontinued operations attributable to Whitestone REIT				0.67	0.11	0.11	0.12
Net income (loss) attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$ 0.12	\$ 0.00	\$ 0.40	\$ 0.35	\$ (0.02)	\$ 0.55	\$ 0.93

	Six Months Ended June 30,		2009	Year Ended December 31,			
	2010	2009		2008	2007	2006	2005
	(in thousands, except per share data and gross leasable area)						
Balance Sheet Data:							
Real estate (net)	\$ 156,444	\$ 159,407	\$ 158,398	\$ 150,847	\$ 146,460	\$ 141,236	\$ 145,581
Real estate (net), discontinued operations					7,932	8,252	8,384
Other assets	19,848	27,948	23,602	27,098	20,752	17,599	17,497
Total assets	\$ 176,292	\$ 187,355	\$ 182,000	\$ 177,945	\$ 175,144	\$ 167,087	\$ 171,462
Liabilities	\$ 111,642	\$ 119,495	\$ 115,141	\$ 110,773	\$ 94,262	\$ 76,464	\$ 83,462
Whitestone REIT shareholders equity	42,304	44,086	43,590	45,891	52,843	58,914	53,728
Noncontrolling interest in subsidiary	22,346	23,774	23,269	21,281	28,039	31,709	34,272
	\$ 176,292	\$ 187,355	\$ 182,000	\$ 177,945	\$ 175,144	\$ 167,087	\$ 171,462

Other Data:

Proceeds from issuance of common shares	\$		\$	\$	\$ 261	\$ 9,453	\$ 17,035
Additions to real estate	929	7,302	9,230	5,153	10,205	1,833	31,712
Dividends and distributions per Class A share ⁽¹⁾	0.68	0.68	1.35	1.59	1.80	1.89	2.10
Funds from operations ⁽²⁾	3,860	3,189	8,618	4,236	6,001	8,993	9,851
Occupancy at period end	82%	82%	82%	84%	86%	83%	82%
Average aggregate gross leasable area	3,014,264	3,039,300	3,039,044	3,008,085	3,093,063	3,121,039	2,962,616
Average rent per square foot	\$ 10.31	\$ 10.69	\$ 10.76	\$ 10.37	\$ 9.50	\$ 9.09	\$ 7.93

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- ⁽¹⁾ The dividends per share represent total cash payments paid with respect to Class A common shares divided by weighted average Class A common shares.

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(2) We believe that Funds From Operations, or FFO is an appropriate supplemental measure of operating performance because it helps our investors compare our operating performance relative to other REITs. The National Association of Real Estate Investment Trusts, or NAREIT defines FFO as net income (loss) available to common shareholders computed in accordance with GAAP, excluding gains or losses from sales of operating properties and extraordinary items, plus depreciation and amortization of real estate assets, including our share of unconsolidated partnerships and joint ventures. We calculate FFO in a manner consistent with the NAREIT definition.

Below is the calculation of FFO and the reconciliation to net income (loss) attributable to Whitestone REIT, which we believe is the most comparable GAAP financial measure (in thousands):

	Six Months		Year Ended December 31,				
	Ended June 30, 2010	2009	2009	2008	2007	2006	2005
Net income (loss) attributable to Whitestone REIT	\$ 383	\$ 26	\$ 1,342	\$ 1,134	\$ (77)	\$ 1,781	\$ 2,448
Depreciation and amortization of real estate assets ⁽¹⁾	3,229	3,096	6,347	5,877	6,108	6,341	5,512
(Gain) loss on sale or disposal of assets ⁽¹⁾	41	53	196	(3,396)	16	(197)	
Net income (loss) attributable to noncontrolling interests	207	14	733	621	(46)	1,068	1,891
FFO	\$ 3,860	\$ 3,189	\$ 8,618	\$ 4,236	\$ 6,001	\$ 8,993	\$ 9,851

(1) Including amounts for discontinued operations.

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**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 our audited consolidated financial statements and the notes thereto. For more detailed information regarding the basis of presentation for the following information, you should read the notes to the audited consolidated financial statements. All share and per share data set forth below has been adjusted to give effect to the 1-for-3 reverse share split of our Class A common shares to be effected in connection with this offering.

Overview of Our Company

We are a fully integrated real estate company that owns and operates commercial properties in culturally diverse markets in major metropolitan areas. Founded in 1998, we are internally managed with a portfolio of commercial properties in Texas, Arizona and Illinois.

In October 2006, our current management team joined the company and adopted a strategic plan to acquire, redevelop, own and operate Community Centered Properties. We define Community Centered Properties as visibly located properties in established or developing culturally diverse neighborhoods in our target markets. We market, lease, and manage our centers to match tenants with the shared needs of the surrounding neighborhood. Those needs may include specialty retail, grocery, restaurants and medical, educational and financial services. Our goal is for each property to become a Whitestone-branded business center or retail community that serves a neighboring five-mile radius around our property. We employ and develop a diverse group of associates who understand the needs of our multicultural communities and tenants.

Our current portfolio is concentrated in Houston, and we intend to diversify geographically into Phoenix, Chicago, Dallas and San Antonio. According to the United States Census Bureau's *Estimates of Population Change for Metropolitan Statistical Areas and Rankings: July 1, 2008 to July 1, 2009*, Dallas and Houston ranked first and second, respectively, in population growth out of 366 metropolitan statistical areas, and Phoenix, Chicago and San Antonio ranked seventh, eighth and sixteenth, respectively. We believe the management infrastructure and capacity we have built can accommodate substantial growth in those markets. We also believe that those cities have expanding multi-cultural neighborhoods, providing us with excellent opportunities to execute our strategic plan in those markets.

We believe that over the next three years we will have opportunities to acquire quality properties at historically attractive prices. Many of these properties will be distressed due to over-leverage, mismanagement or the lack of liquidity in the financial markets. We have extensive relationships with community banks, attorneys, title companies and others in the real estate industry which we believe will enable us to take advantage of these market opportunities and maintain an active acquisition pipeline.

As of June 30, 2010, we had 770 total tenants. We have a diversified tenant base with our largest tenant comprising less than 3% of our total revenues for the six months ended June 30, 2010. Lease terms for our properties range from less than one year for smaller tenants to over 15 years for larger tenants. Our leases generally include minimum monthly lease payments and tenant reimbursements for payment of taxes, insurance and maintenance.

We employed 52 full-time employees as of June 30, 2010. As an internally managed REIT, we bear our own expenses of operations, including the salaries, benefits and other compensation of our employees, office expenses, legal, accounting and investor relations expenses and other overhead costs.

How We Derive Our Revenue

Substantially all of our revenue is derived from rents received from leases at our properties. We had rental income and tenant reimbursements of approximately \$15.5 million for the six months ended June 30, 2010 as

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compared to \$16.2 million for the six months ended June 30, 2009, a decrease of \$0.7 million, or 4%. The decrease in revenue is primarily attributable to lower tenant reimbursement revenues resulting from decreased property expenses, and slightly lower occupancy in the first six months of 2010 as compared to the same period in 2009. Our occupancy rate was 82% as of June 30, 2010 and 2009.

Known Trends in Our Operations; Outlook for Future Results

Rental Income

We expect our rental income to increase year-over-year due to the addition of properties. We also expect modest continued improvement in the overall economy in Houston to provide slight increases in occupancy at certain of our properties, which should result in some growth in rental income.

Scheduled Lease Expirations

We tend to lease space to smaller businesses that desire shorter term leases. As of June 30, 2010, approximately 41% of our gross leasable square footage is subject to leases that expire prior to December 31, 2012. We routinely seek to renew leases with our existing tenants prior to their expiration and typically begin discussions with tenants as early as 18 months prior to the expiration date of the existing lease. While our early renewal program and other leasing and marketing efforts target these expiring leases, and while we hope to re-lease most of that space prior to expiration of the leases at rates comparable to or slightly in excess of the current rates, market conditions, including new supply of properties, and macroeconomic conditions in Houston and nationally could adversely impact our renewal rate and/or the rental rates we are able to negotiate. If any of these risks materialize, our cash flow and ability to pay dividends could be adversely affected.

Acquisitions

We expect to actively seek acquisitions in the foreseeable future. As of June 30, 2010, we owned and operated 36 Community Centered properties consisting of:

eighteen retail centers containing approximately 1.2 million square feet of leasable space and having a total carrying amount (net of accumulated depreciation) of \$69.3 million;

seven office building centers containing approximately 0.6 million square feet of leasable space and having a total carrying amount (net of accumulated depreciation) of \$45.3 million; and

eleven office/flex centers containing approximately 1.2 million square feet of leasable space and having a total carrying amount (net of accumulated depreciation) of \$41.8 million.

We intend to aggressively source additional acquisition opportunities that meet our investment criteria in all our markets. We believe that after the completion of this offering we will have the ability to finance, with offering proceeds and additional debt, over \$75 million of additional acquisitions over the next two years.

Property Acquisitions

We seek to acquire commercial properties in high-growth markets. Our acquisition targets are properties that fit our Community Centered Properties strategy. We define Community Centered Properties as visibly located properties in established or developing, culturally diverse neighborhoods in our target markets, primarily in and around Phoenix, Chicago, Dallas, San Antonio and Houston. We market, lease, and manage our centers to match tenants with the shared needs of the surrounding neighborhood. Those needs may include specialty retail, grocery and medical, educational and financial services. Our goal is for each property to become a Whitestone-branded business center or retail community that serves a neighboring five-mile radius around our property.

In January 2009, we acquired a property that meets our Community Centered Property strategy, containing 41,396 leasable square feet located in Buffalo Grove, Illinois for approximately \$9.4 million, including cash of \$5.5 million, issuance of 234,637 OP units valued at approximately \$3.6 million and credit for net prorations of

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\$0.3 million. The property, Spoerlein Commons, is a two-story complex of retail, medical and professional office tenants. We acquired the property from Midwest Development Venture IV, or MDV IV, an Illinois limited partnership controlled by James C. Mastandrea, our Chairman, President and Chief Executive Officer. Because of Mr. Mastandrea's relationship with the seller, a special committee consisting solely of the independent trustees, negotiated the terms of the transaction, which included the use of an independent appraiser to value the property.

In October 2007, we acquired a property that meets our Community Centered Property strategy, containing 33,400 leasable square feet in the Phoenix, Arizona metropolitan area, for approximately \$8.3 million. The property, Pima Norte, is a one-story and two-story class A professional, executive and medical office building. We began leasing Pima Norte during 2008. Since we acquired the property in 2007, we have invested approximately \$0.8 million to complete the build-out of one of the buildings and have capitalized approximately \$0.5 million in interest cost, resulting in the total investment through June 30, 2010 of approximately \$9.6 million.

Results of Operations**Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009**

The following tables provide a general comparison of our results of operations for the three months ended June 30, 2010 and 2009 (in thousands, except for number of properties, aggregate gross leasable area and per share and OP Unit data):

	June 30, 2010	June 30, 2009 (revised)
Number of properties owned and operated	36	36
Aggregate gross leasable area (sq. ft) ⁽¹⁾	3,014,264	3,039,300
Ending occupancy rate	82%	82%
Total property revenues	\$ 7,832	\$ 8,203
Total property expenses	3,039	3,319
Total other expenses	4,428	4,743
Provision for income taxes	102	57
Loss on disposal of assets	8	12
Net income	255	72
Less: Net income attributable to noncontrolling interests	89	25
Net income attributable to Whitestone REIT	\$ 166	\$ 47
Funds from operations ⁽²⁾	\$ 1,895	\$ 1,633
Dividends and distributions paid on common shares and OP Units	1,785	1,694
Per common share and OP Unit	\$ 0.3375	\$ 0.3375
Dividends paid as a % of funds from operations	94%	104%

⁽¹⁾ During the first quarter of 2010, we concluded that approximately 25,000 square feet at our Kempwood Plaza and Centre South locations were no longer leasable, and they are no longer included in the gross leasable area.

⁽²⁾ For a reconciliation of funds from operations to net income, see Funds From Operations below.

Property revenues. We had rental income and tenant reimbursements of approximately \$7.8 million for the three months ended June 30, 2010 as compared to \$8.2 million for the three months ended June 30, 2009, a decrease of \$0.4 million, or 5%. The decrease in revenue is primarily attributable to lower tenant reimbursement revenues resulting from decreased property expenses, and slightly lower average occupancy.

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Property expenses. Our property expenses were \$3.0 million for the three months ended June 30, 2010, as compared to \$3.3 million for the three months ended June 30, 2009, a decrease of \$0.3 million, or 9%. The primary components of total property expenses are detailed in the table below (in thousands):

	Three Months Ended June 30,	
	2010	2009 (revised)
Real estate taxes	\$ 894	\$ 1,063
Utilities	556	608
Contract services	559	548
Repairs and maintenance	312	488
Bad debt	191	246
Labor and other	527	366
Total property expenses	\$ 3,039	\$ 3,319

Real estate taxes. Real estate taxes decreased \$169,000, or 16 %, during 2010, primarily as a result of lower valuations by the various county appraisal districts. In 2010, as a result of our formal protests of assessed values, the various appraisal districts have agreed to lower valuations, and resulting taxes, by significant amounts. We actively work to keep our valuations, and resulting taxes, as low as possible as most of these taxes are passed through to our tenants through triple net leases.

Utilities. Utilities decreased \$52,000, or 9%, during 2010. The decrease in utility expenses is primarily attributed to the electricity usage of our six office buildings in Texas which were charged at a lower rate per kilowatt hour during 2010 due to our new contracts with our electricity provider for lower fixed rates.

Contract services. Contract services increased \$11,000, or 2%, during 2010.

Repairs and Maintenance. Repairs and maintenance decreased \$176,000, or 36%, during 2010, primarily attributable to decreases in roof, parking lot and electrical and lighting costs and the internalization of many maintenance functions. We expect repair and maintenance costs and the related tenant reimbursement revenues to increase in the third and fourth quarters of 2010 as certain major maintenance items are scheduled to occur.

Bad debt. Bad debt for the three months ended June 30, 2010 was \$55,000, or 22%, less than in 2009. We vigorously pursue past due accounts, but expect collection of rents to continue to be challenging for the foreseeable future.

Labor and other. Increases of \$161,000, or 44%, in labor and other during 2010 are the result of the internalization of many maintenance functions and increased focus on tenant service and property conditions by property management personnel. We have been able to accomplish a greater focus on tenant service and property conditions as a result of realignment of duties and reductions in administrative duties required of these individuals. This decrease in administrative duties is a result of improvements in systems, processes and reporting.

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Other expenses. Our other expenses were \$4.4 million for the three months ended June 30, 2010, as compared to \$4.7 million for the three months ended June 30, 2009, a decrease of approximately \$0.3 million, or 6%. The primary components of other expenses, net are detailed in the table below (in thousands):

	Three Months Ended June 30,	
	2010	2009 (revised)
General and administrative	\$ 1,272	\$ 1,625
Depreciation and amortization	1,759	1,710
Involuntary conversion		(51)
Interest expense	1,402	1,470
Interest income	(5)	(11)
 Total other expenses	 \$ 4,428	 \$ 4,743

General and administrative. General and administrative expenses decreased approximately \$353,000 or 22% for the three months ended June 30, 2010 compared to the same period in 2009. Share-based compensation expense decreased approximately \$184,000 during 2010. The majority of share-based compensation recognized during 2009 represented the achievement of the first performance-based target. With our current asset base, management does not expect to achieve the second performance-based target and expects share-based compensation to be significantly lower during 2010 than 2009. Should we increase our asset base, we may achieve the next performance-based target and begin expensing the shares expected to vest upon the achievement of the second target.

Salaries and benefits, excluding share-based compensation, were approximately \$94,000 less during the three months ended June 30, 2010 than during the same period in 2009, primarily as a result of lower headcount and company wide salary reductions taken in October 2009. Additionally, our allocation of internal labor to properties increased \$107,000 in 2010, reducing general and administrative expense and increasing property expenses. Property management personnel have been able to achieve a greater focus on tenant service and property conditions because much of their administrative burden was removed by realignment of duties and system and process improvements. Other general and administrative expenses increased \$32,000.

Involuntary conversion. Involuntary conversion gain of \$51,000 during 2009 represents the June 30, 2009 estimate of insurance proceeds and costs associated with Hurricane Ike. As of June 30, 2010, we have accrued \$2.3 million in expenses representing the cost to complete the remaining repairs. A portion of the \$2.3 million accrual is estimated and is sensitive to the scope requirements of our lenders and labor and material cost of our vendors. We completed a settlement of our insurance claims during the third quarter of 2009 for \$7.0 million, and the full impact of the settlement was not known or included in the June 30, 2009 involuntary conversion gain.

Interest expense. Interest expense for the three months ended June 30, 2010 was \$1,402,000, a decrease of \$68,000, or 5%, from 2009. A decrease in the average outstanding note payable balance of \$7,999,000 accounted for approximately \$107,000 in decreased interest expense during 2010, while a higher effective per annum interest rate (excluding loan fee amortization) of 5.5% in 2010 as compared to 5.4% in 2009 accounted for approximately \$39,000 in increased interest expense.

Table of Contents**Six Months Ended June 30, 2010 Compared to Six Months Ended June 30, 2009**

The following tables provide a general comparison of our results of operations for the six months ended June 30, 2010 and 2009 (in thousands, except for number of properties, aggregate gross leasable area and per share and OP Unit data):

	June 30, 2010	June 30, 2009 (revised)
Number of properties owned and operated	36	36
Aggregate gross leasable area (sq. ft) ⁽¹⁾	3,014,264	3,039,300
Ending occupancy rate	82%	82%
Total property revenues	\$ 15,541	\$ 16,247
Total property expenses	5,992	6,505
Total other expenses	8,762	9,538
Provision for income taxes	156	111
Loss on disposal of assets	41	53
Net income	590	40
Less: Net income attributable to noncontrolling interests	207	14
Net income attributable to Whitestone REIT	\$ 383	\$ 26
Funds from operations ⁽²⁾	\$ 3,860	\$ 3,189
Dividends and distributions paid on common shares and OP Units	3,558	3,381
Per common share and OP Unit	\$ 0.6750	\$ 0.6750
Dividends paid as a % of funds from operations	92%	106%

⁽¹⁾ During the first quarter of 2010, we concluded that approximately 25,000 square feet at our Kempwood Plaza and Centre South locations were no longer leasable, and they are no longer included in the gross leasable area.

⁽²⁾ For a reconciliation of funds from operations to net income, see Funds From Operations below.

Property revenues. We had rental income and tenant reimbursements of approximately \$15.5 million for the six months ended June 30, 2010 as compared to \$16.2 million for the six months ended June 30, 2009, a decrease of \$0.7 million, or 4%. The primary reasons for the decrease were lower tenant reimbursement revenues, as a result of lower property expenses, and slightly lower average occupancy for the first six months of 2010 as compared to the same period in 2009.

Property expenses. Our property expenses were \$6.0 million for the six months ended June 30, 2010, as compared to \$6.5 million for the six months ended June 30, 2009, a decrease of \$0.5 million, or 8%. The primary components of total property expenses are detailed in the table below (in thousands):

	Six Months Ended June 30,	
	2010	2009 (revised)
Real estate taxes	\$ 2,046	\$ 2,112
Utilities	1,136	1,226
Contract services	1,073	1,091
Repairs and maintenance	542	751
Bad debt	220	464
Labor and other	975	861

Total property expenses	\$ 5,992	\$ 6,505
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Real estate taxes. Real estate taxes decreased \$66,000, or 3%, during the first six months of 2010, primarily as a result of lower valuations by the various county appraisal districts. In 2010, as a result of our formal protests of assessed values, the various appraisal districts have agreed to lower valuations, and resulting taxes, by significant amounts. We actively work to keep our valuations, and resulting taxes, as low as possible as most of these taxes are passed through to our tenants through triple net leases.

Utilities. Utilities decreased \$90,000, or 7%, during 2010. The decrease in utility expenses is primarily attributable to the electricity usage of our six office buildings in Texas which were charged at a lower rate per kilowatt hour during 2010 due to our new contracts with our electricity provider for lower fixed rates.

Contract services. Contract services decreased \$18,000, or 2%, during 2010.

Repairs and Maintenance. Repairs and maintenance decreased \$209,000, or 28%, during 2010 are primarily attributable to decreases in parking lot repairs, roofing repairs and electrical and lighting repair costs and the internalization of many maintenance functions. We expect repair and maintenance costs and the related tenant reimbursement revenues to increase in last six months of 2010 as certain major maintenance items are scheduled to occur.

Bad debt. Bad debt for the six months ended June 30, 2010 was \$244,000, or 53%, less than in 2009. The decrease in bad debt is primarily attributable to settlements with a small number of tenants that carried large past due accounts receivable balances during the first quarter of 2010. The settlements resulted in recoveries of accounts receivable balances on which we previously recorded allowances for bad debt, resulting in decreased bad debt expense in 2010. The settlements also provided for partial reversals of late fees when certain payment arrangement milestones were met, resulting in decreased late fee revenues and bad debt expense in 2010. We vigorously pursue past due accounts, but expect collection of rents to continue to be challenging for the foreseeable future.

Labor and other. Increases of \$114,000, or 13%, in labor and other during 2010 are primarily the result of the internalization of many maintenance functions and increased focus on tenant service and property conditions by property management personnel. We have been able to accomplish a greater focus on tenant service and property conditions as a result of realignment of duties and reductions in administrative duties required of these individuals. This decrease in administrative duties is a result of improvements in systems, processes and reporting.

Other expenses. Our other expenses were \$8.8 million for the six months ended June 30, 2010, as compared to \$9.5 million for the six months ended June 30, 2009, a decrease of approximately \$0.7 million, or 7%. The primary components of other expenses, net are detailed in the table below (in thousands):

	Six Months Ended	
	June 30,	
	2010	2009
		(revised)
General and administrative	\$ 2,472	\$ 3,054
Depreciation and amortization	3,493	3,418
Involuntary conversion		190
Interest expense	2,809	2,898
Interest income	(12)	(22)
Total other expenses	\$ 8,762	\$ 9,538

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General and administrative. General and administrative expenses decreased approximately \$582,000 or 19% for the six months ended June 30, 2010 compared to the same period in 2009. Share-based compensation expense decreased approximately \$354,000 during 2010. The majority of share-based compensation recognized during 2009 represented the achievement of the first performance-based target. With our current asset base, management does not expect to achieve the second performance-based target and expects share-based compensation to be significantly lower during 2010 than 2009. Should we increase our asset base, we may achieve the next performance-based target and begin expensing the shares expected to vest upon the achievement of the second target.

Salaries and benefits, excluding share-based compensation, were approximately \$162,000 less during the six months ended June 30, 2010 than during the same period in 2009, primarily as a result of lower headcount and company wide salary reductions taken in October 2009. Additionally, our allocation of internal labor to properties increased \$205,000 in 2010, reducing general and administrative expense and increasing property expenses. Property management personnel have been able to achieve a greater focus on tenant service and property conditions because much of their administrative burden was removed by realignment of duties and system and process improvements. Other general and administrative expenses increased \$139,000 and were primarily comprised of professional fees.

Involuntary conversion. Involuntary conversion expense of \$190,000 during 2009 represents costs associated with Hurricane Ike. As of June 30, 2010, we have accrued \$2.3 million in expenses representing the cost to complete the remaining repairs. A portion of the \$2.3 million accrual is estimated and is sensitive to the scope requirements of our lenders and labor and material cost of our vendors. We completed a settlement of our insurance claims during the third quarter of 2009 for \$7.0 million, and the full impact of the settlement was not known or included in the June 30, 2009 involuntary conversion.

Interest expense. Interest expense for the six months ended June 30, 2010 was \$2,809,000, a decrease of \$89,000, or 3%, for the same period in 2009. A decrease in the average outstanding note payable balance of \$4,739,000 accounted for approximately \$129,000 in decreased interest expense during 2010, while a higher effective per annum interest rate (excluding loan fee amortization) of 5.5% in 2010 as compared to 5.4% in 2009 accounted for approximately \$40,000 in increases to interest expense.

Table of Contents**Year Ended December 31, 2009 Compared to Year Ended December 31, 2008**

The following table provides a general comparison of our results of operations for the years ended December 31, 2009 and December 31, 2008 (dollars in thousands, except per share and OP unit data):

	Year Ended December 31,	
	2009	2008
Number of properties owned and operated	36	35
Aggregate gross leasable area (sq. ft.)	3,039,044	2,990,892
Ending occupancy rate	82%	84%
Total property revenues	\$ 32,685	\$ 31,201
Total property expenses	12,991	12,835
Total other expenses	17,201	19,600
Provision for income taxes	222	219
Loss on disposal of assets	196	223
Income (loss) from continuing operations	2,075	(1,676)
Loss from discontinued operations		(188)
Gain on sale of properties from discontinued operations		3,619
Net income	2,075	1,755
Less: Net income attributable to noncontrolling interests	733	621
Net income attributable to Whitestone REIT	\$ 1,342	\$ 1,134
Funds from operations ⁽¹⁾	\$ 8,618	\$ 4,236
Dividends and distributions paid on Class A common shares and OP Units	6,926	8,672
Per Class A common share and OP Unit	\$ 1.35	\$ 1.74
Dividends paid as a % of funds from operations	80%	205%

⁽¹⁾ For a reconciliation of funds from operations to net income, see *Funds From Operations* below.

Property revenues. We had rental income and tenant reimbursements of approximately \$32.7 million for the year ended December 31, 2009 as compared to \$31.2 million for the year ended December 31, 2008, an increase of \$1.5 million, or 5%. The increase is primarily attributable to the addition of our Spoerlein Commons property during January 2009.

Property expenses. Our property expenses were \$13.0 million for the year ended December 31, 2009, as compared to \$12.8 million for the year ended December 31, 2008, an increase of \$0.2 million, or 2%. The primary components of total property expenses are detailed in the table below (in thousands):

	Year Ended December 31,	
	2009	2008
Real estate taxes	\$ 4,472	\$ 3,973
Utilities	2,387	2,679
Contract services	2,108	2,138
Repairs and maintenance	1,408	1,633
Bad debt	877	731
Labor and other	1,739	1,681
Total property expenses	\$ 12,991	\$ 12,835

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Real estate taxes. Increases during 2009 in real estate taxes of \$499,000, or 13%, are the result of increased assessed values on our properties and the addition of the Spoerlein Commons property during January 2009.

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Utilities. Utilities decreased \$292,000, or 11%, during 2009. The majority of our utility expense is the electricity usage of our seven office buildings which were charged at a lower rate per kilowatt hour during the second half of 2009 due to our new contracts with our electricity provider for lower fixed rates in the Texas market.

Contract services. Contract services decreased \$30,000, or 1%, during 2009.

Repairs and Maintenance. Repairs and maintenance decreases of \$225,000, or 14%, during 2009 are primarily attributable to decreases in hard surface and parking lot repair costs and the internalization of many maintenance functions.

Bad debt. Bad debt for the year ended December 31, 2009 increased by \$146,000, or 20%. The increase in bad debt is driven by slower paying tenants and abandonments. We vigorously pursue past due accounts, but expect for collection of rents to continue to be challenging for the foreseeable future.

Labor and other. Increases of \$58,000, or 4%, in labor and other during 2009 are the result of increased travel and marketing costs.

Other expenses. Our other expenses were \$17.2 million for the year ended December 31, 2009, as compared to \$19.6 million for the year ended December 31, 2008, a decrease of \$2.4 million, or 12%. The primary components of other expenses, net are detailed in the table below (in thousands):

	Year Ended December 31,	
	2009	2008
General and administrative	\$ 6,072	\$ 6,708
Depreciation and amortization	6,958	6,859
Involuntary conversion	(1,542)	358
Interest expense	5,749	5,857
Interest income	(36)	(182)
 Total other expenses	 \$ 17,201	 \$ 19,600

General and administrative. The decrease of \$636,000, or 10%, in general and administrative expense is primarily due to decreased legal fees related to litigation with our former CEO and our former external advisor, offset by share-based compensation that was incurred in 2009 but not in 2008. Legal fees were \$323,000 for the year ended December 31, 2009, as compared to \$1,717,000 for the same period in 2008. Share-based compensation was \$1,013,000 and \$0 for the years ended December 31, 2009 and 2008, respectively.

Depreciation and amortization. Depreciation and amortization increased \$99,000, or 1%, for the year ended December 31, 2009, as compared to the year ended December 31, 2008. During 2009, depreciation increased \$797,000, or 16%, while amortization decreased \$698,000, or 35%. The increase in depreciation expense is the result of tenant improvements placed in service and depreciation on our Pima Norte and Spoerlein Commons properties which were placed in service in late 2008 and early 2009, respectively. The decrease in amortization expense is primarily attributable to the loan fees which were \$440,000 during 2009 compared to \$1,072,000 during 2008.

Involuntary conversion. Involuntary conversion was a gain of \$1,542,000 for the year ended December 31, 2009, as compared to a loss of \$358,000 during the same period in 2008. During the year ended December 31, 2009, we completed a settlement of our insurance claims related to our 31 properties damaged by Hurricane Ike. The settlement was \$7,000,000 in its entirety, with \$6,529,000 allocated to casualty claims and approximately \$471,000 allocated to loss of rents claims. The \$6,529,000 in insurance proceeds allocated to casualty losses were offset by accrued repair costs of \$5,107,000, resulting in a gain of \$1,422,000. The remaining \$120,000 in involuntary conversion gain for the year ended December 31, 2009 was realized on an insurance settlement we completed during 2009 on a chiller unit at our Uptown Tower property in Dallas, Texas. Repair costs of \$364,000 expensed during the twelve months ended December 31, 2008 related to Hurricane Ike are included in the 2008 involuntary conversion loss.

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Interest expense, net. Interest expense for the year ended December 31, 2009 was \$5,749,000, a decrease of \$108,000 over the same period in 2008. An increase in the average outstanding note payable balance of \$14,906,000 accounted for approximately \$972,000 in increased interest expense during 2009, while a lower effective interest rate of 1.0% per annum (excluding amortized loan fees) accounted for approximately \$1,080,000 in decreased interest expense during 2009. The decrease in interest income of approximately \$146,000 is primarily due to lower interest rates of return on our deposits.

Discontinued operations. Discontinued operations are comprised of the two properties known as Garden Oaks and Northeast Square. The two properties were transferred to our former CEO and our former external advisor as part of a legal settlement on May 30, 2008. Below is a summary of income from discontinued operations (in thousands):

	Year Ended December 31,	
	2009	2008
Property Revenues		
Rental revenues	\$	\$ 333
Other revenues		225
Total property revenues		558
Property Expenses		
Properties operation and maintenance		391
Real estate taxes		133
Total property expenses		524
Other expense		
General and administrative		
Depreciation and amortization		218
Total other expense		218
Loss before gain on sale of assets and income taxes		(184)
Gain on sale of properties		3,619
Provision for income taxes		(4)
Income from discontinued operations	\$	\$ 3,431

Table of Contents**Year Ended December 31, 2008 Compared to Year Ended December 31, 2007**

The following table provides a general comparison of our results of operations for the years ended December 31, 2008 and December 31, 2007 (dollars in thousands, except per share and OP Unit data):

	Year Ended December 31,	
	2008	2007
Number of properties owned and operated ⁽¹⁾	35	37
Aggregate gross leasable area (sq. ft.) ⁽¹⁾	2,990,892	3,093,063
Ending occupancy rate ⁽¹⁾	84%	86%
Total property revenues	\$ 31,201	\$ 29,374
Total property expenses	12,835	12,236
Total other expenses	19,600	17,594
Provision for income taxes	219	217
Change in fair value of derivative instrument		30
Loss on disposal of assets	223	9
Loss from continuing operations	(1,676)	(712)
Income (loss) from discontinued operations	(188)	589
Gain on sale of properties from discontinued operations	3,619	
Net income (loss)	1,755	(123)
Less: Net income (loss) attributable to noncontrolling interests	621	(46)
Net income (loss) attributable to Whitestone REIT	\$ 1,134	\$ (77)
Funds from operations ⁽²⁾	\$ 4,236	\$ 6,001
Dividends and distributions paid on common shares and OP Units	8,672	9,507
Per common share and OP Unit	\$ 1.74	\$ 1.80
Dividends paid as a % of funds from operations	205%	158%

⁽¹⁾ Two properties disposed in May of 2008 with a total area of 135,571 sq. ft. are included in the (i) number of properties owned and operated; (ii) aggregate gross leasable area (sq. ft.), and (iii) ending occupancy rate for the year ended December 31, 2007, but are excluded from continuing operations revenues and expenses.

⁽²⁾ For a reconciliation of funds from operations to net income, see Funds From Operations below.

Property revenues. We had rental income and tenant reimbursements of approximately \$31.2 million for the year ended December 31, 2008 compared to \$29.4 million for the year ended December 31, 2007, an increase of \$1.8 million, or 6%. Our year-end occupancy rate for 2008 was 84%, as compared to 86% at year-end 2007. The majority of the decrease in occupancy occurred near the end of the year in 2008 and did not have a material affect on revenue in 2008. We lost several large tenants towards the end of the year in 2008 either to bankruptcy or expiring leases that were not renewed.

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Property expenses. Our property expenses were \$12.8 million for the year ended December 31, 2008, compared to \$12.2 million for the year ended December 31, 2007, an increase of \$0.6 million, or 5%. The primary components of total property expenses are detailed in the table below (in thousands):

	Year Ended December 31,	
	2008	2007
Real estate taxes	\$ 3,973	\$ 3,629
Utilities	2,679	2,481
Contract services	2,138	1,945
Repairs and maintenance	1,633	1,947
Bad debt	731	440
Labor and other	1,681	1,794
Total property expenses	\$ 12,835	\$ 12,236

Real estate taxes. Real estate taxes increased \$344,000, or 10%, during 2008. Assessed values on many of our properties increased in 2008. We actively work with various appraisal districts to keep our assessed values low and litigate if necessary.

Utilities. Utilities increased \$198,000 or 8% during 2008.

Contract services and repairs and maintenance. Contract services and repairs and maintenance combined decreased \$121,000, or 3%, during 2008.

Bad debt. Bad debt increased \$291,000, or 66%, during 2008. The tightening credit markets and slowing economy impacted many of our tenants negatively in 2008. During 2008, we added a full time collector to constantly improve our collection efforts.

Labor and other. During the twelve months ended December 31, 2008, labor and other decreased \$113,000, or 6%.

Other expenses. Our other expenses were \$19.6 million for the year ended December 31, 2008 compared to \$17.6 million for the year ended December 31, 2007, a decrease of \$2.0 million, or 11%. The primary components of other expenses, net are detailed in the table below (in thousands):

	Year Ended December 31,	
	2008	2007
General and administrative	\$ 6,708	\$ 6,721
Depreciation and amortization	6,859	6,048
Involuntary conversion	358	
Interest expense	5,857	5,402
Interest income	(182)	(577)
Total other expenses	\$ 19,600	\$ 17,594

General and administrative. Legal expenses are included in general and administrative for the years ending December 31, 2008 and 2007 and were \$1,717,000 and \$2,365,000, respectively. The majority of legal fees were surrounding the termination of our former CEO and our former external advisor.

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Depreciation and amortization. Depreciation and amortization increased \$811,000, or 13%, during 2008. Amortization of loan fees are included in amortization, and the extension of a revolving credit facility included an approximately \$900,000 fee that was amortized during 2008. During 2008, we incurred approximately \$1,700,000 in additional fees related to new debt, which will be amortized over five to seven years.

Involuntary conversion. Repair costs of \$364,000 expensed during the twelve months ended December 31, 2008 related to Hurricane Ike are included in the 2008 involuntary conversion loss.

Interest expense, net. Interest expense for the year ended December 31, 2008 was \$5,857,000, an increase of \$455,000 over the same period in 2007. An increase in the average outstanding note payable balance of \$12,902,000 accounted for approximately \$906,000 in increased interest expense during 2008, while a lower effective interest rate of 0.5% per annum (excluding amortized loan fees) accounted for approximately \$451,000 in decreased interest expense during 2008. The decrease in interest income of approximately \$395,000 is primarily due to lower interest rates of return on our deposits.

Discontinued operations. Discontinued operations are comprised of the two properties known as Garden Oaks and Northeast Square. The two properties were transferred to our former CEO and our former external advisor as part of a legal settlement on May 30, 2008. Below is a summary of income from discontinued operations (in thousands):

	Year Ended December 31,	
	2008	2007
Property Revenues		
Rental revenues	\$ 333	\$ 1,181
Other revenues	225	427
Total property revenues	558	1,608
Property Expenses		
Properties operation and maintenance	391	558
Real estate taxes	133	159
Total property expenses	524	717
Other expense		
General and administrative		
Depreciation and amortization	218	295
Total other expense	218	295
Income (loss) before gain (loss) on disposal of assets and income taxes	(184)	596
Gain on sale of properties	3,619	(7)
Provision for income taxes	(4)	
Income from discontinued operations	\$ 3,431	\$ 589

Funds From Operations. The National Association of Real Estate Investment Trusts, or NAREIT, defines funds from operations, or FFO, as net income (loss) available to common shareholders computed in accordance with GAAP, excluding gains or losses from sales of operating real estate assets and extraordinary items, plus depreciation and amortization of operating properties, including our share of unconsolidated real estate joint ventures and partnerships. We calculate FFO in a manner consistent with the NAREIT definition.

Management uses FFO as a supplemental measure to conduct and evaluate our business because there are certain limitations associated with using GAAP net income alone as the primary measure of our operating

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performance. Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Because real estate values instead have historically risen or fallen with market conditions, management believes that the presentation of operating results for real estate companies that use historical cost accounting is insufficient by itself. In addition, securities analysts, investors, and other interested parties use FFO as the primary metric for comparing the relative performance of equity REITs. There can be no assurance that FFO presented by us is comparable to similarly titled measures of other REITs.

FFO should not be considered as an alternative to net income or other measurements under GAAP as an indicator of our operating performance or to cash flows from operating, investing or financing activities as a measure of liquidity. FFO does not reflect working capital changes, cash expenditures for capital improvements or principal payments on indebtedness.

Below is the calculation of FFO and the reconciliation to net income (loss), which we believe is the most comparable GAAP financial measure (in thousands):

Reconciliation of Non-GAAP Financial Measures

	Six Months Ended		Year Ended December 31,		
	2010	2009	2009	2008	2007
			(in thousands)		
Net income (loss) attributable to Whitestone REIT	\$ 383	\$ 26	\$ 1,342	\$ 1,134	\$ (77)
Depreciation and amortization of real estate assets ⁽¹⁾	3,229	3,096	6,347	5,877	6,108
(Gain) loss on sale or disposal of assets ⁽¹⁾	41	53	196	(3,396)	16
Net income (loss) attributable to noncontrolling interests	207	14	733	621	(46)
FFO	\$ 3,860	\$ 3,189	\$ 8,618	\$ 4,236	\$ 6,001

⁽¹⁾ Including amounts for discontinued operations.

Liquidity and Capital Resources**Overview**

Our primary liquidity demands are distributions to holders of our common shares and OP units, capital improvements and repairs and maintenance for our properties, acquisition of additional properties, tenant improvements and debt repayments.

Primary sources of capital for funding our acquisitions and redevelopment programs are cash flows generated from operating activities, issuances of notes payable, sales of common shares, sales of OP units, sales of properties that do not fit our Community Centered Property strategy and other financing opportunities. We expect that our rental income will increase as we acquire additional properties, subsequently increasing our cash flows generated from operating activities.

Our capital structure includes non-recourse secured debt that we originated on certain properties. We may hedge the future cash flows of certain debt transactions principally through interest rate swaps with major financial institutions.

During the six months ended June 30, 2010, our cash provided from operating activities was \$3.8 million and our total distributions were \$3.6 million. Therefore, we had cash provided from operating activities in excess

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of distributions of approximately \$0.2 million. We believe that cash flows from operating activities and our borrowing capacity will allow us to make all distributions required for us to continue to qualify to be taxed as a REIT. When we are unable to pay distributions entirely out of our cash flow from operations and funds from operations, we may use cash flows from working capital, borrowings under any lines of credit available to us at the time, obtaining other debt and proceeds from notes payable.

We anticipate that cash flows from operating activities and our borrowing capacity will provide adequate capital for our working capital requirements, anticipated capital expenditures and scheduled debt payments during the next 12 months. We have approximately \$100.8 million in debt obligations due to mature over the next five years. We expect these debt obligations to be satisfied through growth in cash generated by operations and external sources of debt and equity capital. The United States credit markets have recently experienced significant dislocations and liquidity disruptions, including the bankruptcy, insolvency or restructuring of certain financial institutions. These circumstances have materially impacted liquidity in the debt markets, making financing terms for borrowers less attractive, and in certain cases have resulted in the unavailability of various types of debt financing. In addition, the stock market has recently experienced extreme price and volume fluctuations. These broad market fluctuations could adversely impact our ability to utilize the capital markets.

If poor conditions in the debt and equity markets preclude us from accessing capital, we may not have enough existing liquidity from operations to repay our debt obligations. If that were to happen, management would pursue extensions from our current lenders in order to provide additional time to obtain replacement financing. We may also be able to obtain necessary capital by reducing capital spending, cost reductions, offerings conducted by us and disposition of properties, particularly those that do not meet our Community Centered Property strategy. In the event we are unable to meet our debt obligations upon maturity, one or more of the encumbered properties could be foreclosed upon or transferred to the lenders. A foreclosure on or disadvantageous disposal of one or more of our properties could adversely affect our ability to grow, financial condition, interest cost, results of operations, cash flow and ability to pay distributions to our shareholders. Additionally, a foreclosure on an encumbered property by a lender or a transfer of an encumbered property to a lender could cause us to recognize taxable income at a time when our cash would be insufficient to make a distribution to our shareholders that would otherwise reduce such taxable income. See *Material U.S. Federal Income Tax Consideration Requirements for Qualification as a REIT Annual Distribution Requirements*.

Furthermore, if prevailing interest rates or other factors at the time of refinancing result in higher interest rates upon refinancing, then the interest expense relating to that refinanced indebtedness would increase. Higher interest rates on newly incurred debt may negatively impact us as well. If interest rates increase, our interest costs and overall costs of capital will increase, which could adversely affect our transaction and development activity, financial condition, results of operation, cash flow, our ability to pay principal and interest on our debt and our ability to pay distributions to our shareholders.

Cash and Cash Equivalents

We had cash and cash equivalents of \$3.9 million as of June 30, 2010, as compared to \$6.3 million on December 31, 2009. The decrease of \$2.4 million was primarily the result of the following:

Sources of Cash

Cash provided from operations of \$3.8 million.

Uses of Cash

Payment of dividends and distributions of \$3.6 million to holders of common shares and OP units.

Principal payments on loans of \$1.5 million.

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Repurchase of common shares of \$0.2 million.

Improvements to real estate of \$0.9 million.

We place all cash in short-term, highly liquid investments that we believe provide appropriate safety of principal.

Debt

Mortgages and other notes payable consist of the following (in thousands):

Description	June 30, 2010	December 31, 2009
Fixed rate notes:		
\$10.0 million 6.04% Note, due 2014	\$ 9,576	\$ 9,646
\$11.2 million 6.52% Note, due 2015	10,965	11,043
\$21.4 million 6.53% Notes, due 2013	20,436	20,721
\$24.5 million 6.56% Note, due 2013	24,236	24,435
\$9.9 million 6.63% Notes, due 2014	9,630	9,757
\$0.5 million 3.25% Note, due 2010	251	
\$0.5 million 5.05% Note, due 2010		52
Floating rate note:		
\$26.9 million LIBOR + 2.60% Note, due 2013	25,743	26,128
Total	\$ 100,837	\$ 101,782

As of June 30, 2010, we had \$100.8 million in notes secured by 21 properties with a carrying value of \$107.1 million. Our loans contain restrictions that would require the payment of prepayment penalties for the acceleration of outstanding debt and are secured by deeds of trust on certain of our properties and assignment of certain rents and leases associated with those properties. As of June 30, 2010, we are in compliance with all loan terms and conditions.

Annual maturities of notes payable as of June 30, 2010, are due as set forth below (in thousands):

Year	Amount Due
2010	\$ 1,398
2011	2,410
2012	2,543
2013	66,418
2014	17,799
2015 and thereafter	10,269
Total	\$ 100,837

Capital Expenditures

We continually evaluate our properties' performance and value. We may determine it is in our shareholders' best interest to invest capital in properties we believe have potential for increasing value. We also may have unexpected capital expenditures or improvements for our existing assets. Additionally, we intend to continue investing in similar properties outside of Texas in cities with exceptional demographics to diversify market risk, and we may incur significant capital expenditures or make improvements in connection with any properties we may acquire.

Table of Contents***Distributions***

The following distributions for common shares and OP units were paid or declared payable during the six months ended June 30, 2010 and the year ended December 31, 2009 (in thousands, except per share and OP unit data):

Period	2010 Status	2010 Amount	Per Share / Op Unit	2009 Amount	Per Share / Op Unit
January - March	Paid	\$ 1,773	\$ 0.3375	\$ 1,687	\$ 0.3375
April - June	Paid	1,785	0.3375	1,693	0.3375
July - September	Payable	1,511	0.2850	1,773	0.3375
October - December				1,773	0.3375

Taxes

We elected to be taxed as a REIT under the Code, beginning with our taxable year ended December 31, 1999. As a REIT, we generally are not subject to federal income tax on income that we distribute to our shareholders. 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 rates. We believe that we are organized and operate in such a manner as to qualify to be taxed as a REIT, and we intend to operate so as to remain qualified as a REIT for federal income tax purposes.

Inflation

We anticipate that our leases will continue to be triple-net leases or otherwise provide that tenants pay for increases in operating expenses and will contain provisions that we believe will mitigate the effect of inflation. In addition, many of our leases are for terms of less than five years, which allows us to adjust rental rates to reflect inflation and other changing market conditions when the leases expire. Consequently, increases due to inflation, as well as ad valorem tax rate increases, generally do not have a significant adverse effect upon our operating results.

Environmental Matters

Our properties are subject to environmental laws and regulations adopted by various governmental authorities in the jurisdictions in which our operations are conducted. From our inception, we have incurred no significant environmental costs, accrued liabilities or expenditures to mitigate or eliminate future environmental contamination.

Off-Balance Sheet Arrangements

We have no significant off-balance sheet arrangements as of June 30, 2010 and December 31, 2009.

Quantitative and Qualitative Disclosures About Market Risk

Our future income, cash flows and fair value relevant to our financial instruments depend upon prevailing market interest rates. Market risk is the risk of loss arising from adverse changes in market prices and interest rates. The principal market risk to which we are exposed is the risk related to interest rate fluctuations. Based upon the nature of our operations, we are not subject to foreign exchange or commodity risk. We will be exposed to changes in interest rates as a result of our financial instruments consisting of loans that have floating interest rates. As of June 30, 2010, we had \$25.7 million of loans, or about 25% of our debt, with floating interest rates. All of our financial instruments were entered into for other than trading purposes. As of June 30, 2010, we did not have a fixed rate hedge in place, leaving \$25.7 million subject to interest rate fluctuations. The impact of a 1% increase or decrease in interest rates on our debt would result in a decrease or increase of annual net income of approximately \$0.3 million, respectively.

Table of Contents**Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with GAAP. Our significant accounting policies are described in the notes to our consolidated financial statements. The preparation of these consolidated financial statements in conformity with GAAP requires us to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We base these estimates, judgments and assumptions on historical experience and on various other factors that we believe to be reasonable under the circumstances. Our results may differ from these estimates. Actual results may differ from these estimates under different assumptions or conditions, as described below. Currently, we believe that our accounting policies do not require us to make estimates using assumptions about matters that are highly uncertain. You should read Note 2, Summary of Significant Accounting Policies, to our consolidated financial statements in conjunction with this Management's Discussion and Analysis of Financial Condition and Results of Operations.

The critical accounting policies and estimates most significant to us are the subjective assessments management makes as to whether declines in the fair values of our investments in the real estate entities below their carrying amounts represent other-than-temporary impairments. When making these assessments, we consider our intent and ability to hold the investment until forecasted recovery in value, the severity of the impairment and its duration. These assessments have a direct impact on our net income because recording an impairment loss results in an immediate negative adjustment to income.

We have described below the critical accounting policies that we believe could impact our consolidated financial statements most significantly.

Revenue Recognition. All leases on our properties are classified as operating leases, and the related rental income is recognized on a straight-line basis over the terms of the related leases. Differences between rental income earned and amounts due per the respective lease agreements are capitalized or charged, as applicable, to accrued rent and accounts receivable. Percentage rents are recognized as rental income when the thresholds upon which they are based have been met. Recoveries from tenants for taxes, insurance, and other operating expenses are recognized as revenues in the period the corresponding costs are incurred. We have established an allowance for doubtful accounts against the portion of tenant accounts receivable which is estimated to be uncollectible.

Development Properties. Land, buildings and improvements are recorded at cost. Expenditures related to the development of real estate are carried at cost which includes capitalized carrying charges, acquisition costs and development costs. Carrying charges, primarily interest, real estate taxes and loan acquisition costs, and direct and indirect development costs related to buildings under construction, are capitalized as part of construction in progress. The capitalization of such costs ceases when the property, or any completed portion, becomes available for occupancy. We capitalize acquisition costs once the acquisition of the property becomes probable. Prior to that time, we expense these costs as acquisition expense. During the year ended December 31, 2009, no interest was capitalized on properties under development. Approximately \$0.4 million of interest was capitalized during the same period in 2008 and \$0.1 million was capitalized in 2007. No amounts were capitalized in the six months ended June 30, 2010 or 2009.

Acquired Properties and Acquired Lease Intangibles. We account for real estate acquisitions pursuant to Statement of Financial Accounting Standards, or SFAS, No. 141R, Business Combinations, which is codified in FASB ASC 825, Financial Instrument (ASC 825). Accordingly, we allocate the purchase price of the acquired properties to land, building and improvements, identifiable intangible assets and the acquired liabilities based on their respective fair values. Identifiable intangibles include amounts allocated to acquired out-of-market leases, the value of in-place leases and customer relationship value, if any. We determine fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known

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trends and specific market and economic conditions that may affect the property. Factors considered by management in our analysis of determining the as-if-vacant property value include an estimate of carrying costs during the expected lease-up periods considering market conditions, and costs to execute similar leases. In estimating carrying costs, management includes real estate taxes, insurance and estimates of lost rentals at market rates during the expected lease-up periods, tenant demand and other economic conditions. Management also estimates costs to execute similar leases including leasing commissions, tenant improvements, legal and other related expenses. Intangibles related to out-of-market leases and in-place lease value are recorded as acquired lease intangibles and are amortized as an adjustment to rental revenue or amortization expense, as appropriate, over the remaining terms of the underlying leases. Premiums or discounts on acquired out-of-market debt are amortized to interest expense over the remaining term of such debt.

Depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of five to 39 years for the buildings and improvements. Tenant improvements are depreciated using the straight-line method over the life of the lease.

Impairment. We review our properties for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of the assets, including accrued rental income, may not be recoverable through operations. We determine whether an impairment in value has occurred by comparing the estimated future cash flows (undiscounted and without interest charges), including the estimated residual value of the property, with the carrying cost of the property. If impairment is indicated, a loss will be recorded for the amount by which the carrying value of the property exceeds its fair value.

Accrued Rent and Accounts Receivable. Included in accrued rent and accounts receivable are base rents, tenant reimbursements and receivables attributable to recording rents on a straight-line basis. An allowance for the uncollectible portion of accrued rents and accounts receivable is determined based upon customer credit-worthiness (including expected recovery of our claim with respect to any tenants in bankruptcy), historical bad debt levels, and current economic trends. As of June 30, 2010 and 2009, we had an allowance for uncollectible accounts of \$1.0 million and \$1.8 million, respectively. During the six months ended June 30, 2010 and 2009 we recorded bad debt expense of approximately \$220,000 and \$464,000, respectively. As of December 31, 2009, we had an allowance for uncollectible accounts of \$0.9 million. As of December 31, 2008 and 2007, we had an allowance for uncollectible accounts of \$1.5 million and \$0.9 million, respectively. During 2009, 2008 and 2007, we recorded bad debt expense in the amount of \$0.9 million, \$0.7 million and \$0.4 million, respectively, related to tenant receivables that we specifically identified as potentially uncollectible based on our assessment of each tenant's credit-worthiness. Bad debt expenses and any related recoveries are included in property operation and maintenance expense.

Unamortized Lease Commissions and Loan Costs. Leasing commissions are amortized using the straight-line method over the terms of the related lease agreements. Loan costs are amortized on the straight-line method over the terms of the loans, which approximates the interest method. Costs allocated to in-place leases whose terms differ from market terms related to acquired properties are amortized over the remaining life of the respective leases.

Federal Income Taxes. We elected to be taxed as a REIT under the Code beginning with our taxable year ended December 31, 1999. As a REIT, we generally are not subject to federal income tax on income that we distribute to our shareholders. 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 rates. We believe that we are organized and have operated in such a manner as to qualify to be taxed as a REIT, and we intend to operate so as to remain qualified as a REIT for federal income tax purposes.

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Derivative Instruments. We have initiated a program designed to manage exposure to interest rate fluctuations by entering into financial derivative instruments. The primary objective of this program was to comply with debt covenants on a credit facility. We entered into an interest rate swap agreement with respect to amounts borrowed under certain of our credit facilities, which effectively exchanged existing obligations to pay interest based on floating rates for obligations to pay interest based on fixed LIBOR rates.

We have adopted SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as subsequently amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, and SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, which are codified in FASB ASC 815, *Derivatives and Hedging* (ASC 815), which require for items appropriately classified as cash flow hedges that changes in the market value of the instrument and in the market value of the hedged item be recorded as other comprehensive income with the exception of the portion of the hedged items that are considered ineffective. The derivative instruments are reported at fair value as other assets or other liabilities as applicable. As of June 30, 2010, we did not have any interest rate swaps in place. As of December 31, 2007, we had an interest rate swap with a \$70.0 million notional which was designated as a cash flow hedge. The fair value of this interest rate swap as of December 31, 2007 was approximately (\$0.4) million and is included in accounts payable and accrued expenses in the consolidated balance sheet. This interest rate swap matured on October 1, 2008 and was not renewed by us. Additionally, for a previous interest rate swap which was not designated as a cash flow hedge, approximately (\$0.03) million and \$0.03 million are included in other expense and other income on the consolidated statements of income for the year ended December 31, 2007 and 2006, respectively.

Recent Accounting Pronouncements

In January 2010, the FASB provided additional disclosure requirements for fair value measurements under ASC 820, *Fair Value Measurements and Disclosures* (ASC 820). The new pronouncement requires a reporting entity to disclose the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. In addition, the reconciliation for fair value measurements using significant unobservable inputs (Level 3) should present separately information about purchases, sales, issuances and settlements (that is, on a gross basis rather than as one net number). We adopted the pronouncement in January 2010, and it did not have a material effect on our financial statements.

In January 2010, the FASB issued ASU No. 2010-01, *Equity (Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash*. This update requires that dividends declared and payable in a combination of stock and cash be included in earnings per share prospectively and not considered a stock dividend for purposes of computing earnings per share. To date, we have not declared dividends in this manner, so this update has had no impact on our computation of earnings per share.

Effective January 1, 2010, we implemented the requirements of ASU No. 2009-17, *Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* (ASU No. 2009-17). ASU No. 2009-17 requires enterprises to perform a qualitative approach to determining whether or not a variable interest entity, or VIE, will need to be consolidated on a continuous basis. This evaluation is based on an enterprise's ability to direct and influence the activities of a VIE that most significantly impact that entity's economic performance. Adoption of ASU No. 2009-17 did not have a material effect on our financial statements.

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BUSINESS AND PROPERTIES

Overview

We are a fully integrated real estate company that owns and operates commercial properties in culturally diverse markets in major metropolitan areas. Founded in 1998, we are internally managed with a portfolio of 36 commercial properties in Texas, Arizona and Illinois.

In October 2006, our current management team joined the company and adopted a strategic plan to acquire, redevelop, own and operate Community Centered Properties. We define Community Centered Properties as visibly located properties in established or developing culturally diverse neighborhoods in our target markets. We market, lease, and manage our centers to match tenants with the shared needs of the surrounding neighborhood. Those needs may include specialty retail, grocery, restaurants and medical, educational and financial services. Our goal is for each property to become a Whitestone-branded business center or retail community that serves a neighboring five-mile radius around our property. We employ and develop a diverse group of associates who understand the needs of our multicultural communities and tenants.

Our current portfolio is concentrated in Houston, with additional properties in the Phoenix, Chicago, Dallas and San Antonio metropolitan areas. According to the United States Census Bureau's *Estimates of Population Change for Metropolitan Statistical Areas and Rankings: July 1, 2008 to July 1, 2009*, Dallas and Houston ranked first and second, respectively, in population growth out of 366 metropolitan statistical areas, and Phoenix, Chicago and San Antonio ranked seventh, eighth and sixteenth, respectively. We believe the management infrastructure and capacity we have built can accommodate substantial growth in those markets. We also believe that those cities have expanding multi-cultural neighborhoods, providing us with excellent opportunities to execute our strategic plan in those markets.

We believe that over the next three years we will have opportunities to acquire quality properties at historically attractive prices. Many of these properties will be distressed due to over-leverage, mismanagement or the lack of liquidity in the financial markets. We have extensive relationships with community banks, attorneys, title companies and others in the real estate industry which we believe will enable us to take advantage of these market opportunities and maintain an active acquisition pipeline.

Our Strengths

We believe a number of factors differentiate us from other commercial real estate owners in our markets, including:

Investment Focus. We seek to invest in properties that are or can become Community Centered Properties from which our tenants deliver needed services to the surrounding community. We focus on niche properties with smaller rental spaces that present opportunities for attractive returns. We target properties that: (1) typically require relatively low capital investment, are management and leasing intensive and do not draw the interest of larger national real estate companies; (2) can be redeveloped at a low cost utilizing our internal management capabilities; and/or (3) can be Whitestone-branded and re-tenanted, resulting in lower tenant turnover and higher occupancy and rental rates, together with corresponding increases in tenant reimbursement of operating expenses.

Multi-Cultural Community Focus. Our multi-cultural community focus sets us apart from traditional commercial real estate operators. We value diversity in our team and maintain in-house leasing, property management, marketing, construction and maintenance departments with culturally diverse and multi-lingual associates who understand the particular needs of our tenants and neighborhoods.

Proactive Marketing and Leasing. Our proactive marketing and leasing programs are designed to utilize market research to determine the common and distinctive characteristics and needs of the neighborhood and attract tenants who meet those needs. Our in-depth local knowledge in each of our

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major markets and in-house research capabilities allow us to quickly access and analyze neighborhood demographics and cultural nuances, market rental trends and valuation metrics. Our streamlined and efficient leasing process allows us to attract tenants and to lease spaces quickly. We typically market and lease our properties to smaller tenants who rent on average less than 3,000 square feet. As of June 30, 2010, our average rent per square foot for our smaller tenants represents a 42% premium over rent paid by our larger tenants.

Proven Real Estate and Turn-Around Track Record. Our eight-person senior management team has more than 125 years of collective experience acquiring, developing, redeveloping, owning, managing and operating commercial real estate properties, portfolios and companies. Our senior management team has extensive national real estate contacts and investment expertise in our target markets. In particular, our management team has significant expertise in turning around properties with complex problems. Our team executes a coordinated strategy, utilizing our corporate branding, philosophy and culture, operational systems and experience to renovate and re-tenant properties, with an intention to increase their net operating income and value.

Commitment to Associate Training and Development. Our annual in-house Real Estate Executive Development, or REED, program is designed to provide us with knowledgeable and well-trained associates to meet our strategic goals and provide continuity in our leadership and management. The 12-month REED program promotes in-depth understanding of all aspects of investing in, owning and operating commercial real estate by providing select associates with detailed training from real estate professionals from both within and outside Whitestone.

Our Strategy

Our primary business objective is to increase shareholder value by acquiring, owning and operating Community Centered Properties. The key elements of our strategy include:

Strategically Acquiring Properties.

Seeking High Growth Markets. We seek to strategically acquire commercial properties in high-growth markets. Our acquisition targets are located in densely populated, culturally diverse neighborhoods, primarily in and around Phoenix, Chicago, Dallas, San Antonio and Houston, five of the top 20 markets in the United States in terms of population growth.

Diversifying Geographically. Our current portfolio is concentrated in Houston. We believe that continued geographic diversification into markets where we have substantial knowledge and experience will help offset the economic risk from a single market concentration. We intend to focus our expansion efforts on the Phoenix, Chicago, Dallas and San Antonio markets. We believe our management infrastructure and capacity can accommodate substantial growth in those markets. We may also pursue opportunities in other Southwestern and Western regions that are consistent with our Community Centered Property strategy.

Capitalizing on Availability of Distressed Assets. We believe that during the next several years there will be excellent opportunities in our target markets to acquire quality properties at historically attractive prices. We intend to acquire distressed assets directly from owners or financial institutions holding foreclosed real estate and debt instruments that are either in default or on bank watch lists. Many of these assets may benefit from our corporate strategy and our management team's experience in turning around distressed properties, portfolios and companies. We have extensive relationships with community banks, attorneys, title companies, and others in the real estate industry with whom we regularly work to identify properties for potential acquisition.

Redeveloping and Re-tenanting Existing Properties. We turn around properties and seek to add value through renovating and re-tenanting our properties to create Whitestone-branded Community Centered Properties. We seek to accomplish this by (1) stabilizing occupancy, with per property occupancy goals of

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90% or higher; (2) adding leasable square footage to existing structures; (3) developing and building on excess land; (4) upgrading and renovating existing structures; and (5) investing significant effort in recruiting tenants whose goods and services meet the needs of the surrounding neighborhood.

Recycling Capital for Greater Returns. We seek to continually upgrade our portfolio by opportunistically selling properties that do not have the potential to meet our Community Centered Property strategy and redeploying the sale proceeds into properties that better fit our strategy. Some of our properties which were acquired prior to the tenure of our current management team may not fit our Community Centered Property strategy, and we may look for opportunities to dispose of these properties as we continue to execute our strategy.

Prudent Management of Capital Structure. We intend to use the net proceeds of this offering to fund acquisitions and selective redevelopment of existing properties. We currently have 15 properties that are not mortgaged. We may seek to add mortgage indebtedness to existing and newly acquired unencumbered properties to provide additional capital for acquisitions. As a general policy, we intend to maintain a ratio of total indebtedness to undepreciated book value of real estate assets that is less than 60%. As of June 30, 2010, our ratio of total indebtedness to undepreciated book value of real estate assets was 52%.

Investing in People. We believe that our people are the heart of our culture, philosophy and strategy. We continually focus on developing associates who are self-disciplined and motivated and display at all times a high degree of character and competence. We provide them with equity incentives to align their interests with those of our shareholders.

Our Opportunity

The Economic Opportunity

We believe that over the next three years we will have excellent opportunities to acquire quality properties at historically attractive prices. We have extensive relationships with community banks, attorneys, title companies and others in the real estate industry which we believe will enable us to take advantage of these market opportunities and maintain an active acquisition pipeline.

Since the first quarter of 2008, the market for commercial mortgage-backed securities, or CMBS, has substantially contracted. Spreads on commercial mortgage debt have expanded to make most commercial mortgage debt unaffordable, and an ever-increasing number of mortgage defaults has curbed the willingness of traditional commercial mortgage lenders to extend credit. The global recession has dramatically impacted the profitability of both large and small businesses, and many companies have gone bankrupt. We believe that these factors have resulted in a decrease in the amount of real estate investment capital from traditional financing sources.

Severe recession and tight credit have resulted in many commercial real estate developers being unable to finance tenant improvements necessary to lease their spaces and to meet or refinance current debt maturities. Institutional lenders who have extended mortgage credit to developers and owners are experiencing higher levels of payment and covenant defaults, are accumulating substantial inventories of commercial real estate from foreclosures, and are facing increased pressure from banking regulators to divest these assets. We believe these dynamics have created numerous opportunities to acquire distressed assets and distressed debt instruments at prices at or below replacement cost of the underlying real estate.

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The following charts/tables reflect (1) continued tightening of credit standards by banks; (2) the evaporation of the CMBS market since 2008; and (3) the upcoming maturities of indebtedness secured by commercial real estate:

Source: Federal Reserve Loan Officer Survey (January 2010)

Source: Commercial Mortgage Alert (April 2, 2010)

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Source: Tripp, LLC, Gilberto-Levy Index, Federal Reserve, FDIC, Property and Portfolio Research (PPO).

We believe that these events will greatly increase the number of quality properties available for acquisition. Furthermore, we believe that real estate companies with sufficient equity capital and turnaround experience will be best able to maximize the returns on these properties.

The demand for basic goods and services such as specialty retail, grocery, and medical, educational and financial services remains strong, despite the recession, in neighborhoods throughout our Phoenix, Chicago, Dallas, San Antonio and Houston markets. These staple goods and services tend to be non-luxuries and are needed on an everyday basis. Many of these goods and services are provided by smaller, entrepreneurial businesses that have lower operating costs and require less commercial space. We believe that traditional real estate developers over the past five years have designed properties to accommodate larger national tenants requiring bigger spaces and that these types of properties have been harder hit by the credit and economic crises. We expect that many of these properties are currently, or will in the future be, distressed and can be re-positioned and re-tenanted into Community Centered Properties that better meet the needs of their surrounding neighborhoods.

Table of Contents*The Socio-Economic Opportunity*

According to the United States Census Bureau, all five of our target markets were in the top 10 largest United States cities as of July 1, 2008. In the Census Bureau's *Estimates of Population Change for Metropolitan Statistical Areas and Rankings: July 1, 2008 to July 1, 2009*, Dallas and Houston ranked first and second, respectively, in population growth out of 366 metropolitan statistical areas, and Phoenix, Chicago and San Antonio ranked seventh, eighth and sixteenth, respectively. Each of our markets except Chicago and Phoenix had population growth of at least two percent during this period and experienced better employment statistics than the national average during the current recession. The following table shows that the unemployment rates in four of our five markets (Phoenix, Dallas, San Antonio and Houston) were less than the national average in each of the last six months.

	Jan	Feb	Mar	Apr	May	June
National ⁽¹⁾	9.7%	9.7%	9.7%	9.9%	9.7%	9.5%
Houston ⁽²⁾	8.8%	8.5%	8.5%	8.4%	8.3%	8.8%
Dallas ⁽²⁾	8.7%	8.4%	8.3%	8.2%	8.1%	8.5%
Chicago ⁽²⁾	11.7%	11.4%	11.3%	10.7%	10.3%	10.6%
Phoenix ⁽²⁾	9.2%	9.2%	8.8%	8.4%	8.7%	9.0%
San Antonio ⁽²⁾	7.7%	7.4%	7.3%	7.3%	7.1%	7.7%

⁽¹⁾ Seasonally adjusted.

⁽²⁾ Not seasonally adjusted.

Source: Bureau of Labor Statistics

The Census Bureau in August 2008 forecasted that by 2042 minorities will become the majority of the United States population, and that by 2050 the Hispanic and Asian populations will nearly double as a percentage of the total United States population. We believe our primary markets represent some of the most culturally diverse cities in the United States and that Hispanic and Asian communities are prevalent in these cities. The following table shows changes in ethnic population in our primary markets:

City	2005-2008 % Change in Population by Ethnicity			
	White	Black	Asian	Hispanic
Chicago	4.8%	1.3%	8.4%	8.1%
Houston	9.6	12.6	13.6	15.2
Dallas	10.3	11.3	14.7	17.1
San Antonio	28.1	15.0	20.0	10.9
Phoenix	17.6	27.3	21.4	19.1

Source: US Census Bureau

We believe that multicultural entrepreneurs will comprise a growing base of tenants for our Community Centered Properties. According to the United States Small Business Administration, or SBA, immigrants are nearly 30% more likely to start a new business than non-immigrants. According to SBA, between 1996 and 2007, immigrants represented nearly 17% of all new business owners in the United States. In Texas during this period, immigrants accounted for nearly 28% of new business owners, while in Arizona and Illinois, immigrants accounted for approximately 19% of new business owners. Each of these states was in the top 10 nationally for new business formations by immigrants.

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Our Acquisition Process

Commercial Real Estate

We intend to continue acquiring properties that meet or can be repositioned to meet our criteria for Community Centered Properties in our target markets of Phoenix, Chicago, Dallas and San Antonio. Currently, we have an active acquisition pipeline exceeding 75 properties from approximately 40 sources in our target markets. We believe that declining commercial real estate prices resulting from banks and other financial institutions and conduit lenders disposing of large numbers of commercial properties acquired between 2005 and 2009, combined with a shortage of affordable mortgage financing forcing distressed property owners to sell, will provide us with excellent opportunities in these markets to acquire quality properties. Once we acquire a property, we seek to turn around the property and add value through renovating and re-tenanting in order to create a Whitestone-branded Community Centered Property. We seek to accomplish this by (1) stabilizing occupancy, with per property occupancy goals of 90% or higher; (2) adding leasable square footage to existing structures; (3) developing and building on excess land; (4) upgrading and renovating existing structures; and (5) investing significant effort in recruiting tenants whose goods and services meet the needs of the surrounding neighborhood.

We believe that over the next three years we will have opportunities to acquire quality properties at historically low prices. Many of these properties will be distressed due to over-leverage, mismanagement or the lack of liquidity in the financial markets. We have extensive relationships with community banks, attorneys, title companies and others in the real estate industry which we believe will enable us to take advantage of these market opportunities and maintain an active acquisition pipeline.

We target properties from 50,000 to 200,000 square feet in established or developing neighborhoods, generally resulting in acquisitions priced between \$5 million and \$30 million. In our experience, large institutional investors generally do not compete to purchase properties having values under \$30 million, thus limiting competition that would typically inflate the values of acquisition properties. We are not specifically limited by our governance documents, our management policies or the governance documents of our Operating Partnership in the number or size of properties we may acquire or the percentage of net proceeds of this offering that we may invest in a single property. The number and mix of properties we acquire will depend on real estate and market conditions existing at the time we acquire properties and the availability of debt and equity capital.

We have developed extensive research capabilities and utilize proprietary asset management and modeling tools that our management believes help it to identify favorable property acquisitions, forecast growth and make estimates at the time of the acquisition of a property relating to disposition timing and sales price to maximize our return on investment. Using these tools in concert with our overall strategies, including individual market monitoring and ongoing analysis of macro- and micro-regional economic cycles, we expect to be better able to identify favorable acquisition targets. We believe our experience and investment discipline will enable us to maximize current returns and distributions to investors and maintain higher relative portfolio property values.

Commercial Mortgage Loans

In the near to medium term, we anticipate a significant opportunity to acquire distressed loans on quality commercial real estate at historically attractive prices with the intent to acquire the underlying property through foreclosure or deed in lieu of foreclosure within a short period of time. The global liquidity crisis has led to a repricing of risk, more dramatic and severe than other recent periods of distress. The market is demanding the continued de-leveraging of balance sheets of financial institutions in the face of rising loan maturities. We believe that unlike the Resolution Trust Corporation crisis of 1990 to 1992, distress today is affecting much higher quality assets where opportunities are created by excessive leverage and distressed sellers. Given the low interest rate environment, we believe many of these assets cover debt service, but the likelihood that they can be refinanced at maturity is in doubt. In light of this, we anticipate attractive investment opportunities in acquiring performing and non-performing loans from banks, investment banks or any other forced sellers due to margin

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calls, redemptions, capital adequacy concerns or capital requirements during the next year or two. We believe that our market knowledge, real estate expertise, geographic coverage and our ability to complete transactions quickly will enable us to succeed in these acquisitions. When we purchase debt, we intend to underwrite the underlying real estate in the same manner and method as we use to underwrite direct real estate acquisitions with a view toward ultimately acquiring the real estate securing the purchased debt.

Our Disposition Strategy

We seek to continually upgrade our asset base by opportunistically selling properties that do not have the potential to meet our Community Centered Property strategy and redeploying the sale proceeds into properties that fit our strategy. Some of our properties which were acquired prior to the tenure of our current management team may not fit our Community Centered Property strategy, and we will look for opportunities to dispose of these properties as we continue to execute our strategy. A property may be sold before the end of the expected holding period if, in our judgment, the value of the property has reached its peak or might decline substantially or an opportunity has arisen to acquire other properties. We generally intend to hold our investments long-term; however, economic or market conditions may influence us to hold our investments for different periods of time.

The determination of whether a particular property should be sold or otherwise disposed of will be made after consideration of relevant factors, including prevailing economic conditions, with a view to achieving maximum capital appreciation. We cannot assure you that this objective will be realized. The selling price of a leased property will be determined in large part by the amount of net operating income of the property.

Development and Construction of Properties

We do not currently intend to engage in the acquisition of raw land for development or the acquisition of existing improved property for tear-downs and rebuilding. However, we intend to engage in selective redevelopment of existing improved properties where such redevelopment will reposition the property and/or increase its earning capacity and long-term returns on invested capital. We turn around properties and add value through renovating and re-tenanting to create Whitestone-branded Community Centered Properties. We seek to accomplish this by (1) stabilizing occupancy, with per property occupancy goals of 90% or higher; (2) adding leasable square footage to existing structures; (3) developing and building on excess land; (4) upgrading and renovating existing structures; and (5) investing significant effort in recruiting tenants whose goods and services meet the needs of the surrounding neighborhood.

Property Management, Leasing and Marketing

We manage and lease what we own and retain the decision making authority and strategic planning responsibility for our properties. Our management team directly oversees our property portfolio and seeks to increase our operating cash flow through aggressive oversight of our leasing, property management and asset management functions. Our property management functions include the oversight of all day-to-day operations of our properties as well as the coordination and oversight of tenant improvements and building services. Property managers are required to communicate either in-person or via telephone with each tenant twice per quarter and more frequently for larger tenants on a property and for tenants close to a renewal period or at risk of default.

Our current management team has implemented a number of operating strategies and reporting systems, which have been developed over their careers. Once we acquire a property we seek to aggressively manage the property in accordance with a strategic plan developed during pre-acquisition due diligence. Depending on the property, the strategic plan may seek to add value either through active property leasing efforts, investment in targeted capital improvement projects or the repositioning or redevelopment of certain properties. We intend to increase cash flows through cost efficient property operations and leasing strategies designed to capture market rental growth from the renewal of below-market leases at higher rates and/or recruitment of quality new tenants. We believe we have maintained both rigorous lessee underwriting and strong tenant relationships.

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In implementing our Community Centered Property strategy, we strive to market, lease, and manage our centers to match tenants with the shared needs of the surrounding neighborhood. Those needs may include specialty retail, grocery, restaurants and medical, educational and financial services. Our goal is for each property to become a Whitestone-branded business center or retail community that serves a neighboring five-mile radius around our property. We employ and develop a diverse group of associates who understand the needs of our multicultural communities and tenants.

Marketing is an integral part of our leasing strategy. We deploy a multi-prong marketing effort as it focuses on mailings including post cards, e-mail distributions and door-to-door marketing for potential tenants in neighboring buildings. In addition, we outsource certain marketing functions for further penetration of the potential tenant market. We hold training seminars for our marketing employees and leasing agents specifically oriented towards the marketing process and other leasing principals.

We utilize large, conspicuous signage to advertise the availability of space at our vacant properties. We also actively communicate with tenant representatives in our markets in order to keep them continuously informed of our inventory of available space. We also utilize direct mail and telephone cold calls to create prospective tenants. Once a prospective tenant becomes interested in leasing from us, we provide our leasing agents with autonomy, within set parameters, to negotiate leases in order to fill vacant space. Leasing agents are allowed to use concessions to attract new tenants.

Our properties are marketed to smaller tenants, who rent on average less than 3,000 square feet. As of June 30, 2010, 552 of our 770 tenants are small tenants (representing approximately 72% of our tenant base), and we have tailored our management and leasing approach to deal with the unique needs of these types and size tenants. For example, we have implemented a streamlined lease approval process, and we allow our trained representatives to make independent leasing decisions. Many competing properties often face a substantially more bureaucratic approval process, which could potentially inhibit a property from being fully leased. Our ability to act quickly allows us to capture those tenants that are unable or unwilling to wait a substantial period of time for a lease to be approved. We are able to examine the credit of a potential tenant during the lease negotiation process and finalize the terms of the lease. Smaller tenants generally pay us a premium per square foot to occupy smaller spaces. As of June 30, 2009, this premium averaged 42% over what larger tenants pay on an average per square foot in our current portfolio.

We carefully monitor our property expenses and manage how we incur and bill expenses to our tenants. Because a significant amount of our leases are triple net leases, which means that the tenant is responsible for paying the cost of all maintenance and minor repairs, property taxes and insurance relating to its leased space, most operating expenses, such as insurance, taxes and common area maintenance, are reimbursed to us by our tenants. We also use gross leases and full service leases, which vary from our triple net leases. A gross lease typically includes the base or first year's property operating expenses, taxes and insurance in the rent. Any increases in the property operating expenses, taxes or insurance over the base year are generally reimbursed by the tenant. The cost of common area maintenance is also reimbursed by the tenant, as are utilities and other premises-specific costs. In a full service lease, all expenses, with the occasional exception of electricity and other utility costs, are included in the rent. Any increases in the expenses over the base year are generally reimbursed by the tenant. We have implemented collection and billing policies to assure we are collecting all expense reimbursements, and we plan our incurrence of such expenses so as to maximize recoverability in any given year, while minimizing the added cost to our tenants.

Leasing for our portfolio is generally performed internally and is a key component to our success. Members of our leasing team have developed strong relationships with the local tenant community in the respective markets. We aggressively seek to renegotiate and extend any existing leases that are below market at market rates. Although we maintain ongoing dialogue with our tenants, we will generally raise the issue of renewal 12 months prior to lease renewal often providing concessions for early renewal. We also aggressively pursue new tenants for any vacant space. As necessary, we will use third-party leasing agents in attracting tenants. Our use of

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third party brokerage firms is based on their demonstrated track record and knowledge of the sub-markets in which our properties are located.

Terms of Leases and Tenant Creditworthiness

We typically lease our properties to a wide variety of tenants on a triple net basis. The terms and conditions of any lease that we enter into with our tenants may vary substantially from those we describe in this prospectus. Our leases range from terms of month-to-month to over 15 years with renewal options. However, we expect that a majority of our leases will be leases customarily used between landlords and tenants in the geographic area where the property is located and require the tenant to pay a pro rata share of building expenses, including real estate taxes and insurance. Under such typical leases, the landlord is directly responsible for all real estate taxes, sales and use taxes, special assessments, utilities, insurance and building repairs, and other building operation and management costs.

We execute new tenant leases and tenant lease renewals, expansions and extensions with terms that are dictated by the current sub-market conditions and the verifiable creditworthiness of each particular tenant. We use a number of industry credit rating services to determine the creditworthiness of potential tenants and any personal guarantor or corporate guarantor of each potential tenant. The reports produced by these services are compared to the relevant financial data collected from these parties before consummating a lease transaction. Relevant financial data from potential tenants and guarantors include income statements and balance sheets for the current year and for prior periods, net worth or cash flow statements of guarantors and other information we deem relevant. We have established leasing guidelines to use in evaluating prospective tenants and proposed lease terms and conditions.

Our Owned Properties

We currently own 36 commercial properties, including 31 properties in Houston, two properties in Dallas, one property in Windcrest, Texas, a suburb of San Antonio, one property in Carefree, Arizona, which is adjacent to North Scottsdale in the Phoenix metropolitan statistical area, and one property in Buffalo Grove, Illinois, a suburb of Chicago.

Our tenants consist of national, regional and local businesses. Our properties generally attract a mix of tenants who provide basic staples, convenience items and services tailored to the specific cultures, needs and preferences of the surrounding community. These types of tenants contribute to our Community Centered Property strategy. We also believe sales of these basic items are less sensitive to fluctuations in the business cycle than higher priced retail items. Our largest tenant represented less than 3% of total revenues for the three months ended June 30, 2010.

We directly manage the operations and leasing of our properties. Substantially all of our revenues consist of base rents received under leases that generally have terms ranging from month-to-month to over 15 years. Approximately 72% of our existing leases as of June 30, 2010 contain step up rental clauses that provide for increases in the base rental payments. Approximately 14% of our properties have expandable redevelopment potential to add approximately 300,000 revenue producing square feet.

As of June 30, 2010, we had one property that accounted for more than 10% of total gross revenue. Uptown Tower is an office building located in Dallas, Texas that was acquired during 2005 and accounts for 12.5% of our total revenue in the six months ended June 30, 2010 and 10.9% of real estate assets, net of accumulated depreciation.

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The following table sets forth information about our fifteen largest tenants as of June 30, 2010, based upon annualized rental revenues as of June 30, 2010.

Tenant Name	Location	Annualized Rental Revenue (in thousands)	Percentage of Total Annualized Base Rental Revenues	Initial Lease Year	Year Expiring
US Census	Houston	\$ 708	2.7%	2008	2010
Sports Authority	San Antonio	450	1.7%	2004	2015
Brockett Davis Drake Inc.	Dallas	365	1.4%	1994	2011
Compass Insurance	Dallas	367	1.4%	2005	2011
Air Liquide America, L.P.	Dallas	363	1.4%	2001	2013
River Oaks L-M, Inc.	Houston	293	1.1%	1993	2011
Kroger	Houston	265	1.0%	1999	2011
Petsmart, Inc	San Antonio	255	1.0%	2004	2013
X-Ray X-Press Corporation	Houston	252	1.0%	1998	2019
Marshall s	Houston	248	1.0%	1983	2013
Rock Solid Images	Houston	236	0.9%	2004	2012
Merrill Corporation	Dallas	234	0.9%	2001	2014
New Lifestyles, Inc.	Dallas	187	0.7%	1998	2013
Landworks, Inc.	Houston	168	0.6%	2004	2013
University of Texas	Houston	166	0.6%	2007	2017
		\$ 4,557	17.6%		

Table of Contents**General Physical and Economic Attributes**

The average age of our portfolio is approximately 27 years, and the average total leasable area per property is 84,418 square feet. Currently, our portfolio is dispersed primarily among the sub-markets of the greater Houston metropolitan area, generally in high-traffic areas with good visibility and accessibility. Our portfolio provides our tenants with solid properties in preferred locations at competitive rental rates. As of June 30, 2010, our portfolio's average occupancy rate was approximately 82%. The average base rental revenue per square foot for the retail, office/flex and office properties was \$10.26, \$8.12 and \$16.04, respectively. The following table sets forth certain information relating to each of our properties owned as of June 30, 2010.

Property Name	Location	Year Built/ Renovated	Leasable Square Feet	Percent Occupied at 6/30/10	Annualized Base Rental Revenue (in thousands) ⁽¹⁾	Average Base Rental Revenue Per ..Sq. Ft. ⁽²⁾
Retail Properties:						
Bellnott Square	Houston	1982	73,930	37%	\$ 296	\$ 10.88
Bissonnet/Beltway	Houston	1978	29,205	100%	355	12.16
Centre South	Houston	1974	39,134	82%	282	8.76
Greens Road	Houston	1979	20,507	79%	171	10.62
Holly Knight	Houston	1984	20,015	100%	332	16.62
Kempwood Plaza	Houston	1974	92,929	94%	856	9.83
Lion Square	Houston	1980	119,621	72%	787	9.14
Providence	Houston	1980	90,327	99%	810	9.07
Shaver	Houston	1978	21,926	89%	235	12.11
South Richey	Houston	1980	69,928	92%	506	7.90
Spoerlein Commons	Chicago	1987	41,455	86%	709	19.96
SugarPark Plaza	Houston	1974	95,032	100%	927	9.75
Sunridge	Houston	1979	49,359	99%	472	9.65
Torrey Square	Houston	1983	105,766	86%	815	8.95
Town Park	Houston	1978	43,526	100%	749	17.21
Webster Point	Houston	1984	26,060	100%	217	8.33
Westchase	Houston	1978	49,573	57%	347	12.24
Windsor Park	San Antonio	1992	192,458	66%	1,049	8.26
			1,180,751	82%	\$ 9,915	\$ 10.26
Office/Flex Properties:						
Brookhill	Houston	1979	74,757	95%	\$ 293	\$ 4.11
Corporate Park Northwest	Houston	1981	185,627	73%	1,416	10.46
Corporate Park West	Houston	1999	175,665	89%	1,376	8.81
Corporate Park Woodland	Houston	2000	99,937	84%	780	9.29
Dairy Ashford	Houston	1981	42,902	90%	201	5.19
Holly Hall	Houston	1980	90,000	100%	675	7.50
Interstate 10	Houston	1980	151,000	95%	798	5.54
Main Park	Houston	1982	113,410	79%	549	6.14
Plaza Park	Houston	1982	105,530	86%	1,054	11.59
Westbelt Plaza	Houston	1978	65,619	73%	730	15.28
Westgate	Houston	1984	97,225	76%	420	5.69
			1,201,672	85%	\$ 8,292	\$ 8.12
Office Properties:						
9101 LBJ Freeway	Dallas	1985	125,874	71%	\$ 1,439	\$ 16.06
Featherwood	Houston	1983	49,760	76%	639	16.87
Pima Norte	Phoenix	2007	33,417	11%	102	27.75
Royal Crest	Houston	1984	24,900	80%	256	12.80
Uptown Tower	Dallas	1982	253,981	84%	3,530	16.55
Woodlake Plaza	Houston	1974	106,169	76%	1,150	14.20
Zeta Building	Houston	1982	37,740	95%	599	16.78

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	631,841	76%	\$	7,715	\$ 16.04
Grand Totals	3,014,264	82%	\$	25,922	\$ 10.51

- (1) Calculated as the tenant's actual June 30, 2010 base rent multiplied by 12. Excludes vacant space as of June 30, 2010. Because annualized base rental revenue is not derived from historical results that were accounted for in accordance with generally accepted accounting principles, historical results differ from the annualized amounts.
- (2) Calculated as annualized base rent divided by net rentable square feet leased at June 30, 2010. Excludes vacant space at June 30, 2010.

Table of Contents**Lease Expirations**

Our leases range from terms of month-to-month to over 15 years with renewal options. As a result of the length of our average lease term, we have, on average, 10% to 20% of our portfolio expiring on an annual basis. The following table sets forth a summary schedule of the lease expirations for the leases in place as of June 30, 2010 over the next ten years. Unless otherwise provided, the information set forth in the table assumes that tenants exercise no renewal options or early termination rights.

Year	Gross Leasable Area			Annualized Base Rent as of June 30, 2010	
	Number of Leases	Approximate Square Feet	Percent of Total	(in thousands) Amount	Percent of Total
2010	129	284,627	9%	\$ 3,028	12%
2011	167	496,424	16%	5,349	21%
2012	160	462,171	15%	4,825	19%
2013	125	444,857	15%	4,695	18%
2014	84	319,245	11%	3,352	13%
2015	60	259,801	9%	2,606	10%
2016	15	57,644	2%	559	2%
2017	8	43,725	2%	358	1%
2018	7	32,531	1%	313	1%
Thereafter	15	67,924	2%	837	3%
Total	770	2,468,949	82%	\$ 25,922	100%

Significant Properties

Uptown Tower, Dallas, Texas. Uptown Tower accounts for 10.9% of our total assets. The Uptown Tower office property, which was built in 1982, consists of 253,981 rentable square feet located in the Uptown area of Dallas, Texas. We acquired the property in 2005. The average office space is approximately 2,800 square feet, and the typical tenants include professional services and non-profit organizations. As of June 30, 2010, the building was 84% leased to 76 tenants. Typical lease terms are generally gross lease where the tenant pays a monthly base rent and a reimbursement of operating expenses above its base year. These expense reimbursements include, but are not limited to, property taxes, insurance, security, utilities, landscaping and other common area maintenance items. Generally leased space has a term ranging from month-to-month to over 15 years. The federal income tax basis for the Uptown Tower property is \$18,647,426 as of December 31, 2009.

No tenant occupied 10% or more of the property's rentable square footage as of June 30, 2010.

The following table sets forth the occupancy rate and average annual rent per leased rentable square foot for the Uptown Tower property at the end of each year indicated.

	Occupancy Rate	Average Annual Base Rent per Leased Square Foot
2005	83.3%	\$ 12.64
2006	80.5%	\$ 12.72
2007	89.9%	\$ 14.35
2008	89.8%	\$ 16.81
2009	83.9%	\$ 16.82

Depreciation on the Uptown Tower property is taken on a straight line basis over 6 to 39 years for book purposes, resulting in a depreciation rate of approximately 3% per year.

Table of Contents**Lease Expiration Schedule Uptown Tower**

Year of Lease Expiration	Number of Leases Expiring	Square Footage of Expiring Leases	Percentage of Property's Gross Leasable Area	Annualized Base Rent of Expiring Leases⁽¹⁾	Percentage of Property's Annualized Base Rent⁽²⁾
2010	23	22,569	8.9%	\$ 222,106	6.3%
2011	18	38,705	15.2%	764,264	21.6%
2012	13	38,672	15.2%	690,644	19.6%
2013	11	45,711	18.0%	791,424	22.4%
2014	5	32,805	12.9%	588,060	16.7%
2015	3	15,417	6.1%	271,701	7.7%
2016	2	14,001	5.5%	102,000	2.9%
2017	0		0.0%		
2018	0		0.0%		
Thereafter	1	5,421	2.1%	100,289	2.8%
Total	76	213,301	84.0%	\$ 3,530,488	100.0%

⁽¹⁾ Calculated as the tenant's actual June 30, 2010 base rent multiplied by 12. Excludes vacant space as of June 30, 2010. Because annualized base rental revenue is not derived from historical results that were accounted for in accordance with generally accepted accounting principles, historical results differ from the annualized amounts.

⁽²⁾ Calculated as annualized base rent divided by net rentable square feet leased at June 30, 2010. Excludes vacant space at June 30, 2010. We hold fee simple title to this property, which is subject to a mortgage loan, collateralized by this property and two others. The loan which has a principal balance, as of June 30, 2010, of approximately \$24.2 million, requires monthly interest-only payments for the first twelve months and has a 25 year amortization thereafter, bears interest at a fixed rate of 6.56% and matures on October 1, 2013. While prepayment of the loan is not restricted, prepayments are subject to a penalty provision. The outstanding balance at the time of maturity will be approximately \$22.8 million.

The property is held primarily for its income producing capabilities. Uptown Tower directly competes with other office buildings in the North Central Expressway corridor. There are no current plans for renovating this property. We believe the property to be adequately covered by insurance.

Real estate taxes for 2009 on the Uptown Tower property were approximately \$472,000, and the current real property tax rate with respect to the property is 2.62% of the assessed value.

Indebtedness

As a general policy, we limit our total indebtedness to 60% of the undepreciated book value of our real estate assets as of the date of any borrowing. The Board may, at any time, waive or change our borrowing policy. Moreover, the terms of certain mortgage loans and other credit facilities to which we may be a party may be more restrictive than our Board's policy. As of June 30, 2010, our total indebtedness is approximately 52% of the undepreciated book value of our real estate assets, and we were in compliance with all financial covenants in all loan documents to which we are a party.

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Mortgages and other notes payable consist of the following (in thousands):

Description	June 30, 2010	December 31, 2009
Fixed rate notes:		
\$10.0 million 6.04% Note, due 2014	\$ 9,576	\$ 9,646
\$11.2 million 6.52% Note, due 2015	10,965	11,043
\$21.4 million 6.53% Notes, due 2013	20,436	20,721
\$24.5 million 6.56% Note, due 2013	24,236	24,435
\$9.9 million 6.63% Notes, due 2014	9,630	9,757
\$0.5 million 3.25% Note, due 2010	251	
\$0.5 million 5.05% Note, due 2010		52
Floating rate note:		
\$26.9 million LIBOR + 2.60% Note, due 2013	25,743	26,128
Total	\$ 100,837	\$ 101,782

Competition

All of our properties are located in areas that include competing properties. The amount of competition in a particular area could impact our ability to acquire additional real estate, sell current real estate or lease space and the amount of rent we are able to charge. We may be competing with owners, including but not limited to, other REITs, insurance companies and pension funds, with access to greater resources than those available to us.

Many of our competitors have greater financial and other resources than us and may have more operating experience than us. Generally, there are other neighborhood and community retail centers within relatively close proximity to each of our properties. There is, however, no dominant competitor in the Houston, Dallas, San Antonio, Phoenix or Chicago metropolitan areas. Our retail tenants face increasing competition from outlet malls, internet discount shopping clubs, catalog companies, direct mail and telemarketing.

Insurance

We believe that we have adequate property and liability insurance with reputable, commercially rated companies. We also believe that our insurance policies contain commercially reasonable deductibles and limits, adequate to cover our properties. We expect to maintain this type of insurance coverage and to obtain similar coverage with respect to any additional properties we acquire in the near future.

Employees

As of June 30, 2010 we had 52 full-time employees.

Regulation***Environmental Regulations***

Our properties, as well as any other properties that we may acquire in the future, are subject to various federal, state and local laws, ordinances and regulations, including, among other things, environmental regulations (as discussed below), zoning regulations and land use controls. We believe that we have all permits and approvals necessary under current law to operate our properties.

All real property and the operations conducted on real property are subject to federal, state and local laws and regulations relating to environmental protection and human health and safety. These laws and regulations generally govern air and water quality, noise pollution and indirect environmental impacts such as increased

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motor vehicle activity, wastewater discharges, air emissions, the operation and removal of underground and above-ground storage tanks, the use, storage, treatment, transportation and disposal of solid and hazardous materials, and the remediation of contamination associated with disposals. Under these laws and regulations, a current or previous owner or operator of real property may be liable for the cost of removal or remediation of hazardous or toxic substances on, under or in such property. Some of these laws and regulations may impose joint and several liability on tenants, owners or operators for the costs of investigation or remediation of contaminated properties, regardless of fault or the legality of the original disposal and whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances.

Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require substantial expenditures. Environmental laws provide for sanctions in the event of noncompliance and may be enforced by governmental agencies or, in certain circumstances, by private parties. Certain environmental laws and common law principles could be used to impose liability for release of and exposure to hazardous substances, including asbestos-containing materials into the air, and third parties may seek recovery from owners or operators of real properties for personal injury or property damage associated with exposure to released hazardous substances. Additionally, concern about indoor exposure to mold has been increasing as exposure to mold may cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold at any of our properties could require us to undertake a costly remediation program to contain or remove the mold from the affected property, and could expose us to liability from our tenants, their employees and others. The cost of defending against claims of liability, of compliance with environmental regulatory requirements, of remediating any contaminated property, or of paying personal injury claims could materially adversely affect our business, assets or results of operations and, consequently, amounts available for payments of distributions to our shareholders. In addition, the presence of these substances, or the failure to properly remediate these substances, may adversely affect our ability to sell or rent such property or to use the property as collateral for future borrowing.

Some of these laws and regulations have been amended so as to require compliance with new or more stringent standards as of future dates. Compliance with new or more stringent laws or regulations or stricter interpretation of existing laws may require material expenditures by us. We cannot assure you that future laws, ordinances or regulations will not impose any material environmental liability, or that the current environmental condition of our properties will not be affected by the operations of the tenants, by the existing condition of the land, by operations in the vicinity of the properties, such as the presence of underground storage tanks, or by the activities of unrelated third parties. In addition, there are various local, state and federal fire, health, life-safety and similar regulations that we may be required to comply with, and which may subject us to liability in the form of fines or damages for noncompliance.

We will not purchase any property unless we are generally satisfied with the environmental status of the property. We may obtain a Phase I environmental site assessment, which includes a visual survey of the building and the property in an attempt to identify areas of potential environmental concerns, visually observing neighboring properties to assess surface conditions or activities that may have an adverse environmental impact on the property, and contacting local governmental agency personnel and performing a regulatory agency file search in an attempt to determine any known environmental concerns in the immediate vicinity of the property. A Phase I environmental site assessment does not generally include any sampling or testing of soil, groundwater or building materials from the property. Certain properties that we have acquired contain, or contained, dry-cleaning establishments utilizing solvents. Where believed to be warranted, samplings of building materials or subsurface investigations were undertaken with respect to these and other properties. To date, the costs associated with these investigations and any subsequent remedial measures taken have not been material to us.

We believe that our properties are in compliance in all material respects with all federal, state and local ordinances and regulations regarding the handling, discharge and emission of hazardous or toxic substances. During the re-financing of twenty-one of our properties in late 2008 and early 2009, Phase I environmental site

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assessments were completed at those properties. These assessments revealed that five of the twenty-one properties currently or previously had a dry cleaning facility as a tenant. Since release of chlorinated solvents can occur as a result of dry cleaning operations, a Phase II subsurface investigation was conducted at the five identified properties, and all such investigations revealed the presence of chlorinated solvents. Based on the findings of the Phase II subsurface investigations, we promptly applied for entry into the Texas Commission on Environmental Quality Dry Cleaner Remediation Program, or DCRP for four of the identified properties and were accepted. Upon entry, and continued good standing with the DCRP, the DCRP administers the Dry Cleaning Remediation fund to assist with remediation of contamination caused by dry cleaning solvents. The remaining identified property is still under investigation and upon conclusion of the investigation, we intend to enter the property into the DCRP. The response actions associated with the ongoing investigation and subsequent remediation, if necessary, have not been determined at this time. However, we believe that the costs of such response actions will be immaterial and therefore no liability has been recorded to our financial statements. We have not been notified by any governmental authority, other than the five identified properties described above, and are not otherwise aware, of any material noncompliance, liability or claim relating to hazardous or toxic substances in connection with any of our present or former properties. We have not recorded in our financial statements any material liability in connection with environmental matters. Nevertheless, it is possible that the environmental assessments conducted thus far and currently available to us do not reveal all potential environmental liabilities. It is also possible that subsequent investigations will identify material contamination or other adverse conditions, that adverse environmental conditions have arisen subsequent to the performance of the environmental assessments, or that there are material environmental liabilities of which management is unaware.

Americans with Disabilities Act of 1990

Under the Americans with Disabilities Act, or ADA, all places of public accommodation are required to meet certain federal requirements related to access and use by disabled persons. Our properties must comply with the ADA to the extent that they are considered public accommodations as defined by the ADA. The ADA may require removal of structural barriers to access by persons with disabilities in public areas of our properties where such removal is readily achievable. We believe that our properties are in substantial compliance with the ADA and that we will not be required to make substantial capital expenditures to address the requirements of the ADA. In addition, we will continue to assess our compliance with the ADA and to make alterations to our properties as required.

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POLICIES WITH RESPECT TO CERTAIN ACTIVITIES

Our Board reviews our investment policies periodically to determine that the policies we follow are in the best interest of our shareholders. We acquire assets primarily for income and growth (value appreciation). The methods of implementing our investment policies also may vary as new investment techniques are developed. The methods of implementing our investment objectives and policies, except as otherwise provided in the organizational documents, may be altered by our Board without shareholder approval.

Investments in Real Estate and Interests in Real Estate

Commercial Real Estate

We intend to continue acquiring properties that meet or can be repositioned to meet our criteria for Community Centered Properties in our target markets of Phoenix, Chicago, Dallas and San Antonio. Currently we have an active acquisition pipeline exceeding 75 properties from approximately 40 sources in our target markets. We believe that declining commercial real estate prices resulting from banks and other financial institutions and conduit lenders disposing of large numbers of commercial properties acquired between 2005 and 2009, combined with a shortage of affordable mortgage financing forcing distressed property owners to sell, will provide us with excellent opportunities in these markets to acquire quality properties. Once we acquire a property, we seek to turn around the property and add value through renovating and re-tenanting in order to create a Whitestone-branded Community Centered Property. We seek to accomplish this by (1) stabilizing occupancy, with per property occupancy goals of 90% or higher; (2) adding leasable square footage to existing structures; (3) developing and building on excess land; (4) upgrading and renovating existing structures; and (5) investing significant effort in recruiting tenants whose goods and services meet the needs of the surrounding neighborhood.

We have extensive relationships with community banks, attorneys, title companies and others in the real estate industry with whom we regularly work to identify properties for potential acquisition. Due to the size and depth of our target markets, we believe we can continue our selective acquisition strategy in the future.

We target properties from 50,000 to 200,000 square feet in established or developing neighborhoods. In our experience, large institutional investors generally do not compete to purchase these types of properties, thus limiting competition that would typically inflate the values of acquisition properties. We are not specifically limited by our governance documents, our management policies or the governance documents of our Operating Partnership in the number or size of properties we may acquire or the percentage of net proceeds of this offering that we may invest in a single property. The number and mix of properties we acquire will depend on real estate and market conditions existing at the time we acquire properties and the availability of debt and equity capital.

We have the capability to use OP units or common shares as currency along with a combination of cash and debt as consideration for our acquisitions. Our UPREIT structure is attractive to potential sellers because in addition to allowing sellers to defer taxable gains related to the sale of the property, it gives the seller an interest in a larger, more diversified pool of assets. It is possible that, in making future acquisitions in return for OP units, we may agree to restrictions on our ability, for a specified period of time following the acquisition, to dispose of the acquired properties in a taxable transaction.

Currently all of our properties are owned by our Operating Partnership or a wholly owned subsidiary of our Operating Partnership in fee simple title. We expect to continue to pursue our investment objectives through the direct ownership of properties. However, in the future, we may also participate with other entities (including non-affiliated entities) in property ownership, through joint ventures, limited liability companies, partnerships, co-tenancies or other types of common ownership. We may also consider entering into joint ventures with institutional partners to acquire properties in the future. Joint ventures generally entail the acquisition of properties in conjunction with an equity partner who, in most cases, provides the majority of the equity needed

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for the acquisition. We only anticipate using joint ventures for transactions in certain situations, such as where the property would be disproportionately larger than the other properties in our portfolio or would otherwise have a significantly higher risk profile than our other properties. We presently have no agreements to own any properties jointly with another entity or entities.

In addition, we may purchase properties and lease them back to the sellers of such properties. While we will use our best efforts to structure any such sale-leaseback transaction such that the lease will be characterized as a true lease so that we will be treated as the owner of the property for federal income tax purposes, we cannot assure you that the IRS will not challenge such characterization. In the event that any such sale-leaseback transaction is recharacterized as a financing transaction for federal income tax purposes, deductions for depreciation and cost recovery relating to such property would be disallowed.

Although we currently intend to acquire Community Centered Properties in the Phoenix, Chicago, Dallas, and San Antonio metropolitan areas, our future acquisition or redevelopment activities are not limited to any geographic area or to a specified property use. We may invest in any geographic area and we may invest in other commercial properties such as manufacturing facilities, warehouse and distribution facilities in order to reduce overall portfolio risk, enhance overall portfolio returns, or respond to changes in the real estate market if our management determines that it would be advantageous to do so.

We have developed extensive research capabilities and utilize proprietary asset management and modeling tools that our management believes help it to identify favorable property acquisitions, forecast growth and make estimates at the time of the acquisition of a property, relating to disposition timing and sales price to maximize our return on investment. Using these tools in concert with our overall strategies, including individual market monitoring and ongoing analysis of macro- and micro-regional economic cycles, we expect to be better able to identify favorable acquisition targets. We believe our experience and investment discipline will enable us to maximize current returns and distributions to investors and maintain higher relative portfolio property values. We intend to execute timely dispositions at appropriate sales prices to enhance capital gains distributable to our investors.

When identifying particular properties as potential acquisitions, we consider relevant real estate property and financial factors, including:

the location of the property and visibility to high traffic areas;

the physical condition;

the property's historical operating use and any potential liabilities;

impediments to value identified from surveys, environmental reports, title reports and policies and similar materials;

current and pro forma financial information to determine a property's income-producing history and capacity, based on rent rolls and lease expiration format;

the turn around prospects for transforming the property to a Whitestone-branded Community Centered Property;

the potential prospects for sale of the property when the transformed value is realized;

market demographics and trends, along with unique needs within a community; and

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income tax considerations.

Our obligation to purchase any property will generally be conditioned upon completion of due diligence including, where appropriate: plans and specifications; environmental reports; surveys; evidence of marketable title subject to such liens and encumbrances as are acceptable to us; financial statements and other data covering recent operations of properties having operating histories; and title and liability insurance policies.

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We will not purchase any property unless we are generally satisfied with the environmental status of the property. We may obtain a Phase I environmental site assessment, which includes a visual survey of the building and the property in an attempt to identify areas of potential environmental concerns, visually observing neighboring properties to assess surface conditions or activities that may have an adverse environmental impact on the property, and contacting local governmental agency personnel and performing a regulatory agency file search in an attempt to determine any known environmental concerns in the immediate vicinity of the property. A Phase I environmental site assessment does not generally include any sampling or testing of soil, groundwater or building materials from the property.

In purchasing, leasing and developing properties, we will be subject to risks generally incident to the ownership of real estate. See Risk Factors Risks Associated with Real Estate.

As a general policy, we intend to maintain a ratio of total indebtedness to undepreciated book value of real estate assets that is less than 60%, with flexibility to add higher leverage on a property-by-property basis where appropriate.

Commercial Mortgage Loans

In the near to medium term, we anticipate a significant opportunity to acquire distressed loans on quality commercial real estate at historically attractive prices with the intent to acquire the underlying property through foreclosure or deed in lieu of foreclosure within a short period of time. The global liquidity crisis has led to a repricing of risk, more dramatic and severe than other recent periods of distress. The market is demanding the continued de-leveraging of balance sheets of financial institutions in the face of rising loan maturities. We believe that unlike the Resolution Trust Corporation crisis of 1990 to 1992, distress today is affecting much higher quality assets where opportunities are created by excessive leverage and distressed sellers. Given the low interest rate environment, we believe many of these assets cover debt service, but the likelihood that they can be refinanced at maturity is in doubt. In light of this, we anticipate attractive investment opportunities in acquiring performing and non-performing loans from banks, investment banks or any other forced sellers due to margin calls, redemptions, capital adequacy concerns or capital requirements during the next year or two. We believe that our market knowledge, real estate expertise, geographic coverage and our ability to complete transactions quickly will enable us to succeed in these acquisitions. When we purchase debt, we intend to underwrite the underlying real estate in the same manner and method as we use to underwrite direct real estate acquisitions with a view toward ultimately acquiring the real estate securing the purchased debt.

We will only make loans to other entities or other persons if they meet our underwriting and due diligence requirements. We will seek to obtain a customary lender's title insurance policy or commitment as to the priority of the mortgage or condition of the title.

As a general rule, we will not make mortgage loans if our total indebtedness would exceed 60% of the undepreciated book value of our real estate assets, unless we find substantial justification due to the presence of other underwriting criteria. We may find such justification in connection with the purchase of mortgage loans in cases in which we believe there is a high probability of our foreclosure upon the property in order to acquire the underlying assets and in which the cost of the mortgage loan investment does not exceed the appraised value of the underlying property.

In evaluating prospective mortgage loan investments, our management will consider factors such as the following:

the ratio of the amount of the investment in the loan to the value of the property by which it is secured;

the property's potential for capital appreciation;

expected levels of rental and occupancy rates;

current and projected cash flow of the property;

potential for rental increases;

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the degree of liquidity of the investment;

geographic location of the property;

the condition and use of the property;

the property's income-producing capacity;

the quality, experience and creditworthiness of the borrower;

general economic conditions in the area where the property is located; and

any other factors that our management believes are relevant.

We may purchase existing loans that were originated by other lenders. Our management will evaluate all potential mortgage loan investments to determine if the security for the loan and the loan-to-value ratio meets our investment criteria and objectives. We will inspect the property during the loan approval process. Most loans which we will consider for investment would provide for monthly payments of interest and some may also provide for principal amortization, although many loans of the nature which we will consider provide for payments of interest only and a payment of principal in full at the end of the loan term.

We do not have any policies directing the portion of our assets that may be invested in construction loans, loans secured by leasehold interests and second and wraparound mortgage loans. However, we recognize that these types of loans are riskier than first deeds of trust or first priority mortgages on income-producing, fee-simple properties, and expect to seek to minimize the amount of these types of loans in our portfolio, to the extent that we make or invest in mortgage loans. Our management will evaluate the fact that these types of loans are riskier in determining the rate of interest on the loans.

Our mortgage loan investments may be subject to regulation by federal, state and local authorities and subject to various laws and judicial and administrative decisions imposing various requirements and restrictions, including among other things, regulating credit granting activities, establishing maximum interest rates and finance charges, requiring disclosures to customers, governing secured transactions and setting collection, repossession and claims handling procedures and other trade practices. In addition, certain states have enacted legislation requiring the licensing of mortgage bankers or other lenders and these requirements may affect our ability to effectuate our proposed investments in mortgage loans. Commencement of operations in these or other jurisdictions may be dependent upon a finding of our financial responsibility, character and fitness. We may determine not to make mortgage loans in any jurisdiction in which the regulatory authority believes that we have not complied in all material respects with applicable requirements.

Other Securities

While we intend to invest in commercial real estate, through acquisitions of properties and commercial mortgage loans, with the intent to own the assets, we may invest in other real estate related assets such as common and preferred stocks of public or private real estate companies.

Our management will have substantial discretion with respect to the selection of specific investments in other real estate related assets. Neither our declaration of trust, our bylaws, nor the governance documents of our Operating Partnership place any limit or restriction on:

the percentage of our assets that may be invested in any type of mortgage or in any single mortgage; or

the types of properties subject to mortgages in which we may invest.

Our Disposition Strategy

We seek to continually upgrade our asset base by opportunistically selling properties that do not have the potential to meet our Community Centered Property strategy and redeploying the sale proceeds into properties that fit our strategy. Some of our properties which were acquired prior to our current management team may not

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fit our Community Centered Property strategy, and we will look for opportunities to dispose of these properties as we continue to execute our strategy. A property may be sold before the end of the expected holding period if, in our judgment, the value of the property has reached its peak or might decline substantially or an opportunity has arisen to acquire other properties. We generally intend to hold our investments long-term; however, economic or market conditions may influence us to hold our investments for different periods of time.

The determination of whether a particular property should be sold or otherwise disposed of will be made after consideration of relevant factors, including prevailing economic conditions, with a view to achieving maximum capital appreciation. We cannot assure you that this objective will be realized. The selling price of a leased property will be determined in large part by the amount of net operating income of the property.

Development and Construction of Properties

We do not currently intend to engage in the acquisition of raw land for development or the acquisition of existing improved property for tear-downs and rebuilding. However, we intend to engage in selective redevelopment of existing improved properties where such redevelopment will reposition the property and/or increase its earning capacity and long-term returns on invested capital. We turn around properties and add value through renovating and re-tenanting to create Whitestone-branded Community Centered Properties. We seek to accomplish this by (1) stabilizing occupancy, with per property occupancy goals of 90% or higher; (2) adding leasable square footage to existing structures; (3) developing and building on excess land; (4) upgrading and renovating existing structures; and (5) investing significant effort in recruiting tenants whose goods and services meet the needs of the surrounding neighborhood.

Borrowing Policies

Fifteen of our 36 current properties are not subject to mortgages. If we acquire a property for cash in the future, we will most likely fund a portion of the purchase price with debt. By operating and acquiring on a leveraged basis, we will have more funds available for investment in properties. We expect that initially we will purchase assets with cash, and subsequently obtain debt financing. This will allow us to make more investments than would otherwise be possible, resulting in a more diversified portfolio of assets and higher returns. However, this also subjects us to risks associated with borrowing. For example, our ability to increase our diversification through borrowing could be adversely impacted if banks and other lending institutions reduce the amount of funds available for loans secured by real estate. See **Risk Factors** **Risks Associated with Our Indebtedness and Financing**. When interest rates on mortgage loans are high or financing is otherwise unavailable on a timely basis, we may purchase certain properties for cash with the intention of obtaining a mortgage loan for a portion of the purchase price at a later time.

As a general policy we intend to maintain a ratio of total indebtedness to undepreciated book value of our real estate assets that is less than 60%. As of June 30, 2010, our ratio of total indebtedness to undepreciated book value of our assets was 52%. However, we cannot assure you that we will be able to continue to achieve this objective.

By operating on a leveraged basis, we expect that we will have more funds available for investment in properties and other investments. This will allow us to make more investments than would otherwise be possible, resulting in a more diversified portfolio. Although we expect our liability for the repayment of indebtedness to be limited to the value of the property securing the liability and the rents or profits derived therefrom, our use of leveraging increases the risk of default on the mortgage payments and a resulting foreclosure of a particular property. See **Risk Factors** **Risks Associated with Real Estate**. To the extent that we do not obtain mortgage loans on our properties, our ability to acquire additional properties will be restricted. We will use our best efforts to obtain financing on the most favorable terms available to us. Lenders may have recourse to assets not securing the repayment of the indebtedness.

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We may reevaluate and change our debt policy in the future without a shareholder vote. Factors that we would consider when reevaluating or changing our debt policy include then-current economic conditions, the relative cost of debt and equity capital, any acquisition opportunities, the ability of our properties to generate sufficient cash flow to cover debt service requirements, the appreciation of the market value of the property and other similar factors. Further, we may increase or decrease our ratio of debt to undepreciated book value of our real estate assets in connection with any change of policy.

We may refinance properties during the term of a loan in limited circumstances, such as when a decline in interest rates makes it beneficial to prepay an existing mortgage, when an existing mortgage matures or if an attractive investment becomes available and the proceeds from the refinancing can be used to purchase such investment. The benefits of the refinancing may include an increased cash flow resulting from reduced debt service requirements, an increase in dividend distributions from proceeds of the refinancing, and an increase in property ownership if refinancing proceeds are reinvested in real estate.

In the future we may also obtain a revolving credit facility which would be subject to our 60% leverage guideline.

Securities of or Interests in Persons Primarily Engaged in Real Estate Activities and Other Issuers

We may acquire securities of entities engaged in real estate activities or securities of other issuers, including for the purpose of exercising control over such entities and investing in other companies or funds owning securities. However, all acquisitions of securities of such entities will be subject to the percentage ownership limitations and gross income tests necessary for REIT qualification. We refer you to the **Material U.S. Federal Income Tax Considerations Requirements for Qualification as a REIT** section of this prospectus for a discussion of these tests. We may acquire all or substantially all of the securities or assets of REITs or similar entities where such investments would be consistent with our investment policies. We anticipate that we will only acquire securities or other interests in issuers engaged in commercial real estate activities involving retail, office or mixed retail-office properties. We may also invest in entities owning undeveloped acreage. Neither our declaration of trust nor our bylaws place any limit or restriction on the percentage of our assets that may be invested in securities of or interests in other issuers. The governance documents of our Operating Partnership also do not contain any such restrictions.

Equity Capital Policies

In the event that our trustees determine to raise additional equity capital, they have the authority, without shareholder approval, to issue additional common shares or preferred shares of beneficial interest. Additionally, our trustees could cause our Operating Partnership to issue OP units which are convertible into our common shares. Subject to limitations contained in the organizational and governance documents of our Operating Partnership and us, the trustees could issue, or cause to be issued, such securities in any manner (and on such terms and for such consideration) they deem appropriate, including in exchange for real estate. We have issued securities in exchange for real estate and we expect to continue to do so in the future. Existing shareholders have no preemptive right to purchase such shares in any offering, and any such offering might cause a dilution of a shareholder's initial investment.

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Other Policies and Investments

We continually review our investment activity to attempt to ensure that we do not come within the application of the Investment Company Act of 1940. Among other things, the Board will monitor the proportion of our portfolio that is placed in various investments so that we do not come within the definition of an investment company under the Investment Company Act. We generally do not intend to:

invest in the securities of other issuers for the purpose of exercising control over an issuer (except as described above);

underwrite securities of other issuers; or

actively trade in loans or other investments.

Subject to certain restrictions we are subject to in order to qualify to be taxed as a REIT, we may make investments other than as previously described, although we do not currently intend to do so. We have authority to purchase or otherwise reacquire our common shares or any of our other securities. We have no present intention of repurchasing any of our common shares, and we would only take such action in conformity with applicable federal and state laws and the requirements for qualifying as a REIT under the Code.

Other than as disclosed elsewhere in this document relative to transactions with related parties, we have not made any material loans to third parties and we have no present intention to do so. However, we may in the future make loans to third parties, including, without limitation, loans to joint ventures in which we participate. We have not engaged in the trading, underwriting or agency distribution or sale of securities of other issuers, and we do not intend to do so in the future.

We are subject to the full information reporting requirements of the Securities Exchange Act of 1934, as amended. Pursuant to these requirements, we file periodic reports, proxy statements and other information, including certified financial statements, with the Securities and Exchange Commission, or the SEC. See [Where You Can Find More Information](#).

Table of Contents**MANAGEMENT****Executive Officers and Trustees**

We operate under the direction of our Board. Our Board is responsible for the management of our business and affairs. Our declaration of trust provides that the number of trustees may be determined pursuant to our bylaws and our bylaws provide that such number may be established, increased or decreased by a majority of our entire Board. However, under our bylaws, our Board must always have at least one member and no more than fifteen members. Our Board is divided into three classes, with each trustee holding office for three years and until his successor is duly elected and qualifies. We currently have a total of five members on our Board. We believe a majority of our Board meets the independence requirements of the NYSE Amex. Our executive officers serve one-year terms at the pleasure of our Board. The following is information related to our trustees and executive officers:

Name	Age	Position(s)
James C. Mastandrea	66	Chairman of our Board of Trustees and Chief Executive Officer
John J. Dee	59	Chief Operating Officer
David K. Holeman	47	Chief Financial Officer
Valarie L. King	49	Sr. Vice President of Property Management
Daniel E. Nixon, Jr.	61	Sr. Vice President of Leasing and Redevelopment
Daryl J. Carter	54	Trustee
Daniel G. DeVos	52	Trustee
Donald F. Keating	77	Trustee
Jack L. Mahaffey	79	Trustee

James C. Mastandrea has been our Chairman and Chief Executive Officer since October 2006. Mr. Mastandrea has over 35 years of experience in the real estate industry and 17 years serving in high level positions of publicly traded companies. He also serves, since 2003, as the President, Chief Executive Officer and Chairman of the Board of Trustees of Paragon Real Estate Equity and Investment Trust, a real estate company currently focused on value-added real estate and investments in shares of publicly-traded real estate investment trusts and a publicly traded company on the former American Stock Exchange until 2006, and, since 1978, as the Chief Executive Officer/Founder of MDC Realty Corporation, a privately held residential and commercial real estate development company. From 1999 to 2002, Mr. Mastandrea served as Chief Executive Officer of Eagle's Wings Aviation Corporation, an entity formed to purchase a troubled aviation services business. At the time of the purchase, the business was in default on debt obligations. Following the September 11, 2001 terrorist attacks, the business was further adversely affected and in March 2002, Eagle's Wings Aviation Corporation filed for protection under Chapter 11 of the federal bankruptcy laws. From 1994 to 1998, Mr. Mastandrea served as Chairman and Chief Executive Officer of First Union Real Estate Investments, a NYSE-listed real estate investment trust. Mr. Mastandrea also served in the U.S. Army as a Military Police Officer. Mr. Mastandrea currently is a director of Cleveland State University Foundation Board and a member of the investment committee, director of University Circle Inc. Board, Cleveland, Ohio and is a member of the real estate committee, and a director of the Calvin Business Alliance Board at Calvin College, Grand Rapids, Michigan. Mr. Mastandrea regularly lectures to MBA students at the University of Chicago and Rice University and also regularly presents to institutional investors in the U.S. and Europe. Mr. Mastandrea's significant experience and familiarity with the commercial real estate industry and public companies, as well as his intimate knowledge of Whitestone due to his service as our Chief Executive Officer, allow him to provide insight into various aspects of our business and is of significant value to our Board.

John J. Dee has served as our Chief Operating Officer since 2006. Mr. Dee also serves, since 2003, as the Senior Vice President, Chief Financial Officer and member of the Board of Trustees of Paragon Real Estate Equity and Investment Trust. Prior to joining us, Mr. Dee served from 2002 to 2003 as Senior Vice President and

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Chief Financial Officer of MDC Realty Corporation, a privately held residential and commercial real estate development company. From 2000 to 2002, he also served as Director of Finance and Administration for Frantz Ward, LLP. From 1978 to 2000, he held several management positions at First Union Real Estate Investments, a NYSE-listed REIT, and most recently served as Senior Vice President and Chief Accounting Officer.

David K. Holeman is our Chief Financial Officer and has served in this capacity since 2006. Mr. Holeman also served as the Chief Financial Officer of our former Management company. Prior to joining us, Mr. Holeman served as Vice President and Chief Financial Officer of Gexa Energy, a NASDAQ listed retail electricity provider from 2004 to 2006, and as Controller and Chief Financial Officer of Houston Cellular Telephone Company from 1994 to 2003.

Valarie L. King is our Senior Vice President of Property Management and has served in this capacity since 2006. From 2000 to 2006, Ms. King also held several management positions, and most recently served as Vice President of Property Management for Hartman Management. Ms. King has over 15 years of property management experience in Houston, Texas. From 1986 until 1989, she was Property Manager at Helmsley Spear National Realty, a New York-based company, where she was responsible for running the Houston office, including property management, leasing and construction.

Daniel E. Nixon, Jr. is our Senior Vice President of Leasing and Redevelopment and has served in this capacity since 2007. Prior to joining us, Mr. Nixon served as the Executive Vice President for Hull Storey Retail Group, LLC, owner of 17 enclosed malls, totaling 11 million square feet from 2000 to 2007. He also held several management positions and most recently Executive Vice President, Director of Retail at First Union Real Estate Investments, a NYSE listed REIT from 1978 until 1999.

Daryl J. Carter has been a member of our Board since February 2009. Mr. Carter founded and since 2007 has served as Chairman and CEO of Avanath Capital Partners, LLC, an investment firm focused on urban-themed real estate and mortgage investments. From 2005 to 2007, Mr. Carter was an Executive Managing Director of Centerline Capital Group (Centerline) a subsidiary of Centerline Holding Company (NYSE), and head of the Commercial Real Estate Group. From 2005 to 2007, he was also the President of American Mortgage Acceptance Corporation, a publicly-held, commercial mortgage lender (AMEX) that was externally managed by Centerline. Mr. Carter became part of Centerline when his company, Capri Capital Finance (CCF), was acquired by Centerline in 2005 and stayed with Centerline until 2006. Mr. Carter co-founded and served as Co-Chairman of both CCF and Capri Capital Advisors in 1992. He was instrumental in building Capri to a diversified real estate firm with \$8 billion in real estate equity and debt investments under management. Prior to Capri, Mr. Carter was Regional Vice President at Westinghouse Credit Corporation in Irvine and a Second Vice President at Continental Bank in Chicago. Since 2003, Mr. Carter has served as a trustee of Paragon Real Estate Equity and Investment Trust, traded on the former American Stock Exchange until 2006, Trustee of the Urban Land Institute, Executive Committee Member of the National Multifamily Housing Association and Vice Chairman of the Commercial Board of Governors of the Mortgage Bankers Association. Mr. Carter serves on the Dean's Advisory Council of the M.I.T. Sloan School of Management. Mr. Carter brings to our Board significant management experience and demonstrated leadership skills with financial and real estate entities.

Daniel G. DeVos has been a member of our Board since February 2009. Since 1993, Mr. DeVos has served as Chairman of the Board and Chief Executive Officer of DP Fox Ventures, LLC, a diversified management enterprise with investments in real estate, transportation, and sports teams. Since 1999, Mr. DeVos has served as the President and Chief Executive Officer of Fox Motors, based in Grand Rapids, Michigan, majority owner of the Grand Rapids Rampage (AFL) and has an ownership interest in the Orlando Magic (NBA). Mr. DeVos has served as Vice Chairman of the RDV Corporation Board since 1991, and since 1980 has served as a director and currently serves on the Audit Committee of Alticor, Inc., the parent of Amway Corporation, located in Ada, Michigan. Since March 2003, Mr. DeVos has served as a trustee of Paragon Real Estate Equity and Investment Trust, a company that was traded on the former American Stock Exchange until 2006 and served as a trustee of First Union Real Estate Investments (NYSE) from 1994 to 1998. Mr. DeVos has extensive and diverse business experience within and outside the real estate industry and possesses exceptional leadership skills in business and non-profit management.

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Donald F. Keating has been a member of our Board since 2008. Mr. Keating was formerly the Chief Financial Officer of Shell Mining Company. Mr. Keating retired from Shell Mining Company in 1992 and continued to provide consulting services to Shell Oil until 2002. Since 2002, Mr. Keating has managed his personal investments. Mr. Keating graduated from Fordham University with a Bachelor of Science Degree in Finance and served in the United States Marine Corps as infantry company commander. He is a former board member of Billiton Metals Company, R & F Coal Company and Marrowbone Coal Company. Mr. Keating's educational and professional experience in the field of finance and accounting, as well as his supervisory roles in the accounting industry, have brought to our Board the ability to oversee our accounting and financial reporting practices, risk management efforts and compliance with applicable regulatory standards.

Jack L. Mahaffey has served on our Board since 2000. Mr. Mahaffey was formerly the President and Chief Executive Officer of Shell Mining Company. Since retiring from Shell Mining Company in 1991, Mr. Mahaffey has managed his personal investments. Mr. Mahaffey served in the United States Air Force and is a former board member of the National Coal Association and the National Coal Counsel. Mr. Mahaffey brings to our Board demonstrated ability of oversight and decision making from his tenure within the petroleum industry and his experience in managing investments.

Corporate Governance Profile

We have structured our corporate governance in a manner we believe closely aligns our interests with those of our shareholders. The corporate governance initiatives that we have enacted include the following:

our Board is staggered, with two of our trustees subject to election every year and each of our trustees subject to re-election every three years;

of the six persons who will serve on our Board immediately after the completion of this offering, five have been determined by us to be independent for purposes of the NYSE Amex's listing standards;

we have opted out of the Maryland business combination statute; and

we do not have a shareholder rights plan.

Committees of the Board of Trustees

Our entire Board considers all major decisions concerning our business, including any property acquisitions. However, our Board has established committees so that certain functions can be addressed in more depth than may be possible at a full board meeting. Our Board has established three permanent committees, each comprised solely of independent trustees: the Audit Committee, the Nominating and Corporate Governance Committee and the Compensation Committee. The charter for each of these committees is posted on the Corporate Governance section of our website at www.whitestonereit.com.

Audit Committee

Our Audit Committee consists of Daryl J. Carter, Donald F. Keating and Jack Mahaffey with Mr. Keating serving as chairman. Our Board has determined that Mr. Keating, chairman and a former chief financial officer, is an audit committee financial expert, as defined by the rules of the SEC. Each member of the committee is independent under the NYSE Amex listing standards and applicable SEC rules.

The primary purposes of our Audit Committee are:

overseeing our accounting and financial reporting process, the audits of our financial statements; and

assisting our Board in monitoring the following:

the integrity of our financial statements and financial reporting processes and systems of internal controls;

the qualifications and independence of our independent accountants;

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the performances of our independent accountants; and

our compliance with legal and regulatory requirements.

The committee also prepares a report each year for inclusion in our annual proxy statement in accordance with the rules of the SEC.

Nominating and Corporate Governance Committee

The committee currently consists of Daniel G. DeVos, Donald F. Keating and Jack L. Mahaffey, with Mr. DeVos serving as chairman. Each member of the committee is independent under the NYSE Amex listing standards and applicable SEC rules.

The primary purposes of the Nominating and Corporate Governance Committee are:

identifying individuals qualified to become trustees;

recommending nominees for committees of our Board; and

overseeing matters concerning corporate governance practices.

Compensation Committee

The committee currently consists of Daniel G. DeVos, Donald F. Keating and Jack L. Mahaffey, with Mr. Mahaffey serving as chairman. Each member of the committee is independent under the NYSE Amex listing standards and applicable SEC rules. The primary purposes of our Compensation Committee are:

assisting our Board in discharging the Board's responsibilities relating to compensation and our overall compensation and benefit structure; and

producing an annual report on executive compensation for inclusion in our annual meeting proxy statement in accordance with SEC rules.

Code of Business Conduct and Ethics

Our Board has adopted a code of business conduct that is applicable to all members of our Board, our executive officers and our employees. We have posted our Code of Business Conduct and Ethics on the Corporate Governance section of our website at www.whitstonereit.com.

Compensation Committee Interlocks and Insider Participation

Our Compensation Committee is currently comprised of Messrs. DeVos, Keating, and Mahaffey. During 2009, the Compensation Committee consisted of Messrs. Keating, Mahaffey and Chris A. Minton. None of the members of our Compensation Committee during 2009 is or has served as an officer or employee for us and none of our executive officers has served on the board of directors of compensation committee of any company whose executive officers served on our Compensation Committee or our Board.

Compensation Discussion and Analysis

The Compensation Committee of our Board (for purposes of this discussion and analysis, the Committee) has responsibility for establishing, implementing, and continually monitoring our executive compensation programs. Additionally, it is responsible for the assessment of the relationship of compensation relative to our performance, the rationale in the application of our compensation plans to specific incentive awards,

and all recommendations to our Board relative to compensation under its charter.

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The scope of this Compensation Discussion and Analysis (CD&A) relates to (1) all compensation components for our Named Executive Officers, as defined below, and, (2) to the extent appropriate in order to define Committee activities, responsibilities and decisions, summary information on:

our overall compensation programs;

performance evaluation methodology;

compensation plan development/adoption; and

comparative market compensation assessment.

Throughout this discussion, James C. Mastandrea, our Chairman and Chief Executive Officer, John J. Dee, our Chief Operating Officer, David K. Holeman, our Chief Financial Officer, Valarie L. King, our Senior Vice President of Property Management, and Daniel E. Nixon, Jr., our Senior Vice President of Leasing and Redevelopment, are referred to as the Named Executive Officers.

Compensation Strategy and Philosophy

The Committee believes that the most effective executive compensation strategy is one that encourages entrepreneurship, which is a core driver of creating real estate value and is designed to target specific annual and long-term goals defined by management and approved by our Board, which align the economic interests of employees with shareholders. This strategy should be designed to reward the achievement of performance above established goals that contribute to increased shareholder value.

The Committee believes that an effective executive compensation strategy has several components aimed at specific objectives and timeframes.

Base Salary. The Committee believes the base salary should be reflective of position, responsibility and experience, and correlated with market-based salary levels for similar positions and competitor companies. The Committee presently believes that the competitive market 50th percentile level is the appropriate benchmark to target for base salary at this time in our growth and size, which members of our senior management, including the Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer, fall below. Because of the current economic conditions all senior management salaries were frozen at their March 2008 levels, and the Named Executive Officers voluntarily agreed to reductions in their base salaries by 12.5% effective October 2, 2009 as part of a corporate realignment to reduce overhead and other operating expenses.

Annual Incentive Bonus. A bonus provides an opportunity for selected employees (and potentially all employees) to receive an annual cash (or potentially cash and shares) award based on the achievement of specific organization, operating and financial goals and objectives at three levels during any fiscal year of our operation:

corporate performance;

business unit (functional area) performance; and

individual performance.

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Currently, we have not formalized an annual bonus incentive plan, but may design a plan in the future. The Committee believes that any design of an annual incentive plan should establish a threshold, target and maximum incentive opportunity for participants. Additionally, the annual incentive plan should be designed to provide an effective weighting and performance measurement system to us, business unit (functional) and individual objectives, and be flexible to adapt to our changing needs and circumstances. Because of the current economic conditions all senior management annual incentive bonuses were eliminated subsequent to March 2008.

Long-Term Equity Incentive Plan. On July 29, 2008, our shareholders approved the 2008 Long-Term Equity Incentive Ownership Plan (the 2008 Plan) to provide equity-based grants as incentive

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compensation to our employees. A long-term incentive plan is an opportunity for our employees to participate in a plan which provides awards of equity (restricted shares and restricted share units) upon the long-term achievement of incremental value for us and our shareholders. This plan is designed to encourage entrepreneurship and align employees with our long-term strategy and is expected to be an important component of total compensation and key employee retention.

Benefits and Other Perquisites. We provide the Named Executive Officers (and all other employees) a full range of benefits related to insurances for health and security. These benefit plans, and other perquisites to key employees, are consistent with our competitors for experienced executives and are an important component of employee retention.

The Compensation Committee Charter outlines the Committee's key objectives in the governance of compensation plan development and award decisions, including its major responsibilities to evaluate our performance and executive compensation (and the relationship between them in any year and over time), one of the fundamental rationales for incentive compensation. Additionally, the Committee must ensure to the extent possible that we maintain our ability to attract and retain superior employees in key positions and that compensation opportunities to key employees remain competitive relative to that paid to similarly situated executives of our peer companies. To that end, the Committee believes executive compensation packages provided and to be developed will reflect the elements outlined above and have specific performance measurement and accountability procedures to correlate with incentive awards.

Compensation Objectives

In association with the overall compensation strategy and philosophy outlined above, the Committee defines its core values and fundamental guiding principles relating to executive compensation as follows:

Compensation is linked to performance. Executive pay is linked to our performance and individual performance. Named Executive Officers should be rewarded for achieving annual strategic, operating, and financial goals. Goals should be defined and directed by our strategic plan. Long-term compensation should promote retention and align management and employees with the long-term interests of shareholders.

Compensation elements should be appropriately balanced. The mix of compensation elements will vary with position and with our circumstances. Base salary and benefits are designed to attract and retain experienced key personnel. Annual incentives emphasize annual objectives, while long-term compensation emphasizes growth in profitability and shareholder value. The proportion of guaranteed and at risk (incentive) compensation should be structured by position consistent with responsibility, target total compensation level, and market benchmarks. Additionally, a severance benefits program is appropriate to encourage retention and objectivity in connection with events that may trigger a change in control of us or other circumstances of separation. We do not currently have a severance benefits program, but will develop one in the future. We have agreed to reimburse our Chief Executive Officer, Chief Operating Officer and Sr. Vice President of Leasing for certain relocation expenses.

Compensation should be fair and competitive. We, along with the Committee, strive to establish fair and competitive compensation for the Named Executive Officers (and other management), and do so by the process and assessment methods as described in the Compensation Committee Charter.

Executive stock ownership is expected. We believe that all executive officers (and to the extent possible, all employees) should be our shareholders. We, along with the Committee, expect the 2008 Plan to assist in achievement of this objective.

The Committee and Board exercise independent judgment. On behalf of the shareholders, the Committee and our Board ensure that executive compensation is appropriate and effective, and that all assessments, advisors, analysis, discussion, rationale and decision making are through the exercise of independent judgment.

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Compensation may be structured to meet corporate tax and accounting rules. We generally structure the Named Executive Officers compensation so that all elements of pay are tax deductible to us. Section 162(m) of the Code limits the amount of compensation we may deduct in any fiscal year. Compensation above these limits can be deducted if it is awarded under a shareholder approved performance based incentive compensation plan. Under an annual incentive plan, awards which would limit the deductibility of compensation by us may (upon approval of the Committee) be delayed into a period where the deduction can be taken. We adhere to all Financial Accounting Standards Board requirements related to the accounting treatment and reporting of compensation expense and valuation.

Roles and Responsibilities in Compensation Decisions

The Committee is specifically responsible for compensation decisions related to the Chairman and Chief Executive Officer.

The Committee reviews, assesses and approves recommendations from the Chairman and Chief Executive Officer regarding any determination regarding base salary and bonuses to all officers, management and employees, including the other Named Executive Officers. The Committee's philosophy and strategy, and the programs adopted by our Board, establish the general parameters within which the Chairman and Chief Executive Officer determine the recommended compensation for the other Named Executive Officers.

James C. Mastandrea, Chairman and Chief Executive Officer, and John J. Dee, Chief Operating Officer, annually review the performance of our other executive officers. The conclusions reached and recommendations made based on these reviews, including base salary adjustments as well as bonuses, are presented to the Committee. The Committee can exercise its discretion in modifying any recommended salary adjustment or bonus award. The Committee reviews in detail the performance of our Named Executive Officers.

Compensation consultants familiar with the real estate industry and our competitors are used by our Chairman and Chief Executive Officer, our Chief Operating Officer, and the Committee to provide updated market compensation information regarding competitor compensation levels for various positions; to provide trends in the industry related to compensation awards and industry performance; and to address questions related to effective compensation plans and employee retention.

Setting Executive Compensation

Based on the strategy and philosophy described above, the Committee has structured our annual and long-term executive compensation to motivate executive officers to achieve our business goals and reward the executive officers for achieving such goals. In furtherance of this agenda in 2007 and 2008, the Committee engaged CEL, an independent executive compensation consulting firm with specific expertise in the real estate industry, to conduct a review and benchmarking of total compensation levels for our executive officers and to assist in setting levels of executive compensation. CEL provided the Committee with relevant market data and plan alternatives to consider when designing and adopting compensation programs for our executive officers. The Committee also independently reviews public disclosures made by companies in the real estate industry and on published surveys with particular focus on companies of similar size within our industry.

As a part of the compensation decision making process, the Committee compares each element comprising total compensation for our positions against similar positions in a peer group of publicly-traded REITs and private owner/developer/investment companies (collectively, the Compensation Peer Group). The Compensation Peer Group, which is periodically reviewed and updated by the Committee, consists of companies with which we believe we compete for talent, investment opportunity, and shareholder investment.

The companies comprising the Compensation Peer Group were selected in 2008 on the following criteria and remained the same in 2009:

competitive public real estate companies in our major markets;

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public companies with market capitalization (implied market cap) of \$150 million to \$750 million in 2008 when CEL provided the information and within the retail shopping center, office, industrial and diversified sectors; and

private real estate investment and development companies based on portfolio size and range of geographic investments.

A total of seventeen (17) public companies and nine (9) private companies were used in the CEL analysis in 2007 and 2008. The public companies included the following, though some of them have since been acquired or merged:

Acadia Realty Trust	PS Business Parks, Inc.
AmREIT	Ramco-Gershenson Properties Trust
Capital Lease Funding, Inc.	Republic Property Trust
Cedar Shopping Centers, Inc.	Saul Centers, Inc.
Columbia Equity Trust	Spirit Finance Corporation
First Potomac Realty Trust	Thomas Properties Group, Inc.
Government Properties Trust, Inc.	Urstadt Biddle Properties, Inc.
Kite Realty Group Trust	Winthrop Realty Trust
Marcus Corporation	

We compete with many companies for experienced executives, and the Committee generally has set compensation for executive officers relative to the range of compensation paid to similarly situated executives of the companies comprising the Compensation Peer Group. Variations to this objective may occur as dictated by the experience level of the individual, market factors, and our situation.

In late 2006, we were restructured from an externally managed REIT to one with our own employees and infrastructure. As a result of this change, salaries were, by necessity and directive, to be below market (below the 50th percentile). Bonuses were awarded in 2007 and 2008 (on a discretionary basis but highly related to performance in a new company start-up environment) to account for some of this difference. During 2009, salaries remained at the same amount as in 2008, until October 2009 when the Named Executive Officers voluntarily agreed to reductions in their base salaries by 12.5%. In addition, we and the Committee believe that it is important to have an equity-based incentive program to retain experienced and qualified executives and to provide them long-term compensation aligned with our economic growth and the creation of shareholder value.

The philosophy of the Committee is to provide programs that offer a significant percentage of total compensation from performance based incentives. Alignment of key management and employees with our growth and the creation of value is the guiding principle of our compensation program. Currently, given our limited operating history as an internally managed REIT, policies, specific incentive compensation opportunity targets, and the mix between cash and equity incentives for key employees will continue to evolve. The Committee will continue to review a variety of information, including that provided by CEL, to determine the appropriate level and mix of incentive compensation. Income from incentive compensation is realized as a result of our performance and that of individual performance, measured against established goals. The Committee believes that our executive officers must think and act like owners to create value, and therefore a significant portion of total compensation to our executive officers should be in the form of non-cash share-based long-term incentive compensation. A comprehensive incentive compensation program is a key strategic plan element for us. With the implementation of the 2008 Plan in 2009, the Committee believes the Named Executive Officers have a long-term equity program that meets the philosophy of the Committee to link executive compensation to our increased value. The Committee and management continue to evaluate annual incentive plans as part of the comprehensive compensation program.

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Equity Compensation Plans

At our annual meeting of shareholders held on July 29, 2008, our shareholders approved the 2008 Plan. The purpose of the 2008 Plan is to promote our interests and the interests of our subsidiaries and our shareholders by (i) attracting and retaining key officers with strong leadership, employees, and trustees of, and consultants to, us and our subsidiaries and affiliates; (ii) motivating these individuals by means of performance-related incentives to achieve long-range performance goals; (iii) enabling these individuals to participate in our long-term growth and financial success; (iv) encouraging ownership in our equity by these individuals; and (v) linking their compensation to our long-term interests and the interests of our shareholders. The 2008 Plan will be interpreted in a manner consistent with the requirements of performance-based compensation under Section 162(m) of the Code for any awards granted under the 2008 Plan that are intended to comply with the requirements of that particular section.

Under the 2008 Plan, awards may be made in our Class A common shares or OP units, which may be redeemed for cash or, at our option, our Class A common shares. The 2008 Plan initially authorized awards in respect of an aggregate of 687,961 Class A common shares. The maximum aggregate number of Class A common shares that may be issued under the 2008 Plan is increased upon each issuance of Class A common shares by us (including issuances pursuant to the 2008 Plan) so that at any time the maximum number of Class A common shares that may be issued under the 2008 Plan will equal 12.5% of the aggregate number of Class A common shares and units of our Operating Partnership issued and outstanding (other than units issued to or held by us). Following the completion of this offering, we intend to amend the plan to allow for awards of Class B common shares.

If any Class A common shares covered by an award under the 2008 Plan are forfeited or if any such award otherwise terminates, expires unexercised or is cancelled, those Class A common shares will again become shares with respect to which awards can be made under the 2008 Plan. Class A common shares issued under the 2008 Plan may be either newly issued Class A common shares or Class A common shares that have been reacquired by us. In addition, shares that are canceled, tendered or withheld in payment of all or part of the exercise price of an award or in satisfaction of withholding tax obligations, and shares that are reacquired with cash tendered in payment of the exercise price of an award, will be included in or added to the number of Class A common shares available for grant under the 2008 Plan. Class A common shares issued by us as substitute awards granted solely in connection with the assumption of outstanding awards previously granted by a company acquired by, or with which we combine, or substitute awards, do not reduce the number of shares available for awards under the 2008 Plan.

In addition, the 2008 Plan imposes individual limitations on the amount of certain awards in order to comply with Section 162(m) of the Code. Under these limitations, no single participant may receive options or Class A share appreciation rights, or SARs, in any calendar year that, taken together, relate to more than 166,166 common shares, subject to adjustment in certain circumstances. In addition, the maximum number of Class A common shares that may be issued by options intended to be incentive share options will be limited in total to 12.5% of the outstanding Class A common shares and OP units, during the life of the 2008 Plan.

With certain limitations, awards made under the 2008 Plan will be adjusted by the Compensation Committee of our Board, or the Committee, to prevent dilution or enlargement of benefits or potential benefits intended to be made available under the 2008 Plan in the event of any share dividend, reorganization, recapitalization, share split, combination, merger, consolidation, change in laws, regulations or accounting principles or other relevant unusual or nonrecurring event affecting us.

Eligibility and Administration. Current and prospective officers, employees and trustees of, and consultants to, us or our subsidiaries or affiliates are eligible to be granted awards under the 2008 Plan. The Committee will administer the 2008 Plan, except with respect to awards to non-employee trustees, for which the 2008 Plan will be administered by the our Board. Subject to the terms of the 2008 Plan, the Committee is authorized to select participants, determine the type and number of awards to be granted, determine and later amend (subject to certain

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limitations) the terms and conditions of any award, interpret and specify the rules and regulations relating to the 2008 Plan, and make all other determinations which may be necessary or desirable for the administration of the 2008 Plan.

Share Options and Share Appreciation Rights. The Committee is authorized to grant share options, including both incentive share options, which can result in potentially favorable tax treatment to the participant, and non-qualified share options. The Committee may specify the terms of these grants subject to the terms of the 2008 Plan. The Committee is also authorized to grant SARs, either with or without a related option. The exercise price per share subject to an option is determined by the Committee, but may not be less than the fair market value of a common share on the date of the grant, except in the case of substitute awards. The maximum term of each option or SAR, the times at which each option or SAR will be exercisable, and the provisions requiring forfeiture of unexercised options at or following termination of employment generally are fixed by the Committee, except that no option or SAR relating to an option may have a term exceeding 10 years. Incentive share options that are granted to holders of more than 10% of our voting securities are subject to certain additional restrictions, including a five-year maximum term and a minimum exercise price of 110% of fair market value.

Restricted Common Shares and Restricted Common Share Units. The Committee is authorized to grant restricted Class A common shares and restricted Class A common share units. Restricted Class A common shares are Class A common shares subject to transfer restrictions as well as forfeiture upon certain terminations of employment prior to the end of a restricted period or other conditions specified by the Committee in the award agreement. Restricted Class A common shares are also subject to restrictions on voting rights and receipt of dividends. None of the restricted Class A common shares may be transferred, encumbered or disposed of during the restricted period or until after fulfillment of the restrictive conditions.

Restricted Unit Award. The Committee is authorized to grant units in our Operating Partnership, subject to the terms of the limited partnership agreement of our Operating Partnership. The units are represented by a restricted unit award agreement. A participant who receives a restricted unit award agreement has immediate rights of ownership in the units underlying the award, but these units are subject to restrictions in accordance with the terms and provisions of the 2008 Plan and the limited partnership agreement of our Operating Partnership, as amended, and may be subject to additional restrictions in accordance with the terms of a restricted unit award agreement, including provisions causing the units to be subject to forfeiture by the individual until the earlier of (a) the time these restrictions lapse or are satisfied, or (b) the time these shares are forfeited, pursuant to the terms and provisions of any award agreement pertaining to the award.

Performance Awards. A performance award consists of a right that is denominated in cash or Class A common shares, valued in accordance with the achievement of certain performance goals during certain performance periods as established by the Committee, and payable at a time and in a form as the Committee will determine. Performance awards may be paid in a lump sum or in installments following the close of a performance period or on a deferred basis, as determined by the Committee. Termination of employment prior to the end of any performance period, other than for reasons of death or total disability, will result in the forfeiture of the performance award. A participant's rights to any performance award may not be transferred, encumbered or disposed of in any manner, except by will or the laws of descent and distribution or as the Committee may otherwise determine.

Other Share-Based Awards. The Committee is authorized to grant any other type of awards that are denominated or payable in, valued by reference to, or otherwise based on or related to our Class A common shares. The Committee will determine the terms and conditions of these awards, consistent with the terms of the 2008 Plan.

Non-Employee Trustee Awards. Subject to applicable legal requirements, our Board may provide that all or a portion of a non-employee trustee's annual retainer and/or retainer fees or other awards or compensation as determined by our Board be payable in non-qualified Class A common share options, restricted shares, restricted share units and/or other share-based awards, including unrestricted Class A common shares, either automatically

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or at the option of the non-employee trustees. Our Board will determine the terms and conditions of any of these awards, including those that apply upon the termination of a non-employee trustee's service as a member of our Board. Non-employee trustees are also eligible to receive other awards pursuant to the terms of the 2008 Plan, including options and SARs, restricted shares and restricted share units, and other share-based awards upon terms as the Committee may determine; provided, however, that with respect to awards made to members of the Committee, the 2008 Plan is administered by our Board.

Termination of Employment. The Committee will determine the terms and conditions that apply to any award upon the termination of employment with us, our subsidiaries and affiliates, and provide the terms in the applicable award agreement or in our rules or regulations.

Change in Control. The Committee may specify in the applicable award agreement at or after grant, or otherwise by resolution prior to a Change in Control (as defined in the 2008 Plan), that all or a portion of the outstanding awards under the 2008 Plan will vest, become immediately exercisable or payable and have all restrictions lifted upon a Change in Control.

Amendment and Termination. Our Board may amend, alter, suspend, discontinue or terminate the 2008 Plan or any portion of the 2008 Plan at any time, provided that none of these amendments, alterations, suspensions, discontinuations or terminations will be made without shareholder approval if (a) approval is necessary to comply with any tax or regulatory requirement for which or with which our Board deems it necessary or desirable to comply or (b) if the amendment, alteration, suspension, discontinuation or termination constitutes a material revision to the 2008 Plan. Among other things, a material revision includes: (i) a material increase in the number of shares subject to the 2008 Plan (other than the Share Increase, as defined in the 2008 Plan, (ii) an expansion of the types of awards under the Plan; (iii) a material expansion of the class of employees, trustees or other participants eligible to participate in the 2008 Plan; (iv) a material extension of the term of the 2008 Plan; (v) a material change to the method of determining option price under the 2008 Plan; and (vi) an amendment to the section regarding the pricing of options.

A material revision does not include any revision that curtails rather than expands the scope of the 2008 Plan. Subject to certain restrictions in the 2008 Plan, the Committee may waive any conditions or rights under, amend any terms of, or alter, suspend, discontinue, cancel or terminate any award, either prospectively or retroactively. The Committee does not have the power, however, to amend the terms of previously granted options to reduce the exercise price per share subject to those options or to cancel those options and grant substitute options with a lower exercise price per share than the cancelled options. The Committee also may not materially and adversely affect the rights of any award holder without the award holder's consent.

Other Terms of Awards. We may take action, including the withholding of amounts from any award made under the 2008 Plan, to satisfy withholding and other tax obligations. The Compensation Committee may provide for additional cash payments to participants to defray any tax arising from the grant, vesting, exercise or payment of any award.

Shares Authorized. The following table provides information regarding our equity compensation plans as of June 30, 2010:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders			681,971 ⁽¹⁾
Equity compensation plans not approved by security holders			(2)
Total			681,971

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- (1) Pursuant to our 2008 Plan, the maximum aggregate number of Class A common shares that may be issued under the 2008 Plan will be increased upon each issuance of Class A common shares by us (including issuances pursuant to the 2008 Plan) so that at any time the maximum number of shares that may be issued under the 2008 Plan shall equal 12.5% of the aggregate number of our Class A common shares and OP units issued and outstanding (other than OP units issued to or held by the Company).
- (2) Excludes 4,444 restricted Class A common shares issued to trustees outside the 2008 Plan.

Employment Agreements

We have not entered into employment agreements with any of our executive officers. However, the 2008 Plan provides for certain vesting in the event of a change in control. The following summarizes the compensation payable to each Named Executive Officer in the event of a termination of the executive's employment.

Payments Made Upon Any Termination. In all events, we are obligated to pay all salary and benefits accrued to the executive through and including the date of termination.

Payments Made Upon Death or Disability. In the event of the employee's death or disability, any unvested restricted common shares or unvested restricted common share units shall immediately vest.

Award Vesting Acceleration. In the event of a Change in Control, as defined below, any unvested restricted common shares or restricted Class A common share units granted pursuant to the 2008 Plan will automatically vest prior Class A to the consummation of such Change in Control. In addition, if there are any restricted Class A common share units which have been allocated but not yet granted and the employee remains employed with the acquiring or successor entity, then the employee must receive an award of a comparable value covering shares of a successor corporation.

Change in Control means, unless otherwise defined in the applicable award agreement, any of the following events:

1. any person or entity, including a group as defined in Section 13(d)(3) of the Exchange Act, other than us or one of our wholly-owned subsidiaries or any employee benefit plan of us or any of our Subsidiaries, becomes the beneficial owner of our securities having 35% or more of the combined voting power of our then outstanding securities that may be cast for the election of our trustees (other than as a result of an issuance of securities initiated by us in the ordinary course of business);
2. as the result of, or in connection with, any cash tender or exchange offer, merger or other business combination or contested election, or any combination of the foregoing transactions, less than a majority of the combined voting power of our then outstanding securities or any successor company or entity entitled to vote generally in the election of our trustees or such other corporation or entity after such transaction is held in the aggregate by our security holders entitled to vote generally in the election of our trustees immediately prior to such transaction;
3. during any period of two (2) consecutive years, individuals who at the beginning of any such period constitute our Board cease for any reason to constitute at least a majority thereof, unless the election, or the nomination for election by our shareholders, of each of our trustees first elected during such period was approved by a vote of at least two-thirds (2/3rds) of our trustees then still in office who were (a) our trustees at the beginning of any such period, and (b) not initially (1) appointed or elected to office as result of either an actual or threatened election and/or proxy contest by or on behalf of a person other than our Board, or (2) designated by a person who has entered into an agreement with us to effect a transaction described in (1) or (2) above or (4) or (5) below;

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4. our complete liquidation or dissolution;
5. the sale or other disposition of all or substantially all of our assets to any person (other than a transfer to a subsidiary); or
6. with respect to award agreements for James C. Mastandrea, as Chairman and Chief Executive Officer, John J. Dee, the Chief Operating Officer and David K. Holeman, the Chief Financial Officer only, a termination of the chief executive officer without cause, excluding non-appealable determinations by a court of law for fraud, gross negligence, or willful neglect, which would be considered termination for cause.

2009 Executive Compensation Elements

The year 2009 will be remembered as one of the most difficult years our economy has experienced since the Great Depression. The near collapse of international and our national credit and equity markets in the latter part of 2008 carried over into 2009, resulting in record highs for unemployment, foreclosures, and bank failures not seen since at least the 1970 s or 1980 s. The mantra of real estate companies throughout 2009 was preserve cash. Consequently, changes to or increases in any of our compensation programs that involved cash were placed on hold.

Base Salary. The Named Executive Officers receive a base salary established by an assessment of the responsibilities, skills and experience related to their respective positions, and an evaluation of the base salary of comparable positions in peer companies in the market in general. Other factors considered in base salary determinations are individual performance, the success of each business unit (functional area), the competitiveness of the executive s total compensation, our ability to pay an appropriate and competitive salary, and grants under our 2008 Plan. In the past, the Named Executive Officers were eligible for annual increases in their base salary as a result of: individual performance; their salary relative to the compensation paid to similarly situated executives in companies comprising the Compensation Peer Group; cost of living considerations; and the time interval and changes in responsibility since the last salary increase. Our Board implemented a salary freeze at the March 2008 salary levels for all employees above the Assistant Vice President level, which includes all of our Named Executive Officers. Because of the difficult economic times during 2009, no employee received an annual raise. Additionally, in October 2009, the Named Executive Officers voluntarily agreed to reductions in their base salaries by 12.5% as part of a corporate realignment program to reduce overhead, which included salary reductions by other employees, eliminating positions, and combining job responsibilities throughout the company.

Annual Bonus. At this time we do not have an annual cash bonus incentive plan, though the Committee may adopt one and may, in accordance with that plan, award annual bonuses to executive for the achievement of specific operating and financial goals by us, the individual s business unit or functional area, and the individual s personal achievements and performance. Because of the difficult economic times, no bonuses were paid in 2009.

Long-Term Equity Incentive Compensation. The Committee made initial grants under our 2008 Plan in January 2009. Because the Named Executive Officers annual salaries have been below the Committee s goal of the 50th percentile of the Compensation Peer Group, and because the 2008 Plan had been under discussion, review, and development since 2007, and to provide a meaningful incentive to create value for our shareholders by growing our company and getting our securities listed on a national securities exchange, the grants from the 2008 Plan are a significant portion of compensation compared to annual cash compensation. The Committee consulted extensively with CEL during 2007 and 2008 and used market information and recommendations from CEL to determine the level of grants for the CEO. A portion of these grants were in recognition of the risk the CEO undertook to internalize the management functions and recruit a staff capable of taking over the responsibilities of a start-up operation quickly and efficiently. These risks included, but were not limited to, integrating a new management team, making a long term commitment to us, accepting below market annual compensation based on his experience and compared to the Compensation Peer Group, leaving behind his family and personal matters, and foregoing other business and financial opportunities to dedicate his efforts to stabilize and grow our company. Accordingly, the

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Committee granted Mr. Mastandrea 66,667 restricted Class A common shares and 127,063 restricted Class A common share units. As reflected in the table below, the other Named Executive Officers received grants that were commensurate with the level the CEO received and their positions and responsibilities within the Company. While the grants may provide significant value for the Named Executive Officers, because the grants are 100% performance contingent, the Named Executive Officers will only receive that value by achieving ever increasing financial goals, listing the company on a national securities exchange and profitably growing the company. The Committee believes the Named Executive Officers are truly shoulder-to-shoulder with the shareholders and they are very motivated to cause us to achieve above normal results to have the grants vest and the restrictions removed. The first of five goals was achieved in 2009 when the company recorded FFO of \$8.6 million, which is more than double the FFO in 2008. In order for all of the grants to vest, FFO will need to exceed \$43 million, an increase of more than ten times the 2008 funds from operations. The following table reflects all of the restricted Class A common shares and restricted Class A common share units granted to the Named Executive Officers in 2009:

Name	Grant Date	Number of Shares ⁽¹⁾	Award Type
James C. Mastandrea	1/2/2009	66,667	Class A Common Share Award
	1/2/2009	127,063	Class A Common Share Unit Award
John J. Dee	1/2/2009	41,667	Class A Common Share Award
	1/2/2009	105,832	Class A Common Share Unit Award
David K. Holeman	1/2/2009	25,000	Class A Common Share Award
	1/2/2009	20,000	Class A Common Share Unit Award
Valarie L. King	1/2/2009	16,667	Class A Common Share Award
	1/2/2009	20,000	Class A Common Share Unit Award
Daniel E. Nixon, Jr.	1/2/2009	16,667	Class A Common Share Award
	1/2/2009	25,000	Class A Common Share Unit Award

⁽¹⁾ The restricted Class A common shares and restricted Class A common share units will vest as follows:

- (a) 10% of these shares vest when our annual FFO increased 72% from our 2008 level. This target was achieved in 2009, and such awards vested as of March 25, 2010.
- (b) 20% of these shares vest when our annual FFO increases 162% from our 2008 level.
- (c) 20% of these shares vest when our annual FFO increases 332% from our 2008 level.
- (d) 25% of these shares vest when our annual FFO increases 581% from our 2008 level.
- (e) 25% of these shares vest when our annual FFO increases 915% from our 2008 level.

FFO is defined as the annual audited FFO as it appears in our annual report on Form 10-K.

Perquisites and Other Personal Benefits. We provide the Named Executive Officers with benefits and other personal perquisites that we deem reasonable and consistent with our overall compensation program. Such benefits enable us to attract and retain superior employees for key positions. The Committee periodically reviews our overall compensation program and specific perquisites provided to the Named Executive Officers.

Three of the Named Executive Officers (James C. Mastandrea, John J. Dee, and Daniel E. Nixon, Jr.) have relocated to the Houston area. We have agreed to pay for all reasonable relocation costs including, but not limited to, temporary living expenses, all costs associated with moving household items and personal cars, necessary roundtrip air travel, the costs associated with selling homes, including the cost of preparing the houses for sale, sales consultation costs, reimbursement of realtor's commission upon sale, and other selling costs. The Committee is evaluating alternatives for the sale of Mr. Nixon's home. We have contracted with a professional relocation firm based on a review and recommendation of the Committee to assist with the marketing and sale of Mr. Mastandrea's home. Since the engagement of the relocation firm, no offers on the

home have been received. On July 9, 2010,

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upon the unanimous recommendation of the Committee, we entered into an arrangement with Mr. Mastandrea with respect to the disposition of his home. Under the relocation arrangement, we will pay Mr. Mastandrea the shortfall, if any, in the amount realized from the sale of the Cleveland residence, below \$2,450,000, not to exceed \$700,000, plus tax on the amount of such payment at the maximum federal income tax rate. The first \$450,000 plus the tax on that amount will be paid in cash. Any amount payable in excess of \$450,000 will be paid in common shares at the market value of the shares, as determined in the reasonable judgment of the Board, as of the time of the sale of the residence. The common shares payable to Mr. Mastandrea, if any, will be delivered over four consecutive quarters in equal installments. In addition, the arrangement requires us to continue paying the previously agreed upon cost of housing expenses for the Mastandrea family in Houston, Texas for a period of one year following the date of sale of the residence. See [Certain Relationships and Related Transactions](#) [Executive Relocation](#).

Analysis of Risk in Compensation Structure

Our Board has considered the current risk profile of our executive and broad-based compensation programs and noted numerous ways in which risk is effectively managed or mitigated, including the balanced mix between short-term and long-term incentives, caps on incentives, use of multiple performance measures, discretion on individual awards, long-term incentives and the use of stock ownership guidelines. Based on these mitigating risks, we do not believe that our officers are encouraged to take excessive or unnecessary risk, and we do not believe that our compensation policies and practices for employees generally are reasonably likely to have a material adverse effect on us.

Executive Compensation**Summary Compensation Table**

The table below summarizes the total compensation paid or earned to each of the Named Executive Officers in 2007, 2008 and 2009. No bonus or salary increases have occurred since March 2008. Additionally in October 2009, the Named Executive Officers voluntarily agreed to reductions in their base salaries by 12.5% as part of a corporate realignment program to reduce overhead and other operating expenses.

Name and Principal Position	Year	Salary ⁽¹⁾	Bonus ⁽²⁾	Stock Awards ⁽³⁾	All Other Compensation	Total
James C. Mastandrea Chairman & Chief Executive Officer	2009	\$ 291,346		\$ 2,402,196	\$ 66,137 ⁽⁴⁾	\$ 2,759,679
	2008	284,616	75,000		89,130 ⁽⁵⁾	448,746
	2007	200,000			51,541 ⁽⁶⁾	251,541
John J. Dee Chief Operating Officer	2009	194,281		1,795,481	44,493 ⁽⁷⁾	2,034,255
	2008	193,846	50,000		40,509 ⁽⁸⁾	284,355
	2007	160,000			26,994 ⁽⁹⁾	186,994
David K. Holeman Chief Financial Officer	2009	172,674		593,010	3,472 ⁽¹⁰⁾	769,156
	2008	176,703	5,000		4,676 ⁽¹¹⁾	186,379