

Whitestone REIT  
 Form 424B4  
 May 05, 2011  
Table of Contents

Index to Financial Statements

Filed Pursuant to Rule 424(b)(4)  
 Registration No. 333-173209

Prospectus

5,000,000

Class B Common Shares

## Whitestone REIT

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 at a public offering price of \$12.00 per share. Our Class B common shares are listed on the NYSE Amex under the symbol WSR. The last reported sale price of our Class B common shares on the NYSE Amex on May 4, 2011 was \$12.57 per share.

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 certain risks that you should consider before investing.**

	Per Share	Total
Public offering price	\$ 12.00	\$ 60,000,000
Underwriting discount and commissions	\$ 0.66	\$ 3,300,000
Net proceeds to us, before expenses	\$ 11.34	\$ 56,700,000

We have granted the underwriters an option to purchase up to an additional 750,000 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.

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The underwriters expect to deliver the Class B common shares on or about May 10, 2011.

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.

*Joint Book-running Managers*

**BMO Capital Markets    JMP Securities    Wunderlich Securities**

*Lead Manager*

**Ladenburg Thalmann & Co. Inc.**

*Co-Managers*

**J.J.B. Hilliard, W.L. Lyons, LLC    Southwest Securities, Inc.    Maxim Group LLC**

The date of this prospectus is May 4, 2011.

**Table of Contents**

**Index to Financial Statements**

**Table of Contents**

**Index to Financial Statements**

**TABLE OF CONTENTS**

<u>PROSPECTUS SUMMARY</u>	1
<u>RISK FACTORS</u>	15
<u>FORWARD-LOOKING STATEMENTS</u>	32
<u>USE OF PROCEEDS</u>	34
<u>EXCHANGE OF CLASS A COMMON SHARES AND OP UNITS</u>	35
<u>DISTRIBUTION POLICY</u>	36
<u>MARKET FOR CLASS B COMMON SHARES</u>	38
<u>CAPITALIZATION</u>	39
<u>SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA</u>	40
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	43
<u>BUSINESS AND PROPERTIES</u>	60
<u>POLICIES WITH RESPECT TO CERTAIN ACTIVITIES</u>	79
<u>MANAGEMENT</u>	86
<u>EXECUTIVE COMPENSATION</u>	92
<u>PRINCIPAL SHAREHOLDERS</u>	108
<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	110
<u>THE OPERATING PARTNERSHIP AGREEMENT</u>	111
<u>DESCRIPTION OF SECURITIES</u>	115
<u>CERTAIN PROVISIONS OF MARYLAND LAW AND OF OUR DECLARATION OF TRUST AND BYLAWS</u>	120
<u>SHARES ELIGIBLE FOR FUTURE SALE</u>	126
<u>MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS</u>	128
<u>ERISA CONSIDERATIONS</u>	151
<u>UNDERWRITING</u>	155
<u>LEGAL MATTERS</u>	158
<u>EXPERTS</u>	158
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	158
<u>INDEX TO CONSOLIDATED FINANCIAL STATEMENTS</u>	F-1

**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.**

**Table of Contents**

**Index to Financial Statements**

**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) no exercise by the underwriters of the over-allotment option to purchase up to an additional 750,000 Class B common shares and (2) 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, less the underwriting discount and expenses. Each OP unit is redeemable at the election of the holder for cash, or, at our option, one of our Class A common shares.*

**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, 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 seasoned professionals 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 few 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 Class B common shares are listed on the NYSE Amex under the symbol WSR.

**Table of Contents**

**Index to Financial Statements**

**Our Strengths**

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

***Strong Occupancy Upside in Current Portfolio.*** As of December 31, 2010, 20 of our 38 properties had significant upside in occupancy with occupancy rates lower than 90%. We believe that through our:

Community Centered Property operating model,

focus on the fastest growing ethnic groups in our defined markets,

proactive marketing and leasing efforts, and

proven management team,

we will be able to increase occupancy in these properties to our individual property occupancy goals of 90% or higher. This occupancy upside provides the opportunity to increase property net operating income and funds from operations through leasing of vacant spaces at these properties. At our current average base rent of approximately \$10 per square foot and a total of approximately 3.2 million leasable square feet, each increase of 1% in occupancy will contribute approximately \$320,000 to our annual funds from operations.

***Community Centered Property 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 December 31, 2010, our average rent per square foot for our smaller tenants represents a 57% premium over rent paid by our larger tenants, or those tenants leasing more than 3,000 square feet.

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***Extensive Pipeline of Acquisition Opportunities Generated through Relationships and Reputation.*** Our extensive pipeline of potential acquisitions has been developed over the last several years through our reputation in the markets in which we operate and our relationships with property owners, community banks, attorneys, title companies, and others in the real estate industry. The size of our pipeline of potential properties will allow us to be selective and close quickly on properties as single-asset or multi-asset purchases from various sellers.

***Proven Real Estate and Repositioning Track Record.*** Our nine-person senior management team, composed of James C. Mastandrea, John J. Dee, David K. Holeman, Daniel Nixon, Valarie King,

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**Table of Contents**

**Index to Financial Statements**

Bradford Johnson, Gregory Belsheim, Charles M. Taylor and Anne Gregory, has more than 150 years of collective experience acquiring, developing, redeveloping, owning, managing and operating commercial real estate properties, portfolios and companies. Messrs. Mastandrea, Dee and Nixon each has over 30 years of experience and Mesdames King, Gregory and Messrs. Holeman, Johnson, Taylor and Belsheim each has 17, 3, 5, 29, 14 and 8 years of experience, respectively. 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 repositioning 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.

**Our Growth 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 continue 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 few 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.

***Maximizing Value by Redeveloping and Re-tenanting Existing Properties.*** We reposition 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.





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**Table of Contents**

**Index to Financial Statements**

***Orienting Our Capital Structure for Growth.*** We intend to use the net proceeds of this offering to fund acquisitions and the selective redevelopment of existing properties. We do not have any debt maturities until October 2013, and 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 December 31, 2010, our ratio of total indebtedness to undepreciated book value of real estate assets was 49%. Assuming full deployment of the proceeds from this offering at 50% leverage, we will have approximately \$112.6 million available for investment in properties.

***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, 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. We also focus on their 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.

**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 may continue to adversely affect our occupancy, rental rates, access to capital, 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, which could adversely affect our ability to grow, our interest costs and our results of operations.

The current geographical concentration 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 leases for approximately 10% to 20% of our gross leasable area 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 primarily on cash flows from their businesses to pay their rent and without other resources could be 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.



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**Table of Contents**

**Index to Financial Statements**

Our acquisition strategy is focused on distressed and foreclosed commercial real estate, and we could face significant competition from other investors, 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 nine 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. Dividends are based upon our funds from operations, financial condition, cash flows and liquidity, debt service requirements, capital expenditure requirements for our properties and other matters our Board may deem relevant from time to time.

**Exchange of our Class A Common Shares and OP Units**

On August 24, 2010, we amended our Articles of Amendment and Restatement, or our declaration of trust, to (i) change the name of all of our common shares of beneficial interest, par value \$0.001 per share, to Class A common shares, (ii) effect a 1-for-3 reverse share split of our Class A common shares and (iii) change the par value of the Class A common shares to \$0.001 per share after the reverse share split. Pursuant to the partnership agreement for our Operating Partnership, the reverse share split of our Class A common shares also resulted in a 1-for-3 reverse split of our OP units. All prior period share and per share amounts in this prospectus have been retroactively restated to reflect the reverse share split. The rights of the Class A common shareholders did not change with the change in the title of the class. In addition, we created a new class of common shares of beneficial interest, par value \$0.001 per share, entitled Class B common shares. We refer to the Class A and Class B common shares collectively as the common shares. Our Class A common shares are identical to our Class B common shares except that our Class A common shares are not currently listed on a national securities exchange, and we do not intend to list our Class A shares on a national securities exchange.

On August 31, 2010, we completed an offering of 2.2 million of our Class B common shares for approximately \$23.0 million in net offering proceeds to us and listed our Class B common shares on the NYSE Amex. As of December 31, 2010, we had 3,471,187 Class A common shares, 2,200,000 Class B common shares, and 1,814,569 OP units, not held by us, outstanding.

Following this offering, we intend to conduct a series of exchange offers to exchange our Class A common shares and OP units for Class B common shares. In exchange for one Class A common share or one OP unit, we will issue one Class B common share. We intend to commence the exchange offers for all outstanding Class A common shares and OP units in 25% increments on the following schedule:

on or about 90 days following the date of this prospectus (August 2, 2011);

on or about 180 days following the date of this prospectus (October 31, 2011);

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on or about 270 days following the date of this prospectus (January 29, 2012); and

on or about 360 days following the date of this prospectus (April 28, 2012).

**Table of Contents**

**Index to Financial Statements**

Following the completion of the series of exchange offers, we intend to submit to our shareholders for approval at our 2012 Annual Meeting of Shareholders an amendment to our declaration of trust to change the Class A common shares remaining outstanding after the completion of the exchange offers to Class B common shares and rename our Class B common shares as common shares. If the change is approved by our shareholders, we intend to amend the partnership agreement for our Operating Partnership such that unissued and outstanding OP units may be redeemed for cash or, at our option, our Class B common shares (which will, prior to that time, be renamed common shares ).

**Our Properties**

As of December 31, 2010, we owned 38 commercial properties, including

31 properties in Houston, Texas;

two properties in Dallas, Texas;

one property in Windcrest, Texas, a suburb of San Antonio;

one property in Scottsdale, Arizona;

one property in Carefree, Arizona;

one property in Phoenix, Arizona; 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 are the core of our strategy of creating Whitestone-branded 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. Our largest tenant represented 1.9% of total revenues for the year ended December 31, 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 less than one year to 15 years. As of December 31, 2010, approximately 72% of our existing leases with terms greater than one year contained step up rental clauses that provide for increases in the base rental payments. The following table summarizes certain information relating to our properties as of December 31, 2010:

	No. of Properties	Leasable Square Feet	Average Occupancy as of 12/31/10	Annualized Base Rental Revenue (in thousands) <sup>(1)</sup>	Average Annualized Base Rental Revenue Per Leased Sq. Ft. <sup>(2)</sup>	Average Net Effective Annual Base Rental Revenue Per Leased Sq. Ft. <sup>(3)</sup>
<b>Commercial Properties Operating Portfolio:</b>						

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Retail	18	1,188,830	88%	\$ 9,843	\$ 9.41	\$ 10.60
Office/Flex	11	1,201,672	88%	7,670	7.25	7.16
Office	7	631,841	79%	8,084	16.20	16.52
<b>Subtotal Operating Portfolio</b>	<b>36</b>	<b>3,022,343</b>	<b>86%</b>	<b>25,597</b>	<b>9.85</b>	<b>10.35</b>
<b>Redevelopment, New Acquisitions <sup>(4)</sup>:</b>						
Retail	2	139,677	40%	612	10.95	11.65
<b>Total</b>	<b>38</b>	<b>3,162,020</b>	<b>84%</b>	<b>\$ 26,209</b>	<b>\$ 9.87</b>	<b>\$ 10.38</b>

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**Table of Contents**

**Index to Financial Statements**

- (1) Calculated as the tenant's actual December 31, 2010 base rent (defined as cash base rent including abatements) multiplied by 12. Excludes vacant space as of December 31, 2010. Because annualized base rental revenue is not derived from historical results that were accounted for in accordance with U.S. generally accepted accounting principles, or GAAP, historical results differ from the annualized amounts. Total abatements for leases in effect as of December 31, 2010 equaled approximately \$125,000 for the month ended December 31, 2010.
- (2) Calculated as annualized base rent divided by net rentable square feet leased at December 31, 2010. Excludes vacant space as of December 31, 2010.
- (3) Represents (i) the contractual base rent for leases in place as of December 31, 2010, calculated on a straight-line basis to reflect changes in rental rates throughout the lease term and amortize free rent periods and abatements, but without regard to tenant improvement allowances and leasing commissions, divided by (ii) square footage under commenced leases as of December 31, 2010.
- (4) Includes (i) new acquisitions, through the earlier of attainment of 90% occupancy or 18 months of ownership, and (ii) properties which are undergoing significant redevelopment or re-tenanting.

**Recent Developments**

On April 13, 2011, we completed the purchase of Desert Canyon Shopping Center, or Desert Canyon, in McDowell Mountain Ranch, located in northern Scottsdale, Arizona. This was our third off-market acquisition in the Phoenix area since September 2010. Desert Canyon, which contains 62,533 leasable square feet, inclusive of 12,960 square feet leased to two tenants with ground leases, was purchased out of foreclosure from a regional bank in an all cash transaction for \$3.65 million, or approximately \$58 per leasable square foot. The amount paid is significantly below Desert Canyon's replacement cost. Occupancy at Desert Canyon at closing was approximately 65%, including the two ground leases mentioned above. In-place annualized base rental revenues were approximately \$550,000 at the time of purchase, and we are also entitled to recover the operating expenses from the majority of the existing tenants. We expect to further increase the value of this investment through lease up and application of financial leverage.

Desert Canyon is strategically located within McDowell Mountain Ranch, a 3,200 acre master planned community. Situated at a prime intersection at East McDowell Mountain Ranch Road and N. 105th Street, Desert Canyon is the nearest retail and office space to McDowell Mountain Elementary and Junior High Schools. Located adjacent to the Sonora Mountain Desert Preserve, a lighted trail and jogging path wind directly into the Desert Canyon site and provide access to the surrounding upscale residential neighborhoods.

We believe Desert Canyon is a very strong fit with our Community Centered Property business model with high roadside visibility, service-oriented tenants and a location surrounded by thousands of residential rooftops. Despite Desert Canyon being in foreclosure, it has been well maintained and we anticipate minimal capital expenditures over the next several years.

**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 December 31, 2010, we owned approximately a 75.4% interest in our Operating Partnership, and other limited partners collectively owned approximately a 24.6% limited partnership interest. Each unit of limited partnership interest in our Operating Partnership, which we call an OP unit, is 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



**Table of Contents**

**Index to Financial Statements**

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 December 31, 2010:

- (1) Whitestone REIT is the 75.4% owner and the general partner of our Operating Partnership. This percentage will increase to 85.3% after completion of this offering, with the issuance of 5,000,000 Class B common shares.
- (2) Management and Board ownership of Class A common shares, Class B common shares and OP units currently represents 7.1% of all common shares assuming conversion of all OP units.

**Restriction on Ownership and Transfer**

Our declaration of trust, with certain exceptions, authorizes 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

**Table of Contents****Index to Financial Statements**

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.

We declared the following distributions to our shareholders and holders of OP units with respect to 2009, 2010 and the three months ended March 31, 2011:

	<b>Distributions Per Share/OP Unit <sup>(1)</sup></b>
<b><u>2009</u></b>	
First Quarter	\$ 0.3375
Second Quarter	0.3375
Third Quarter	0.3375
Fourth Quarter	0.3375
<b><u>2010</u></b>	
First Quarter	\$ 0.3375
Second Quarter	0.2850
Third Quarter	0.2850
Fourth Quarter	0.2850
<b><u>2011</u></b>	
First Quarter	\$ 0.2850

<sup>(1)</sup> Distributions paid with respect to Class A common shares and, since September 2010, with respect to Class A common shares and Class B common shares. Distributions have been adjusted to reflect the 1-for-3 reverse share split of our Class A common shares and OP units in August 2010.



**Table of Contents**

**Index to Financial Statements**

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.

Our distribution rate for the year ended December 31, 2010 was approximately 88% of our funds from operations per share. We typically declare our distributions quarterly and pay our distributions in three equal monthly installments. For the fourth quarter of 2010, we declared a distribution per common share and OP unit of \$0.2850, which was paid as follows: \$0.0950 on January 3, 2011, \$0.0950 on February 8, 2011 and \$0.0950 on March 8, 2011. For the first quarter of 2011, we declared a distribution per common share and OP unit of \$0.2850, which was paid or will be paid as follows: \$0.0950 on April 7, 2011, \$0.0950 on May 6, 2011 and \$0.0950 on June 7, 2011.

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.

**Revolving Credit Facility**

Subsequent to the completion of this offering, we anticipate entering into a \$20 million unsecured revolving credit facility, which may be expandable to \$75 million under certain circumstances. We expect to use this facility for general corporate purposes, including acquisitions and development and redevelopment of properties in our portfolio, working capital and the payment of capital expenses.

Certain affiliates of BMO Capital Markets Corp. may participate as lenders under our unsecured revolving credit facility. In their capacity as lenders, these affiliates will receive certain customary cash fees in connection with the credit facility.

**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 a website at [www.whitestonereit.com](http://www.whitestonereit.com). Our website and the information contained therein or connected thereto do not constitute a part of this prospectus.



**Table of Contents**

**Index to Financial Statements**

**THE OFFERING**

Class B common shares offered by us 5,000,000  
 Common shares and OP units outstanding after this offering:

Class A common shares 3,471,187

Class B common shares 7,200,000<sup>(1)</sup>

OP units 1,814,599<sup>(2)</sup>

Use of proceeds We estimate that the net proceeds from this offering will be approximately \$56,300,000, based upon the public offering price of \$12.00 per Class B common share and after deducting the underwriting discount and estimated offering expenses of \$400,000 payable by us. If the underwriters' over-allotment option is exercised in full, our net proceeds will be approximately \$64,805,000. We will contribute the net proceeds from this offering to our Operating Partnership in exchange for a number of OP units equal to the number of Class B common shares sold in this offering, thereby increasing our ownership interest in the Operating Partnership. Our Operating Partnership intends to use the net proceeds from the offering (1) to acquire commercial properties in our target markets, directly from owners or by acquiring loans with the intent to acquire the underlying property through foreclosure or deed in lieu of foreclosure within a short period of time, (2) to redevelop and re-tenant existing properties to create Whitestone-branded Community Centered Properties and (3) 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.

NYSE Amex symbol for Class B common shares WSR

- (1) Excludes 473,814 Class B common shares available for issuance under our 2008 Long-Term Equity Incentive Ownership Plan, and up to 750,000 Class B common shares that may be issued upon exercise of the underwriters' over-allotment option.
- (2) OP units are redeemable for cash or, at our option, Class A common shares on a one-for-one basis.

**Table of Contents****Index to Financial Statements****Summary Consolidated Financial and Other Data**

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, 2010, 2009 and 2008 and consolidated statement of operations data for the years ended December 31, 2010, 2009 and 2008 have been derived from our audited historical combined financial statements. All per share data set forth below has been adjusted to reflect the 1-for-3 reverse share split of our Class A common shares that occurred in August 2010.

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.

	Year Ended December 31, (in thousands, except per share data)		
	2010	2009	2008
<b>Operating Data:</b>			
Revenues	\$ 31,533	\$ 32,685	\$ 31,201
Property expenses	12,283	12,991	12,835
General and administrative <sup>(1)</sup>	4,992	6,072	6,708
Depreciation and amortization	7,225	6,958	6,859
Involuntary conversion	(558)	(1,542)	358
Interest expense, net	5,592	5,713	5,675
Income (loss) from continuing operations before loss on disposal of assets and income taxes	1,999	2,493	(1,234)
Provision for income taxes	(264)	(222)	(219)
Loss on disposal of assets	(160)	(196)	(223)
Income (loss) from continuing operations	1,575	2,075	(1,676)
Loss from discontinued operations			(188)
Gain on sale of properties from discontinued operations			3,619
Net income	1,575	2,075	1,755
Less: net income attributable to noncontrolling interests	470	733	621
Net income attributable to Whitestone REIT	\$ 1,105	\$ 1,342	\$ 1,134

<sup>(1)</sup> General and administrative expenses for the year ended December 31, 2008 includes approximately \$1.5 million of legal costs resulting from litigation with our former CEO and our former external advisor.

**Table of Contents****Index to Financial Statements**

	Year Ended December 31, (in thousands, except per share data)		
	2010	2009	2008
<b>Earnings per share basic</b>			
Income (loss) from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	\$ 0.27	\$ 0.41	\$ (0.32)
Income from discontinued operations attributable to Whitestone REIT			0.67
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$ 0.27	\$ 0.41	\$ 0.35
<b>Earnings per share diluted</b>			
Income (loss) from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	\$ 0.27	\$ 0.40	\$ (0.32)
Income from discontinued operations attributable to Whitestone REIT			0.67
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$ 0.27	\$ 0.40	\$ 0.35
<b>Balance Sheet Data:</b>			
Real estate (net)	\$ 165,398	\$ 158,398	\$ 150,847
Other assets	31,047	23,602	27,098
Total assets	\$ 196,445	\$ 182,000	\$ 177,945
Liabilities	\$ 112,162	\$ 115,141	\$ 110,773
Whitestone REIT shareholders' equity	62,708	43,590	45,891
Noncontrolling interest in subsidiary	21,575	23,269	21,281
	\$ 196,445	\$ 182,000	\$ 177,945
<b>Other Data:</b>			
Proceeds from issuance of common shares	\$ 22,970	\$	\$
Additions to and acquisitions of real estate	12,768	12,855	5,153
Dividends per share <sup>(1)</sup>	1.17	1.35	1.59
Funds from operations <sup>(2)</sup>	8,432	8,618	4,236
Funds from operations-Core <sup>(2)</sup>	7,920	6,759	6,085
Property net operating income <sup>(3)</sup>	19,250	19,694	18,366
Operating Portfolio Occupancy at year end	86%	82%	84%
Average aggregate gross leasable area	3,058,340	3,039,044	3,008,085
Average revenue per average aggregate gross leasable square foot	\$ 10.31	\$ 10.76	\$ 10.37

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

(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. Management believes that the computation of FFO in accordance with NAREIT's definition includes certain items that are not indicative of the results provided by our operating portfolio and affect the comparability of our period-over-period performance. These items include, but are not limited to, gains and losses on insurance claim settlements, acquisition costs and certain costs paid as a result of our





**Table of Contents****Index to Financial Statements**

litigation with our former external manager. We define FFO-Core as FFO excluding these items. Below is the calculation of FFO and FFO-Core and the reconciliation to net income, which we believe is the most comparable GAAP financial measure (in thousands):

	<b>Year Ended December 31,</b> <b>(in thousands, except per share</b> <b>data)</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
Net income attributable to Whitestone REIT	\$ 1,105	\$ 1,342	\$ 1,134
Depreciation and amortization of real estate assets <sup>(1)</sup>	6,697	6,347	5,877
(Gain) loss on sale or disposal of assets <sup>(1)</sup>	160	196	(3,396)
Net income attributable to noncontrolling interests	470	733	621
<b>FFO</b>	<b>8,432</b>	<b>8,618</b>	<b>4,236</b>
Acquisition costs	46	75	
(Gain) loss on insurance settlement <sup>(2)</sup>	(558)	(1,934)	358
Litigation costs with our former external manager			1,491
<b>FFO-Core</b>	<b>\$ 7,920</b>	<b>\$ 6,759</b>	<b>\$ 6,085</b>

<sup>(1)</sup> Including amounts for discontinued operations.

<sup>(2)</sup> \$392 included in rental revenue for the twelve months ended December 31, 2009.

<sup>(3)</sup> We believe that property Net Operating Income (NOI) is a useful measure of our property operating performance. We define NOI as operating revenues (rental and other revenues) less property and related expenses (property operation and maintenance and real estate taxes). Other REITs may use different methodologies for calculating NOI, and accordingly, our NOI may not be comparable to other REITs. Because NOI excludes general and administrative expenses, depreciation and amortization, involuntary conversion, interest expense, interest income, provision for income taxes and gain or loss on sale or disposal of assets, it provides a performance measure that, when compared year over year, reflects the revenues and expenses directly associated with owning and operating commercial real estate properties and the impact to operations from trends in occupancy rates, rental rates and operating costs, providing perspective not immediately apparent from net income.

The following is a reconciliation of our historical NOI to net income, which we believe is the most comparable GAAP financial measure (in thousands):

	<b>Year Ended December 31</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
Net Income Attributable to Whitestone REIT	\$ 1,105	\$ 1,342	\$ 1,134
General and administrative expense	4,992	6,072	6,708
Depreciation and amortization	7,225	6,958	6,859
Involuntary conversion	(558)	(1,542)	358
Interest expense	5,620	5,749	5,857
Interest income	(28)	(36)	(182)
Provision for income taxes	264	222	219
Loss on disposal of assets	160	196	223
Loss from discontinued operations			188
Gain on sale of properties from discontinued operations			(3,619)
Net income attributable to noncontrolling interests	470	733	621
<b>NOI</b>	<b>\$ 19,250</b>	<b>\$ 19,694</b>	<b>\$ 18,366</b>



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**Table of Contents**

**Index to Financial Statements**

**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**

*Recent market disruptions may significantly and adversely affect our financial condition and results of operations.*

The U.S. economy is still experiencing weakness from recent economic conditions, which 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. 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. Although the U.S. economy has emerged from the recent recession, high levels of unemployment have persisted, and rental rates and valuations for retail space have not fully recovered to pre-recession levels and may not for a number of years. At this time, it is difficult to determine the breadth and duration of the impact of the recent economic and financial market problems and the many ways in which they could 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

## Table of Contents

### Index to Financial Statements

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.

***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;

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

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

**Table of Contents**

**Index to Financial Statements**

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.

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

***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, 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.

***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.

***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.

***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 whom 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

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**Table of Contents**

**Index to Financial Statements**

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 geographic concentration 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 December 31, 2010, we had 75% 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 geographic concentration 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.

***We lease our properties to approximately 800 tenants, with leases for approximately 10% to 20% of our gross leasable area 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 December 31, 2010, approximately 36% of the aggregate gross leasable area of our properties is subject to leases that expire prior to December 31, 2012. 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 businesses that depend primarily on cash flows from their businesses to pay their rent and without other resources could be at a higher risk of bankruptcy or insolvency than larger, national tenants. If tenants are unable to comply with the terms of our leases, we may be forced to modify the leases in





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**Table of Contents**

**Index to Financial Statements**

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 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. 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.

Any bankruptcy filing by or relating to one or more 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 lease 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. 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. The bankruptcy or insolvency of a number of smaller tenants may have an adverse impact 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.

***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.

## **Table of Contents**

### **Index to Financial Statements**

*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 the trading price of our Class B common shares.

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 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.

*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 nine 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 nine 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.

*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.



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**Table of Contents**

**Index to Financial Statements**

*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 are based upon our funds from operations, financial condition, cash flows and liquidity, debt service requirements, capital expenditure requirements for our properties and other matters our Board may deem relevant from time to time. If we do not have sufficient cash available for dividends, we may need to fund the shortage out of working capital or borrow to provide funds for such distributions, which would reduce the amount of proceeds available for real estate investments and increase our future interest costs.

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, 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. Our inability to make distribution, or to make distributions at expected levels, could result in a decrease in the trading price of our Class B common shares.

**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, these 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.

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**Table of Contents**

**Index to Financial Statements**

***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.

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 \$25.4 million as of December 31, 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 may adversely affect 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 December 31, 2010, we had approximately \$100.9 million of mortgage debt secured by 23 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.

***High mortgage rates and/or unavailability of mortgage debt may make it difficult for us to finance or refinance properties, which could reduce the number of properties we can acquire, our net income and the amount of cash distributions we can make.***

If mortgage debt is unavailable at rates acceptable to us, we may not be able to finance the purchase of properties. If we place mortgage debt on properties, we may be unable to refinance the properties when the loans become due, or to refinance on favorable terms. If interest rates are higher when we refinance our properties, our payments on our indebtedness would increase and our income could be reduced. If any of these events occur, our

## Table of Contents

### Index to Financial Statements

cash flow could be reduced. This, in turn, could reduce cash available for distribution to our shareholders and may hinder our ability to raise more capital by issuing more stock or by borrowing more money.

*We expect that our revolving credit facility will restrict our ability to engage in some business activities, including our ability to incur additional indebtedness, make capital expenditures and make certain investments, which could adversely affect our financial condition, results of operations, cash flow and trading price of our Class B common shares.*

We anticipate that our revolving credit facility will contain customary negative covenants and other financial and operating covenants that, among other things:

restrict our ability to incur additional indebtedness;

restrict our ability to incur additional liens;

restrict our ability to make certain investments (including certain capital expenditures);

restrict our ability to merge with another company;

restrict our ability to sell or dispose of assets;

restrict our ability to make distributions to shareholders; and

require us to satisfy minimum financial coverage ratios, minimum tangible net worth requirements and maximum leverage ratios. These limitations will restrict our ability to engage in some business activities, which could adversely affect our financial condition, results of operations, cash flow and the trading price of our Class B common shares. In addition, our credit facility may contain specific cross-default provisions with respect to specified other indebtedness, giving the lenders the right to declare a default if we are in default under other loans in some circumstances.

*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 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.





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**Table of Contents**

**Index to Financial Statements**

*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

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



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**Table of Contents**

**Index to Financial Statements**

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.***

In 2010, we 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 that 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 Requirements for Qualification as a REIT 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.

***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%

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distribution requirement and avoid this 4% excise tax, we cannot assure you that we will always be able to do so.

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**Table of Contents**

**Index to Financial Statements**

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 Other Tax Consequences 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.

***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



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**Table of Contents**

**Index to Financial Statements**

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% (currently through 2012). 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.

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**

***Following exchange offers that we intend to conduct in the future, large numbers of our Class A shareholders receiving Class B common shares may create a significant demand to sell our Class B common shares. Significant sales of our Class B common shares, or the perception that significant sales of such shares could occur, may cause the price of our Class B common shares to decline significantly.***

Our Class A common shares are not listed on any national securities exchange and the ability of shareholders to liquidate their investments in Class A common shares is limited. We do not intend to list shares

**Table of Contents**

**Index to Financial Statements**

our Class A common shares on a national securities exchange. However, beginning on or about 90 days from the date of this prospectus, we intend to conduct a series of exchange offers to exchange our Class A common shares and our OP units for Class B common shares. See

Exchange of Class A Common Shares and OP Units. Following each such exchange offer, if our former Class A shareholders and OP unitholders sell, or the market perceives that our shareholders intend to sell, substantial numbers of our Class B common shares in the public market, the market price of our Class B common shares could decline significantly. As of December 31, 2010, we had 3,471,187 Class A common shares and 1,814,569 OP units, not held by us, outstanding.

In addition, because our Class A common shares are not subject to transfer restrictions (other than the restrictions on ownership and transfer of shares set forth in our declaration of trust), such shares are freely tradable. As a result, notwithstanding that such shares will not be listed on a national securities exchange, it is possible that a market may develop for shares of our Class A common shares, and sales of such shares, or the perception that such sales could occur, could have a material adverse effect on the trading price of our Class B common shares.

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

***Increases in market interest rates may result in a decrease in the value of our Class B common shares.***

One of the factors that may influence the price of our Class B common shares will be the dividend distribution rate on the Class B common shares (as a percentage of the price of our Class B common shares) relative to market interest rates. If market interest rates rise, prospective purchasers of shares of our Class B common shares may expect a higher distribution rate. Higher interest rates would not, however, result in more funds being available for distribution and, in fact, would likely increase our borrowing costs and might decrease our funds available for distribution. We therefore may not be able, or we may not choose, to provide a higher

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**Table of Contents**

**Index to Financial Statements**

distribution rate. As a result, prospective purchasers may decide to purchase other securities rather than our Class B common shares, which would reduce the demand for, and result in a decline in the market price of, our Class B common shares.

***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 common shares issued in this offering and any common shares eligible for future sale may adversely affect the prevailing market prices for our common shares.***

Our shares have traded on the NYSE Amex since August 26, 2010. Assuming the underwriters do not exercise their overallotment option, we are selling 5,000,000 of our Class B common shares in this offering, an amount equal to 227.3% of our Class B common shares outstanding prior to the offering. Excluding the Class B common shares owned by our management that are subject to the lock up agreement with our underwriters, the Class B common shares being offered will represent approximately 69.8% of the Class B common shares available to trade after this offering. Also, the three month average trading volume in our Class B common shares as reported by the NYSE Amex as of April 21, 2011 was 11,936 shares per day. In addition, beginning on or about 90 days following the date of this prospectus (August 2, 2011), we intend to conduct a series of exchange offers to exchange our Class A common shares for Class B common shares. See Exchange of Class A Common Shares and OP Units. We also may issue from time to time additional Class B common shares or OP units in connection with the acquisition of properties and we may grant demand or piggyback registration rights in connection with these issuances. We cannot predict the effect, if any, of this offering, future sales of Class B common shares, or the availability of Class B common shares for future sale, on the market price of our Class B common shares. Sales of substantial amounts of Class B common shares (including shares issued to our trustees and officers), or the perception that these sales could occur, may adversely affect the liquidity of the market for our Class B common shares or prevailing market prices for our Class B common shares. Large price changes or low volume may preclude you from buying or selling our Class B common shares at all, or at any particular price or during a time frame that meets your investment objectives.

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 90 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.

***This offering is expected to be dilutive, and there may be future dilution related to our Class B common shares.***

Giving effect to the issuance of Class B common shares in this offering, which may include shares issued pursuant to a full or partial exercise by the underwriters of their overallotment option, the receipt of the expected net proceeds and the use of those proceeds, we expect that this offering will have a dilutive effect on our expected earnings per share and FFO per share for the year ending December 31, 2011. The actual amount of dilution cannot be determined at this time and will be based upon numerous factors. Additionally, subject to the 90-day lock up restrictions described in Underwriting, we are not restricted from issuing additional securities. The market price of our Class B common shares could decline as a result of issuances or sales of a large number of our Class B common shares in the market after this offering or the perception that such issuances or sales could occur. Additionally, future issuances or sales of substantial amounts of our Class B common shares may be

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**Table of Contents**

**Index to Financial Statements**

at prices below the offering price of the Class B common shares offered by this prospectus and may result in further dilution in our earnings and FFO per share and/or adversely impact the market price of our Class B common shares.

*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 Amended and Restated Bylaws, or 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.

*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

**Table of Contents**

**Index to Financial Statements**

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.

**Table of Contents**

**Index to Financial Statements**

**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.

**Table of Contents**

**Index to Financial Statements**

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.

**Table of Contents**

**Index to Financial Statements**

**USE OF PROCEEDS**

We estimate that the net proceeds from this offering will be approximately \$56,300,000, based upon the public offering price of \$12.00 per Class B common share and after deducting the underwriting discount and estimated offering expenses of \$400,000 payable by us. If the underwriters over-allotment option is exercised in full, our net proceeds will be approximately \$64,805,000. We will contribute the net proceeds from this offering to our Operating Partnership in exchange for a number of OP units equal to the number of Class B common shares sold in this offering, thereby increasing our ownership interest in the Operating Partnership. Our Operating Partnership intends to use the net proceeds from the offering (1) to acquire commercial properties in our target markets, directly from owners or by acquiring loans with the intent to acquire the underlying property through foreclosure or deed in lieu of foreclosure within a short period of time, (2) to redevelop and re-tenant existing properties to create Whitestone-branded Community Centered Properties and (3) 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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**Table of Contents**

**Index to Financial Statements**

**EXCHANGE OF CLASS A COMMON SHARES AND OP UNITS**

On August 24, 2010, we amended our Articles of Amendment and Restatement, or our declaration of trust, to (i) change the name of all of our common shares of beneficial interest, par value \$0.001 per share, to Class A common shares, (ii) effect a 1-for-3 reverse share split of our Class A common shares and (iii) change the par value of the Class A common shares to \$0.001 per share after the reverse share split. Pursuant to the partnership agreement for our Operating Partnership, the reverse share split of our Class A common shares also resulted in a 1-for-3 reverse split of our OP units. All prior period share and per share amounts in this prospectus have been retroactively restated to reflect the reverse share split. The rights of the Class A common shareholders did not change with the change in the title of the class. In addition, we created a new class of common shares of beneficial interest, par value \$0.001 per share, entitled Class B common shares. We refer to the Class A and Class B common shares collectively as the common shares. Our Class A common shares are identical to our Class B common shares except that our Class A common shares are not currently listed on a national securities exchange, and we do not intend to list our Class A shares on a national securities exchange.

On August 31, 2010, we completed an offering of 2.2 million of our Class B common shares for approximately \$23.0 million in net offering proceeds to us and listed our Class B common shares on the NYSE Amex. As of December 31, 2010, we had 3,471,187 Class A common shares, 2,200,000 Class B common shares, and 1,814,569 OP units, not held by us, outstanding.

Following this offering, we intend to conduct a series of exchange offers to exchange our Class A common shares and OP units for Class B common shares. In exchange for one Class A common share or one OP unit, we will issue one Class B common share. We intend to commence the exchange offers for all outstanding Class A common shares and OP units in 25% increments on the following schedule:

on or about 90 days following the date of this prospectus (August 2, 2011);

on or about 180 days following the date of this prospectus (October 31, 2011);

on or about 270 days following the date of this prospectus (January 29, 2012); and

on or about 360 days following the date of this prospectus (April 28, 2012).

Following the completion of the series of exchange offers, we intend to submit to our shareholders for approval at our 2012 Annual Meeting of Shareholders an amendment to our declaration of trust to change the Class A common shares remaining outstanding after the completion of the exchange offers to Class B common shares and rename our Class B common shares as common shares. If the change is approved by our shareholders, we intend to amend the partnership agreement for our Operating Partnership such that unissued and outstanding OP units may be redeemed for cash or, at our option, our Class B common shares (which will, prior to that time, be renamed common shares ).

**Table of Contents****Index to Financial Statements****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 2009 and 2010 and the three months ended March 31, 2011:

	<b>Distributions Per Share/OP Unit <sup>(1)</sup></b>
<b><u>2009</u></b>	
First Quarter	\$ 0.3375
Second Quarter	0.3375
Third Quarter	0.3375
Fourth Quarter	0.3375
<b><u>2010</u></b>	
First Quarter	\$ 0.3375
Second Quarter	0.2850

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Third Quarter	0.2850
Fourth Quarter	0.2850
<b><u>2011</u></b>	
First Quarter	\$ 0.2850

- <sup>(1)</sup> Distributions paid with respect to Class A common shares and, since September 2010, with respect to the Class A and Class B common shares. Distributions have been adjusted to reflect the 1-for-3 reverse share split of our Class A common shares and OP units in August 2010.

**Table of Contents**

**Index to Financial Statements**

Our distribution rate for the year ended December 31, 2010 was approximately 88% of our funds from operations per share. We typically declare our distributions quarterly and pay our distributions in three equal monthly installments. For the fourth quarter of 2010, we declared a distribution per common share and OP unit of \$0.2850, which was paid as follows: \$0.0950 on January 3, 2011, \$0.0950 on February 8, 2011 and \$0.0950 on March 8, 2011. For the first quarter of 2011, we declared a distribution per common share and OP unit of \$0.2850, which was paid or will be paid as follows: \$0.0950 on April 7, 2011, \$0.0950 on May 6, 2011 and \$0.0950 on June 7, 2011.

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****Index to Financial Statements****MARKET FOR CLASS B COMMON SHARES**

The following table sets forth the quarterly high, low, and closing prices per share of Class B common shares reported on the NYSE Amex for the year ended December 31, 2010.

	<b>High</b>	<b>Low</b>	<b>Close</b>
<b>Year Ended December 31, 2010</b>			
First Quarter	N/A	N/A	N/A
Second Quarter	N/A	N/A	N/A
Third Quarter	\$ 12.03	\$ 11.32	\$ 11.74
Fourth Quarter	\$ 14.94	\$ 11.79	\$ 14.80

On May 4, 2011, the closing price of our Class B common shares reported on the NYSE Amex was \$12.57 per share.

**Table of Contents****Index to Financial Statements****CAPITALIZATION**

The following table sets forth as of December 31, 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 financial information and related notes included elsewhere in this prospectus.

	<b>As of December 31, 2010</b>	
	<b>Historical</b>	<b>As Adjusted</b>
Notes payable <sup>(1)</sup>	\$ 100,941	\$ 100,941
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, 3,471,187 shares issued and outstanding	3	3
Class B common shares, \$0.001 par value per share; 350,000,000 shares authorized, 2,200,000 shares issued and outstanding, 7,200,000 shares issued and outstanding as adjusted <sup>(2)</sup>	2	7
Additional paid in capital	93,357	149,638
Accumulated deficit	(30,654)	(30,654)
Noncontrolling interest in subsidiary	21,575	21,575
<b>Total equity</b>	<b>84,283</b>	<b>140,569</b>
<b>Total capitalization</b>	<b>\$ 185,224</b>	<b>\$ 241,510</b>

<sup>(1)</sup> We also expect to enter into a \$20 million unsecured revolving credit facility, which may be expandable to \$75 million under certain circumstances, subsequent to the completion of this offering.

<sup>(2)</sup> Excludes 473,814 Class B common shares available for issuance under our 2008 Long-Term Equity Incentive Ownership Plan, and excludes up to 750,000 Class B common shares that may be issued upon exercise of underwriters' over-allotment option.

**Table of Contents****Index to Financial Statements****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, 2010, 2009, 2008, 2007 and 2006, and consolidated statement of operations data for the years ended December 31, 2010, 2009, 2008, 2007 and 2006, have been derived from our audited historical combined financial statements. All per share data set forth below has been adjusted to reflect the 1-for-3 reverse share split of our Class A common shares that occurred in August 2010.

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.

	Year Ended December 31, (in thousands, except per share data)				
	2010	2009	2008	2007	2006
<b>Operating Data:</b>					
Revenues	\$ 31,533	\$ 32,685	\$ 31,201	\$ 29,374	\$ 28,378
Property expenses	12,283	12,991	12,835	12,236	11,438
General and administrative <sup>(1)</sup>	4,992	6,072	6,708	6,721	2,299
Property and other asset management fees to an affiliate					1,482
Depreciation and amortization	7,225	6,958	6,859	6,048	6,181
Involuntary conversion	(558)	(1,542)	358		
Interest expense, net	5,592	5,713	5,675	4,825	4,910
Other expense (income), net				30	(30)
Income (loss) from continuing operations before loss on disposal of assets and income taxes	1,999	2,493	(1,234)	(486)	2,098
Provision for income taxes	(264)	(222)	(219)	(217)	
Income (loss) on disposal of assets	(160)	(196)	(223)	(9)	197
Income (loss) from continuing operations	1,575	2,075	(1,676)	(712)	2,295
Income (loss) from discontinued operations			(188)	589	554
Gain on sale of properties from discontinued operations			3,619		
Net income (loss)	1,575	2,075	1,755	(123)	2,849
Less: net income attributable to noncontrolling interests	470	733	621	(46)	1,068
Net income (loss) attributable to Whitestone REIT	\$ 1,105	\$ 1,342	\$ 1,134	\$ (77)	\$ 1,781

(1) 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.

**Table of Contents****Index to Financial Statements**

	Year Ended December 31,				
	2010	2009	2008	2007	2006
(in thousands, except per share data and gross leasable area)					
<b>Earnings per share basic</b>					
Income (loss) from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	\$ 0.27	\$ 0.41	\$ (0.32)	\$ (0.13)	\$ 0.45
Income from discontinued operations attributable to Whitestone REIT			0.67	0.11	0.10
Net income (loss) attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$ 0.27	\$ 0.41	\$ 0.35	\$ (0.02)	\$ 0.55
<b>Earnings per share diluted</b>					
Income (loss) from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	\$ 0.27	\$ 0.40	\$ (0.32)	\$ (0.04)	\$ 0.45
Income from discontinued operations attributable to Whitestone REIT			0.67	0.03	0.10
Net income (loss) attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$ 0.27	\$ 0.40	\$ 0.35	\$ (0.01)	\$ 0.55
<b>Balance Sheet Data:</b>					
Real estate (net)	\$ 165,398	\$ 158,398	\$ 150,847	\$ 146,460	\$ 141,236
Other assets	31,047	23,602	27,098	20,752	17,599
Total assets	\$ 196,445	\$ 182,000	\$ 177,945	\$ 175,144	\$ 167,087
Liabilities	\$ 112,162	\$ 115,141	\$ 110,773	\$ 94,262	\$ 76,464
Whitestone REIT shareholders' equity	62,708	43,590	45,891	52,843	58,914
Noncontrolling interest in subsidiary	21,575	23,269	21,281	28,039	31,709
	\$ 196,445	\$ 182,000	\$ 177,945	\$ 175,144	\$ 167,087
<b>Other Data:</b>					
Proceeds from issuance of common shares	\$ 22,970	\$	\$	\$ 261	\$ 9,453
Additions to and acquisitions of real estate	12,768	12,855	5,153	10,205	1,833
Dividends per share <sup>(1)</sup>	1.17	1.35	1.59	1.80	1.89
Funds from operations <sup>(2)</sup>	8,432	8,618	4,236	6,001	8,993
Property net operating income <sup>(3)</sup>	19,250	19,694	18,366	17,138	16,940
Operating Portfolio Occupancy at year end	86%	82%	84%	86%	83%
Average aggregate gross leasable area	3,058,340	3,039,044	3,008,085	3,093,063	3,121,039
Average revenue per average aggregate gross leasable square foot	\$ 10.31	\$ 10.76	\$ 10.37	\$ 9.50	\$ 9.09

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

(2)



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We believe that FFO is an appropriate supplemental measure of operating performance because it helps our investors compare our operating performance relative to other REITs. 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

**Table of Contents****Index to Financial Statements**

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, which we believe is the most comparable GAAP financial measure (in thousands):

	Year Ended December 31, (in thousands, except per share data)				
	2010	2009	2008	2007	2006
Net income attributable to Whitestone REIT	\$ 1,105	\$ 1,342	\$ 1,134	\$ (77)	\$ 1,781
Depreciation and amortization of real estate assets <sup>(1)</sup>	6,697	6,347	5,877	6,108	6,341
(Gain) loss on sale or disposal of assets <sup>(1)</sup>	160	196	(3,396)	16	(197)
Net income attributable to noncontrolling interests	470	733	621	(46)	1,068
<b>FFO</b>	<b>\$ 8,432</b>	<b>\$ 8,618</b>	<b>\$ 4,236</b>	<b>\$ 6,001</b>	<b>\$ 8,993</b>

(1) Including amounts for discontinued operations.

(3) We believe that NOI is a useful measure of our property operating performance. We define NOI as operating revenues (rental and other revenues) less property and related expenses (property operation and maintenance and real estate taxes). Other REITs may use different methodologies for calculating NOI, and accordingly, our NOI may not be comparable to other REITs. Because NOI excludes general and administrative expenses, depreciation and amortization, involuntary conversion, interest expense, interest income, provision for income taxes and gain or loss on sale or disposal of assets, it provides a performance measure that, when compared year over year, reflects the revenues and expenses directly associated with owning and operating commercial real estate properties and the impact to operations from trends in occupancy rates, rental rates and operating costs, providing perspective not immediately apparent from net income.

The following is a reconciliation of our historical NOI to net income, which we believe is the most comparable GAAP financial measure (in thousands):

	Year Ended December 31				
	2010	2009	2008	2007	2006
Net Income Attributable to Whitestone REIT	\$ 1,105	\$ 1,342	\$ 1,134	\$ (77)	\$ 1,781
General and administrative expense	4,992	6,072	6,708	6,721	2,299
Property and other asset management fees to an affiliate					1,482
Depreciation and amortization	7,225	6,958	6,859	6,048	6,181
Involuntary conversion	(558)	(1,542)	358		
Interest expense	5,620	5,749	5,857	5,402	5,296
Interest income	(28)	(36)	(182)	(577)	(386)
Provision for income taxes	264	222	219	217	
Loss on disposal of assets	160	196	223	9	(197)
Loss (gain) from discontinued operations			188	(589)	(554)
Change in value of derivative instrument				30	(30)
Gain on sale of properties from discontinued operations			(3,619)		
Net income attributable to noncontrolling interests	470	733	621	(46)	1,068
<b>NOI</b>	<b>\$ 19,250</b>	<b>\$ 19,694</b>	<b>\$ 18,366</b>	<b>\$ 17,138</b>	<b>\$ 16,940</b>

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**Table of Contents**

**Index to Financial Statements**

**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 included in this prospectus. For more detailed information regarding the basis of presentation for the following information, you should read the notes to our audited consolidated financial statements included in this prospectus.

**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, 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 seasoned professionals who understand the needs of our multicultural communities and tenants.

As of December 31, 2010, we owned and operated 38 commercial properties consisting of:

**Operating Portfolio**

eighteen retail centers containing approximately 1.2 million square feet of leasable space and having a total carrying amount (net of accumulated depreciation) of \$70.0 million;

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 \$41.6 million; and

seven office centers containing approximately 0.6 million square feet of leasable space and having a total carrying amount (net of accumulated depreciation) of \$44.9 million.

**Redevelopment, New Acquisitions Portfolio**

two retail properties containing approximately 0.1 million square feet of leasable space and having a total carrying amount (net of accumulated depreciation) of \$8.9 million.

As of December 31, 2010, we had 792 total tenants. We have a diversified tenant base with our largest tenant comprising 1.9% of our total revenues for the year ended December 31, 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 completed 298 new and renewal leases during 2010, totaling 0.7 million square feet and \$31.9 million in total lease value.

On August 24, 2010, we amended our declaration of trust that (i) changed the name of all of our common shares of beneficial interest, par value \$0.001 to Class A common shares, (ii) effected a 1-for-3 reverse share split of our Class A common shares and (iii) changed the par value of our Class A common shares to \$0.001 per share after the reverse share split. In addition, we created a new class of common shares of beneficial

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interest, par value \$0.001, entitled Class B common shares. Each Class B common share has the following rights:

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

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**Table of Contents**

**Index to Financial Statements**

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.

On August 31, 2010, we completed an offering of 2.2 million of our Class B common shares for approximately \$23.0 million in net offering proceeds to us and listed our Class B common shares on the NYSE Amex. As of December 31, 2010, we had 3,471,187 Class A common shares, 2,200,000 Class B common shares, and 1,814,569 OP units, not held by us, outstanding.

We employed 53 full-time employees as of December 31, 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 \$31.5 million for the year ended December 31, 2010 as compared to \$32.7 million for the year ended December 31, 2009, a decrease of \$1.2 million, or 4%. The twelve months ended December 31, 2009 included a \$0.4 million business interruption settlement that was not repeated during the year ended December 31, 2010. Additionally, tenant reimbursement revenues decreased approximately \$0.7 million during the twelve months ended December 31, 2010 as compared to the twelve months ended December 31, 2009. The decrease in tenant reimbursement revenues was primarily the result of a \$0.7 million decrease in total property expenses. Our Operating Portfolio Occupancy Rate as of December 31, 2010 was 86%, as compared to 82% as of December 31, 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 December 31, 2010, approximately 36% of our gross leasable square footage is subject to leases that expire prior to December 31, 2012. Over the last two years we have renewed approximately 75% of our square footage expiring as a result of lease maturities. 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, we hope to re-lease most of that space prior to expiration of the leases. In the markets in which we operate, we obtain and analyze market rental rates through review of third-party publications which provide market and submarket rental rate data and through inquiry of property owners and property management companies as to rental rates being quoted at properties which are located in close proximity to our properties and we believe display similar physical attributes as our nearby properties. We use this data to negotiate leases with new tenants and renew leases with our existing tenants at rates we believe to be competitive in the markets for our individual properties. Due to the short term nature of our leases, and based upon our analysis of market rental rates, we believe that, in the aggregate, our current leases are at market rates. The aggregate average rental rate per square foot on leases which expire prior to December 31, 2012 is slightly lower than the aggregate average rental rates per square foot of our total portfolio. As such, we expect to renew these expiring leases at rates which are at, or

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**Table of Contents**

**Index to Financial Statements**

near, their current rates. Market conditions, including new supply of properties, and macroeconomic conditions in Houston and nationally affecting tenant income, such as employment levels, business conditions, interest rates, tax rates, fuel and energy costs and other matters, could adversely impact our renewal rate and/or the rental rates we are able to negotiate. We continue to monitor our tenants' operating performances as well as overall economic trends to evaluate any future negative impact on our renewal rates and rental rates, which could adversely affect our cash flow and ability to pay dividends to our shareholders.

***Acquisitions***

We expect to actively seek acquisitions that meet our Community-Centered strategy in the foreseeable future. We believe that over the next few years we will continue to 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.

**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 November 2010, we acquired a property that meets our Community Centered Property strategy, containing 111,130 leasable square feet located in central Phoenix, Arizona for approximately \$6.4 million in cash and net proratons. The property, Sunnyslope Village, is strategically located across the street from John C. Lincoln Hospital, the major employer in the area, and within a quarter mile from Sunnyslope High School.

In September 2010, we acquired a property that meets our Community Centered Property strategy, containing 28,547 leasable square feet located in Scottsdale, Arizona for approximately \$2.2 million in cash and net proratons. The property, The Citadel, is strategically located at the intersection of Pinnacle Peak and Pima Roads.

In January 2009, we acquired a property that meets our Community Centered Property strategy, containing 41,455 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 proratons of \$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 our independent trustees negotiated the terms of the transaction, which included the use of an independent appraiser to value the property.

**Summary of Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements. We prepared these financial statements in conformity with GAAP. The preparation of these financial statements required us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We based our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances. Our results may differ from these estimates. Currently, we believe that our accounting policies do not require us to

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**Table of Contents**

**Index to Financial Statements**

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*.

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 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. Prior to that time, we expense these costs as acquisition expense. No interest was capitalized for the years ended December 31, 2010 and 2009. Approximately \$0.4 million in interest was capitalized for the year ended December 31, 2008.

*Acquired Properties and Acquired Lease Intangibles.* We allocate the purchase price of the acquired properties to land, building and improvements, identifiable intangible assets and to 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 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 at least 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. Management has determined that there has been no impairment in the carrying value of our real estate assets as of December 31, 2010.

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**Table of Contents**

**Index to Financial Statements**

*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 December 31, 2010 and 2009, we had an allowance for uncollectible accounts of \$1.3 million and \$0.9 million, respectively. As of December 31, 2010, 2009 and 2008, we recorded bad debt expense in the amount of \$0.5 million, \$0.9 million and \$0.7 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.

*Prepays and Other Assets.* Prepays and other assets include escrows established pursuant to certain mortgage financing arrangements for real estate taxes and insurance and acquisition deposits which include earnest money deposits on future acquisitions.

*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 currently 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.

*State Taxes.* In May 2006, the State of Texas adopted House Bill 3, which modified the state's franchise tax structure, replacing the previous tax based on capital or earned surplus with one based on margin (often referred to as the Texas Margin Tax) effective with franchise tax reports filed on or after January 1, 2008. The Texas Margin Tax is computed by applying the applicable tax rate (1% for us) to the profit margin, which, generally, will be determined for us as total revenue less a 30% standard deduction. Although House Bill 3 states that the Texas Margin Tax is not an income tax, Financial Accounting Standards Board, or FASB, Accounting Standards Codification, *Income Taxes*, or ASC 740, applies to the Texas Margin Tax. We have recorded a margin tax provision of \$0.3 million, \$0.2 million and \$0.2 million for the Texas Margin Tax for each of the years ended December 31, 2010, 2009 and 2008, respectively.

*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 is to comply with debt covenants on any credit facility we may enter into. We sometimes enter into interest rate swap agreements with respect to amounts borrowed under certain of our credit facilities, which effectively exchanges existing obligations to pay interest based on floating rates for obligations to pay interest based on fixed LIBOR rates.

We have adopted provisions of ASC 820, *Fair Value Measurements and Disclosures*, or ASC 820, which requires 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 or loss 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 December 31, 2010 and 2009, we did not have any interest rate swaps.



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**Table of Contents**

**Index to Financial Statements**

**Liquidity and Capital Resources**

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, equity issuances, sales of underperforming properties, sales of non-Community Centered Properties and other financing opportunities including equity issuance and debt financing. We expect that our rental income will increase as we continue to acquire additional properties, subsequently increasing our cash flows generated from operating activities. We intend to continue acquiring such additional properties through equity issuance, including proceeds from this offering and our recent initial public offering of Class B common shares, and through debt financing. Subsequent to the completion of this offering, we anticipate entering into a \$20 million unsecured revolving credit facility, which may be expandable to \$75 million under certain circumstances. We believe this line of credit will provide additional cash flow to meet our cash needs.

Our capital structure includes non-recourse secured debt that we assumed or 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 year ended December 31, 2010, our cash provided from operating activities was \$10.4 million and our total distributions were \$7.4 million. Therefore we had cash flow from operations in excess of distributions of approximately \$3.0 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 also 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 for federal income tax purposes. We have approximately \$100.9 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 recently experienced significant dislocations and liquidity disruptions, including the bankruptcy, insolvency or restructuring of certain financial institutions. These circumstances 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 recently experienced extreme price and volume fluctuations. Although economic conditions have improved, the effects of these broad market fluctuations could adversely impact our ability to utilize the capital markets.

**Cash and Cash Equivalents**

We had cash and cash equivalents of approximately \$17.6 million at December 31, 2010, as compared to \$6.3 million on December 31, 2009. The increase of \$11.3 million was primarily the result of the following:

***Sources of Cash***

Cash flow from operations of \$10.4 million for the year ended December 31, 2010;

Net proceeds of approximately \$23.0 million from issuance of Class B common shares;

Net proceeds of \$1.3 million from issuance of notes payable net of origination costs;

**Table of Contents****Index to Financial Statements*****Uses of Cash***

Payment of dividends and distributions to common shareholders and OP unit holders of \$7.4 million;

Payments of loans of \$3.0 million;

Acquisitions of and additions to real estate of \$12.8 million; and

Repurchases of Class A common shares of \$0.2 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	Year Ended December 31,	
	2010	2009
Fixed rate notes		
\$10.0 million 6.04% Note, due 2014	\$ 9,498	\$ 9,646
\$1.5 million 6.50% Note, due 2014	1,496	
\$11.2 million 6.52% Note, due 2015	10,908	11,043
\$21.4 million 6.53% Notes, due 2013	20,142	20,721
\$24.5 million 6.56% Note, due 2013	24,030	24,435
\$9.9 million 6.63% Notes, due 2014	9,498	9,757
\$0.5 million 5.05% Notes, due 2011 and 2010	13	52
Floating rate note		
\$26.9 million LIBOR + 2.60% Note, due 2013	25,356	26,128
	\$ 100,941	\$ 101,782

Our debt was collateralized by 23 operating properties as of December 31, 2010 with a combined net book value of \$110.1 million and 21 operating properties at December 31, 2009 with a combined net book value of \$108.7 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 the assignment of certain rents and leases associated with those properties.

On September 10, 2010, a subsidiary of the Operating Partnership executed a promissory note in the amount of \$1.5 million, or the new loan, payable to MidFirst Bank, a federally chartered savings association, or MidFirst, with an applicable interest rate of 6.5% per annum. Monthly payments of \$10,128 began on November 1, 2010 and are scheduled to continue thereafter on the first day of each calendar month until February 1, 2014. The promissory note is secured by a second lien deed of trust on our Windsor Park retail facility located in Windcrest, Texas, a first lien deed of trust on our Brookhill office/flex building located in Houston, Texas and a first lien deed of trust on our Zeta office building located in Houston, Texas. The funds from the promissory note are being used for capital improvements to Windsor Park.

The loan documents executed in connection with the promissory note included a limited guaranty by us of the promissory note until the Windsor Park construction is completed. Following this event, we will remain liable for the deficiency, if any, following a foreclosure of property

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securing the promissory note; provided that upon the occurrence of certain Full Recourse Events defined in the loan documents, our obligations shall convert to a full guarantee of the new loan.

In connection with the promissory note, the loan documents also provided for a modification of our existing loan with MidFirst, or the existing loan, in the amount of \$10 million. The loan documents provide that the

**Table of Contents****Index to Financial Statements**

promissory note executed in connection with the existing loan is modified to be secured, in part, by second liens on the Brookhill and Zeta Buildings, as well as certain other modifications for the purpose of cross collateralizing and cross-defaulting the two loans. The existing loan is also modified by the modification of promissory note which provided that payments of \$61,773 began on October 1, 2010 and are scheduled to continue thereafter on the first day of each calendar month until February 1, 2014. Finally, the loan documents include a modification of limited guaranty which provided that the limited guaranty executed in connection with the existing loan is only for the deficiency, if any, following the foreclosure of property securing the existing loan; provided that upon the occurrence of certain Full Recourse Events defined in the modification of limited guaranty, our obligations shall convert to a full guarantee of the existing loan.

Our loans are subject to customary terms and conditions. As of December 31, 2010, we were in compliance with all loan covenants.

Annual maturities of notes payable as of December 31, 2010 are due during the following years:

Year	Amount Due (in thousands)
2011	\$ 2,459
2012	2,579
2013	66,424
2014	19,209
2015	10,270
2016 and thereafter	
<b>Total</b>	<b>\$ 100,941</b>

***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.

***Contractual Obligations***

As of December 31, 2010, we had the following contractual debt obligations (see Note 8 of the Consolidated Financial Statements for further discussion regarding the specific terms of our debt):

Contractual Obligations	Total	Payment due by period (in thousands)			
		Less than 1 year (2011)	1 - 3 years (2012 - 2013)	3 - 5 years (2014 - 2015)	More than 5 years (after 2015)
Long-Term Debt Principal	\$ 100,941	\$ 2,459	\$ 69,003	\$ 29,479	\$
Long-Term Debt Fixed Interest	15,253	4,854	8,923	1,476	
Long-Term Debt Variable Interest <sup>(1)</sup>	2,017	714	1,303		
Operating Lease Obligations	93	47	41	5	
<b>Total</b>	<b>\$ 118,304</b>	<b>\$ 8,074</b>	<b>\$ 79,270</b>	<b>\$ 30,960</b>	<b>\$</b>

(1)

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As of December 31, 2010, we had one loan totaling \$25.4 million which bore interest at a floating rate. The variable interest rate payments are based on LIBOR plus 2.6%. The information in the table above reflects our projected interest rate obligations for the floating rate payments based on one-month LIBOR as of December 31, 2010, which was 0.26%.

**Table of Contents****Index to Financial Statements****Distributions**

During, 2010, we paid dividends to our common shareholders and distributions to our OP unit holders of \$7.4 million, compared to \$6.9 million in 2009. Payments of dividends and distributions are declared quarterly and paid monthly. The dividends paid to common shareholders and distributions paid to OP unit holders in the first quarter of 2011, 2010 and 2009 follow (in thousands):

	Common Shareholders <sup>(1)</sup>	OP Unit Holders	Total
<b>2009</b>			
Fourth Quarter	\$ 1,163	\$ 610	\$ 1,773
Third Quarter	1,163	610	1,773
Second Quarter	1,163	530	1,693
First Quarter	1,156	531	1,687
<b>Total</b>	<b>\$ 4,645</b>	<b>\$ 2,281</b>	<b>\$ 6,926</b>
<b>2010</b>			
Fourth Quarter	\$ 1,616	\$ 514	\$ 2,130
Third Quarter	1,203	515	1,718
Second Quarter	1,176	610	1,786
First Quarter	1,163	610	1,773
<b>Total</b>	<b>\$ 5,158</b>	<b>\$ 2,249</b>	<b>\$ 7,407</b>
<b>2011</b>			
First Quarter	\$ 1,616	\$ 515	\$ 2,131

<sup>(1)</sup> Distributions paid with respect to Class A common shareholders, and since September 2010, with respect to Class A and Class B common shareholders.

**Results of Operations****Year Ended December 31, 2010 Compared to Year Ended December 31, 2009**

The following table provides a general comparison of our results of operations for the years ended December 31, 2010 and December 31, 2009 (dollars in thousands, except per share and OP unit data):

	Year Ended December 31, 2010	Year Ended December 31, 2009
Number of properties owned and operated	38	36
Aggregate gross leasable area (sq. ft.) <sup>(1)</sup>	3,162,020	3,039,044
Ending occupancy rate operating portfolio <sup>(2)</sup>	86%	82%
Ending occupancy rate all properties	84%	82%
Total property revenues	\$ 31,533	\$ 32,685
Total property expenses	12,283	12,991
Total other expenses	17,251	17,201
Provision for income taxes	264	222
Loss on disposal of assets	160	196
Net income	1,575	2,075
Less: Net income attributable to noncontrolling interests	470	733

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Net income attributable to Whitestone REIT	\$	1,105	\$	1,342
Funds from operations <sup>(3)</sup>	\$	8,432	\$	8,618
Dividends and distributions paid on common shares and OP units		7,407		6,926
Per Class A common share and OP unit		1.25		1.35
Per Class B common share <sup>(4)</sup>		0.38		
Dividends paid as a % of funds from operations		88%		80%

**Table of Contents****Index to Financial Statements**

- (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, therefore such area is no longer included in the gross leasable area.
- (2) Excludes (i) new acquisitions, through the earlier of attainment of 90% occupancy or 18 months of ownership, and (ii) properties which are undergoing significant redevelopment or re-tenanting.
- (3) For a reconciliation of funds from operations to net income, see *Funds From Operations* below.
- (4) Dividend rate is the same as Class A common shares, but represents a partial year for Class B common shares, which were issued on August 31, 2010 and began receiving dividends in September 2010.

*Property revenues.* We had rental income and tenant reimbursements of approximately \$31.5 million for the year ended December 31, 2010 as compared to \$32.7 million for the year ended December 31, 2009, a decrease of \$1.2 million, or 4%. The twelve months ended December 31, 2009 included a \$0.4 million business interruption settlement that was not repeated during the twelve months ended December 31, 2010. Additionally, tenant reimbursement revenues decreased approximately \$0.7 million during the twelve months ended December 31, 2010 as compared to the twelve months ended December 31, 2009. The decrease in tenant reimbursement revenues was primarily the result of a \$0.7 million decrease in total property expenses.

*Property expenses.* Our property expenses were \$12.3 million for the year ended December 31, 2010, as compared to \$13.0 million for the year ended December 31, 2009, a decrease of \$0.7 million, or 5%. The primary components of total property expenses are detailed in the table below (in thousands):

	Year Ended December 31,		Increase / (Decrease)	% Increase / (Decrease)
	2010	2009		
Real estate taxes	\$ 3,925	\$ 4,472	\$ (547)	(12)%
Utilities	2,277	2,387	(110)	(5)%
Contract services	2,140	2,108	32	2%
Repairs and maintenance	1,403	1,408	(5)	0%
Bad debt	536	877	(341)	(39)%
Labor and other	2,002	1,739	263	15%
<b>Total property expenses</b>	<b>\$ 12,283</b>	<b>\$ 12,991</b>	<b>\$ (708)</b>	<b>(5)%</b>

*Real estate taxes.* Real estate taxes decreased \$0.5 million, or 12%, during the twelve months ended December 31, 2010 as compared to the same period in 2009, primarily as a result of lower valuations by the various county appraisal districts. In 2010, primarily as a result of our formal protests of assessed values, the various appraisal districts agreed to lower valuations and resulting taxes by significant amounts. We work actively 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 \$0.1 million, or 5%, during the twelve months ended December 31, 2010 as compared to the same period in 2009. The decrease in utility expenses was 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.

*Bad debt.* Bad debt for the twelve months ended December 31, 2010 decreased \$0.3 million, or 39%, as compared to the same period 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 \$0.3 million, or 15%, in labor and other during 2010 were 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.



**Table of Contents****Index to Financial Statements**

*Other expenses.* Our other expenses were \$17.3 million for the year ended December 31, 2010, as compared to \$17.2 million for the year ended December 31, 2009, an increase of \$0.1 million. The primary components of other expenses, net are detailed in the table below (in thousands):

	Year Ended December 31,		Increase / (Decrease)	% Increase / (Decrease)
	2010	2009		
General and administrative	\$ 4,992	\$ 6,072	\$ (1,080)	(18)%
Depreciation and amortization	7,225	6,958	267	4%
Involuntary conversion	(558)	(1,542)	984	(64)%
Interest expense	5,620	5,749	(129)	(2)%
Interest income	(28)	(36)	8	(22)%
Total other expenses	\$ 17,251	\$ 17,201	\$ 50	0%

*General and administrative.* General and administrative expenses decreased approximately \$1.1 million or 18% for the twelve months ended December 31, 2010 as compared to the same period in 2009. Share-based compensation expense decreased approximately \$0.7 million during 2010. The majority of share-based compensation recognized during 2009 represented the achievement of the first performance-based target on certain share-based compensation grants. With our current asset base, management does not expect to achieve the second performance-based target, and share-based compensation was significantly lower during 2010 than 2009 because fewer unvested shares are expected to vest. 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 \$0.2 million less during the twelve months ended December 31, 2010 than during the same period in 2009, primarily as a result of company wide salary reductions taken in October 2009. Additionally, our allocation of internal labor to properties increased \$0.4 million 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 a realignment of duties and system and process improvements. Professional fees increased \$0.2 million during the twelve months ended December 31, 2010 as compared to the same period in 2009.

*Depreciation and amortization.* Depreciation and amortization increased \$0.3 million, or 4%, for the year ended December 31, 2010 as compared to the year ended December 31, 2009. The increase in depreciation expense was primarily comprised of tenant improvements at our Uptown Tower property located in Dallas, Texas and our Westbelt Plaza and Plaza Park locations located in Houston, Texas. The Uptown Tower spending was for office tenants, while the Westbelt Plaza and Plaza Park improvements were for leases that ended during 2010 with the U.S. Census Bureau. We expect depreciation and amortization to increase as we acquire properties.

*Involuntary conversion.* Involuntary conversion was a gain of \$0.6 million for the year ended December 31, 2010, as compared to a gain of \$1.5 million during the same period in 2009. The involuntary conversion gain of \$0.6 million recognized during the year ended December 31, 2010 represents the completion of the repairs to the 31 properties impacted by Hurricane Ike at costs that were lower than we estimated as of December 31, 2009. The estimated costs were sensitive to the scope requirements of our lenders and labor and material costs of our vendors, and the final costs incurred were more favorable than we anticipated. 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 \$7.0 million in its entirety, with \$6.5 million allocated to casualty claims and approximately \$0.5 million allocated to loss of rents claims. For the year ended December 31, 2009, the \$6.5 million in insurance proceeds allocated to casualty losses were offset by accrued repair costs of \$5.1 million resulting in a gain of \$1.4 million. The remaining \$0.1 million 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. Hurricane Ike-related repair costs of approximately \$0.4 million included in involuntary conversion loss during the year ended December 31, 2008.

**Table of Contents****Index to Financial Statements**

*Interest expense.* Interest expense for the year ended December 31, 2010 was \$5.6 million, a decrease of \$0.1 million over the same period in 2009. A decrease in our average outstanding notes payable balance of \$3.2 million accounted for the decrease in interest expense for the twelve months ended December 31, 2010 as compared to the same period in 2009.

**Results of Operations****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):

	<b>Year Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
Number of properties owned and operated	36	35
Aggregate gross leasable area (sq. ft.)	3,039,044	2,990,892
Ending occupancy rate operating portfolio <sup>(1)</sup>	82%	84%
Ending occupancy rate all properties	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 from 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 <sup>(2)</sup>	\$ 8,618	\$ 4,236
Dividends and distributions paid on 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%

<sup>(1)</sup> Excludes (i) new acquisitions, through the earlier of attainment of 90% occupancy or 18 months of ownership, and (ii) properties which are undergoing significant redevelopment or re-tenanting.

<sup>(2)</sup> 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 was primarily attributable to the addition of our Spoorlein Commons property during January 2009.

**Table of Contents****Index to Financial Statements**

*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 1%. The primary components of total property expenses are detailed in the table below (in thousands):

	Year Ended December 31,		Increase / (Decrease)	% Increase / (Decrease)
	2009	2008		
Real estate taxes	\$ 4,472	\$ 3,973	\$ 499	13%
Utilities	2,387	2,679	(292)	(11)%
Contract services	2,108	2,138	(30)	(1)%
Repairs and maintenance	1,408	1,633	(225)	(14)%
Bad debt	877	731	146	20%
Labor and other	1,739	1,681	58	3%
<b>Total property expenses</b>	<b>\$ 12,991</b>	<b>\$ 12,835</b>	<b>\$ 156</b>	<b>1%</b>

*Real estate taxes.* Increases during 2009 in real estate taxes of \$0.5 million, or 13%, were the result of increased assessed values on our properties and the addition of the Spoerlein Commons property during January 2009.

*Utilities.* Utilities decreased \$0.3 million, 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.

*Repairs and Maintenance.* Repairs and maintenance decreases of \$0.2 million, or 14%, during 2009 were prima