Whitestone REIT
Form S-4
April 27, 2012

As filed with the Securities and Exchange Commission on April 27, 2012
Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM S-4

REGISTRATION STATEMENT UNDER THE
SECURITIES ACT OF 1933

Whitestone REIT
Whitestone REIT Operating Partnership, L.P.
(Exact name of registrants as specified in their charter)

Whitestone REIT			Whitestone REIT Operating Partnership, L.P.		
Maryland	6,798	76-0594970	Delaware	6,798	76-0594968
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(IRS Employer Identification Number)	(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(IRS Employer Identification Number)

2600 South Gessner, Suite 500
Houston, Texas 77063
(713) 827-9595
(Address, including zip code, and telephone number, including area code,
of registrant's principal executive offices)

James C. Mastandrea
President and Chief Executive Officer
Whitestone REIT
2600 South Gessner, Suite 500
Houston, Texas 77063
(713) 827-9595

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

With copies to:
John A. Good, Esq.
Amanda R. Poe, Esq.
Bass, Berry & Sims PLC

100 Peabody Place, Suite 900
Memphis, TN 38103-2625
(901) 543-5900

Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after this registration statement becomes effective and all other conditions of the proposed transaction described herein have been satisfied or waived.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. o

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

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

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

Whitestone REIT:

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

Whitestone REIT Operating Partnership, L.P.:

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

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:
Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer)
Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer)

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered [1]	Proposed Maximum Offering Price Per Share [2]	Proposed maximum aggregate offering price [3]	Amount of registration fee
Class B common shares of beneficial	1,321,431	$13.48	$ 17,812,890	$ 2,042

interest,
par value
$0.001 per
share

(1) This registration statement registers the maximum number of Class B common shares of Whitestone REIT that may be delivered in connection with the exchange offer.
(2) The registration fee has been computed pursuant to Rule 457(f)(1) under the Securities Act of 1933, as amended, solely for the purpose of calculating the registration fee based on the average of the high and low prices of the Registrant's Class B common shares on the NYSE Amex on April 25, 2012.

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

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

SUBJECT TO COMPLETION - DATED APRIL 27, 2012
Offer To Exchange up to
1,321,431 Class B common shares of
Whitestone REIT

for
Up to 867,789 Class A common shares of Whitestone REIT
and
Up to 453,642 Units of Limited Partnership of Whitestone REIT Operating Partnership, L.P.
Subject to the terms and conditions described in this prospectus

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Whitestone REIT, a Maryland real estate investment trust, or the Company, and Whitestone REIT Operating Partnership, L.P., a Delaware limited partnership, or the Operating Partnership, hereby offer, upon the terms and subject to the conditions described in this prospectus and the accompanying letters of transmittal, to exchange the Company's Class B common shares of beneficial interest, $0.001 par value per share, or Class B common shares, on a one-for-one basis for (i) up to 867,789 outstanding Class A common shares of beneficial interest, $0.001 par value per share, of the Company, or Class A common shares; and (ii) up to 453,642 outstanding units of limited partnership in the Operating Partnership, or the OP units. As of April 13, 2012, there were 1,737,347 Class A common shares and 907,347 OP units, not held by the Company, outstanding. Holders who validly tender and do not validly withdraw their Class A common shares and OP units prior to 5:00 p.m., New York City time, on , 2012 will receive, for each Class A common share or OP unit, one Class B common share.

- The exchange offer expires at 5:00 p.m., New York City time, on , 2012, or the expiration date, unless the exchange offer is extended or earlier terminated by us.

- You may withdraw tenders of outstanding Class A common shares or OP units at any time before the exchange offer expires.

- We will not receive any proceeds from the exchange offer.

- 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 April 25, 2012 was $13.48 per share.

- Consummation of the exchange offer is subject to the conditions described in “The Exchange Offer - Conditions of the Exchange Offer.” The exchange offer is not conditioned on any minimum number of Class A common shares or OP units being tendered.

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.”

See “Risk Factors” beginning on page 6 for a discussion of factors you should consider in evaluating this exchange offer.

None of the Company, the Operating Partnership, the exchange agent or any other person is making any recommendation as to whether you should choose to tender your Class A common shares or OP units in the exchange offer. See “Special Factors - Purpose of and Reasons for Exchange Offer.” 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.

We are not making this exchange offer in any state or other jurisdiction where it is not permitted.

The date of this prospectus is , 2012.

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This prospectus includes combined disclosure for the Company and the Operating Partnership, of which the Company is the sole general partner. Unless otherwise indicated or unless the context requires otherwise, all references in this prospectus to “we,” “us,” “our” or “our Company” refer to the Company together with its consolidated subsidiaries, including the Operating Partnership. Unless otherwise indicated or unless the context requires otherwise, all references in this prospectus to “our Operating Partnership” or “the Operating Partnership” refer to the Operating Partnership together with its consolidated subsidiaries.

You should rely only on the information contained or incorporated by reference in this prospectus. Neither the Company nor the Operating Partnership has authorized any other person to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. Neither the Company nor the Operating Partnership is making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information in this prospectus is accurate as of the date appearing on the front cover of this prospectus only. Our business, financial condition, results of operations and prospects may have changed since that date.

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WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the Securities and Exchange Commission, or the SEC, a registration statement on Form S-4 under the Securities Act of 1933, as amended, or the Securities Act, to register the Class B common shares offered by this prospectus. This prospectus does not contain all of the information included in the registration statement and the exhibits to the registration statement. We strongly encourage you to read carefully the registration statement and the exhibits to the registration statement.

Any statement made in this prospectus concerning the contents of any contract, agreement or other document is only a summary of the actual contract, agreement or other document. If we have filed any contract, agreement or other document as an exhibit to the registration statement, you should read the exhibit for a more complete understanding of the document or matter involved. Each statement regarding a contract, agreement or other document is qualified in its entirety by reference to the actual document.

Each of the Company and the Operating Partnership files annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document the Company or the Operating Partnership files with the SEC at its Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. You may also obtain these materials from us at no cost by directing a written or oral request to us at Whitestone REIT, 2600 South Gessner, Suite 500, Houston, Texas 77063, Attn: Corporate Secretary, or by calling our Investor Relations Department at (713) 827-9595, or at our website at www.whitestonereit.com. Information on our website is not incorporated by reference into this prospectus. In addition, the SEC maintains a web site, http://www.sec.gov, which contains reports, proxy and information statements and other information regarding registrants, including the Company and the Operating Partnership, that file electronically with the SEC.

The Operating Partnership's Annual Report on Form 10-K for the year ended December 31, 2011was previously filed with the SEC. The Operating Partnership's Annual Report on Form 10-K for the year ended December 31, 2011 is annexed to, and included in, this prospectus as Annex A. This document contains important information about the Operating Partnership and the Operating Partnership's financial condition.

DOCUMENTS INCORPORATED BY REFERENCE

This prospectus incorporates important business and financial information about the Company from documents filed with the SEC that are not included in or delivered with this prospectus. The SEC permits the Company to “incorporate by reference” important information by referring you to another document filed separately with the SEC. This means that the information incorporated by reference is deemed to be part of this prospectus, unless superseded by information included in this prospectus or by information in subsequently filed documents that the Company incorporates by reference in this prospectus.

Specifically, we incorporate herein by reference the Company's documents set forth below:

- Annual Report on Form 10-K for the year ended December 31, 2011, filed on February 29, 2012;
- Current Reports on Form 8-K, filed on February 28, 2012 and March 7, 2012 (Form 8-K/A amending Current Report on Form 8-K filed on December 23, 2011); and
- Definitive proxy statement on Schedule 14A filed on April 10, 2012 (solely to the extent specifically incorporated by reference into the Company's Annual Report on Form 10-K for the year ended December 31, 2011).

In addition, we also incorporate by reference into this prospectus all documents that the Company files with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, from the date of this prospectus to the date that the exchange offer is completed (or the date that the exchange offer is terminated). These documents include Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as proxy statements.

Notwithstanding the foregoing, unless specifically stated to the contrary, none of the information that we disclose under Items 2.02, 7.01 or 9.01 of any Current Report on Form 8-K that we may from time to time furnish to the SEC will be incorporated by reference into, or otherwise included in, this prospectus. You may request any of the documents incorporated by reference herein (excluding exhibits) as described above under “Where You Can Find Additional Information.”

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SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information included elsewhere in this prospectus. Because this is a summary, it may not contain all the information you should consider before deciding whether to participate in the exchange offer. You should read this entire prospectus carefully, including the section entitled “Risk Factors,” before making an investment decision.

The Company and the Operating Partnership

Our Business

We are a fully integrated real estate company that owns and operates commercial properties in culturally diverse markets in major metropolitan areas. Founded in 1998, we are internally managed with a portfolio of commercial properties in Texas, Arizona and Illinois. In October 2006, our current management team joined the Company and adopted a strategic plan to acquire, redevelop, own and operate “Community Centered Properties.” We define Community Centered Properties as visibly located properties in established or developing culturally diverse neighborhoods in our target markets. We market, lease, and manage our centers to match tenants with the shared needs of the surrounding neighborhood. Those needs may include specialty retail, grocery, restaurants and medical, educational and financial services. Our current portfolio is concentrated in Houston, with additional properties in the Phoenix, Chicago, Dallas and San Antonio metropolitan areas.

The Company operates as a real estate investment trust, or REIT, and the general partner of the Operating Partnership. As of December 31, 2011, the Company owned an approximate 89% partnership interest in the Operating Partnership and other limited partners, including some of our directors, executive officers and their affiliates, owned the remaining 11% partnership interest. As the sole general partner of the Operating Partnership, the Company has the full, exclusive and complete responsibility for the Operating Partnership's day-to-day management and control. Our properties are held by, and all of our operations are conducted by, the Operating Partnership. Accordingly, the descriptions of our business, properties and investment policies are also descriptions of the business, properties and investment policies of the Operating Partnership.

In August 2010, the Company completed an initial public offering of our Class B common shares, which are listed on the NYSE Amex under the symbol “WSR.” In connection with the offering, we (i) changed the name of all of our then outstanding “common shares” to “Class A common shares” and (ii) effected a 1-for-3 reverse split of our Class A common shares and OP units. Class A common shares and Class B common shares have equal voting, dividend and liquidation rights. We do not intend to list our Class A common shares or our OP units on a national securities exchange. In this prospectus, we refer to Class A and Class B common shares collectively as our “common shares.”

The Company is a Maryland REIT that was formed in December 1998, and the Operating Partnership is a Delaware limited partnership that was formed in December 1998. Our executive offices are currently located at 2600 South Gessner, Suite 500, Houston, Texas 77063, and our telephone number is (713) 827-9595. Our website can be accessed at www.whitestonereit.com. The content of our website is not incorporated into, and does not form a part of, this prospectus.

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The Exchange Offer

We have summarized the terms of this exchange offer in this section. Before you decide whether to tender your Class A common shares or OP units in this exchange offer, you should read the detailed description of the exchange offer in the section entitled “The Exchange Offer.”

The Exchange Offer	We are offering, upon the terms and subject to the conditions described in this prospectus and the accompanying letters of transmittal, to issue Class B common shares in exchange, on a one-for-one basis, for (i) up to 867,789 Class A common shares of the Company and (ii) up to 453,642 OP units of the Operating Partnership. Holders who validly tender and do not validly withdraw their Class A common shares or OP units prior to 5:00 p.m., New York City time, on the expiration date (as defined below) will receive one Class B common share for each Class A common share or OP unit. You may tender all, some or none of your Class A common shares or OP units for Class B common shares. As of April 13, 2012, there were 1,737,347 Class A common shares and 907,347 OP units, not held by the Company, outstanding. See “The Exchange Offer-Terms of the Exchange Offer.”
Conditions of the Exchange Offer	This exchange offer is not conditioned on any minimum number of Class A common shares or OP units being tendered. Consummation of the exchange offer is subject to certain conditions, including that the registration statement, of which this prospectus is a part, shall have been declared effective by the SEC and other customary conditions. We may waive any or all of the conditions to the exchange offer in our sole and absolute discretion, except for the registration statement effectiveness condition. See “The Exchange Offer-Conditions of the Exchange Offer.”
Purpose of the Exchange Offer	The purpose of the exchange offer is to exchange Class A common shares and OP units, neither of which are listed on a national securities exchange, on a one-for-one basis for Class B common shares, which are listed on the NYSE Amex, thereby providing liquidity to holders of Class A common shares and OP units. See "The Exchange Offer - Purpose of the Exchange Offer" and "Special Factors - Purpose of and Reasons for Exchange Offer."
Expiration Date	The exchange offer expires at 5:00 p.m., New York City time, on , 2012, or the expiration date, unless extended or earlier terminated by us. We may extend the expiration date for any reason in our sole and absolute discretion. If we decide to extend the expiration date, we will announce any extensions by press release or other public announcement no later than 9:30 a.m., New York City time, on the business day after the scheduled expiration of the exchange offer. See “The Exchange Offer-Expiration Date; Extensions; Amendments.”
Termination of the Exchange Offer	We reserve the right to terminate the exchange offer at any time prior to the completion of the exchange offer if any of the conditions under “The Exchange Offer-Conditions of the Exchange Offer” have not been satisfied, in our sole and absolute discretion. See “The Exchange Offer-Termination of the Exchange Offer.”

Procedures for Tendering Class A common shares and OP units	Holders of Class A common shares and/or OP units desiring to accept the exchange offer must tender their Class A common shares and/or OP units by signing and returning the appropriate letter of transmittal, including all other documents required by the letter of transmittal. See “The Exchange Offer-Procedures for Tendering.”

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Acceptance of Class A common shares and OP units and Delivery of Class B common shares	If the registration statement of which this prospectus is a part is declared effective by the SEC and the exchange offer is completed, we will, subject to the terms and conditions described in this prospectus, accept up to 867,789 Class A common shares and up to 453,642 OP units that are validly tendered and not validly withdrawn prior to the expiration date. If more than 867,789 Class A common shares are tendered, then we will accept such tendered Class A common shares on a pro rata basis in proportion to the number of Class A common shares tendered. If more than 453,642 OP units are tendered, then we will accept such tendered OP units on a pro rata basis in proportion to the number of OP units tendered. We refer to this as "proration." Holders of Class A common shares and/or OP units who own "odd-lots" (less than 100 Class A common shares and/or less than 100 OP units) and who validly tender all of their Class A common shares and/or all of their OP units will not be subject to proration if they so request. For instance, if you own less than 100 Class A common shares and/or less than 100 OP units and tender all of your Class A common shares and/or OP units, your odd-lot will not be subject to proration if you so request. If, however, the exchange offer is oversubscribed with respect to either Class A common shares or OP units and you hold less than 100 Class A common shares or OP units, but do not tender all of your shares or OP units, you will be subject to proration to the same extent as holders of more than 100 shares or OP units (and holders of odd-lots that do not request preferential treatment). If you own more than 100 Class A common shares or OP units, but own less than 100 OP units or Class A common shares, respectively, you may request to not be subject to proration with respect to either Class A common shares or OP units, whichever you own less than 100 shares or units. Similarly, if you own less than 100 Class A common shares and less than 100 OP units, you may request to not be subject to proration with respect to both your Class A common shares and OP units. The Class B common shares issued as part of the exchange offer will be delivered promptly after we accept the Class A common shares or OP units. See "The Exchange Offer-Acceptance of Class A Common Shares and OP Units for Exchange; Delivery of Class B Common Shares."
Withdrawal Rights	Holders may withdraw the Class A common shares or OP units they have tendered at any time prior to 5:00 p.m., New York City time, on , 2012. See "The Exchange Offer-Withdrawal Rights."
Recommendation of the Board	Our board of trustees, acting as the board of trustees of the Company or as the general partner of the Operating Partnership, has not made a recommendation as to whether the holders of Class A common shares or OP units should exchange their shares or units for Class B common shares pursuant to the exchange offer. See "Special Factors - Fairness of the Exchange Offer."
Approval of the Exchange Offer	Our board of trustees has fully considered and reviewed the terms, purposes, and effects of the exchange offer and has unanimously determined that the exchange offer is procedurally and substantively fair to the holders of Class A common shares and OP units. See "Special Factors."
Use of Proceeds	Neither the Company nor the Operating Partnership will receive any proceeds from the exchange offer.

Federal Income Tax Consequences	The exchange of OP units for Class B common shares will be a taxable transaction for U.S. federal income tax purposes. The exchange of Class A common shares for Class B common shares pursuant to the exchange offer generally will constitute a tax-deferred transaction for U.S. federal income tax purposes. In addition, Class B common shares are subject to special and complex U.S. federal income tax rules. Holders are urged to consult their own tax advisors with respect to the application of the U.S. federal income tax laws to their own particular situation as well as any tax consequences of the exchange of OP units or Class A common shares pursuant to the exchange offer and the ownership and disposition of Class B common shares arising under the federal estate or gift tax rules or under the laws of any state, local, foreign or other taxing jurisdiction or under any applicable treaty. See “Material U.S. Federal Income Tax Considerations.”

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Accounting Treatment	The Class A common shares acquired by the Company in the exchange offer will be retired and cancelled. The value of the Class A shares received by the Company will be deemed equal to the value of the Class B common shares issued by the Company; therefore no gain or loss will be recognized in the Company's consolidated net income or comprehensive income. The OP units acquired by the Company will be recorded as an acquisition of ownership interest in the Operating Partnership by the Company, resulting in an increase in the general partner capital balance and a decrease in the limited partner capital balance. The Company has a controlling interest in the Operating Partnership both before and after the completion of the exchange; therefore the exchange will be accounted for as an equity transaction, with no gain or loss recognized in the Company's consolidated net income or comprehensive income. The carrying amount of the noncontrolling interest will be adjusted to reflect the change in the ownership interest in the subsidiary. Any difference between the fair value of the Class B common shares paid and the amount by which the noncontrolling interest is adjusted will be recognized in equity attributable to the Company.
Exchange Agent	American Stock Transfer and Trust Company, LLC is the exchange agent for the exchange offer.
Fees and Expenses	The Company will pay all fees and expenses it incurs in connection with the exchange offer. See “The Exchange Offer-Fees and Expenses.”
Regulatory Approvals	We are not aware of any material regulatory approvals necessary to complete this offer. However we may not complete this exchange offer until the registration statement, of which this prospectus is a part, is declared effective by the SEC.
Rights of Non-Tendering Holders	If you do not exchange your Class A common shares or OP units for Class B common shares, you will continue to be subject to restrictions on transfer applicable to the Class A common shares or OP units. In general, the Class A common shares or OP units may not be offered or sold, unless registered under the Securities Act, as amended, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. We do not currently plan to register the resale of the Class A common shares or OP units under the Securities Act. Holders who do not tender their Class A common shares or OP units pursuant to this offer will continue to have the same rights as they are entitled to today under the Articles of Amendment and Restatement, or the declaration of trust of the Company, or the partnership agreement of the Operating Partnership, as applicable.
Questions	If you have any questions regarding the terms of the exchange offer, please contact our Investor Relations Department at (713) 827-9595. If you have questions regarding the procedures for tendering Class A common shares or OP units in the exchange offer, please contact the exchange agent at 1-877-248-6417.
Risk Factors	For certain risks you should consider in evaluating this exchange offer, including the share ownership limit imposed by the Company's declaration of trust or declaration of trust, each as amended, see “Risk Factors” beginning on page 6.

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RISK FACTORS

In addition to other information contained in this prospectus, you should carefully consider the risks described below and described in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 incorporated herein by reference, the Operating Partnership's Annual Report on Form 10-K for the year ended December 31, 2011 included as Annex A to this prospectus, and other subsequent filings of the Company and the Operating Partnership under the Exchange Act, in evaluating our company, our properties and our business before making a decision to exchange your Class A common shares or OP units for Class B common shares in the exchange offer. The occurrence of any such 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 Related to the Exchange Offer

If the procedures for tendering your Class A common shares or OP units in this exchange offer are not followed, you may not receive Class B common shares.

We will issue the Class B common shares in exchange for your Class A common shares or OP units only if you tender the Class A common shares or OP units and deliver a properly completed and duly executed letter of transmittal and other required documents before expiration, or earlier termination, of the exchange offer. You should allow sufficient time to ensure timely delivery of the necessary documents. Neither the exchange agent nor we are under any duty to give notification of defects or irregularities with respect to the tenders of Class A common shares or OP units for exchange.

The exchange offer may be cancelled or delayed.

We are not obligated to complete the exchange offer under certain circumstances. See “The Exchange Offer - Conditions of the Exchange Offer.” If you validly tender Class A common shares or OP units by properly executing the appropriate letter of transmittal and any other necessary documents prior to the expiration date, you may validly withdraw your tendered Class A common shares or OP units. If any of the conditions of the exchange offer are not met as of the expiration date, in our sole and absolute discretion, we have the right to terminate the exchange offer. Even if the exchange offer is completed, it may not be completed exactly on the schedule described in this prospectus. Accordingly, holders participating in the exchange offer may have to wait longer than expected to receive their Class B common shares.

An exchange of OP units for Class B common shares generally will constitute a taxable exchange.

In general, an exchange of OP units for Class B common shares pursuant to the exchange offer will constitute a fully taxable exchange. We urge you to consult your own tax advisor regarding the federal, state, local and foreign tax consequences of an exchange of OP units for Class B common shares pursuant to the exchange offer.

Following this exchange offer, large numbers of holders of our Class A common shares and OP units receiving Class B common shares may create an increased 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.

Neither our Class A common shares nor our OP units are listed on any national securities exchange and the ability of holders to liquidate their investments in Class A common shares and OP units is limited. On September 2, 2011, we commenced an offer to exchange Class B common shares on a one-for-one basis for (i) up to 867,789 outstanding

Class A common shares; and (ii) up to 453,642 outstanding OP units, which expired on October 3, 2011. As a result, 867,789 Class A common shares and 453,642 OP units were accepted for exchange. On December 9, 2011, we commenced our second exchange offer pursuant to which we offered to exchange Class B common shares on a one-for-one basis for (i) up to 867,789 outstanding Class A common shares; and (ii) up to 453,642 outstanding OP units. The second exchange offer expired on January 11, 2012. As a result of the second exchange offer, 867,789 Class A common shares and 453,580 OP units were accepted for exchange. Following the completion of this exchange offer, we intend to submit to our shareholders for approval at our 2012 annual meeting of shareholders an amendment to our declaration of trust to reclassify the Class A common shares remaining outstanding to Class B common shares. If approved by our shareholders, our board of trustees, or our Board, intends to rename our Class B common shares as “common shares.” Following each exchange offer and the amendment to our declaration of trust, if approved by our shareholders, if our former Class A shareholders and OP unit holders sell, or the market perceives that such holders intend to sell, substantial numbers of our Class B common shares in the public market, the market

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price of our Class B common shares could decline significantly. As of April 13, 2012, we had 1,737,347 Class A common shares and 907,347 OP units, not held by the Company, 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 the Company's declaration of trust), such shares are freely tradable. As a result, notwithstanding that such shares are not to 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 exchange offer.

The market price of our Class B common shares may fluctuate widely and be highly volatile. In addition, the trading volume in our Class B common shares may fluctuate and cause significant price variations to occur. Some of the factors that could negatively affect the share price or result in fluctuations in the market price or trading volume of our Class B common shares include:

- actual or anticipated variations in our operating results, funds from operations, cash flow, liquidity, or distributions;
- publications of research reports about us or the real estate industry;
- increases in market interest rates; changes in market valuations of similar companies;
- adverse market reaction to any securities we may issue or increased indebtedness we incur in the future;
- the failure to comply with our debt covenants;
- additions or departures of key management personnel;
- actions by institutional shareholders;
- speculation in the press or investment community;
- actual or anticipated changes in our future financial performance;
- strategic actions by us or our competitors, such as acquisitions, restructurings, or innovations;
- operations and performance of our competitors;
- developments in the real property investment industry generally;
- the realization of any of the other risk factors presented in this prospectus; and
- general market and economic conditions.

In addition, many of the factors listed above are beyond our control. These factors may cause the market price of the Class B common shares to decline, regardless of our financial condition, results of operations, business, or prospects. We cannot assure you that the market price of the Class B common shares will not fluctuate or decline significantly in the future, and it may be difficult for investors to resell the Class B common shares at prices they find attractive or at all.

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 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 subsequently 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.

If our operating results or prospects are below expectations, the market price of our Class B common shares could decline.

Our operating results and prospects may be below the expectations of public market analysts and investors or may be

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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 Class B common shares issued in this exchange offer and any common shares eligible for future sale may adversely affect the prevailing market prices for our common shares.

Our Class B common shares have traded on the NYSE Amex since August 26, 2010. If the maximum number of Class A common shares and OP units are tendered in this exchange offer, we will issue 1,321,431 of our Class B common shares upon completion of this exchange offer, an amount equal to 13.0% of our Class B common shares outstanding prior to this exchange offer, and the Class B common shares being issued will represent approximately 11.5% of the Class B common shares available to trade after this exchange offer. Also, the three month average trading volume in our Class B common shares as reported by the NYSE Amex as of April 13, 2012 was 35,387 shares per day. In addition, we may conduct additional exchange offers in the future to exchange additional Class A common shares or OP units for Class B common shares. 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 exchange offer, future issuances of Class B common shares or OP units, or the availability of Class B common shares for future sale, on the market price of our Class B common shares. Sales of substantial numbers 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 selling your Class B common shares at all, at any particular price or during a time frame that meets your investment objectives. In addition, the prior performance of the Class B common shares may not be indicative of the performance of the Class B common shares after the exchange offer.

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 Class B 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, the holders of our Class B common shares bear the risk of our future offerings reducing the market price of our Class B common shares and diluting their share holdings in us.

None of our Board, acting as our Board or as the general partner of the Operating Partnership, or the exchange agent has made a recommendation as to whether the holders of Class A common shares or OP units should exchange their shares or units for Class B common shares pursuant to the exchange offer.

None of our Board, acting as our Board or as the general partner of the Operating Partnership, or the exchange agent has made a recommendation as to whether the holders of Class A common shares or OP units should exchange their shares or units for Class B common shares pursuant to the exchange offer. Neither the Company nor the Operating Partnership has retained, and neither intends to retain, any unaffiliated representative to act solely on behalf of the

holders of the Class A common shares or OP units for purposes of negotiating the terms of this exchange offer and/or preparing a report concerning the fairness of this exchange offer.

You may not be able to sell your Class A common shares or OP units in the public market if you do not exchange them for Class B common shares in the exchange offer.

We do not currently anticipate that we will list our Class A common shares or OP units on a national securities exchange and are not under any obligation to do so. Therefore, if you do not exchange your Class A common shares or OP units in the exchange offer, your Class A common shares or OP units will continue to be subject to certain restrictions on transfers, as set forth in the governance documents of the Company and the Operating Partnership and the Securities Act.

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We do intend to submit to our shareholders for approval at our 2012 annual meeting of shareholders an amendment to our declaration of trust to reclassify the Class A common shares remaining outstanding to Class B common shares. However, there can be no assurance that the amendment will be approved by our shareholders.

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FORWARD-LOOKING STATEMENTS

We make statements in this prospectus, and the documents incorporated herein by reference, 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 "anticipates" or the negative of these words and phrases or sir 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, including downturns in the national and local economies;
- market trends;
- projected capital expenditures;
- 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 on favorable terms or at all;
- decreased rental rates or increased vacancy rates;
- difficulties in identifying properties to acquire, and in 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;
- loss of services of one or more of our executive officers;
- lack of or insufficient amounts of insurance;
- financial market fluctuations;
- changes in foreign currency exchange rates;
- changes in real estate and zoning laws or increases in real property tax rates; and
- other factors affecting real estate markets generally.

While forward-looking statements reflect our good faith beliefs, they are not guaranties of future performance. We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, of new information, data or methods, future events or other changes, even if subsequent events cause us to become aware of new risks or cause our expectations to change regarding the forward-looking matters discussed in this prospectus. For a further discussion of these and other factors that could impact our future results, performance or transactions, see the section above entitled "Risk Factors."

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SPECIAL FACTORS

Purpose of and Reasons for the Exchange Offer

The purpose of the exchange offer is to exchange Class A common shares and OP units, neither of which are listed on a national securities exchange, on a one-for-one basis for Class B common shares, which are listed on the NYSE Amex, thereby providing liquidity to holders of Class A common shares and OP units.

Background of the Exchange Offer

In August 2010, the Company completed an initial public offering of our Class B common shares, which are listed on the NYSE Amex under the symbol “WSR.” In connection with the offering, we (i) changed the name of all of our then outstanding “common shares” to “Class A common shares” and (ii) effected a 1-for-3 reverse split of our Class A common shares and OP units. Class A common shares and Class B common shares have equal voting, dividend and liquidation rights. We do not intend to list our Class A common shares or our OP units on a national securities exchange. At the time of our initial public offering, we disclosed our intention to conduct a series of exchange offers to provide liquidity to holders of our Class A common shares and OP units. On September 2, 2011, we commenced an offer to exchange Class B common shares on a one-for-one basis for (i) up to 867,789 outstanding Class A common shares; and (ii) up to 453,642 outstanding OP units, which expired on October 3, 2011. As a result, 867,789 Class A common shares and 453,642 OP units were accepted for exchange. On December 9, 2011, we commenced our second exchange offer pursuant to which we offered to exchange Class B common shares on a one-for-one basis for (i) up to 867,789 outstanding Class A common shares; and (ii) up to 453,642 outstanding OP units. The second exchange offer expired on January 11, 2012. As a result of the second exchange offer, 867,789 Class A common shares and 453,580 OP units were accepted for exchange. Following the completion of this exchange offer, we intend to submit to our shareholders for approval at our 2012 annual meeting of shareholders an amendment to our declaration of trust to reclassify the Class A common shares remaining outstanding to Class B common shares. If approved by our shareholders, our Board intends to rename our Class B common shares as “common shares.”

The Company's Board unanimously approved the first and second exchange offers by written consent effective July 15, 2011 and November 17, 2011, respectively.

Effect of the Exchange Offer

We currently have 793 holders of record of OP units. One of the possible consequences of the exchange offer is that the number of record owners of our OP units could be reduced below 300, which would permit the Operating Partnership to deregister the OP units under the Exchange Act. If, following this exchange offer, our Operating Partnership does have fewer than 300 holders of record of the OP units, we will take action necessary to cease registration of the OP units under the Exchange Act. In this event, our Operating Partnership will apply for termination of the registration of our OP units and will no longer file annual, quarterly and other reports with the SEC. However, Whitestone REIT will continue to be subject to the periodic reporting requirements of the Exchange Act and will continue to report financial and other information of Whitestone REIT and its consolidated subsidiaries, including the Operating Partnership.

Termination of registration of our OP units under the Exchange Act would reduce the information required to be furnished by the Operating Partnership to its unit holders and the SEC and would make certain provisions of the Exchange Act, such as the short-swing profit recovery provisions of Section 16(b) and the requirements of furnishing

a proxy statement in connection with meeting meetings pursuant to Section 14(a), no longer applicable to the Operating Partnership. If our OP units are no longer registered under the Exchange Act, the requirements of Rule 13e-3 under the Exchange Act with respect to “going private” transactions would no longer be applicable to the Operating Partnership.

Our reasons for deregistering the OP units under the Exchange Act would be as follows:

- The cost savings that we expect to realize as a result of the termination of the registration of the OP units under the Exchange Act.
- The additional savings in terms of our management's and employees' time that will no longer be spent preparing the separate periodic reports of the Operating Partnership required of companies registered under the Exchange Act.

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- The reduced accounting and legal fees associated with not having the Operating Partnership's financial statements reviewed independently of those of Whitestone REIT on a quarterly basis and separately audited on an annual basis.

Fairness of the Exchange Offer

Although our Board, acting as the board of trustees of the Company or as the general partner of the Operating Partnership, has not made a recommendation as to whether the holders of Class A common shares or OP units should exchange their shares or units for Class B common shares pursuant to the exchange offer, our Board fully considered and reviewed the terms, purposes and effects of the exchange offer and unanimously determined that the exchange offer is procedurally and substantively fair to the holders of our common shares and OP units. Our Board based its determination largely on the fact that the exchange offer is a voluntary transaction in which holders of Class A common shares and OP units may or may not choose to participate and that the exchange offer would provide liquidity to holders of Class A common shares and OP units that they would otherwise not have. In approving the exchange offer, our Board weighed the costs and risks, including the transaction costs associated with the exchange offer and the effect of tendered class A common shares or OP units on the trading price of the Class B common shares. Our Board determined that the benefits of the exchange offer outweighed these costs and risks.

The exchange offer does not require the approval of a majority of unaffiliated shareholders. Despite the fact that the exchange offer is not structured to require the approval of the unaffiliated shareholders or OP unit holders, we believe that the exchange offer is procedurally and substantively fair to holders of our common shares and OP units with respect to its terms and conditions. We base these beliefs on the unanimous approval of the exchange offer by our Board and on the following factors:

- holders are not compelled to tender their Class A common shares or OP units in exchange for Class B common shares;
- holders are provided with full disclosure of the terms and conditions of the exchange offer;
- holders are afforded sufficient time to consider the exchange offer and may withdraw tenders of outstanding Class A common shares or OP units at any time before the exchange offer expires; and
- the exchange offer provides liquidity to holders of Class A common shares and OP units that, due to the fact that such Class A common shares and OP units are not listed on a national securities exchange, would not have existed otherwise.

No provisions have been made by our independent trustees to retain an unaffiliated representative to act solely on behalf of unaffiliated security holders for the purposes of negotiating the terms of the exchange offer and/or preparing a report concerning the fairness of the transaction. The Company also did not retain any independent representative or consultant to render a fairness opinion or to provide any analysis in connection with the approval of the exchange offer. Our Board concluded that the exchange offer is fair and in the best interests of the Company and the holders of the common shares and OP units based on our Board's and management's own analysis, in light of the factors described above.

In view of the wide variety of factors considered in connection with its evaluation of the exchange offer, our Board has found it impractical to, and therefore has not, quantified or otherwise attempted to assign relative weights to the specific factors considered in reaching a decision to approve the exchange offer.

For a discussion of the risks associated with not tendering in the exchange offer or the risks associated with a continuing investment in the Company, see “Risk Factors.”

USE OF PROCEEDS

Neither the Company nor the Operating Partnership will receive any cash proceeds from the exchange offer. We will pay all of the fees and expenses related to the exchange offer, other than any commissions or concessions of any broker dealer.

MARKET FOR SECURITIES

Class A Common Shares

There is no established trading market for our Class A common shares. As of April 13, 2012, there were 1,737,347

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Class A common shares outstanding held by a total of approximately 1,400 shareholders of record. As of December 31, 2011, the book value per Class A common share was $10.22.

Class B Common Shares

Our Class B common shares commenced trading on the NYSE Amex on August 26, 2010. As of April 13, 2012, there were 10,158,247 Class B common shares outstanding held by a total of approximately 7,300 shareholders of record. As of December 31, 2011, the book value per Class B common share was $10.22. The following table sets forth the quarterly high and low prices per Class B common share reported on the NYSE Amex for each of the periods indicated.

	High	Low
2010		
First Quarter	N/A	N/A
Second Quarter	N/A	N/A
Third Quarter	$12.03	$11.32
Fourth Quarter	$14.94	$11.79
2011		
First Quarter	$14.94	$13.73
Second Quarter	$14.94	$11.90
Third Quarter	$13.34	$10.77
Fourth Quarter	$12.29	$10.05
2012		
First Quarter	$13.68	$12.23
Second Quarter through April 25, 2012	$13.71	$12.78

On April 25, 2012, the closing price of our Class B common shares reported on the NYSE Amex was $13.48 per share.

OP Units

There is no established trading market for our OP units. As of April 13, 2012, there were 907,347 OP units, not held by the Company, outstanding, held by a total of approximately 800 limited partners. As of December 31, the book value per OP unit was $10.84.

Prior Public Offerings

On August 25, 2010, the Company completed its initial public offering of 2,200,000 Class B common shares at a public offering price of $12.00 per Class B common share. Net proceeds, after payment of underwriting commissions and transaction costs, were approximately $23.1 million. On May 10, 2011, the Company completed a follow-on public offering of 5,000,000 Class B common shares and the exercise of the underwriters' over-allotment option to purchase an additional 310,000 Class B common shares. The public offering price was $12.00 per Class B common share. Net proceeds, after payment of underwriting commissions and transaction costs, were approximately $59.7 million.

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DISTRIBUTION POLICY

Subsequent to this exchange offer, 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 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, which are incorporated herein by reference with respect to the Company and included elsewhere in this prospectus with respect to the Operating Partnership.

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 Class A and Class B shareholders and holders of OP units with respect to the periods indicated:

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	Distributions Per Common Share/OP Unit [1]
2006	
First Quarter	$0.5304
Second Quarter	$0.5304
Third Quarter	$0.4500
Fourth Quarter	$0.4500
2007	
First Quarter	$0.4500
Second Quarter	$0.4500
Third Quarter	$0.4500
Fourth Quarter	$0.4500
2008	
First Quarter	$0.4500
Second Quarter	$0.4500
Third Quarter	$0.3375
Fourth Quarter	$0.3375
2009	
First Quarter	$0.3375
Second Quarter	$0.3375
Third Quarter	$0.3375
Fourth Quarter	$0.3375
2010	
First Quarter	$0.3375
Second Quarter	$0.2850
Third Quarter	$0.2850
Fourth Quarter	$0.2850
2011	
First Quarter	$0.2850
Second Quarter	$0.2850
Third Quarter	$0.2850
Fourth Quarter	$0.2850
2012	
First Quarter	$0.2850

[1] 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 split of our Class A common shares and OP units in August 2010.

We typically declare our distributions quarterly and pay our distributions in three equal monthly installments. For the second quarter of 2012, we declared a distribution per common share and OP unit of $0.2850, which was paid or will

be paid as follows: $0.095 on April 9, 2012, $0.095 on May 9, 2012 and $0.095 on June 8, 2012.

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

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SELECTED HISTORICAL FINANCIAL DATA

The following tables set forth selected historical consolidated financial, operating and other data for the Company and the Operating Partnership and their respective subsidiaries. You should read the following selected historical financial data in conjunction with the consolidated historical financial statements and notes thereto of each of the Company and the Operating Partnership and their respective subsidiaries and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which are incorporated herein by reference with respect to the Company and included elsewhere in this prospectus with respect to the Operating Partnership.

Our historical consolidated financial data included below and incorporated by reference into or included elsewhere in this prospectus are not necessarily indicative of our future performance.

Whitestone REIT

	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(in thousands)				
Operating Data:					
Revenues	$34,915	$31,533	$32,685	$31,201	$29,374
Property expenses	13,327	12,283	12,991	12,835	12,236
General and administrative	6,648	4,992	6,072	6,708	6,721
Depreciation and amortization	8,365	7,225	6,958	6,859	6,048
Involuntary conversion	—	(558)	(1,542)	358	—
Interest expense, net	5,268	5,592	5,713	5,675	4,825
Other expense, net	—	—	—	—	30
Income (loss) from continuing operations before loss on disposal of assets and income taxes	1,307	1,999	2,493	(1,234)	(486)
Provision for income taxes	(225)	(264)	(222)	(219)	(217)
Loss on disposal of assets	(146)	(160)	(196)	(223)	(9)
Income (loss) from continuing operations	936	1,575	2,075	(1,676)	(712)
Income (loss) from discontinued operations	—	—	—	(188)	589
Gain on sale of property	397	—	—	—	—
Gain on sale of properties from discontinued operations	—	—	—	3,619	—
Net income (loss)	1,333	1,575	2,075	1,755	(123)
Less: net income (loss) attributable to noncontrolling interests	210	470	733	621	(46)
Net income (loss) attributable to Whitestone REIT	$1,123	$1,105	$1,342	$1,134	$(77)

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	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(in thousands, except per share and per square foot data)				
Earnings per share - basic					
Income (loss) from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	$0.12	$0.27	$0.41	$(0.33)	$(0.14)
Income from discontinued operations attributable to Whitestone REIT	—	—	—	0.68	0.12
Net income (loss) attributable to common shareholders excluding amounts attributable to unvested restricted shareholders	$0.12	$0.27	$0.41	$0.35	$(0.02)
Earnings per share - diluted					
Income (loss) from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	$0.12	$0.27	$0.40	$(0.33)	$(0.14)
Income from discontinued operations attributable to Whitestone REIT	—	—	—	0.68	0.12
Net income (loss) attributable to common shareholders excluding amounts attributable to unvested restricted shareholders	$0.12	$0.27	$0.40	$0.35	$(0.02)
Balance Sheet Data:					
Real estate (net)	$246,888	$165,398	$158,398	$150,847	$146,460
Real estate (net), discontinued operations	—	—	—	—	7,932
Other assets	26,605	31,047	23,602	27,098	20,752
Total assets	$273,493	$196,445	$182,000	$177,945	$175,144
Liabilities	$142,786	$112,162	$115,141	$110,773	$94,262
Whitestone REIT shareholders' equity	115,958	62,708	43,590	45,891	52,843
Noncontrolling interest in subsidiary	14,749	21,575	23,269	21,281	28,039
	$273,493	$196,445	$182,000	$177,945	$175,144
Other Data:					
Proceeds from issuance of common shares	$59,683	$22,970	$—	$—	$261
Additions to and acquisitions of real estate	88,903	12,768	12,855	5,153	10,205
Dividends per share [1]	1.09	1.17	1.35	1.59	1.80
Funds from operations [2]	8,707	8,432	8,618	4,236	6,001
Operating Portfolio Occupancy at end of period	87%	86%	82%	84%	86%
Average aggregate gross leasable area	3,366	3,058	3,039	3,008	3,093
Average rent per square foot	$10.37	$10.31	$10.76	$10.37	$9.50

(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 generally accepted accounting principles, or GAAP, excluding gains or losses from sales of operating properties and extraordinary items, plus depreciation and amortization of real estate assets, including our share of unconsolidated partnerships and joint ventures. We calculate FFO in a manner consistent with the NAREIT definition. Below is the calculation of FFO and the reconciliation to net income which we believe is the most comparable GAAP financial measure (in thousands):

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	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(in thousands)				
Net income (loss) attributable to Whitestone REIT	$1,123	$1,105	$1,342	$1,134	$(77)
Depreciation and amortization of real estate assets [1]	7,625	6,697	6,347	5,877	6,108
(Gain) loss on sale or disposal of assets [1]	(251)	160	196	(3,396)	16
Net income (loss) attributable to noncontrolling interests	210	470	733	621	(46)
FFO	$8,707	$8,432	$8,618	$4,236	$6,001

[1] Including amounts for discontinued operations.

Whitestone REIT Operating Partnership, L.P.

	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(in thousands)				
Operating Data:					
Revenues	$34,915	$31,533	$32,685	$31,201	$29,374
Property expenses	13,327	12,283	12,991	12,835	12,236
General and administrative	6,648	4,992	6,072	6,708	6,721
Depreciation and amortization	8,365	7,225	6,958	6,859	6,048
Involuntary conversion	—	(558)	(1,542)	358	—
Interest expense, net	5,268	5,592	5,713	5,675	4,825
Other expense, net	—	—	—	—	30
Income (loss) from continuing operations before loss on disposal of assets and income taxes	1,307	1,999	2,493	(1,234)	(486)
Provision for income taxes	(225)	(264)	(222)	(219)	(217)
Loss on disposal of assets	(146)	(160)	(196)	(223)	(9)
Income (loss) from continuing operations	936	1,575	2,075	(1,676)	(712)
Income (loss) from discontinued operations	—	—	—	(188)	589
Gain on sale of property	397	—	—	—	—
Gain on sale of properties from discontinued operations	—	—	—	3,619	—
Net income (loss)	$1,333	$1,575	$2,075	$1,755	$(123)

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	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(in thousands, except per unit and per square foot data)				
Earnings per unit - basic					
Income (loss) from continuing operations excluding amounts attributable to unvested restricted shares	$0.12	$0.27	$0.42	$(0.33)	$(0.14)
Income from discontinued operations	—	—	—	0.68	0.12
Net income (loss) excluding amounts attributable to unvested restricted shareholders	$0.12	$0.27	$0.42	$0.35	$(0.02)
Earnings per unit - diluted					
Income (loss) from continuing operations excluding amounts attributable to unvested restricted shares	$0.12	$0.27	$0.41	$(0.33)	$(0.14)
Income from discontinued operations	—	—	—	0.68	0.12
Net income (loss) excluding amounts attributable to unvested restricted shareholders	$0.12	$0.27	$0.41	$0.35	$(0.02)
Balance Sheet Data:					
Real estate (net)	$246,888	$165,398	$158,398	$150,847	$146,460
Real estate (net), discontinued operations	—	—	—	—	7,932
Other assets	26,605	31,047	23,602	27,098	20,752
Total assets	$273,493	$196,445	$182,000	$177,945	$175,144
Liabilities	$142,786	$112,162	$115,141	$110,773	$94,262
General partner's capital	115,958	62,708	43,590	45,891	52,843
Limited partners' capital	14,749	21,575	23,269	21,281	28,039
	$273,493	$196,445	$182,000	$177,945	$175,144
Other Data:					
Proceeds from issuance of common shares	$58,683	$22,970	$—	$—	$261
Additions to and acquisitions of real estate	88,903	12,768	12,855	5,153	10,205
Distributions per unit [1]	1.09	1.17	1.35	1.59	1.80
Funds from operations [2]	8,707	8,432	8,618	4,236	6,001
Operating Portfolio Occupancy at end of period	87%	86%	82%	84%	86%
Average aggregate gross leasable area	3,366	3,058	3,039	3,008	3,093
Average rent per square foot	$10.37	$10.31	$10.76	$10.37	$9.50

(1) The distributions per unit represent total cash payments divided by weighted average common units.

(2) We believe that FFO is an appropriate supplemental measure of operating performance because it helps 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 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,				
	2011	2010	2009	2008	2007
	(in thousands, except per unit and per square foot data)				
Net income (loss)	$1,333	$1,575	$2,075	$1,755	$(123)
Depreciation and amortization of real estate assets [(1)]	7,625	6,697	6,347	5,877	6,108
(Gain) loss on sale or disposal of assets [(1)]	(251)	160	196	(3,396)	16
FFO	$8,707	$8,432	$8,618	$4,236	$6,001

(1) Including amounts for discontinued operations.

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THE EXCHANGE OFFER

Purpose of the Exchange Offer

The purpose of the exchange offer is to exchange Class A common shares and OP units, neither of which are listed on a national securities exchange, on a one-for-one basis for Class B common shares, which are listed on the NYSE Amex, thereby providing liquidity to holders of Class A common shares and OP units.

Terms of the Exchange Offer

We are offering, upon the terms and subject to the conditions described in this prospectus and the accompanying letters of transmittal, to exchange Class B common shares for (i) up to 867,789 Class A common shares of the Company and (ii) up to 453,642 OP units of the Operating Partnership. Holders who validly tender and do not validly withdraw their tendered Class A common shares and OP units prior to 5:00 p.m., New York City time, on the expiration date will receive, for each Class A common share or each OP unit, one Class B common share.

Holders may tender fewer than all of the Class A common shares and/or OP units held by them, provided that they appropriately indicate this fact on the letter of transmittal tendering the Class A common shares or OP units. For purposes of the exchange offer, we will be deemed to have accepted validly tendered Class A common shares and OP units when, as and if we have given oral or written notice of our acceptance of the tendered shares or units to the exchange agent. The exchange agent will act as agent for the tendering holders of Class A common shares and OP units. If you are the record owner of your Class A common shares or OP units and you tender such interests directly to the exchange agent, you will not be obligated to pay any charges or expenses of the exchange agent or any brokerage commissions.

Generally, the Class B common shares that you receive in the exchange offer will be freely tradable, subject to certain restrictions related to us maintaining our REIT status, unless you are considered an affiliate of ours, as that term is defined under the Securities Act, or you hold Class A common shares or OP units that were previously held by one of our affiliates.

As of April 13, 2012, 1,737,347 Class A common shares and 907,347 OP units, not held by the Company, were outstanding. You do not have any appraisal or dissenters' rights under the Company's declaration of trust or the partnership agreement of the Operating Partnership in connection with the exchange offer. We intend to conduct the exchange offer in accordance with the provisions of the applicable requirements of the Securities Act, the Exchange Act and the rules and regulations of the SEC.

None of our Board of the Company, acting as our Board or as the general partner of the Operating Partnership, or the exchange agent has made a recommendation to any holder of Class A common shares or OP units, and each is remaining neutral as to whether you should tender your Class A common shares and/or OP units in the exchange offer. You must make your own investment decision with regards to the exchange offer based upon your own assessment of the market value of the Class B common shares you will receive, your liquidity needs and your investment objectives.

Expiration Date; Extensions; Amendments

The expiration date of the exchange offer will be , 2012 at 5:00 p.m., New York City time, unless we, in our sole and absolute discretion, extend the exchange offer, in which case the expiration date shall be the latest date and time to which the exchange offer is extended.

We expressly reserve the right in our sole and absolute discretion at any time and from time to time, to extend the period of time during which the exchange offer is open, and thereby delay acceptance for exchange of any Class A common shares or OP units, by giving oral or written notice of such extension to the exchange agent.

This prospectus, the letters of transmittal and other relevant materials are being mailed to record holders of Class A common shares and OP units. If we make a material change in the terms of the exchange offer or the information concerning the exchange offer, or if we waive a material condition of the exchange offer, we will extend the exchange offer for a period of five to ten business days consistent with Rule 13e-4 under the Exchange Act. For purposes of the exchange offer, a "business day" means any day other than a Saturday, Sunday or federal holiday, and consists of the time period from 12:01 a.m. through

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12:00 midnight, New York City time.

We also expressly reserve the right (1) to delay acceptance for exchange of any Class A common shares or OP units tendered pursuant to the exchange offer, regardless of whether any such Class A common shares or OP units were previously accepted for exchange, and (2) at any time, or from time to time, to amend the exchange offer in any manner which would not adversely affect the holders of Class A common shares or OP units. Our reservation of the right to delay exchange of Class A common shares or OP units that we have accepted for payment is limited by Rule 13e-4 under the Exchange Act, which requires that a bidder must pay the consideration offered or return the securities deposited by or on behalf of security holders promptly after the termination or withdrawal of any offer. Any extension, delay in payment, or amendment will be followed as promptly as practicable by press release or public announcement thereof, such announcement in the case of an extension to be issued no later than 9:30 a.m., New York City time, on the next business day after the previously scheduled expiration date. Without limiting the manner in which we may choose to make any public announcement, we will have no obligation to publish, advertise or otherwise communicate any such public announcement, other than by issuing a release to the Dow Jones News Service.

Proration; Odd-Lots

If more than 867,789 Class A common shares are tendered, then we will accept such tendered Class A common shares on a pro rata basis in proportion to the number of Class A common shares tendered, except for tenders of odd-lots as described below. If more than 453,642 OP units are tendered, then we will accept such tendered OP units on a pro rata basis in proportion to the number of OP units tendered. We refer to this as “proration.” Proration will occur separately with respect to Class A common shares and OP units and will be based on any oversubscription of either Class A common shares or OP units. Therefore, for example, tenders of Class A common shares may be subject to proration due to an oversubscription, while tenders of OP units may be accepted in full. Proration for each tendering holder will be based on the number of Class A common shares or OP units tendered by that holder in the exchange offer, after adjustment for tenders of odd-lots, and not on such holder's aggregate ownership of Class A common shares or OP units. Any shares or units not accepted for exchange as a result of proration will be credited to the tendering holder's account in book-entry form promptly following the expiration or termination of the exchange offer, as applicable. Once we have determined the number of Class A common shares and OP units validly tendered for exchange, we will announce the final results, including the final proration factor, if any, promptly after the determination is made.

Except as otherwise provided in this section, holders of “odd-lots” (less than 100 Class A common shares and/or less than 100 OP units) who validly tender all of their shares and/or units will not be subject to proration if they so request. If, however, you hold less than 100 Class A common shares and/or less than 100 OP units, but do not tender all of your shares or units, you will be subject to proration to the same extent as holders of more than 100 shares or units (and holders of odd-lots that do not request preferential treatment) if the exchange offer is oversubscribed with respect to either Class A common shares or OP units. Holders of 100 or more Class A common shares are not eligible for this preference with respect to such Class A common shares and will be subject to proration. Likewise, holders of 100 or more OP units are not eligible for this preference with respect to such OP units and will be subject to proration. If you own more than 100 Class A common shares or OP units, but own less than 100 OP units or Class A common shares, respectively, you may request to not be subject to proration with respect to either Class A common shares or OP units, whichever you own less than 100 shares or units. Similarly, if you own less than 100 Class A common shares and less than 100 OP units, you may request to not be subject to proration with respect to both your Class A common shares and OP units.

In order to request preferential treatment, you should check the box entitled “Odd-Lot” on the letter of transmittal. If you do not check the relevant box on the letter of transmittal, we may, in our sole discretion, determine not to subject your

shares and/or units to proration if we are otherwise able to confirm that you own an odd-lot and have tendered all of those shares and/or units, but we are under no obligation to do so.

Termination of the Exchange Offer

We reserve the right to terminate the exchange offer at any time prior to the completion of the exchange offer if any of the conditions under “Conditions of the Exchange Offer” have not been satisfied, in our sole and absolute discretion, and not accept any Class A common shares or OP units for exchange.

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Conditions of the Exchange Offer

This exchange offer is not conditioned on any minimum principal number of Class A common shares or OP units being tendered. Notwithstanding any other provision of the exchange offer, and without prejudice to our other rights, we will not be required to accept for exchange or, subject to any applicable rules of the SEC, exchange any Class B common shares for the Class A common shares or OP units, and we may terminate, extend or amend the exchange offer, if, at the expiration date, any of the following conditions have not been satisfied or, to the extent permitted, waived.

Registration Statement Effectiveness

Consummation of the exchange offer is conditioned upon the registration statement on Form S-4, of which this prospectus is a part, being declared effective by the SEC under the Securities Act and not being subject to any stop order suspending its effectiveness or any proceedings seeking a stop order. We will not waive this condition.

Other Conditions of the Exchange Offer

The exchange offer is also subject to the conditions that, at the time of the expiration date of the exchange offer, none of the following shall have occurred and be continuing which, regardless of the circumstances, makes it impossible or inadvisable to proceed with the exchange offer:

- there shall have been instituted, threatened or be pending any action or proceeding before or by any court, governmental, regulatory or administrative agency or instrumentality, or by any other person, in connection with the exchange offer, that is, or is reasonably likely to be, in our reasonable judgment, materially adverse to our business, operations, properties, condition, assets, liabilities or prospects, or which would or might, in our reasonable judgment, prohibit, prevent, restrict or delay consummation of the exchange offer or materially impair the contemplated benefits to us of the exchange offer;
- an order, statute, rule, regulation, executive order, stay, decree, judgment or injunction shall have been proposed, enacted, entered, issued, promulgated, enforced or deemed applicable by any court or governmental, regulatory or administrative agency or instrumentality that, in our reasonable judgment, would or would be reasonably likely to prohibit, prevent, restrict or delay consummation of the exchange offer or materially impair the contemplated benefits to us of the exchange offer, or that is, or is reasonably likely to be, materially adverse to our business, operations, properties, condition, assets, liabilities or prospects;
- there shall have occurred or be reasonably likely to occur any material adverse change to our business, operations, properties, condition, assets, liabilities, prospects or financial affairs; or
- there shall have occurred:
  - any general suspension of, or limitation on prices for, trading in U.S. securities or financial markets;
  - a declaration of a banking moratorium or any suspension of payments in respect to banks in the United States;
  - any limitation (whether or not mandatory) by any government or governmental, regulatory or administrative authority, agency or instrumentality, domestic or foreign, or other event that, in our reasonable judgment, would or would be reasonably likely to affect the extension of credit by banks or other lending institutions;
  - any condition or event, or we reasonably expect such condition or event, which we reasonably believe would or would be likely to cause the exchange offer to be taxable to the Company, or the Operating Partnership, or their respective shareholders or partners, except as set forth herein; or
  - a commencement or significant worsening of a war or armed hostilities or other national or international calamity, including, but not limited to, catastrophic terrorist attacks against the United States or its citizens.

The foregoing conditions are solely for our benefit and we may assert one or more of the conditions regardless of the circumstances giving rise to any such conditions. Except for the registration statement effectiveness condition, we may also, in our sole and absolute discretion, waive these conditions in whole or in part. If any such waiver constitutes a material change to the exchange offer, we will promptly disclose the waiver by means of a prospectus supplement to holders of Class A common shares and OP units, and we will extend the exchange offer for a period of five to ten business days, depending upon the significance of the waiver, if the exchange offer would otherwise expire during the five to ten business day period.

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Consequences of Failure to Tender

Holders who do not exchange their Class A common shares or OP units will continue to have the same rights as they are entitled to today under the declaration of trust of the Company or the partnership agreement of the Operating Partnership, respectively.

If you do not exchange your Class A common shares or OP units for Class B common shares, you will continue to be subject to restrictions on transfer applicable to the Class A common shares and OP units. In general, the Class A common shares and OP units may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. We do not currently plan to register the resale of either the Class A common shares or OP units under the Securities Act, and we do not plan to list either the Class A common shares or the OP units on a national securities exchange.

Procedures for Tendering

The tender of Class A common shares or OP units described below and the acceptance of tendered shares or units by us will constitute a binding agreement between the tendering holder and the Company and/or the Operating Partnership upon the terms and conditions described in this prospectus and in the accompanying letter of transmittal. All Class A common shares or OP units not exchanged for Class B common shares in response to the exchange offer will be returned to the account of the tendering holders promptly after the termination or withdrawal of the exchange offer.

The method of delivery of letters of transmittal and all other required documents is at the election and risk of the holder. If delivery is by mail, it is recommended that registered mail, properly insured, with return receipt requested, be used. Instead of delivery by mail, it is recommended that the holder use an overnight or hand delivery service, In all cases, sufficient time should be allowed to ensure timely delivery.

Each signature on a letter of transmittal or a notice of withdrawal, as the case may be, must be guaranteed, unless the share or units surrendered for exchange with that letter of transmittal are tendered (1) by a registered holder who has not completed the box entitled “Special Issuance Instructions” in the letter of transmittal, or (2) for the account of a financial institution (including most commercial banks, savings and loan associations and brokerage houses) that is a participant in the Security Transfer Agent Medallion Program, the New York Stock Exchange Medallion Signature Guarantee Program or the Stock Exchange Medallion Program, each known as an eligible institution. In the event that a signature on a letter of transmittal or a notice of withdrawal, as the case may be, is required to be guaranteed, the guarantee must be by an eligible institution. If the letter of transmittal is signed by a person other than the registered holder of the shares or units, the shares or units surrendered for exchange must be accompanied by a stock power, in satisfactory form as determined by us in our sole discretion, duly executed by the registered holder, with the signature guaranteed by an eligible institution. The term “registered holder” as used in this paragraph with respect to the shares or units means any person in whose name the shares or units are registered on the books of the registrar for the Company and the Operating Partnership.

All questions as to the validity, form, eligibility (including time of receipt), acceptance and withdrawal of shares or units tendered for exchange will be determined by us in our sole discretion. We and the exchange agent reserve the absolute right to reject any and all shares or units not properly tendered and to reject any share or units the acceptance of which might, in our judgment or in the judgment of the exchange agent or their counsel, be unlawful. We and the exchange agent also reserve the absolute right to waive any defects or irregularities or conditions of the exchange offer (except for the registration statement effectiveness condition) as to particular shares or units either before or after the expiration date (including the right to waive the ineligibility of any holder who seeks to tender in the exchange offer). Unless waived, any defects or irregularities in connection with tenders for exchange must be cured within the period

of time we determine. We and the exchange agent will use reasonable efforts to give notification of defects or irregularities with respect to tenders for exchange but will not incur any liability for failure to give the notification. We will not deem shares or units tendered until any such irregularities have been cured or waived.

If any letter of transmittal or any other document required by the letter of transmittal is signed by a trustee, executor, corporation or other person acting in a fiduciary or representative capacity, the signatory should so indicate when signing, and, unless waived by us, submit proper evidence of the person's authority to so act, which evidence must be satisfactory to us in our sole discretion.

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Acceptance of Class A Common Shares and OP Units for Exchange; Delivery of Class B Common Shares

Upon satisfaction or waiver of all of the conditions to the exchange offer, and assuming we have not previously elected to terminate the exchange offer, we will accept (i) up to 867,789 Class A common shares and (ii) up to 453,642 OP units that are properly tendered and not validly withdrawn prior to 5:00 p.m., New York City time, on the expiration date. We will deliver (or cause to be delivered) the Class B common shares promptly after acceptance of the tendered Class A common shares or OP units. For purposes of the exchange offer, we will be deemed to have accepted validly tendered Class A common shares and OP units, when, as, and if we have given oral or written notice of our acceptance of the tendered shares or units to the exchange agent.

In all cases, the issuance of Class B common shares for Class A common shares and OP units that are accepted for exchange pursuant to the exchange offer will be made only after timely receipt by the exchange agent of the properly completed and duly executed letters of transmittal and all other required documents. We reserve the absolute right to waive any or all defects or irregularities in the tender or conditions of the exchange offer (other than the registration statement effectiveness condition). If any tendered shares or units are not accepted for any reason, those unaccepted shares or units will be returned without expense to the account of the tendering holder thereof promptly after the termination or withdrawal of the exchange offer.

Withdrawal Rights

Tenders of Class A common shares or OP units may be withdrawn by delivery of a written notice to the exchange agent, at its address listed on the back cover page of this prospectus, at any time prior to 5:00 p.m., New York City time, on the expiration date. Any notice of withdrawal must (1) specify the name of the person having tendered the shares or units to be withdrawn, (2) identify the shares or units to be withdrawn, and (3) be signed by the holder in the same manner as the original signature on the letter of transmittal by which the shares or units were tendered and must be notarized or guaranteed by an eligible institution if the signature on the letter of transmittal was guaranteed. Any questions as to the validity, form and eligibility (including time of receipt) of notices of withdrawal will be determined by us, in our sole and absolute discretion. The shares or units so withdrawn will be deemed not to have been validly tendered for exchange for purposes of the exchange offer. Any shares or units which have been tendered for exchange but which are withdrawn will be returned to the account of the holder without cost to the holder promptly after withdrawal. Properly withdrawn shares or units may be re-tendered by following one of the procedures described under “Procedures for Tendering” at any time on or prior to the expiration date.

The Exchange Agent

American Stock Transfer and Trust Company, LLC is the exchange agent. All tendered Class A common shares and OP units, executed letters of transmittal and other related documents should be directed to the exchange agent at its address and telephone numbers listed on the back cover of this prospectus. We will pay the exchange agent reasonable and customary compensation for its services in connection with the exchange offer, reimburse it for its reasonable out-of-pocket expenses and indemnify it against certain liabilities and expenses in connection with the exchange offer, including liabilities under federal securities laws.

Fees and Expenses

We will bear the expenses of soliciting tenders. We have not retained any dealer manager in connection with the exchange offer and will not make any payments to brokers, dealers or others soliciting acceptances of the exchange offer. Additionally, we will pay the exchange agent reasonable and customary fees for its services and will reimburse it for its reasonable out-of-pocket expenses.

We will pay the cash expenses incurred in connection with the exchange offer. The following table sets forth all expense incurred or estimated to be incurred in connection with the exchange offer:

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Filing fees	$2,000
Legal and accounting fees	40,000
Exchange agent fees	15,000
Printing costs	5,000
Other expenses	1,000
Total	$63,000

Accounting Treatment

The Class A common shares acquired by the Company in the exchange offer will be retired and cancelled. The value of the Class A shares received by the Company will be deemed equal to the value of the Class B common shares issued by the Company; therefore no gain or loss will be recognized in the Company's consolidated net income or comprehensive income.

The OP units acquired by the Company will be recorded as an acquisition of ownership interest in the Operating Partnership by the Company, resulting in an increase in the general partner capital balance and a decrease in the limited partner capital balance. The Company has a controlling interest in the Operating Partnership both before and after the completion of the exchange; therefore the exchange will be accounted for as an equity transaction, with no gain or loss recognized in the Company's consolidated net income or comprehensive income. The carrying amount of the noncontrolling interest will be adjusted to reflect the change in the ownership interest in the subsidiary. Any difference between the fair value of the Class B common shares paid and the amount by which the noncontrolling interest is adjusted will be recognized in equity attributable to the Company.

Appraisal Rights

There are no dissenter's rights or appraisal rights with respect to the exchange offer.

Regulatory Approvals

We may not complete the exchange offer until the registration statement, of which this prospectus is a part, is declared effective by the SEC. We are not aware of any other material regulatory approvals necessary to complete the exchange offer.

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BUSINESS AND PROPERTIES

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. 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 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, 2011, 21 of our 43 properties had significant upside potential 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 potential 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 $10.87 per square foot and a total of approximately 3.6 million square feet of gross leasable area, each increase of 1% in occupancy will contribute approximately $400,000 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.

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- 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, 2011, our average rent per square foot for our smaller tenants represented a 69% premium over rent paid by our larger tenants, or those tenants leasing more than 3,000 square feet.

- 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 eight-person senior management team, composed of James C. Mastandrea, John J. Dee, David K. Holeman, Daniel Nixon, Valarie King, Bradford Johnson, Gregory Belsheim, 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 and Belsheim each has 18, 4, 6, 30, and 9 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 in 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 repositioning 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.

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- 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.

- Orienting Our Capital Structure for Growth. We do not have any mortgage debt maturities until October 2013, and we currently have 19 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, 2011, our ratio of total mortgage indebtedness to undepreciated book value of real estate assets was 44%. Including our cash and investment balances and available amounts under our revolving credit facility, we have approximately $100 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.

Our Acquisition Process

Commercial Real Estate

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

We believe that over the next few years we will have opportunities to acquire quality properties at historically low prices. Many of these properties will be distressed due to over-leverage, mismanagement or the lack of liquidity in the financial markets. We have extensive relationships with community banks, attorneys, title companies and others in the

real estate industry which we believe will enable us to take advantage of these market opportunities and maintain an active acquisition pipeline.

We target properties from 25,000 to 200,000 square feet in established or developing neighborhoods, generally resulting in acquisitions priced between $3 million and $30 million. In our experience, large institutional investors generally do not compete to purchase properties having values under $30 million, thus limiting competition that would typically inflate the values of acquisition properties. We are not specifically limited by our governance documents, our management policies or the governance documents of our Operating Partnership in the number or size of properties we may acquire or the percentage of our assets that we may invest in a single property. The number and mix of properties we acquire will depend on real estate and market conditions existing at the time we acquire properties and the availability of debt and equity capital.

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

Commercial Mortgage Loans

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

Our Disposition Strategy

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

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

Development and Construction of Properties

We do not currently intend to engage in the acquisition of raw land for development or the acquisition of existing improved property for “tear-downs” and rebuilding. However, we intend to engage in selective redevelopment of existing improved properties where such redevelopment will reposition the property and/or increase its earning capacity and long-term returns on invested capital. We reposition properties and add value through renovating and re-tenanting to create Whitestone-branded Community Centered Properties. We seek to accomplish this by (1) stabilizing occupancy, with per property occupancy goals of 90% or higher; (2) adding leasable square footage to

existing structures; (3) developing and building on excess land; (4) upgrading and renovating existing structures; and (5) investing significant effort in recruiting tenants whose goods and services meet the needs of the surrounding neighborhood.

Property Management, Leasing and Marketing

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

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

In implementing our Community Centered Property strategy, we strive to market, lease, and manage our centers to match tenants with the shared needs of the surrounding neighborhood. Those needs may include specialty retail, grocery, restaurants, medical, educational and financial services. Our goal is for each property to become a Whitestone-branded Community Centered Property 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.

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

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

Our properties are marketed to smaller tenants, who rent on average less than 3,000 square feet. As of December 31, 2011, 659 of our 915 tenants were smaller tenants (representing approximately 72% of our tenant base), and we have tailored our management and leasing approach to deal with the unique needs of these types and size tenants. For example, we have implemented a streamlined lease approval process, and we allow our trained representatives to make independent leasing decisions. Many competing properties often face a substantially more bureaucratic approval process, which could potentially inhibit a property from being fully leased. Our ability to act quickly allows us to capture those tenants that are unable or unwilling to wait a substantial period of time for a lease to be approved. We are able to examine the credit of a potential tenant during the lease negotiation process and quickly finalize the terms of the lease. Smaller tenants generally pay us a premium per square foot to occupy smaller spaces. As of December 31, 2011, this premium averaged 69% over what larger tenants pay on an average per square foot in our current portfolio.

We carefully monitor our property expenses and manage how we incur and bill expenses to our tenants. Because a significant amount of our leases are triple net leases, which means that the tenant is responsible for paying the cost of all maintenance and minor repairs, property taxes and insurance relating to its leased space, most operating expenses, such as insurance, taxes and common area maintenance, are reimbursed to us by our tenants. We also use gross leases and full service leases, which vary from our triple net leases. A gross lease typically includes the base or first year's property operating expenses, taxes and insurance in the rent. Any increases in the property operating expenses, taxes or insurance over the base year are generally reimbursed by the tenant. The cost of common area maintenance is also reimbursed by the tenant, as are utilities and other premises-specific costs. In a full service lease, all expenses, with

the occasional exception of electricity and other utility costs, are included in the rent, Any increases in the expenses over the base year are generally reimbursed by the tenant. We have implemented collection and billing policies to assure we are collecting all expense reimbursements, and we plan our incurrence of such expenses so as to maximize recoverability in any given year, while minimizing the added cost to our tenants.

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

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Terms of Leases and Tenant Creditworthiness

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

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

Our Properties

As of December 31, 2011, we owned 45 commercial properties, including

- 30 properties in Houston, Texas;
- nine properties in the Scottsdale and Phoenix, Arizona metropolitan areas;
- four properties in Dallas, Texas;
- one property in Windcrest, Texas, a suburb of San Antonio; 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 1.5% of our total revenues for the year ended December 31, 2011.

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. The following table summarizes certain information relating to our properties as of December 31, 2011:

Commercial Properties	No. of Properties	Leasable Square Feet	Average Occupancy as of 12/31/2011	Annualized Base Rental Revenue (in thousands) [1]	Average Annualized Base Rental Revenue Per Sq. Ft. [2]	Average Effective Annual Base Rent per Leased Sq. Ft. [3]
Retail	21	1,512,199	90 %	$15,803	$11.61	$12.15
Office/Flex	11	1,201,672	86 %	7,655	7.41	7.57
Office	7	631,841	79 %	8,069	16.17	15.98
Total - Operating Portfolio	39	3,345,712	87 %	31,527	10.83	11.11

Redevelopment, New Acquisitions [4]	4	251,625	50	%	1,314	10.44	12.27
Land held for development	2	—	—		—	—	—
Total	45	3,597,337	84	%	$32,841	$10.87	$11.21

[1] Calculated as the tenant's actual December 31, 2011 base rent (defined as cash base rents including abatements) multiplied by 12. Excludes vacant space as of December 31, 2011. Because annualized base rental revenue is not derived from historical results that were accounted for in accordance with GAAP, historical results differ from the annualized amounts. Total abatements for leases in effect as of December 31, 2011 equaled

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approximately $164,000 for the month ended December 31, 2011.

(2) Calculated as annualized base rent divided by net rentable square feet leased at December 31, 2011. Excludes vacant space as of December 31, 2011.

(3) Represents (i) the contractual base rent for leases in place as of December 31, 2011, 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, 2011.

(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.

As of December 31, 2011, we had one property that accounted for more than 10% of total gross revenue. Uptown Tower is an office building located in Dallas, Texas and accounted for 10.9%, 12.0% and 11.9% of our total revenue for the years ended December 31, 2011, 2010 and 2009, respectively. Uptown Tower also accounted for 6.8%, 10.2% and 10.9% of our real estate assets, net of accumulated depreciation, as of December 31, 2011, 2010 and 2009, respectively.

Location of Properties

Of our 45 properties, 34 are located in Texas, with 30 being located in the greater Houston metropolitan statistical area. These 30 properties represent 70% of our revenue for the year ended December 31, 2011. According to the Bureau of Labor of Statistics, the unemployment rate in Houston was less than the national average for the last six months of 2011.

	July		Aug.		Sept.		Oct.		Nov.		Dec.	
National (1)	9.1	%	9.1	%	9.0	%	8.9	%	8.7	%	8.5	%
Houston (2)	8.9		8.6		8.6		8.1		7.5		7.3	(3)

Source: Bureau of Labor Statistics

(1) Seasonally adjusted.
(2) Not Seasonally adjusted.
(3) Represents estimate.

General Physical and Economic Attributes

As of December 31, 2011, the average total leasable area per property of our portfolio was 83,569 square feet. Currently, our portfolio is dispersed primarily among the sub-markets of the greater Houston metropolitan area, generally in high-traffic areas with good visibility and accessibility. Our portfolio provides our tenants with solid properties in preferred locations at competitive rental rates. As of December 31, 2011, our operating portfolio's average occupancy rate, or Operating Portfolio Occupancy Rate, was approximately 87%. The average base rental revenue per square foot for the retail, office/flex and office properties was $12.15, $7.57 and $15.98, respectively. The following table sets forth certain information relating to each of our properties owned as of December 31, 2011.

Whitestone REIT and Subsidiaries
Property Details
As of December 31, 2011

Community Name	Location	Year Built/ Renovated	Leasable Square Feet	Percent Occupied at 12/31/11	Annualized Base Rental Revenue (in thousands) [1]	Average Base Rental Revenue Per Sq. Ft. [2]	Average Net Effective Annual Base Rent Per Leased Sq. Ft.[3]
Retail Communities:							
Ahwatukee Plaza	Phoenix	1979	72,650	100 %	$841	$11.58	$12.79
Bellnott Square	Houston	1982	73,930	41 %	$300	9.90	10.10
Bissonnet/Beltway	Houston	1978	29,205	100 %	317	10.85	10.82

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Whitestone REIT and Subsidiaries
Property Details
As of December 31, 2011
(continued)

Community Name	Location	Year Built/ Renovated	Leasable Square Feet	Percent Occupied at 12/31/11	Annualized Base Rental Revenue (in thousands) [1]	Average Base Rental Revenue Per Sq. Ft. [2]	Average Net Effective Annual Base Rent Per Leased Sq. Ft.[3]
Centre South	Houston	1974	39,134	82 %	230	7.17	801.00
Holly Knight	Houston	1984	20,015	100 %	323	16.14	17.39
Kempwood Plaza	Houston	1974	101,008	96 %	849	8.76	8.33
Lion Square	Houston	1980	119,621	92 %	795	7.22	9.27
Pinnacle of Scottsdale	Phoenix	1991	113,108	100 %	2,315	20.47	21.03
Providence	Houston	1980	90,327	97 %	763	8.71	8.15
Shaver	Houston	1978	21,926	98 %	252	11.73	1.45
Shops at Starwood	Dallas	2006	55,385	98 %	1,396	25.72	27.30
South Richey	Houston	1980	69,928	92 %	279	4.34	8.41
Spoerlein Commons	Chicago	1987	41,455	91 %	743	19.70	19.78
SugarPark Plaza	Houston	1974	95,032	93 %	800	9.05	9.58
Sunridge	Houston	1979	49,359	99 %	407	8.33	9.37
Terravita Marketplace	Phoenix	1997	102,733	96 %	1,333	1.52	14.12
Torrey Square	Houston	1983	105,766	98 %	853	8.23	805.00
Town Park	Houston	1978	43,526	100 %	789	18.13	17.76
Webster Point	Houston	1984	26,060	100 %	289	11.09	10.90
Westchase	Houston	1978	49,573	84 %	495	11.89	11.50
Windsor Park	San Antonio	1992	192,458	76 %	1,434	9.80	9.39
			1,512,199	90 %	$15,803	$11.61	$12.15
Office/Flex Communities:							
Brookhill	Houston	1979	74,757	76 %	$163	$2.87	$4.26
Corporate Park Northwest	Houston	1981	185,627	70 %	1,352	10.40	10.44
Corporate Park West	Houston	1999	175,665	87 %	1,321	8.64	9.11
Corporate Park Woodland	Houston	2000	99,937	96 %	820	8.55	8.73
Dairy Ashford	Houston	1981	42,902	92 %	210	5.32	5.35
Holly Hall	Houston	1980	90,000	100 %	713	7.92	8.09
Interstate 10	Houston	1980	151,000	84 %	654	5.16	5.23
Main Park	Houston	1982	113,410	96 %	711	6.53	6.51
Plaza Park	Houston	1982	105,530	79 %	752	9.02	8.64
Westbelt Plaza	Houston	1978	65,619	76 %	400	8.02	8.16
Westgate	Houston	1984	97,225	100 %	559	5.75	5.69
			1,201,672	86 %	$7,655	$7.41	$7.57

Office Communities:								
9101 LBJ Freeway	Dallas	1985	125,874	69	%	$1,356	$15.61	$15.06
Featherwood	Houston	1983	49,760	84	%	772	18.47	18.02
Pima Norte	Phoenix	2007	33,417	18	%	110	18.29	17.95
Royal Crest	Houston	1984	24,900	85	%	267	12.62	12.57
Uptown Tower	Dallas	1982	253,981	85	%	3,655	16.93	17.00
Woodlake Plaza	Houston	1974	106,169	88	%	1,343	14.37	14.06
Zeta Building	Houston	1982	37,740	89	%	566	16.85	16.52

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Whitestone REIT and Subsidiaries
Property Details
As of December 31, 2011
(continued)

Community Name	Location	Year Built/ Renovated	Leasable Square Feet	Percent Occupied at 12/31/11	Annualized Base Rental Revenue (in thousands) [1]	Average Base Rental Revenue Per Sq. Ft. [2]	Average Net Effective Annual Base Rent Per Leased Sq. Ft.[3]
			631,841	79 %	$8,069	$16.17	$15.98
Total - Operating Portfolio			3,345,712	87 %	$31,527	$10.83	$11.11
The Citadel	Phoenix	1985	28,547	63 %	$126	$7.01	$14.68
Desert Canyon	Phoenix	2000	62,533	74 %	546	11.80	11.80
Gilbert Tuscany Village	Phoenix	2009	49,415	22 %	202	18.58	25.76
The MarketPlace at Central	Phoenix	2000	111,130	46 %	440	8.61	8.88
Total - Development Portfolio			251,625	50 %	$1,314	$10.44	$12.27
Pinnacle Phase II	Phoenix	N/A	—	— %	—	—	—
Shops at Starwood Phase III	Dallas	N/A	—	— %	—	—	—
Total - Property Held For Development [4]			—	— %	—	—	—
Grand Totals			3,597,337	84 %	$32,841	$10.87	$11.21

[1] Calculated as the tenant's actual December 31, 2011 base rent (defined as cash base rents including abatements) multiplied by 12. Excludes vacant space as of December 31, 2011. Because annualized base rental revenue is not derived from historical results that were accounted for in accordance with generally accepted accounting principles, historical results differ from the annualized amounts. Total abatements for leases in effect as of December 31, 2011 equaled approximately $164,000 for the month ended December 31, 2011.

[2] Calculated as annualized base rent divided by net rentable square feet leased as of December 31, 2011. Excludes vacant space as of December 31, 2011.

[3] Represents (i) the contractual base rent for leases in place as of December 31, 2011, 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 of December 31, 2011.

(4) As of December 31, 2011, these properties are held for development with no gross leasable area.

Significant Tenants

The following table sets forth information about our fifteen largest tenants as of December 31, 2011, based upon annualized rental revenues as of December 31, 2011.

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Tenant Name	Location	Annualized Rental Revenue (in thousands) [1]	Percentage of Total Annualized Base Rental Revenues	Initial Lease Date	Year Expiring
Sports Authority	San Antonio	$495	1.5 %	1/1/2004	2015
University of Phoenix	San Antonio	416	1.3 %	10/18/2010	2018
Air Liquide America, L.P.	Dallas	375	1.1 %	8/1/2001	2013
Safeway Stores, Incorporated	Phoenix	344	1.0 %	12/22/2011	2021
Walgreens #3766	Phoenix	279	0.8 %	8/9/2011	2049
X-Ray X-Press Corporation	Houston	272	0.8 %	7/1/1998	2019
Rock Solid Images	Houston	250	0.8 %	4/1/2004	2012
Marshalls	Houston	248	0.8 %	5/12/1983	2013
Eligibility Services	Dallas	236	0.7 %	6/6/2000	2012
Albertson's #979	Phoenix	235	0.7 %	8/9/2011	2022
Merrill Corporation	Dallas	234	0.7 %	12/10/2001	2014
Fitness Alliance, LLC	Phoenix	216	0.7 %	8/17/2011	2021
Compass Insurance	Dallas	213	0.6 %	9/1/2005	2013
River Oaks L-M, Inc.	Houston	212	0.6 %	10/15/1993	2014
Petsmart, Inc	San Antonio	199	0.6 %	1/1/2004	2018
		$4,224	12.7 %		

[1] Annualized Base Rental Revenue represents the monthly base rent as of December 30, 2011 for each applicable tenant multiplied by 12.

Lease Expirations

Our leases range from terms of less than one year to over 15 years with renewal options. As a result of the length of our average lease term, we have, on average, leases for approximately 10% to 20% of our gross leasable area expiring on an annual basis. The following table sets forth a summary schedule of the lease expirations for the leases in place as of December 31, 2011 over the next ten years. Unless otherwise provided, the information set forth in the table assumes that tenants exercise no renewal options or early termination rights.

Year	Number of Leases [1]	Gross Leasable Area Approximate Square Feet	Percent of Total	Annualized Base Rent as of December 31, 2011 Amount (in thousands)[2]	Percent of Total	Per Square Foot
2012	303	625,346	17.4 %	$7,350	22.4 %	$11.75
2013	184	571,141	15.9 %	6,599	20.1 %	11.55
2014	171	543,109	15.1 %	5,880	17.9 %	10.83
2015	89	355,534	9.9 %	3,724	11.3 %	10.47
2016	96	332,766	9.3 %	4,022	12.2 %	12.09
2017	20	90,260	2.5 %	795	2.4 %	8.81
2018	15	106,554	3.0 %	1,380	4.2 %	12.95
2019	7	58,783	1.6 %	681	2.1 %	11.58
2020	7	51,045	1.4 %	588	1.8 %	11.52

2021	9	111,465	3.1	%	833	2.5	% 7.47
Total	901	2,846,003	79.2	%	$31,852	96.9	% $11.19

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(1) Represents rents in place as of December 30, 2011 and does not include option periods.
(2) Annualized base rent represents the monthly base rent as of December 30, 2011 for each tenant multiplied by 12.

Significant Properties

Uptown Tower, Dallas, Texas. Uptown Tower accounted for 6.9% of our total undepreciated real estate assets as of December 31, 2011 and 10.9% of our total revenue for the year ended December 31, 2011. The Uptown Tower office property, which was built in 1982, consists of 253,981 rentable square feet located in the Uptown area of Dallas, Texas. We acquired the property in 2005. The average office space is approximately 2,800 square feet, and the typical tenants include professional services and non-profit organizations. As of December 31, 2011, the building was 85% leased to 80 tenants. Typical lease terms are generally gross lease where the tenant pays a monthly base rent and a reimbursement of operating expenses above its base year. These expense reimbursements include, but are not limited to, property taxes, insurance, security, utilities, landscaping and other common area maintenance items. Generally leased space has a term ranging from less than one year to over 15 years. The federal income tax basis for the Uptown Tower property is $19,589,774 as of December 31, 2011.

No tenant occupied 10% or more of the property's rentable square footage as of December 31, 2011.

The following table sets forth the occupancy rate and average annual rent per leased rentable square foot for the Uptown Tower property at the end of the years ended December 31, 2006 through 2011.
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	Occupancy Rate	Average Annual Base Rent per Leased Square Foot(1)	Average Net Effective Annual Base Rent per Leased Square Foot(2)
2006	81 %	$12.72	$16.58
2007	90 %	14.35	12.82
2008	90 %	16.81	17.14
2009	84 %	16.82	16.69
2010	88 %	17.53	18.02
2011	85 %	16.93	17.00

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(1) Calculated as annualized base rent divided by net rentable square feet leased at December 31, 2011. Excludes vacant space as of December 31, 2011.

(2) Represents (i) the contractual base rent for leases in place as of the dates indicated above, 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 the same date.

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

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Lease Expiration Schedule - Uptown Tower

Year	Number of Leases Expiring	Square Footage of Expiring Leases	Percent of Property's Gross Leasable Area		Annualized Base Rent as of December 31, 2011 Annualized Base Rent of Expiring Leases[1]	Percent of Property's Annualized Base Rent	
2012	42	62,644	25	%	1,009,331	27.6	%
2013	14	41,501	16	%	759,667	20.8	%
2014	9	38,484	15	%	683,397	18.7	%
2015	5	21,696	9	%	395,571	10.8	%
2016	7	40,891	16	%	653,298	17.9	%
2017	2	4,764	2	%	50,870	1.4	%
2018	—	—	—	%	—	—	%
2019	1	5,421	2	%	102,999	2.8	%
2020	—	—	—	%	—	—	%
2021 and thereafter	—	—	—	%	—	—	%
Total	80	215,401	85	%	3,655,133	100.0	%

(1) Calculated as the tenant's actual December 31, 2011 base rent multiplied by 12. Excludes vacant space as of December 31, 2011.

We hold fee simple title to this property, which is subject to a mortgage loan, collateralized by this property and two others. The loan, which has a principal balance, as of December 31, 2011, of approximately $23.6 million, requires monthly interest-only payments for the first twelve months and has a 25 year amortization thereafter, bears interest at a fixed rate of 6.56% and matures on October 1, 2013. While prepayment of the loan is not restricted, prepayments are subject to a penalty provision. The outstanding balance at the time of maturity will be approximately $22.8 million.

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

Real estate taxes for 2011 on the Uptown Tower property were $373,000, and the current real property tax rate with respect to the property is 2.71% of the assessed value.

Indebtedness

As a general policy, we limit our total indebtedness to 60% of the undepreciated book value of our real estate assets as of the date of any borrowing. Our Board may, at any time, waive or change our borrowing policy. Moreover, the terms of certain mortgage loans and other credit facilities to which we may be a party may be more restrictive than our Board's policy. As of December 31, 2011, our total indebtedness was approximately 44% of the undepreciated book value of our real estate assets, and we were in compliance with all financial covenants in all loan documents to which we are a party.

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Description	Oustanding Amount	Percentage of Total Debt	
Fixed rate notes			
$1.4 million 5.00% Note, due 2012	$1,318	1	%
$14.1 million 5.659% Note, due 2013	14,110	11	%
$3.0 million 6.00% Note, due 2021 (1)	2,978	2	%
$10.0 million 6.04% Note, due 2014	9,326	7	%
$1.5 million 6.50% Note, due 2014	1,471	1	%
$11.2 million 6.52% Note, due 2015	10,763	8	%
$21.4 million 6.53% Notes, due 2013	19,524	15	%
$24.5 million 6.56% Note, due 2013	23,597	18	%
$9.9 million 6.63% Notes, due 2014	9,221	7	%
$0.5 million 5.05% Notes, due 2011	23	—	%
Floating rate note			
Unsecured line of credit LIBOR plus 3.5% - 4.5%, due 2013	11,000	9	%
$26.9 million LIBOR + 2.86% Note, due 2013	24,559	19	%
	$127,890	100	%

(1) The 6.00% interest rate is fixed through March 30, 2016. On March 31, 2016 the interest rate will be reset to the rate of interest for a five year balloon note with a thirty year amortization as published by the Federal Home Loan Bank.

Competition

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

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

Insurance

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

Employees

As of December 31, 2011 we had 62 full-time employees.

Legal Proceedings

From time to time, we may be party to a variety of legal proceedings arising in the ordinary course of our business. We are not a party to any material litigation or legal proceedings or, to the best of our knowledge, any threatened litigation or legal proceedings that, in the opinion of management, individually or in the aggregate, would have a material adverse effect on our results of operations or financial condition.

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Regulation

Environmental Regulations

Our properties, as well as any other properties that we may acquire in the future, are subject to various federal, state and local laws, ordinances and regulations. They include, among other things, zoning regulations, land use controls, environmental controls relating to air and water quality, noise pollution and indirect environmental impacts such as increased motor vehicle activity. We believe that we have all permits and approvals necessary under current law to operate our properties.

All real property and the operations conducted on real property are subject to federal, state and local laws and regulations relating to environmental protection and human health and safety. These laws and regulations generally govern air and water quality, noise pollution and indirect environmental impacts such as increased motor vehicle activity, wastewater discharges, air emissions, the operation and removal of underground and above-ground storage tanks, the use, storage, treatment, transportation and disposal of solid and hazardous materials, and the remediation of contamination associated with disposals. Under these laws and regulations, a current or previous owner or operator of real property may be liable for the cost of removal or remediation of hazardous or toxic substances on, under or in such property. Some of these laws and regulations may impose joint and several liability on tenants, owners or operators for the costs of investigation or remediation of contaminated properties, regardless of fault or the legality of the original disposal and whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances.

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

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

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

We believe that our properties are in compliance in all material respects with all federal, state and local ordinances and

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regulations regarding the handling, discharge and emission of hazardous or toxic substances. During the re-financing of twenty-one of our properties in late 2008 and early 2009, Phase I environmental site assessments were completed at those properties. These assessments revealed that five of the twenty-one properties currently or previously had a dry cleaning facility as a tenant. Since release of chlorinated solvents can occur as a result of dry cleaning operations, a Phase II subsurface investigation was conducted at the five identified properties, and all such investigations revealed the presence of chlorinated solvents. Based on the findings of the Phase II subsurface investigations, we promptly applied for entry into the Texas Commission on Environmental Quality Dry Cleaner Remediation Program, or DCRP, for four of the identified properties and were accepted. We conducted subsequent testing on the fifth property and believe no further action is necessary at this time with respect to this property. Upon entry, and continued good standing with the DCRP, the DCRP administers the Dry Cleaning Remediation fund to assist with remediation of contamination caused by dry cleaning solvents. The response actions associated with the ongoing investigation and subsequent remediation, if necessary, have not been determined at this time. However, we believe that the costs of such response actions will be immaterial, and therefore no liability has been recorded to our financial statements. We have not been notified by any governmental authority, and are not otherwise aware, other than the five identified properties described above, of any material noncompliance, liability or claim relating to hazardous or toxic substances in connection with any of our present or former properties. We have not recorded in our financial statements any material liability in connection with environmental matters. Nevertheless, it is possible that the environmental assessments conducted thus far and currently available to us do not reveal all potential environmental liabilities. It is also possible that subsequent investigations will identify material contamination or other adverse conditions, that adverse environmental conditions have arisen subsequent to the performance of the environmental assessments, or that there are material environmental liabilities of which management is unaware.

Americans with Disabilities Act of 1990

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

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth beneficial ownership information with respect to the Company's Class A common shares, Class B common shares and OP units, as of April 13, 2012, including shares such persons had a right to acquire within 60 days after April 13, 2012, for (i) each person, or group of affiliated persons, who is known by us to own beneficially five percent or more of any class of our common shares; (ii) each of our trustees, (iii) each of our named executive officers and (iii) all of our trustees and executive officers as a group. The officers, trustees or affiliates of the Company may participate in the exchange offer with respect to the Class A common shares and OP units owned by them to the same extent and on the same terms and conditions as any person who is not an officer, trustee or affiliate of the Company or the Operating Partnership and have indicated to us that they may choose to do so.

Name of Beneficial Owner [1]	Class A Common Shares Beneficially Owned [2]	Class A Percentage Ownership	Class B Common Shares Beneficially Owned [2]	Class B Percentage Ownership	Total Percentage Ownership of Whitestone	OP Units Beneficially Owned [2]	OP Units Percentage Ownership
Named Executive Officers:							
James C. Mastandrea	72,305[3]	4.2%	30,468	*	*	234,637[12]	1.9%
John J. Dee	40,904[4]	2.4%	12,746	*	*	—	—
David K. Holeman	23,879[5]	1.4%	9,121	*	*	—	—
Valarie L. King	18,667[6]	*	—	*	*	—	—
Daniel E. Nixon, Jr.	16,065[7]	*	5,602	*	*	—	—
Non-Employee Trustees:							
Daryl J. Carter	1,667	*	—	—	*	—	—
Daniel G. DeVos	619	*	34,248	*	*	—	—
Donald F. Keating	13,763[8]	*	8,387	*	*	4,619	*
Jack L. Mahaffey	23,532[9]	*	2,378	*	*	10,648	*
All executive officers and trustees as a Group (9 persons) [10]	211,401	12.2 %	102,950	1.0%	2.6%	249,904	2.0%
Operating Partnership:							
Whitestone REIT[11]	—	—	—	—	—	11,316,444	92.8%

*Less than 1%

(1) Unless otherwise indicated, the address for each beneficial owner is 2600 S. Gessner, Suite 500, Houston, Texas 77063.

(2) Beneficial ownership is determined in accordance with the rules of the SEC that deem shares to be beneficially owned by any person or group who has or shares voting or investment power with respect to those shares.

(3) Includes 63,448 restricted Class A common shares and excludes 114,357 restricted Class A common share units issued pursuant to the Plan and 234,637 OP units issued in connection with our acquisition of Spoerlein Commons, which are redeemable for cash or, at our option, for Class A common shares on a one-for-one basis. Mr. Mastandrea's total ownership of common shares and OP units represents 2.6% of all common shares outstanding, assuming conversion of all OP units to Class A common shares, excluding OP units held by Whitestone REIT.

(4) Includes 40,216 restricted Class A common shares and excludes 95,249 restricted Class A common share units issued pursuant to the Plan.

(5) Includes 23,443 restricted Class A common shares and excludes 18,000 restricted Class A common share units issued pursuant to the Plan.

(6) Includes 15,798 restricted Class A common shares and excludes 18,000 restricted Class A common share units issued pursuant to the Plan.

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(7) Includes 15,876 restricted Class A common shares and excludes 22,500 restricted Class A common share units issued pursuant to the Plan.

(8) Excludes 4,619 OP units, which are redeemable for cash or, at our option, for Class A common shares on a one-for-one basis.

(9) Excludes 10,648 OP units, which are redeemable for cash or, at our option, for Class A common shares on a one-for-one basis.

(10) None of the shares beneficially owned by our trustees or NEOs have been pledged as security for an obligation.

(11) The natural persons who hold voting and investment power over the shares beneficially owned by Whitestone REIT are the Named Executive Officers and Trustees included within this table.

(12) Includes OP units owned by Midwest Development Venture IV ("MidWest IV"). Mr. Mastandrea is the controlling limited partner of MidWest IV.

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POLICIES WITH RESPECT TO CERTAIN ACTIVITIES

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

Investments in Real Estate and Interests in Real Estate

Commercial Real Estate

We intend to continue acquiring properties that meet or can be repositioned to meet our criteria for Community Centered Properties in our target markets of Phoenix, Chicago, Dallas and San Antonio. We believe that declining commercial real estate prices resulting from banks and other financial institutions and conduit lenders disposing of large numbers of commercial properties acquired between 2005 and 2010, combined with a shortage of affordable mortgage financing forcing distressed property owners to sell, will provide us with excellent opportunities in these markets to acquire quality properties. Once we acquire a property, we seek to reposition the property and add value through renovating and re-tenanting in order to create a Whitestone-branded Community Centered Property. We seek to accomplish this by (1) stabilizing occupancy, with per property occupancy goals of 90% or higher; (2) adding leasable square footage to existing structures; (3) developing and building on excess land; (4) upgrading and renovating existing structures; and (5) investing significant effort in recruiting tenants whose goods and services meet the needs of the surrounding neighborhood.

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

We target properties from 25,000 to 200,000 square feet in established or developing neighborhoods. In our experience, large institutional investors generally do not compete to purchase these types of properties, thus limiting competition that would typically inflate the values of acquisition properties. We are not specifically limited by our governance documents, our management policies or the governance documents of our Operating Partnership in the number or size of properties we may acquire or the percentage of our assets that we may invest in a single property. The number and mix of properties we acquire will depend on real estate and market conditions existing at the time we acquire properties and the availability of debt and equity capital.

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

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

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

In addition, we may purchase properties and lease them back to the sellers of such properties. While we will use our best efforts to structure any such sale-leaseback transaction such that the lease will be characterized as a “true lease” so that we will be treated as the owner of the property for federal income tax purposes, we cannot assure you that the Internal Revenue Service, or the IRS, will not challenge such characterization.

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In the event that any such sale-leaseback transaction is recharacterized as a financing transaction for federal income tax purposes, deductions for depreciation and cost recovery relating to such property would be disallowed.

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

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

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

- the location of the property and visibility to high traffic areas;
- the physical condition;
- the property's historical operating use and any potential liabilities;
- impediments to value identified from surveys, environmental reports, title reports and policies and similar materials;
- current and pro forma financial information to determine a property's income-producing history and capacity, based on rent rolls and lease expiration format;
- the “repositioning” prospects for transforming the property to a Whitestone-branded Community Centered Property;
- the potential prospects for sale of the property when the transformed value is realized;
- market demographics and trends, along with unique needs within a community; and
- income tax considerations.

Our obligation to purchase any property will generally be conditioned upon completion of due diligence including, but not limited to, where appropriate: plans and specifications; environmental reports; surveys; evidence of marketable title subject to such liens and encumbrances as are acceptable to us; financial statements and other data covering recent operations of properties having operating histories; and title and liability insurance policies.

We will not purchase any property unless we are generally satisfied with the environmental status of the property. We may obtain a Phase I environmental site assessment, which includes a visual survey of the building and the property in an attempt to identify areas of potential environmental concerns, visually observing neighboring properties to assess

surface conditions or activities that may have an adverse environmental impact on the property, and contacting local governmental agency personnel and performing a regulatory agency file search in an attempt to determine any known environmental concerns in the immediate vicinity of the property. A Phase I environmental site assessment does not generally include any sampling or testing of soil, groundwater or building materials from the property.

In purchasing, leasing and developing properties, we will be subject to risks generally incident to the ownership of real estate. See “Risk Factors - Risks Associated with Real Estate,” which is incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

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

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Commercial Mortgage Loans

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

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

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

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

- the ratio of the amount of the investment in the loan to the value of the property by which it is secured;
- the property's potential for capital appreciation;
- expected levels of rental and occupancy rates;
- current and projected cash flow of the property;
- potential for rental increases;
- the degree of liquidity of the investment;
- geographic location of the property;
- the condition and use of the property;
- the property's income-producing capacity;
- the quality, experience and creditworthiness of the borrower;
- general economic conditions in the area where the property is located;
- potential impact on our REIT qualification; and
- any other factors that our management believes are relevant.

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

amortization, although many loans of the nature which we will consider provide for payments of interest only and a payment of principal in full at the end of the loan term.

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

Our mortgage loan investments may be subject to regulation by federal, state and local authorities and subject to various laws and judicial and administrative decisions imposing various requirements and restrictions, including among other things, regulating credit granting activities, establishing maximum interest rates and finance charges, requiring disclosures to

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customers, governing secured transactions and setting collection, repossession and claims handling procedures and other trade practices. In addition, certain states have enacted legislation requiring the licensing of mortgage bankers or other lenders and these requirements may affect our ability to effectuate our proposed investments in mortgage loans. Commencement of operations in these or other jurisdictions may be dependent upon a finding of our financial responsibility, character and fitness. We may determine not to make mortgage loans in any jurisdiction in which the regulatory authority believes that we have not complied in all material respects with applicable requirements.

Other Securities

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

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

- the percentage of our assets that may be invested in any type of mortgage or in any single mortgage; or
- the types of properties subject to mortgages in which we may invest.

Our Disposition Strategy

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

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

Development and Construction of Properties

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

Borrowing Policies

As of December 31, 2011, 19 of our 45 properties were not subject to mortgages. If we acquire a property for cash in the future, we will most likely fund a portion of the purchase price with debt. By operating and acquiring on a leveraged basis, we will have more funds available for investment in properties. We expect that initially we will purchase assets with cash, and subsequently obtain debt financing. This will allow us to make more investments than would otherwise be possible, resulting in a more diversified portfolio of assets and higher returns. However, this also subjects us to risks associated with borrowing. For example, our ability to increase our diversification through borrowing could be adversely impacted if banks and other lending institutions reduce the amount of funds available for loans secured by real estate. See “Risk Factors - Risks Associated with Our Indebtedness and Financing,” which is incorporated herein by reference to the Company's annual report on Form 10-K for the year ended December 31, 2011. When interest rates on mortgage loans are high or financing is otherwise unavailable on a

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timely basis, we may purchase certain properties for cash with the intention of obtaining a mortgage loan for a portion of the purchase price at a later time.

As a general policy we intend to maintain a ratio of total indebtedness to undepreciated book value of our real estate assets that is less than 60%. Additionally, we have entered into a revolving credit facility which is subject to our 60% leverage policy. As of December 31, 2011, our ratio of total indebtedness to undepreciated book value of our assets was 44%. Additionally, we have entered into a revolving credit facility which is subject to our 60% leverage policy. We cannot, however, assure you that we will be able to continue to achieve this objective.

By operating on a leveraged basis, we expect that we will have more funds available for investment in properties and other investments. This will allow us to make more investments than would otherwise be possible, resulting in a more diversified portfolio. Although we expect our liability for the repayment of indebtedness to be limited to the value of the property securing the liability and the rents or profits derived therefrom, our use of leveraging increases the risk of default on the mortgage payments and a resulting foreclosure of a particular property. See “Risk Factors - Risks Associated with Real Estate,” which is incorporated herein by reference to the Company's annual report on Form 10-K for the year ended December 31, 2011. To the extent that we do not obtain mortgage loans on our properties, our ability to acquire additional properties will be restricted. We will use our best efforts to obtain financing on the most favorable terms available to us. Lenders may have recourse to assets not securing the repayment of the indebtedness.

We may reevaluate and change our debt policy in the future without a shareholder vote. Factors that we would consider when reevaluating or changing our debt policy include, but are not limited to, then-current economic conditions, the relative cost of debt and equity capital, any acquisition opportunities, the ability of our properties to generate sufficient cash flow to cover debt service requirements, the appreciation of the market value of the property and other similar factors. Further, we may increase or decrease our ratio of debt to undepreciated book value of our real estate assets in connection with any change of policy.

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

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

We may acquire securities of entities engaged in real estate activities or securities of other issuers, including for the purpose of exercising control over such entities and investing in other companies or funds owning securities. However, all acquisitions of securities of such entities will be subject to the percentage ownership limitations and gross income tests necessary for REIT qualification. We refer you to the “Material U.S. Federal Income Tax Considerations - Asset Tests” and the “Material U.S. Federal Income Tax Considerations - Gross Income Tests” sections of this prospectus for a discussion of these tests. We may acquire all or substantially all of the securities or assets of REITs or similar entities where such investments would be consistent with our investment policies. We anticipate that we will only acquire securities or other interests in issuers engaged in commercial real estate activities involving retail, office or mixed retail-office properties. We may also invest in entities owning undeveloped acreage. Neither our governance documents nor the governance documents of our Operating Partnership place any limit or restriction on the percentage of our assets that may be invested in securities of or interests in other issuers.

Equity Capital Policies

In the event that our Board determines to raise additional equity capital, it has the authority, without shareholder approval, to issue additional common shares or preferred shares of beneficial interest. Additionally, our Board could cause our Operating Partnership to issue OP units which are convertible into our Class A common shares. Subject to limitations contained in our organizational and governance documents and those of our Operating Partnership, our Board could issue, or cause to be issued, such securities in any manner (and on such terms and for such consideration) it deems appropriate, including in exchange for real estate.

We have issued securities in exchange for real estate and we expect to continue to do so in the future. Existing shareholders have no preemptive right to purchase such shares in any offering, and any such offering might cause a dilution of a shareholder's initial investment.

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Other Policies and Investments

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

- invest in the securities of other issuers for the purpose of exercising control over an issuer (except as described above);
- underwrite securities of other issuers; or
- actively trade in loans or other investments.

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

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

We are subject to the full information reporting requirements of the Exchange Act. Pursuant to these requirements, we file periodic reports, proxy statements and other information, including certified financial statements, with the SEC. See "Where You Can Find More Information."

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CERTAIN PROVISIONS OF MARYLAND LAW AND OF OUR DECLARATION OF TRUST AND BYLAWS

The following summary of certain provisions of Maryland law and of our declaration of trust and bylaws does not purport to be complete and is subject to and qualified in its entirety by reference to Maryland law and our declaration of trust and bylaws, copies of which are exhibits to the registration statement of which this prospectus is a part. See "Where You Can Find More Information."

General

We are organized as a real estate investment trust under the laws of the state of Maryland. We have a perpetual duration. Our declaration of trust permits us to be terminated upon the affirmative vote of the holders of a majority of the outstanding shares entitled to vote and the approval of a majority of the entire Board. Our bylaws require us to conduct annual meetings of our shareholders for the purpose of electing trustees, each of whom will serve for a three-year term, and to transact any other business as may properly come before the shareholders.

Our Board of Trustees

Our declaration of trust provides that the number of our trustees may be determined pursuant to our bylaws and our bylaws provide that such number may be established, increased or decreased by our Board but may not be fewer than one or more than fifteen. Our Board is divided into three classes, with each trustee holding office for three years and until his successor is duly elected and qualifies. Any vacancy may be filled only by the affirmative vote of a majority of the remaining trustees in office, even if the remaining trustees do not constitute a quorum, and any trustee elected to fill a vacancy will serve for the remainder of the full term of the trusteeship in which the vacancy occurred.

Our Board is responsible for the management of our business and affairs. We currently have a total of five members on our Board. Of our five current trustees, four are considered independent trustees. Each trustee will serve until the annual meeting of shareholders at which his three-year term ends and until his successor has been duly elected and qualifies. Although the number of trustees may be increased or decreased, a decrease will not have the effect of shortening the term of any incumbent trustee. Any trustee may resign at any time and may be removed for cause by the shareholders upon the affirmative vote of not less than two-thirds of the shares then outstanding and entitled to vote generally in the election of trustees.

Our trustees must perform their duties in good faith and in a manner reasonably believed to be in our best interests. Further, trustees must act with such care as an ordinarily prudent person in a like position would use under similar circumstances, including exercising reasonable inquiry, when taking actions.

Removal of Trustees

Our declaration of trust provides that a trustee may be removed only for cause upon the affirmative vote of not less than two-thirds of the shares then outstanding and entitled to vote generally in the election of trustees. This provision, when coupled with the exclusive power of our Board to fill vacancies on our Board, precludes shareholders from (1) removing incumbent trustees except for cause upon a substantial affirmative vote and (2) filling the vacancies created by such removal with their own nominees.

Business Combinations

Under Maryland law, “business combinations” between a Maryland real estate investment trust and an interested shareholder or an affiliate of an interested shareholder are prohibited for five years after the most recent date on which the interested shareholder becomes an interested shareholder. These business combinations include a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested shareholder is defined as:

- any person who beneficially owns ten percent or more of the voting power of the trust's voting shares; or
- an affiliate or associate of the trust who, at any time within the two-year period prior to the date in question, was the beneficial owner of ten percent or more of the voting power of the then outstanding shares of the trust.

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A person is not an interested shareholder under the statute if the board of trustees of the trust approved in advance the transaction by which he otherwise would have become an interested shareholder. However, in approving a transaction, the board may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by our Board.

After the five-year prohibition, any business combination between a Maryland real estate investment trust and an interested shareholder generally must be recommended by the board of trustees of the trust and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of outstanding voting shares of the trust; and
- two-thirds of the votes entitled to be cast by holders of voting shares of the trust other than shares held by the interested shareholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested shareholder.

These super-majority vote requirements do not apply if the trust's common shareholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested shareholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of trustees of the trust before the time that the interested shareholder becomes an interested shareholder. Pursuant to the statute, our Board has exempted any business combination involving any person. Consequently, the five-year prohibition and the super-majority vote requirements will not apply to business combinations between us and any person. As a result, any person may be able to enter into business combinations with us that may not be in the best interest of our shareholders, without compliance with the super-majority vote requirements and the other provisions of the statute.

Should our Board later resolve to opt back into these provisions, the business combination statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

Control Share Acquisitions

Maryland law provides that control shares of a Maryland real estate investment trust acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquiror, by officers or by employees who are trustees of the trust are excluded from shares entitled to vote on the matter. Control shares are voting shares which, if aggregated with all other shares owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing trustees within one of the following ranges of voting power:

- one-tenth or more but less than one-third,
- one-third or more but less than a majority, or
- a majority or more of all voting power.

Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained shareholder approval. A control share acquisition means the acquisition of issued and outstanding control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel our Board of the trust to call a special meeting of shareholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the trust may itself present the question at any shareholders' meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the trust may redeem for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the trust to redeem control shares is subject to certain

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conditions and limitations. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquiror or of any meeting of shareholders at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a shareholders meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other shareholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition.

The control share acquisition statute does not apply (a) to shares acquired in a merger, consolidation or share exchange if the trust is a party to the transaction, or (b) to acquisitions approved or exempted by the declaration of trust or bylaws of the trust.

The control share acquisition statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

Subtitle 8

Subtitle 8 of Title 3 of the Maryland General Corporation Law permits a Maryland real estate investment trust with a class of equity securities registered under the Exchange Act and at least three independent trustees to elect to be subject, by provision in its declaration of trust or bylaws or a resolution of its Board and notwithstanding any contrary provision in the declaration of trust or bylaws, to any or all of five provisions:

- a classified board,
- two-thirds vote requirement for removing a trustee,
- a requirement that the number of trustees be fixed only by vote of the trustees,
- a requirement that a vacancy on the board be filled only by the remaining trustees and for the remainder of the full term of the class in which the vacancy occurred until a successor is elected and qualifies, and
- a majority requirement for the calling of a special meeting of shareholders.

Our bylaws already provide that, except as may be provided by our Board in setting the terms of any class or series of preferred shares, any vacancy on our Board may be filled only by a majority of the remaining trustees, even if the remaining trustees do not constitute a quorum, and any trustee elected to fill a vacancy will serve for the remainder of the full term of the trusteeship in which the vacancy occurred and until a successor is elected and qualifies. Pursuant to Subtitle 8, we have elected to be subject to the remaining provisions described above.

Amendments to Our Declaration of Trust and Bylaws

Our declaration of trust may be amended by a majority of the trustees, without any action by the shareholders (i) to qualify as a REIT under the Code or under the Maryland REIT Law, (ii) in any respect in which the charter of a corporation may be amended under Maryland General Corporation Law, and (iii) as otherwise provided in our declaration of trust. All other amendments must be declared advisable by our Board and approved by the affirmative vote of holders of a majority of all shares entitled to vote on the matter, except that any amendment to the provisions of our declaration of trust addressing the removal of trustees and certain amendments to our declaration of trust must be approved by the affirmative vote of holders of two-thirds of all shares entitled to vote on the matter. Our Board has the exclusive power to adopt, amend and repeal any provision of our bylaws or to make new bylaws.

Meetings and Special Voting Requirements

An annual meeting of our shareholders will be held each year. Special meetings of shareholders may be called by the chairman of our Board, a majority of our trustees, our chief executive officer or our president and must be called by or

at the direction of the chairman of our Board upon the written request of shareholders entitled to cast at least a majority of the votes entitled to be cast on any matter that may properly be considered at a meeting of shareholders. Upon receipt of such written request and other required information, the chairman of our Board will inform the requesting shareholders of the estimated cost of preparing and mailing a notice, payment for which must be received prior to the mailing of any notice. Our Board must designate a date for the special meeting within ten days of receiving the request, or if it does not, the date will be the 90th day after the record date, and the record date, unless otherwise set by our Board within 30 days of receiving the request, will be the 30th day after the date of delivery of the request. The presence, either in person or by proxy, of shareholders entitled to cast a majority of all votes entitled to be cast will constitute a quorum at any meeting of shareholders. Generally, the affirmative vote

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of a majority of the votes cast at a meeting at which a quorum is present is sufficient to take shareholder action, except that the approval of shareholders entitled to cast at least two-thirds of the votes entitled to be cast is required remove a trustee or to amend the declaration of trust provisions addressing the removal of trustees and the vote required for certain amendments to our declaration of trust and the affirmative vote of shareholders entitled to cast at least a majority of the votes entitled to be cast is required for:

- any other amendment of our declaration of trust, except that our Board may amend our declaration of trust without shareholder approval to increase or decrease the aggregate number of our shares or the number of our shares of any class or series that we have the authority to issue, to qualify as a REIT under the Code or the Maryland REIT Law or in any respect in which the charter of a Maryland corporation may be amended without stockholder approval;
- any merger, consolidation or sale or other disposition of all or substantially all of our assets (which also requires the approval of our Board); and
- our termination (which also must be approved by action of our Board).

Advance Notice of Trustee Nominations and New Business

Our bylaws provide that with respect to an annual meeting of shareholders, nominations of individuals for election to our Board and the proposal of business to be considered by shareholders may be made only (i) pursuant to our notice of the meeting, (ii) by or at the direction of our Board or (iii) by a shareholder who is a shareholder of record both at the time of giving the advance notice required by our bylaws and at the time of the meeting, who is entitled to vote at the meeting in the election of each individual so nominated or on any such other business and who has complied with the advance notice procedures of the bylaws. With respect to special meetings of shareholders, only the business specified in our notice of the meeting may be brought before the meeting. Nominations of individuals for election to our Board at a special meeting may be made only (i) by or at the direction of our Board, or (ii) provided that the meeting has been called in accordance with our bylaws for the purpose of electing trustees, by a shareholder who is a shareholder of record both at the time of giving the advance notice required by our bylaws and at the time of the meeting, who is entitled to vote at the meeting in the election of each individual so nominated and who has complied with the advance notice provisions of the bylaws.

Anti-Takeover Effect of Certain Provisions of Maryland Law and our Declaration of Trust and Bylaws

The business combination provisions of Maryland law (if our Board opts back into them), the control share acquisition provisions of Maryland law, the classification of our Board, the two-thirds vote and cause requirements for removing a trustee, the restrictions on transfer and ownership of shares in our declaration of trust, and the advance notice provisions of our bylaws could 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 our shareholders.

Ownership Limit

Our declaration of trust provides that no person or entity may beneficially own, or be deemed to own by virtue of the applicable constructive ownership provisions of the Code, more than 9.8% (by value or by number of shares, whichever is more restrictive) of our outstanding 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. We refer to these restrictions as the “ownership limits.” For a fuller description of this restriction and the constructive ownership rules, see “Description of Securities - Restrictions on Ownership and Transfer.”

Limited Liability and Indemnification of Trustees, Officers, Employees and Other Agents

Maryland law permits us to include in our declaration of trust a provision limiting the liability of our trustees and officers to us and our shareholders for money damages, except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment and that is material to the cause of action. Our declaration of trust contains a provision that eliminates trustees' and officers' liability to the maximum extent permitted by Maryland law.

Maryland law permits a Maryland real estate investment trust to indemnify and advance expenses to its trustees, officers, employees and agents to the same extent as permitted for directors and officers of Maryland corporations. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which

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they may be made or threatened to be made a party by reason of their service in those or other capacities unless it is established that:

- the act or omission of the director or officer was material to the matter giving rise to the proceeding and (i) was committed in bad faith or (ii) was the result of active and deliberate dishonesty;
- the director or officer actually received an improper personal benefit in money, property or services; or
- in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful.

However, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that personal benefit was improperly received, unless in either case a court orders indemnification and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of:

- a written affirmation by the director or officer of his good faith belief that he has met the standard of conduct necessary for indemnification by the corporation; and
- a written undertaking by him on his behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

Our declaration of trust authorizes our company, to the maximum extent permitted by Maryland law, to obligate itself to indemnify any present or former trustee or officer or any individual who, while a trustee or officer and at our request, serves or has served another real estate investment trust, corporation, partnership, joint venture, trust, employee benefit plan or other enterprise as a trustee, director, officer, partner, employee or agent, against any claim or liability arising from that status and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. Our bylaws obligate us to provide such indemnification and advance of expenses. Our declaration of trust and bylaws also permit us to indemnify and advance expenses to any person who served our predecessor in any of the capacities described above and any employee or agent of us or our predecessor.

If our Operating Partnership liquidates, debts and other obligations must be satisfied before the partners may receive any distributions. Any distributions to partners then will be made to partners in accordance with their respective positive capital account balances.

Term

The partnership will continue until December 31, 2046, or until sooner dissolved upon:

- the sale of all or substantially all the assets of the partnership;
- the agreement of those partners holding at least 67% of the OP units; or
- the bankruptcy of us or the partnership.

Indemnification and Limitation of Liability

Our Operating Partnership shall indemnify us and our trustees and officers from any liability, loss, cost or damage incurred by us and our trustees and officers by reason of anything done or refrained from in connection with our Operating Partnership, except for any liability, loss, cost or damage incurred as a result of fraud, willful misconduct or gross negligence. In addition, the partnership agreement expressly limits our liability by providing that we shall not be liable or accountable to our Operating Partnership for anything in the absence of fraud, willful misconduct, or gross negligence and breaches of the partnership agreement, and we shall not be liable to our Operating Partnership for money damages except (1) for active and deliberate dishonesty established by a final judgment, order or decree of a court of competent jurisdiction, or (2) if the indemnified party received an improper personal benefit in money,

property or services.

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THE OPERATING PARTNERSHIP AGREEMENT

The material terms and provisions of the partnership agreement of Whitestone REIT Operating Partnership, L.P. which we refer to as the "partnership agreement" are summarized below. For more detail, you should refer to the partnership agreement itself a copy of which is filed as an exhibit to the registration statement of which this prospectus is a part. For purposes of this section, references to "we," "our," "us" and "our company" refer to Whitestone REIT.

General

Our Operating Partnership was formed in December 1998 to acquire, own and operate properties on our behalf. As a result of this structure, we are considered to be an umbrella partnership real estate investment trust, or UPREIT. An UPREIT is a structure REITs often use to acquire real property from owners on a tax deferred basis (the sellers can generally accept partnership units and defer taxable gain otherwise required to be recognized by them upon the disposition of their properties). Such owners may also desire to achieve diversity in their investment and other benefits afforded to shareholders in a REIT. For purposes of satisfying the asset and income tests for qualification as a REIT for tax purposes, the REIT's proportionate share of the assets and income of our Operating Partnership will be deemed to be assets and income of the REIT.

Substantially all of our assets are currently held by our Operating Partnership and we expect that additional investments will also be held in this manner. We are the sole general partner of our Operating Partnership.

Management of Our Operating Partnership

As our Operating Partnership's sole general partner, we generally have complete and exclusive discretion to manage and control our Operating Partnership's business and to make all decisions affecting its assets. This authority generally includes, among other things, the authority to:

- operate our business;
- prepare applications for rezoning and objections to rezoning of other property;
- improve, renovate and perform construction activities with regard to the properties owned by the Operating Partnership;
- procure and maintain insurance;
- acquire and own real, personal and mixed property of the Operating Partnership in the name of the Operating Partnership or in the name of a nominee;
- negotiate, execute and deliver agreements on behalf of and in the name of the Operating Partnership;
- borrow money on a secured or unsecured basis;
- coordinate all accounting and clerical functions of the Operating Partnership;
- acquire any assets, and encumber, sell, assign, transfer, ground lease or otherwise dispose of any or all of the assets of the Operating Partnership, or any part thereof or interest therein including, without limitation, by way of any OP unit dividend, split, recapitalization, merger, consolidation, combination, exchange of OP units or other similar Operating Partnership organizational change; and
- organize one or more partnerships, corporations, limited liability companies or other business entities which are controlled, directly or indirectly, by the Operating Partnership.

Our Operating Partnership will pay all the administrative and operating costs and expenses it incurs in acquiring and operating real properties. Our Operating Partnership also will pay all of our administrative costs and expenses and such expenses will be treated as expenses of our Operating Partnership. Such expenses will include:

- all expenses relating to our formation and continuity of existence;

- all expenses relating to the public offering and registration of our securities;
- all expenses associated with the preparation and filing of our periodic reports under federal, state or local laws or regulations;
- all expenses associated with our compliance with applicable laws, rules and regulations; and
- all of our other operating or administrative costs incurred in the ordinary course of business.

The only costs and expenses we may incur for which we will not be reimbursed by our Operating Partnership will be costs and expenses relating to properties we may own outside of our Operating Partnership. We will pay the expenses relating to such properties directly.

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Transferability of Interests

We are generally not allowed to withdraw as the general partner of our Operating Partnership or transfer our general partnership interest in our Operating Partnership (except to an affiliate of ours) without the consent of limited partners holding not less than a majority of the issued and outstanding OP units held by all limited partners. The principal exception to this is if we transfer our general partnership interest in connection with a recapitalization of our Operating Partnership and either (1) such recapitalization has been approved by the consent of limited partners holding not less than a majority of the issued and outstanding OP units held by all limited partners or (2) an appropriate adjustment to the number of units held by each limited partner is made in accordance with the terms of the partnership agreement. The limited partners have no right to remove us as general partner.

Capital Contributions

We have made certain capital contributions to our Operating Partnership. If our Operating Partnership requires additional funds at any time in excess of capital contributions made by us or from borrowing, we may borrow funds from a financial institution or other lender and lend or contribute such funds to our Operating Partnership.

Amendment to the Partnership Agreement

By its execution of the partnership agreement, each limited partner grants to us the power to amend the partnership agreement other than any amendment:

- to enlarge the obligation of any partner to make contributions to the capital of our Operating Partnership, which requires our consent and the consent of any partner affected by such amendment;
- to modify the allocation of profits or losses or distributions among partners except as may be otherwise permitted under the partnership agreement, which requires our consent and the consent of the holders of not less than 67% of the issued and outstanding OP units held by all limited partners;
- to amend the transferability provisions contained in the partnership agreement, the provision regarding the limitations on the power and authority of the general partner and certain provisions regarding the organization and name of our Operating Partnership, which requires our consent and the consent of the holders of not less than 67% of the issued and outstanding OP units held by all limited partners; or
- the amendment provisions contained in the partnership agreement, which requires our consent and the consent of all of the limited partners.

Redemption Rights

The limited partners of our Operating Partnership have the right to cause our Operating Partnership to redeem all or a portion of their OP units for cash equal to the value of an equivalent number of our Class A common shares, or, at our option, we may issue one of our Class A common shares for each OP unit redeemed. These exchange rights may not be exercised, however, if and to the extent that the delivery of shares upon such exercise would:

- result in our shares being beneficially owned by fewer than 100 persons;
- result in any person owning more than 9.8% by value or number of shares, whichever is more restrictive, of our outstanding Class A common shares (unless exempted by our Board);
- result in us being “closely held” within the meaning of Section 856(h) of the Code or otherwise cause us to fail to qualify as a REIT under the Code (including by causing us to own 10% or more of the ownership interests in a tenant within the meaning of Section 856(d) (2)(B) of the Code);
- cause the acquisition of our shares to be “integrated” with any other distribution of interests in us for purposes of complying with the registration provisions of the Securities Act; or

- cause the Operating Partnership to be terminated as a partnership under Section 708 of the Code.

Issuance of Additional Units, Common Shares or Convertible Securities

We, as the general partner, may cause our Operating Partnership to issue additional units as follows:

- to us upon our issuance of additional common shares and the contribution of the net proceeds thereof as a capital contribution to the partnership;
- upon exercise of conversion rights to holders of preference units that are convertible into OP units;

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- to us or limited partners holding OP units if and to the extent of such partner's participation in any reinvestment program as defined in the partnership agreement;
- preference units to us upon our issuance of debt or equity securities other than common shares and the contribution of the net proceeds thereof as a capital contribution to the partnership; and
- at our discretion, OP units or preference units to existing or newly admitted partners in exchange for the contribution by a partner of capital contributions to the partnership.

Allocations of Net Income and Net Losses to Partners

The partnership agreement provides that taxable income is allocated to the partners of our Operating Partnership in accordance with their relative percentage interests. Subject to compliance with the provisions of Sections 704(b) and 704(c) of the Code and corresponding Treasury Regulations, the effect of these allocations will be that a holder of one OP unit will be allocated taxable income for each taxable year in an amount equal to the amount of taxable income to be recognized by a holder of one of our common shares. Losses, if any, will generally be allocated among the partners in accordance with their respective percentage interests in our Operating Partnership. Losses cannot be passed through to our shareholders.

Operations and Distributions

The partnership agreement provides that, so long as we remain qualified as a REIT, our Operating Partnership is to be operated in a manner that will enable us to satisfy the requirements for being classified as a REIT for federal income tax purposes. As the sole general partner of our Operating Partnership, we are also empowered to take steps to ensure that our Operating Partnership will not be classified as a "publicly traded partnership" for purposes of Section 7704 of the Code. Classification as a publicly traded partnership could result in our Operating Partnership being taxed as a corporation, rather than as a partnership.

The partnership agreement provides that our Operating Partnership will distribute cash flow from operations to its partners in accordance with their relative percentage interests on at least an annual basis in amounts we, as general partner, determine. The effect of these distributions will be that a holder of one OP unit will receive the same amount of annual cash flow distributions as the amount of annual distributions paid to the holder of one of our common shares. See "Description of Securities - Distributions."

If our Operating Partnership liquidates, debts and other obligations must be satisfied before the partners may receive any distributions. Any distributions to partners then will be made to partners in accordance with their respective positive capital account balances.

Term

The partnership will continue until December 31, 2046, or until sooner dissolved upon:

- the sale of all or substantially all the assets of the partnership;
- the agreement of those partners holding at least 67% of the OP units; or
- the bankruptcy of us or the partnership.

Indemnification and Limitation of Liability

Our Operating Partnership shall indemnify us and our trustees and officers from any liability, loss, cost or damage incurred by us and our trustees and officers by reason of anything done or refrained from in connection with our Operating Partnership, except for any liability, loss, cost or damage incurred as a result of fraud, willful misconduct or

gross negligence. In addition, the partnership agreement expressly limits our liability by providing that we shall not be liable or accountable to our Operating Partnership for anything in the absence of fraud, willful misconduct, or gross negligence and breaches of the partnership agreement, and we shall not be liable to our Operating Partnership for money damages except (1) for active and deliberate dishonesty established by a final judgment, order or decree of a court of competent jurisdiction, or (2) if the indemnified party received an improper personal benefit in money, property or services.

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DESCRIPTION OF SECURITIES

The following description of the terms of our shares is not complete, but is a summary. For a complete description, we refer you to the Maryland REIT Law and our governance documents. Our declaration of trust and bylaws are included as exhibits to this registration statement.

General

Our declaration of trust provides that we may issue up to 50,000,000 Class A common shares, $0.001 par value per share, up to 350,000,000 Class B common shares $0.001 par value per share, and up to 50,000,000 preferred shares, $0.001 par value per share. In addition, our Board, without any action by our shareholders, 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. As of April 13, 2012, we had 1,737,347 Class A common shares outstanding held by approximately 1,400 shareholders, 10,158,247 Class B common shares outstanding held by a total of approximately 7,300 shareholders and no preferred shares outstanding. Pursuant to Maryland law and our declaration of trust, no shareholder will be liable for any debt, claim, demand, judgment or obligation of any kind of, against or with respect to us by reason of his being a shareholder, nor shall any shareholder be subject to any personal liability whatsoever, in tort, contract or otherwise, to any person in connection with our property or affairs by reason of his being a shareholder.

Common Shares

All of our Class A common shares and the Class B common shares subject to this exchange offer are duly authorized, fully paid and non-assessable. Holders of our common shares are entitled to receive distributions when authorized by our Board and declared by us out of assets legally available for the payment of distributions. Class B common shares are entitled to dividends equal to the dividends paid with respect to Class A common shares. Holders of our common shares are also entitled to share ratably in our assets legally available for distribution to our shareholders in the event of our liquidation, dissolution or winding up, after payment of or adequate provision for all of our known debts and liabilities. All of these rights are subject to the preferential rights of any other class or series of our shares and to the provisions of our declaration of trust regarding restrictions on transfer of our shares.

Subject to the provisions of our declaration of trust regarding restrictions on transfer and ownership of our shares, each outstanding Class A common share entitles the holder to one vote on all matters submitted to a vote of shareholders, including the election of trustees, and each outstanding Class B common share entitles the holder to one vote on all matters submitted to shareholders, including the election of trustees. The Class A and Class B common shareholders vote together as a single class. There is no cumulative voting in the election of trustees, which means that the holders of Class A and Class B common shares entitled to cast a majority of all the votes entitled to be cast can elect all of the trustees then standing for election, and the holders of the remaining shares will not be able to elect any trustees.

Holders of our common shares have no preference, conversion, exchange, sinking fund or redemption rights, have no preemptive rights to subscribe for any of our securities and generally have no appraisal rights unless our Board determines that appraisal rights apply, with respect to all or any classes or series of shares, to one or more transactions occurring after the date of such determination in connection with which shareholders would otherwise be entitled to exercise appraisal rights.

Power to Reclassify Our Shares

Our declaration of trust authorizes our Board to classify and reclassify any of our unissued common shares and preferred shares into other classes or series of shares. Prior to issuance of classified or reclassified shares of each class or series, our Board is required by Maryland law and by our declaration of trust to set, subject to the restrictions on transfer and ownership of shares contained in our declaration of trust, the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series. Thus, our Board could authorize the issuance of common or preferred shares with terms and conditions that could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of our common shares or otherwise be in their best interest. No preferred shares are presently outstanding, and we have no present plans to issue any preferred shares.

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Power to Issue Additional Common Shares and Preferred Shares

We believe that our Board's power to amend our declaration of trust to increase the aggregate number of shares or the number of shares of any class or series that we have authority to issue, to issue additional common shares or preferred shares, and to classify or reclassify unissued common or preferred shares and thereafter to issue the classified or reclassified shares provides us with increased flexibility in structuring possible future financings and acquisitions and in meeting other needs that might arise. These actions can be taken without shareholder approval, unless shareholder approval is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded. Although we have no present intention of doing so, we could issue a class or series of shares that could delay, defer or prevent a transaction or a change in control that might involve a premium price for holders of our common shares or otherwise be in their best interest.

Restrictions on Ownership and Transfer

For us to qualify as a REIT under the Code, our shares must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of twelve months or during a proportionate part of a shorter taxable year. Also, not more than 50% of the value of our outstanding shares may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities such as qualified pension plans) during the last half of a taxable year. These requirements do not apply to the first year for which an election to be a REIT is made.

Our declaration of trust contains restrictions on the number of our shares that a person may own. No person may acquire or hold, directly or indirectly, 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.

Our declaration of trust further prohibits (a) any person from owning our shares if that ownership would result in our being “closely held” under Section 856(h) of the Code or otherwise cause us to fail to qualify as a REIT and (b) any person from transferring our shares if the transfer would result in our shares being beneficially owned by fewer than 100 persons. Any person who acquires or intends to acquire any of our shares that may violate any of these restrictions, or who is the intended transferee of our shares that are transferred to the trust for the charitable beneficiary, as described below, is required to give us immediate written notice or, in the case of a proposed or attempted transaction, 15 days prior written notice and provide us with such information as we may request in order to determine the effect of the transfer on our status as a REIT. The above restrictions will not apply if our Board determines that it is no longer in our best interests to continue to qualify as a REIT.

Our Board, in its sole discretion, may exempt, prospectively or retroactively, a person from the 9.8% ownership limits. However, our Board may not exempt a person unless, among other information, such person submits to our Board information satisfactory to our Board, in its reasonable discretion, demonstrating that (i) such person is not an individual, (ii) no individual would be considered to beneficially own shares in excess of the 9.8% ownership limits by reason of the exemption of such person from the 9.8% ownership limits and (iii) the exemption of such person from the 9.8% ownership limits will not cause us to fail to qualify as a REIT. The person also must agree that any violation or attempted violation of these restrictions will result in the automatic transfer of the shares causing the violation to the trust for the charitable beneficiary, as described below. Our Board may require a ruling from the IRS or an opinion of counsel in order to determine or ensure our status as a REIT or that compliance is no longer required for REIT qualification.

Any attempted transfer of our shares that, if effective, would result in our shares being beneficially owned by fewer than 100 persons will be null and void and the proposed transferee will not acquire any rights in the shares. Any attempted transfer of our shares that, if effective, would result in violation of the 9.8% ownership limits discussed

above or in our being “closely held” under Section 856(h) of the Code or otherwise failing to qualify as a REIT will cause the number of shares causing the violation (rounded to the nearest whole share) to be automatically transferred to a trust for the exclusive benefit of one or more charitable beneficiaries, and the proposed transferee will not acquire any rights in the shares. The automatic transfer will be deemed to be effective as of the close of business on the Business Day (as defined in the declaration of trust) prior to the date of the transfer. Shares held in the trust for the charitable beneficiary will be issued and outstanding shares. The proposed transferee will not benefit economically from ownership of any shares held in that trust, will have no rights to dividends or other distributions and no rights to vote or other rights attributable to the shares held in that trust. The trustee of the trust for the charitable beneficiary will have all voting rights and rights to dividends or other distributions with respect to shares held in that trust. These rights will be exercised for the exclusive benefit of the charitable beneficiary. Any dividend or other distribution paid prior to our discovery that the shares have been transferred to the trust for the charitable beneficiary will be paid by the recipient to the trustee upon demand. Any dividend or other distribution authorized but unpaid will be paid when due to the trustee. Any dividend or other distribution paid to the trustee will be held in trust for the charitable beneficiary. Subject to

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Maryland law, the trustee will have the authority (i) to rescind as void any vote cast by the proposed transferee prior to our discovery that the shares have been transferred to the trust and (ii) to recast the vote in accordance with the desires of the trustee acting for the benefit of the charitable beneficiary. However, if we have already taken irreversible corporate action, then the trustee will not have the authority to rescind and recast the vote.

Within 20 days of receiving notice from us that any of our shares have been transferred to the trust for the charitable beneficiary, the trustee will sell those shares to a person designated by the trustee, whose ownership of the shares will not violate the above ownership limitations. Upon the sale, the interest of the charitable beneficiary in the shares sold will terminate and the trustee will distribute the net proceeds of the sale to the proposed transferee and to the charitable beneficiary as follows. The proposed transferee will receive the lesser of (i) the price paid by the proposed transferee for the shares or, if the proposed transferee did not give value for the shares in connection with the event causing the shares to be held in the trust (e.g., a gift, devise or other similar transaction), the Market Price (as defined in our declaration of trust) of the shares on the day of the event causing the shares to be held in the trust and (ii) the price received by the trustee from the sale or other disposition of the shares. Any net sale proceeds in excess of the amount payable to the proposed transferee will be paid immediately to the charitable beneficiary. lf, prior to our discovery that shares have been transferred to the trust, the shares are sold by the proposed transferee, then (i) the shares shall be deemed to have been sold on behalf of the trust and (ii) to the extent that the proposed transferee received an amount for the shares that exceeds the amount he was entitled to receive, the excess shall be paid to the trustee upon demand.

In addition, shares held in the trust for the charitable beneficiary will be deemed to have been offered for sale to us, or our designee, at a price per share equal to the lesser of (i) the price per share in the transaction that resulted in the transfer to the trust (or, in the case of a devise or gift, the Market Price at the time of the devise or gift) and (ii) the Market Price on the date we, or our designee, accept the offer. We will have the right to accept the offer until the trustee has sold the shares. Upon a sale to us, the interest of the charitable beneficiary in the shares sold will terminate and the trustee will distribute the net proceeds of the sale to the proposed transferee.

All certificates evidencing our shares will bear a legend referring to the restrictions described above.

Every owner of more than five percent (or such lower percentage as required by the Code or the regulations promulgated thereunder) of our outstanding shares, within 30 days after the end of each taxable year, is required to give us written notice, stating his or her name and address, the number of shares of each class and series of our shares which he or she beneficially owns and a description of the manner in which the shares are held. Each such owner shall provide us with such additional information as we may request in order to determine the effect, if any, of his or her beneficial ownership on our status as a REIT and to ensure compliance with the ownership limits. In addition, each shareholder shall upon demand be required to provide us with such information as we may request in good faith in order to determine our status as a REIT and to comply with the requirements of any taxing authority or governmental authority or to determine such compliance.

These ownership limits could 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.

Transfer Agent and Registrar

The transfer agent and registrar for our common shares is American Stock Transfer and Trust Company, LLC.

Distributions

Our declaration of trust provides that our Board may authorize and we may declare such dividends or other distributions as our Board, in its discretion, determines. When making a determination of whether to authorize a dividend, our Board will make the determination consistent with its duties under Maryland law. We will not make or pay a dividend, however, when the payment of such dividend would result in us being unable to pay our debts as they become due in the usual course of business or our assets being less than our total liabilities.

We have paid regular distributions to our shareholders. Because all of our operations are performed through our Operating Partnership, our ability to pay distributions depends on our Operating Partnership's ability to make distributions to us and its other partners.

Provided we have sufficient cash flow to pay distributions, we intend to continue to declare distributions to our shareholders on a quarterly basis and to pay the distributions in three equal monthly installments during the following quarter.

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We are required to make distributions sufficient to satisfy the requirements for qualification as a REIT for tax purposes. Generally, income distributed to our shareholders will not be taxable to us under the Code so long as we distribute at least 90% of our taxable income each year. See “Material U.S. Federal Income Tax Considerations - Annual Distribution Requirements.”

Distributions will be authorized at the discretion of our Board, in accordance with our earnings, cash flow and general financial condition. Our Board's discretion will be directed, in substantial part, by its obligation to cause us to comply with the REIT requirements. Because we may receive income from interest or rents at various times during our fiscal year, distributions may not reflect our income earned in that particular dividend period but may be made in anticipation of cash flow that we expect to receive during a later period and may be made in advance of actual receipt of funds in an attempt to make distributions relatively uniform. We may borrow money, issue new securities or sell assets in order to make dividend distributions. Our Board, in its discretion, may retain any portion of our cash on hand for working capital. We cannot assure you that sufficient cash will be available to pay distributions to you.

The following table summarizes the cash dividends/distributions paid to holders of common shares and holders of OP units for the periods indicated (in thousands, except per share data):

Total Dividends and Distributions Paid

	Class A Common Shareholders		Class B Common Shareholders		Noncontrolling OP Unit Holders		Total
Quarter Paid	Dividend Per Common Share	Total Amount Paid	Dividend Per Common Share	Total Amount Paid	Distribution Per OP Unit	Total Amount Paid	Total Amount Paid
2011							
Fourth Quarter	$0.2850	$807	$0.2850	$2,386	$0.2850	$430	$3,623
Third Quarter	0.2850	974	0.2850	2,141	0.2850	514	3,629
Second Quarter	0.2850	989	0.2850	1,132	0.2850	515	2,636
First Quarter	0.2850	989	0.2850	627	0.2850	515	2,131
Total	$1.1400	$3,759	$1.1400	$6,286	$1.1400	$1,974	$12,019
2010							
Fourth Quarter	$0.2850	$989	$0.2850	$627	$0.2850	$514	$2,130
Third Quarter	0.2850	992	0.0960	211	0.2850	515	1,718
Second Quarter	0.3375	1,176	—	—	0.3375	610	1,786
First Quarter	0.3375	1,163	—	—	0.3375	610	1,773
Total	$1.2450	$4,320	$0.3810	$838	$1.2450	$2,249	$7,407
2009							
Fourth Quarter	$0.3375	$1,163	$—	$—	$0.3375	$610	$1,773
Third Quarter	0.3375	1,163	—	—	0.3375	610	1,773
Second Quarter	0.3375	1,163	—	—	0.3375	530	1,693
First Quarter	0.3375	1,156	—	—	0.3375	531	1,687
Total	$1.3500	$4,645	$—	$—	$1.3500	$2,281	$6,926

We typically declare our distributions quarterly and pay our distributions in three equal monthly installments. For the second quarter of 2012, we declared a distribution per common share and OP unit of $0.2850, which was paid or will be paid as follows: $0.095 on April 9, 2012, $0.095 on May 9, 2012 and $0.095 on June 8, 2012.

We cannot assure you that our historical or expected level of distributions will be maintained or achieved in the future. Our ability to pay distributions will be impacted by our investing and financing strategies. In particular, we expect to continue to

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finance certain acquisitions and redevelopments partially through borrowings. As a result, our need to repay and/or refinance such indebtedness may adversely affect our ability to pay future distributions.

However, on occasion, we may have to make distributions in excess of our funds from operations generated in order to maintain our qualification as a REIT. On such occasions, we may have to borrow the excess funds required from third parties or make taxable distributions of our shares or debt securities. We refer you to the “Material U.S. Federal Income Tax Considerations - Annual Distribution Requirements” section in this prospectus.

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COMPARISON OF OWNERSHIP OF OP UNITS AND COMMON SHARES

As used in this section, "Whitestone" refers solely to Whitestone REIT and does not include subsidiaries of Whitestone, including the Operating Partnership.

The information set forth below highlights a number of the material differences between the Operating Partnership and Whitestone relating to, among other things, form of organization, policies and restrictions, management structure, compensation and fees, and federal income tax, and compares certain legal rights associated with the ownership of OP units and Class A common shares, as opposed to Class B common shares. These comparisons are intended to assist holders of OP units and/or Class A common shares in understanding how their investment will change if OP units or Class A common shares are exchanged for Class B common shares. Except as set forth below, the rights and obligations of the Class A common shares are identical as those of the Class B common shares.

This discussion is summary in nature and does not constitute a complete discussion of these matters, and holders of OP units and Class A common shares should carefully review the balance of this registration statement, as well as the partnership agreement of the Operating Partnership, the declaration of trust and bylaws of Whitestone including all amendments thereto, for additional important information about the Operating Partnership and/or Whitestone.

	The Operating Partnership - OP Units	Whitestone - Class A common shares and Class B common shares
FORM OF ORGANIZATION AND ASSETS OWNED	The Operating Partnership is a Delaware limited partnership formed in December 1998. The Operating Partnership may own interests (directly and indirectly) in properties and assets.	Whitestone is a Maryland statutory real estate investment trust formed in December 1998. Whitestone's interest in the Operating Partnership gives Whitestone an indirect investment in the properties and assets owned by the Operating Partnership.
CAPITALIZATION	The Operating Partnership may issue OP units or "preference units." Partners are not required to make additional capital contributions, but may do so upon Whitestone's consent. A partner making an additional capital contribution will receive additional OP units. If the number of outstanding common shares of Whitestone, or its successor, changes due to any share dividend, split, recapitalization, merger, consolidation, combination, exchange of shares, or other similar corporate change (other than the issuance of certain record date rights, options, warrants, or convertible or exchangeable securities entitling shareholders to subscribe for or purchase common shares or any other securities or property), the number of OP units held by the partners will be adjusted upwards or downwards to equal the number of	The declaration of trust provides for an authorized capitalization of 450,000,000 shares, consisting of (i) 50,000,000 Class A common shares, $0.001 par value per share; (ii) 350,000,000 Class B common shares, $0.001 par value per share, and 50,000,000 preferred shares, $0.001 par value per share. The Board may amend the declaration of trust from time to time without shareholder approval to increase or decrease the aggregate number of shares or the number of shares of any class or series that Whitestone has authority to issue. The partnership agreement requires Whitestone to contribute to the Operating Partnership the net proceeds of any and all funds raised by or through Whitestone through the issuance of common shares or other securities and, in which event, such proceeds will be deemed additional capital contributions to the Operating Partnership

common shares as such partner would have held immediately following the recapitalization if such partner had held a number of common shares equal to the number of OP units immediately prior to such recapitalization.	in exchange for which the Operating Partnership will issue additional OP units to Whitestone. The partnership agreement requires Whitestone to reserve and keep available out of its authorized, but unissued common shares, such number of common shares as are from time to time sufficient to effect the redemption of all outstanding OP units not owned by Whitestone, any preferential units, if any, not owned by Whitestone and convertible into OP units, as set forth in the partnership agreement.

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LENGTH OF INVESTMENT	The term of the Operating Partnership expires on December 31, 2046, unless terminated earlier pursuant to the provisions of the partnership agreement. Limited partners are not permitted to retire or withdraw except in accordance with the partnership agreement.	Whitestone has a perpetual term and intends to continue its operations for an indefinite time period unless terminated pursuant to the provisions of the declaration of trust or pursuant to any applicable provision of Maryland law.
PURPOSE AND PERMITTED INVESTMENTS	The Operating Partnership's purpose is to acquire, purchase, own, operate, manage, develop, redevelop, invest in, finance, refinance, sell, lease, and otherwise deal with commercial properties and assets related thereto. Notwithstanding the foregoing, the Operating Partnership may not take any action which (or fail to take any action, the omission of which) could, (i) adversely affect Whitestone's ability to continue to qualify as a REIT, (ii) subject Whitestone to any additional taxes under any Section 857 or Section 4981, or any other section of the Code, or (iii) cause Whitestone to violate the REIT requirements.	Whitestone's purpose is to engage in any lawful act or activity, including, without limitation, engaging in the business as a REIT. The partnership agreement requires Whitestone to devote its full-time efforts in furtherance of the Operating Partnership's business. Subject to certain limited exceptions, Whitestone is required to conduct all activities exclusively through the Operating Partnership and may not conduct or engage in any other material business activities.
MANAGEMENT CONTROL	All management powers over the Operating Partnership's business and affairs are vested in Whitestone, and no limited partner has any right to participate in or exercise control or management power over the Operating Partnership's business and affairs. See “Voting Rights” below. Whitestone may not be removed by the limited partners with or without cause.	The Board has exclusive control over Whitestone's business and affairs subject only to the restrictions in the declaration of trust and the bylaws. The Board consists of five trustees, which number may be increased or decreased (but never less than one or more than 15) by vote of at least a majority of the entire Board pursuant to the bylaws. The trustees are elected at each annual meeting of Whitestone's shareholders in accordance with the terms of the bylaws. The policies adopted by the Board may be altered or eliminated without a vote of the shareholders. Accordingly, except as set forth in the declaration of trust or bylaws for their vote in the elections of trustees, shareholders have no control over Whitestone's ordinary business policies.

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MANAGEMENT LIABILITY AND INDEMNIFICATION	Under Delaware law, Whitestone has liability for the payment of the Operating Partnership's obligations and debts unless limitations upon such liability are stated in the document or instrument evidencing the obligation. The partnership agreement expressly limits a partner's liability for debts or liabilities of the Operating Partnership except for fraud, willful misconduct, and gross negligence of the partner. Under the partnership agreement, the Operating Partnership agreed to indemnify Whitestone and its trustees and officers from any liability, loss, cost or damage incurred by Whitestone or its trustees and officers by reason of anything done or refrained from doing in connection with the Operating Partnership, except for any liability, loss, cost or damage incurred as a result of fraud, willful misconduct or gross negligence. In addition, the partnership agreement expressly limits Whitestone's liability by providing that Whitestone shall not be liable or accountable to the Operating Partnership for anything in the absence of fraud, willful misconduct, or gross negligence and breaches of the partnership agreement, and shall not be liable to the Operating Partnership for money damages except (i) for active and deliberate dishonesty established by a final judgment, order or decree of a court of competent jurisdiction, or (ii) if the indemnified party received an improper personal benefit in money, property or services.	The declaration of trust contains a provision that eliminates trustees' and officers' liability to Whitestone and its shareholders for money damages, except for liability resulting from (i) actual receipt of an improper benefit or profit in money, property or services or (ii) active and deliberate dishonesty established by a final judgment as material to the cause of action. The declaration of trust authorizes Whitestone, to the maximum extent permitted by Maryland law, to obligate itself to indemnify any present or former trustee or officer or any individual who, while a trustee or officer and at Whitestone's request, serves or has served another real estate investment trust, corporation, partnership, joint venture, trust, employee benefit plan or other enterprise as a trustee, director, officer, partner, employee or agent, against any claim or liability arising from that status and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. The bylaws obligate Whitestone to provide such indemnification and advance of expenses. The declaration of trust and bylaws also permit Whitestone to indemnify and advance expenses to any person who served its predecessor in any of the capacities described above and any employee or agent of Whitestone or its predecessor.
TAKEOVER PROVISIONS	Except in limited circumstances (see “Voting Rights” below), Whitestone has exclusive management power over the Operating Partnership's business and affairs. Whitestone may not be removed by the limited partners. Without the consent of Whitestone, a transferee will not be (i) admitted to the Operating Partnership as a substituted limited partner or (ii) entitled to the same rights as a substituted limited partner.	The declaration of trust and the bylaws contain a number of provisions that may have the effect of delaying or discouraging an unsolicited proposal for the acquisition of Whitestone or the removal of incumbent management. These provisions include, among others: (i) authorized capital shares that may be issued as preferred shares in the discretion of the Board, with superior voting rights to the common shares; (ii) a requirement that trustees may be removed

	only for cause and then only by the affirmative vote of the holders of at least 2/3 of the combined voting power of all classes of shares of beneficial interest entitled to vote generally in the election of trustees; and (iii) provisions designed to, among other things, avoid concentration of share ownership in a manner that would jeopardize Whitestone's status as a REIT under the Code. See “Description of Securities-Restrictions on Ownership and Transfer.”

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VOTING RIGHTS	Except as specifically set out in the partnership agreement, all decisions relating to the Operating Partnership's operation and management are made by Whitestone. As of April 13, 2011, Whitestone held 92.9% of the OP units.	Whitestone is managed and controlled by its Board presently consisting of five members. Each trustee is elected by the shareholders at annual meetings of Whitestone's shareholders. Maryland law provides that certain major corporate transactions, including most amendments to the declaration of trust, may not be consummated without the approval of shareholders as set forth below. Each Class A common share and each Class B common share entitles the holder to one vote on all matters submitted to a vote of shareholders. The Class A and Class B common shareholders vote together as a single class. The declaration of trust also permits the Board to classify and issue preferred shares in one or more series having voting power which may differ from that of the common shares. See "Description of Securities."
VOTE REQUIRED TO DISSOLVE	The Operating Partnership may be dissolved upon the occurrence of certain events, one of which is the agreement of those partners holding at least 67% of the voting interests of all the partners.	Upon the adoption of a resolution and submission by the Board to the shareholders, Whitestone may be terminated and liquidated only upon the affirmative vote of the holders of a majority of the outstanding shares entitled to vote thereon.
VOTE REQUIRED TO SELL ASSETS OR MERGE	Under the partnership agreement, the sale, exchange, transfer or other disposition of all or substantially all of the Operating Partnership's assets does not require the consent of the limited partners.	Under Maryland law and the declaration of trust, the sale of all or substantially all of Whitestone's assets, or a merger or consolidation of Whitestone, requires the approval of the Board and generally requires the approval of the holders of a majority of the outstanding shares entitled to vote thereon. No approval of the shareholders is required for the sale of less than all or substantially all of Whitestone's assets.
AMENDMENT OF THE PARTNERSHIP AGREEMENT OR THE DECLARATION OF TRUST	Whitestone may amend the partnership agreement without the consent of the limited partners other than any amendment to: (i) enlarge the obligation of any partner to make contributions to the capital of the Operating Partnership, which requires Whitestone's consent and the consent of any partner affected by such amendment; (ii) modify the allocation of profits or losses or distributions among partners	Amendments to the declaration of trust must be recommended by the Board and approved generally by at least a majority of the votes entitled to be cast on that matter at a meeting of shareholders, except that the amendment of the provisions regarding shareholder removal of a trustee and the shareholder vote required for certain amendments of the declaration of trust must receive a vote of at least two-thirds of

except as may be otherwise permitted under the partnership agreement, which require Whitestone's consent and the consent of the holders of not less than 67% of the issued and outstanding OP units held by all limited partners; (iii) amend the transferability provisions contained in the partnership agreement, the provision regarding the limitations on the power and authority of the general partner and certain provisions regarding the organization and name of the Operating Partnership, which require Whitestone's consent and the consent of the holders of not less than 67% of the issued and outstanding OP units held by all limited partners; or (iv) amend the amendment provisions contained in the partnership agreement, which requires Whitestone's consent and the consent of all of the limited partners.

all the votes entitled to be cast. In addition, the declaration of trust may be amended by a majority of its trustees, without shareholder approval (i) in order to preserve its qualification as a REIT under the Code; (ii) in any respect in which the charter of a Maryland corporation may be amended without stockholder approval; and (iii) as otherwise provided in the declaration of trust.

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LIABILITY OF INVESTORS	Under the partnership agreement and applicable state law, the liability of limited partners for the Operating Partnership's debts and obligations is generally limited to the amount of their investment in the Operating Partnership.	Under Maryland law, Whitestone's shareholders are generally not personally liable for its debts or obligations.
NATURE OF INVESTMENT	The OP units constitute equity interests in the Operating Partnership. Generally, unit holders are allocated and distributed amounts in accordance with their respective percentage interest in the Operating Partnership, from time to time, but not less than annually, as determined by Whitestone in the manner provided in the partnership agreement. The Operating Partnership may retain and reinvest proceeds of the sale of property or excess refinancing proceeds in the Operating Partnership's business.	Class A and Class B common shares constitute equity interests in Whitestone. Whitestone is entitled to receive its pro rata share of distributions made by the Operating Partnership with respect to the OP units held by it. Each holder of Class A or Class B common shares is entitled to its pro rata share of any dividends or distributions paid with respect to the common shares. The dividends payable to holders of common shares are not fixed in amount and are only paid if, when and as authorized by the Board and declared by Whitestone. In order to continue to qualify as a REIT, Whitestone generally must distribute at least 90% of its net taxable income (excluding capital gains), and any taxable income (including capital gains) not distributed will be subject to corporate income tax.
POTENTIAL DILUTION OF RIGHTS	Whitestone is authorized, in its sole discretion and without limited partner approval, to cause the Operating Partnership to issue additional OP units and other equity securities, including preference units that would have a preference as to distributions received by the partners, for any partnership purpose at any time to the limited partners or to other persons.	The Board may issue, in its discretion, additional shares, and has the authority to issue from authorized capital a variety of other equity securities with such powers, preferences and rights as it may designate at the time. The issuance of either additional common shares or preferred shares or other similar equity securities may result in the dilution of the interests of Class B common shareholders.
PREEMPTIVE AND APPRAISAL RIGHTS	Unless a characteristic of any preferred partnership interests that are issued, no partner has preemptive or appraisal rights with respect to the partnership interests.	Unless otherwise determined by the Board, no shareholder has preemptive or appraisal rights with respect to the common shares.
LIQUIDITY	Except in certain limited circumstances, holders of OP units may not transfer their OP units without Whitestone's consent. Without the consent of Whitestone, a transferee will not be (i) admitted to the Operating Partnership as a substituted limited partner or (ii) entitled to the same rights as a substituted limited partner. OP units are redeemable for cash or, at	Class B common shares are generally freely transferable as registered securities under the Securities Act. Class B common shares are listed on the NYSE Amex. Class A common shares are not listed on a national securities exchange. While Class A common shares are freely tradable, a public market currently does not exist, and

Whitestone's option, common shares.	no public market is expected to develop for the Class A common shares. Class A and Class B common shares are subject to restrictions on transfer and ownership relating to, among other things, maintaining Whitestone's status as a REIT. See “Description of Securities - Restrictions on Ownership and Transfer.”

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FEDERAL INCOME TAXATION	The Operating Partnership currently is treated as a partnership for federal income tax purposes. As such, the Operating Partnership is not subject to federal income tax on its taxable income. Instead, each unitholder generally is required to include its distributive share of the Operating Partnership's taxable income or losses in determining its federal income tax liability. Each unitholder's adjusted basis in its OP units generally will be increased or decreased by such unitholder's distributive share of the Operating Partnership's taxable income or losses, respectively. Distributions from the Operating Partnership to a domestic unitholder generally are not taxable to such unitholder except to the extent that any cash distributions exceed such unitholder's adjusted basis in its OP units (which basis includes the unitholder's share of the Operating Partnership's nonrecourse debt). A unitholder's distributive share of the Operating Partnership's taxable losses, if any, generally is subject to the "passive activity" limitations. Under the "passive activity" rules, a unitholder's share of any taxable losses of the Operating Partnership generally can be deducted only to the extent of the unitholder's taxable income from "passive activities," with any suspended losses carried forward to subsequent years. Each year, the Operating Partnership will issue to each unitholder an IRS Schedule K-1 containing certain tax information to be included in the unitholder's federal income tax return. A unitholder may be required, in some cases, to file state income tax returns and pay state income taxes in the states in which the Operating Partnership owns property, even if the unitholder is not a resident of those states.	Whitestone has elected and qualified to be treated as a REIT for federal income tax purposes. As such, Whitestone is not subject to federal income tax on income that it timely distributes to its shareholders, which effectively eliminates the "double taxation" that typically results when a corporation earns income and distributes that income to its shareholders in the form of dividends. Whitestone may be subject to federal income and excise taxes, however, on any income that it fails to distribute timely. Distributions from Whitestone to a domestic shareholder generally are taxable to such shareholder as ordinary income to the extent of Whitestone's current and accumulated earnings and profits. Distributions that are designated as capital gain dividends, however, generally are taxed as long-term capital gain, subject to certain limitations. Distributions in excess of current and accumulated earnings and profits are treated as a non-taxable return of capital to the extent of a shareholder's adjusted basis in its shares, with any remaining amount treated as capital gain. Dividends paid by Whitestone will be treated as "portfolio" income (i.e., nonpassive income) and cannot be used to offset any losses from "passive activities." Shareholders may not include any losses incurred by Whitestone in their federal income tax returns. Each year, Whitestone will issue to each of its shareholders an IRS Form 1099 containing certain tax information to be included in the shareholder's federal income tax return. A shareholder who is an individual generally will not be required to file state income tax returns and/or pay state income taxes outside of his state of residence as a result of Whitestone's operations. Whitestone may be required to pay state

income taxes in certain states.

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MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

This section summarizes the material U.S. federal income tax consequences relating to an exchange of OP units or our Class A common shares for our Class B common shares pursuant to the exchange offer, the material U.S. federal income tax considerations relating to the ownership and disposition of our Class B common shares, and the material U.S. federal income tax consequences generally resulting from our election to be taxed as a REIT. As used in this section, the terms "we" and "our" refer solely to Whitestone REIT and not to our subsidiaries and affiliates which have not elected to be taxed as REITs for federal income tax purposes.

This discussion is not exhaustive of all possible tax considerations and does not provide a detailed discussion of any state, local or foreign tax considerations. This discussion does not address all aspects of taxation that may be relevant to particular investors in light of their personal investment or tax circumstances, or to certain types of investors that are subject to special treatment under the federal income tax laws, such as insurance companies, tax-exempt organizations (except to the limited extent discussed below under "-Taxation of Tax-Exempt Holders of Our Class B Common Shares"), financial institutions or broker-dealers, non-U.S. individuals and foreign corporations (except to the limited extent discussed below under "-Tax Treatment of an Exchange of OP Units for Our Class B Common Shares-Taxation of Non-U.S. Holders on an Exchange of OP Units" and "-Taxation of Non-U.S. Holders of Our Class B Common Shares") and other persons subject to special tax rules. Moreover, this summary assumes that OP units and our common shares are held as capital assets for federal income tax purposes, which generally means property held for investment. The statements in this section are based on the current federal income tax laws, including the Code, the regulations promulgated by the U.S. Treasury Department, or the Treasury Regulations, rulings and other administrative interpretations and practices of the IRS, and judicial decisions, all as currently in effect, and all of which are subject to differing interpretations or to change, possibly with retroactive effect. This discussion is for general purposes only and is not tax advice. We cannot assure you that new laws, interpretations of law, or court decisions, any of which may take effect retroactively, will not cause any statement in this section to be inaccurate.

For purposes of this discussion, the term "U.S. holder" means a holder of OP units or our common shares that, for federal income tax purposes, is:

- a citizen or resident of the United States;
- a corporation (including an entity treated as an association taxable as a corporation for federal income tax purposes) created or organized under the laws of the United States, any of its states or the District of Columbia;
- an estate whose income is subject to federal income taxation regardless of its source; or
- any trust if (1) a U.S. court is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) it has a valid election in place to be treated as a U.S. person.

A "non-U.S. holder" means a beneficial owner of OP units or our common shares that is neither a U.S. holder nor an entity that is classified for federal income tax purposes as a partnership. If an entity that is classified for federal income tax purposes as a partnership holds OP units or our common shares, the tax treatment of its partners generally will depend on the status of the partners and on the activities of the partnership. Partners of partnerships holding OP units or our common shares that are considering participating in the exchange offer are encouraged to consult their tax advisors.

WE URGE YOU TO CONSULT YOUR OWN TAX ADVISOR REGARDING THE SPECIFIC TAX CONSEQUENCES TO YOU OF (I) AN EXCHANGE OF OP UNITS OR OUR CLASS A COMMON SHARES FOR OUR CLASS B COMMON SHARES, (II) OWNERSHIP AND DISPOSITION OF OUR CLASS B COMMON

SHARES AND (III) OUR ELECTION TO BE TAXED AS A REIT. SPECIFICALLY, YOU SHOULD CONSULT YOUR OWN TAX ADVISOR REGARDING THE FEDERAL, STATE, LOCAL, FOREIGN, AND OTHER TAX CONSEQUENCES OF SUCH EXCHANGE, OWNERSHIP, DISPOSITION AND ELECTION, AND REGARDING POTENTIAL CHANGES IN APPLICABLE TAX LAWS.

Tax Treatment of an Exchange of OP Units for Our Class B Common Shares

The following discussion is a summary of the material federal income tax consequences relating to an exchange of OP units for our Class B common shares pursuant to the exchange offer. Each OP unit holder should consult its own tax advisor regarding the federal, state, local and foreign tax consequences applicable to such OP holder with respect to an exchange of OP units for our Class B common shares.

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Taxation of U.S. Holders on an Exchange of OP Units. An exchange by a U.S. holder of OP units for our Class B common shares will be treated as a fully taxable sale of such OP units. A U.S. holder's gain or loss from such exchange will be equal to the difference between the U.S. holder's amount realized for federal income tax purposes and the U.S. holder's adjusted tax basis in the OP units surrendered. The amount realized by a U.S. holder for federal income tax purposes will be equal to the fair market value of our Class B common shares received by the U.S. holder plus the portion of the Operating Partnership's liabilities allocable to the OP units surrendered. For federal income tax purposes, the Operating Partnership's liabilities will be considered to include the liabilities of its wholly-owned noncorporate subsidiaries. A U.S. holder's tax basis in its OP units generally is equal to the purchase price paid by the U.S. holder for its OP units, adjusted for the U.S. holder's distributive share of the Operating Partnership's income, loss, distributions and liabilities, as applicable. To the extent that the amount realized by the U.S. holder exceeds the U.S. holder's basis in the OP units surrendered, such U.S. holder will recognize gain, and to the extent that the U.S. holder's basis in the OP units surrendered exceeds the amount realized by the U.S. holder, such U.S. holder will recognize loss. It is possible that the amount of gain recognized or even the tax liability resulting from such gain could exceed the fair market value of our Class B common shares received pursuant to the exchange offer.

Any gain recognized by a U.S. holder on an exchange of OP units for our Class B common shares generally will be treated as gain attributable to the sale or disposition of a capital asset. To the extent, however, that a U.S. holder's amount realized on an exchange of OP units for our Class B common shares is attributable to the excess of such U.S. holder's share of the Operating Partnership's “unrealized receivables” (as defined in Section 751 of the Code) over the basis attributable to those “unrealized receivables,” such excess will be treated as ordinary income. Unrealized receivables include, to the extent not previously included in the Operating Partnership's income, any rights to payment for services rendered or to be rendered. Unrealized receivables also include amounts that would be subject to recapture as ordinary income if the Operating Partnership had sold its assets at their fair market value at the time of that the OP units are exchanged for our Class B common shares.

Generally, any loss recognized by a U.S. holder on an exchange of OP units for our Class B common shares will be treated as loss attributable to the sale or disposition of a capital asset. Capital losses in any year are generally deductible only to the extent of capital gains plus, in the case of a non-corporate taxpayer, $3,000 ($1,500 for married individuals filing separately).

For U.S. holders that are taxed at rates applicable to individuals, the maximum federal income tax rate on net capital gain (i.e., long-term capital gain in excess of short-term capital loss) from a sale or exchange of a capital asset held for more than one year generally is 15% (currently through 2012). To the extent, however, that any such gain is attributable to prior depreciation deductions for “unrecaptured Section 1250 gain” (i.e., gain that is attributable to prior depreciation deductions with respect to depreciable real property), such gain is subject to a maximum federal income tax rate of 25%. U.S. Treasury Regulations provide that partners in a partnership that are individuals, trusts and estates are subject to the same 25% maximum rate on a disposition of an interest in the partnership to the extent of their share of “unrecaptured Section 1250 gain,” determined immediately prior to the disposition of the partnership interest (the “25% Amount”). Accordingly, provided that a U.S. holder holds OP units as long-term capital assets, such U.S. holder would be subject to a maximum rate of tax of 15% on the difference, if any, between any recognized gain on the exchange of OP units for our Class B common shares and the 25% Amount.

It is possible that an exchange of OP units that were issued in connection with a contribution of property to the Operating Partnership for our Class B common shares pursuant to the exchange offer could cause the original transfer of property to the Operating Partnership to be treated as a “disguised sale” of property. Section 707 of the Code generally provides that a partner's contribution of property to a partnership and a simultaneous or subsequent transfer of money or other consideration (which may include the assumption of or taking subject to a liability) to the partner from the partnership or another partner may be treated as a sale, in whole or in part, of such property by the partner to

the partnership or another partner. Each U.S. holder should consult with its own tax advisor to determine whether an exchange of OP units for our Class B common shares could result in an initial transfer of property to the Operating Partnership being treated as a disguised sale.

Information reporting and backup withholding may apply to an exchange of OP units for our Class B common shares by a U.S. holder in connection with the exchange offer. Backup withholding will not apply, however, to a U.S. holder that furnishes its correct taxpayer identification number and certifies that it is not subject to backup withholding on IRS Form W-9 or is otherwise exempt from backup withholding and complies with other applicable rules and certification requirements. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against such U.S. holder's federal income tax liability, provided that the required information is furnished to the IRS on a timely basis.

Taxation of Non-U.S. Holders on an Exchange of OP Units. A non-U.S. holder will be subject to federal income tax under the Foreign Investment in Real Property Tax Act of 1980, or FIRPTA, on an exchange of OP units for our Class B common shares if the OP units are treated as “United States real property interests,” as defined in Section 897 of the Code, or

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USRPIs. Specifically, if 50% or more of the value of our Operating Partnership's gross assets consists of USRPIs and 90% or more of the value of our Operating Partnership's gross assets consists of USRPIs, cash and cash equivalents, a non-U.S. holder's OP units will be treated as USRPIs. We expect that OP units held by non-U.S. holders will constitute USRPIs.

If a non-U.S. holder's OP units constitute USRPIs at the time that the OP units are exchanged for Class B common shares, such non-U.S. holder will be subject to the same federal income tax consequences as a U.S. holder, as described above, to the extent that the gain recognized in the exchange is attributable to USRPIs held by the Operating Partnership. Accordingly, a non-U.S. holder generally will be taxed under FIRPTA on gain attributable to USRPIs held by the Operating Partnership as if such gain were effectively connected with the conduct of a U.S. trade or business of the non-U.S. holder. A non-U.S. holder would be taxed at the capital gains rates applicable to U.S. holders, subject to applicable alternative minimum tax and a special alternative minimum tax in the case of a nonresident alien individual. A corporate non-U.S. holder that is not entitled to treaty relief or exemption also may be subject to the 30% branch profits tax. A non-U.S. holder will be required to file federal income tax returns and pay federal income tax with respect to gain recognized, to the extent such gain is attributable to the USRPIs held by the Operating Partnership. In addition, the entire amount realized by a non-U.S. holder on an exchange of OP units for our Class B common shares will be subject to a 10% withholding tax. As a result, we may be required to withhold a portion of our Class B shares that we would otherwise distribute to a non-U.S. holder.

Information reporting and backup withholding may apply to an exchange of OP units for our Class B common shares by a non-U.S. holder in connection with the exchange offer. Backup withholding will not apply, however, to a non-U.S. holder that furnishes an applicable IRS Form W-8 or is otherwise exempt from backup withholding and complies with other applicable rules and certification requirements. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against such non-U.S. holder's federal income tax liability provided the required information is furnished to the IRS on a timely basis.

Tax Treatment of an Exchange of Our Class A Common Shares for Our Class B Common Shares

An exchange of our Class A common shares for our Class B common shares pursuant to the exchange offer will constitute a recapitalization within the meaning of Section 368(a)(1)(E) of the Code. Accordingly, holders of our Class A common shares will not recognize gain or loss for federal income tax purposes on such an exchange. A holder's adjusted tax basis in our Class B common shares received pursuant to the exchange offer will equal the holder's adjusted tax basis in our Class A common shares surrendered. A holder's holding period for our Class B common shares received pursuant to the exchange offer will include the holder's holding period for our Class A common shares. Each shareholder that holds our Class A common shares should consult its own tax advisor regarding the federal, state, local and foreign tax consequences applicable to an exchange of our Class A common shares for our Class B common shares pursuant to the exchange offer.

Taxation of Taxable U.S. Holders of Our Class B Common Shares

The following discussion is a summary of the material federal income tax considerations relating to the ownership and disposition of our Class B common shares by U.S. holders. We urge U.S. holders to consult their own tax advisors to determine the impact of federal, state, local and foreign income tax laws on the acquisition, ownership and disposition of our Class B common shares, including any reporting requirements.

Distributions. As long as we qualify as a REIT, distributions made out of our current or accumulated earnings and profits that we do not designate as capital gain dividends or retained long-term capital gains will be dividend income to taxable U.S. holders. A corporate U.S. holder will not qualify for the dividends-received deduction generally available to corporations. Dividends paid to a U.S. holder generally will not qualify for the tax rates applicable to

"qualified dividend income." Legislation enacted in 2003, 2006 and 2010 reduced the maximum tax rate for qualified dividend income to 15% for tax years 2003 through 2012. Without future Congressional action, the maximum tax rate on qualified dividend income will increase to 39.6% in 2013. Qualified dividend income generally includes dividends paid by domestic C corporations and certain qualified foreign corporations to U.S. holders that are taxed at individual rates. Because we are not generally subject to federal income tax on the portion of our REIT taxable income that we distribute to our shareholders, our dividends generally will not constitute qualified dividend income. As a result, our REIT dividends generally will be taxed at the higher tax rates applicable to ordinary income. The highest marginal individual income tax rate on ordinary income is 35% through 2012. Without future Congressional action, the maximum individual income tax rate on ordinary income will increase to 39.6% in 2013. The federal income tax rates applicable to qualified dividend income generally will apply, however, to our ordinary REIT dividends, if any, that are (1) attributable to qualified dividends received by us prior to 2013 from non-REIT corporations, such as any taxable REIT subsidiaries, or (2) attributable to income recognized by us prior to 2013 and on which we have paid federal corporate income tax (e.g., to the extent that we distribute less than 100% of our taxable income). In general, to qualify for the reduced

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federal income tax rate on qualified dividend income under such circumstances, a U.S. holder must hold our Class B common shares for more than 60 days during the 121-day period beginning on the date that is 60 days before the date on which our Class B common shares becomes ex-dividend. In addition, dividends paid to certain individuals, estates or trusts after 2012 will be subject to a 3.8% Medicare tax.

Any distribution we declare in October, November, or December of any year that is payable to a U.S. holder of record on a specified date in any of those months will be treated as paid by us and received by the U.S. holder on December 31 of that year, provided that we actually pay the distribution during January of the following calendar year.

Distributions to a U.S. holder which we designate as capital gain dividends generally will be treated as long-term capital gain, without regard to the period for which the U.S. holder has held our Class B common shares. See "- Capital Gains and Losses" below. A corporate U.S. holder may be required to treat up to 20% of certain capital gain dividends as ordinary income.

We may elect to retain and pay federal corporate income tax on the net long-term capital gain that we receive in a taxable year. In that case, to the extent that we designate such amount in a timely notice to our shareholders, a U.S. holder would be taxed on its proportionate share of our undistributed long-term capital gain. The U.S. holder would receive a credit or refund for its proportionate share of the federal corporate income tax we paid. The U.S. holder would increase its basis in our Class B common shares by the amount of its proportionate share of our undistributed long-term capital gain, minus its share of the federal corporate income tax that we paid.

A U.S. holder will not incur federal income tax on a distribution in excess of our current and accumulated earnings and profits if the distribution does not exceed the U.S. holder's adjusted basis in our Class B common shares. Instead, the distribution will reduce the U.S. holder's adjusted basis in such shares, and any amount in excess of both its share of our current and accumulated earnings and profits and its adjusted basis will be treated as capital gain, long-term if the shares have been held for more than one year, provided the shares are treated as a capital assets in the hands of the U.S. holder.

U.S. holders may not include in their individual federal income tax returns any of our net operating losses or capital losses. Instead, these losses are generally carried over by us for potential offset against our future income. Taxable distributions from us and gain from the disposition of our Class B common shares will not be treated as passive activity income; and, therefore, U.S. holders generally will not be able to apply any "passive activity losses," such as, for example, losses from certain types of limited partnerships in which the U.S. holder is a limited partner, against such income. In addition, taxable distributions from us and gain from the disposition of our Class B common shares generally will be treated as investment income for purposes of the investment interest limitations. We will notify U.S. holders after the close of our taxable year as to the portions of the distributions attributable to that year that constitute ordinary income, return of capital and capital gain.

Dispositions. A U.S. holder who is not a dealer in securities generally must treat any gain or loss realized on a taxable disposition of our Class B common shares as long-term capital gain or loss if the U.S. holder has held such shares for more than one year, and otherwise as short-term capital gain or loss. In general, a U.S. holder will realize gain or loss in an amount equal to the difference between (i) the sum of the fair market value of any property and the amount of cash received in such disposition and (ii) the U.S. holder's adjusted tax basis in such shares. A U.S. holder's adjusted tax basis in our Class B shares generally will equal the U.S. holder's acquisition cost, increased by the excess of undistributed net capital gains deemed distributed to the U.S. holder over the federal corporate income tax deemed paid by the U.S. holder on such gains and reduced by any returns of capital. However, a U.S. holder must treat any loss on a sale or exchange of our Class B common shares held by such shareholder for six months or less as a long-term capital loss to the extent of capital gain dividends and any other actual or deemed distributions from us that such U.S. holder treats as long-term capital gain. All or a portion of any loss that a U.S. holder realizes on a taxable

disposition of our Class B common shares may be disallowed if the U.S. holder purchases any of our shares within 30 days before or after the disposition. In addition, capital gain recognized by certain individuals, estates or trusts after 2012 will be subject to a 3.8% Medicare tax.

Capital Gains and Losses. The tax-rate differential between long-term capital gain and ordinary income for non-corporate taxpayers may be significant. A taxpayer generally must hold a capital asset for more than one year for gain or loss derived from its sale or exchange to be treated as long-term capital gain or loss. The highest marginal individual income tax rate currently is 35% (which rate, absent Congressional action, will increase to 39.6% in 2013). The maximum tax rate on long-term capital gain applicable to U.S. holders taxed at individual rates currently is 15% (which rate, absent Congressional action, will increase to 20% in 2013). The maximum tax rate on long-term capital gain from the sale or exchange of “section 1250 property” (i.e., generally, depreciable real property) is 25% to the extent the gain would have been treated as ordinary income if the property were “section 1245 property” (i.e., generally, depreciable personal property). We generally may designate whether

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a distribution that we designate as capital gain dividends (and any retained capital gain that we are deemed to distribute) is attributable to the sale or exchange of "section 1250 property." The characterization of income as capital gain or ordinary income may affect the deductibility of capital losses. A non-corporate taxpayer may deduct capital losses not offset by capital gains against its ordinary income only up to a maximum annual amount of $3,000. A non-corporate taxpayer may carry forward unused capital losses indefinitely. A corporate taxpayer must pay tax on its net capital gain at federal corporate income tax rates, whether or not such gains are classified as long-term capital gains. A corporate taxpayer may deduct capital losses only to the extent of capital gains, with unused losses carried back three years and forward five years.

Taxation of Tax-Exempt Holders of Our Class B Common Shares

Tax-exempt entities, including qualified employee pension and profit sharing trusts and individual retirement accounts and annuities, generally are exempt from federal income taxation. However, they are subject to taxation on their "unrelated business taxable income." Although many investments in real estate generate unrelated business taxable income, the IRS has issued a ruling that dividend distributions from a REIT to an exempt employee pension trust do not constitute unrelated business taxable income so long as the exempt employee pension trust does not otherwise use the stock or shares of beneficial interest of the REIT in an unrelated trade or business of the pension trust. Based on that ruling, amounts that we distribute to tax-exempt shareholders generally should not constitute unrelated business taxable income. However, if a tax-exempt shareholder were to finance its acquisition of our Class B common shares with debt, a portion of the income that it received from us would constitute unrelated business taxable income pursuant to the "debt-financed property" rules. Furthermore, social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts, and qualified group legal services plans that are exempt from taxation under special provisions of the federal income tax laws are subject to different unrelated business taxable income rules, which generally will require them to characterize distributions that they receive from us as unrelated business taxable income. Finally, in certain circumstances, a qualified employee pension or profit-sharing trust that owns more than 10% of the value of our shares must treat a percentage of the dividends that it receives from us as unrelated business taxable income. Such percentage is equal to the gross income we derive from an unrelated trade or business, determined as if we were a pension trust, divided by our total gross income for the year in which we pay the dividends. Such rule applies to a pension trust holding more than 10% of the value of our shares only if:

- the percentage of our dividends that the tax-exempt trust must treat as unrelated business taxable income is at least 5%;
- we qualify as a REIT by reason of the modification of the rule requiring that no more than 50% of our shares be owned by five or fewer individuals that allows the beneficiaries of the pension trust to be treated as holding our shares in proportion to their actuarial interests in the pension trust; and
- either:
  - one pension trust owns more than 25% of the value of our shares; or
  - a group of pension trusts, of which each pension trust holds more than 10% of the value of our shares, collectively owns more than 50% of the value of our shares.

As a result of limitations included in our charter on the transfer and ownership of our shares, we do not expect to be classified as a "pension-held REIT," and, therefore, the tax treatment described in this paragraph should be inapplicable to our shareholders. However, because we expect shares of our Class B common shares to be publicly traded on the completion of the offering, we cannot guarantee that this will always be the case.

Taxation of Non-U.S. Holders of Our Class B Common Shares

The following discussion is a summary of the material federal income tax considerations relating to the ownership and disposition of our Class B common shares by non-U.S. holders. We urge non-U.S. holders to consult their own tax

advisors to determine the impact of federal, state, local and foreign income tax laws on the acquisition, ownership and disposition of our Class B common shares, including any reporting requirements.

Distributions. A non-U.S. holder that receives a distribution that is not attributable to gain from our sale or exchange of a “United States real property interest,” or a USRPI (discussed below), and that we do not designate as a capital gain dividend or retained long-term capital gain will recognize ordinary income to the extent that we pay such distribution out of our current or accumulated earnings and profits. A withholding tax equal to 30% of the gross amount of the distribution ordinarily will apply unless an applicable tax treaty reduces or eliminates the tax. A non-U.S. holder generally will be subject to federal income tax at graduated rates, however, on any distribution treated as effectively connected with the non-U.S. holder's conduct of a U.S. trade or business, in the same manner as U.S. holders are taxed on distributions. A corporate non-U.S. holder may, in addition,

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be subject to the 30% branch profits tax with respect to any such distribution. We plan to withhold federal income tax at the rate of 30% on the gross amount of any distribution paid to a non-U.S. holder unless either:

- a lower treaty rate applies and the non-U.S. holder submits an IRS Form W-8BEN to us evidencing eligibility for that reduced rate;
- the non-U.S. holder submits an IRS Form W-8ECI to us claiming that the distribution is effectively connected income; or
- the distribution is treated as attributable to a sale of a USRPI under FIRPTA (discussed below).

A non-U.S. holder will not incur tax on a distribution in excess of our current and accumulated earnings and profits if the excess portion of such distribution does not exceed such non-U.S. holder's adjusted basis in our Class B common shares. Instead, the excess portion of such distribution will reduce the non-U.S. holder's adjusted basis in our Class B common shares. A non-U.S. holder will be subject to tax on a distribution that exceeds both our current and accumulated earnings and profits and the non-U.S. holder's adjusted basis in our Class B common shares, if the non-U.S. holder otherwise would be subject to tax on gain from the sale or disposition of our Class B common shares, as described below. See "- Dispositions" below. Under FIRPTA, we may be required to withhold 10% of any distribution that exceeds our current and accumulated earnings and profits. Although we intend to withhold at a rate of 30% on the entire amount of any distribution (other than a distribution attributable to a sale of a USRPI), to the extent that we do not do so, we may withhold at a rate of 10% on any portion of a distribution not subject to withholding at a rate of 30%. Because we generally cannot determine at the time we make a distribution whether the distribution will exceed our current and accumulated earnings and profits, we may withhold tax on the entire amount of any distribution. However, a non-U.S. holder may obtain a refund of amounts that we withhold if we later determine that a distribution in fact exceeded our current and accumulated earnings and profits.

For any year in which we qualify as a REIT, FIRPTA may apply to our sale or exchange of a USRPI. A USRPI includes certain interests in real property and stock in corporations at least 50% of whose assets consist of interests in real property. Under FIRPTA, a non-U.S. holder is taxed on distributions attributable to gain from sales of USRPIs as if such gain were effectively connected with the conduct of a U.S. trade or business of the non-U.S. holder. A non-U.S. holder thus would be taxed on such a distribution at the normal capital gains rates applicable to U.S. holders, subject to applicable alternative minimum tax and a special alternative minimum tax in the case of a nonresident alien individual. A corporate non-U.S. holder not entitled to treaty relief or exemption also may be subject to the 30% branch profits tax on such a distribution.

If shares of our Class B common shares are regularly traded on an established securities market in the United States, capital gain distributions to a non-U.S. holder in respect of our Class B common shares that are attributable to our sale of real property will be treated as ordinary dividends rather than as gain from the sale of a USRPI, as long as such non-U.S. holder did not own more than 5% of our outstanding Class B common shares any time during the one-year period preceding the distribution. As a result, non-U.S. holders owning 5% or less of our Class B common shares generally would be subject to withholding tax on such capital gain distributions in the same manner as they are subject to withholding tax on other distributions. We expect that our Class B common shares will be regularly traded on an established securities market in the United States following this offering. If our Class B common shares are not regularly traded on an established securities market in the United States or if a non-U.S. holder owned more than 5% of our outstanding Class B common shares any time during the one-year period preceding the distribution, capital gain distributions to such non-U.S. holder in respect of such Class B common shares that are attributable to our sales of USRPIs would be subject to tax under FIRPTA, as described in the preceding paragraph.

If a distribution in respect of our Class B common shares is subject to FIRPTA, we must withhold 35% of such distribution that we could designate as a capital gain dividend. A non-U.S. holder may receive a credit against its tax liability for the amount that we withhold. Moreover, if a non-U.S. holder disposes of our Class B common shares

during the 30-day period preceding a dividend payment, and such non-U.S. holder (or a person related to such non-U.S. holder) acquires or enters into a contract or option to acquire our shares within 61 days of the first day of the 30-day period described above, and any portion of such dividend payment would, but for the disposition, be treated as a USRPI capital gain to such non-U.S. holder, then such non-U.S. holder will be treated as having USRPI capital gain in an amount that, but for the disposition, would have been treated as USRPI capital gain.

Dispositions. Non-U.S. holders may incur tax under FIRPTA with respect to gain realized on a disposition of our Class B common shares since our Class B common shares will constitute a USRPI unless one of the applicable exceptions, as described below, applies. Any gain subject to tax under FIRPTA will be treated in the same manner as it would be in the hands of U.S. holders subject to alternative minimum tax, but under a special alternative minimum tax in the case of nonresident alien individuals.

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Non-U.S. holders generally will not incur tax under FIRPTA with respect to gain on a sale of our Class B common shares, however, as long as, at all times during a specified testing period, we are domestically controlled, i.e., non-U.S. persons hold, directly or indirectly, less than 50% in value of our outstanding shares. We cannot assure you that we will be domestically controlled. In addition, even if we are not domestically controlled, a non-U.S. holder that owned, actually or constructively, 5% or less of our outstanding Class B common shares at all times during a specified testing period will not incur tax under FIRPTA on gain from a sale of our Class B common shares if our Class B common shares are "regularly traded" on an established securities market. We expect that our Class B common shares will continue to be "regularly traded" on an established securities market.

A non-U.S. holder generally will incur tax on gain from a disposition of our Class B common shares not subject to FIRPTA if:

- the gain is effectively connected with the conduct of the non-U.S. holder's U.S. trade or business, in which case the non-U.S. holder will be subject to the same treatment as U.S. holders with respect to such gain; or
- the non-U.S. holder is a nonresident alien individual who was present in the U.S. for 183 days or more during the taxable year and has a "tax home" in the United States, in which case the non-U.S. holder will incur a 30% tax on its capital gains.

Information Reporting Requirements, Backup Withholding and Certain Other Required Withholding

We will report to our shareholders and to the IRS the amount of distributions that we pay during each calendar year, and the amount of tax that we withhold, if any. Under the backup withholding rules, a shareholder may be subject to backup withholding (at a rate of 28% through 2012 and 31% thereafter, absent Congressional action) with respect to distributions unless the shareholder:

- qualifies for certain exempt categories and, when required, demonstrates this fact; or
- provides a taxpayer identification number, and otherwise complies with the applicable requirements of the backup withholding rules.

A shareholder who does not provide us with its correct taxpayer identification number also may be subject to penalties imposed by the IRS. Any amount paid as backup withholding will be creditable against the shareholder's income tax liability. In addition, we may be required to withhold a portion of capital gain distributions to any shareholders who fail to certify their non-foreign status to us.

Backup withholding generally will not apply to payments of dividends made by us or our paying agents, in their capacities as such, to a non-U.S. holder provided that such non-U.S. holder furnishes to us or our paying agent the required certification as to its non-U.S. status, such as providing a valid IRS Form W-8BEN or W-8ECI, or certain other requirements are met. Notwithstanding the foregoing, backup withholding may apply if either we or our paying agent has actual knowledge, or reason to know, that the holder is a "U.S. person" that is not an exempt recipient.

Payments of the proceeds from a disposition or a redemption of our Class B common shares that occurs outside the U.S. by a non-U.S. holder made by or through a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, information reporting (but not backup withholding) generally will apply to such a payment if the broker has certain connections with the U.S. unless the broker has documentary evidence in its records that demonstrates that the beneficial owner is a non-U.S. holder and specified conditions are met or an exemption is otherwise established. Payment of the proceeds from a disposition of our Class B common shares by a non-U.S. holder made by or through the U.S. office of a broker generally is subject to information reporting and

backup withholding unless the non-U.S. holder certifies under penalties of perjury that it is not a U.S. person and satisfies certain other requirements, or otherwise establishes an exemption from information reporting and backup withholding.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be refunded or credited against the shareholder's federal income tax liability if certain required information is furnished to the IRS. Shareholders should consult their own tax advisors regarding application of backup withholding to them and the availability of, and procedure for obtaining an exemption from, backup withholding.

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For taxable years beginning after December 31, 2013, if certain disclosure requirements related to U.S. accounts or ownership are not satisfied, a U.S. withholding tax at a 30% rate will be imposed on dividends received in respect of our Class B common shares by (i) U.S. holders that own their shares through foreign accounts or foreign intermediaries and (ii) certain non-U.S. holders. In addition, for taxable years beginning after December 31, 2014, if certain disclosure requirements related to U.S. accounts or ownership are not satisfied, a U.S. withholding tax at a 30% rate will be imposed on proceeds of sale in respect of our Class B common shares received by (i) U.S. holders that own their shares through foreign accounts or foreign intermediaries and (ii) certain non-U.S. holders. If payment of withholding taxes is required, non-U.S. holders that are otherwise eligible for an exemption from, or reduction of, U.S. withholding taxes with respect to such dividends and proceeds will be required to seek a refund from the IRS to obtain the benefit of such exemption or reduction. We will not pay any additional amounts in respect of any amounts withheld.

Taxation of Our Company

We elected to be taxed as a REIT under the federal income tax laws beginning with our taxable year ended December 31, 1999. We believe that, beginning with such taxable year, we have been organized and have operated in such a manner as to qualify for taxation as a REIT under the Code, and we intend to continue to operate in such a manner. However, no assurances can be given that our beliefs or expectations will be fulfilled, since qualification as a REIT depends on our continuing to satisfy numerous asset, income, share ownership and distribution tests described below, the satisfaction of which depends, in part, on our operating results.

The sections of the Code relating to qualification, operation and taxation as a REIT are highly technical and complex. The following discussion sets forth only the material aspects of those sections. This summary is qualified in its entirety by the applicable Code provisions and the related rules and regulations, and administrative and judicial interpretations thereof.

In connection with the exchange offer, Bass, Berry & Sims PLC has rendered an opinion that we qualified to be taxed as a REIT under the federal income tax laws for our taxable years ended December 31, 2008 through December 31, 2011, and our organization and current and proposed method of operation will enable us to continue to qualify as a REIT for our taxable year ending December 31, 2012 and thereafter. Investors should be aware that Bass, Berry & Sims PLC's opinion is based on the federal income tax laws governing qualification as a REIT as of the date of such opinion, which is subject to change, possibly on a retroactive basis, is not binding on the IRS or any court, and speaks only as of the date issued. In addition, Bass, Berry & Sims PLC's opinion is based on customary assumptions and is conditioned upon certain representations made by us as to factual matters, including representations regarding the nature of our assets and the future conduct of our business. Moreover, our continued qualification and taxation as a REIT depend on our ability to meet, on a continuing basis, through actual results, certain qualification tests set forth in the federal income tax laws. Those qualification tests involve the percentage of our 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. Bass, Berry & Sims PLC will not review our compliance with those tests on a continuing basis. Accordingly, no assurance can be given that the actual results of our operations for any particular taxable year will satisfy such requirements. Bass, Berry & Sims PLC's opinion does not foreclose the possibility that we may have to use one or more of the REIT savings provisions described below, which may require us to pay a significant excise or penalty tax in order to maintain our REIT qualification. For a discussion of the tax consequences of our failure to qualify as a REIT, see “- Failure to Qualify as a REIT” below.

Pursuant to our charter, our Board has the authority to make any tax elections on our behalf that, in its sole judgment, are in our best interest. This authority includes the ability to revoke or otherwise terminate our status as a REIT. Our Board has the authority under our charter to make these elections without the necessity of obtaining the approval of our shareholders. In addition, our Board has the authority to waive any restrictions and limitations contained in our

charter that are intended to preserve our status as a REIT during any period in which our Board has determined that it is no longer in our best interests to pursue or preserve our status as a REIT.

If we qualify as a REIT, we generally will not be subject to federal income tax on the taxable income that we distribute to our shareholders because we will be entitled to a deduction for dividends that we pay. The benefit of that tax treatment is that it avoids the "double taxation," or taxation at both the corporate and shareholder levels, that generally results from owning stock in a corporation. In general, income generated by a REIT is taxed only at the shareholder level if such income is distributed by the REIT to its shareholders. We will be subject to federal tax, however, in the following circumstances:

- We are subject to corporate-level federal income tax on any REIT taxable income, including net capital gain, that we do not distribute to our shareholders during, or within a specified time period after, the calendar year in which the income is earned.

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- We may be subject to the corporate "alternative minimum tax" on any items of tax preference, including any deductions of net operating losses.
- We are subject to tax, at the highest corporate rate, on:
  - net income from the sale or other disposition of property acquired through foreclosure, or "foreclosure property," as described below under "-Gross Income Tests-Foreclosure Property," that we hold primarily for sale to customers in the ordinary course of business, and
  - other non-qualifying income from foreclosure property.
- We are subject to a 100% tax on net income from sales or other dispositions of property, other than foreclosure property, that we hold primarily for sale to customers in the ordinary course of business.
- If we fail to satisfy one or both of the 75% gross income test or the 95% gross income test, as described below under "-Gross Income Tests," but nonetheless continue to qualify as a REIT because we meet other requirements, we will be subject to a 100% tax on:
  - the greater of the amount by which we fail the 75% gross income test or the 95% gross income test, in either case, multiplied by
  - a fraction intended to reflect our profitability.
- If we fail to distribute during a calendar year at least the sum of: (1) 85% of our REIT ordinary income for the year, (2) 95% of our REIT capital gain net income for the year, and (3) any undistributed taxable income required to be distributed from earlier periods, then we will be subject to a 4% nondeductible excise tax on the excess of the required distribution over the amount we actually distributed.
- If we fail any of the asset tests, other than a de minimis failure of the 5% asset test, the 10% vote test or the 10% value test, as described below under "-Asset Tests," as long as (1) the failure was due to reasonable cause and not to willful neglect, (2) we file a description of each asset that caused such failure with the IRS, and (3) we dispose of the assets causing the failure or otherwise comply with the asset tests within six months after the last day of the quarter in which we identify such failure, we will pay a tax equal to the greater of $50,000 or the highest federal corporate income tax rate (currently 35%) multiplied by the net income from the nonqualifying assets during the period in which we failed to satisfy the asset tests.
- If we fail to satisfy one or more requirements for REIT qualification, other than the gross income tests and the asset tests, and such failure is due to reasonable cause and not to willful neglect, we will be required to pay a penalty of $50,000 for each such failure.
- We will be subject to a 100% excise tax on transactions with a taxable REIT subsidiary that are not conducted on an arm's-length basis.
- If we acquire any asset from a C corporation, or a corporation that generally is subject to full corporate-level tax, in a merger or other transaction in which we acquire a basis in the asset that is determined by reference either to the C corporation's basis in the asset or to another asset, we will pay tax at the highest corporate rate applicable if we recognize gain on the sale or disposition of the asset during the 10-year period after we acquire the asset. The amount of gain on which we will pay tax generally is the lesser of:
  - the amount of gain that we recognize at the time of the sale or disposition, and
  - the amount of gain that we would have recognized if we had sold the asset at the time we acquired it.
- The earnings of our subsidiary entities that are C corporations, including taxable REIT subsidiaries, are subject to federal corporate income tax.

In addition, we may be subject to a variety of taxes, including payroll taxes and state, local and foreign income, property and other taxes on our assets and operations. We also could be subject to tax in situations and on transactions not presently contemplated.

Requirements for Qualification as a REIT

A REIT is a corporation, trust or association that meets each of the following requirements:

(1) It is managed by one or more trustees or directors;

(2) Its beneficial ownership is evidenced by transferable shares of stock, or by transferable shares or certificates of beneficial interest;

(3) It would be taxable as a domestic corporation, but for Sections 856 through 860 of the Code, i.e. the REIT provisions;

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(4) It is neither a financial institution nor an insurance company subject to special provisions of the federal income tax laws;

(5) At least 100 persons are beneficial owners of its stock or ownership shares or certificates (determined without reference to any rules of attribution);

(6) Not more than 50% in value of its outstanding stock or ownership shares or certificates is owned, directly or indirectly, by five or fewer individuals, which the federal income tax law defines to include certain entities, during the last half of any taxable year;

(7) It elects to be a REIT, or has made such election for a previous taxable year, and satisfies all relevant filing and other administrative requirements established by the IRS that must be met to elect and maintain REIT status;

(8) It uses a calendar year for federal income tax purposes and complies with the recordkeeping requirements of the federal income tax laws; and

(9) It meets certain other qualifications, tests described below, regarding the sources of its income, the nature and diversification of its assets and the distribution of its income.

We must meet requirements 1 through 4, and 8 during our entire taxable year and must meet requirement 5 during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months. If we comply with certain requirements for ascertaining the beneficial ownership of our outstanding shares in a taxable year and have no reason to know that we violated requirement 6, we will be deemed to have satisfied requirement 6 for that taxable year. For purposes of determining share ownership under requirement 6, an "individual" generally includes a supplemental unemployment compensation benefits plan, a private foundation, or a portion of a trust permanently set aside or used exclusively for charitable purposes. An "individual," however, generally does not include a trust that is a qualified employee pension or profit sharing trust under the federal income tax laws, and beneficiaries of such a trust will be treated as holding our shares in proportion to their actuarial interests in the trust for purposes of requirement 6. Our charter provides for restrictions regarding the ownership and transfer of our shares that should allow us to continue to satisfy these requirements. The provisions of the charter restricting the ownership and transfer of our shares are described in "Description of Securities-Restrictions on Ownership and Transfer." We believe we have issued sufficient shares with enough diversity of ownership to satisfy requirements 5 and 6 set forth above. For purposes of requirement 8, we have adopted December 31 as our year end, and thereby satisfy this requirement.

Qualified REIT Subsidiaries. A "qualified REIT subsidiary" is a corporation, all of the stock of which is owned, directly or indirectly, by a REIT and that has not elected to be a taxable REIT subsidiary. A corporation that is a "qualified REIT subsidiary" is treated as a division of its owner and not as a separate entity for federal income tax purposes. Thus, all assets, liabilities, and items of income, deduction, and credit of a "qualified REIT subsidiary" are treated as assets, liabilities, and items of income, deduction, and credit of the REIT that directly or indirectly owns the "qualified REIT subsidiary." Consequently, in applying the REIT requirements described herein, the separate existence of any "qualified REIT subsidiary" that we form or acquire will be ignored, and all assets, liabilities, and items of income, deduction, and credit of such subsidiary will be treated as our assets, liabilities, and items of income, deduction, and credit.

Other Disregarded Entities and Partnerships. An unincorporated domestic entity, such as a partnership or limited liability company that has a single owner, as determined under the federal tax laws, generally is not treated as an entity separate from its owner for federal income tax purposes. An unincorporated domestic entity with two or more owners, as determined under the federal tax laws, generally is treated as a partnership for federal income tax purposes. In the case of a REIT that is a partner in a partnership, the REIT is treated as owning its proportionate share of the

assets of the partnership and as earning its allocable share of the gross income of the partnership for purposes of the applicable REIT qualification tests. Thus, our proportionate share of the assets and items of gross income of our Operating Partnership and any other partnership, joint venture, or limited liability company that is treated as a partnership for federal income tax purposes in which we acquire an interest, directly or indirectly, is treated as our assets and gross income for purposes of applying the various REIT qualification tests. For purposes of the 10% value test (described in "-Asset Tests"), our proportionate share is based on our proportionate interest in the equity interests and certain debt securities issued by a partnership. For all of the other asset and income tests, our proportionate share is based on our proportionate interest in the capital of the partnership.

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Taxable REIT Subsidiaries. A REIT is permitted to own up to 100% of the stock of one or more "taxable REIT subsidiaries." The subsidiary and the REIT must jointly elect to treat the subsidiary as a taxable REIT subsidiary. The separate existence of a taxable REIT subsidiary is not ignored for federal income tax purposes. A taxable REIT subsidiary is a fully taxable corporation that may earn income that would not be qualifying income for purposes of the gross income tests, as described below, if earned directly by the parent REIT. Accordingly, a taxable REIT subsidiary generally would be subject to corporate income tax on its earnings, which may reduce the cash flow generated by us and our subsidiaries in the aggregate, and may reduce our ability to make distributions to our shareholders. A corporation of which a taxable REIT subsidiary directly or indirectly owns more than 35% of the voting power or value of the securities is automatically treated as a taxable REIT subsidiary without an election.

We will not be treated as holding the assets of a taxable REIT subsidiary that we acquire or form or as receiving any income that any such taxable REIT subsidiary earns. Rather, the stock issued by any taxable REIT subsidiary to us will be an asset in our hands, and we will treat the distributions paid to us from such taxable REIT subsidiary, if any, as income. This treatment may affect our compliance with the gross income tests and asset tests. Because a REIT does not include the assets and income of taxable REIT subsidiaries in determining the REIT's compliance with REIT requirements, such entities may be used by the REIT to undertake indirectly activities that the REIT requirements might otherwise preclude the REIT from doing directly or through a pass-through subsidiary (e.g., a partnership). If dividends are paid to us by a domestic taxable REIT subsidiary, then a portion of such dividends that we distribute to our shareholders who are taxed at individual rates generally will be eligible for taxation at preferential dividend income tax rates rather than at ordinary income rates through 2012. See "-Annual Distribution Requirements" and "-Taxation of Taxable U.S. Holders of Our Class B Common Shares - Distributions."

A taxable REIT subsidiary pays federal income tax at corporate rates on any income that it earns. Restrictions imposed on REITs and their taxable REIT subsidiaries are intended to ensure that taxable REIT subsidiaries will be subject to appropriate levels of federal income taxation. These restrictions limit the deductibility of interest paid or accrued by a taxable REIT subsidiary to its parent REIT and impose a 100% excise tax on transactions between a taxable REIT subsidiary and its parent REIT or the REIT's tenants that are not conducted on an arm's-length basis. We may form or acquire one or more taxable REIT subsidiaries to engage in activities that would jeopardize our REIT status if we engaged in the activities directly or through one or more of our pass-through subsidiaries. In particular, any taxable REIT subsidiary that we formed or acquired generally would conduct third party services and other business activities that might give rise to income from prohibited transactions if such services or activities were conducted by us or through one or more of our pass-through subsidiaries. See "- Gross Income Tests-Prohibited Transactions."

Gross Income Tests

We must satisfy two gross income tests annually to maintain our qualification as a REIT. First, at least 75% of our gross income for each taxable year must consist of defined types of income that we derive, directly or indirectly, from investments relating to real property or mortgages on real property or qualified temporary investment income. Qualifying income for purposes of that 75% gross income test generally includes:

- rents from real property;
- interest on debt secured by mortgages on real property or on interests in real property;
- dividends or other distributions on, and gain from the sale of, stock or shares of beneficial interest in other REITs;
- gain from the sale of real estate assets;
- income and gain derived from foreclosure property; and
- income derived from the temporary investment of new capital that is attributable to the issuance of our shares or a public offering of our debt with a maturity date of at least five years and that we receive during the one-year period beginning on the date on which we receive such new capital.

Second, in general, at least 95% of our gross income for each taxable year must consist of income that is qualifying income for purposes of the 75% gross income test, other types of interest and dividends, gain from the sale or disposition of stock or securities, or any combination of these.

Gross income from our sale of property that we hold primarily for sale to customers in the ordinary course of business will be excluded from gross income for purposes of the 75% and 95% gross income tests. In addition, any gains from "hedging transactions," as defined in "-Hedging Transactions," that are clearly and timely identified as such will be excluded from gross income for purposes of the 75% and 95% gross income tests. In addition, certain foreign currency gains will be excluded from gross income for purposes of one or both of the gross income tests. See "-Foreign Currency Gain."

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The following paragraphs discuss the specific application of the gross income tests to us.

Rents from Real Property. Rent that we receive for the use of our real property will qualify as "rents from real property," which is qualifying income for purposes of the 75% and 95% gross income tests, only if the following conditions are met:

First, the rent must not be based in whole or in part on the income or profits of any person. Participating rent, however, will qualify as "rents from real property" if it is based on percentages of receipts or sales and the percentages:

- are fixed at the time the leases are entered into;
- are not renegotiated during the term of the leases in a manner that has the effect of basing percentage rent on income or profits; and
- conform with normal business practice.

More generally, the rent will not qualify as "rents from real property" if, considering the relevant lease and all the surrounding circumstances, the arrangement does not conform with normal business practice, but is in reality used as a means of basing the rent on income or profits. We intend to set and accept rents which are fixed dollar amounts or a fixed percentage of gross revenue, and not to any extent determined by reference to any person's income or profits, in compliance with the rules above.

Second, we must not own, actually or constructively, 10% or more of the stock or the assets or net profits of any tenant, referred to as a "related-party tenant," other than a taxable REIT subsidiary. The constructive ownership rules generally provide that, if 10% or more in value of our shares is owned, directly or indirectly, by or for any person, we are considered as owning the stock owned, directly or indirectly, by or for such person. We do not own any stock or any assets or net profits of any tenant directly. However, because the constructive ownership rules are broad and it is not possible to monitor direct and indirect transfers of our shares continually, no absolute assurance can be given that such transfers or other events of which we have no knowledge will not cause us to own constructively 10% or more of a tenant (or a subtenant, in which case only rent attributable to the subtenant is disqualified) other than a taxable REIT subsidiary at some future date.

Under an exception to the related-party tenant rule described in the preceding paragraph, rent that we receive from a taxable REIT subsidiary will qualify as "rents from real property" as long as (1) at least 90% of the leased space in the property is leased to persons other than taxable REIT subsidiaries and related-party tenants, and (2) the amount paid by the taxable REIT subsidiary to rent space at the property is substantially comparable to rents paid by other tenants of the property for comparable space. The "substantially comparable" requirement must be satisfied when the lease is entered into, when it is extended, and when the lease is modified, if the modification increases the rent paid by the taxable REIT subsidiary. If the requirement that at least 90% of the leased space in the related property is rented to unrelated tenants is met when a lease is entered into, extended, or modified, such requirement will continue to be met as long as there is no increase in the space leased to any taxable REIT subsidiary or related-party tenant. Any increased rent attributable to a modification of a lease with a taxable REIT subsidiary in which we own directly or indirectly more than 50% of the voting power or value of the stock (a "controlled taxable REIT subsidiary") will not be treated as "rents from real property."

Third, we must not furnish or render noncustomary services, other than a de minimis amount of noncustomary services, as described below, to the tenants of our properties, or manage or operate our properties, other than through an independent contractor who is adequately compensated and from whom we do not derive or receive any income. However, we need not provide services through an "independent contractor," but instead may provide services directly to our tenants, if the services are "usually or customarily rendered" in connection with the rental of space for occupancy

only and are not considered to be provided for the tenants' convenience. In addition, we may provide a minimal amount of “noncustomary” services to the tenants of a property, other than through an independent contractor, as long as our income from the services (valued at not less than 150% of our direct cost for performing such services) does not exceed 1% of our income from the related property. Finally, we may own up to 100% of the stock of one or more taxable REIT subsidiaries, which may provide noncustomary services to our tenants without our rents from the related properties being treated as nonqualifying income for purposes of the 75% and 95% gross income tests. We have not performed, and do not intend to perform, any services other than customary ones for our tenants, unless such services are provided through independent contractors or taxable REIT subsidiaries.

If the rent from a lease of property does not qualify as “rents from real property” because (1) the rent is based on the net income or profits of the tenant, (2) the lessee is a related-party tenant or fails to qualify for the exception to the related party tenant rule for qualifying taxable REIT subsidiaries, or (3) we furnish noncustomary services to the tenants of the property, or

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manage or operate the property, other than through a qualifying independent contractor or a taxable REIT subsidiary, that are in excess of 1% of our income from the related property, none of the rent from the property would qualify as "rents from real property." In any of these circumstances, we could lose our REIT status, unless we qualified for certain statutory relief provisions, because we might be unable to satisfy either the 75% or 95% gross income test.

Tenants may be required to pay, in addition to base rent, reimbursements for certain amounts we are obligated to pay to third parties (such as a lessee's proportionate share of a property's operational or capital expenses), penalties for nonpayment or late payment of rent or additions to rent. These and other similar payments should qualify as "rents from real property." To the extent they do not, they should be treated as interest that qualifies for the 95% gross income test.

In addition, rent attributable to any personal property leased in connection with a lease of real property will not qualify as "rents from real property" if the rent attributable to such personal property exceeds 15% of the total rent received under the lease. The rent attributable to personal property under a lease is the amount that bears the same ratio to total rent under the lease for the taxable year as the average of the fair market values of the leased personal property at the beginning and at the end of the taxable year bears to the average of the aggregate fair market values of both the real and personal property covered by the lease at the beginning and at the end of such taxable year, or the personal property ratio. If a portion of the rent that we receive from a property does not qualify as "rents from real property" because the rent attributable to personal property exceeds 15% of the total rent for a taxable year, the portion of the rent that is attributable to personal property will not be qualifying income for purposes of either the 75% or 95% gross income test. Thus, if such rent attributable to personal property, plus any other income that is nonqualifying income for purposes of the 95% gross income test, during a taxable year exceeds 5% of our gross income during the year, we would lose our REIT status, unless we qualified for certain statutory relief provisions. With respect to each of our leases, we believe that the personal property ratio generally is less than 15%. Where that is not, or may in the future not be, the case, we believe that any income attributable to personal property will not jeopardize our ability to qualify as a REIT. There can be no assurance, however, that the IRS would not challenge our calculation of a personal property ratio, or that a court would not uphold such assertion. If such a challenge were successfully asserted, we could fail to satisfy the 75% or 95% gross income test and thus potentially lose our REIT status.

Interest. For purposes of the 75% and 95% gross income tests, the term "interest" generally does not include any amount received or accrued, directly or indirectly, if the determination of such amount depends in whole or in part on the income or profits of any person. However, an amount received or accrued generally will not be excluded from the term "interest" solely because it is based on a fixed percentage or percentages of receipts or sales. Furthermore, to the extent that interest from a loan that is based on the profit or net cash proceeds from the sale of the property securing the loan constitutes a "shared appreciation provision," income attributable to such participation feature will be treated as gain from the sale of the secured property.

We may invest opportunistically from time to time in mortgage debt and mezzanine loans when we believe our investment will allow us to acquire control of the related real estate. Interest on debt secured by a mortgage on real property or on interests in real property, including, for this purpose, discount points, prepayment penalties, loan assumption fees, and late payment charges that are not compensation for services, generally is qualifying income for purposes of the 75% gross income test. However, if a loan is secured by real property and other property and the highest principal amount of such loan that was outstanding during a taxable year exceeds the fair market value of the real property securing the loan as of the date the REIT agreed to originate or acquire the loan, a portion of the interest income from such loan will not be qualifying income for purposes of the 75% gross income test, but will be qualifying income for purposes of the 95% gross income test. The portion of the interest income that will not be qualifying income for purposes of the 75% gross income test will be equal to the interest income attributable to the portion of the principal amount of the loan that is not secured by real property. The principal amount of the loan that is not secured by real property is the amount by which the loan exceeds the value of the real estate that is security for the loan.

Dividends. Our share of any dividends received from any corporation (including any taxable REIT subsidiary, but excluding any REIT or qualified REIT subsidiary) in which we own an equity interest will qualify for purposes of the 95% gross income test but not for purposes of the 75% gross income test. Our share of any dividends received from any other REIT in which we own an equity interest will be qualifying income for purposes of both gross income tests. Any dividends received by us from a qualified REIT subsidiary will be excluded from gross income for purposes of the 75% and 95% gross income tests.

Prohibited Transactions. A REIT will incur a 100% tax on the net income derived from any sale or other disposition of property, other than foreclosure property, that the REIT holds primarily for sale to customers in the ordinary course of a trade or business, and net income derived from such prohibited transactions is excluded from gross income solely for purposes of the

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75% and 95% gross income tests. We believe that none of our assets are held primarily for sale to customers and that a sale of any of our assets will not be in the ordinary course of our business. Whether a REIT holds an asset "primarily for sale to customers in the ordinary course of a trade or business" depends, however, on the facts and circumstances that exist from time to time, including those related to a particular asset. A safe harbor to the characterization of the sale of property by a REIT as a prohibited transaction and the 100% prohibited transaction tax is available if the following requirements are met:

- the REIT has held the property for not less than two years;
- the aggregate expenditures made by the REIT, or any partner of the REIT, during the two-year period preceding the date of the sale that are includable in the basis of the property do not exceed 30% of the selling price of the property;
- either (1) during the year in question, the REIT did not make more than seven property sales other than sales of foreclosure property or sales to which Section 1033 of the Code applies, (2) the aggregate adjusted bases of all such properties sold by the REIT during the year did not exceed 10% of the aggregate bases of all of the assets of the REIT at the beginning of the year or (3) the aggregate fair market value of all such properties sold by the REIT during the year did not exceed 10% of the aggregate fair market value of all of the assets of the REIT at the beginning of the year;
- in the case of property not acquired through foreclosure or lease termination, the REIT has held the property for at least two years for the production of rental income; and
- if the REIT has made more than seven property sales (excluding sales of foreclosure property) during the taxable year, substantially all of the marketing and development expenditures with respect to the property were made through an independent contractor from whom the REIT derives no income.

We will attempt to comply with the terms of the safe-harbor provisions in the federal income tax laws prescribing when an asset sale will not be characterized as a prohibited transaction. We cannot assure you, however, that we can comply with the safe-harbor provisions or that we will avoid owning property that may be characterized as property held "primarily for sale to customers in the ordinary course of a trade or business." We may hold and dispose of certain properties through a taxable REIT subsidiary if we conclude that the sale or other disposition of such property may not fall within the safe-harbor provisions. The 100% tax will not apply to gains from the sale of property that is held through a taxable REIT subsidiary or other taxable corporation, although such income will be taxed to the taxable REIT subsidiary or other taxable corporation at federal corporate income tax rates.

Foreclosure Property. We will be subject to tax at the maximum corporate rate on any income from foreclosure property, which includes certain foreign currency gains and related deductions, other than income that otherwise would be qualifying income for purposes of the 75% gross income test, less expenses directly connected with the production of that income. However, gross income from foreclosure property will qualify under the 75% and 95% gross income tests. "Foreclosure property" is any real property, including interests in real property, and any personal property incident to such real property:

- that is acquired by a REIT as the result of the REIT having bid on such property at foreclosure, or having otherwise reduced such property to ownership or possession by agreement or process of law, after there was a default or default was imminent on a lease of such property or on indebtedness that such property secured;
- for which the related loan or leased property was acquired by the REIT at a time when the default was not imminent or anticipated; and
- for which the REIT makes a proper election to treat the property as foreclosure property.

A REIT will not be considered to have foreclosed on a property where the REIT takes control of the property as a mortgagee-in-possession and cannot receive any profit or sustain any loss except as a creditor of the mortgagor. Property generally ceases to be foreclosure property at the end of the third taxable year following the taxable year in which the REIT acquired the property (or longer if an extension is granted by the Secretary of the U.S. Treasury). This

period (as extended, if applicable) terminates, and foreclosure property ceases to be foreclosure property on the first day:

- on which a lease is entered into for the property that, by its terms, will give rise to income that does not qualify for purposes of the 75% gross income test, or any amount is received or accrued, directly or indirectly, pursuant to a lease entered into on or after such day that will give rise to income that does not qualify for purposes of the 75% gross income test;
- on which any construction takes place on the property, other than completion of a building, or any other improvement, where more than 10% of the construction was completed before default became imminent; or
- which is more than 90 days after the day on which the REIT acquired the property and the property is used in a trade or business which is conducted by the REIT, other than through an independent contractor from whom the REIT itself does not derive or receive any income.

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Hedging Transactions. From time to time, we or our subsidiaries may enter into hedging transactions with respect to one or more of our or our subsidiaries' assets or liabilities. Our or our subsidiaries' hedging activities may include entering into interest rate swaps, caps, and floors, options to purchase such items, and futures and forward contracts. Income and gain from "hedging transactions" will be excluded from gross income for purposes of both the 75% and 95% gross income tests. A "hedging transaction" means either (1) any transaction entered into in the normal course of our or our subsidiaries' trade or business primarily to manage the risk of interest rate, price changes, or currency fluctuations with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, to acquire or carry real estate assets or (2) any transaction entered into primarily to manage the risk of currency fluctuations with respect to any item of income or gain that would be qualifying income under the 75% or 95% gross income test (or any property which generates such income or gain). We are required to clearly identify any such hedging transaction before the close of the day on which it was acquired, originated, or entered into and to satisfy other identification requirements. We intend to structure any hedging transactions in a manner that does not jeopardize our qualification as a REIT; however, no assurance can be given that our hedging activities will give rise to income that qualifies for purposes of either or both of the gross income tests.

Foreign Currency Gain. Certain foreign currency gains will be excluded from gross income for purposes of one or both of the gross income tests. "Real estate foreign exchange gain" will be excluded from gross income for purposes of the 75% and 95% gross income tests. Real estate foreign exchange gain generally includes foreign currency gain attributable to any item of income or gain that is qualifying income for purposes of the 75% gross income test, foreign currency gain attributable to the acquisition or ownership of (or becoming or being the obligor under) obligations secured by mortgages on real property or an interest in real property and certain foreign currency gain attributable to certain "qualified business units" of a REIT. "Passive foreign exchange gain" will be excluded from gross income for purposes of the 95% gross income test. Passive foreign exchange gain generally includes real estate foreign exchange gain, as described above, and also includes foreign currency gain attributable to any item of income or gain that is qualifying income for purposes of the 95% gross income test and foreign currency gain attributable to the acquisition or ownership of (or becoming or being the obligor under) debt obligations. These exclusions for real estate foreign exchange gain and passive foreign exchange gain do not apply to any foreign currency gain that is derived from dealing, or engaging in substantial and regular trading, in securities. Such gain is treated as nonqualifying income for purposes of both the 75% and 95% gross income tests.

Failure to Satisfy Gross Income Tests. We intend to monitor our sources of income, including any non-qualifying income received by us, and manage our assets so as to ensure our compliance with the gross income tests. If we fail to satisfy one or both of the gross income tests for any taxable year, we nevertheless may qualify as a REIT for that year if we qualify for relief under certain provisions of the federal income tax laws. Those relief provisions are available if:

- our failure to meet the applicable test is due to reasonable cause and not to willful neglect; and
- following such failure for any taxable year, we file a schedule of the sources of our income with the IRS in accordance with the Treasury Regulations.

We cannot predict, however, whether any failure to meet these tests will qualify for the relief provisions. In addition, as discussed above in "-Taxation of Our Company," even if the relief provisions apply, we would incur a 100% tax on the gross income attributable to the greater of (1) the amount by which we fail the 75% gross income test, or (2) the amount by which we fail the 95% gross income test, multiplied, in either case, by a fraction intended to reflect our profitability.

Asset Tests

To maintain our qualification as a REIT, we also must satisfy the following asset tests at the end of each quarter of each taxable year.

First, at least 75% of the value of our total assets, or the "75% asset test," must consist of:

- cash or cash items, including certain receivables;
- government securities;
- interests in real property, including leaseholds and options to acquire real property and leaseholds;
- interests in mortgage loans secured by real property;
- shares in other REITs; and
- investments in stock or debt instruments during the one-year period following our receipt of new capital that we raise through equity offerings or public offerings of debt with at least a five-year term.

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Second, of our assets that are not qualifying assets for purposes of the 75% asset test described above, the value of our interest in any one issuer's securities may not exceed 5% of the value of our total assets, or the "5% asset test."

Third, of our assets that are not qualifying assets for purposes of the 75% asset test described above, we may not own more than 10% of the voting power of any one issuer's outstanding securities, or the "10% vote test," or more than 10% of the value of any one issuer's outstanding securities, or the "10% value test."

Fourth, no more than 25% of the value of our total assets (or, prior to our 2009 taxable year, 20% of the value of our total assets) may consist of the securities of one or more taxable REIT subsidiaries.

Fifth, no more than 25% of the value of our total assets may consist of the securities of taxable REIT subsidiaries and other taxable subsidiaries and other assets that are not qualifying assets for purposes of the 75% asset test.

For purposes of the 5% asset test, the 10% vote test and the 10% value test, the term "securities" does not include shares in another REIT, equity or debt securities of a qualified REIT subsidiary or taxable REIT subsidiary, mortgage loans that constitute real estate assets, or equity interests in a partnership. The term "securities," however, generally includes debt securities issued by a partnership or another REIT, except that for purposes of the 10% value test, the term "securities" does not include:

- "Straight debt" securities, which is defined as a written unconditional promise to pay on demand or on a specified date a sum certain in money if (1) the debt is not convertible, directly or indirectly, into equity, and (2) the interest rate and interest payment dates are not contingent on profits, the borrower's discretion, or similar factors. "Straight debt" securities do not include any securities issued by a partnership or a corporation in which we or any controlled taxable REIT subsidiary hold non-"straight debt" securities that have an aggregate value of more than 1% of the issuer's outstanding securities. However, "straight debt" securities include debt subject to the following contingencies:
  - a contingency relating to the time of payment of interest or principal, as long as either (1) there is no change to the effective yield of the debt obligation, other than a change to the annual yield that does not exceed the greater of 0.25% or 5% of the annual yield, or (2) neither the aggregate issue price nor the aggregate face amount of the issuer's debt obligations held by us exceeds $1 million and no more than 12 months of unaccrued interest on the debt obligations can be required to be prepaid; and
  - a contingency relating to the time or amount of payment on a default or prepayment of a debt obligation, as long as the contingency is consistent with customary commercial practice.
- Any loan to an individual or an estate.
- Any "section 467 rental agreement," other than an agreement with a related-party tenant.
- Any obligation to pay "rents from real property."
- Certain securities issued by governmental entities.
- Any security issued by a REIT.
- Any debt instrument issued by an entity treated as a partnership for federal income tax purposes in which we are a partner to the extent of our proportionate interest in the debt and equity securities of the partnership.
- Any debt instrument issued by an entity treated as a partnership for federal income tax purposes not described in the preceding bullet points if at least 75% of the partnership's gross income, excluding income from prohibited transactions, is qualifying income for purposes of the 75% gross income test described above in "-Gross Income Tests."

For purposes of the 10% value test, our proportionate share of the assets of a partnership is our proportionate interest in any securities issued by the partnership, without regard to the securities described in the preceding two bullet points above.

We believe that the assets that we hold satisfy the foregoing asset test requirements. However, we will not obtain, nor are we required to obtain under the federal income tax laws, independent appraisals to support our conclusions as to the value of our assets and securities or the real estate collateral for the mortgage or mezzanine loans that we may acquire. Moreover, the values of some assets may not be susceptible to a precise determination. As a result, there can be no assurance that the IRS will not contend that our ownership of securities and other assets violates one or more of the asset tests applicable to REITs.

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As noted above, we may invest opportunistically in loans secured by interests in real property when we believe our investment will allow us to acquire control of the related real property. If the outstanding principal balance of a loan during a taxable year exceeds the fair market value of the real property securing such loan as of the date we agreed to originate or acquire the loan, a portion of such loan likely will not constitute a qualifying real estate asset under the federal income tax laws. Although the law on the matter is not entirely clear, it appears that the nonqualifying portion of such loan will be equal to the portion of the loan amount that exceeds the value of the associated real property that serves as security for that loan.

Failure to Satisfy Asset Tests. We will monitor the status of our assets for purposes of the various asset tests and will manage our portfolio in order to comply at all times with such tests. If we fail to satisfy the asset tests at the end of a calendar quarter, we would not lose our REIT status if:

- we satisfied the asset tests at the end of the preceding calendar quarter; and
- the discrepancy between the value of our assets and the asset test requirements arose from changes in the market values of our assets and was not wholly or partly caused by the acquisition of one or more non-qualifying assets.

If we did not satisfy the condition described in the second bullet point immediately above, we still could avoid REIT disqualification by eliminating any discrepancy within 30 days after the close of the calendar quarter in which the discrepancy arose.

In the event that we violate the 5% asset test, the 10% vote test or the 10% value test described above, we will not lose our REIT status if (1) the failure is de minimis (up to the lesser of 1% of our assets or $10 million) and (2) we dispose of assets causing the failure or otherwise comply with the asset tests within six months after the last day of the quarter in which we identify such failure. In the event of a failure of any of such asset tests other than a de minimis failure, as described in the preceding sentence, we will not lose our REIT status if (1) the failure was due to reasonable cause and not to willful neglect, (2) we file a description of each asset causing the failure with the IRS, (3) we dispose of assets causing the failure or otherwise comply with the asset tests within six months after the last day of the quarter in which we identify the failure, and (4) we pay a tax equal to the greater of $50,000 or 35% of the net income from the nonqualifying assets during the period in which we failed to satisfy the asset tests.

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 described above, then we will have failed the 5% asset test for the first quarter of our 2009 taxable year by an amount that is greater than the threshold for de minimis failures of the 5% asset test described above. We believe, however, that if we in fact failed the test, our failure would be considered due to reasonable cause and not willful neglect. Consequently, we would not be disqualified as a REIT for failure of the 5% asset test, provided that we comply with certain reporting requirements and pay 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. We complied with the applicable reporting requirements, and we paid such tax on April 27, 2010.

Bass Berry & Sims PLC, our tax counsel, in providing the tax opinion described above in “-Taxation of Our Company,” has concluded that, if we are considered to have failed the 5% asset test for the first quarter of our 2009 taxable year, such failure will be considered to be due to reasonable cause and not willful neglect such that the failure will not result in our disqualification as a REIT for our 2009 taxable year. Opinions of counsel are not, however, binding on the IRS or the courts. If, notwithstanding the opinion of Bass Berry & Sims PLC, 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 for our 2009 taxable year. We would not be

eligible to again elect REIT status until our 2014 taxable year. See "- Failure to Qualify as a REIT" below.

Annual Distribution Requirements

Each taxable year, we must distribute dividends, other than capital gain dividends and deemed distributions of retained capital gain, to our shareholders in an aggregate amount at least equal to:

- the sum of
90% of our "REIT taxable income," computed without regard to the dividends paid deduction and our net capital gain or loss, and

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- 90% of our after-tax net income, if any, from foreclosure property, minus
- the sum of certain items of non-cash income.

Generally, we must pay such distributions in the taxable year to which they relate, or in the following taxable year if either (1) we declare the distribution before we timely file our federal income tax return for the year and pay the distribution on or before the first regular dividend payment date after such declaration or (2) we declare the distribution in October, November, or December of the taxable year, payable to shareholders of record on a specified day in any such month, and we actually pay the dividend before the end of January of the following year. In both instances, these distributions relate to our prior taxable year for purposes of the annual distribution requirement.

We will pay federal income tax on taxable income, including net capital gain, that we do not distribute to our shareholders. Furthermore, if we fail to distribute during a calendar year, or by the end of January of the following calendar year in the case of distributions with declaration and record dates falling in the last three months of the calendar year, at least the sum of:

- 85% of our REIT ordinary income for the year,
- 95% of our REIT capital gain income for the year, and
- any undistributed taxable income from prior years,

we will incur a 4% nondeductible excise tax on the excess of such required distribution over the amounts we actually distributed.

We may elect to retain and pay federal income tax on the net long-term capital gain that we receive in a taxable year. If we so elect, we will be treated as having distributed any such retained amount for purposes of the 4% nondeductible excise tax described above. We intend to make timely distributions sufficient to satisfy the annual distribution requirement and to minimize corporate income tax and avoid the 4% nondeductible excise tax.

In addition, if we were to recognize “built-in gain” on the disposition of any assets acquired from a C corporation (or an entity taxable as a C corporation) in a transaction in which our basis in the assets was determined by reference to the C corporation's basis (for instance, if the assets were acquired in a tax-free reorganization), we would be required to distribute at least 90% of the “built-in gain” net of the tax we would pay on such gain. “Built-in gain” is the excess of (a) the fair market value of the asset (measured at the time of acquisition) over (b) the basis of the asset (measured at the time of acquisition).

It is possible that, from time to time, we may experience timing differences between the actual receipt of income and actual payment of deductible expenses and the inclusion of that income and deduction of such expenses in arriving at our REIT taxable income. Further, it is possible that, from time to time, we may be allocated a share of net capital gain from a partnership (or an entity treated as a partnership for federal income tax purposes) in which we own an interest that is attributable to the sale of depreciated property that exceeds our allocable share of cash attributable to that sale. As a result of the foregoing, we may have less cash than is necessary to make distributions to our shareholders that are sufficient to avoid corporate income tax and the 4% nondeductible excise tax imposed on certain undistributed income or even to meet the annual distribution requirement. In such a situation, we may need to borrow funds or issue additional shares or, if possible, pay dividends consisting, in whole or in part, of our shares or debt securities.

In order for distributions to be counted as satisfying the annual distribution requirement for REITs, and to provide us with a REIT-level tax deduction, the distributions must not be “preferential dividends.” A distribution is not a preferential dividend if the distribution is (1) pro rata among all outstanding shares within a particular class, and (2) in accordance with the preferences among different classes of shares as set forth in our organizational documents. Our

Class A common shares and our Class B common shares have identical distribution rights without any preferences between classes.

Under certain circumstances, we may be able to correct a failure to meet the distribution requirement for a year by paying “deficiency dividends” to our shareholders in a later year. We may include such deficiency dividends in our deduction for dividends paid for the earlier year. Although we may be able to avoid income tax on amounts distributed as deficiency dividends, we will be required to pay interest to the IRS based on the amount of any deduction we take for deficiency dividends.

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Recordkeeping Requirements

We must maintain certain records in order to qualify as a REIT. To avoid paying monetary penalties, we must demand, on an annual basis, information from certain of our shareholders designed to disclose the actual ownership of our outstanding shares, and we must maintain a list of those persons failing or refusing to comply with such demand as part of our records.

A shareholder that fails or refuses to comply with such demand is required by the Treasury Regulations to submit a statement with its tax return disclosing the actual ownership of our shares and other information. We intend to comply with these recordkeeping requirements.

Failure to Qualify as a REIT

If we fail to satisfy one or more requirements for REIT qualification, other than the gross income tests and the asset tests, we could avoid disqualification if our failure is due to reasonable cause and not to willful neglect and we pay a penalty of $50,000 for each such failure. In addition, there are statutory relief provisions for a failure of the gross income tests and asset tests, as described in "-Gross Income Tests" and "-Asset Tests."

If we were to fail to qualify as a REIT in any taxable year, and no relief provision applied, we would be subject to federal income tax on our taxable income at federal corporate income tax rates and any applicable alternative minimum tax. In calculating our taxable income for a year in which we failed to qualify as a REIT, we would not be able to deduct amounts distributed to our shareholders, and we would not be required to distribute any amounts to our shareholders for that year. In such event, to the extent of our current and accumulated earnings and profits, distributions to our shareholders generally would be taxable to our shareholders as ordinary income. Subject to certain limitations of the federal income tax laws, corporate shareholders may be eligible for the dividends received deduction, and shareholders taxed at individual rates may be eligible for a reduced federal income tax rate (15% through 2012) on such dividends. Unless we qualified for relief under the statutory relief provisions described in the preceding paragraph, we also would be disqualified from taxation as a REIT for the four taxable years following the year during which we ceased to qualify as a REIT. We cannot predict whether in all circumstances we would qualify for such statutory relief.

Tax Aspects of Our Investments in Our Operating Partnership and Subsidiary Partnerships.

The following discussion summarizes certain federal income tax considerations that are applicable to our direct and indirect investments in our Operating Partnership and any other entity that is treated as a partnership for federal income tax purposes, each individually referred to as a "Partnership" and, collectively, as the "Partnerships." Our Operating Partnership currently holds, directly and indirectly, all of the ownership interests in its subsidiaries, and such subsidiaries, therefore, currently are disregarded for federal income tax purposes. See "- Requirements for Qualification as a REIT - Other Disregarded Entities and Partnerships" above. If additional partners or members are admitted to any such noncorporate subsidiary, we intend for such noncorporate subsidiary to be treated as a partnership for federal income tax purposes.

Classification as Partnerships

We are required to include in our income our distributive share of each Partnership's income and to deduct our distributive share of each Partnership's losses but only if such Partnership is classified for federal income tax purposes as a partnership, rather than as a corporation or an association taxable as a corporation. An unincorporated entity with

at least two owners or members, as determined for federal income tax purposes, will be classified as a partnership, rather than as a corporation, for federal income tax purposes if it:

- is treated as a partnership under the Treasury Regulations relating to entity classification, or the "check-the-box regulations;" and
- is not a "publicly traded partnership."

Under the check-the-box regulations, an unincorporated entity with at least two owners or members may elect to be classified either as an association taxable as a corporation or as a partnership. If such an entity does not make an election, it generally will be treated as a partnership for federal income tax purposes.

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A publicly traded partnership is a partnership whose interests are traded on an established securities market or are readily tradable on a secondary market or the substantial equivalent thereof. A publicly traded partnership generally is treated as a corporation for federal income tax purposes, but will not be so treated if, for each taxable year beginning after December 31, 1987 in which it was classified as a publicly traded partnership, at least 90% of the partnership's gross income consisted of specified passive income, including real property rents, gains from the sale or other disposition of real property, interest, and dividends, or the "90% passive income exception." The Treasury Regulations provide limited safe harbors from treatment as a publicly traded partnership. Pursuant to one of those safe harbors, interests in a partnership will not be treated as readily tradable on a secondary market or the substantial equivalent thereof if (1) all interests in the partnership were issued in a transaction or transactions that were not required to be registered under the Securities Act of 1933, as amended, and (2) the partnership does not have more than 100 partners at any time during the partnership's taxable year. In determining the number of partners in a partnership, a person owning an interest in a partnership, grantor trust, or S corporation that owns an interest in the partnership is treated as a partner in such partnership only if (1) substantially all of the value of the owner's interest in the entity is attributable to the entity's direct or indirect interest in the partnership and (2) a principal purpose of the use of the entity is to permit the partnership to satisfy the 100-partner limitation. If any Partnership does not qualify for any safe harbor and is treated as a publicly traded partnership, we believe that such Partnership would have sufficient qualifying income to satisfy the 90% passive income exception and, therefore, would not be treated as a corporation for federal income tax purposes.

We have not requested, and do not intend to request, a ruling from the IRS that any of the Partnerships is or will be classified as a partnership for federal income tax purposes. If, for any reason, a Partnership were taxable as a corporation, rather than as a partnership, for federal income tax purposes, we may not be able to qualify as a REIT, unless we qualify for certain statutory relief provisions. See "- Gross Income Tests" and "- Asset Tests." In addition, any change in a Partnership's status for tax purposes might be treated as a taxable event, in which case we might incur tax liability without any related cash distribution. See "- Annual Distribution Requirements." Further, items of income and deduction of such Partnership would not pass through to us, and we would be treated as a stockholder for federal income tax purposes. Consequently, such Partnership would be required to pay income tax at corporate rates on its net income, and distributions to us would constitute dividends that would not be deductible in computing such Partnership's taxable income.

Income Taxation of the Partnerships and Their Partners

Partners, Not the Partnerships, Subject to Tax. A partnership is not a taxable entity for federal income tax purposes. Rather, we are required to take into account our distributive share of each Partnership's income, gains, losses, deductions, and credits for each taxable year of the Partnership ending with or within our taxable year, even if we receive no distribution from the Partnership for that year or a distribution that is less than our share of taxable income. Similarly, even if we receive a distribution, it may not be taxable if the distribution does not exceed our adjusted tax basis in our interest in the Partnership.

Partnership Allocations. Although a partnership agreement generally will determine the allocation of income and losses among partners, such allocations will be disregarded for tax purposes if they do not comply with the provisions of the federal income tax laws governing partnership allocations. If an allocation is not recognized for federal income tax purposes, the item subject to the allocation will be reallocated in accordance with the partners' interests in the partnership, which will be determined by taking into account all of the facts and circumstances relating to the economic arrangement of the partners with respect to such item.

Tax Allocations With Respect to Contributed Properties. Income, gain, loss, and deduction attributable to appreciated or depreciated property that is contributed to a partnership in exchange for an interest in the partnership must be allocated for federal income tax purposes in a manner such that the contributing partner is charged with, or benefits

from, respectively, the unrealized gain or unrealized loss associated with the property at the time of the contribution (the "704(c) Allocations"). The amount of such unrealized gain or unrealized loss, referred to as "built-in gain" or "built-in loss," at the time of contribution is generally equal to the difference between the fair market value of the contributed property at the time of contribution and the adjusted tax basis of such property at that time, referred to as a book-tax difference. A book-tax difference attributable to depreciable property generally is decreased on an annual basis as a result of the allocation of depreciation deductions to the contributing partner for book purposes, but not for tax purposes. The 704(c) Allocations are solely for federal income tax purposes and do not affect the book capital accounts or other economic or legal arrangements among the partners. The Treasury Regulations require partnerships to use a "reasonable method" for allocating items with respect to which there is a book-tax difference and outline several reasonable allocation methods.

The carryover basis of any properties actually contributed to our Operating Partnership or another Partnership by an additional partner or member, under certain reasonable methods available to us, including the "traditional method," (i) would cause us to be allocated lower amounts of depreciation deductions for tax purposes than would be allocated to us if all

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contributed properties were to have a tax basis equal to their fair market value at the time of the contribution and (ii) in the event of a sale of such properties, could cause us to be allocated taxable gain in excess of the economic or book gain allocated to us as a result of such sale, with a corresponding tax benefit to the contributing partners. An allocation described in (ii) above might cause us to recognize taxable income in excess of cash proceeds in the event of a sale or other disposition of property, which might adversely affect our ability to comply with the REIT distribution requirements and may result in a greater portion of our distributions being taxed as dividends.

Basis in Partnership Interest. Our adjusted tax basis in any partnership interest we own generally will be:

- the amount of cash and the basis of any other property we contribute to the partnership;
- increased by our distributive share of the partnership's income (including tax-exempt income) and any increase in our allocable share of indebtedness of the partnership; and
- reduced, but not below zero, by our distributive share of the partnership's loss (excluding any non-deductible items), the amount of cash and the basis of property distributed to us, and any reduction in our allocable share of indebtedness of the partnership.

Loss allocated to us in excess of our basis in a partnership interest will not be taken into account for federal income tax purposes until we again have basis sufficient to absorb the loss. A reduction of our share of partnership indebtedness will be treated as a constructive cash distribution to us, and will reduce our adjusted tax basis. Distributions, including constructive distributions, in excess of the basis of our partnership interest will constitute taxable income to us. Such distributions and constructive distributions normally will be characterized as long-term capital gain.

Sale of a Partnership's Property. Generally, any gain realized by a Partnership on the sale of property held for more than one year will be long-term capital gain, except for any portion of the gain treated as depreciation or cost recovery recapture. Our share of any Partnership's gain from the sale of inventory or other property held primarily for sale to customers in the ordinary course of the Partnership's trade or business will be treated as income from a prohibited transaction subject to a 100% tax. Income from a prohibited transaction may have an adverse effect on our ability to satisfy the gross income tests for REIT status. See “- Gross Income Tests.” We presently do not intend to acquire or hold, or to allow any Partnership to acquire or hold, any property that is likely to be treated as inventory or property held primarily for sale to customers in the ordinary course of our, or any Partnership's, trade or business.

Sunset of Reduced Tax Rate Provisions

Several of the tax considerations described herein are subject to a sunset provision. The sunset provision generally provides that for taxable years beginning after December 31, 2012, certain provisions that currently are in the Code will revert back to an earlier version of those provisions. Those provisions include provisions related to the reduced federal income tax rates for taxpayers taxed at individual rates as to ordinary income, long-term capital gains and qualified dividend income, and certain other tax rate provisions described herein. The impact of this sunset is not discussed in detail herein. Consequently, prospective shareholders should consult their own tax advisors regarding the effect of sunset provisions on the ownership of our Class B common shares.

State and Local Taxes

We and/or you may be subject to taxation by various states and localities, including those in which we or a shareholder transacts business, owns property or resides. The state and local tax treatment may differ from the federal income tax treatment described above. Consequently, you should consult your own tax advisors regarding the effect of state and local tax laws on (i) an exchange of OP units or our Class A common shares for our Class B common shares pursuant to the exchange offer and (ii) the ownership our Class B common shares.

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LEGAL MATTERS

Certain legal matters, including our qualification as a REIT for federal income tax purposes, will be passed upon for us by Bass, Berry & Sims PLC, Memphis, Tennessee. Venable LLP, Baltimore, Maryland, will issue an opinion to us regarding certain matters of Maryland law, including the validity of the Class B common shares offered hereby.

EXPERTS

The financial statements of the Company as of December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009 incorporated into this prospectus by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2011 have been so incorporated in reliance on the report of Pannell Kerr Forster of Texas, P.C., an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The financial statements of the Operating Partnership as of December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009 included in this prospectus as Annex A have been so included in reliance on the report of Pannell Kerr Forster of Texas, P.C., an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The historical summaries of gross income and direct operating expenses of Terravita Marketplace and Gilbert Tuscany Village for the year ended December 31, 2010 and the nine months ended September 30, 2011 (unaudited), the statements of revenues and certain operating expenses of (i) The Pinnacle at Scottsdale for year ended December 31, 2011 and the nine months ended September 30, 2011 (unaudited), and (ii) The Shops at Starwood for period January 1, 2011 through December 27, 2011, have been included herein in reliance on the reports appearing herein of Pannell Kerr Forster of Texas, P.C., an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

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PRO FORMA FINANCIAL INFORMATION
(unaudited)

During the year ended December 31, 2011, Whitestone REIT purchased eight real estate properties, only one of which was individually significant as defined by the regulations of the Securities and Exchange Commission. The required financial statements for the individually significant acquisition, The Pinnacle of Scottsdale, were filed on a Form 8-K/A on March 7, 2012. The eight acquisitions in the aggregate constitute a “significant amount of assets” as defined in Regulation S-X.

When acquisitions are individually insignificant but significant in the aggregate, Regulation S-X requires the presentation of audited financial statements for assets comprising a substantial majority of the individually insignificant properties. The purchases of Gilbert Tuscany Village, Terravita Marketplace and the Shops at Starwood ("the Insignificant Properties") constitute a “substantial majority” of the assets acquired by the Company for the year ended December 31, 2011 as defined in the Regulation.

The following pro forma financial statements have been prepared to provide pro forma information with regard to the acquisitions of the Insignificant Properties and The Pinnacle of Scottsdale (together with the Insignificant Properties, the "Properties"), which Whitestone REIT, through Whitestone REIT Operating Partnership, L.P., its wholly owned subsidiary, acquired from unrelated third parties.

The accompanying unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2011 (i) combines the historical operations of Whitestone REIT and its consolidated subsidiaries, including its operating partnership, with the revenues and certain operating expenses of the Properties for the periods prior to their acquisition and (ii) considers the amortization of out-of-market leases, the depreciation of the building (over 39 years), tenant improvements (over the terms of the respective lease agreements) and the amortization of the intangible lease costs based on each acquisition's preliminary purchase price allocation in accordance with U. S. generally accepted accounting principles, as if these acquisitions had occurred on January 1, 2011.

The unaudited pro forma condensed consolidated financial statements have been prepared by Whitestone REIT's management based upon the historical financial statements of Whitestone REIT and its consolidated subsidiaries and of the acquired Properties. These pro forma statements may not be indicative of the results that actually would have occurred had the acquisitions been in effect on the dates indicated or which may be obtained in the future. In management's opinion, all adjustments necessary to reflect the effects of the property acquisitions have been made. These unaudited pro forma statements are for informational purposes only and should be read in conjunction with the historical financial statements of the Properties and the related notes thereto included elsewhere in this prospectus and the historical financial statements of Whitestone REIT and its consolidated subsidiaries, including the related notes thereto, incorporated by reference herein.

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WHITESTONE REIT AND SUBSIDIARIES
PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2011
(unaudited)
(in thousands, except per share data)

	Whitestone REIT (A)	Terravita Marketplace (C)	Gilbert Tuscany Village (D)	The Pinnacle of Scottsdale (E)	Shops at Starwood (F)	Pro-Forma
Property revenues						
Rental revenue	$27,814	$739	$109	$1,949	$1,467	$32,078
Other revenue	7,101	184	35	572	412	8,304
Total property revenues	34,915	923	144	2,521	1,879	40,382
Property expenses						
Property operation and maintenance	8,659	98	63	318	239	9,377
Real estate taxes	4,668	77	52	321	255	5,373
Total property expenses	13,327	175	115	639	494	14,750
Other expense (income)						