

Whitestone REIT  
Form 424B3  
May 10, 2012

As filed pursuant to Rule 424(b)(3)  
Registration No. 333-180990  
Registration No. 333-180990-01  
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 June 8, 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 June 8, 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 May 7, 2012 was \$13.21 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."

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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. 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 May 10, 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.

## 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.whitstonereit.com](http://www.whitstonereit.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, 2011 was 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).

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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.”

## 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](http://www.whitestonereit.com). The content of our website is not incorporated into, and does not form a part of, this prospectus.



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."

Expiration Date

The exchange offer expires at 5:00 p.m., New York City time, on June 8, 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

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



common shares and OP  
units

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	<p>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.</p>
Withdrawal Rights	<p>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.”</p> <p>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 June 8, 2012. See “The Exchange Offer-Withdrawal Rights.”</p>
Recommendation of the Board	<p>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.</p>
Use of Proceeds	<p>Neither the Company nor the Operating Partnership will receive any proceeds from the exchange offer.</p>
Federal Income Tax Consequences	<p>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</p>

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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.”

Accounting Treatment	<p>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.</p>
Exchange Agent	<p>American Stock Transfer and Trust Company, LLC is the exchange agent for the exchange offer.</p>
Fees and Expenses	<p>The Company will pay all fees and expenses it incurs in connection with the exchange offer. See "The Exchange Offer-Fees and Expenses."</p>
Regulatory Approvals	<p>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.</p>
Rights of Non-Tendering Holders	<p>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.</p>
Questions	<p>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.</p>
Risk Factors	<p>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.</p>



## 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. Prior to 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 effect the amendment to our declaration of trust following the completion of this exchange offer and 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 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 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

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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.

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. If approved, we will effect the amendment following the completion of this exchange offer. However, there can be no assurance that the amendment will be approved by our shareholders.

## 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 similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans or intentions.

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

- adverse economic or real estate developments in Texas, Arizona or Illinois;
- general economic conditions, 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.”



## 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 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 May 7, 2012	\$13.93	\$12.78

On May 7, 2012, the closing price of our Class B common shares reported on the NYSE Amex was \$13.21 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.



## 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:

	Distributions Per Common Share/OP Unit <sup>(1)</sup>
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

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

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.

## 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 <sup>(1)</sup>	1.09	1.17	1.35	1.59	1.80
Funds from operations <sup>(2)</sup>	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.

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 <sup>(1)</sup>	7,625	6,697	6,347	5,877	6,108
(Gain) loss on sale or disposal of assets <sup>(1)</sup>	(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

<sup>(1)</sup> 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)					
<b>Earnings per unit - basic</b>						
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)	
<b>Earnings per unit - diluted</b>						
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)	
<b>Balance Sheet Data:</b>						
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	
<b>Other Data:</b>						
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 <sup>(1)</sup>	1.09	1.17	1.35	1.59	1.80	
Funds from operations <sup>(2)</sup>	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.

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):



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	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 <sup>(1)</sup>	7,625	6,697	6,347	5,877	6,108
(Gain) loss on sale or disposal of assets <sup>(1)</sup>	(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 June 8, 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

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.

## 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. This exchange offer is not subject to the requirements of Rule 13e-3 under the Exchange Act with respect to “going private” transactions as the operating partnership is entitled to and is relying on the exemption provided in Rule 13e-3(g)(2) under the Exchange Act.

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; and
- 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.

## 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;

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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.

#### 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.



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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.

#### 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. These expenses include registration fees, fees and expenses of the exchange agent, accounting and legal fees and printing costs, among others.

#### 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.

**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.

**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.

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.

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.

## 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) <sup>(1)</sup>	Average Annualized Base Rental Revenue Per Sq. Ft. <sup>(2)</sup>	Average Effective Annual Base Rent per Leased Sq. Ft. <sup>(3)</sup>
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



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Redevelopment, New Acquisitions <sup>(4)</sup>	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

<sup>(1)</sup> 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

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 <sup>(1)</sup>	9.1	%	9.1	%	9.0	%	8.9	%	8.7	%	8.5	%
Houston <sup>(2)</sup>	8.9		8.6		8.6		8.1		7.5		7.3	<sup>(3)</sup>

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

## 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

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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

## 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 Tuscan 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	Dallas	N/A	—	—	% —	—	—
Phase III							
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.

Tenant Name	Location	Annualized Rental Revenue (in thousands) <sup>(1)</sup>	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	%	

<sup>(1)</sup>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 <sup>(1)</sup>	Gross Leasable Area		Annualized Base Rent as of December 31, 2011		
		Approximate Square Feet	Percent of Total	Amount (in thousands) <sup>(2)</sup>	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



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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.

	Occupancy Rate	Average Annual Base Rent per Leased Square Foot <sup>(1)</sup>	Average Net Effective Annual Base Rent per Leased Square Foot <sup>(2)</sup>
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.



## 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 <sup>(1)</sup>	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	%

<sup>(1)</sup> 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.

Description	Outstanding Amount	Percentage of Total Debt	
Fixed rate notes			
\$1.4 million 5.00% Note, due 2012	\$1,318	1.0	%
\$14.1 million 5.659% Note, due 2013	14,110	11.0	%
\$3.0 million 6.00% Note, due 2021 <sup>(1)</sup>	2,978	2.3	%
\$10.0 million 6.04% Note, due 2014	9,326	7.3	%
\$1.5 million 6.50% Note, due 2014	1,471	1.2	%
\$11.2 million 6.52% Note, due 2015	10,763	8.4	%
\$21.4 million 6.53% Notes, due 2013	19,524	15.3	%
\$24.5 million 6.56% Note, due 2013	23,597	18.5	%
\$9.9 million 6.63% Notes, due 2014	9,221	7.2	%
\$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	8.6	%
\$26.9 million LIBOR + 2.86% Note, due 2013	24,559	19.2	%
	\$127,890	100.0	%

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The 6.00% interest rate is fixed through March 30, 2016. On March 31, 2016 the interest rate will be reset to the <sup>(1)</sup> 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