

Whitestone REIT
Form S-11/A
August 02, 2010
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As filed with the Securities and Exchange Commission on August 2, 2010

Registration No. 333-162859

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Amendment No. 3

to

Form S-11

FOR REGISTRATION UNDER THE SECURITIES ACT OF 1933

OF SECURITIES OF CERTAIN REAL ESTATE COMPANIES

Whitestone REIT

(Exact name of registrant as specified in governing instruments)

2600 South Gessner, Suite 500

Houston, Texas 77063

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(713) 827-9595

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

James C. Mastandrea

President and Chief Executive Officer

Whitestone REIT

2600 South Gessner, Suite 500

Houston, Texas 77063

(713) 827-9595

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

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

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

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

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

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

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

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

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

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

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

Subject to completion, dated August 2, 2010

3,333,333 Class B Common Shares

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Wunderlich Securities

Ladenburg Thalmann & Co. Inc.

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

Maxim Group LLC

National Securities Corporation

Southwest Securities, Inc.

The date of this prospectus is _____, 2010.

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

713.827.9595; 866.789.7348 ; www.whitestonereit.com

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

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PROSPECTUS SUMMARY

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

Overview

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

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

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

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

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Our Strengths

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

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

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

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

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

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

Our Strategy

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

Strategically Acquiring Properties.

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

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

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

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

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

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

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

Summary Risk Factors

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

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

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

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

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

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

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

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

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

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

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

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

Reclassification of Common Shares

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

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

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one vote on all matters voted upon by our shareholders;

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

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

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

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

Our Properties

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

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

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

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

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

Our Ownership Structure

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

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

- (1) Whitestone REIT is the 65% owner and the general partner of our Operating Partnership. This percentage will increase to 79% after completion of this offering.
- (2) Management and Board ownership of Class A common shares and OP units currently represents 9.8% of all Class A common shares assuming conversion of all OP units, excluding OP units held by Whitestone REIT.

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Restriction on Ownership and Transfer

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

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

Our Tax Status

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

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

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

Our Distribution Policy

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

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

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

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

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

our funds from operations;

our debt service requirements;

our capital expenditure requirements for our properties;

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

requirements of Maryland law;

our overall financial condition; and

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other factors deemed relevant by our Board.

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

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

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The Offering

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

Common shares and OP units outstanding after this offering:

Class A common shares 3,487,031⁽¹⁾

Class B common shares 3,333,333⁽²⁾

OP units 1,814,599⁽³⁾

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

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

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

Proposed NYSE Amex symbol for Class B common shares WSR

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- (1) Excludes 478,550 Class A common shares available for issuance under our 2008 Long-Term Equity Incentive Ownership Plan.
- (2) Excludes up to 500,000 Class B common shares that may be issued by us upon exercise of the underwriters' over-allotment option.
- (3) OP units are redeemable for cash or, at our option, Class A common shares on a one-for-one basis.

Our Principal Office

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

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Summary Consolidated Financial and Other Data

The following table sets forth our summary historical consolidated financial, operating and othe