Whitestone REIT CEO Letter to Shareholders: 2022 Wrap-up

HOUSTON, December 19, 2022 – Whitestone REIT (NYSE: WSR) ("Whitestone" or the "Company") is pleased to share the following CEO letter with shareholders:

As the year draws to a close, I wanted to reflect on 2022 and all that we've accomplished. When the Whitestone Board of Directors elevated me to the CEO position in January of this year, I outlined for the board four initiatives we would be targeting and received unanimous support from the trustees:

1) To improve the operational and financial performance of Whitestone, proving out the Company's core thesis
2) To dramatically improve Whitestone's alignment with shareholders, initially focusing on a host of governance improvements
3) To strengthen the Company's balance sheet and reduce debt leverage
4) To monetize our 81% equity investment in Pillarstone Capital REIT Operating Partnership LP (the "Pillarstone Partnership") and ensure that Whitestone shareholders receive fair value

We possessed the talent and the knowledge to achieve these goals and elevated the right people within the Company. We also focused on providing support to our team and on eliminating distractions.

I want to take this opportunity to provide an update on each initiative: what we've accomplished, where we currently stand, and the road ahead.

Operational and Financial Performance

On March 2, 2022, we outlined aggressive targets during our 4th quarter earnings call, including 14 – 19% FFO/Share growth and occupancy of 92 – 93%. Newly appointed Chief Operating Officer, Christine Mastandrea, and I shared a very strong belief in the Company's core thesis:

By focusing on community and convenience with service-oriented tenants in high-income, sun belt-located shopping centers, Whitestone can achieve earnings growth at or near the top of its peer set. By maintaining attention on high-quality revenue from a diverse set of tenants, the Company is also anticipated to be more resilient than peers during different economic cycles.

We took the necessary actions to drive performance:

- We increased accountability, streamlining and strengthening the regional leasing and property management teams, providing clear goals and priorities and eliminating micro-management, allowing for faster and better execution
- We began the process of restoring relationships within the real estate community, especially with the brokers, dramatically increasing transaction flow

These actions allowed morale to improve throughout the Company with employees having more effective tools for success and clear objectives that were aligned with the management team, resulting in greater productivity.

On our 3rd quarter 2022 earnings release and call, we tightened our FFO/Share target to 16 to 19% year-over-year growth and hit a record occupancy of 92.5%. We are eager to share our full year 2022 results and look forward to doing so on our 4th quarter earnings release and call in early 2023.

Since the 3rd quarter, as part of our ongoing asset management, we have completed $36 million in dispositions at a blended 5.6% cap rate, highlighting the value of Whitestone's portfolio of properties, which are located in some of the fastest growing and most desirable markets in the country. We anticipate using the proceeds for debt reduction and future accretive acquisitions with greater upside than the properties which were sold. This will allow us to advance our objectives to grow earnings and improve our debt metrics and equity market valuation.

Whitestone's Alignment with Shareholders / Governance

Perhaps an even more dramatic shift than our financial execution was our determination to fix the foundation of Whitestone, which is the Company's governance and alignment with shareholders. Few companies improve their ISS Governance score from a 9 to a 3 within a year, which further reflects our commitment.

In 2016, Whitestone engaged in a related-party transaction with Pillarstone Capital REIT ("Pillarstone"), an entity partially owned by our former CEO, and created a partnership and equity investment with the Pillarstone Partnership. However, since that time, we have substantially reconstituted our board. I share with the board a completely different view of these types of related-party transactions.

We understand that this past related-party transaction may cause concern in evaluating Whitestone but rest assured that these types of transactions are in the past and we hope the 2022's governance improvements highlighted below show that this is a new Company with a renewed commitment to the importance of solid corporate governance.

In 2021, the Nominating and Governance Committee of our board of trustees engaged Baker Botts, L.L.P., a top tier international law firm as its legal counsel to assist the committee in conducting a confidential investigation and inquiry into matters of concern that were raised to the committee relating to the conduct of Whitestone's former CEO. After considerable deliberation by the board and its legal counsel and discussions with the former CEO, the board took decisive action to remove him for cause. I believe that effective board oversight is a fundamental pillar of corporate governance and am extremely proud of our board acting in the best interest of shareholders in conducting the thorough investigation and taking the necessary actions.

In 2022, we:

- Separated the CEO and Chairman of the Board roles,
- Terminated Whitestone's shareholder rights plan (poison pill),
- Provided shareholder access to propose and vote on bylaw amendments,
- Appointed independent director Amy Shih-Hua Feng to the board, reducing our average board tenure to ~3.5 years and increasing its percentage of women to 33%,
- Lowered compensation packages across the management team, and
- Initiated formal board oversight for Whitestone's ESG Steering Committee.

In conjunction with these improvements, we have shifted from having limited interaction with shareholders to actively reaching out to shareholders and working closely with them to meet their expectations on governance and other matters.

The Balance Sheet and Cost of Capital

One key piece of feedback we heard from investors was to lower the Company's leverage and take care of any near-term maturities. Our Debt to EBITDAre stood at 9.1x at year-end 2021. After taking over the CFO role in conjunction with the leadership change, Scott Hogan made a commitment to ensure new investments met criteria to be accretive while simultaneously strengthening our credit metrics.

Given the Company's strong earnings growth, we were able to rapidly improve our Debt to EBITDAre ratio. We anticipate we will finish 2022 with a Debt to EBITDAre ratio of approximately 8.0x and expect to continue to improve this key ratio in 2023 and future years. This trend is not only well received by investors but was a critical component of locking down attractive financing and improving and extending our $515 million credit facility in September of this year. Our new facility can be increased to $715 million through an accordion feature and extends our maturity dates to 2027 and 2028.

The other key to reducing Whitestone's cost of capital was to limit share issuances and utilize retained earnings and underearning assets (land) for development. We estimate the Company has $125 to $140 million worth of investment opportunities with a portion on underutilized land that we currently own, with attractive enough returns to accelerate our earnings growth while simultaneously strengthening our credit metrics.

Monetization of Pillarstone Equity and Current Lawsuits

Whitestone is currently involved in three lawsuits with Pillarstone and/or the Company's former CEO:

1) Whitestone was sued in early 2022 by our former CEO alleging claims related to the board's termination of his employment for cause. Whitestone believes the claims are without merit and that it has strong factual and legal defenses based on the Baker Botts investigation.
2) Whitestone was sued by Pillarstone in September of this year, alleging claims regarding the limited partnership agreement and the termination of the management agreement between the two companies. We believe the claims are without merit.
3) Whitestone initiated a Delaware lawsuit in order to invalidate a poison pill implemented by Pillarstone solely to frustrate Whitestone's contractual redemption rights and prevent Whitestone from exiting and monetizing its stake in the Pillarstone Partnership. The judge has issued an order maintaining the status quo until the case is resolved. That order requires Pillarstone to obtain consent from Whitestone or the Court before the Pillarstone Partnership is permitted to take certain actions including:
   - acquiring real estate
   - a Merger, restructure or recapitalization
   - entry into transactions in excess of $10,000
   - changing its capital structure
   - obtaining new debt in excess of $250,000

   Whitestone's leadership and board firmly believe that our actions are in the best interest of our shareholders and are confident in the facts and merits of the cases. We look forward to the restoration of our contractual redemption rights and movement towards monetization of our equity investment.

2023 – The Path Ahead

While Whitestone is on the right track with all of the initiatives above, the work is certainly not done. Here is the outlook for each of them:

1) **Operational and Financial Performance:** The Company must continue its FFO / Share growth and deliver consistent results. The new management team has delivered three quarters of strong results and understands the value of building on those results.
2) **Whitestone's Alignment with Shareholders / Governance:** We are furthest along on this goal. Our team will continue to stay focused on regular engagement with shareholders and improvements to corporate governance.
3) **The Balance Sheet and Cost of Capital:** We must continue to improve our debt leverage in 2023 and future years and remain disciplined stewards of capital. We recognize the value of a strong balance sheet, and we recognize the importance of reaching the milestones we set.
4) **Pillarstone Monetization and Current Lawsuits:** We seek to obtain successful outcomes on behalf of Whitestone shareholders in each lawsuit and to complete our monetization of our equity interest in the Pillarstone Partnership.

The management team at Whitestone is pleased with the progress we made in 2022 and believes the future is very bright. We understand that one-year is not a track record, and we look forward to increasing your confidence level over the coming quarters and years. Happy Holidays!

- *Dave Holeman, Whitestone CEO*

About Whitestone REIT

Whitestone REIT (NYSE: WSR) is a community-centered real estate investment trust (REIT) that acquires, owns, operates, and develops open-air, retail centers located in some of the fastest growing markets in the country: Phoenix, Austin, Dallas-Fort Worth, Houston and San Antonio.

Our centers are convenience focused: merchandised with a mix of service-oriented tenants providing food (restaurants and grocers), self-care (health and fitness), services (financial and logistics), education and entertainment to the surrounding communities. The Company believes its strong community connections and deep tenant relationships are key to the success of its current centers and its acquisition strategy. For additional information, please visit our investor relations website.

Forward Looking Statements

Certain statements contained in this press release constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company intends for all such forward-looking statements to be covered by the safe-harbor provisions for forward-looking statements contained in Section 27A of the Securities Act and Section 21E of the Exchange Act, as applicable. Such information is subject to certain risks and uncertainties, as well as known and unknown risks, which could cause actual results to differ materially from those projected or anticipated. Therefore, such statements are not intended to be a guarantee of our performance in future periods. Such forward-looking statements include statements about our earnings guidance, future liquidity, performance growth and expectations and other matters and can generally be identified by the Company's use of forward-looking terminology, such as “may,” “will,” “plan,” “expect,” “intend,” “anticipate,” “believe,” “continue,” “goals” or similar words or phrases that are predictions of future events or trends and which do not relate solely to historical matters. The following are additional factors that could cause the Company's actual results and its expectations to differ materially from those described in the Company's forward-looking statements: uncertainties related to the COVID-19 pandemic, including the unknown duration and economic, operational and financial impacts of the COVID-19 pandemic, and the actions taken or contemplated by U.S. and local governmental authorities or others in response to the pandemic on the Company’s business, employees and tenants, including, among others, (a) changes in tenant demand for the Company’s properties, (b) financial challenges confronting major tenants, including as a result of decreased customers’ willingness to frequent, and mandated stay in place orders that have prevented customers from frequenting, some of Company’s tenants’ businesses and the impact of these issues on the Company’s ability to collect rent from its tenants, (c) operational changes implemented by the Company, including remote working arrangements, which may put increased strain on IT systems and create increased vulnerability to cybersecurity incidents, (d) significant reduction in the Company’s liquidity due to a reduced borrowing base under its revolving credit facility and limited ability to access the capital markets and other sources of financing on attractive terms or at all, and (e) prolonged measures to contain the spread of COVID-19 or the fluctuating government-imposed restrictions implemented to contain the spread of COVID-19; adverse economic or real estate developments or conditions in Texas or Arizona, Houston and Phoenix in particular, including as a result of any resurgences in COVID-19 cases in such areas and the impact on our tenants’ ability to pay their rent, which could result in bad debt allowances or straight-line rent reserve adjustments; the imposition of federal income taxes if we fail to qualify as a real estate investment trust (“REIT”) in any taxable year or forego an opportunity to ensure REIT status; the Company's ability to meet its long-term goals, including its ability to execute effectively its acquisition and disposition strategy, to continue to execute its development pipeline on schedule and at the expected costs, and its ability to grow its NOI as expected, which could be impacted by a number of factors, including, among other things, its ability to continue to renew leases or re-let space on attractive terms and to otherwise address its leasing rollover; its ability to successfully identify, finance and consummate suitable acquisitions, and the impact of such acquisitions, including financing developments, capitalization rates and internal rates of return; the Company’s ability to reduce or otherwise effectively manage its general and administrative expenses; the Company’s ability to fund from cash flows or otherwise distributions to its shareholders at current rates or at all; current adverse market and economic conditions including, but not limited to, the significant volatility and disruption in the global financial markets caused by the COVID-19 pandemic; lease terminations or lease defaults; the impact of competition on the Company's efforts to renew existing leases; changes in the economies and other conditions of the specific markets in which the Company operates; economic, legislative and regulatory changes, including changes to laws governing REITs and the impact of the legislation commonly known as the Tax Cuts and Jobs Act; the success of the Company's real estate strategies and investment objectives; the Company's ability to continue to qualify as a REIT under the Internal Revenue Code of 1986, as amended; and other factors detailed in the Company's most recent Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and other documents the Company files with the Securities and Exchange Commission from time to time.

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