2020 ANNUAL REPORT

COMMUNITIES THAT THRIVE

CREATING LOCAL CONNECTIONS

WHITESTONE REIT

2020 FINANCIAL HIGHLIGHTS

COVID CASH RENTAL COLLECTIONS
- 2Q20: WSR 81% vs. industry average 73%
- 3Q20: WSR 90% vs. industry average 88%
- 4Q20: WSR 95% vs. industry average 93%

FULL REPAYMENT OF COVID LIQUIDITY BORROWINGS
- Repaid $30m credit facility drawdown

FOOT TRAFFIC RECOVERY
- Industry-leading 81% recovery vs. industry average of 48%

LEASING SPREADS
- Blended leasing spreads of 8.9%

OCCUPANCY
- Remained steady between 88% - 90%

CORPORATE RESPONSIBILITY REPORT
- Published inaugural report

WHITESTONE REIT TOTAL SHAREHOLDER RETURN RANK AMONGST U.S. PUBLIC REIT SHOPPING CENTERS*

1ST

OF 17

OVER 5 YEARS

*Whitestone REIT Total Shareholder Return as compared to peers based on S&P Global data as of December 31, 2020. Total Shareholder Return is defined as share price change plus reinvested dividends. Peers include Acadia Realty Trust, Brixmor Property Group Inc., Cedar Realty Trust Inc., Federal Realty Investment Trust, Kimco Realty Corp., Kite Realty Group Trust, RPT Realty, Regency Centers Corp., Retail Opportunity Investments Corp., Retail Properties of America, Inc., Saul Centers Inc., Site Centers Corp., Urban Edge Properties, Urstadt Biddle Properties Inc., Weingarten Realty Investors, and Wheeler REIT, Inc.

OUR PROPERTIES

AUSTIN - SAN ANTONIO
Davenport Village
Quinlan Crossing
City View Village
Parkside Village North
Parkside Village South
The Strand at Huebner Oaks
Windsor Park Centre

DALLAS - FORT WORTH
Eldorado Plaza
Headquarters Village
Heritage Trace Plaza
Keller Place
Las Colinas Village
Shops at Starwood

HOUSTON
BLVD Place
Bissonnet Beltway Plaza
Kempwood Plaza
Lion Square
Providence Plaza
Shaver Street Center
Shops at Williams Trace
South Richey
Sugar Park Plaza
Sunridge Center
Town Park Plaza
West Memorial - Office
Westchase Plaza
Williams Trace Plaza

PHOENIX/CHICAGO
Ahwatukee Plaza
Anthem Marketplace
Desert Canyon
Fountain Hills Plaza
Fountain Square
Fulton Ranch Towne Center
Gilbert Tuscany Village
La Mirada
Market Street at DC Ranch
Marketplace at Central
Mercado at Scottsdale Ranch
Paradise Plaza
Pima Norte
Pinnacle of Scottsdale
Scottsdale Seville
Sunset at Pinnacle Peak
Terravita Marketplace
The Citadel
The Promenade at Fulton Ranch
The Shops at Pecos Ranch
Village Square at Dana Park
Spoerlein Commons

DEAR FELLOW SHAREHOLDERS,

In spite of 2020 being an unprecedented year of complex challenges for businesses worldwide, at Whitestone we decisively acted with tremendous focus, resilience and determination to ensure we continued to deliver excellent value for all of our stakeholders.

2020 brought us the COVID-19 pandemic, resulting in an extraordinary adversity affecting most of us with uncertainty of health, livelihood and economic opportunity. While the pandemic was a challenge, my view of 2020 is that it provided an opportunity for us at Whitestone to stress our business model and crisis management skills, make changes and improvements in the company where needed, and clarify and reaffirm our priorities for 2021.

In March 2020, as the economy turned sharply, we shifted from our operating plan to a crisis management plan. While 75% of our employees worked from home, our senior management team was in the office daily. We quickly implemented the following actions:

- Engaged with all tenants to help them operate their businesses safely and access available financial resources.
- Stopped all cash out-flows for development and re-development projects.
- Halted pending acquisitions.
- Froze salary increases for the second year.
- Lowered our personnel count.
- Temporarily drew down the available funds from our line of credit.
- Reduced our dividend.
- Reviewed our cash position daily.
- Held daily virtual meetings, which were hosted by leaders at every level with their respective teams, and weekly CEO-hosted virtual town halls to provide employees with company-wide updates.
- Provided ongoing communication with all of our stakeholders to keep them fully informed of our ongoing progress as we navigated the economic response to the pandemic.

As we evaluated various scenarios, we decisively took action. Needless to say, our executive team, who are fellow shareholders, felt as if they were driving a fine-tuned race car on a track with many obstacles. I am pleased to report the results of our actions yielded strong performance and improved industry positioning for Whitestone.

Positive Performance in 2020

Quarter over quarter we reported great results of total rent collections relative to our retail industry peers (see below):

Top Ranking Rental Collections[(1)(2)]

	WSR	PEERS
Q2 2020	81%	73%
Q3 2020	90%	88%
Q4 2020	95%	93%

Our team's work with tenants to maintain the ability to safely operate during these unprecedented times and adjust to market conditions was an "all hands-on deck" effort. And with our business model, the vast majority of our businesses are "essential", and remained open and operating during the pandemic, resulting in the following 2020 year-end recap:

2020 Year-End Highlights Recap

- Cash Rental Collections Rank at or near-the-top of the retail shopping center industry.
- Foot-Traffic Recovery ranked the highest among our peers[(3)].
- $30 million of temporary borrowings during the height of COVID-19 were fully repaid.
- Leasing spreads for new and renewal leases (blended) of 8.9%.
- Occupancy stabilized at 88% - 90%.
- Continued with 125 months of consecutive dividend payments.
- Published inaugural Corporate Responsibility & Sustainability Report.

Insights gained from utilizing Placer.ai has helped drive decisions that led to greater leasing spreads and a faster recovery during COVID-19, and it provided tenant data that helped us stabilize occupancy in the 88% - 90% range, confirming our business model.

By working closely with our banks and bondholders, we deepened our relationships and are well positioned to access capital as we reactivate our growth plan.

Repaying all of our temporary liquidity borrowings ensures credit availability along with cash on hand as we restart our acquisition program. Our real estate operations are the core of WSR's business. We invest in real estate, which drives our financial metrics and investment returns "of" and "on" our shareholders' capital.

Lowering our cost of capital has resulted from the reduction of our dividend by approximately 60%, enabling us to target high-quality investments from our pipeline of more than $500 million in our current markets.

We view adopting high standards for our Environment, Social Responsibility and Governance (ESG) Program as important as the investment standards we adopted encompassing our e-commerce resistant business model. We published our inaugural ESG report in 2020 and our plan is to continue to make progress in this key area, as it is embedded into our long-term strategic plan.

2020 was no doubt a challenging year and tested all elements of our core values and operations and, at its heart, our people. Our team worked together tirelessly as everyone continued to exhibit remarkable resiliency and resourcefulness throughout the year.

A Look to 2021

Looking forward to 2021, our tenants with the most entrepreneurial spirit were the quickest to adapt to market conditions in 2020 and will be the first to emerge in the recovery. This is encouraging as local businesses meet the needs of the consumers in their immediate neighborhoods and, with increased migration from other states, Texas and Arizona are better prepared to capitalize on the opportunities with fewer legal restrictions and lower tax rates than heavily burdened states.

We have emerged from the 2020 COVID-19 pandemic as an industry leader and have the financial strength and resilience of a proven e-commerce compatible business model to own and operate Neighborhood Community Lifestyle Centers™. We have a strong balance sheet and financial flexibility and, with our experienced and well-trained management team, plan to capture investment opportunities in quality real estate in the great markets in which we do business.

Our growth has transformed and validated investing in the retail real estate that provides an essential service- and daily needs-based personal delivery system. The once acclaimed national branded retail real estate business model has been upended by the internet, and we stepped in to fill the void. Our people, markets, property types, tenants, and locations produce results that exceed those of many larger REITs in our peer group.

Our story continues to evolve as we grow, and we enjoy our work. We know our tenants well, believe in their businesses, and help them expand to multiple locations while participating in the upside of their success.

Our platform will grow as we invest in internal expansion and development opportunities exceeding $230 million, and as we target and purchase the best properties from our external pipeline.

For now, I am reminded of a classic book published by Platt & Munk in 1930 titled "The Little Engine That Could" by Watty Piper — the inspiring tale of the little engine that, despite its small size, triumphantly pulls a train up a long, steep hill to deliver its special cargo of wonderful gifts and toys for children waiting on the other side of the mountain.

This inspiring story illustrates the human determination displayed at Whitestone, in spite of our size, to continue to deliver large returns to our shareholders with a purpose and a mission regardless of the circumstances.

Strategic Execution and Value Creation

We are well positioned going into 2021 and our plan is to continue our growth fueled from our strong platform, significant tenant base and solid management team. We have a great story to be shared with you, our shareholders, and introduced to new investors and, along the way, we will strive to close the delta between our market share price and the true net value of our assets (NAV) and our platform.

Much like the "Little Engine That Could," we are committed to climbing the hills that lie ahead and delivering the goods.

Be assured that we remain dedicated to our values, delivering on our strategic plan and providing excellence for all stakeholders. We will continue to work diligently while being good stewards for you and all of our stakeholders, and we remain committed to our corporate responsibility, to solid corporate governance, to diversity and inclusion in our workforce, tenants and vendors, and to business practices that protect the environment and are good for the communities in which we operate.

In closing, I remain committed to my service to God first, and through Him, to our employees, shareholders, bondholders and lenders, tenants, the environment, and the communities in which our properties are located.

Sincerely,

James C Mastandrea

(1) Collection rates are calculated as the cash base rents and NNN payments received during the applicable quarter divided by the contractual base rents and estimated NNN charges billed each quarter. Contractual base rents and NNN have not been adjusted for any COVID-19 related rent relief.
(2) Sources: Public Filings with the Securities and Exchange Commission (Peer group includes UBA, REG, FRT, AKR, WHLR, ROIC, WRI, BFS, UE, SITC, RPAI, CDR, BRX, KRG, KIM and RPT).
(3) Source: S&P Global Market Intelligence December 10, 2020 article. Data in article compiled December 7, 2020. Represents year-over-year change in total foot traffic at the REIT's shopping centers. Includes properties owned by Acadia Realty Trust, Brixmor Property Group Inc., Cedar Realty Trust, Inc., SITE Centers Corp., Federal Realty Investment Trust, Kimco Realty Corporation, Kite Realty Group Trust, RPT Realty, Regency Centers Corporation, Retail Opportunity Investments Corp., Retail Properties of America, Inc., Retail Value Inc., Saul Centers, Inc., Urban Edge Properties, Urstadt Biddle Properties Inc., Weingarten Realty Investors, Wheeler Real Estate Investment Trust, Inc., and Whitestone REIT.

COVID-19 RESPONSE

CAPITAL PRESERVATION

Our strict adherence to our business discipline with regards to an economic downturn ensured our capital preservation and improved our financial flexibility.

Actions Taken

- Credit Facility Draw Down $30.0M
- Dividend Reduction $31.0M
- Pending Acquisition Suspension $50.0M
- Expense Reduction +$1.0M
- Development Pause $230.0M

TENANT RELATIONS

The health and safety of our employees, tenants and communities are Whitestone's top priority. Given the important role of our shopping centers in the communities we serve, we took proactive measures to maintain the strength of our business and ensure the continuity of operations, as local conditions permit.

Actions Taken

- Maintaining open lines of communication and are in contact with 100% of our tenants.
- Established Whitestone REIT's "COVID CARES" Tenant Counseling team to work closely with tenants helping them apply for COVID 19 CARES Act Relief Resources, including the Paycheck Protection Program (PPP loans), the U.S. Small Business Administration (SBA) Coronavirus Assistance program, and other resources.
- Created a website link providing stakeholders with information regarding healthcare-related best practices and local/regional updates regarding operations at our centers during the crisis.

INAUGURAL CORPORATE RESPONSIBILITY & SUSTAINABILITY REPORT PUBLICATION

In 2020, we introduced our first annual Corporate Responsibility & Sustainability Report in an effort to provide additional disclosure regarding our environmental, social, and governance (ESG) efforts.

Whitestone is committed to investing in and promoting the advancement of ESG initiatives in the commercial real estate industry, and in particular our retail real estate Community Centered Properties™.

Each year we will strive to achieve a higher standard than the year before as a priority in our daily work. We remain committed to sound corporate governance, diversity and inclusion among our associates, and a sustainable environment, and in future years will continue to engage with ESG rating agencies and benchmarking platforms to target areas of improvement.

CREATING COMMUNITIES IN OUR PROPERTIES

Community is everything to us. Our centers are where entrepreneurs can succeed in creating their own version of the American Dream.

ENVIRONMENT

We use a three-pronged approach to add value and "turn around" acquisitions - renovating, re-tenanting and revitalizing - which includes adding leasable area to the property and improving its environmental footprint.

SOCIAL

Our Associates create an important foundation within our organization. We believe that without a dedicated and devoted team, we wouldn't have the success or the achievements that we have today.

GOVERNANCE

The Whitestone Board of Trustees strives to achieve the highest standards of Corporate Governance, financial transparency, and commitment and progress to our long-term financial goals.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2020

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

Commission File Number: 001-34855

WHITESTONE REIT

(Exact Name of Registrant as Specified in Its Charter)

Maryland	**76-0594970**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2600 South Gessner, Suite 500, Houston, Texas	**77063**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: **(713) 827-9595**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Shares of Beneficial Interest, par value $0.001 per share	WSR	New York Stock Exchange
Preferred Stock Purchase Rights	N/A	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the common shares held by nonaffiliates of the registrant as of June 30, 2020 (the last business day of the registrant's most recently completed second fiscal quarter) was $307,838,248.

As of March 4, 2021, the registrant had 42,478,720 common shares of beneficial interest, $0.001 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: We incorporate by reference in Part III of this Annual Report on Form 10-K portions of our definitive proxy statement for our 2021 Annual Meeting of Shareholders, which proxy statement will be filed no later than 120 days after the end of our fiscal year ended December 31, 2020.

WHITESTONE REIT
FORM 10-K
Year Ended December 31, 2020

Unless the context otherwise requires, all references in this Annual Report on Form 10-K to the "Company," "we," "us" or "our" are to Whitestone REIT and its consolidated subsidiaries.

Forward-Looking Statements

The following discussion should be read in conjunction with our audited consolidated financial statements and the notes thereto in this Annual Report on Form 10-K.

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws, including discussion and analysis of our financial condition, anticipated capital expenditures required to complete projects, amounts of anticipated cash distributions to our shareholders in the future and other matters. These forward-looking statements are not historical facts but reflect the intent, belief or current expectations of our management based on its knowledge and understanding of our business and industry. Forward-looking statements are typically identified by the use of terms such as "may," "will," "should," "potential," "predicts," "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates" or the negative of such terms and variations of these words and similar expressions, although not all forward-looking statements include these words. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements.

Forward-looking statements that were true at the time made may ultimately prove to be incorrect or false. You are cautioned not to place undue reliance on forward-looking statements, which reflect our management's view only as of the date of this Annual Report on Form 10-K. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results. Factors that could cause actual results to differ materially from any forward-looking statements made in this Annual Report on Form 10-K include:

- 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 our business, employees and tenants, including, among others, (a) changes in tenant demand for our 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 our tenants' businesses and the impact of these issues on our ability to collect rent from our tenants, (c) operational changes implemented by us, including remote working arrangements, which may put increased strain on our IT systems and create increased vulnerability to cybersecurity incidents, (d) 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 premature easing of 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 a surge 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 risk of government investigation of the Paycheck Protection Program loan (the "PPP Loan");
- uncertainties related to the national economy, the real estate industry in general and in our specific markets, including, but not limited to, the significant volatility and disruption in the global financial markets caused by the COVID-19 pandemic and potential volatility as a result of the U.S. presidential election;
- legislative or regulatory changes, including changes to laws governing REITs and the impact of the legislation commonly known as the Tax Cuts and Jobs Act;
- increases in interest rates, operating costs or general and administrative expenses;
- availability and terms of capital and financing, both to fund our operations and to refinance our indebtedness as it matures;
- decreases in rental rates or increases in vacancy rates;
- litigation risks;
- lease-up risks, including leasing risks arising from exclusivity and consent provisions in leases with significant tenants;
- our inability to renew tenant leases or obtain new tenant leases upon the expiration of existing leases;
- our inability to generate sufficient cash flows due to market conditions, competition, uninsured losses, changes in tax or other applicable laws;

- the need to fund tenant improvements or other capital expenditures out of operating cash flow; and
- the risk that we are unable to raise capital for working capital, acquisitions or other uses on attractive terms or at all.

The forward-looking statements should be read in light of these factors and the factors identified in the "Risk Factors" section of this Annual Report on Form 10-K.

Summary Risk Factors

In addition to the other information contained in this Annual Report on Form 10-K, including the detailed description of each risk factor contained in "Risk Factors" in this Annual Report on Form 10-K, the following is a summary of certain risk factors that should be considered carefully in evaluating our business. Our business, financial condition, results of operations or the trading price of our common shares could be materially adversely affected by any of these risks. Please note that additional risks not presently known to us or which we currently consider immaterial may also impair our business and operations.

- Real estate property investments are illiquid due to a variety of factors and therefore we may not be able to dispose of properties when appropriate or on favorable terms.
- Our business is dependent upon our tenants successfully operating their businesses, and their failure to do so could have a material adverse effect on our ability to successfully and profitably operate our business.
- Disruption in capital markets could adversely impact acquisition activities and pricing of real estate assets.
- Our properties are subject to property taxes that may increase in the future, which could adversely affect cash flow.
- Our assets may be subject to impairment charges.
- Compliance or failure to comply with laws requiring access to our properties by disabled persons could result in substantial cost.
- We face intense competition, which may decrease, or prevent increases of, the occupancy and rental rates of our properties.
- Because a majority of our GLA is in the Houston and Phoenix metropolitan areas, an economic downturn in either area could adversely impact our operations and ability to make distributions to our shareholders.
- The COVID-19 pandemic is expected to, and the future outbreak of other highly infectious or contagious diseases may, materially and adversely impact the businesses of many of our tenants and materially and adversely impact and disrupt our business, income, cash flow, results of operations, financial condition, liquidity, prospects and ability to service our debt obligations, and our ability to pay dividends and other distributions to our shareholders.
- We lease our properties to approximately 1,400 tenants and leases for approximately 10% to 20% of our GLA expire annually. Each year we face the risk of non-renewal of a significant 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, which may have a higher risk of bankruptcy or insolvency.
- Uninsured losses relating to real property or excessively expensive premiums for insurance coverage may adversely affect our returns.
- Discovery of previously undetected environmentally hazardous conditions may adversely affect our operating results.
- Our success depends in part on our ability to execute our Community Centered Property® strategy.
- Our business is significantly influenced by demand for retail space generally, and a decrease in such demand may have a greater adverse effect on our business than if we owned a more diversified real estate portfolio.
- We face risks relating to cybersecurity attacks, loss of confidential information and other business disruptions.
- Current market conditions could adversely affect our ability to refinance existing indebtedness or obtain additional financing for growth on acceptable terms or at all, which could adversely affect our ability to grow, our interest cost and our results of operations.
- Our failure to hedge effectively against interest rate changes may adversely affect results of operations.
- We currently have and may incur additional mortgage indebtedness and other borrowings, which may increase our business risks and may adversely affect our ability to make distributions to our shareholders.
- If we set aside insufficient working capital or are unable to secure funds for future tenant improvements, we may be required to defer necessary property improvements, which could adversely impact the quality of our properties and our results of operations.
- We have in the past and may continue to structure acquisitions of property in exchange for limited partnership units in our Operating Partnership on terms that could limit our liquidity or our flexibility.
- We may issue preferred shares with a preference in distributions over our common shares, and our ability to issue preferred shares and additional common shares may deter or prevent a sale of common shares in which you can profit.
- Changes in how LIBOR is determined, or the potential replacement of LIBOR with an alternative reference rate, may adversely affect our interest expense.
- If we fail to qualify as a REIT, our operations and distributions to shareholders would be adversely impacted.

- We may need to incur additional borrowings to meet REIT minimum distribution requirement and to avoid excise tax.
- If our Operating Partnership were classified as a "publicly traded partnership" taxable as a corporation for federal income tax purposes under the Code, we would cease to qualify as a REIT and would suffer other adverse tax consequences.
- Complying with REIT requirements may cause us to forego otherwise attractive opportunities or liquidate otherwise attractive investments.
- Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.
- Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities.
- Pursuant to the Tax Protection Agreement, the amount that Pillarstone is required to indemnify the Operating Partnership for certain tax liabilities reduces over the term of the Tax Protection Agreement.
- Changes to the U.S. federal income tax laws, including the enactment of certain tax reform measures, could have an adverse impact on our business and financial results.
- Increases in market interest rates may result in a decrease in the value of our common shares.
- Broad market fluctuations could negatively impact the market price of our common shares.
- Maryland takeover statutes may deter others from seeking to acquire us and prevent shareholders from making a profit in such transactions.
- The MGCL, the Maryland REIT Law and our organizational documents limit shareholders' rights to bring claims against our officers and trustees.
- The terms of our employment agreements with our executive officers and severance arrangements with other employees and the terms of certain equity awards granted to our employees may deter others from seeking to acquire us or reduce the price of any such acquisition.
- 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 distributions or upon liquidation, may adversely affect the market price of our common shares.
- The shareholders' rights plan adopted by our board of trustees may discourage a third party from acquiring us in a manner that might result in a premium price to our shareholders.
- Market disruptions may significantly and adversely affect our financial condition and results of operations.
- The value of investments in our common shares will be directly affected by general economic and regulatory factors we cannot control or predict.
- We may not be successful in consummating suitable acquisitions or investment opportunities, which may impede our growth and adversely affect the trading price of our common shares.
- Loss of our key personnel, particularly our senior managers, could threaten our ability to execute our strategy and operate our business successfully.
- Our systems may not be adequate to support our growth, and our failure to successfully oversee our portfolio of properties could adversely affect our results of operations.
- There can be no assurance that we will be able to pay or maintain cash distributions or that distributions will increase over time.
- Any weaknesses identified in our system of internal controls by us and our independent registered public accounting firm pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 could have an adverse effect on our business.
- Expectations of the Company relating to environmental, social and governance factors may impose additional costs and expose us to new risks.

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PART I

Item 1. Business.

General

We are a Maryland REIT engaged in owning and operating commercial properties in culturally diverse markets in major metropolitan areas. We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Code").

We are internally managed and, as of December 31, 2020, we wholly-owned a real estate portfolio of 58 properties that meet our Community Centered Property® strategy containing approximately 5.0 million square feet of gross leasable area ("GLA"), located in Texas, Arizona and Illinois. Our consolidated property portfolio has a gross book value of approximately $1.1 billion and book equity, including noncontrolling interests, of approximately $338 million as of December 31, 2020.

Further, as of December 31, 2020, we, through our equity-method investment in Pillarstone Capital REIT Operating Partnership LP ("Pillarstone" or "Pillarstone OP"), owned a majority interest in 8 properties that do not meet our Community Centered Property® strategy containing approximately 0.9 million square feet of GLA (the "Pillarstone Properties"). We own 81.4% of the total outstanding units of Pillarstone OP, which we account for using the equity method. We also manage the day-to-day operations of Pillarstone OP. In this Annual Report on Form 10-K, unless otherwise indicated, we do not include the Pillarstone Properties when we refer to our properties.

Our common shares of beneficial interest, par value $0.001 per share, are traded on the New York Stock Exchange (the "NYSE") under the ticker symbol "WSR." Our offices are located at 2600 South Gessner Road, Suite 500, Houston, Texas 77063. Our telephone number is (713) 827-9595 and we maintain a website at www.whitestonereit.com. The contents of our website are not incorporated into this filing.

Our Strategy

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, financial services, entertainment and experiences. Our goal is for each property to become a Whitestone-branded 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 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 Austin, Chicago, Dallas-Fort Worth, Houston, Phoenix and San Antonio.

    - *Diversifying Geographically.* Our current portfolio is concentrated in Houston and Phoenix. As of December 31, 2020, we wholly-owned 58 commercial properties, including 15 properties in Houston, eight properties in Dallas-Fort Worth, three properties in San Antonio, four properties in Austin, 27 properties in the Scottsdale and Phoenix, Arizona metropolitan areas, and one property in Buffalo Grove, Illinois, a suburb of Chicago.

      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 Austin, Chicago, Dallas-Fort Worth, Houston, Phoenix 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 regions that are consistent with our Community Centered Property® strategy. Markets in which we have developed some knowledge and contacts include

Orlando, Florida and Denver, Colorado, both of which have economic, demographic and cultural profiles similar to our Arizona and Texas markets.

  - *Capitalizing on Availability of Reasonably Priced Acquisition Opportunities*. We believe that currently and during the next several years there will continue to be excellent opportunities in our target markets to acquire quality properties at historically attractive prices. We intend to acquire assets in off-market transactions negotiated directly with 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 Community Centered Property® 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 have substantial experience in repositioning underperforming 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 new leasable square footage 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 that we owned at the time our current management team assumed the management of the Company (the "non-core properties") 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.*** Of our 58 properties, we currently have 51 properties that are unencumbered. 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 debt, net of cash, to undepreciated book value of real estate assets, including our proportional share of real estate from our unconsolidated real estate partnership, that is at or less than 60%. As of December 31, 2020, our ratio of debt, net of cash, to undepreciated book value of real estate assets was 55%.

- ***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.

Our Structure

Substantially all of our business is conducted through Whitestone REIT Operating Partnership, L.P., a Delaware limited partnership organized in 1998 (the "Operating Partnership"). We are the sole general partner of the Operating Partnership. As of December 31, 2020, we owned a 98.2% interest in the Operating Partnership.

As of December 31, 2020, we wholly-owned a real estate portfolio consisting of 58 properties located in three states. The aggregate occupancy rate of our portfolio was 88% based on GLA as of December 31, 2020.

We are hands-on owners who directly manage the operations and leasing of our properties. Substantially all of our revenues consist of base rents received under varying term leases. For the year ended December 31, 2020, our total revenues were approximately $117.9 million.

Additionally, we, through our equity-method investment in Pillarstone, owned a majority interest in eight properties located in Dallas and Houston, Texas. The aggregate occupancy rate of the Pillarstone properties was 61% based on GLA as of December 31, 2020.

Our largest property, BLVD Place ("BLVD"), a retail community purchased on May 26, 2017 and located in Houston, Texas, accounted for 13.3% of our total revenues for the year ended December 31, 2020. BLVD also accounted for 17.1% of our consolidated real estate assets, net of accumulated depreciation, as of the year ended December 31, 2020. Of our 58 properties, 15 and 27 are located in the Houston, Texas and Phoenix, Arizona metropolitan areas, respectively.

Impact of COVID-19 Pandemic on the Economic Environment

We anticipate that the global health crisis caused by COVID-19 and the related responses intended to control its spread will continue to adversely affect business activity, particularly relating to our retail tenants, across the markets in which we operate. As part of the initial responses to the virus, many governmental authorities implemented measures such as enhanced screenings, quarantine or shelter in place requirements and travel restrictions, including local governments in Texas and Arizona, where all but one of our properties are located. In May 2020, parts of the U.S. began to ease certain restrictions and allow for the reopening of businesses but with required or recommended safety protocols. Due to the increase in the number of COVID-19 cases in the fall of 2020, parts of the U.S. implemented additional stay in place orders and other restrictions. While as of the date of this Annual Report on Form 10-K, service businesses are permitted to be open with limited occupancy in Texas and Arizona, the timing and ultimate impact of any steps to reopen the economy as a whole and on our and our tenants' businesses and financial condition remains uncertain. As a result, there can be no assurance that service businesses will remain open in the near term, or that state and local governments will not take additional measures to control a possible resurgence of COVID-19 in Texas and/or Arizona, any of which may adversely impact our or our tenants' businesses and their ability to pay their rental payments or otherwise continue to occupy their space. Though COVID-19 vaccines have become available in the U.S. there remain uncertainties as to the logistics of distribution and the overall efficacy of the vaccine program, and there can be no assurances regarding the timing for when vaccines or other therapies will be widely available and effective and the related impact on the economic recovery. In light of the changing nature of the COVID-19 pandemic, we are unable to predict the extent that its impact will have on our financial condition, results of operations and cash flows due to numerous uncertainties including, but not limited to, the duration and spread of the pandemic, its severity in our markets and elsewhere, governmental actions to contain the spread of the pandemic and respond to the reduction in global economic activity, the unknown timing or effectiveness of treatments, possible resurgences of COVID-19 cases in future periods and how quickly and to what extent normal economic and operating conditions can resume.

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, developers and operators, including, but not limited to, real estate investors, other REITs, insurance companies and pension funds.

Should we decide to dispose of a property, we may compete with third-party sellers of similar types of commercial properties for suitable purchasers, which may result in our receiving lower net proceeds from a sale or in our not being able to dispose of such property at a time of our choosing due to the lack of an acceptable return. In operating and managing our properties, we compete for tenants based upon a number of factors including, but not limited to, location, rental rates, security, flexibility, expertise to design space to meet prospective tenants' needs and the manner in which the property is operated, maintained and marketed. We may be required to provide rent concessions, incur charges for tenant improvements and other inducements, or we may not be able to timely lease vacant space, all of which could adversely impact our results of operations.

Many of our competitors have greater financial and other resources than us and also 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 Austin, Chicago, Dallas-Fort Worth, Houston, Phoenix and San Antonio metropolitan areas. Our retail tenants also face increasing competition from outlet malls, internet retailers, catalog companies, direct mail and telemarketing.

Compliance with Governmental Regulations

Under various federal and state environmental laws and regulations, as an owner or operator of real estate, we may be required to investigate and clean up certain hazardous or toxic substances, asbestos-containing materials, or petroleum product releases at our properties. We may also be held liable to a governmental entity or to third parties for property damage and for investigation and cleanup costs incurred by those parties in connection with any such contamination. In addition, some environmental laws create a lien on a contaminated site in favor of the government for damages and costs the government incurs in connection with contamination on the site. The presence of contamination or the failure to remediate contamination at any of our properties may adversely affect our ability to sell or lease the properties or to borrow using the properties as collateral. We could also be liable under common law to third parties for damages and injuries resulting from environmental contamination coming from our properties.

We will not purchase any property unless we are generally satisfied with the environmental status of the property. We typically obtain a Phase I environmental site assessment for each new acquisition, which includes a visual survey of the building and the property in an attempt to identify areas of potential environmental concerns, visually observing neighboring properties to assess surface conditions or activities that may have an adverse environmental impact on the property, and contacting local governmental agency personnel and performing a regulatory agency file search in an attempt to determine any known environmental concerns in the immediate vicinity of the property. A Phase I environmental site assessment does not include any sampling or testing of soil, groundwater or building materials from the property.

We believe that our properties are in compliance in all material respects with all applicable federal, state and local laws and regulations regarding the handling, discharge and emission of hazardous or toxic substances. Because release of chlorinated solvents can occur as a result of dry cleaning operations, we participate in the Texas Commission on Environmental Quality Dry Cleaner Remediation Program ("DCRP") with respect to four of our properties that currently or previously had a dry cleaning facility as a tenant. The DCRP administers the Dry Cleaning Remediation fund to assist with remediation of contamination caused by dry cleaning solvents.

We have not been notified by any governmental authority, and are not otherwise aware of any material noncompliance, liability or claim relating to hazardous or toxic substances in connection with any of our present or former properties. Nevertheless, it is possible that the environmental assessments conducted thus far and currently available to us do not reveal all potential environmental liabilities. It is also possible that subsequent investigations will identify material contamination or other adverse conditions, that adverse environmental conditions have arisen subsequent to the performance of the environmental assessments, or that there are material environmental liabilities of which management is unaware.

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

Human Capital

As of December 31, 2020, we had 88 full-time employees. Our human capital management objectives are to attract, retain and develop the highest quality talent by creating a values-based culture that promotes employee engagement.

Diversity: We strive to create a culture of inclusivity and think of our shareholders, our tenants, and our communities as one. Though we have no formal policy addressing diversity, pursuant to our bylaws, we seek to nominate trustees to the Board that represent a diversity of experience, gender, race, ethnicity and age. Any individual who does not satisfy the qualifications above is not eligible for nomination or election as a trustee. This commitment to diversity applies across our Company.

Employee Retention and Training: We conduct individual annual employee reviews that focus on goal setting as well as informal sessions with associates and executive team members. We created the Real Estate Executive Development program for associates that wish to continue their career and knowledge of Whitestone REIT and real estate. Selected associates are chosen on an annual basis to participate in the program. In addition, for associates that wish to continue their education, whether it be receiving a Bachelors, MBA, or specialized certification, we will help to reimburse a portion of the fees for the program in accordance with Company policy. We also conduct a variety of trainings on an annual basis from OSHA and Safety Regulations to Anti-Harassment Training to ensure we are up-to-date on the most recent standards and regulations.

Compensation and Benefits: We are committed to rewarding, supporting, and developing the associates who make it possible to deliver on our strategy. Our compensation package includes market-competitive pay, broad-based stock grants and bonuses, healthcare benefits, pension and retirement savings plans, among others. We also offer our team a variety of options for College Savings and 401(k) programs, including an employer 401(k) match up to 3.5%. There is a financial planner on site on a quarterly basis to help assist associates choose the best savings options.

Health and Safety: The health and safety of our employees and their families is a top priority. We created an internal program that encourages associates to make healthy choices and lead a healthy lifestyle, including a gym reimbursement program. In response to the COVID-19 pandemic, we adapted our operations to protect employees, including by implementing a work from home policy in the first quarter of 2020. All employees returned to work in the second quarter of 2020.

Materials Available on Our Website

Copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports, proxy statements with respect to meetings of our shareholders, as well as Reports on Forms 3, 4 and 5 regarding our officers, trustees or 10% beneficial owners, filed or furnished pursuant to Section 13(a), 15(d) or 16(a) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), are available free of charge through our website (www.whitestonereit.com) as soon as reasonably practicable after we electronically file the material with, or furnish it to, the SEC. We have also made available on our website copies of our Audit Committee Charter, Compensation Committee Charter, Nominating and Governance Committee Charter, Corporate Governance Guidelines, Insider Trading Compliance Policy, and Code of Business Conduct and Ethics Policy. In the event of any changes to these documents, revised copies will also be made available on our website. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC as we do. The website address is http://www.sec.gov. Materials on our website are not part of our Annual Report on Form 10-K. The contents of these websites are not incorporated into this filing.

Financial Information

Additional financial information related to the Company is included in Item 8 “Financial Statements and Supplementary Data.”

Item 1A. Risk Factors.

In addition to the other information contained in this Annual Report on Form 10-K, the following risk factors should be considered carefully in evaluating our business. Our business, financial condition, results of operations or the trading price of our common shares could be materially adversely affected by any of these risks. Please note that additional risks not presently known to us or which we currently consider immaterial may also impair our business and operations.

Risks Associated with Real Estate

Real estate property investments are illiquid due to a variety of factors and therefore we may not be able to dispose of properties when appropriate or on favorable terms.

Our strategy includes opportunistically selling properties that do not have the potential to meet our Community Centered Property® strategy. However, real estate property investments generally cannot be disposed of quickly. In addition, the Code imposes certain restrictions on the ability of a REIT to dispose of properties that are not applicable to other types of real estate companies. Therefore, we may not be able to vary our portfolio in response to economic or other conditions promptly or on favorable terms, which could cause us to incur extended losses, reduce our cash flows and adversely affect distributions to shareholders.

We cannot predict whether we will be able to sell any property for the price or on the terms set by us or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. To the extent we are unable to sell any properties for our book value, we may be required to take a non-cash impairment charge or loss on the sale, either of which would reduce our net income.

We may be required to expend funds and time to correct defects or to make improvements before a property can be sold. We cannot assure you that we will have funds available to correct those defects or to make those improvements, which may impede our ability to sell a property. Further, we may agree to transfer restrictions that materially restrict us from selling a property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property. These transfer restrictions could impede our ability to sell a property even if we deem it necessary or appropriate. These facts and any others that would further contribute to the illiquid character of real estate properties and impede our ability to respond to adverse changes in the performance of our properties may have a material adverse effect on our business, financial condition, results of operations, our ability to make distributions to our shareholders and the trading price of our common shares.

Our business is dependent upon our tenants successfully operating their businesses, and their failure to do so could have a material adverse effect on our ability to successfully and profitably operate our business.

We depend on our tenants to operate their businesses in a manner that generates revenues sufficient to allow them to meet their obligations to us, including their obligations to pay rent, maintain certain insurance coverage, pay real estate taxes and maintain the properties in a manner so as not to jeopardize their operating licenses or regulatory status. The ability of our tenants to fulfill their obligations under our leases may depend, in part, upon the overall profitability of their operations. A number of our tenants operate service and retail businesses that require in-person interactions with their customers to generate revenues, and the spread of COVID-19 has decreased customers' willingness to frequent, and mandated stay in place orders have prevented customers from frequenting, some of our tenants' businesses, which has impacted and may continue to impact their ability to fulfill their obligations to us. Cash flow generated by the businesses of certain tenants may not be sufficient for such tenants to meet their obligations to us. Our financial position could be weakened and our ability to fulfill our obligations under our indebtedness and make distributions to our shareholders could be limited if a number of our tenants were unable to meet their obligations to us or failed to renew or extend their relationships with us as their lease terms expire, or if we were unable to lease or re-lease our properties on economically favorable terms.

Disruption in capital markets could adversely impact acquisition activities and pricing of real estate assets.

Volatility or other disruption in capital markets could adversely affect our access to or the cost of debt and equity capital, which could adversely affect our acquisition and other investment activities. Disruptions could include price volatility or decreased demand in equity markets, rising interest rates, tightening of underwriting standards by lenders and credit rating agencies and the significant inventory of unsold collateralized mortgage backed securities in the market. As a result, we may not be able to obtain favorable equity and debt financing in the future or at all. This may impair our ability to acquire properties at favorable returns or adversely affect our returns on investments in development and re-development projects, which may adversely affect our results of operations and distributions to shareholders. Furthermore, any turmoil in the capital markets could adversely impact the overall amount of capital available to invest in real estate, which may result in price or value decreases of real estate assets.

All of our properties are subject to property taxes that may increase in the future, which could adversely affect our cash flow.

Our properties are subject to property taxes that may increase as property tax rates change and as the properties are assessed or reassessed by taxing authorities. As the owner of the properties, we are ultimately responsible for payment of the taxes to the government. If property taxes increase, our tenants may be unable to make the required tax payments, ultimately requiring us to pay the taxes. In addition, we will generally be responsible for property taxes related to any vacant space in our properties.

Our assets may be subject to impairment charges.

We periodically evaluate our real estate investments and other assets for impairment indicators. The judgment regarding the existence of impairment indicators is based on factors such as market conditions, tenant performance and legal structure. If we determine that a significant impairment has occurred, we would be required to make an adjustment to the net carrying value of the asset, which could have a material adverse effect on our results of operations and funds from operations in the period in which the write-off occurs.

Compliance or failure to comply with laws requiring access to our properties by disabled persons could result in substantial cost.

The ADA and other federal, state and local laws generally require public accommodations be made accessible to disabled persons. Noncompliance with these laws could result in the imposition of fines by the government or the award of damages to private litigants. These laws may require us to modify our existing properties, which could require a significant investment of our cash resources that could otherwise be invested in more productive assets. These laws may also restrict renovations by requiring improved access to such buildings by disabled persons or may require us to add other structural features which increase our construction costs. Legislation or regulations adopted in the future may impose further obligations, restrictions or increased compliance costs on us with respect to improved access by disabled persons. We may incur unanticipated expenses that may be material to our financial condition or results of operations to comply with ADA and other federal, state and local laws, or in connection with lawsuits brought by private litigants.

We face intense competition, which may decrease, or prevent increases of, the occupancy and rental rates of our properties.

We compete with a number of developers, owners and operators of commercial real estate, many of whom own properties similar to ours in the same markets in which our properties are located. If our competitors offer space at rental rates below current market rates, or below the rental rates we currently charge our tenants, we may lose existing or potential tenants and we may be pressured to reduce our rental rates below those we currently charge or to offer more substantial rent abatements, tenant improvements, early termination rights or below-market renewal options in order to retain tenants when our tenants' leases expire. This competitive environment could have a material adverse effect on our ability to lease our properties or any newly developed or acquired property, as well as on the rents charged.

Our acquisition strategy includes acquiring distressed commercial real estate, and we could face significant competition from other investors, REITs, hedge funds, private equity funds and other private real estate investors with greater financial resources and access to capital than us. Therefore, we may not be able to compete successfully for investments. In addition, the number of entities and the amount of purchasers competing for suitable investments may increase, all of which could result in competition for accretive acquisition opportunities and adversely affect our business plan and our ability to maintain our current dividend rate.

Risks Associated with Our Operations

Because a majority of our GLA is in the Houston and Phoenix metropolitan areas, an economic downturn in either area could adversely impact our operations and ability to make distributions to our shareholders.

The majority of our assets and revenues are currently derived from properties located in the Houston and Phoenix metropolitan areas. As of December 31, 2020, 25% and 48% of our GLA was located in Houston and Phoenix, respectively. Our results of operations are directly affected by our ability to attract financially sound commercial tenants. A significant economic downturn in the Houston or Phoenix metropolitan area may adversely impact our ability to locate and retain financially sound tenants, could have an adverse impact on our existing tenants' revenues, costs and results of operations and may adversely affect their ability to meet their obligations to us. Likewise, we may be required to lower our rental rates to attract desirable tenants in such an environment. Consequently, because of the geographic concentration among our current assets, if either the Houston or Phoenix metropolitan area were to experience an economic downturn, our operations and ability to make distributions to our shareholders could be adversely impacted. For example, as part of the initial responses to the virus, many governmental authorities implemented measures such as enhanced screenings, quarantine or shelter in place requirements and travel restrictions, including local governments in Texas and Arizona, where all but one of our properties are located. In May 2020, parts of the U.S. began to ease certain restrictions and allow for the reopening of businesses but with required or recommended safety protocols, but due to the increase in the number of COVID-19 cases in the fall of 2020, parts of the U.S. implemented additional stay in place orders and other restrictions. While as of the date of this Annual Report on Form 10-K, service businesses are permitted to be open with limited occupancy in Texas and Arizona, the timing and ultimate impact of any steps to reopen the economy as a whole and on our and our tenants' businesses and financial condition remains uncertain. In addition, a substantial component of the Houston economy is the oil and gas industry, and the current low prices of oil and natural gas could adversely affect companies in that industry and their employees, which could adversely affect the businesses of our Houston tenants.

The COVID-19 pandemic is expected to, and the future outbreak of other highly infectious or contagious diseases may, materially and adversely impact the businesses of many of our tenants and materially and adversely impact and disrupt our business, income, cash flow, results of operations, financial condition, liquidity, prospects and ability to service our debt obligations, and our ability to pay dividends and other distributions to our stockholders.

We anticipate that the global health crisis caused by COVID-19 and the related responses intended to control its spread will continue to adversely affect business activity, particularly relating to our retail tenants, across the markets in which we operate. As part of the initial responses to the virus, many governmental authorities implemented measures such as enhanced screenings, quarantine or shelter in place requirements and travel restrictions, including local governments in Texas and Arizona, where all but one of our properties are located. In May 2020, parts of the U.S. began to ease certain restrictions and allow for the reopening of businesses but with required or recommended safety protocols. Due to the increase in the number of COVID-19 cases in the fall of 2020, parts of the U.S. implemented additional stay in place orders and other restrictions. While as of the date of this Annual Report on Form 10-K, service businesses are permitted to be open with limited occupancy in Texas and Arizona, the timing and ultimate impact of any steps to reopen the economy as a whole and on our and our tenants' businesses and financial condition remains uncertain. Though COVID-19 vaccines have become available in the U.S. there remain uncertainties as to the logistics of distribution and the overall efficacy of the vaccine program, and there can be no assurances regarding the timing for when vaccines or other therapies will be widely available and effective and the related impact on the economic recovery.

A number of our tenants operate service and retail businesses that require in-person interactions with their customers to generate revenues, and the spread of COVID-19 has decreased customers' willingness to frequent, and mandated stay in place orders have prevented customers from frequenting, some of our tenants' businesses. Even if such orders are lifted, customer traffic may continue to be adversely impacted. Some tenants may also seek concessions from us for paying lease charges as a result of such mandatory closures or reduced hours. As of the date of this Annual Report on Form 10-K, we have received payment of approximately 95% of contractual base rent and common area maintenance reimbursables billed for the fourth quarter. As is believed to be the case with retail landlords across the U.S., we have received a number of rent relief requests from tenants, most often in the form of rent deferral requests, which we are evaluating on a case-by-case basis. Collections and rent relief requests to-date may not be indicative of collections or requests in any future period. In fact, to date, we have included in our adjustments to rental revenue for the year ending December 31, 2020, a bad debt adjustment of $2.3 million and a straight-line rent reserve adjustment of $1.2 million related to credit loss for the conversion of 102 tenants to cash basis revenue as a result of COVID-19 collectability analysis. As of February 23, 2021, approximately 99% of our tenants (based on annualized base rent ("ABR") are open and operating, while the remaining 1.0% have closed and may not re-open even after the aforementioned restrictions are lifted, which could have a material impact on occupancy at our properties, resulting in an increase in the number of co-tenancy claims due to falling below required occupancy thresholds, which may impact our results.

Additionally, a decrease in retail demand could make it difficult for us to renew or re-lease our properties at lease rates equal to or above historical rates, or at all, and we could incur significant re-leasing costs. The current decreased customer traffic or continued decreased traffic in the future could adversely impact our ability to successfully execute our leasing strategy and operational objectives.

Furthermore, in the event of any default by a tenant for non-payment of lease charges or early or limited cessation of operations, we might not be able to fully recover and/or experience delays and additional costs in enforcing our rights as landlord to recover amounts due to us under the terms of our agreements with such parties due to potential moratoriums imposed by various jurisdictions in light of the COVID-19 pandemic on landlord initiated commercial eviction and collection actions. Further, one or more of our tenants may seek the protection of the bankruptcy laws as a result of the prolonged impact of the COVID-19 pandemic which could result in the termination of its lease causing a reduction in our income. Tenant bankruptcies may make it more difficult for us to lease the remainder of the property or properties in which the bankrupt tenant operates and adversely impact our ability to successfully execute our re-leasing strategy.

The outbreak has triggered a period of global economic slowdown. A sustained downturn in the U.S. economy and reduced consumer spending as well as consumer activity at brick-and-mortar commercial establishments due to the prolonged existence and threat of the COVID-19 pandemic could impose an economic recession in the U.S. which could impact our tenants' ability to meet their lease obligations due to poor operating results, lack of liquidity or other reasons and therefore decrease the revenue generated by our properties or the value of our properties. Our ability to lease space and negotiate and maintain favorable rents could also be negatively impacted by a prolonged recession in the U.S. economy. Moreover, the demand for leasing space in our properties could substantially decline during a significant downturn in the U.S. economy which could result in a decline in our occupancy percentage and reduction in rental revenues.

In addition, the COVID-19 pandemic has also led to complete or partial shutdowns of manufacturing facilities and distribution centers in many countries, which could result in temporary or long-term disruptions in our tenants' supply chains from suppliers, or otherwise delay the delivery of inventory or other goods necessary for our tenants' operations.

Our tenants may also be negatively impacted if the outbreak of COVID-19 occurs within their workforce or otherwise disrupts their management. Further, certain of our tenants may not be eligible for or may not be successful in securing stimulus funds under the CARES Act. While the U.S. Congress is currently negotiating an additional stimulus relief bill, there can be no assurance that any such bill, if passed, will include relief available to us or our tenants.

As a result of these and other factors, some of our tenants have been unable to and others may become unable to operate their businesses and make rental payments to us on a timely basis or otherwise under their leases. Because substantially all of our income is derived from rentals of commercial real property, our business, income, cash flow, results of operations, financial condition, liquidity, prospects and ability to service our debt obligations and our ability to pay dividends and other distributions to our shareholders would be adversely affected if a significant number of tenants are unable to meet their obligations or their revenues decline.

In addition, the COVID-19 pandemic, or a future pandemic, could have material and adverse effects on our business, income, cash flow, results of operations, financial condition, liquidity, prospects and ability to service our debt obligations and our ability to pay dividends and other distributions to our shareholders due to, among other factors:

- during the first quarter of 2020, we drew down $30 million of the availability of our revolving credit facility as a precautionary measure to preserve our financial flexibility, which we subsequently paid down in the fourth quarter of 2020. Difficulty accessing debt and equity capital on attractive terms, or at all, and a severe disruption and instability in the global financial markets or deteriorations in credit and financing conditions may affect our access to capital necessary to fund business operations or address maturing liabilities on a timely basis and our tenants' abilities to fund their business operations and meet their obligations to us;
- in the second quarter of 2020, we reduced our quarterly dividends, and the financial impact of the COVID-19 pandemic could continue to negatively impact our ability to pay dividends to our stockholders;
- the financial impacts could negatively impact our future compliance with financial covenants of our 2019 Credit Facility and other debt agreements and could result in a default and potentially an acceleration of indebtedness, which non-compliance could also negatively impact our ability to make additional borrowings under our 2019 Credit Facility or otherwise pay dividends to our shareholders; the worsening of estimated future cash flows due to a change in our plans, policies, or views of market and economic conditions as it relates to one or more of our adversely impacted properties could result in the recognition of substantial impairment charges imposed on our assets;
- the credit quality of our tenants could be negatively impacted and we may significantly decrease our revenues;

- a general decline in business activity and demand for real estate transactions could adversely affect our ability or desire to grow our portfolio of properties, or to sell properties as part of our capital recycling strategy;
- as a result of remote working arrangements we implemented in response to the COVID-19 pandemic in the first and second quarters of 2020, we may have been subject to increased risk of an information or cyber-security incident, fraud, a failure to maintain the uninterrupted operation of our information systems due to, among other things, an increase in remote work; and
- the potential negative impact on the health of our personnel, particularly if a significant number of them are impacted, could result in a deterioration in our ability to ensure business continuity during a disruption.

The extent to which the COVID-19 pandemic, or a future pandemic, impacts our operations and those of our tenants will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the scope, severity and duration of such pandemic, the actions taken to contain the pandemic or mitigate its impact, and the direct and indirect economic effects of the pandemic and containment measures, among others. The situation is rapidly changing and additional impacts to the business may arise that we are not aware of currently. The rapid development and fluidity of this situation precludes any prediction as to the full adverse impact of the COVID-19 pandemic, but a prolonged outbreak as well as related mitigation efforts could continue to have a material impact on our revenues and could materially and adversely affect our business, results of operations and financial condition.

We lease our properties to approximately 1,400 tenants and leases for approximately 10% to 20% of our GLA expire annually. Each year we face the risk of non-renewal of a significant 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.

Our Community Centered Property® business model produces shorter term leases to smaller, non-national tenants, and substantially all of our revenues consist of base rents received under these leases. As of December 31, 2020, approximately 29% of the aggregate GLA of our properties is subject to leases that expire prior to December 31, 2022. We are subject to the risk that:

- tenants may choose not to, or may not have the financial resources to, renew these leases;

- we may experience significant costs associated with re-leasing a significant amount of our available space;

- we may experience difficulties and significant time lags re-leasing vacated space, which may cause us to fail to meet our occupancy and average base rent targets and experience increased costs of re-leasing; and

- the terms of any renewal or re-lease may be less favorable than the terms of the current leases.

We routinely seek to renew leases with our existing tenants prior to their expiration and typically begin discussions with tenants as early as 18 months prior to the expiration date of the existing lease. While our early renewal program and other leasing and marketing efforts provide early focus on expiring leases, and have generally been effective in producing lease renewals prior to expiration of the leases at rates comparable to or slightly in excess of the current rates, market conditions, including new supply of properties, and macroeconomic conditions in our markets and nationally could adversely impact our renewal rate and/or the rental rates we are able to negotiate. If any of these risks materialize, our rental revenue, operating expenses and results of operations could be adversely affected.

Many of our tenants are small businesses, which may have a higher risk of bankruptcy or insolvency.

Many of our tenants are small businesses that depend primarily on cash flows from their operations to pay their rent and without other resources could be at a higher risk of bankruptcy or insolvency than larger, national tenants. A number of our tenants operate service and retail businesses that require in-person interactions with their customers to generate revenues, and the spread of COVID-19 has decreased customers' willingness to frequent, and mandated stay in place orders have prevented customers from frequenting, some of our tenants' businesses. If tenants are unable to comply with the terms of our leases, we may be forced to modify the leases in ways that are unfavorable to us. For example, as a result of the impact of the COVID-19 pandemic, as is believed to be the case with retail landlords across the U.S., we have entered into rent relief requests with tenants representing 3% of revenue for the year ended December 31, 2020, most often in the form of rent deferral requests, which we are evaluating on a case-by-case basis. Alternatively, the failure of a tenant to perform under a lease could require us to declare a default, repossess the space and find a suitable replacement tenant. There is no assurance that we would be able to lease the space on substantially equivalent or better terms than the prior lease, or at all, or successfully reposition the space for other uses. If one or more of our tenants files for bankruptcy relief, the Bankruptcy Code provides that a debtor has the option to assume or reject the unexpired lease within a certain period of time.

Any bankruptcy filing by or relating to one or more of our tenants could bar all efforts by us to collect pre-bankruptcy debts from that tenant or seize its property. A tenant bankruptcy could also delay our efforts to collect past due balances under the lease and could ultimately preclude collection of all or a portion of these sums. It is possible that we may recover substantially less than the full value of any unsecured claims we hold, if any. Furthermore, dealing with a tenant's bankruptcy or other default may divert management's attention and cause us to incur substantial legal and other costs. The bankruptcy or insolvency of a number of smaller tenants may have an adverse impact on our business, financial condition and results of operations, our ability to make distributions to our shareholders and the trading price of our common shares.

Uninsured losses relating to real property or excessively expensive premiums for insurance coverage may adversely affect our returns.

We attempt to adequately insure all of our properties to cover casualty losses. However, there are types of losses, generally catastrophic in nature, such as losses due to wars, acts of terrorism, earthquakes, floods, hurricanes, pollution or environmental matters, including as a result of climate change, which are uninsurable or not economically insurable, or may be insured subject to limitations, such as large deductibles or co-payments. Our current geographic concentration in the Houston metropolitan area potentially increases the risk of damage to our portfolio due to hurricanes. Insurance risks associated with potential terrorism acts could sharply increase the premiums we pay for coverage against property and casualty claims. In some instances, we may be required to provide other financial support, either through financial assurances or self-insurance, to cover potential losses. We cannot assure you that we will have adequate coverage for these losses. Also, to the extent we must pay unexpectedly large insurance premiums, we could suffer reduced earnings that would result in less cash to be distributed to shareholders.

Discovery of previously undetected environmentally hazardous conditions may adversely affect our operating results.

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the cost of removal or remediation of hazardous or toxic substances on, under or in its property. The costs of removal or remediation could be substantial. These laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of any hazardous or toxic substances. Environmental laws also may impose restrictions on the manner in which a property may be used or businesses may be operated, and these restrictions may require substantial expenditures. Environmental laws provide for sanctions in the event of noncompliance and may be enforced by governmental agencies or, in certain circumstances, by private parties. Certain environmental laws and common law principles could be used to impose liability for release of and exposure to hazardous substances, including asbestos containing materials into the air. In addition, third parties may seek recovery from owners or operators of real properties for personal injury or property damage associated with exposure to released hazardous substances. The cost of defending against claims of liability, of compliance with environmental regulatory requirements, of remediating any contaminated property, or of paying personal injury claims could materially adversely affect our business, assets or results of operations and, consequently, amounts available for distributions to our shareholders.

Certain of our properties currently include or have in the past included a dry cleaning facility as a tenant. See "Business - Compliance with Governmental Regulations."

Our success depends in part on our ability to execute our Community Centered Property® strategy.

Our Community Centered Property® strategy requires intensive management of a large number of small spaces and small tenant relationships. Our success depends in part upon our management's ability to identify potential Community Centered Properties® and find and maintain the appropriate tenants to create such a property. Lack of market acceptance of our Community Centered Property® strategy or our inability to successfully attract and manage a large number of tenant relationships could adversely affect our occupancy rates, operating results and dividend rate.

Our business is significantly influenced by demand for retail space generally, and a decrease in such demand may have a greater adverse effect on our business than if we owned a more diversified real estate portfolio.

Because our portfolio of properties consists primarily of community and neighborhood shopping centers, a decrease in the demand for retail space, due to the economic factors discussed above or otherwise, may have a greater adverse effect on our business and financial condition than if we owned a more diversified real estate portfolio. The market for retail space has been, and could continue to be, adversely affected by weakness in the national, regional and local economies, the adverse financial conditions of some retailing companies, the ongoing consolidation in the retail sector, the excess amount of retail space in a number of markets, health and safety concerns such as the recent coronavirus outbreak and increasing online consumer purchases.

We face risks relating to cybersecurity attacks, loss of confidential information and other business disruptions.

Our business is at risk from and may be impacted by cybersecurity attacks, including attempts to gain unauthorized access to our confidential data and other electronic security breaches. Such cyber-attacks can range from individual attempts to gain unauthorized access to our information technology systems to more sophisticated security threats. We have experienced cyber-attacks, and while to date none of these incidents have been material to our operations, we expect to continue to face such threats in the future. We employ a number of measures to prevent, detect and mitigate these threats, but there is no guarantee such efforts will be successful in preventing future cyber-attacks. In addition, cybersecurity incidents could compromise the confidential information of our tenants, employees and third party vendors that we collect in the ordinary course of our business. Laws and expectations relating to data protection and privacy vary by jurisdiction and continue to evolve, and we believe increased regulation in additional jurisdictions is likely to develop in the future. For example, the California Consumer Privacy Act (CCPA), that went into effect on January 1, 2020, requires covered companies to, among other things, provide new disclosures to California consumers, and afford such consumers new abilities to opt-out of certain sales of personal information. A cyber-attack or our ability or perceived inability to comply with regulations related to cybersecurity and/or data protection and privacy could materially and adversely affect the efficiency of our business operations, which in turn could have a material adverse effect on our reputation, competitiveness and results of operations.

Risks Associated with Our Indebtedness and Financing

Current market conditions could adversely affect our ability to refinance existing indebtedness or obtain additional financing for growth on acceptable terms or at all, which could adversely affect our ability to grow, our interest cost and our results of operations.

The United States credit markets have experienced significant dislocations and liquidity disruptions, including the bankruptcy, insolvency or restructuring of certain financial institutions. These circumstances have materially impacted liquidity in the debt markets, making financing terms for borrowers less attractive, and in certain cases have resulted in the unavailability of various types of debt financing. Reductions in our available borrowing capacity, or inability to refinance our revolving credit facility when required or when business conditions warrant, could have a material adverse effect on our business, financial condition and results of operations. In addition, we mortgage many of our properties to secure payment of indebtedness. If we are not successful in refinancing our mortgage debt upon maturity, then the property could be foreclosed upon or transferred to the mortgagee, or we might be forced to dispose of some of our properties upon disadvantageous terms, with a consequent loss of income and asset value. A foreclosure or disadvantageous disposal on one or more of our properties could adversely affect our ability to grow, financial condition, interest cost, results of operations, cash flow and ability to make distributions to our shareholders.

Furthermore, if prevailing interest rates or other factors at the time of refinancing result in higher interest rates upon refinancing, then the interest expense relating to that refinanced indebtedness would increase. Higher interest rates on newly incurred debt may negatively impact us as well. If interest rates increase, our interest costs and overall costs of capital will increase, which could adversely affect our transaction and development activity, financial condition, results of operation, cash flow, our ability to pay principal and interest on our debt and our ability to make distributions to our shareholders.

Our failure to hedge effectively against interest rate changes may adversely affect results of operations.

We currently have mortgages that bear interest at variable rates and we may incur additional variable rate debt in the future. Accordingly, increases in interest rates on variable rate debt would increase our interest expense, which could reduce net earnings and cash available for payment of our debt obligations and distributions to our shareholders.

We may seek to manage our exposure to interest rate volatility by using interest rate hedging arrangements, such as interest cap agreements and interest rate swap agreements. These agreements involve risks, such as the risk that counterparties may fail to honor their obligations under these arrangements, that these arrangements may not be effective in reducing our exposure to interest rate changes and that a court could rule that such an agreement is not legally enforceable. In the past, we have used derivative financial instruments to hedge interest rate risks related to our variable rate borrowings. We will not use derivatives for speculative or trading purposes and intend only to enter into contracts with major financial institutions based on their credit rating and other factors, but we may choose to change this practice in the future. As of December 31, 2020, we had fixed rate hedges on $265 million of our variable rate debt, including $265 million of our unsecured credit facility. We may enter into additional interest rate swap agreements for our variable rate debt not currently subject to hedges, which totaled $119.5 million as of December 31, 2020. Hedging may reduce the overall returns on our investments. Failure to hedge effectively against interest rate changes may materially and adversely affect our results of operations.

We currently have and may incur additional mortgage indebtedness and other borrowings, which may increase our business risks and may adversely affect our ability to make distributions to our shareholders.

If we determine it to be in our best interests, we may, in some instances, acquire real properties by using either existing financing or borrowing new funds. In addition, we may incur or increase our current mortgage debt to obtain funds to acquire additional properties. We may also borrow funds if necessary to satisfy the REIT distribution requirement described above, or otherwise as may be necessary or advisable to ensure that we maintain our qualification as a REIT for federal income tax purposes.

As of December 31, 2020, we had outstanding indebtedness, net of cash, of $619.4 million, including, through our Operating Partnership, $100.0 million aggregate principal amount of the Notes (as defined below) and $384.5 million drawn on the 2019 Facility (as defined below). As of December 31, 2020, our unused borrowing capacity under our 2019 Facility was $130.5 million. Obligations under the Notes and the 2019 Facility are guaranteed by the Company and certain subsidiary guarantors. Our current debt agreements, including the agreements governing the Notes and the 2019 Facility, contain, and any future debt agreements may contain, a number of restrictive and financial covenants that impose significant operating and financial restrictions on us. Such restrictive covenants may significantly limit our ability to:

- incur additional debt, including issuing guarantees;
- incur liens;
- make certain investments;
- sell or otherwise dispose of assets;
- make acquisitions;
- engage in mergers or consolidations or certain other “change of control” transactions;
- make distributions to our shareholders;
- engage in restructuring activities;
- engage in certain sale and leaseback transactions; and
- issue or repurchase common shares or other securities.

Such agreements may also require us to satisfy other requirements, including maintaining certain financial ratios and condition tests. Our ability to meet these requirements can be affected by events beyond our control, and we may be unable to meet them. To the extent we fail to meet any such requirements and are in default under our debt obligations, our financial condition may be materially adversely affected. Further, these restrictions may limit our ability to engage in activities that could otherwise benefit us. To the extent that we are unable to engage in activities that support the growth, profitability and competitiveness of our business, our results of operations may be materially adversely affected.

We may also incur mortgage debt on a particular property if we believe the property's projected cash flow is sufficient to service the mortgage debt. As of December 31, 2020, we had approximately $160.7 million of mortgage debt secured by seven of our properties. If there is a shortfall in cash flow, however, the amount available for distributions to shareholders may be affected. In addition, incurring mortgage debt increases the risk of loss because defaults on such indebtedness may result in loss of property in foreclosure actions initiated by lenders. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds. We may give lenders full or partial guarantees for mortgage debt incurred by the entities that own our properties. When we give a guaranty on behalf of an entity that owns one of our properties, we will be responsible to the lender for satisfaction of the debt if it is not paid by that entity. If any mortgages contain cross-collateralization or cross-default provisions, there is a risk that more than one property may be affected by a default. If any of our properties are foreclosed upon due to a default, our ability to pay cash distributions to our shareholders may be adversely affected. For more discussion, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."

If we set aside insufficient working capital or are unable to secure funds for future tenant improvements, we may be required to defer necessary property improvements, which could adversely impact the quality of our properties and our results of operations.

When tenants do not renew their leases or otherwise vacate their space, it is possible that, in order to attract replacement tenants, we may be required to expend substantial funds for tenant improvements and refurbishments to the vacated space. If we have insufficient working capital reserves, we will have to obtain financing from other sources. Because most of our leases provide for tenant reimbursement of operating expenses, we have not established a permanent reserve for maintenance and repairs for our properties. However, to the extent that we have insufficient funds for such purposes, we may establish reserves for maintenance and repairs of our properties out of cash flow generated by operating properties or out of non-liquidating net sale proceeds. If these reserves or any reserves otherwise established are insufficient to meet our cash needs, we may have to obtain financing from either affiliated or unaffiliated sources to fund our cash requirements. We cannot assure you that sufficient financing will be available or, if available, will be available on economically feasible terms or on terms acceptable to us. Additional borrowing for working capital purposes will increase our interest expense, and therefore our financial condition and our ability to pay cash distributions to our shareholders may be adversely affected. In addition, we may be required to defer necessary improvements to our properties that may cause our properties to suffer from a greater risk of obsolescence or a decline in value, or a greater risk of decreased cash flow as a result of fewer potential tenants being attracted to our properties. If this happens, we may not be able to maintain projected rental rates for affected properties, and our results of operations may be negatively impacted.

We have in the past and may continue to structure acquisitions of property in exchange for limited partnership units in our Operating Partnership on terms that could limit our liquidity or our flexibility.

We have in the past and may continue to acquire properties by issuing limited partnership units in our Operating Partnership ("OP units") in exchange for a property owner contributing property to the Operating Partnership. If we enter into such transactions, in order to induce the contributors of such properties to accept OP units, rather than cash, in exchange for their properties, it may be necessary for us to provide them with additional incentives. For instance, our Operating Partnership's limited partnership agreement provides that any holder of OP units may redeem such units for cash, or, at our option, common shares on a one-for-one basis. We may, however, enter into additional contractual arrangements with contributors of property under which we would agree to redeem a contributor's OP units for our common shares or cash, at the option of the contributor, at set times. If the contributor required us to redeem OP units for cash pursuant to such a provision, it would limit our liquidity and thus our ability to use cash to make other investments, satisfy other obligations or pay distributions. Moreover, if we were required to redeem OP units for cash at a time when we did not have sufficient cash to fund the redemption, we might be required to sell one or more properties to raise funds to satisfy this obligation. Furthermore, we might agree that if distributions the contributor received as a limited partner in our Operating Partnership did not provide the contributor with a defined return, then upon redemption of the contributor's OP units, we would pay the contributor an additional amount necessary to achieve that return. Such a provision could further negatively impact our liquidity and flexibility. Finally, in order to allow a contributor of a property to defer taxable gain on the contribution of property to our Operating Partnership, we might agree not to sell a contributed property for a defined period of time or until the contributor redeemed the contributor's OP units for cash or our common shares. Such an agreement would prevent us from selling those properties, even if market conditions made such a sale favorable to us.

We may issue preferred shares with a preference in distributions over our common shares, and our ability to issue preferred shares and additional common shares may deter or prevent a sale of our common shares in which you could profit.

Our declaration of trust authorizes our board of trustees to issue up to 400,000,000 common shares and 50,000,000 preferred shares. Our board of trustees may amend our declaration of trust from time to time to increase or decrease the aggregate number of shares or the number of any class or series that we have authority to issue. In addition, our board of trustees may classify or reclassify any unissued common shares or preferred shares and may set the preferences, rights and other terms of the classified or reclassified shares. The terms of preferred shares could include a preference in distributions senior to our common shares. If we authorize and issue preferred shares with a distribution preference senior to our common shares, payment of any distribution preferences of outstanding preferred shares would reduce the amount of funds available for the payment of distributions on our common shares. Further, holders of preferred shares are normally entitled to receive a preference payment in the event we liquidate, dissolve or wind up before any payment is made to our common shareholders, likely reducing the amount our common shareholders would otherwise receive upon such an occurrence. In addition, under certain circumstances, the issuance of preferred shares or a separate class or series of common shares may render more difficult or tend to discourage:

- a merger, tender offer or proxy contest;
- assumption of control by a holder of a large block of our shares; or
- removal of incumbent management.

Changes in how LIBOR is determined, or the potential replacement of LIBOR with an alternative reference rate, may adversely affect our interest expense.

A number of our current debt agreements, including our 2019 Facilities, have an interest rate tied to the London Interbank Offered Rate ("LIBOR"). On July 27, 2017, the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced its intention to stop persuading or compelling banks to submit LIBOR quotations by the end of 2021. Further, on November 30, 2020, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corp. and the Office of the Comptroller of the Currency issued a joint statement (the "Joint Statement") on LIBOR transition, in connection with which ICE Benchmark Administration Limited, in its capacity as administrator of U.S. LIBOR, announced its plan to extend the date that most U.S. LIBOR values would cease being computed and announced from December 31, 2021 to June 30, 2023. Even though U.S. LIBOR would continue to be published through June 30, 2023, the Joint Statement called on banks to cease entering into new contracts that use U.S. LIBOR as a reference rate by no later than December 31, 2021, and if practicable, as far in advance of that deadline as possible. We cannot predict the impact of the phase out of LIBOR on our debt agreements and interest rates. While some of our current debt agreements provide procedures for determining an alternative base rate in the event that LIBOR is discontinued, not all do so. Regardless, there can be no assurances as to what alternative base rates may be and whether such base rate will be more or less favorable than LIBOR and any other unforeseen impacts of the potential discontinuation of LIBOR. The Company intends to monitor the developments with respect to the potential phasing out of LIBOR after 2021 and work with its lenders to ensure any transition away from LIBOR will have minimal impact on its financial condition, but can provide no assurances regarding the impact of the discontinuation of LIBOR on its financial condition or whether the discontinuation of LIBOR would have a material adverse effect on its results of operations.

Risks Associated with Income Tax Laws

If we fail to qualify as a REIT, our operations and distributions to shareholders would be adversely impacted.

We intend to continue to be organized and to operate so as to qualify as a REIT under the Code. A REIT generally is not taxed at the corporate level on income it currently distributes to its shareholders. Qualification as a REIT involves the application of highly technical and complex rules for which there are only limited judicial or administrative interpretations. The determination of various factual matters and circumstances not entirely within our control may affect our ability to continue to qualify as a REIT. In addition, new legislation, new regulations, administrative interpretations or court decisions could significantly change the tax laws, possibly with retroactive effect, with respect to qualification as a REIT or the federal income tax consequences of such qualification.

If we were to fail to qualify as a REIT in any taxable year:

- we would not be allowed to deduct our distributions to shareholders when computing our taxable income;

- we would be subject to federal income tax on our taxable income at regular corporate rates;
- we would be disqualified from being taxed as a REIT for the four taxable years following the year during which qualification was lost, unless entitled to relief under certain statutory provisions;
- our cash available for distributions to shareholders would be reduced; and
- we may be required to borrow additional funds or sell some of our assets in order to pay corporate tax obligations that we may incur as a result of our disqualification.

We may need to incur additional borrowings to meet the REIT minimum distribution requirement and to avoid excise tax.

In order to maintain our qualification as a REIT, we are required to distribute to our shareholders at least 90% of our annual real estate investment trust taxable income (excluding any net capital gain and before application of the dividends paid deduction). In addition, we are subject to a 4% nondeductible excise tax on the amount, if any, by which certain distributions paid by us with respect to any calendar year are less than the sum of (i) 85% of our ordinary income for that year, (ii) 95% of our net capital gain for that year and (iii) 100% of our undistributed taxable income from prior years. Although we intend to pay distributions to our shareholders in a manner that allows us to meet the 90% distribution requirement and avoid this 4% excise tax, we cannot assure you that we will always be able to do so.

Our income consists almost solely of our share of our Operating Partnership's income, and the cash available for distribution by us to our shareholders consists of our share of cash distributions made by our Operating Partnership. Because we are the sole general partner of our Operating Partnership, our board of trustees determines the amount of any distributions made by our Operating Partnership. Our board of trustees may consider a number of factors in authorizing distributions, including:

- the amount of cash available for distribution;
- our Operating Partnership's financial condition;
- our Operating Partnership's capital expenditure requirements; and
- our annual distribution requirements necessary to maintain our qualification as a REIT.

Differences in timing between the actual receipt of income and actual payment of deductible expenses and the inclusion of income and deduction of expenses when determining our taxable income, as well as the effect of nondeductible capital expenditures and the creation of reserves or required debt amortization payments could require us to borrow funds on a short-term or long-term basis or make taxable distributions to our shareholders of our shares or debt securities to meet the REIT distribution requirement and to avoid the 4% excise tax described above. In these circumstances, we may need to borrow funds to avoid adverse tax consequences even if our management believes that the then prevailing market conditions generally are not favorable for borrowings or that borrowings would not be advisable in the absence of the tax consideration.

If our Operating Partnership were classified as a "publicly traded partnership" taxable as a corporation for federal income tax purposes under the Code, we would cease to qualify as a REIT and would suffer other adverse tax consequences.

We structured our Operating Partnership so that it would be classified as a partnership for federal income tax purposes. In this regard, the Code generally classifies "publicly traded partnerships" (as defined in Section 7704 of the Code) as associations taxable as corporations (rather than as partnerships), unless substantially all of their taxable income consists of specified types of passive income. In order to minimize the risk that the Code would classify our Operating Partnership as a "publicly traded partnership" for tax purposes, we placed certain restrictions on the transfer and/or redemption of partnership units in our Operating Partnership. If the Internal Revenue Service were to assert successfully that our Operating Partnership is a "publicly traded partnership," and substantially all of its gross income did not consist of the specified types of passive income, the Code would treat our Operating Partnership as an association taxable as a corporation.

In such event, the character of our assets and items of gross income would change and would prevent us from continuing to qualify as a REIT. In addition, the imposition of a corporate tax on our Operating Partnership would reduce our amount of cash available for payment of distributions by us to our shareholders.

Complying with REIT requirements may cause us to forego otherwise attractive opportunities or liquidate otherwise attractive investments.

To qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our shareholders and the ownership of our shares. In order to meet these tests, we may be required to forego investments we might otherwise make. Thus, compliance with the REIT requirements may hinder our performance.

In particular, we must ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified real estate assets. The remainder of our investment in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, and no more than 20% of the value of our total assets can be represented by the securities of one or more taxable REIT subsidiaries. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our shareholders.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

For non-corporate taxpayers the maximum tax rate applicable to “qualified dividend income” paid by regular “C” corporations to U.S. shareholders generally is 20%. Dividends payable by REITs, however, generally are not eligible for the reduced rates on qualified dividend income. Instead, our ordinary dividends generally are taxed at the higher tax rates applicable to ordinary income, the current maximum rate of which is 37%. However, for taxable years prior to 2026, individual stockholders are generally allowed to deduct 20% of the aggregate amount of ordinary dividends distributed by us, subject to certain limitations, which would reduce the maximum marginal effective tax rate for individuals on the receipt of such ordinary dividends to 29.6%.

Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities.

The REIT provisions of the Code substantially limit our ability to hedge our liabilities. Any income from a hedging transaction that we enter into to manage risk of interest rate changes, price changes or currency fluctuations with respect to borrowings made or to be made to acquire or carry real estate assets does not constitute “gross income” for purposes of the 75% or 95% gross income tests. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of both of the gross income tests. As a result of these rules, we may need to limit our use of advantageous hedging techniques or implement those hedges through taxable REIT subsidiaries. This could increase the cost of our hedging activities because any taxable REIT subsidiary that we may form would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in taxable REIT subsidiaries will generally not provide any tax benefit, except for being carried forward against future taxable income in the taxable REIT subsidiaries.

Pursuant to the Tax Protection Agreement, the amount that Pillarstone is required to indemnify the Operating Partnership for certain tax liabilities reduces over the term of the Tax Protection Agreement.

In connection with the Contribution (as defined below), on December 8, 2016, the Operating Partnership entered into a Tax Protection Agreement (the “Tax Protection Agreement”) with Pillarstone Capital REIT (“Pillarstone REIT”), the general partner of Pillarstone, and Pillarstone pursuant to which Pillarstone agreed to indemnify the Operating Partnership for certain tax liabilities resulting from its recognition of income or gain prior to December 8, 2021 (a) if such liabilities result from a transaction involving a direct or indirect taxable disposition of all or a portion of the Pillarstone Properties or (b) if Pillarstone fails to maintain and allocate to the Operating Partnership for taxation purposes minimum levels of liabilities as specified in the Tax Protection Agreement, the result of which causes such recognition of income or gain and the Company incurs taxes that must be paid to maintain its REIT status for federal tax purposes. However, the Tax Protection Agreement expires on the earlier of (x) December 8, 2021 and (y) the date on which the Operating Partnership disposes of 50% or more of the Pillarstone OP Units (as defined below) issued in connection with the Contribution. Further, the amount that Pillarstone is required to indemnify the Operating Partnership reduces over the term of the Tax Protection Agreement as follows: on December 8th of each year, the amount of tax liability recognized by the Operating Partnership during that year that Pillarstone is required to indemnify is reduced by 20 percentage points. Once the Tax Protection Agreement has expired, the Company could be subject to additional taxes upon the occurrence of certain events that must be paid to maintain its REIT status for federal tax purposes.

Changes to the U.S. federal income tax laws, including the enactment of certain tax reform measures, could have an adverse impact on our business and financial results.

In recent years, numerous legislative, judicial and administrative changes have been made to the U.S. federal income tax laws applicable to investments in real estate and REITs, including the passage of the Tax Cuts and Jobs Act of 2017. Federal legislation intended to ameliorate the economic impact of the COVID-19 pandemic, the CARES Act, has been enacted that makes technical corrections to, or modifies on a temporary basis, certain of the provisions of the Tax Cut and Jobs Act of 2017, and it is possible that additional such legislation may be enacted in the future. The full impact of the Tax Cuts and Jobs Act of 2017 and the CARES Act may not become evident for some period of time. In addition, there can be no assurance that future changes to the U.S. federal income tax laws or regulatory changes will not be proposed or enacted that could impact our business and financial results. The REIT rules are constantly under review by persons involved in the legislative process and by the Internal Revenue Service and the U.S. Treasury Department, which may result in revisions to regulations and interpretations in addition to statutory changes. If enacted, certain of such changes could have an adverse impact on our business and financial results.

We cannot predict whether, when, or to what extent any new U.S. federal tax laws, regulations, interpretations, or rulings will impact the real estate investment industry or REITs. Prospective investors are urged to consult their tax advisors regarding the effect of potential future changes to the federal tax laws on an investment in our shares.

Risks Related to Ownership of our Common Shares

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

One of the factors that may influence the price of our common shares will be the dividend distribution rate on the common shares (as a percentage of the price of our common shares) relative to market interest rates. If market interest rates rise, prospective purchasers of shares of our 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 common shares, which would reduce the demand for, and result in a decline in the market price of, our common shares.

Broad market fluctuations could negatively impact the market price of our 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 common shares. Furthermore, our operating results and prospects may be below the expectations of public market analysts and investors or may be lower than those of companies with comparable market capitalizations. Either of these factors could lead to a material decline in the market price of our common shares.

Maryland takeover statutes may deter others from seeking to acquire us and prevent shareholders from making a profit in such transactions.

The Maryland General Corporation Law ("MGCL") contains many provisions, such as the business combination statute and the control share acquisition statute, that are designed to prevent, or have the effect of preventing, someone from acquiring control of us. The business combination statute, subject to limitations, prohibits certain business combinations between us and an "interested shareholder" (defined generally as any person who beneficially owns 10% or more of the voting power of our outstanding voting shares or an affiliate or associate of our Company who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of our then outstanding shares) or an affiliate of an interested shareholder for five years after the most recent date on which the person becomes an interested shareholder and thereafter imposes super-majority voting requirements on these combinations. The control share acquisition statute provides that "control shares" of our Company (defined as shares which, when aggregated with other shares controlled by the shareholder (except solely by virtue of a revocable proxy), entitle the shareholder to exercise one of three increasing ranges of voting power in electing trustees) acquired in a "control share acquisition" (defined as the direct or indirect acquisition of ownership or control of issued and outstanding control shares) have no voting rights except to the extent approved by our shareholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

We are currently subject to the control share acquisition statute, although our board of trustees may amend our Amended and Restated Bylaws, or our bylaws, without shareholder approval, to exempt any acquisition of our shares from the statute. Our board of trustees has adopted a resolution exempting any business combination with any person from the business combination statute. The business combination statute (if our board of trustees revokes the foregoing exemption) and the control share acquisition statute could delay or prevent offers to acquire us and increase the difficulty of consummating any such offers, even if such a transaction would be in our shareholders' best interest.

The MGCL, the Maryland REIT Law and our organizational documents limit shareholders' rights to bring claims against our officers and trustees.

The MGCL and the Maryland REIT Law provide that a trustee will not have any liability as a trustee so long as he performs his duties in good faith, in a manner he reasonably believes to be in our best interests, and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, our declaration of trust provides that no trustee or officer will be liable to us or to any shareholder for money damages except to the extent that (a) the trustee or officer actually received an improper benefit or profit in money, property or services, for the amount of the benefit or profit in money, property, or services actually received; or (b) a judgment or the final adjudication adverse to the trustee or officer is entered in a proceeding based on a finding in the proceeding the trustee's or officer's action or failure to act was the result of active and deliberate dishonesty and was material to the cause of action adjudicated in the proceeding. Finally, our declaration of trust authorizes our Company to obligate itself, and our bylaws obligate us, to indemnify and advance expenses to our trustees and officers to the maximum extent permitted by Maryland law.

The terms of our employment agreements with our executive officers and severance arrangements with other employees and the terms of certain equity awards granted to our employees may deter others from seeking to acquire us or reduce the price of any such acquisition.

We have entered into employment agreements with our executive officers and severance arrangements with other of our employees, and have granted equity awards to a number of our employees. In certain cases, upon a change of control acquisition of us, such agreements and awards would entitle the officer or employee to severance payments and vesting of otherwise unvested awards. The cost of these payments and the impact of the vesting of such awards could deter a third party from seeking to acquire us or could cause the price payable to shareholders in connection with any such acquisition to be lower than it otherwise may have been. These effects could delay or prevent offers to acquire us and increase the difficulty in consummating any such offers, even if such a transaction would be in our shareholders' best interests.

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 distributions or upon liquidation, may adversely affect the market price of our common shares.

In the future, we may attempt to increase our capital resources by making additional offerings of debt or preferred equity securities, including medium-term notes, trust preferred securities, senior or subordinated notes and preferred shares. Upon liquidation, holders of our debt securities and preferred shares and lenders with respect to other borrowings will receive distributions of our available assets prior to the holders of our common shares. Additional equity offerings may dilute the holdings of our existing shareholders or reduce the market price of our common shares, or both. Holders of our common shares are not entitled to preemptive rights or other protections against dilution. Our preferred shares, if issued, could have a preference on liquidating distributions or a preference on distribution payments that could limit our ability to pay distributions to the holders of our common shares. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our common shareholders bear the risk of our future offerings reducing the market price of our common shares and diluting their share holdings in us.

The shareholders' rights plan adopted by our board of trustees may discourage a third party from acquiring us in a manner that might result in a premium price to our shareholders.

On May 14, 2020, our board of trustees authorized a dividend of one preferred share purchase right (a "Right") for each outstanding common share. If a person or group of affiliated or associated persons acquires beneficial ownership of 5% or more of our outstanding common shares (20% or more in the case of a passive institutional investor), subject to certain exceptions, each Right would entitle its holder (other than the acquiring person or group of affiliated or associated persons) to purchase additional common shares at a substantial discount to the public market price. In addition, under certain circumstances, we may exchange the Rights (other than Rights beneficially owned by the acquiring person or group of affiliated or associated persons), in whole or in part, for common shares on a one-for-one basis. The shareholders' rights plan could make it more difficult for a third party to acquire us or a large block of our common shares without the approval of our board of trustees, which may discourage a third party from acquiring us in a manner that might result in a premium price to our shareholders.

General Risk Factors

Market disruptions may significantly and adversely affect our financial condition and results of operations.

World financial markets have, from time to time, experienced significant disruption. For example, over the past year, the COVID-19 pandemic has had, and is expected to continue to have, a significant adverse impact on global economic activity, including increased unemployment, weakening of tenant financial condition, large-scale business failures and tight credit markets. Further, oil prices have continued to decline dramatically over the past years and became increasingly volatile as a result of the COVID-19 pandemic. Our results of operations may be sensitive to changes in overall economic conditions that impact tenants of our properties or tenant leasing practices. Adverse economic conditions affecting tenant income, such as employment levels, business conditions, interest rates, tax rates, fuel and energy costs and other matters, could reduce overall tenant leasing or cause tenants to shift their leasing practices. In addition, periods of economic slowdown or recession, rising interest rates or declining demand for real estate, or the public perception that any of these events may occur, could result in a general decline in rents or an increased incidence of defaults under existing leases. In addition, financial markets may again experience significant and prolonged disruption, including as a result of unanticipated events, or as a result of recent uncertainty regarding legislative and regulatory shifts relating to, among other things, taxation and trade, which we believe may continue as a result of, among other things, the new presidential administration, and which could adversely affect our tenants and our business in general. For example, a general reduction in consumer spending and the level of tenant leasing could adversely affect our ability to maintain our current tenants and gain new tenants, affecting our growth and profitability. Accordingly, if financial and macroeconomic conditions deteriorate, or if financial markets experience significant disruption, it could have a significant adverse effect on our cash flows, profitability, results of operations and the trading price of our common shares.

The value of investments in our common shares will be directly affected by general economic and regulatory factors we cannot control or predict.

Investments in real estate typically involve a high level of risk as the result of factors we cannot control or predict. One of the risks of investing in real estate is the possibility that our properties will not generate income sufficient to meet operating expenses or will generate income and capital appreciation, if any, at rates lower than those anticipated or available through investments in comparable real estate or other investments. The following factors may affect income from properties and yields from investments in properties and are generally outside of our control:

- conditions in financial markets;
- continuing deterioration of the brick-and-mortar retail industry;
- over-building in our markets;
- a reduction in rental income as the result of the inability to maintain occupancy levels;
- adverse changes in applicable tax, real estate, environmental or zoning laws;
- changes in general economic conditions or economic conditions in our markets;
- a taking of any of our properties by eminent domain;
- adverse local conditions (such as changes in real estate zoning laws that may reduce the desirability of real estate in the area);
- acts of God, such as hurricanes, earthquakes or floods, health and safety epidemics, such as the COVID-19 pandemic, and other uninsured losses;
- changes in supply of or demand for similar or competing properties in an area;

- changes in interest rates and availability of permanent debt capital, which may render the sale of a property difficult or unattractive; and

- periods of high interest rates, inflation or tight money supply.

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

We may not be successful in consummating suitable acquisitions or investment opportunities, which may impede our growth and adversely affect the trading price of our common shares.

Our ability to expand through acquisitions is integral to our business strategy and requires us to consummate suitable acquisition or investment opportunities that meet our criteria and are compatible with our growth strategy. We may not be successful in consummating acquisitions or investments in properties that meet our acquisition criteria on satisfactory terms or at all. Failure to consummate acquisitions or investment opportunities, the failure of an acquired property to perform as expected, or the failure to integrate successfully any acquired properties without substantial expense, delay or other operational or financial problems, would slow our growth, which could in turn adversely affect the trading price of our common shares.

Our ability to acquire properties on favorable terms may be constrained by the following significant risks:

- competition from other real estate investors with significant capital, including other REITs and institutional investment funds;

- competition from other potential acquirers which may significantly increase the purchase price for a property we acquire, which could reduce our growth prospects;

- unsatisfactory results of our due diligence investigations or failure to meet other customary closing conditions;

- the failure of an acquired property to perform as expected; and

- failure to finance an acquisition on favorable terms or at all.

If any of these risks are realized, our business, financial condition and results of operations, our ability to make distributions to our shareholders and the trading price of our common shares may be materially and adversely affected.

Loss of our key personnel, particularly our senior managers, could threaten our ability to execute our strategy and operate our business successfully.

We are dependent on the experience and knowledge of our key executive personnel, particularly certain of our senior managers who have been instrumental in setting our strategic direction, operating our business, identifying, recruiting and training key personnel and arranging necessary financing. Losing the services of any of these individuals could adversely affect our business until qualified replacements could be found. We also believe that they could not quickly be replaced with managers of equal experience and capabilities and their successors may not be as effective.

Our systems may not be adequate to support our growth, and our failure to successfully oversee our portfolio of properties could adversely affect our results of operations.

We make no assurances that we will be able to adapt our portfolio management, administrative, accounting and operational systems, or hire and retain sufficient operational staff, to support our growth. Our failure to successfully oversee our current portfolio of properties or any future acquisitions or developments could have a material adverse effect on our results of operations and financial condition and our ability to make distributions.

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

There are many factors that can affect the availability and timing of cash distributions to shareholders. Distributions are based upon our funds from operations, financial condition, cash flows and liquidity, debt service requirements, capital expenditure requirements for our properties and other matters our board of trustees may deem relevant from time to time. If we do not have sufficient cash available for distributions, we may need to fund the shortage out of working capital or borrow to provide funds for such distributions, which would reduce the amount of capital available for real estate investments and increase our future interest costs.

We can give no assurance that we will be able to continue to pay distributions or that distributions will increase over time. In addition, we can give no assurance that rents from our properties will increase, or that future acquisitions of real properties, mortgage loans or our investments in securities will increase our cash available for distributions to shareholders. Our actual results may differ significantly from the assumptions used by our board of trustees in establishing the distribution rate to shareholders. Our inability to make distributions, or to make distributions at expected levels, could result in a decrease in the trading price of our common shares.

Any weaknesses identified in our system of internal controls by us and our independent registered public accounting firm pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 could have an adverse effect on our business.

Section 404 of the Sarbanes-Oxley Act of 2002 requires that public companies evaluate and report on their systems of internal control over financial reporting. In addition, our independent registered public accounting firm must report on management's evaluation of those controls. We may identify deficiencies in our system of internal controls over financial reporting that may require remediation. For example, we identified a material weakness in our internal controls over financial reporting as of December 31, 2018 that resulted in a material misstatement in our previously filed interim unaudited consolidated financial statements and concluded that our internal controls over financial reporting were not effective as of December 31, 2018 and that our disclosure controls and procedures were not effective as of March 31, 2018, June 30, 2018 and September 30, 2018. As a result, we restated our unaudited financial statements for the periods ended March 31, 2018, June 30, 2018 and September 30, 2018 and implemented a remediation plan for our internal controls over financial reporting and our disclosure controls and procedures. Although we believe we have adequately remediated our prior deficiencies, there can be no assurances that we will not identify future deficiencies and that any such future deficiencies may not be material weaknesses that would be required to be reported in future periods. Any deficiencies or material weaknesses could result in significant time and expense to remediate, which could have a material adverse effect on our financial condition, results of operations and ability to make distributions to our shareholders.

Expectations of the Company relating to environmental, social and governance factors may impose additional costs and expose us to new risks.

There is an increasing focus from certain investors, employees and other stakeholders concerning corporate social responsibility ("CSR"), specifically related to environmental, social and governance factors. Some investors may use these factors to guide their investment strategies and, in some cases, may choose not to invest in us if they believe our policies relating to CSR are inadequate. Third-party providers of CSR ratings and reports on companies have increased to meet growing investor demand for measurement of CSR performance. In addition, the criteria by which companies' CSR practices are assessed may change, which could result in greater expectations of us and cause us to undertake costly initiatives to satisfy such new criteria. Alternatively, if we elect not to or are unable to satisfy such new criteria, investors may conclude that our policies with respect to CSR are inadequate. We may face reputational damage in the event that our CSR procedures or standards do not meet the standards set by various constituencies. Furthermore, if our competitors' CSR performance is perceived to be greater than ours, potential or current investors may elect to invest with our competitors instead. In addition, in the event that we communicate certain initiatives and goals regarding environmental, social and governance matters, we could fail, or be perceived to fail, in our achievement of such initiatives or goals, or we could be criticized for the scope of such initiatives or goals. If we fail to satisfy the expectations of investors, employees and other stakeholders or our initiatives are not executed as planned, our reputation and financial results could be materially and adversely affected.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

General

As of December 31, 2020, we wholly-owned 58 commercial properties, including 15 properties in Houston, eight properties in Dallas-Fort Worth, three properties in San Antonio, four properties in Austin, 27 properties in the Scottsdale and Phoenix, Arizona metropolitan areas, 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 only 2.8% of our total revenues for the year ended December 31, 2020.

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, 2020:

Commercial Properties	GLA	Average Occupancy as of 12/31/20	Annualized Base Rental Revenue (in thousands) (1)	Average Annualized Base Rental Revenue Per Sq. Ft. (2)
Whitestone	4,953,571	88 %	$ 84,704	$ 19.43

(1) Calculated as the tenant's actual December 31, 2020 base rent (defined as cash base rents including abatements) multiplied by 12. Excludes vacant space as of December 31, 2020. 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, 2020 equaled approximately $72,000 for the month ended December 31, 2020.

(2) Calculated as annualized base rent divided by GLA leased as of December 31, 2020. Excludes vacant space as of December 31, 2020.

Our largest property, BLVD Place, a retail community purchased on May 26, 2017 and located in Houston, Texas, accounted for 13.3% of our total revenues for the year ended December 31, 2020. BLVD also accounted for 17.1% of our real estate assets, net of accumulated depreciation, for the year ended December 31, 2020.

As of December 31, 2020, approximately $160.7 million of our total debt of $645.2 million was secured by 7 of our properties with a combined net book value of $250.9 million.

Location of Properties

Of our 58 wholly-owned properties, 15 are located in the greater Houston metropolitan statistical area. These 15 properties represent 29% of our revenue for the year ended December 31, 2020. An additional 27 of our wholly-owned properties are located in the greater Phoenix metropolitan statistical area and represent 42% of our revenue for the year ended December 31, 2020.

According to the United States Census Bureau, Houston and Phoenix ranked fifth and tenth, respectively, in the largest United States metropolitan statistical areas as of December 31, 2020. The following table sets forth information about the unemployment rate in Houston, Phoenix and nationally during the last six months of 2020.

	July	Aug.	Sept.	Oct.	Nov.	Dec.
National (1)	10.2%	8.4%	7.8%	6.9%	6.7%	6.7%
Houston (2)	9.5%	8.1%	9.6%	7.7%	8.9%	8.0%(P)
Phoenix (2)	10.4%	5.9%	6.2%	7.4%	7.4%	6.9%(P)

(1) Seasonally adjusted.
(2) Not seasonally adjusted.
(P) Represents preliminary estimates.

Source: Bureau of Labor Statistics

General Physical and Economic Attributes

The following table sets forth certain information relating to each of our properties owned as of December 31, 2020.

Whitestone REIT and Subsidiaries
Property Details
As of December 31, 2020

Community Name	Location	Year Built/ Renovated	Gross Leasable Square Feet	Percent Occupied at 12/31/2020	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)]
Whitestone Properties:							
Ahwatukee Plaza	Phoenix	1979	72,650	82 %	$ 796	$ 13.36	$ 12.94
Anthem Marketplace	Phoenix	2000	113,293	88 %	1,317	13.21	16.37
Anthem Marketplace Phase II	Phoenix	2019	6,853	100 %	228	33.27	33.85
Bissonnet Beltway	Houston	1978	29,205	88 %	366	14.24	13.85
BLVD Place	Houston	2014	216,944	97 %	8,834	41.98	42.96
The Citadel	Phoenix	2013	28,547	95 %	463	17.07	17.15
City View Village	San Antonio	2005	17,870	100 %	550	30.78	30.33
Davenport Village	Austin	1999	128,934	92 %	2,963	24.98	24.86
Desert Canyon	Phoenix	2000	62,533	81 %	705	13.92	13.50
Eldorado Plaza	Dallas	2004	219,287	90 %	2,908	14.73	15.05
Fountain Hills	Phoenix	2009	111,289	85 %	1,488	15.73	15.61
Fountain Square	Phoenix	1986	118,209	84 %	1,805	18.18	17.12
Fulton Ranch Towne Center	Phoenix	2005	120,575	95 %	1,924	16.80	17.50
Gilbert Tuscany Village	Phoenix	2009	49,415	100 %	952	19.27	19.95
Gilbert Tuscany Village Hard Corner	Phoenix	2009	14,603	100 %	124	8.49	8.90
Heritage Trace Plaza	Dallas	2006	70,431	100 %	1,579	22.42	23.82
Headquarters Village	Dallas	2009	89,134	80 %	2,231	31.29	34.37
Keller Place	Dallas	2001	93,541	96 %	991	11.04	10.90
Kempwood Plaza	Houston	1974	91,302	92 %	1,136	13.52	14.06
La Mirada	Phoenix	1997	147,209	90 %	3,112	23.49	23.42
Las Colinas Village	Dallas	2000	104,919	67 %	1,952	27.77	28.07
Lion Square	Houston	2014	117,592	92 %	1,644	15.20	14.22
The Marketplace at Central	Phoenix	2012	111,130	99 %	1,051	9.55	9.68
Market Street at DC Ranch	Phoenix	2003	244,888	94 %	4,667	20.27	19.93
Mercado at Scottsdale Ranch	Phoenix	1987	118,730	84 %	1,552	15.56	16.09
Paradise Plaza	Phoenix	1983	125,898	93 %	1,588	13.56	13.22
Parkside Village North	Austin	2005	27,045	96 %	812	31.28	31.74
Parkside Village South	Austin	2012	90,101	88 %	2,028	25.58	26.20
Pima Norte	Phoenix	2007	35,110	65 %	401	17.57	18.89
Pinnacle of Scottsdale	Phoenix	1991	113,108	96 %	2,307	21.25	21.99
Pinnacle Phase II	Phoenix	2017	27,063	100 %	755	27.90	27.16
The Promenade at Fulton Ranch	Phoenix	2007	98,792	80 %	1,106	13.99	11.22
Providence	Houston	1980	90,327	96 %	1,019	11.75	12.69
Quinlan Crossing	Austin	2012	109,892	95 %	2,345	22.46	23.51
Seville	Phoenix	1990	90,042	85 %	2,302	30.08	33.28
Shaver	Houston	1978	21,926	100 %	326	14.87	17.38
Shops at Pecos Ranch	Phoenix	2009	78,767	74 %	1,624	27.86	27.16
Shops at Starwood	Dallas	2006	55,385	100 %	1,304	23.54	22.48
The Shops at Williams Trace	Houston	1985	132,991	82 %	1,839	16.86	16.43
South Richey	Houston	1980	69,928	96 %	695	10.35	10.56
Spoerlein Commons	Chicago	1987	41,455	81 %	665	19.80	20.97
Starwood Phase II	Dallas	2016	35,351	81 %	1,006	35.13	22.84
The Strand at Huebner Oaks	San Antonio	2000	73,920	96 %	1,631	22.98	23.29
SugarPark Plaza	Houston	1974	95,032	97 %	1,149	12.46	12.89
Sunridge	Houston	1979	49,359	84 %	577	13.92	12.90

General Physical and Economic Attributes

The following table sets forth certain information relating to each of our properties owned as of December 31, 2020.

Whitestone REIT and Subsidiaries
Property Details
As of December 31, 2020

Community Name	Location	Year Built/ Renovated	Gross Leasable Square Feet	Percent Occupied at 12/31/2020	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)
Sunset at Pinnacle Peak	Phoenix	2000	41,530	91 %	686	18.15	17.41
Terravita Marketplace	Phoenix	1997	102,733	56 %	1,191	20.70	20.15
Town Park	Houston	1978	43,526	90 %	1,046	26.70	25.78
Village Square at Dana Park	Phoenix	2009	323,026	80 %	5,592	21.64	21.27
Westchase	Houston	1978	50,332	75 %	600	15.89	15.44
Williams Trace Plaza	Houston	1983	129,222	89 %	1,805	15.69	15.52
Windsor Park	San Antonio	2012	196,458	97 %	1,920	10.08	11.18
Woodlake Plaza	Houston	1974	106,169	70 %	1,047	14.09	13.55
Total/Weighted Average - Whitestone Properties			4,953,571	88 %	84,704	19.43	19.58
Land Held for Development:							
BLVD Phase II-B	Houston	N/A	—	—	—	—	—
Dana Park Development	Phoenix	N/A	—	—	—	—	—
Eldorado Plaza Development	Dallas	N/A	—	—	—	—	—
Fountain Hills	Phoenix	N/A	—	—	—	—	—
Market Street at DC Ranch	Phoenix	N/A	—	—	—	—	—
Total/Weighted Average - Land Held For Development (4)			—	—	—	—	—
Grand Total/Weighted Average - Whitestone Properties			4,953,571	88 %	$ 84,704	$ 19.43	$ 19.58

(1) Calculated as the tenant's actual December 31, 2020 base rent (defined as cash base rents including abatements) multiplied by 12. Excludes vacant space as of December 31, 2020. 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, 2020 equaled approximately $72,000 for the month ended December 31, 2020.

(2) Calculated as annualized base rent divided by gross leasable area leased as of December 31, 2020. Excludes vacant space as of December 31, 2020.

(3) Represents (i) the contractual base rent for leases in place as of December 31, 2020, adjusted to 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, 2020.

(4) As of December 31, 2020, these parcels of land were held for development and, therefore, had no gross leasable area.

Significant Tenants

The following table sets forth information about our 15 largest tenants as of December 31, 2020, based upon consolidated annualized rental revenues at December 31, 2020.

Tenant Name	Location	Annualized Rental Revenue (in thousands)	Percentage of Total Annualized Base Rental Revenues [1]	Initial Lease Date	Year Expiring
Safeway Stores Incorporated [2]	Austin, Houston and Phoenix	$ 2,419	2.8 %	11/14/1982, 5/8/1991, 7/1/2000, 4/1/2014, 4/1/2014 and 10/19/16	2021, 2021, 2022, 2024, 2025 and 2034
Whole Foods Market	Houston	2,247	2.6 %	9/3/2014	2035
Frost Bank	Houston	1,948	2.3 %	7/1/2014	2024
Newmark Real Estate of Houston LLC	Houston	1,050	1.2 %	10/1/2015	2026
Verizon Wireless [3]	Houston and Phoenix	950	1.1 %	8/16/1994, 2/1/2004, 5/10/2004, 1/27/2006 and 5/1/2014	2022, 2023, 2024, 2024 and 2038
Walgreens & Co. [4]	Houston and Phoenix	946	1.1 %	11/14/1982, 11/2/1987, 8/24/1996 and 11/3/1996	2022, 2027, 2049 and 2056
Bashas' Inc. [5]	Phoenix	848	1.0 %	10/9/2004 and 4/1/2009	2024 and 2029
Alamo Drafthouse Cinema	Austin	690	0.8 %	2/1/2012	2031
Dollar Tree [6]	Houston and Phoenix	635	0.7 %	8/10/1999, 6/29/2001, 11/8/2009, 12/17/2009, and 5/21/2013	2021, 2023, 2025, 2025 and 2027
Wells Fargo & Company [7]	Phoenix	578	0.7 %	10/24/1996 and 4/16/1999	2022 and 2023
Kroger Co.	Dallas	483	0.6 %	12/15/2000	2022
Ruth's Chris Steak House Inc.	Phoenix	466	0.5 %	1/1/1991	2030
Regus Corporation	Houston	451	0.5 %	5/23/14	2025
Paul's Ace Hardware	Phoenix	427	0.5 %	3/1/2008	2023
Original Ninfas LP	Houston	403	0.5 %	8/29/2018	2029
		$ 14,541	16.9 %		

(1) Annualized Base Rental Revenues represents the monthly base rent as of December 31, 2020 for each applicable tenant multiplied by 12.

(2) As of December 31, 2020, we had six leases with the same tenant occupying space at properties located in Phoenix, Houston and Austin. The annualized rental revenue for the lease that commenced on April 1, 2014, and is scheduled to expire in 2034, was $1,047,000, which represents approximately 1.2% of our total annualized base rental revenue. The annualized rental revenue for the lease that commenced on April 1, 2014, and is scheduled to expire in 2024, was $42,000, which represents less than 0.1% of our annualized base rental revenue. The annualized rental revenue for the lease that commenced on May 8, 1991, and is scheduled to expire in 2021, was $344,000, which represents approximately 0.4% of our total annualized base rental revenue. The annualized rental revenue for the lease that commenced on July 1, 2000, and is scheduled to expire in 2025, was $353,000, which represents approximately 0.4% of our total annualized base rental revenue. The annualized rental revenue for the lease that commenced on November 14, 1982, and is scheduled to expire in 2022, was $318,000, which represents approximately 0.4% of our total annualized base rental revenue. The annualized rental revenue for the lease that commenced on October 19, 2016, and is scheduled to expire in 2021, was $315,000, which represents approximately 0.4% of our total annualized base rental revenue.

[3] As of December 31, 2020, we had five leases with the same tenant occupying space at properties located in Phoenix and Houston. The annualized rental revenue for the lease that commenced on August 16, 1994, and is scheduled to expire in 2038, was $22,000, which represents less than 0.1% of our total annualized base rental revenue. The annualized rental revenue for the lease that commenced on January 27, 2006, and is scheduled to expire in 2023, was $134,000, which represents approximately 0.2% of our total annualized base rental revenue. The annualized rental revenue for the lease that commenced on February 1, 2004, and is scheduled to expire in 2024, was $38,000, which represents less than 0.1% of our total annualized base rental revenue. The annualized rental revenue for the lease that commenced on May 1, 2014, and is scheduled to expire in 2024, was $749,000, which represents approximately 0.9% of our total annualized rental revenue. The annualized rental revenue for the lease that commenced on May 10, 2004, and is scheduled to expire in 2022, was $6,000, which represents less than 0.1% of our total annualized base rental revenue.

[4] As of December 31, 2020, we had four leases with the same tenant occupying space at properties located in Phoenix and Houston. The annualized rental revenue for the lease that commenced on November 3, 1996, and is scheduled to expire in 2049, was $279,000, which represents approximately 0.3% of our total annualized base rental revenue. The annualized rental revenue for the lease that commenced on November 2, 1987, and is scheduled to expire in 2027, was $189,000, which represents approximately 0.2% of our total annualized base rental revenue. The annualized rental revenue for the lease that commenced on November 14, 1982, and is scheduled to expire in 2022, was $181,000, which represents approximately 0.2% of our total annualized base rental revenue. The annualized rental revenue for the lease that commenced on August 24, 1996, and is scheduled to expire in 2056, was $298,000, which represents approximately 0.4% of our total annualized rental revenue.

[5] As of December 31, 2020, we had two leases with the same tenant occupying space at properties located in Phoenix. The annualized rental revenue for the lease that commenced on October 9, 2004, and is scheduled to expire in 2024, was $119,000, which represents approximately 0.1% of our total annualized base rental revenue. The annualized rental revenue for the lease that commenced on April 1, 2009, and is scheduled to expire in 2029, was $729,000, which represents approximately 0.9% of our total annualized base rental revenue.

[6] As of December 31, 2020, we had five leases with the same tenant occupying space at properties in Houston and Phoenix. The annualized rental revenue for the lease that commenced on August 10, 1999, and is scheduled to expire in 2025, was $88,000, which represents approximately 0.1% of our total annualized base rental revenue. The annualized rental revenue for the lease that commenced on December 17, 2009, and is scheduled to expire in 2025, was $118,000, which represents approximately 0.1% of our total annualized base rental revenue. The annualized rental revenue for the lease that commenced on June 29, 2001, and is scheduled to expire in 2021, was $169,000, which represents approximately 0.2% of our total annualized base rental revenue. The annualized rental revenue for the lease that commenced on May 21, 2013, and is scheduled to expire in 2023, was $110,000, which represents approximately 0.1% of our total annualized base rental revenue. The annualized rental revenue for the lease that commenced on November 8, 2009, and is scheduled to expire in 2027, was $151,000, which represents approximately 0.2% of our total annualized base rental revenue.

[7] As of December 31, 2020, we had two leases with the same tenant occupying space at properties located in Phoenix. The annualized rental revenue for the lease that commenced on October 24, 1996, and is scheduled to expire in 2022, was $131,000, which represents approximately 0.2% of our total annualized base rental revenue. The annualized rental revenue for the lease that commenced on April 16, 1999, and is scheduled to expire in 2023, was $447,000, which represents approximately 0.5% of our total annualized base rental revenue.

Lease Expirations

The following table lists, on an aggregate basis, all of our consolidated scheduled lease expirations over the next 10 years.

		GLA		Annualized Base Rent as of December 31, 2020	
Year	Number of Leases	Approximate Square Feet	Percent of Total	Amount (in thousands)	Percent of Total
2021	453	783,293	15.8 %	$ 13,636	16.0 %
2022	203	653,956	13.2 %	12,223	14.4 %
2023	189	593,308	12.0 %	11,523	13.6 %
2024	182	688,576	13.9 %	14,448	17.0 %
2025	173	653,587	13.2 %	11,811	13.9 %
2026	59	264,983	5.3 %	4,996	5.9 %
2027	39	162,333	3.3 %	3,564	4.2 %
2028	26	146,212	3.0 %	2,792	3.3 %
2029	20	160,087	3.2 %	2,875	3.4 %
2030	21	64,541	1.3 %	2,193	2.6 %
Total	**1,365**	**4,170,876**	**84.2 %**	**$ 80,061**	**94.3 %**

Insurance

We believe that we have 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.

Item 3. Legal Proceedings.

On December 12, 2017, a property owner that owns a land parcel adjacent to a Whitestone property filed suit against Whitestone Pinnacle of Scottsdale - Phase II, LLC ("Whitestone Pinnacle") alleging breach of contract and resulting in the delay of the construction of their assisted living facility. The claimant seeks approximately $2.3 million in restitution from Whitestone Pinnacle. The Company intends to vigorously defend the matter as it believes that these claims are without merit and that it has substantial legal and factual defenses to the claims and allegations contained in the complaint. Based upon the present status of this matter, the Company does not believe it is probable that a loss will be incurred. Accordingly, the Company has not recorded a charge as a result of this action.

We are subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. While the resolution of these matters cannot be predicted with certainty, management believes the final outcome of such matters will not have a material adverse effect on our financial position, results of operations, cash flows or liquidity.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities.

Market Information

Common Shares

Our common shares are traded on the NYSE under the ticker symbol "WSR." As of March 4, 2021, we had 42,478,720 common shares of beneficial interest outstanding held by a total of 929 shareholders of record.

On March 4, 2021, the closing price of our common shares reported on the NYSE was $9.53 per share.

Equity Compensation Plan Information

Please refer to Item 12 of this Annual Report on Form 10-K for information concerning securities authorized under our equity incentive plan.

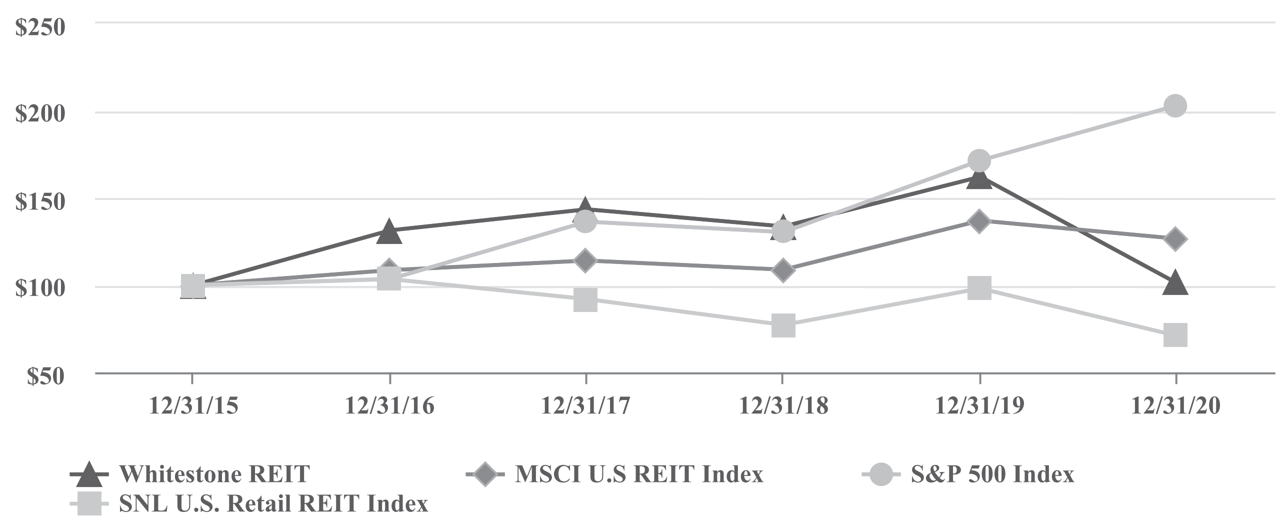
Issuer Purchases of Equity Securities

Not Applicable.

Performance Graph

The following graph compares the total shareholder returns of the Company's common shares to the Standard & Poor's 500 Index ("S&P 500 Index"), the Morgan Stanley Capital International US REIT Index ("MSCI U.S REIT Index") and to the SNL U.S. REIT's, Retail, Shopping Centers Index ("SNL U.S. Retail REIT Index") from December 31, 2015 to December 31, 2020. The graph assumes that the value of the investment in our common shares and in the S&P 500 Index, the MSCI U.S. REIT Index and the SNL U.S. Retail REIT Index was $100 at December 31, 2015, and all dividends were reinvested. The closing price of our common shares on December 31, 2015 (on which the graph is based) was $12.01. The past shareholder return shown on the following graph is not necessarily indicative of future performance. The performance graph and related information shall not be deemed "filed" with the SEC, nor shall such information be incorporated by reference into any future filing, except to the extent the Company specifically incorporates it by reference into such filing.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN
Among Whitestone REIT, the S&P 500 Index,
the MSCI U.S. REIT Index and the SNL U.S. Retail REIT Index



Item 6. Selected Financial Data.

The following table sets forth our selected consolidated financial information and should be read in conjunction with *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* and our audited consolidated financial statements and the notes thereto, both of which appear elsewhere in this Annual Report on Form 10-K.

	Year Ended December 31, (in thousands, except per share and per square foot data)				
	2020	2019	2018	2017	2016
Operating Data:					
Revenues	$ 117,915	$ 119,251	$ 119,863	$ 125,959	$ 104,437
Operating expenses	88,184	85,305	86,391	93,299	80,471
Interest expense	25,770	26,285	25,177	23,651	19,239
Gain on sale of property	—	(853)	(4,629)	(16)	(3,357)
Loss on disposal of assets	364	215	82	183	96
Gain on loan forgiveness	(1,734)	—	—	—	—
Interest, dividend and other investment income	(278)	(659)	(1,055)	(410)	(429)
Income from operations before equity investment in real estate partnership and income tax	5,609	8,958	13,897	9,252	8,417
Equity in earnings of real estate partnership	921	15,076	8,431	—	—
Provision for income tax	(379)	(400)	(347)	(386)	(289)
Profit sharing expense	—	—	—	(278)	(15)
Income from continuing operations	6,151	23,634	21,981	8,588	8,113
Gain on sale of properties from discontinued operations	—	594	—	—	—
Net income	6,151	24,228	21,981	8,588	8,113
Less: net income attributable to noncontrolling interests	117	545	550	254	182
Net income attributable to Whitestone REIT	$ 6,034	$ 23,683	$ 21,431	$ 8,334	$ 7,931

	Year Ended December 31, (in thousands, except per share data and per square foot and occupancy)				
	2020	2019	2018	2017	2016
Earnings per share - basic					
Income from continuing operations attributable to Whitestone REIT, excluding amounts attributable to unvested restricted shares	$ 0.14	$ 0.57	$ 0.54	$ 0.22	$ 0.26
Income from discontinued operations attributable to Whitestone REIT	—	0.02	—	—	—
Net income attributable to common shareholders, excluding amounts attributable to unvested restricted shares	$ 0.14	$ 0.59	$ 0.54	$ 0.22	$ 0.26
Earnings per share - diluted					
Income from continuing operations attributable to Whitestone REIT, excluding amounts attributable to unvested restricted shares	$ 0.14	$ 0.56	$ 0.52	$ 0.22	$ 0.26
Income from discontinued operations attributable to Whitestone REIT	—	0.01	—	—	—
Net income attributable to common shareholders, excluding amounts attributable to unvested restricted shares	$ 0.14	$ 0.57	$ 0.52	$ 0.22	$ 0.26
Balance Sheet Data:					
Real estate (net)	$ 942,714	$ 962,022	$ 938,938	$1,018,420	$ 813,052
Other assets	102,288	94,238	89,934	51,748	38,327
Total assets	$ 1,045,002	$ 1,056,260	$ 1,028,872	$1,070,168	$ 851,379
Liabilities	$ 706,676	$ 703,162	$ 669,722	$ 711,764	$ 583,751
Whitestone REIT shareholders' equity	332,083	345,317	350,456	347,604	255,687
Noncontrolling interest in subsidiary	6,243	7,781	8,694	10,800	11,941
	$ 1,045,002	$ 1,056,260	$ 1,028,872	$1,070,168	$ 851,379
Other Data:					
Proceeds from issuance of common shares	$ 2,241	$ 21,246	$ —	$ 118,412	$ 30,014
Acquisitions of and additions to real estate [(1)]	$ 7,362	$ 48,047	$ 11,638	$ 231,120	$ 91,785
Distributions per share [(2)]	$ 0.60	$ 1.13	$ 1.14	$ 1.13	$ 1.13
Funds from operations [(3)]	$ 36,375	$ 38,026	$ 39,398	$ 35,045	$ 27,031
Total occupancy at year end	88 %	90 %	90 %	88 %	87 %
Average aggregate GLA	4,954	4,859	4,925	6,403	5,837
Average rent per square foot	$ 19.43	$ 19.58	$ 18.81	$ 16.81	$ 15.45

(1) Including amounts for discontinued operations.

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

(3) We believe that Funds From Operations ("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 ("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 equity method investments and joint ventures. We calculate FFO in a manner consistent with the NAREIT definition. For more information, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations - Reconciliation of Non-GAAP Financial Measures.*"

The following table sets forth a reconciliation of net income to FFO, the nearest GAAP measure, for the periods presented:

	Year Ended December 31, (in thousands)				
	2020	2019	2018	2017	2016
Net income attributable to Whitestone REIT	$ 6,034	$ 23,683	$ 21,431	$ 8,334	$ 7,931
Adjustments to reconcile to FFO:[1]					
Depreciation and amortization of real estate assets [2]	28,096	26,468	25,401	26,290	22,179
Depreciation and amortization of real estate assets of real estate partnership (pro rata)[3]	1,673	2,362	2,903	—	—
Loss (gain) on sale or disposal of assets [2]	364	(638)	(4,547)	167	(3,261)
Gain on sale of property from discontinued operations	—	(594)	—	—	—
Gain on sale or disposal of properties or assets of real estate partnership (pro rata)[3]	91	(13,800)	(6,340)	—	—
Net income attributable to redeemable operating partnership units [2]	117	545	550	254	182
FFO	$ 36,375	$ 38,026	$ 39,398	$ 35,045	$ 27,031

(1) Includes pro rata share attributable to real estate partnership in 2020, 2019, and 2018.

(2) Including amounts for discontinued operations.

(3) Included in equity in earnings of real estate partnership on the consolidated statements of operations and comprehensive income (loss).

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion of our financial condition and results of operations in conjunction with our audited consolidated financial statements and the notes thereto included in this Annual Report on Form 10-K. For more detailed information regarding the basis of presentation for the following information, you should read the notes to our audited consolidated financial statements included in this Annual Report on Form 10-K.

Overview of Our Company

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

In October 2006, our current management team joined the Company and adopted a strategic plan to acquire, redevelop, own and operate Community Centered Properties®. We define Community Centered Properties® as visibly located properties in established or developing culturally diverse neighborhoods in our target markets. We market, lease, and manage our centers to match tenants with the shared needs of the surrounding neighborhood. Those needs may include specialty retail, grocery, restaurants and medical, educational and financial services. Our goal is for each property to become a Whitestone-branded 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.

As of December 31, 2020, we wholly-owned 58 commercial properties consisting of:

Consolidated Operating Portfolio

- 52 properties that meet our Community Centered Properties® strategy containing approximately 4.9 million square feet of GLA and having a total carrying amount (net of accumulated depreciation) of $889.0 million; and

Redevelopment, New Acquisitions Portfolio

- one wholly-owned property that meets our Community Centered Properties® strategy containing approximately 0.1 million square feet of GLA and having a total carrying amount (net of accumulated depreciation) of $34.5 million; and

- five parcels of land held for future development that meet our Community Centered Properties® strategy having a total carrying amount of $19.2 million.

As of December 31, 2020, we had an aggregate of 1,391 tenants. We have a diversified tenant base with our largest tenant comprising only 2.8% of our total revenues for the year ended December 31, 2020. Lease terms for our properties range from less than one year for smaller tenants to more than 15 years for larger tenants. Our leases generally include minimum monthly lease payments and tenant reimbursements for taxes, insurance and maintenance. We completed 306 new and renewal leases during 2020, totaling 981,629 square feet and $75.5 million in total lease value.

We employed 88 full-time employees as of December 31, 2020. As an internally managed REIT, we bear our own expenses of operations, including the salaries, benefits and other compensation of our employees, office expenses, legal, accounting and investor relations expenses and other overhead costs.

Real Estate Partnership

As of December 31, 2020, we, through our investment in Pillarstone OP, owned a majority interest in eight properties that do not meet our Community Centered Property® strategy containing approximately 0.9 million square feet of GLA (the "Pillarstone Properties"). We own 81.4% of the total outstanding units of Pillarstone OP, which we account for using the equity method. We also manage the day-to-day operations of Pillarstone OP.

Impact of COVID-19

The following discussion is intended to provide our shareholders with certain information regarding the impacts of the COVID-19 pandemic on our business and management's efforts to respond to those impacts. Unless otherwise specified, the statistical and other information regarding our portfolio and tenants are estimates based on information available to us as of March 8, 2021. As a result of the rapid development, fluidity and uncertainty surrounding this situation, we expect that such statistical and other information will change, potentially significantly, going forward and may not be indicative of the actual impact of the COVID-19 pandemic on our business, operations, cash flows and financial condition, and that of our tenants, for future periods.

We anticipate that the global health crisis caused by COVID-19 and the related responses intended to control its spread will continue to adversely affect business activity, particularly relating to our retail tenants, across the markets in which we operate. As part of the initial responses to the virus, many governmental authorities implemented measures such as enhanced screenings, quarantine or shelter in place requirements and travel restrictions, including local governments in Texas and Arizona, where all but one of our properties are located. In May 2020, parts of the U.S. began to ease certain restrictions and allow for the reopening of businesses but with required or recommended safety protocols. Due to the increase in the number of COVID-19 cases in the fall of 2020, parts of the U.S. implemented additional stay in place orders and other restrictions. While as of the date of this Annual Report on Form 10-K, service businesses are permitted to be open with limited occupancy in Texas and Arizona, the timing and ultimate impact of any steps to reopen the economy as a whole and on our and our tenants' businesses and financial condition remains uncertain. As a result, there can be no assurance that service businesses will remain open in the near term, or that state and local governments will not take additional measures to control a possible resurgence of COVID-19 in Texas and/or Arizona, any of which may adversely impact our or our tenants' businesses and their ability to pay their rental payments or otherwise continue to occupy their space. Though COVID-19 vaccines have become available in the U.S., there remain uncertainties as to the logistics of distribution and the overall efficacy of the vaccine program, and there can be no assurances regarding the timing for when vaccines or other therapies will be widely available and effective and the related impact on the economic recovery. In light of the changing nature of the COVID-19 pandemic, we are unable to predict the extent that its impact will have on our financial condition, results of operations and cash flows due to numerous uncertainties including, but not limited to, the duration and spread of the pandemic, its severity in our markets and elsewhere, governmental actions to contain the spread of the pandemic and respond to the reduction in global economic activity, the unknown timing or effectiveness of treatments, possible resurgences of COVID-19 cases in future periods and how quickly and to what extent normal economic and operating conditions can resume.

Our portfolio and tenants have been impacted by these and other factors as follows:

- As of the date of this Annual Report on Form 10-K, all of our properties are open and operating in compliance with federal, state and local COVID-19 guidelines and mandates.
- Approximately 99% of our tenants (based on annualized base rent ("ABR") are open and operating as of February 23, 2021.
- Included in our adjustments to rental revenue for the year ending December 31, 2020, was a bad debt adjustment of $2.3 million and a straight-line rent reserve adjustment of $1.2 million related to credit loss for the conversion of 102 tenants to cash basis revenue as a result of COVID-19 collectability analysis.
- As of the date of this Annual Report on Form 10-K, we have received payments of approximately 95% of contractual base rent and common area maintenance reimbursables billed for the fourth quarter. As is believed to be the case with retail landlords across the U.S., we have received a number of rent relief requests from tenants, most often in the form of rent deferral requests, which we are evaluating on an individual basis. Collections and rent relief requests to-date may not be indicative of collections or requests in any future period.

We have taken a number of proactive measures to maintain the strength of our business and manage the impact of COVID-19 on our operations and liquidity, including the following:

- To ensure adequate liquidity for a sustained period, in March 2020, we drew down $30 million of the availability of our revolving credit facility as a precautionary measure to preserve our financial flexibility, which we subsequently paid down in the fourth quarter of 2020. As of December 31, 2020, subject to any potential future paydowns or increases in the borrowing base, we had $18.4 million of remaining availability under our revolving credit facility. We had cash, cash equivalents and restricted cash of approximately $26.0 million as of December 31, 2020.
- We have taken a prudent pause in acquisitions activity and are carefully evaluating development and redevelopment activities on an individual basis.

- Our board of trustees has reduced our quarterly dividend resulting in approximately $7.7 million of quarterly cash savings. The board of trustees will regularly reassess the dividend, particularly as there is more clarity on the duration and severity of the COVID-19 pandemic and as business conditions improve.
- We have put in place a temporary response team to address tenant concerns. The response team is in ongoing communication with our tenants and is assisting tenants in identifying local, state and federal resources that may be available to support their businesses and employees during the pandemic, including stimulus funds that may be available under the CARES Act and/or under the additional stimulus relief bill that is expected to be passed by the U.S. Congress in the first quarter of 2021.
- We are proactively implementing expense reductions at the property level to minimize cost pass-throughs to our tenants and at the corporate level to preserve profitability.
- The health and safety of our employees and their families is a top priority. We adapted our operations to protect employees, including by implementing a work from home policy in the first quarter of 2020. All employees returned to work in the second quarter of 2020.

While we believe these steps have been effective to date, we expect there will be additional challenges ahead that may impact either our operations or those of our tenants, which could have an adverse effect on our and our tenants' businesses and financial performance. We expect to continue to implement proactive measures until we determine that the COVID-19 pandemic is adequately contained for purposes of our business, and we may take further actions as government authorities require or recommend or as we determine to be in the best interests of our employees and tenants. As a result, we may incur additional expenses in future periods in response to the pandemic, which could adversely affect our results of operations. In addition, we may revise our approach to these initiatives or take additional actions to meet the needs of our employees and tenants.

How We Derive Our Revenue

Substantially all of our revenue is derived from rents received from leases at our properties. We had total revenues of approximately $117,915,000 for the year ended December 31, 2020 as compared to $119,251,000 for the year ended December 31, 2019, a decrease of $1,336,000, or 1%.

Known Trends in Our Operations; Outlook for Future Results

Rental Income

We expect our rental income to increase year-over-year due to the addition of properties and rent increases on renewal leases. As a result of the COVID-19 pandemic, we have taken a prudent pause in acquisitions activity and are carefully evaluating development and redevelopment activities on a case-by-case basis, and there can be no assurance that our acquisition activity will return to previously anticipated levels in the near term following the end of the pandemic or at all. The amount of net rental income generated by our properties depends principally on our ability to maintain the occupancy rates of currently leased space and to lease currently available space, newly acquired properties with vacant space, and space available from unscheduled lease terminations. The amount of rental income we generate also depends on our ability to maintain or increase rental rates in our submarkets. Over the past three years, we have seen modest improvement in the overall economy in our markets, which has allowed us to maintain overall occupancy rates, with slight increases in occupancy at certain of our properties, and to recognize modest increases in rental rates. However, as of the date of this Annual Report on Form 10-K, as a result of the impact of the COVID-19 pandemic, we have received payments of approximately 95% of contractual base rent and common area maintenance reimbursables billed for the fourth quarter. As is believed to be the case with retail landlords across the U.S., we have received a number of rent relief requests from tenants, most often in the form of rent deferral requests, which we are evaluating on an individual basis. In addition, included in our adjustments to rental revenue for the year ending December 31, 2020, was a bad debt adjustment of $2.3 million and a straight-line rent reserve adjustment of $1.2 million related to credit loss for the conversion of 102 tenants to cash basis revenue as a result of COVID-19 collectability analysis. We are unable to predict the impact that the COVID-19 pandemic will have on our rental income in the long term. The situation surrounding the COVID-19 pandemic remains fluid, and we are actively managing our response in collaboration with tenants, government officials and business partners and assessing potential impacts to our and our tenants' financial positions and operating results.

Scheduled Lease Expirations

We tend to lease space to smaller businesses that desire shorter term leases. As of December 31, 2020, approximately 29% of our GLA was subject to leases that expire prior to December 31, 2022. Over the last three years, we have renewed expiring leases with respect to approximately 83% of our GLA. We routinely seek to renew leases with our existing tenants prior to their expiration and typically begin discussions with tenants as early as 18 months prior to the expiration date of the existing lease. Inasmuch as our early renewal program and other leasing and marketing efforts target these expiring leases, we hope to re-lease most of that space prior to expiration of the leases. In the markets in which we operate, we obtain and analyze market rental rates through review of third-party publications, which provide market and submarket rental rate data and through inquiry of property owners and property management companies as to rental rates being quoted at properties that are located in close proximity to our properties and we believe display similar physical attributes as our nearby properties. We use this data to negotiate leases with new tenants and renew leases with our existing tenants at rates we believe to be competitive in the markets for our individual properties. Due to the short term nature of our leases, and based upon our analysis of market rental rates, we believe that, in the aggregate, our current leases are at market rates. Market conditions, including new supply of properties, and macroeconomic conditions in our markets and nationally affecting tenant income, such as employment levels, business conditions, interest rates, tax rates, fuel and energy costs and other matters, could adversely impact our renewal rate and/or the rental rates we are able to negotiate. We continue to monitor our tenants' operating performances as well as overall economic trends to evaluate any future negative impact on our renewal rates and rental rates, which could adversely affect our cash flow and ability to make distributions to our shareholders.

Acquisitions

We seek to grow our GLA through the acquisition of additional properties. Due to the impact of the COVID-19 pandemic, we have taken a prudent pause in acquisitions activity and are carefully evaluating development and redevelopment activities on a case-by-case basis. We believe that we will continue to have excellent opportunities to acquire quality properties at historically attractive prices once we recommence acquisition activity as the impact of COVID-19 decreases; however, there can be no assurance that our acquisition activity will return to previously anticipated levels in the near term or at all. We have extensive relationships with community banks, attorneys, title companies and others in the real estate industry, which we believe enables us to take advantage of these market opportunities and maintain an active acquisition pipeline.

Property Acquisitions and Dispositions

We seek to acquire commercial properties in high-growth markets. Our acquisition targets are properties that fit our Community Centered Properties® strategy. We define Community Centered Properties® as visibly located properties in established or developing, culturally diverse neighborhoods in our target markets, primarily in and around Phoenix, Chicago, Dallas, Fort Worth, San Antonio and Houston. We may acquire properties in other high growth cities in the future. 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.

Property Dispositions. 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 that we owned at the time our current management team assumed the management of the Company 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.

On December 8, 2016, we, through our Operating Partnership, entered into a Contribution Agreement (the "Contribution Agreement") with Pillarstone and Pillarstone REIT pursuant to which we contributed all of the equity interests in four of our wholly-owned subsidiaries: Whitestone CP Woodland Ph. 2, LLC, a Delaware limited liability company ("CP Woodland"); Whitestone Industrial-Office, LLC, a Texas limited liability company ("Industrial-Office"); Whitestone Offices, LLC, a Texas limited liability company ("Whitestone Offices"); and Whitestone Uptown Tower, LLC, a Delaware limited liability company ("Uptown Tower", and together with CP Woodland, Industrial-Office and Whitestone Offices, the "Entities") that own 14 non-core properties (the "Pillarstone Properties") that did not fit our Community Centered Property® strategy, to Pillarstone for aggregate consideration of approximately $84 million, consisting of (1) approximately $18.1 million of Class A units representing limited partnership interests in Pillarstone ("Pillarstone OP Units"), issued at a price of $1.331 per Pillarstone OP Unit; and (2) the assumption of approximately $65.9 million of liabilities, consisting of (a) approximately $15.5 million of our liability under the 2018 Facility (see Note 9 to the accompanying consolidated financial statements); (b) an approximately $16.3 million promissory note of Uptown Tower under the Loan Agreement, dated as of September 26, 2013, between Uptown Tower, as borrower, and U.S. Bank, National Association, as successor to Morgan Stanley Mortgage Capital Holdings LLC, as lender; and (c) an approximately $34.1 million promissory note (the "Industrial-Office Promissory Note") of Industrial-Office issued under the Loan Agreement, dated as of November 26, 2013 (the "Industrial-Office Loan Agreement"), between Industrial-Office, as borrower, and Jackson National Life Insurance Company, as lender (collectively, the "Contribution").

In connection with the Contribution, on December 8, 2016, the Operating Partnership entered into an OP Unit Purchase Agreement (the "OP Unit Purchase Agreement") with Pillarstone REIT and Pillarstone pursuant to which the Operating Partnership agreed to purchase up to an aggregate of $3.0 million of Pillarstone OP Units at a price of $1.331 per Pillarstone OP Unit over the two-year term of the OP Unit Purchase Agreement on the terms set forth therein. The OP Unit Purchase Agreement contains customary closing conditions and the parties have made certain customary representations, warranties and indemnifications to each other in the OP Unit Purchase Agreement. No Pillarstone OP Units were purchased under the OP Unit Purchase Agreement. In addition, pursuant to the OP Unit Purchase Agreement, in the event of a Change of Control (as defined therein) of the Company, Pillarstone shall have the right, but not the obligation, to repurchase the Pillarstone OP Units issued thereunder from the Operating Partnership at their initial issue price of $1.331 per Pillarstone OP Unit.

In connection with the Contribution, (1) with respect to each Pillarstone Property (other than Uptown Tower), Whitestone TRS, Inc., a subsidiary of the Company ("Whitestone TRS"), entered into a Management Agreement with the Entity that owns such Pillarstone Property and (2) with respect to Uptown Tower, Whitestone TRS entered into a Management Agreement with Pillarstone (collectively, the "Management Agreements"). Pursuant to the Management Agreements with respect to each Pillarstone Property (other than Uptown Tower), Whitestone TRS agreed to provide certain property management, leasing and day-to-day advisory and administrative services to such Pillarstone Property in exchange for (x) a monthly property management fee equal to 5.0% of the monthly revenues of such Pillarstone Property and (y) a monthly asset management fee equal to 0.125% of GAV (as defined in each Management Agreement as, generally, the purchase price of the respective Pillarstone Property based upon the purchase price allocations determined pursuant to the Contribution Agreement, excluding all indebtedness, liabilities or claims of any nature) of such Pillarstone Property. Pursuant to the Management Agreement with respect to Uptown Tower, Whitestone TRS agreed to provide certain property management, leasing and day-to-day advisory and administrative services to Pillarstone in exchange for (x) a monthly property management fee equal to 3.0% of the monthly revenues of Uptown Tower and (y) a monthly asset management fee equal to 0.125% of GAV of Uptown Tower.

In connection with the Contribution, on December 8, 2016, the Operating Partnership entered into a Tax Protection Agreement with Pillarstone REIT and Pillarstone pursuant to which Pillarstone agreed to indemnify the Operating Partnership for certain tax liabilities resulting from its recognition of income or gain prior to December 8, 2021 if such liabilities result from a transaction involving a direct or indirect taxable disposition of all or a portion of the Pillarstone Properties or if Pillarstone fails to maintain and allocate to the Operating Partnership for taxation purposes minimum levels of liabilities as specified in the Tax Protection Agreement, the result of which causes such recognition of income or gain and the Company incurs taxes that must be paid to maintain its REIT status for federal tax purposes.

As of December 31, 2020, we owned approximately 81.4% of the total outstanding Pillarstone OP Units, which we account for under the equity method. Additionally, certain of our officers and trustees serve as officers and trustees of Pillarstone REIT. See Note 5 Investment in Real Estate Partnership to the accompanying consolidated financial statements for more information on our accounting treatment of our investment in Pillarstone OP.

Property Acquisitions. On December 6, 2019, we acquired Las Colinas Village, a property that meets our Community Centered Property® strategy, for $34.8 million in cash and net prorations. Las Colinas Village, a 104,919 square foot property, was 86% leased at the time of purchase and is located in Irving, Texas.

Leasing Activity

As of December 31, 2020, we wholly-owned 58 properties with 4,953,571 square feet of GLA, which were approximately 88% occupied. The following is a summary of the Company's leasing activity for the year ended December 31, 2020:

	Number of Leases Signed	GLA Signed	Weighted Average Lease Term [(2)]	TI and Incentives per Sq. Ft. [(3)]	Contractual Rent Per Sq. Ft [(4)]	Prior Contractual Rent Per Sq. Ft. [(5)]	Straight-lined Basis Increase (Decrease) Over Prior Rent
Comparable [(1)]							
Renewal Leases	196	742,219	3.9	$ 0.97	$ 15.66	$ 15.13	11.1 %
New Leases	57	113,900	5.2	11.03	22.73	23.98	(0.4)%
Total/Average	253	856,119	4.1	$ 2.31	$ 16.60	$ 16.31	8.9 %

	Number of Leases Signed	GLA Signed	Weighted Average Lease Term [(2)]	TI and Incentives per Sq. Ft. [(3)]	Contractual Rent Per Sq. Ft [(4)]
Total					
Renewal Leases	201	750,552	3.9	$ 1.07	$ 15.77
New Leases	105	231,077	4.9	9.65	21.04
Total/Average	306	981,629	4.1	$ 3.09	$ 17.01

(1) Comparable leases represent leases signed on spaces for which there was a former tenant within the last twelve months and the new or renewal square footage was within 25% of the expired square footage.

(2) Weighted average lease term (in years) is determined on the basis of square footage.

(3) Estimated amount per signed leases. Actual cost of construction may vary. Does not include first generation costs for tenant improvements ("TI") and leasing commission costs needed for new acquisitions, development or redevelopment of a property to bring to operating standards for its intended use.

(4) Contractual minimum rent under the new lease for the first month, excluding concessions.

(5) Contractual minimum rent under the prior lease for the final month.

Capital Expenditures

Due to the impact of the COVID-19 pandemic, we have taken a prudent pause in acquisitions activity and are carefully evaluating development and redevelopment activities on a case-by-case basis.

The following is a summary of the Company's capital expenditures, excluding property acquisitions, for the years ended December 31 (in thousands):

	2020	2019
Capital expenditures:		
Tenant improvements and allowances	$ 3,744	$ 4,989
Developments / redevelopments	617	4,041
Leasing commissions and costs	1,223	2,568
Maintenance capital expenditures	3,252	4,213
Total capital expenditures	$ 8,836	$ 15,811

Summary of Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements. We prepared these financial statements in conformity with GAAP. The preparation of these financial statements required us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We based our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances. Our results may differ from these estimates. Currently, we believe that our accounting policies do not require us to make estimates using assumptions about matters that are highly uncertain. For a better understanding of our accounting policies, you should read Note 2 to our accompanying consolidated financial statements in conjunction with this "*Management's Discussion and Analysis of Financial Condition and Results of Operations*."

We have described below the critical accounting policies that we believe could impact our consolidated financial statements most significantly.

Revenue Recognition. All leases on our properties are classified as operating leases, and the related rental income is recognized on a straight-line basis over the terms of the related leases. Differences between rental income earned and amounts due per the respective lease agreements are capitalized or charged, as applicable, to accrued rents and accounts receivable. Percentage rents are recognized as rental income when the thresholds upon which they are based have been met. Recoveries from tenants for taxes, insurance, and other operating expenses are recognized as revenues in the period the corresponding costs are incurred. We combine lease and nonlease components in lease contracts, which includes combining base rent, recoveries, and percentage rents into a single line item, *Rental*, within the consolidated statements of operations and comprehensive income (loss). Additionally, we have tenants who pay real estate taxes directly to the taxing authority. We exclude these costs paid directly by the tenant to third parties on our behalf from revenue recognized and the associated property operating expense.

Other property income primarily includes amounts recorded in connection with management fees and lease termination fees. Pillarstone OP pays us management fees for property management, leasing and day-to-day advisory and administrative services. Their obligations are satisfied over time. Pillarstone OP is billed monthly and typically pays quarterly. Revenues are governed by the Management Agreements (as defined in Note 5 to our accompanying consolidated financial statements). Refer to Note 5 to our accompanying consolidated financial statements for additional information regarding the Management Agreements with Pillarstone OP. Additionally, we recognize lease termination fees in the year that the lease is terminated and collection of the fee is probable. Amounts recorded within other property income are accounted for at the point in time when control of the goods or services transfers to the customer and our performance obligation is satisfied.

Profit-sharing Method. In accordance with the Financial Accounting Standards Board's ("FASB") guidance applicable to sales of real estate or interests therein, specifically FASB Accounting Standards Codification ("ASC") 360-20, "*Real Estate Sales,*" Topic 606, "*Revenue from Contracts with Customers*" and ASC 610, "*Other Income–Gains and Losses from the Derecognition of Nonfinancial Assets*," we did not recognize the sale of assets to Pillarstone OP in the Contribution and accounted for the transaction under the profit-sharing method for the year ended December 31, 2017. We recognized Pillarstone OP's real estate assets and notes payables in our consolidated balance sheets. Additionally, the profits and losses of Pillarstone OP not attributable to the Company are reported as profit sharing expense. As a result of the adoption of Topic 606 and ASC 610, the Company derecognized the underlying assets and liabilities associated with the Contribution as of January 1, 2018 and recognized the Company's investment in Pillarstone OP under the equity method.

Equity Method. For the years prior to December 31, 2017, Pillarstone OP was accounted for under the profit-sharing method. In accordance with the FASB guidance applicable to sales of real estate or interests therein, specifically FASB ASC 360-20, "*Real Estate Sales,*" Topic 606, "*Revenue from Contracts with Customers*" and ASC 610, "*Other Income–Gains and Losses from the Derecognition of Nonfinancial Assets*," we adopted Topic 606 and ASC 610 as of January 1, 2018, resulting in the derecognition of the underlying assets and liabilities associated with the Contribution as of January 1, 2018 and the recognition of the Company's investment in Pillarstone OP under the equity method. See Note 5 to our accompanying consolidated financial statements for additional disclosure on Pillarstone OP.

Development Properties. Land, buildings and improvements are recorded at cost. Expenditures related to the development of real estate are carried at cost which includes capitalized carrying charges and development costs. Carrying charges (interest, real estate taxes, loan fees, and direct and indirect development costs related to buildings under construction), are capitalized as part of construction in progress. The capitalization of such costs ceases when the property, or any completed portion, becomes available for occupancy. For the year ended December 31, 2020, approximately $481,000 and $306,000 in interest expense and real estate taxes, respectively, were capitalized. For the year ended December 31, 2019, approximately $500,000 and $320,000 in interest expense and real estate taxes, respectively, were capitalized. For the year ended

December 31, 2018, approximately $574,000 and $365,000 in interest expense and real estate taxes, respectively, were capitalized. Due to the COVID-19 pandemic, we have taken a prudent pause in acquisitions activity and are carefully evaluating development and redevelopment activities on a case-by-case basis.

Acquired Properties and Acquired Lease Intangibles. We allocate the purchase price of the acquired properties to land, building and improvements, identifiable intangible assets and to the acquired liabilities based on their respective fair values at the time of purchase. Identifiable intangibles include amounts allocated to acquired out-of-market leases, the value of in-place leases and customer relationship value, if any. We determine fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends and specific market and economic conditions that may affect the property. Factors considered by management in our analysis of determining the as-if-vacant property value include an estimate of carrying costs during the expected lease-up periods considering market conditions, and costs to execute similar leases. In estimating carrying costs, management includes real estate taxes, insurance and estimates of lost rentals at market rates during the expected lease-up periods, tenant demand and other economic conditions. Management also estimates costs to execute similar leases including leasing commissions, tenant improvements, legal and other related expenses. Intangibles related to out-of-market leases and in-place lease value are recorded as acquired lease intangibles and are amortized as an adjustment to rental revenue or amortization expense, as appropriate, over the remaining terms of the underlying leases. Premiums or discounts on acquired out-of-market debt are amortized to interest expense over the remaining term of such debt.

Depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of 5 to 39 years for improvements and buildings, respectively. Tenant improvements are depreciated using the straight-line method over the life of the improvement or remaining term of the lease, whichever is shorter.

Impairment. We review our properties for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of the assets, including accrued rental income, may not be recoverable through operations. We determine whether an impairment in value has occurred by comparing the estimated future cash flows (undiscounted and without interest charges), including the estimated residual value of the property, with the carrying cost of the property. If impairment is indicated, a loss will be recorded for the amount by which the carrying value of the property exceeds its fair value. Management has determined that there has been no impairment in the carrying value of our real estate assets as of December 31, 2020.

Accrued Rents and Accounts Receivable. Included in accrued rents and accounts receivable are base rents, tenant reimbursements and receivables attributable to recording rents on a straight-line basis. We review the collectability of charges under our tenant operating leases on a regular basis, taking into consideration changes in factors such as the tenant's payment history, the financial condition of the tenant, business conditions in the industry in which the tenant operates and economic conditions in the area where the property is located including the impact of the COVID-19 pandemic on tenants' businesses and financial condition. With the adoption of ASC No. 842, Leases ("Topic 842"), as of January 1, 2019 we recognize an adjustment to rental revenue if we deem it probable that the receivable will not be collected. Prior to the adoption of Topic 842, we recognized an allowance for doubtful accounts and bad debt expense of the specific rents receivable. Our review of collectability under our operating leases includes any accrued rental revenues related to the straight-line method of reporting rental revenue. As of December 31, 2020 and 2019, we had an allowance for uncollectible accounts of $16.4 million and $11.2 million, respectively. For the years ending December 31, 2020 and 2019, we recorded an adjustment to rental revenue in the amount of $5.6 million and $1.5 million, respectively. Included in the adjustment to rental revenue for the year ending December 31, 2020, was a bad debt adjustment of $2.3 million and a straight-line rent reserve adjustment of $1.2 million related to credit loss for the conversion of 102 tenants to cash basis revenue as a result of COVID-19 collectability analysis. For the year ending December 31, 2018, we recorded bad debt expense in the amount of $1.4 million.

Unamortized Lease Commissions and Loan Costs. Leasing commissions are amortized using the straight-line method over the terms of the related lease agreements. Loan costs are amortized on the straight-line method over the terms of the loans, which approximates the interest method. Costs allocated to in-place leases whose terms differ from market terms related to acquired properties are amortized over the remaining life of the respective leases.

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

Federal Income Taxes. We elected to be taxed as a REIT under the Code beginning with our taxable year ended December 31, 1999. As a REIT, we generally are not subject to federal income tax on income that we distribute to our shareholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income at regular corporate rates. We believe that we are organized and operate in such a manner as to qualify to be taxed as a REIT, and we intend to operate so as to remain qualified as a REIT for federal income tax purposes.

State Taxes. We are subject to the Texas Margin Tax which is computed by applying the applicable tax rate (1% for us) to the profit margin, which, generally, will be determined for us as total revenue less a 30% standard deduction. Although the Texas Margin Tax is not an income tax, FASB ASC 740, *"Income Taxes"* ("ASC 740") applies to the Texas Margin Tax. As of December 31, 2020, 2019 and 2018, we recorded a margin tax provision of \$0.4 million, \$0.4 million and \$0.4 million, respectively.

Fair Value of Financial Instruments. Our financial instruments consist primarily of cash, cash equivalents, accounts receivable, accounts and notes payable and investments in marketable securities. The carrying value of cash, cash equivalents, accounts receivable and accounts payable are representative of their respective fair values due to their short-term nature. The fair value of our long-term debt, consisting of fixed rate secured notes, variable rate secured notes and an unsecured revolving credit facility aggregate to approximately \$646.4 million and \$653.7 million as compared to the book value of approximately \$645.2 million and \$645.9 million as of December 31, 2020 and 2019, respectively. The fair value of our long-term debt is estimated on a Level 2 basis (as provided by ASC 820, "*Fair Value Measurements and Disclosures"*), using a discounted cash flow analysis based on the borrowing rates currently available to us for loans with similar terms and maturities, discounting the future contractual interest and principal payments.

The fair value of our loan guarantee to Pillarstone OP is estimated on a Level 3 basis (as provided by ASC 820, "*Fair Value Measurements and Disclosures"*), using a probability-weighted discounted cash flow analysis based on a discount rate, discounting the loan balance. The fair value of the loan guarantee is \$0.1 million and \$0.1 million as compared to the book value of approximately \$0.1 million and \$0.1 million as of December 31, 2020 and 2019, respectively.

Disclosure about fair value of financial instruments is based on pertinent information available to management as of December 31, 2020 and 2019. Although management is not aware of any factors that would significantly affect the fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since December 31, 2020 and current estimates of fair value may differ significantly from the amounts presented herein.

Derivative Instruments and Hedging Activities. We occasionally utilize derivative financial instruments, principally interest rate swaps, to manage our exposure to fluctuations in interest rates. We have established policies and procedures for risk assessment, and the approval, reporting and monitoring of derivative financial instruments. We recognize our interest rate swaps as cash flow hedges with the effective portion of the changes in fair value recorded in comprehensive income (loss) and subsequently reclassified into earnings in the period that the hedged transaction affects earnings. Any ineffective portion of a cash flow hedge's change in fair value is recorded immediately into earnings. Our cash flow hedges are determined using Level 2 inputs under ASC 820. Level 2 inputs represent quoted prices in active markets for similar assets or liabilities; quoted prices in markets that are not active; and model-derived valuations whose inputs are observable. As of December 31, 2020, we consider our cash flow hedges to be highly effective.

Recent Accounting Pronouncements. In April 2020, the FASB issued guidance on the application of Topic 842, relating to concessions being made by lessors in response to the COVID-19 pandemic. The guidance notes that it would be acceptable for entities to make an election to account for lease concessions relating to the effects of the COVID-19 pandemic consistent with how those concessions would be accounted for under Topic 842 as though enforceable rights and obligations for those concessions existed, even if such enforceable rights and obligations are not explicitly contained in the lease contract. Thus, for concessions relating to the COVID-19 pandemic, an entity would not have to analyze each contract to determine whether enforceable rights and obligations for concessions exist in the contract, and would have the option to apply, or not to apply, the general lease modification guidance in Topic 842 as it stands. We have elected this option to account for lease concessions relating to the effects of the COVID-19 pandemic consistent with how those concessions would be accounted for under Topic 842 as though enforceable rights and obligations for those concessions existed. Therefore, such concessions are not accounted for as a lease modification under Topic 842.

In May 2014, the FASB issued guidance, as amended in subsequent updates, establishing a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and superseded most of the existing revenue recognition guidance. The standard also required an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also required certain additional disclosures. This guidance became effective for the reporting periods beginning on or after December 15, 2017, and interim periods within those fiscal years. We adopted this guidance on a modified retrospective basis beginning January 1, 2018 and have derecognized the underlying assets and liabilities associated with the Contribution as of January 1, 2018 and have recognized the Company's investment in Pillarstone OP under the equity method of accounting. The Company made an adjustment which decreased the Company's accumulated deficit as of January 1, 2018 by $19.1 million. See Note 5 to our accompanying consolidated financial statements for further details.

In February 2016, FASB issued ASU No. 2016-2 which provided the principles for the recognition, measurement, presentation and disclosure of leases. Additional guidance and targeted improvements to Topic 842 were made through the issuance of supplementary ASUs in July 2018, December 2018 and March 2019.

Effective January 1, 2019, we adopted the new lease accounting guidance in Topic 842. As the lessee and lessor, we have elected the package of practical expedients permitted in Topic 842. Accordingly, we have accounted for our existing operating leases as operating leases under the new guidance, without reassessing (a) whether the contract contains a lease under Topic 842, (b) whether classification of the operating lease would be different in accordance with Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments (as of December 31, 2018) would have met the definition of initial direct costs in Topic 842 at lease commencement. Additionally, as the lessee and lessor we will use hindsight in determining the lease term and in assessing impairment of our right-of-use assets. As a result of the adoption of the new lease accounting guidance, as the lessee, we recognized on January 1, 2019 (a) a lease liability of approximately $1.1 million, which represents the present value of the remaining lease payments of approximately $1.2 million discounted using our incremental borrowing rate of 4.5%, and (b) a right-of-use asset of approximately $1.1 million. The adoption of Topic 842 did not have a material impact to our net income and related per share amounts.

Upon adoption of Topic 842, lessees and lessors are required to apply a modified retrospective transition approach. Reporting entities are permitted to choose one of two methods to recognize and measure leases within the scope of Topic 842:

- Apply Topic 842 to each lease that existed at the beginning of the earliest comparative period presented in the financial statements as well as leases that commenced after that date. Under this method, prior comparative periods presented are adjusted. For leases that commenced prior to the beginning of the earliest comparative period presented, a cumulative-effect adjustment is recognized at that date.

- Apply the guidance to each lease that had commenced as of the beginning of the reporting period in which the entity first applies the leases standard with a cumulative-effect adjustment as of that date. Prior comparative periods would not be adjusted under this method.

We have elected an optional transition method that allows entities to initially apply Topic 842 at January 1, 2019, the date of adoption, and to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. As the lessor, we have not assessed unamortized legal costs as part of the package of practical expedients, and we will not make any adjustment to retained earnings at the date of adoption to write off unamortized legal costs. We will continue to amortize unamortized legal costs as of December 31, 2018 over the life of the respective leases. We did not have a cumulative-effect adjustment as of the adoption date. Additionally, the optional transition method does allow us to not have to apply the new standard (including disclosure requirements) to comparative periods presented. Those periods can continue to be presented in accordance with prior generally accepted accounting principles.

Topic 842 requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases and operating leases. Based on our election of the package of practical expedients, our existing commercial leases, where we are the lessor, continue to be accounted for as operating leases under the new standard. However, Topic 842 changed certain requirements regarding the classification of leases that could result in us recognizing certain long-term leases entered into or modified after January 1, 2019 as sales-type leases or finance leases, as opposed to operating leases. We will continue to monitor our leases following the adoption date to ensure that they are classified in accordance with the new lease standards.

We elected a practical expedient which allows lessors to not separate non-lease components from the lease component when the timing and pattern of transfer for the lease components and non-lease components are the same and if the lease component is classified as an operating lease. As a result, we now present all rentals and reimbursements from tenants as a single line item, *Rental*, within the consolidated statements of operations and comprehensive income (loss).

We review the collectability of charges under our tenant operating leases on a regular basis, taking into consideration changes in factors such as the tenant's payment history, the financial condition of the tenant, business conditions in the industry in which the tenant operates and economic conditions in the area where the property is located, including the impact of the COVID-19 pandemic on tenants' businesses and financial condition. Each tenant is included in one of several portfolios and an allowance is calculated using the calculation methodology for the respective portfolio. With the adoption of Topic 842, we will recognize an adjustment to rental revenue if we deem it probable that the receivable will not be collected. Prior to the adoption of Topic 842, we recognized an allowance for doubtful accounts and bad debt expense of the specific rents receivable. Our review of collectability under our operating leases includes any accrued rental revenues related to the straight-line method of reporting rental revenue.

In November 2016, the FASB issued guidance requiring that the statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance became effective for the reporting periods beginning on or after December 15, 2017, and interim periods within those fiscal years. We adopted this guidance effective January 1, 2018, and we have reconciled cash and cash equivalents and restricted cash and restricted cash equivalents on a retrospective basis, whereas under the previous guidance, we reported restricted cash and restricted cash equivalents under cash flows from financing activities.

In January 2017, the FASB issued guidance clarifying the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or dispositions) of assets or businesses. This guidance became effective for the reporting periods beginning on or after December 15, 2017, and interim periods within those fiscal years. We adopted this guidance on a prospective basis beginning January 1, 2018 and believe the majority of our future acquisitions will qualify as asset acquisitions and the associated transaction costs will be capitalized as opposed to expensed under previous guidance.

In February 2017, the FASB issued guidance clarifying the scope of asset derecognition guidance, adding guidance for partial sales of nonfinancial assets and clarifying recognizing gains and losses from the transfer of nonfinancial assets in contracts with noncustomers. This guidance became effective for the reporting periods beginning on or after December 15, 2017, and interim periods within those fiscal years. We adopted this guidance on a modified retrospective basis beginning January 1, 2018 and have derecognized the underlying assets and liabilities associated with the Contribution as of January 1, 2018 and have recognized the Company's investment in Pillarstone OP under the equity method of accounting. The Company made an adjustment which decreased the Company's accumulated deficit as of January 1, 2018 by $19.1 million. See Note 5 to our accompanying consolidated financial statements for further details.

Liquidity and Capital Resources

Our short-term liquidity requirements consist primarily of distributions to holders of our common shares and OP units, including those required to maintain our REIT status and satisfy our current quarterly distribution target of $0.1075 per share and OP unit, recurring expenditures, such as repairs and maintenance of our properties, non-recurring expenditures, such as capital improvements and tenant improvements, debt service requirements, and, potentially, acquisitions of additional properties.

During the year ended December 31, 2020, our cash provided from operating activities was $42,776,000 and our total dividends and distributions paid were $25,714,000. Therefore, we had cash flow from operations in excess of distributions of approximately $17,062,000. The 2019 Facility included a $300 million unsecured borrowing capacity under a revolving credit facility, two $50 million term loans and one $100 million term loan. The 2019 Facility also included an accordion feature that allowed the Operating Partnership to increase the borrowing capacity to $700 million, upon the satisfaction of certain conditions. We anticipate that cash flows from operating activities and our borrowing capacity under the 2019 Facility will provide adequate capital for our distributions, working capital requirements, anticipated capital expenditures and scheduled debt payments in the short term. We also believe that cash flows from operating activities and our borrowing capacity will allow us to make all distributions required for us to continue to qualify to be taxed as a REIT for federal income tax purposes.

Our long-term capital requirements consist primarily of maturities under our longer-term debt agreements, development and redevelopment costs, and potential acquisitions. We expect to meet our long-term liquidity requirements with net cash from operations, long-term indebtedness, sales of common shares, issuance of OP units, sales of underperforming and non-core properties and other financing opportunities, including debt financing. We believe we have access to multiple sources of capital to fund our long-term liquidity requirements, including the incurrence of additional debt and the issuance of additional equity. However, our ability to incur additional debt will be dependent on a number of factors, including our degree of leverage, the value of our unencumbered assets and borrowing restrictions that may be imposed by lenders. To ensure adequate liquidity for a sustained period, in March 2020, we drew down $30 million of the availability of our revolving credit facility as a precautionary measure to preserve our financial flexibility, which we subsequently paid down in the fourth quarter of 2020. As of December 31, 2020, subject to any potential future paydowns or increases in the borrowing base, we have $18.4 million remaining availability under the revolving credit facility. In addition, in light of the significant decline in the price of our common shares since the outbreak of COVID-19, we do not currently anticipate selling shares, including under the 2019 equity distribution agreements, until the price of our common shares increases significantly.

On May 14, 2020, the Board authorized a dividend of one preferred share purchase right (a "Right") for each outstanding common share payable on May 26, 2020 (the "Record Date"), to the holders of record of common shares as of 5:00 P.M., New York City time, on the Record Date. In connection with the Rights, the Company and American Stock Transfer & Trust Company, LLC, as rights agent, entered into a Rights Agreement, dated as of May 14, 2020 (the "Rights Agreement"). Each Right entitles the registered holder to purchase from the Company one one-thousandth (a "Unit") of a Series A Preferred Share, par value $0.001 per share (each a "Preferred Share"), of the Company at a purchase price of $30.00 per Unit, subject to adjustment as described in the Rights Agreement. If a person or group of affiliated or associated persons acquires beneficial ownership of 5% or more of our outstanding common shares (20% or more in the case of a passive institutional investor), subject to certain exceptions described in the Rights Agreement, each Right would entitle its holder (other than the acquiring person or group of affiliated or associated persons) to purchase additional common shares at a substantial discount to the public market price. In addition, under certain circumstances, we may exchange the Rights (other than Rights beneficially owned by the acquiring person or group of affiliated or associated persons), in whole or in part, for common shares on a one-for-one basis. The Rights will expire on the earliest of (i) the close of business on May 13, 2021, (ii) the time at which the Rights are redeemed pursuant to the Rights Agreement, (iii) the closing of any merger or other acquisition transaction involving the Company that has been approved by the Board, at which time the Rights are terminated, and (iv) the time at which the Rights are exchanged pursuant to the Rights Agreement. The Rights are in all respects subject to and governed by the provisions of the Rights Agreement.

Our ability to access the capital markets will be dependent on a number of factors as well, including general market conditions for REITs and market perceptions about our Company. In light of the dynamics in the capital markets impacted by the COVID-19 pandemic and the economic slowdown, our access to capital may be diminished due to, among other things:

- the potential reduction in the borrowing base under our 2019 Facility due to the potential reduction in real estate values and a reduction in our NOI as a result of our tenants' inability or unwillingness to pay rent timely or at all and increased vacancy rates due to the risk of tenants closing their businesses and delays in leasing vacant space due to potential lack of demand for retail space; and

- the price of our common shares being below our estimates of our net asset value, which would result in any offering of our common shares to be dilutive to our existing shareholders.

Despite these challenges, we believe we have sufficient access to capital for the foreseeable future, but we can provide no assurance that, if the impact of the COVID-19 pandemic continues for an extended period of time significantly worsens, that such capital will be available to us on attractive terms or at all.

We are unable to predict and determine the impact that the COVID-19 pandemic will have on our financial condition, results of operations and cash flows in the long term. We have taken a number of proactive measures to maintain the strength of our business and manage the impact of the COVID-19 pandemic on our operations and liquidity, including the following:

- To ensure adequate liquidity for a sustained period, in March 2020, we drew down $30 million of the availability of the revolving credit facility as a precautionary measure to preserve our financial flexibility, which we subsequently paid down in the fourth quarter of 2020. As of December 31, 2020, subject to any potential future paydowns or increases in the borrowing base, we have $18.4 million remaining availability under the revolving credit facility. As of December 31, 2020, we have cash, cash equivalents and restricted cash of approximately $26.0 million.
- We have taken a prudent pause in acquisitions activity and are carefully evaluating development and redevelopment activities on an individual basis.
- Our board of trustees (the "Board") has reduced our quarterly dividend resulting in approximately $7.7 million of quarterly cash savings. On February 10, 2021, the Company announced an increase to its quarterly distribution to $0.1075 per common share and OP units, equal to a monthly distribution of $0.035833, beginning with the March 2021 distribution. The Board will regularly reassess the dividend, particularly as there is more clarity on the duration and severity of the COVID-19 pandemic and as business conditions improve.
- We have put in place a temporary response team to address tenant concerns. The response team is in ongoing communication with our tenants and is assisting tenants in identifying local, state and federal resources that may be available to support their businesses and employees during the pandemic, including stimulus funds that may be available under the Coronavirus Aid, Relief, and Economic Security Act of 2020 (the "CARES Act").
- We are proactively implementing expense reductions at the property level to minimize cost pass-throughs to our tenants and at the corporate level to preserve profitability.
- The health and safety of our employees and their families is a top priority. We adapted our operations to protect employees, including by implementing a work from home policy in the first quarter of 2020. All employees returned to work in the second quarter of 2020.

We believe that we could see decreases in our collection of contracted rent from our tenants and may see tenant closures or bankruptcies. If and when economic conditions improve and favorable opportunities arise, we intend to continue acquiring additional properties that meet our Community Centered Property® strategy through equity issuances and debt financing.

On April 30, 2020, the Company entered into a loan in the principal amount of $1,733,510 from U.S. Bank National Association, one of the Company's existing lenders, pursuant to the Paycheck Protection Program (the "PPP Loan") of the CARES Act. The PPP Loan was set to mature on May 6, 2022 (the "Maturity Date"), and accrued interest at 1.00% per annum and could be prepaid in whole or in part without penalty. Principal and interest were payable in 18 monthly installments of $96,864.28, beginning on December 6, 2020, plus a final payment equal to all unpaid principal and accrued interest on the Maturity Date. Pursuant to the CARES Act, the Company applied for and was granted forgiveness for all of the PPP Loan. Forgiveness was determined by the U.S. Small Business Administration based on the use of loan proceeds for payroll costs, mortgage interest, rent or utility costs and the maintenance of employee and compensation levels. The Company intended to and used all proceeds from the PPP Loan to retain employees and maintain payroll and make mortgage payments, lease payments and utility payments to support business continuity throughout the COVID-19 pandemic, which amounts were eligible for forgiveness, subject to the provisions of the CARES Act. Based on the guidance in FASB ASC 405-20, *"Liabilities - Extinguishment of Liabilities,"* the PPP loan remains a liability until either (1) it is wholly or partially forgiven and we have been legally released, or (2) it is paid off. If the loan is partially or wholly forgiven and legal release is received, the liability is reduced by the amount forgiven and a gain on extinguishment is recognized. The Company recognized a $1,734,000 gain for the PPP Loan forgiveness during the year ended December 31, 2020 based on the legal release from the U.S. Small Business Administration.

On May 15, 2019, our universal shelf registration statement on Form S-3 was declared effective by the SEC, allowing us to offer up to $750 million in securities from time to time, including common shares, preferred shares, debt securities, depositary shares and subscription rights.

On May 31, 2019, we entered into nine equity distribution agreements for an at-the-market equity distribution program (the "2019 equity distribution agreements") providing for the issuance and sale of up to an aggregate of $100 million of the Company's common shares pursuant to our Registration Statement on Form S-3 (File No. 333-225007). Actual sales will depend on a variety of factors determined by us from time to time, including (among others) market conditions, the trading price of our common shares, capital needs and our determinations of the appropriate sources of funding for us, and were made in transactions that will be deemed to be "at-the-market" offerings as defined in Rule 415 under the Securities Act. We have no obligation to sell any of our common shares and can at any time suspend offers under the 2019 equity distribution agreements or terminate the 2019 equity distribution agreements. For the years ended December 31, 2020 and 2019, we sold 170,942 and 1,612,389 common shares, respectively, under the 2019 equity distribution agreements, with net proceeds to us of approximately $2.2 million and $21.2 million, respectively. In connection with such sales, we paid compensation of approximately $34,000 and $324,000, respectively, to the sales agents.

We expect that our rental income will increase as we continue to acquire additional properties, subsequently increasing our cash flows generated from operating activities. We intend to finance the continued acquisition of such additional properties through equity issuances and through debt financing.

Our capital structure includes non-recourse secured debt that we assumed or originated on certain properties. We may hedge the future cash flows of certain debt transactions principally through interest rate swaps with major financial institutions.

As discussed in Note 2 to the accompanying consolidated financial statements, pursuant to the term of our $15.1 million 4.99% Note, due January 6, 2024 (see Note 9 to the accompanying consolidated financial statements), which is collateralized by our Anthem Marketplace property, we were required by the lenders thereunder to establish a cash management account controlled by the lenders to collect all amounts generated by our Anthem Marketplace property in order to collateralize such promissory note. Amounts in the cash management account are classified as restricted cash.

Cash and Cash Equivalents

We had cash and cash equivalents and restricted cash of approximately $25,956,000 at December 31, 2020, as compared to $15,643,000 at December 31, 2019. The increase of $10,313,000 was primarily the result of the following:

Sources of Cash

- Cash flow from operations of $42,776,000 for the year ended December 31, 2020;
- Proceeds of $1,734,000 from issuance of PPP Loan;
- Proceeds from issuance of common shares, net of offering costs of $2,198,000;
- Proceeds from note receivable of $922,000;
- Net proceeds of $10,000,000 from the 2019 Facility;

Uses of Cash

- Payment of dividends and distributions to common shareholders and OP unit holders of $25,714,000;
- Additions to real estate of $7,362,000;
- Payments of notes payable of $12,164,000; and
- Repurchase of common shares of $2,077,000.

We place all cash in short-term, highly liquid investments that we believe provide appropriate safety of principal.

Equity Offerings

On May 31, 2019, we entered into nine equity distribution agreements for an at-the-market equity distribution program (the "2019 equity distribution agreements") providing for the issuance and sale of up to an aggregate of $100 million of the Company's common shares. Actual sales will depend on a variety of factors determined by us from time to time, including (among others) market conditions, the trading price of our common shares, capital needs and our determinations of the appropriate sources of funding for us, and were made in transactions that will be deemed to be "at the-market" offerings as defined in Rule 415 under the Securities Act. We have no obligation to sell any of our common shares and can at any time suspend offers under the 2019 equity distribution agreements or terminate the 2019 equity distribution agreements. For the years ended December 31, 2020 and 2019, we sold 170,942 and 1,612,389 common shares, respectively, under the 2019 equity distribution agreements, with net proceeds to us of approximately $2.2 million and $21.2 million, respectively. In connection with such sales, we paid compensation of approximately $34,000 and $324,000, respectively, to the sales agents. In light of the significant decline in the price of our common shares since the outbreak of COVID-19, we do not currently anticipate selling shares under the 2019 equity distribution agreements until the price of our common shares increases significantly.

We have used and anticipate using net proceeds from common shares issued pursuant to the 2019 equity distribution agreements for general corporate purposes, which may include acquisitions of additional properties, the repayment of outstanding indebtedness, capital expenditures, the expansion, redevelopment and/or re-tenanting of properties in our portfolio, working capital and other general purposes.

On June 4, 2015, we entered into nine amended and restated equity distribution agreements (the "2015 equity distribution agreements") for an at-the-market distribution program. Pursuant to the terms and conditions of the 2015 equity distribution agreements, we could issue and sell up to an aggregate of $50 million of our common shares pursuant to our Registration Statement on Form S-3 (File No. 333-203727), which expired on April 29, 2018. Actual sales depended on a variety of factors determined by us from time to time, including (among others) market conditions, the trading price of our common shares, capital needs and our determinations of the appropriate sources of funding for us, and were made in transactions that will be deemed to be "at-the-market" offerings as defined in Rule 415 under the Securities Act. We had no obligation to sell any of our common shares, and could at any time suspend offers under the 2015 equity distribution agreements or terminate the 2015 equity distribution agreements. For the year ended December 31, 2018, we did not sell any common shares under the 2015 equity distribution agreements.

Debt

Debt consisted of the following as of the dates indicated (in thousands):

	December 31,	
Description	**2020**	**2019**
Fixed rate notes		
$10.5 million, 4.85% Note, paid off on September 24, 2020 [1]	$ —	$ 9,260
$100.0 million, 1.73% plus 1.35% to 1.90% Note, due October 30, 2022 [2]	100,000	100,000
$165.0 million, 2.24% plus 1.35% to 1.90% Note, due January 31, 2024 [3]	165,000	165,000
$80.0 million, 3.72% Note, due June 1, 2027	80,000	80,000
$19.0 million 4.15% Note, due December 1, 2024	18,687	19,000
$20.2 million 4.28% Note, due June 6, 2023	18,222	18,616
$14.0 million 4.34% Note, due September 11, 2024	13,236	13,482
$14.3 million 4.34% Note, due September 11, 2024	14,014	14,243
$15.1 million 4.99% Note, due January 6, 2024	14,165	14,409
$2.6 million 5.46% Note, due October 1, 2023	2,339	2,386
$50.0 million, 5.09% Note, due March 22, 2029	50,000	50,000
$50.0 million, 5.17% Note, due March 22, 2029	50,000	50,000
Floating rate notes		
Unsecured line of credit, LIBOR plus 1.40% to 1.90%, due January 31, 2023 [4]	119,500	109,500
Total notes payable principal	645,163	645,896
Less deferred financing costs, net of accumulated amortization	(978)	(1,197)
	$ 644,185	$ 644,699

(1) Promissory note includes an interest rate swap that fixed the interest rate at 3.55% for the duration of the term through September 24, 2018 and 4.85% beginning September 25, 2018 through September 24, 2020. The promissory note was paid off in September 2020.

(2) Promissory note includes an interest rate swap that fixed the LIBOR portion of Term Loan 3 (as defined below) at 1.73%.

(3) Promissory note includes an interest rate swap that fixed the LIBOR portion of the interest rate at an average rate of 2.24% for the duration of the term through January 31, 2024.

(4) Unsecured line of credit includes certain Pillarstone Properties as of December 31, 2018, in determining the amount of credit available under the 2018 Facility which were released from collateral during 2019.

LIBOR is expected to be discontinued after 2021. A number of our current debt agreements have an interest rate tied to LIBOR. Some of these agreements provide procedures for determining an alternative base rate in the event that LIBOR is discontinued, but not all do so. Regardless, there can be no assurances as to what alternative base rates may be and whether such base rate will be more or less favorable than LIBOR and any other unforeseen impacts of the potential discontinuation of LIBOR. The Company intends to monitor the developments with respect to the potential phasing out of LIBOR after 2021 and work with its lenders to ensure any transition away from LIBOR will have minimal impact on its financial condition, but can provide no assurances regarding the impact of the discontinuation of LIBOR.

On March 22, 2019, we, through our Operating Partnership, entered into a Note Purchase and Guarantee Agreement (the “Note Agreement”) together with certain subsidiary guarantors as initial guarantor parties thereto (the “Subsidiary Guarantors”) and The Prudential Insurance Company of America and the various other purchasers named therein (collectively, the “Purchasers”) providing for the issuance and sale of $100 million of senior unsecured notes of the Operating Partnership, of which (i) $50 million are designated as 5.09% Series A Senior Notes due March 22, 2029 (the “Series A Notes”) and (ii) $50 million are designated as 5.17% Series B Senior Notes due March 22, 2029 (the “Series B Notes” and, together with the Series A Notes, the “Notes”) pursuant to a private placement that closed on March 22, 2019 (the “Private Placement”). Obligations under the Notes are unconditionally guaranteed by the Company and by the Subsidiary Guarantors.

The principal of the Series A Notes will begin to amortize on March 22, 2023 with annual principal payments of approximately $7.1 million. The principal of the Series B Notes will begin to amortize on March 22, 2025 with annual principal payments of $10.0 million. The Notes will pay interest quarterly on the 22nd day of March, June, September and December in each year until maturity.

The Operating Partnership may prepay at any time all, or from time to time part of, the Notes, in an amount not less than $1,000,000 in the case of a partial prepayment, at 100% of the principal amount so prepaid, plus a make-whole amount. The make-whole amount is equal to the excess, if any, of the discounted value of the remaining scheduled payments with respect to the Notes being prepaid over the aggregate principal amount of such Notes (as described in the Note Agreement). In addition, in connection with a Change of Control (as defined in the Note Purchase Agreement), the Operating Partnership is required to offer to prepay the Notes at 100% of the principal amount plus accrued and unpaid interest thereon.

The Note Agreement contains representations, warranties, covenants, terms and conditions customary for transactions of this type and substantially similar to the Operating Partnership’s existing senior revolving credit facility, including limitations on liens, incurrence of investments, acquisitions, loans and advances and restrictions on dividends and certain other restricted payments. In addition, the Note Agreement contains certain financial covenants substantially similar to the Operating Partnership’s existing senior revolving credit facility, including the following:

- maximum total indebtedness to total asset value ratio of 0.60 to 1.00;
- maximum secured debt to total asset value ratio of 0.40 to 1.00;
- minimum EBITDA (earnings before interest, taxes, depreciation, amortization or extraordinary items) to fixed charges ratio of 1.50 to 1.00;
- maximum other recourse debt to total asset value ratio of 0.15 to 1.00; and
- maintenance of a minimum tangible net worth (adjusted for accumulated depreciation and amortization) of $372 million plus 75% of the net proceeds from additional equity offerings (as defined therein).

In addition, the Note Agreement contains a financial covenant requiring that maximum unsecured debt not exceed the lesser of (i) an amount equal to 60% of the aggregate unencumbered asset value and (ii) the debt service coverage amount (as described in the Note Agreement). That covenant is substantially similar to the borrowing base concept contained in the Operating Partnership's existing senior revolving credit facility.

The Note Agreement also contains default provisions, including defaults for non-payment, breach of representations and warranties, insolvency, non-performance of covenants, cross-defaults with other indebtedness and guarantor defaults. The occurrence of an event of default under the Note Agreement could result in the Purchasers accelerating the payment of all obligations under the Notes. The financial and restrictive covenants and default provisions in the Note Agreement are substantially similar to those contained in the Operating Partnership's existing credit facility.

Net proceeds from the Private Placement were used to refinance existing indebtedness. The Notes have not been and will not be registered under the Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act. The Notes were sold in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act.

On January 31, 2019, we, through our Operating Partnership, entered into an unsecured credit facility (the "2019 Facility") with the lenders party thereto, Bank of Montreal, as administrative agent (the "Agent"), SunTrust Robinson Humphrey, as syndication agent, and BMO Capital Markets Corp., U.S. Bank National Association, SunTrust Robinson Humphrey and Regions Capital Markets, as co-lead arrangers and joint book runners. The 2019 Facility amended and restated the 2018 Facility (as defined below).

The 2019 Facility is comprised of the following three tranches:

- $250.0 million unsecured revolving credit facility with a maturity date of January 1, 2023 (the "2019 Revolver");
- $165.0 million unsecured term loan with a maturity date of January 31, 2024 ("Term Loan A"); and
- $100.0 million unsecured term loan with a maturity date of October 30, 2022 ("Term Loan B" and together with Term Loan A, the "2019 Term Loans").

Borrowings under the 2019 Facility accrue interest (at the Operating Partnership's option) at a Base Rate or an Adjusted LIBOR plus an applicable margin based upon our then existing leverage. As of December 31, 2020, the interest rate on the 2019 Revolver was 1.80%. The applicable margin for Adjusted LIBOR borrowings ranges from 1.40% to 1.90% for the 2019 Revolver and 1.35% to 1.90% for the 2019 Term Loans. Base Rate means the higher of: (a) the Agent's prime commercial rate, (b) the sum of (i) the average rate quoted by the Agent by two or more federal funds brokers selected by the Agent for sale to the Agent at face value of federal funds in the secondary market in an amount equal or comparable to the principal amount for which such rate is being determined, plus (ii) 1/2 of 1.00%, and (c) the LIBOR rate for such day plus 1.00%. Adjusted LIBOR means LIBOR divided by one minus the Eurodollar Reserve Percentage. The Eurodollar Reserve Percentage means the maximum reserve percentage at which reserves are imposed by the Board of Governors of the Federal Reserve System on eurocurrency liabilities. Pursuant to the 2019 Facility, in the event of certain circumstances that result in the unavailability of LIBOR, including but not limited to LIBOR no longer being a widely recognized benchmark rate for newly originated dollar loans in the U.S. market, the Operating Partnership and the Agent will establish an alternate interest rate to LIBOR giving due consideration to prevailing market conventions and will amend the 2019 Facility to give effect to such alternate interest rate.

The 2019 Facility includes an accordion feature that will allow the Operating Partnership to increase the borrowing capacity by $200.0 million, upon the satisfaction of certain conditions. On March 20, 2020, as a precautionary measure to preserve our financial flexibility in response to potential credit risks posed by the COVID-19 pandemic, the Company drew down approximately $30.0 million under the 2019 Revolver. As of December 31, 2020, subject to any potential future paydowns or increases in the borrowing base, we have $18.4 million remaining availability under the revolving credit facility. As of December 31, 2020, $384.5 million was drawn on the 2019 Facility and our unused borrowing capacity was $130.5 million, assuming that we use the proceeds of the 2019 Facility to acquire properties, or to repay debt on properties, that are eligible to be included in the unsecured borrowing base. The Company used $446.2 million of proceeds from the 2019 Facility to repay amounts outstanding under the 2018 Facility and intends to use the remaining proceeds from the 2019 Facility for general corporate purposes, including property acquisitions, debt repayment, capital expenditures, the expansion, redevelopment and re-tenanting of properties in its portfolio and working capital.

The Company, each direct and indirect material subsidiary of the Operating Partnership and any other subsidiary of the Operating Partnership that is a guarantor under any unsecured ratable debt will serve as a guarantor for funds borrowed by the Operating Partnership under the 2019 Facility. The 2019 Facility contains customary terms and conditions, including, without limitation, customary representations and warranties and affirmative and negative covenants including, without limitation, information reporting requirements, limitations on investments, acquisitions, loans and advances, mergers, consolidations and sales, incurrence of liens, dividends and restricted payments. In addition, the 2019 Facility contains certain financial covenants including the following:

- maximum total indebtedness to total asset value ratio of 0.60 to 1.00;
- maximum secured debt to total asset value ratio of 0.40 to 1.00;
- minimum EBITDA (earnings before interest, taxes, depreciation, amortization or extraordinary items) to fixed charges ratio of 1.50 to 1.00;
- maximum other recourse debt to total asset value ratio of 0.15 to 1.00; and
- maintenance of a minimum tangible net worth (adjusted for accumulated depreciation and amortization) of $372 million plus 75% of the net proceeds from additional equity offerings (as defined therein).

We serve as the guarantor for funds borrowed by the Operating Partnership under the 2019 Facility. The 2019 Facility contains customary terms and conditions, including, without limitation, affirmative and negative covenants such as information reporting requirements, maximum secured indebtedness to total asset value, minimum EBITDA (earnings before interest, taxes, depreciation, amortization or extraordinary items) to fixed charges, and maintenance of a minimum net worth. The 2019 Facility also contains customary events of default with customary notice and cure, including, without limitation, nonpayment, breach of covenant, misrepresentation of representations and warranties in a material respect, cross-default to other major indebtedness, change of control, bankruptcy and loss of REIT tax status.

On November 7, 2014, we, through our Operating Partnership, entered into an unsecured revolving credit facility (the “2014 Facility”) with the lenders party thereto, with BMO Capital Markets Corp., Wells Fargo Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and U.S. Bank, National Association, as co-lead arrangers and joint book runners, and Bank of Montreal, as administrative agent (the “Agent”). The 2014 Facility amended and restated our previous unsecured revolving credit facility. On October 30, 2015, we, through our Operating Partnership, entered into the First Amendment to the 2014 Facility (the “First Amendment”) with the guarantors party thereto, the lenders party thereto and the Agent. We refer to the 2014 Facility, as amended by the First Amendment, as the “2018 Facility.”

Pursuant to the First Amendment, the Company made the following amendments to the 2014 Facility:

- extended the maturity date of the $300 million unsecured revolving credit facility under the 2014 Facility (the “2018 Revolver”) to October 30, 2019 from November 7, 2018;
- converted $100 million of outstanding borrowings under the Revolver to a new $100 million unsecured term loan under the 2014 Facility (“Term Loan 3”) with a maturity date of October 30, 2022;
- extended the maturity date of the first $50 million unsecured term loan under the 2014 Facility (“Term Loan 1”) to October 30, 2020 from February 17, 2017; and
- extended the maturity date of the second $50 million unsecured term loan under the 2014 Facility (“Term Loan 2” and together with Term Loan 1 and Term Loan 3, the “2018 Term Loans”) to January 29, 2021 from November 7, 2019.

Borrowings under the 2018 Facility accrued interest (at the Operating Partnership's option) at a Base Rate or an Adjusted LIBOR plus an applicable margin based upon our then existing leverage. The applicable margin for Adjusted LIBOR borrowings ranged from 1.40% to 1.95% for the 2018 Revolver and 1.35% to 2.25% for the 2018 Term Loans. Base Rate means the higher of: (a) the Agent’s prime commercial rate, (b) the sum of (i) the average rate quoted by the Agent by two or more federal funds brokers selected by the Agent for sale to the Agent at face value of federal funds in the secondary market in an amount equal or comparable to the principal amount for which such rate is being determined, plus (ii) 1/2 of 1.00%, and (c) the LIBOR rate for such day plus 1.00%. Adjusted LIBOR means LIBOR divided by one minus the Eurodollar Reserve Percentage. The Eurodollar Reserve Percentage means the maximum reserve percentage at which reserves are imposed by the Board of Governors of the Federal Reserve System on eurocurrency liabilities.

Proceeds from the 2018 Facility were used for general corporate purposes, including property acquisitions, debt repayment, capital expenditures, the expansion, redevelopment and re-tenanting of properties in our portfolio and working capital.

On May 26, 2017, we, through our subsidiary, Whitestone BLVD Place LLC, a Delaware limited liability company, issued a $80.0 million promissory note to American General Life Insurance Company (the “BLVD Note”). The BLVD Note has a fixed interest rate of 3.72% and a maturity date of June 1, 2027. Proceeds from the BLVD Note were used to fund a portion of the purchase price of the acquisition of BLVD Place (See Note 4 to our accompanying consolidated financial statements).

As of December 31, 2020, our $160.7 million in secured debt was collateralized by seven properties with a carrying value of $250.9 million. Our loans contain restrictions that would require the payment of prepayment penalties for the acceleration of outstanding debt and are secured by deeds of trust on certain of our properties and by assignment of the rents and leases associated with those properties. In 2018, we were not in compliance with respect to the tangible Net Worth covenant as defined in the 2018 Facility and had received two waivers in 2018. Had we been unable to obtain a waiver or other suitable relief from the lenders under the 2018 Facility, an Event of Default (as defined in the 2018 Facility) would have occurred, permitting the lenders holding a majority of the commitments under the 2018 Facility to, among other things, accelerate the outstanding indebtedness, which would make it immediately due and payable. The 2019 Facility and the Notes contain similar tangible Net Worth covenants that reset at a new threshold and change the definition of Net Worth to add back accumulated depreciation. However, we can make no assurances that we will be in compliance with these covenants or other covenants under the 2019 Facility or the Notes in future periods or, if we are not in compliance, that we will be able to obtain a waiver. As of December 31, 2020, we were in compliance with all loan covenants.

Scheduled maturities of our outstanding debt as of December 31, 2020 were as follows (in thousands):

Year	**Amount Due (in thousands)**
2021	$ 1,829
2022	101,683
2023	147,363
2024	228,573
2025	17,143
Thereafter	148,572
Total	$ 645,163

Capital Expenditures

We continually evaluate our properties’ performance and value. In light of the COVID-19 pandemic, we are continuing to monitor and, if necessary, reduce our capital expenditures to maintain financial flexibility. We may determine it is in our shareholders’ best interest to invest capital in properties we believe have potential for increasing value. We also may have unexpected capital expenditures or improvements for our existing assets. Additionally, we intend to continue investing in similar properties outside of Texas and Arizona in cities with exceptional demographics to diversify market risk, and we may incur significant capital expenditures or make improvements in connection with any properties we may acquire.

Contractual Obligations

As of December 31, 2020, we had the following contractual obligations (see Note 9 of our accompanying consolidated financial statements for further discussion regarding the specific terms of our debt):

		Payment due by period (in thousands)			
Consolidated Contractual Obligations	**Total**	**Less than 1 year (2021)**	**1 - 3 years (2022 - 2023)**	**3 - 5 years (2024 - 2025)**	**More than 5 years (after 2025)**
Long-Term Debt - Principal	$ 645,163	$ 1,829	$ 249,046	$ 245,716	$ 148,572
Long-Term Debt - Fixed Interest	85,931	21,301	37,830	16,281	10,519
Long-Term Debt - Variable Interest (1)	9,918	4,959	4,959	—	—
Unsecured Credit Facility - Unused commitment fee (2)	679	326	353	—	—
Operating Lease Obligations	255	85	106	64	—
Related Party Rent Lease Obligations	380	362	18	—	—
Total	$ 742,326	$ 28,862	$ 292,312	$ 262,061	$ 159,091

(1) As of December 31, 2020, we had one loan totaling $119.5 million which bore interest at a floating rate. The variable interest rate payments are based on LIBOR plus 1.40% to LIBOR plus 1.90%, which reflects our new interest rates under our 2019 Facility. The information in the table above reflects our projected interest rate obligations for the floating rate payments based on one-month LIBOR as of December 31, 2020, of 0.15%.

(2) The unused commitment fees on our unsecured credit facility, payable quarterly, are based on the average daily unused amount of our unsecured credit facility. The fees are 0.20% for facility usage greater than 50% or 0.25% for facility usage less than 50%. The information in the table above reflects our projected obligations for our unsecured credit facility based on our December 31, 2020 balance of $384.5 million.

Distributions

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 currently, and intend to continue to, accrue distributions quarterly and make distributions in three monthly installments following the end of each quarter. For a discussion of our cash flow as compared to dividends, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."

The timing and frequency of our distributions are authorized and declared by our board of trustees in exercise of its business judgment 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 of trustees.

Any distributions we make will be at the discretion of our board of trustees and we cannot provide assurance that our distributions will be made or sustained in the future.

On March 24, 2020, we announced that, in further pursuit of ensuring our financial flexibility, the Board determined to conserve additional liquidity by reducing our distribution in response to the COVID-19 pandemic. The distribution reduction has resulted in approximately $7.7 million of quarterly cash savings. On February 10, 2021, the Company announced an increase to its quarterly distribution to $0.1075 per common share and OP units, equal to a monthly distribution of $0.035833, beginning with the March 2021 distribution. The Board will regularly reassess the dividend, particularly as there is more clarity on the duration and severity of the COVID-19 pandemic and as business conditions improve.

During 2020, we paid distributions to our common shareholders and OP unit holders of $25.7 million, compared to $46.7 million in 2019. Common shareholders and OP unit holders receive monthly distributions. Payments of distributions are declared quarterly and paid monthly. The distributions paid to common shareholders and OP unit holders were as follows (in thousands, except per share data) for the years ended December 31, 2020 and 2019:

	Common Shares		Noncontrolling OP Unit Holders		Total
Quarter Paid	**Distributions Per Common Share**	**Total Amount Paid**	**Distributions Per OP Unit**	**Total Amount Paid**	**Total Amount Paid**
2020					
Fourth Quarter	$ 0.1050	$ 4,432	$ 0.1050	$ 81	$ 4,513
Third Quarter	0.1050	4,430	0.1050	81	4,511
Second Quarter	0.1050	4,413	0.1050	91	4,504
First Quarter	0.2850	11,928	0.2850	258	12,186
Total	**$ 0.6000**	**$ 25,203**	**$ 0.6000**	**$ 511**	**$ 25,714**
2019					
Fourth Quarter	$ 0.2850	$ 11,580	$ 0.2850	$ 262	$ 11,842
Third Quarter	0.2850	11,430	0.2850	264	11,694
Second Quarter	0.2850	11,316	0.2850	265	11,581
First Quarter	0.2850	11,301	0.2850	264	11,565
Total	**$ 1.1400**	**$ 45,627**	**$ 1.1400**	**$ 1,055**	**$ 46,682**

Results of Operations

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

The comparability of our results of operations for the year ended December 31, 2020 to future periods may be significantly impacted by the effects of the COVID-19 pandemic. The following table provides a general comparison of our results of operations for the years ended December 31, 2020 and 2019 (dollars in thousands, except per share data):

	Year Ended December 31,	
	2020	2019
Number of properties owned and operated	58	58
Aggregate GLA (sq. ft.)[(1)]	4,848,652	4,848,652
Ending occupancy rate - operating portfolio[(1)]	89 %	90 %
Ending occupancy rate	88 %	90 %
Total revenues	$ 117,915	$ 119,251
Total operating expenses	88,184	85,305
Total other expense	24,122	24,988
Income before equity investment in real estate partnership and income tax	5,609	8,958
Equity in earnings of real estate partnership	921	15,076
Provision for income taxes	(379)	(400)
Income from continuing operations	6,151	23,634
Income from discontinued operations	—	594
Net income	6,151	24,228
Less: Net income attributable to noncontrolling interests	117	545
Net income attributable to Whitestone REIT	$ 6,034	$ 23,683
Funds from operations[(2)]	$ 36,375	$ 38,026
Funds from operations core[(3)]	40,704	44,935
Property net operating income[(4)]	83,903	88,578
Distributions paid on common shares and OP units	25,714	46,682
Distributions per common share and OP unit	$ 0.6000	$ 1.1400

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

(2) For an explanation and reconciliation of funds from operations and funds from operations core to net income, see “Funds From Operations” below.

(3) For a reconciliation of funds from operations core to net income, see “FFO Core” below.

(4) For an explanation and reconciliation of property net operating income to net income, see “Property Net Operating Income” below.

We define “Same Stores” as properties that have been owned for the entire period being compared. For purposes of comparing the year ended December 31, 2020 to the year ended December 31, 2019, Same Stores include properties owned during the entire period from January 1, 2019 to December 31, 2020. We define “Non-Same Stores” as properties acquired since the beginning of the period being compared and properties that have been sold, but not classified as discontinued operations.

Revenues. The primary components of revenue are detailed in the table below (in thousands, except percentages):

Revenue	Year Ended December 31, 2020	Year Ended December 31, 2019	Change	% Change
Same Store				
Rental revenues [1]	$ 84,902	$ 86,555	$ (1,653)	(2)%
Recoveries [2]	32,318	31,670	648	2 %
Bad debt [3]	(5,163)	(1,461)	(3,702)	253 %
Total rental	112,057	116,764	(4,707)	(4)%
Other revenues [4]	2,199	1,286	913	71 %
Same Store Total	114,256	118,050	(3,794)	(3)%
Non-Same Store and Management Fees				
Rental revenues	2,389	196	2,193	1,119 %
Recoveries	1,124	77	1,047	1,360 %
Bad debt	(486)	(23)	(463)	2,013 %
Total rental [5]	3,027	250	2,777	1,111 %
Other revenues	34	96	(62)	(65)%
Management fees [6]	598	855	(257)	(30)%
Non-Same Store and Management Fees Total	3,659	1,201	2,458	205 %
Total revenue	$ 117,915	$ 119,251	$ (1,336)	(1)%

(1) The Same Store tenant rent decrease of $1,653,000 resulted from a decrease of $828,000 from the decrease in the average leased square feet to 4,340,926 from 4,382,812, and by the decrease of $825,000 from the average rent per leased square foot decreasing from $19.75 to $19.56. Included in the average rent per leased square foot decrease mentioned above is a Same Store rental revenue decrease of $1,185,000 from straight-line rent write offs during the year ended December 31, 2020 as a result of converting 97 tenants to cash basis accounting.

(2) The Same Store recoveries revenue increase of $648,000 is primarily attributable to increases in Same Store real estate tax costs recovered from tenants.

(3) Bad debt decreased Same Store total rental revenue by $5,163,000 during the year ended December 31, 2020, as compared to a reduction of $1,461,000 during the same period a year ago. The bad debt for the year ended December 31, 2020 was primarily attributable to increases in allowances against accrued receivables as tenants have deferred or missed payments as a result of the COVID-19 pandemic.

(4) The increase in Same Store other revenues is primarily comprised of increased lease termination fees.

(5) Non-Same Store total rental revenue for the years ended December 31, 2020 and December 31, 2019 were primarily generated from our acquisition of the Las Colinas Village property on December 6, 2019. Non-Same Store revenues for the year ended December 31, 2020 were significantly higher than the year ended December 31, 2019 because we owned Las Colinas for the entire year. Please refer to Note 4 (Real Estate) to the accompanying consolidated financial statements for more information regarding the property acquisitions and property sales.

(6) On October 8, 2019, Pillarstone OP, sold a portfolio of three properties. The decrease in management fees is primarily due to fewer properties under management.

Operating expenses. The primary components of operating expenses for the year ended December 31, 2020 and 2019 are detailed in the table below (in thousands, except percentages):

Operating Expenses	Year Ended December 31, 2020	Year Ended December 31, 2019	Change	% Change
Same Store				
Operating and maintenance [1]	$ 19,081	$ 19,655	$ (574)	(3)%
Real estate taxes [2]	17,195	16,245	950	6 %
Same Store total	36,276	35,900	376	1 %
Non-Same Store and affiliated company rents				
Operating and maintenance	550	143	407	285 %
Real estate taxes [3]	820	48	772	1,608 %
Affiliated company rents [4]	932	813	119	15 %
Non-Same Store and affiliated company rents total	2,302	1,004	1,298	129 %
Depreciation and amortization	28,303	26,740	1,563	6 %
General and administrative [5]	21,303	21,661	(358)	(2)%
Total operating expenses	$ 88,184	$ 85,305	$ 2,879	3 %

(1) The $574,000 Same Store operating and maintenance cost decrease was comprised of $208,000 in internal labor costs, $182,000 in contract services, $147,000 in repair costs and $37,000 in other operating and maintenance costs.

(2) The $950,000 Same Store real estate tax increase is primarily comprised of increases in 2020 tax assessments in our Texas markets. We were still actively protesting certain 2020 valuations in Texas on December 31, 2020 and expect to have lower settled values. We actively work to keep our valuations and resulting taxes low because a majority of these taxes are charged to our tenants through triple net leases, and we strive to keep these charges to our tenants as low as possible.

(3) Non-Same Store real estate taxes for the years ended December 31, 2020 and December 31, 2019 were primarily generated from our acquisition of the Las Colinas Village property on December 6, 2019. Non-Same Store real estate taxes for the year ended December 31, 2020 were significantly higher than the year ended December 31, 2019 because we owned Las Colinas for the entire year. Please refer to Note 4 (Real Estate) to the accompanying consolidated financial statements for more information regarding the property acquisitions and property sales.

(4) Affiliated company rents are spaces that we lease from Pillarstone OP.

(5) The $358,000 general and administrative expense decrease was attributable to a $579,000 reduction in professional fees, a $452,000 reduction in share-based compensation expense, a $451,000 reduction in travel expenses and a $198,000 reduction in other expenses, offset by a $1,322,000 increase in payroll costs. The increased payroll costs included a $2,030,000 increase in annual incentive bonuses, offset by a decrease of $708,000 in other payroll costs. Please refer to Note 15 (Incentive Share Plan) to the accompanying consolidated financial statements for more information regarding share-based compensation expense.

Other expenses (income). The primary components of other expenses (income) for the year ended December 31, 2020 and 2019 are detailed in the table below (in thousands, except percentages):

Other Expenses (Income)	Year Ended December 31, 2020	Year Ended December 31, 2019	Change	% Change
Interest expense [1]	$ 25,770	$ 26,285	$ (515)	(2)%
Loss (gain) on sale or disposal of assets [2]	364	(638)	1,002	(157)%
Gain on loan forgiveness [3]	(1,734)	—	(1,734)	Not Meaningful
Interest, dividend and other investment income [4]	(278)	(659)	381	(58)%
Total other expense	$ 24,122	$ 24,988	$ (866)	(3)%

(1) The $515,000 decrease in interest expense is attributable to a decrease in our effective interest rate to 3.73% for the year ended December 31, 2020 as compared to 4.02% for the year ended December 31, 2019, resulting in a $1,960,000 decrease in interest expense, and an increase in our average outstanding notes payable balance of $35,457,000 that resulted in $1,427,000 in increased interest expense. Amortization of loan fees increased interest expense by $18,000 for the year ended December 31, 2020 as compared to the year ended December 31, 2019.

(2) The $1,002,000 decrease in the net loss (gain) on sale or disposal of assets includes a decrease of $797,000 for increased losses on asset disposals and $205,000 in lower deferred gains on seller financed loans.

(3) We applied for and were granted forgiveness for the PPP Loan, and used the proceeds to retain employees and maintain payroll and make mortgage payments, lease payments and utility payments to support business continuity throughout the COVID-19 pandemic.

(4) The $381,000 decrease in interest, dividend and other investment income was primarily comprised of decreases in interest income from notes receivable.

Equity in earnings of real estate partnership. Our equity in earnings of real estate partnership, which is generated from our 81.4% ownership of Pillarstone OP, decreased $14,155,000 from $15,076,000 for the year ended December 31, 2019 to $921,000 for the year ended December 31, 2020. The $14,155,000 decrease was comprised of decreases of $13,816,000 from our pro rata share of gains on properties Pillartone OP sold during the year ended December 31, 2019, $915,000 from our pro rata share of net income from properties Pillarstone OP sold during the year ended December 31, 2019, $912,000 from our pro rata share of net income from the operating activities of Pillarstone OP's eight properties that were owned during the entire period from January 1, 2019 to December 31, 2020, offset by increases of $1,297,000 from our pro rata share of interest expense savings from debt reductions made by Pillarstone OP during the year ended December 31, 2019 and $191,000 from our pro rata share of other increases in net income from Pillarstone OP. Please refer to Note 5 (Investment in Real Estate Partnership) to the accompanying consolidated financial statements for more information regarding our investment in Pillarstone OP.

Gain on sale of property from discontinued operations. During the year ended December 31, 2019, we received a $0.7 million principal payment in connection with the sale of three office buildings we completed on December 31, 2014. In 2014, we provided seller-financing for the office buildings, Zeta, Royal Crest and Featherwood, and deferred a $2.5 million gain until principal payments on the seller-financed loan are received. The purchaser of the office buildings sold Zeta on April 24, 2019 and paid the entire principal balance of the loan related to Zeta. As of December 31, 2020 and 2019, we had a total of $2.1 million and $2.7 million, respectively, in deferred gains for seller-financed loans to be recognized upon receipt of principal payments.

Same Store net operating income. The components of Same Store net operating income is detailed in the table below (in thousands):

	Year Ended December 31, 2020	Year Ended December 31, 2019	Increase (Decrease)	% Increase (Decrease)
Same Store (51 properties, excluding development land)				
Property revenues				
Rental	$ 112,057	$ 116,764	$ (4,707)	(4)%
Management, transaction and other fees	2,199	1,286	913	71 %
Total property revenues	114,256	118,050	(3,794)	(3)%
Property expenses				
Property operation and maintenance	19,081	19,655	(574)	(3)%
Real estate taxes	17,195	16,245	950	6 %
Total property expenses	36,276	35,900	376	1 %
Total property revenues less total property expenses	77,980	82,150	(4,170)	(5)%
Same Store straight-line rent adjustments	632	(1,110)	1,742	(157)%
Same Store amortization of above/below market rents	(787)	(761)	(26)	3 %
Same Store lease termination fees	(1,613)	(576)	(1,037)	180 %
Same Store NOI[1]	$ 76,212	$ 79,703	$ (3,491)	(4)%

(1) See below for a reconciliation of property net operating income to net income.

PROPERTY NET OPERATING INCOME ("NOI")	Year Ended December 31, 2020	2019
Net income attributable to Whitestone REIT	$ 6,034	$ 23,683
General and administrative expenses	21,303	21,661
Depreciation and amortization	28,303	26,740
Equity in earnings of real estate partnership	(921)	(15,076)
Interest expense	25,770	26,285
Interest, dividend and other investment income	(278)	(659)
Provision for income taxes	379	400
Gain on sale of property from discontinued operations	—	(594)
Management fee, net of related expenses	334	(42)
Loss (gain) on sale or disposal of assets, net	364	(638)
Gain on loan forgiveness	(1,734)	—
NOI of real estate partnership (pro rata)	4,232	6,273
Net income attributable to noncontrolling interests	117	545
NOI	$ 83,903	$ 88,578
Non-Same Store NOI [1]	(1,691)	(155)
NOI of real estate partnership (pro rata)	(4,232)	(6,273)
NOI less Non-Same Store NOI and NOI of real estate partnership (pro rata)	77,980	82,150
Same Store straight line rent adjustments	632	(1,110)
Same Store amortization of above/below market rents	(787)	(761)
Same Store lease termination fees	(1,613)	(576)
Same Store NOI [2]	$ 76,212	$ 79,703

(1) We define "Non-Same Stores" as properties that have been acquired since the beginning of the period being compared and properties that have been sold, but not classified as discontinued operations. For purposes of comparing the twelve months ended December 31, 2020 to the twelve months ended December 31, 2019, Non-Same Stores include properties acquired between January 1, 2019 and December 31, 2020 and properties sold between January 1, 2019 and December 31, 2020, but not included in discontinued operations.

(2) We define "Same Stores" as properties that have been owned during the entire period being compared. For purposes of comparing the twelve months ended December 31, 2020 to the twelve months ended December 31, 2019, Same Stores include properties owned before January 1, 2019 and not sold before December 31, 2020. Straight line rent adjustments, above/below market rents, and lease termination fees are excluded.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

For a discussion and comparison of the results of our operations for the year ended December 31, 2019 with the year ended December 31, 2018, refer to "Management's Discussion and Analysis of Financial Conditions and Results of Operations" in our Form 10-K for the year ended December 31, 2019 filed with the SEC on March 2, 2020.

Reconciliation of Non-GAAP Financial Measures

Funds From Operations (NAREIT) ("FFO")

The National Association of Real Estate Investment Trusts ("NAREIT") defines FFO as net income (loss) available to common shareholders computed in accordance with GAAP, excluding depreciation and amortization related to real estate, gains or losses from the sale of certain real estate assets, gains and losses from change in control, and impairment write-downs of certain real estate assets and investments in entities when the impairment is directly attributable to decreases in the value of depreciable real estate held by the entity. We calculate FFO in a manner consistent with the NAREIT definition and also include adjustments for our unconsolidated real estate partnership.

Management uses FFO as a supplemental measure to conduct and evaluate our business because there are certain limitations associated with using GAAP net income (loss) alone as the primary measure of our operating performance.

Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Because real estate values instead have historically risen or fallen with market conditions, management believes that the presentation of operating results for real estate companies that use historical cost accounting is insufficient by itself. In addition, securities analysts, investors and other interested parties use FFO as the primary metric for comparing the relative performance of equity REITs.

FFO should not be considered as an alternative to net income or other measurements under GAAP, as an indicator of our operating performance or to cash flows from operating, investing or financing activities as a measure of liquidity. FFO does not reflect working capital changes, cash expenditures for capital improvements or principal payments on indebtedness. Although our calculation of FFO is consistent with that of NAREIT, there can be no assurance that FFO presented by us is comparable to similarly titled measures of other REITs.

Funds From Operations Core ("FFO Core")

Management believes that the computation of FFO in accordance with NAREIT's definition includes certain items that are not indicative of the results provided by our operating portfolio and affect the comparability of our period-over-period performance. These items include, but are not limited to, legal settlements, proxy contest fees, debt extension costs, non-cash share-based compensation expense, rent support agreement payments received from sellers on acquired assets, management fees from Pillarstone and acquisition costs. Therefore, in addition to FFO, management uses FFO Core, which we define to exclude such items. Management believes that these adjustments are appropriate in determining FFO Core as they are not indicative of the operating performance of our assets. In addition, we believe that FFO Core is a useful supplemental measure for the investing community to use in comparing us to other REITs as many REITs provide some form of adjusted or modified FFO. However, there can be no assurance that FFO Core presented by us is comparable to the adjusted or modified FFO of other REITs.

Below are the calculations of FFO and FFO Core and the reconciliations to net income, which we believe is the most comparable GAAP financial measure (in thousands):

	Year Ended December 31,		
FFO AND FFO CORE	**2020**	**2019**	**2018**
Net income attributable to Whitestone REIT	$ 6,034	$ 23,683	$ 21,431
Adjustments to reconcile to FFO:[1]			
Depreciation and amortization of real estate assets	28,096	26,468	25,401
Depreciation and amortization of real estate assets of real estate partnership (pro rata) [2]	1,673	2,362	2,903
Loss (gain) on sale or disposal of assets	364	(638)	(4,547)
Gain on sale of property from discontinued operations	—	(594)	—
Loss (gain) on sale or disposal of properties or assets of real estate partnership (pro rata) [2]	91	(13,800)	(6,340)
Net income attributable to noncontrolling interests	117	545	550
FFO	$ 36,375	$ 38,026	$ 39,398
Share-based compensation expense	$ 6,063	$ 6,483	$ 6,758
Proxy contest professional fees	—	—	2,534
Early debt extinguishment costs of real estate partnership	—	426	88
Gain on loan forgiveness	(1,734)	—	—
FFO Core	$ 40,704	$ 44,935	$ 48,778

(1) Includes pro-rata share attributable to real estate partnership.

(2) Included in equity in earnings of real estate partnership on the consolidated statements of operations and comprehensive income (loss).

Property Net Operating Income ("NOI")

Management believes that NOI is a useful measure of our property operating performance. We define NOI as operating revenues (rental and other revenues) less property and related expenses (property operation and maintenance and real estate taxes). Other REITs may use different methodologies for calculating NOI and, accordingly, our NOI may not be comparable to other REITs. Because NOI excludes general and administrative expenses, depreciation and amortization, involuntary conversion, interest expense, interest income, provision for income taxes, gain or loss on sale or disposition of assets, and our pro rata share of NOI of equity method investments, it provides a performance measure that, when compared year over year, reflects the revenues and expenses directly associated with owning and operating commercial real estate properties and the impact to operations from trends in occupancy rates, rental rates and operating costs, providing perspective not immediately apparent from net income. We use NOI to evaluate our operating performance since NOI allows us to evaluate the impact that factors such as occupancy levels, lease structure, lease rates and tenant base have on our results, margins and returns. In addition, management believes that NOI provides useful information to the investment community about our property and operating performance when compared to other REITs since NOI is generally recognized as a standard measure of property performance in the real estate industry. However, NOI should not be viewed as a measure of our overall financial performance since it does not reflect general and administrative expenses, depreciation and amortization, involuntary conversion, interest expense, interest income, provision for income taxes and gain or loss on sale or disposition of assets, the level of capital expenditures and leasing costs necessary to maintain the operating performance of our properties.

Below is the calculation of NOI and the reconciliation to net income, which we believe is the most comparable GAAP financial measure (in thousands):

	Year Ended December 31,		
PROPERTY NET OPERATING INCOME ("NOI")	**2020**	**2019**	**2018**
Net income attributable to Whitestone REIT	$ 6,034	$ 23,683	$ 21,431
General and administrative expenses	21,303	21,661	23,281
Depreciation and amortization	28,303	26,740	25,679
Equity in earnings of real estate partnership	(921)	(15,076)	(8,431)
Interest expense	25,770	26,285	25,177
Interest, dividend and other investment income	(278)	(659)	(1,055)
Provision for income taxes	379	400	347
Gain on sale of property from discontinued operations	—	(594)	—
Management fee, net of related expenses	334	(42)	(208)
Loss (gain) on sale or disposal of assets, net	364	(638)	(4,547)
Gain on loan forgiveness	(1,734)	—	—
NOI of real estate partnership (pro rata)	4,232	6,273	7,725
Net income attributable to noncontrolling interests	117	545	550
NOI	$ 83,903	$ 88,578	$ 89,949

Taxes

We elected to be taxed as a REIT under the Code beginning with our taxable year ended December 31, 1999. As a REIT, we generally are not subject to federal income tax on income that we distribute to our shareholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income at regular corporate rates. We believe that we are organized and operate in a manner to qualify and be taxed as a REIT, and we intend to operate so as to remain qualified as a REIT for federal income tax purposes.

Inflation

We anticipate that the majority of our leases will continue to be triple-net leases or otherwise provide that tenants pay for increases in operating expenses and will contain provisions that we believe will mitigate the effect of inflation. In addition, many of our leases are for terms of less than five years, which allows us to adjust rental rates to reflect inflation and other changing market conditions when the leases expire. Consequently, increases due to inflation, as well as ad valorem tax rate increases, generally do not have a significant adverse effect upon our operating results.

Off-Balance Sheet Arrangements

Guarantees We may guarantee the debt of a real estate partnership primarily because it allows the real estate partnership to obtain funding at a lower cost than could be obtained otherwise. This results in a higher return for the real estate partnership on its investment, and a higher return on our investment in the real estate partnership. We may receive a fee from the real estate partnership for providing the guarantee. Additionally, when we issue a guarantee, the terms of the real estate partnership's partnership agreement typically provide that we may receive indemnification from the real estate partnership or have the ability to increase our ownership interest. See Note 5 to the accompanying consolidated financial statements for information related to our guarantees of our real estate partnership's debt as of December 31, 2020 and 2019.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Our future income, cash flows and fair value relevant to our financial instruments depend upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. Based upon the nature of our operations, we are not subject to foreign exchange rate or commodity price risk. The principal market risk to which we are exposed is the risk related to interest rate fluctuations. Many factors, including governmental monetary and tax policies, domestic and international economic and political considerations, and other factors that are beyond our control contribute to interest rate risk. Our interest rate risk objective is to limit the impact of interest rate fluctuations on earnings and cash flows and to lower our overall borrowing costs. To achieve this objective, we manage our exposure to fluctuations in market interest rates for our borrowings through the use of fixed rate debt instruments to the extent that reasonably favorable rates are obtainable.

All of our financial instruments were entered into for other than trading purposes.

Fixed Interest Rate Debt

As of December 31, 2020, $525.7 million, or approximately 81%, of our outstanding debt was subject to fixed interest rates, which limit the risk of fluctuating interest rates. Though a change in the market interest rates affects the fair market value, it does not impact net income to shareholders or cash flows. Our total outstanding fixed interest rate debt has an average effective interest rate as of December 31, 2020 of approximately 4.1% per annum with expirations ranging from 2020 to 2029 (see Note 9 to our accompanying consolidated financial statements for further detail). Holding other variables constant, a 1% increase in interest rates would cause an $18.5 million decline in the fair value for our fixed rate debt.

Variable Interest Rate Debt

As of December 31, 2020, $119.5 million, or approximately 19%, of our outstanding debt was subject to floating interest rates of LIBOR plus 1.40% to 1.90% and not currently subject to a hedge. The impact of a 1% increase or decrease in interest rates on our floating rate debt would result in a decrease or increase, respectively, of annual net income of approximately $1.2 million.

Credit Risk

Credit risk may be increased as a result of the COVID-19 pandemic. We expect that the actions taken by the U.S. and international governments to decrease the impact of the COVID-19 pandemic will result in a continued decline in global economic activity generally, and may adversely affect the financial condition of our tenants in particular. Although the full extent of the adverse impacts on our tenants cannot be predicted, in future periods we may experience reductions in on-time payments or closures of tenants' businesses, which could have a material adverse effect on our results of operations, cash flows and financial condition.

Item 8. Financial Statements and Supplementary Data.

The information required by this Item 8 is incorporated by reference to our accompanying consolidated financial statements beginning on page F-1 of this Annual Report on Form 10-K.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

In connection with the preparation of this Annual Report on Form 10-K, as of December 31, 2020, an evaluation was performed under the supervision and with the participation of the Company's management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act. In performing this evaluation, management reviewed the selection, application and monitoring of our historical accounting policies. Based on that evaluation, the CEO and CFO concluded that as of December 31, 2020, these disclosure controls and procedures were effective and designed to ensure that the information required to be disclosed in our reports filed with the SEC is recorded, processed, summarized and reported on a timely basis. In designing and evaluating disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Management is required to apply judgment in evaluating the cost-benefit relationship of possible controls and procedures. We maintain disclosure controls and procedures that are designed to provide a reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow for timely decisions regarding required disclosure.

Management's Annual Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of its management, including its CEO and CFO, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under the framework in Internal Control - Integrated Framework (2013), the Company's management concluded that its internal control over financial reporting was effective as of December 31, 2020.

The Company's independent registered public accounting firm has issued a report on the effectiveness of the Company's internal control over financial reporting, which appears on page F-4 of this Annual Report on Form 10-K.

The Company's system of internal control over financial reporting was designed to provide reasonable assurance regarding the preparation and fair presentation of published financial statements in accordance with accounting principles generally accepted in the United States. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control Over Financial Reporting

As a result of the COVID-19 pandemic, our employees worked remotely in part of the first quarter of 2020 and part of the second quarter of 2020. This shift to working remotely was implemented quickly and all employees returned to work in the second quarter of 2020. Our remote working arrangements did not have a material effect on our internal control over financial reporting. There have been no significant changes in our internal control over financial reporting during the Company's quarter ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting other than the remediation of material weakness discussed above.

Item 9B. Other Information.

None.

PART III

Item 10. Trustees, Executive Officers and Corporate Governance.

The information required by Item 10 of Form 10-K is incorporated herein by reference to such information as set forth in the definitive proxy statement for our 2021 Annual Meeting of Shareholders.

Item 11. Executive Compensation.

The information required by Item 11 of Form 10-K is incorporated herein by reference to such information as set forth in the definitive proxy statement for our 2021 Annual Meeting of Shareholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters.

The following table provides information regarding our equity compensation plans as of December 31, 2020:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	— [1]	$ —	375,046 [2]
Equity compensation plans not approved by security holders	—	—	— [3]
Total	—	$ —	375,046

[1] Excludes 1,008,124 common shares subject to outstanding restricted common share units granted pursuant to our 2008 Long-Term Equity Incentive Ownership Plan, as amended (the "2008 Plan") and 3,043,676 common shares granted pursuant to our 2018 Long-Term Equity Incentive Ownership Plan (the "2018 Plan").

[2] At our annual meeting of shareholders on May 11, 2017, our shareholders voted to approve the 2018 Plan. The 2018 Plan provides for the issuance of up to 3,433,831 common shares and OP units pursuant to awards under the 2018 Plan. The 2018 Plan became effective on July 30, 2018, which is the day after the 2008 Plan expired.

[3] Excludes 8,333 restricted common shares issued to trustees outside the 2008 Plan.

The remaining information required by Item 12 of Form 10-K is incorporated by reference to such information as set forth in the definitive proxy statement for our 2021 Annual Meeting of Shareholders.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by Item 13 of Form 10-K is incorporated herein by reference to such information as set forth in the definitive proxy statement for our 2021 Annual Meeting of Shareholders.

Item 14. Principal Accountant Fees and Services.

The information required by Item 14 of Form 10-K is incorporated herein by reference to such information as set forth in the definitive proxy statement for our 2021 Annual Meeting of Shareholders.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

1. **Financial Statements.** The list of our financial statements filed as part of this Annual Report on Form 10-K is set forth on page 81 herein.

2. **Financial Statement Schedules.**

    a. Schedule II - Valuation and Qualifying Accounts

    b. Schedule III - Real Estate and Accumulated Depreciation

    All other financial statement schedules have been omitted because the required information of such schedules is not present, is not present in amounts sufficient to require a schedule or is included in the consolidated financial statements.

3. **Exhibits.** The list of exhibits filed as part of this Annual Report on Form 10-K in response to Item 601 of Regulation S-K is submitted on the Exhibit Index attached hereto and incorporated herein by reference.

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WHITESTONE REIT

Date:	March 8, 2021	By:	/s/ James C. Mastandrea
			James C. Mastandrea, Chairman and CEO

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENT, that each person whose signature appears below constitutes and appoints James C. Mastandrea and David K. Holeman, and each of them, acting individually, as his attorney-in-fact, each with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

March 8, 2021	/s/ James C. Mastandrea James C. Mastandrea, Chairman and CEO (Principal Executive Officer)
March 8, 2021	/s/ David K. Holeman David K. Holeman, Chief Financial Officer (Principal Financial and Principal Accounting Officer)
March 8, 2021	/s/ Nandita Berry Nandita Berry, Trustee
March 8, 2021	/s/ Jeffrey A. Jones Jeffrey A. Jones, Trustee
March 8, 2021	/s/ Paul T. Lambert Paul T. Lambert, Trustee
March 8, 2021	/s/ Jack L. Mahaffey Jack L. Mahaffey, Trustee
March 8, 2021	/s/ David F. Taylor David F. Taylor, Trustee

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees and Shareholders of
Whitestone REIT:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Whitestone REIT and subsidiaries (the "Company") as of December 31, 2020 and 2019, and the related consolidated statements of operations and comprehensive income (loss), changes in equity, and cash flows for each of the years in the three year period ended December 31, 2020, and the related notes and financial statement schedules listed in the Index to Consolidated Financial Statements at Item 15 (collectively referred to as the "Consolidated Financial Statements"). In our opinion, the Consolidated Financial Statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated March 8, 2021, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These Consolidated Financial Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's Consolidated Financial Statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the Consolidated Financial Statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the Consolidated Financial Statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the Consolidated Financial Statements that were communicated or required to be communicated to the audit committee and that: (i) related to accounts or disclosures that are material to the Consolidated Financial Statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the Consolidated Financial Statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Impairment Assessment of Real Estate Assets and Investment in Real Estate Partnership

As described in Note 2 to the Consolidated Financial Statements, management reviews properties for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of the assets, including accrued rental income, may not be recoverable through operations. Management determines if an impairment in value has occurred by comparing the estimated future cash flows (undiscounted and without interest charges), including the estimated residual value of the property, with the carrying cost of the property. Actual results could differ from estimates supporting the Company's impairment analysis. If management's analysis indicates an impairment, a loss will be recorded for the amount by which the carrying value of the property exceeds its fair value. As of December 31, 2020, the Company had $943 million in real estate assets, net of accumulated depreciation, and $34 million of investment in real estate partnership, with no impairment recognized for the year ended December 31, 2020.

We identified management's impairment assessment as a critical audit matter primarily because of the significant estimates involved in management's impairment analysis, as these estimates resulted in audit procedures involving a high degree of auditor judgment and subjectivity and challenges in obtaining and evaluating audit evidence.

Our testing procedures to address this critical audit matter included the following:

- testing the design and operating effectiveness of the Company's internal control over financial reporting applicable to management's impairment assessment, including controls pertaining to management's estimates supporting the impairment analysis;
- evaluating the methodology used by management in its impairment analysis;
- comparing the operating income before depreciation for each property to historical results;
- evaluating the reasonableness of capitalization rates used in management's impairment analysis, taking into consideration comparable market data, including the location and quality rating of the properties; and
- evaluating the completeness and accuracy of the underlying data used by management in its impairment analysis.

Collectability Assessment of Accrued Rents and Accounts Receivable

As described in Note 2 to the Consolidated Financial Statements, management reviews the collectability of charges under its tenant operating leases and accrued rental revenues related to the straight-line method of reporting rental revenue, taking into consideration changes in factors such as the tenant's payment history, the financial condition of the tenant, business conditions in which the tenant operates, and economic conditions in the area in where the property is located, including the impact of the COVID-19 pandemic on tenants' businesses and financial condition. Actual results could differ from estimates supporting the Company's collectability analysis. If management deems it probably that a receivable will not be collected, an adjustment will be made to reduce rental revenue. As of December 31, 2020, the Company had $23.0 million in accrued rents and accounts receivable, net of a $16.4 million allowance for doubtful accounts. For the year ended December 31, 2020, the Company had a bad debt reduction to its rental revenue of $5.6 million, which included a bad debt adjustment of $2.3 million and a straight-line rent reserve adjustment of $1.2 million related to the conversion of 102 tenants to cash basis revenue.

We identified management's collectability assessment as a critical audit matter primarily because of the significant and unusual nature of the economic impact of the COVID-19 pandemic on collectability of charges under tenant operating leases, which materially contributed to a high degree of auditor judgment and challenges in obtaining and evaluating audit evidence when performing audit procedures.

Our testing procedures to address this critical audit matter included the following:

- testing the design and operating effectiveness of the Company's internal control over financial reporting applicable to management's collectability assessment, including controls pertaining to management's estimates supporting the collectability analysis;
- evaluating the methodology used by management in its collectability analysis;
- evaluating the reasonableness of the aggregate allowance percentage for accrued rents and accounts receivable, taking into consideration rent payments receivable per leasing agreements and rent payments received from tenants during the year ended December 31, 2020; and
- evaluating the completeness and accuracy of the underlying data used by management in its collectability analysis.

/s/ Pannell Kerr Forster of Texas, P.C.

We have served as the Company's auditors since 2002.

Houston, Texas
March 8, 2021

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees and Shareholders of
Whitestone REIT:

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Whitestone REIT and subsidiaries (the “Company”) as of December 31, 2020, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). In our opinion, the Company has maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated balance sheets and the related consolidated statements of operations and comprehensive income (loss), changes in equity, and cash flows of the Company, and our report dated March 8, 2021, expressed an unqualified opinion on the Company’s consolidated financial statements.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Pannell Kerr Forster of Texas, P.C.

We have served as the Company’s auditors since 2002.

Houston, Texas
March 8, 2021

Whitestone REIT and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	December 31, 2020	December 31, 2019
ASSETS		
Real estate assets, at cost		
Property	$ 1,106,426	$ 1,099,955
Accumulated depreciation	(163,712)	(137,933)
Total real estate assets	942,714	962,022
Investment in real estate partnership	33,979	34,097
Cash and cash equivalents	25,777	15,530
Restricted cash	179	113
Escrows and acquisition deposits	9,274	8,388
Accrued rents and accounts receivable, net of allowance for doubtful accounts	23,009	22,854
Receivable due from related party	335	477
Unamortized lease commissions, legal fees and loan costs	7,686	8,960
Prepaid expenses and other assets[(1)]	2,049	3,819
Total assets	$ 1,045,002	$ 1,056,260
LIABILITIES AND EQUITY		
Liabilities:		
Notes payable	$ 644,185	$ 644,699
Accounts payable and accrued expenses[(2)]	50,918	39,336
Payable due to related party	125	307
Tenants' security deposits	6,916	6,617
Dividends and distributions payable	4,532	12,203
Total liabilities	706,676	703,162
Commitments and contingencies:	—	—
Equity:		
Preferred shares, $0.001 par value per share; 50,000,000 shares authorized; none issued and outstanding as of December 31, 2020 and December 31, 2019	—	—
Common shares, $0.001 par value per share; 400,000,000 shares authorized; 42,391,316 and 41,492,117 issued and outstanding as of December 31, 2020 and December 31, 2019, respectively	42	41
Additional paid-in capital	562,250	554,816
Accumulated deficit	(215,809)	(204,049)
Accumulated other comprehensive loss	(14,400)	(5,491)
Total Whitestone REIT shareholders' equity	332,083	345,317
Noncontrolling interest in subsidiary	6,243	7,781
Total equity	338,326	353,098
Total liabilities and equity	$ 1,045,002	$ 1,056,260

See the accompanying notes to consolidated financial statements.

Whitestone REIT and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(in thousands)

	December 31,			
	2020		2019	
[1] Operating lease right of use assets (net)	$	592	$	1,328
[2] Operating lease liabilities	$	603	$	1,331

See accompanying notes to consolidated financial statements.

Whitestone REIT and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(in thousands)

	Year Ended December 31,		
	2020	**2019**	**2018**
Revenues			
Rental[1]	$ 115,084	$ 117,014	$ 117,464
Management, transaction, and other fees	2,831	2,237	2,399
Total revenues	117,915	119,251	119,863
Operating expenses			
Depreciation and amortization	28,303	26,740	25,679
Operating and maintenance	20,563	20,611	21,069
Real estate taxes	18,015	16,293	16,362
General and administrative[2]	21,303	21,661	23,281
Total operating expenses	88,184	85,305	86,391
Other expenses (income)			
Interest expense	25,770	26,285	25,177
Loss (gain) on sale or disposal of assets, net	364	(638)	(4,547)
Gain on loan forgiveness	(1,734)	—	—
Interest, dividend and other investment income	(278)	(659)	(1,055)
Total other expense	24,122	24,988	19,575
Income before equity investment in real estate partnership and income tax	5,609	8,958	13,897
Equity in earnings of real estate partnership	921	15,076	8,431
Provision for income tax	(379)	(400)	(347)
Income from continuing operations	6,151	23,634	21,981
Gain on sale of property from discontinued operations	—	594	—
Income from discontinued operations	—	594	—
Net income	6,151	24,228	21,981
Less: Net income attributable to noncontrolling interests	117	545	550
Net income attributable to Whitestone REIT	$ 6,034	$ 23,683	$ 21,431

See the accompanying notes to consolidated financial statements.

Whitestone REIT and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(in thousands, except per share data)

	Year Ended December 31,		
	2020	2019	2018
Basic Earnings Per Share:			
Income from continuing operations attributable to Whitestone REIT, excluding amounts attributable to unvested restricted shares	$ 0.14	$ 0.57	$ 0.54
Income from discontinued operations attributable to Whitestone REIT	0.00	0.02	0.00
Net income attributable to common shareholders, excluding amounts attributable to unvested restricted shares	$ 0.14	$ 0.59	$ 0.54
Diluted Earnings Per Share:			
Income from continuing operations attributable to Whitestone REIT, excluding amounts attributable to unvested restricted shares	$ 0.14	$ 0.56	$ 0.52
Income from discontinued operations attributable to Whitestone REIT	0.00	0.01	0.00
Net income attributable to common shareholders, excluding amounts attributable to unvested restricted shares	$ 0.14	$ 0.57	$ 0.52
Weighted average number of common shares outstanding:			
Basic	42,244	40,184	39,274
Diluted	42,990	41,462	40,612
Consolidated Statements of Comprehensive Income (Loss)			
Net income	$ 6,151	$ 24,228	$ 21,981
Other comprehensive income (loss)			
Unrealized gain (loss) on cash flow hedging activities	(9,062)	(9,828)	1,192
Unrealized gain on available-for-sale marketable securities	—	—	18
Comprehensive income (loss)	(2,911)	14,400	23,191
Less: Net income attributable to noncontrolling interests	117	545	550
Less: Comprehensive income (loss) attributable to noncontrolling interests	(173)	(221)	30
Comprehensive income (loss) attributable to Whitestone REIT	$ (2,855)	$ 14,076	$ 22,611

See the accompanying notes to consolidated financial statements.

Whitestone REIT and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(in thousands)

	Year Ended December 31,		
	2020	**2019**	**2018**
[1] **Rental**			
Rental revenues	$ 87,291	$ 86,750	$ 86,644
Recoveries	33,442	31,748	30,820
Bad debt	(5,649)	(1,484)	N/A
Total rental	$ 115,084	$ 117,014	$ 117,464
[2] Bad debt included in operating and maintenance expenses prior to adoption of Topic 842	N/A	N/A	$ 1,391

See accompanying notes to consolidated financial statements.

Whitestone REIT and Subsidiaries
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in thousands, except per share and unit data)

	Common Shares		Additional	Accumulated	Accumulated Other	Total	Noncontrolling Interests		Total
	Shares	Amount	Paid-in Capital	Deficit	Comprehensive Gain (Loss)	Shareholders' Equity	Units	Dollars	Equity
Balance, December 31, 2017	39,222	$ 38	$ 521,314	$ (176,684)	$ 2,936	$ 347,604	1,084	$ 10,800	$ 358,404
Impact of change in accounting principal:									
ASU 2014-09[1]	—	—	—	19,119	—	19,119	—	—	19,119
Balance January 1, 2018	39,222	38	521,314	(157,565)	2,936	366,723	1,084	10,800	377,523
Exchange of noncontrolling interest OP units for common shares	155	1	1,545	—	—	1,546	(155)	(1,546)	—
Issuance of common shares under dividend reinvestment plan	10	—	133	—	—	133	—	—	133
Exchange offer costs	—	—	(126)	—	—	(126)	—	—	(126)
Repurchase of common shares [2]	(160)	—	(1,961)	—	—	(1,961)	—	—	(1,961)
Share-based compensation	551	—	6,742	—	—	6,742	—	—	6,742
Distributions	—	—	—	(45,227)	—	(45,227)	—	(1,125)	(46,352)
Unrealized gain on change in fair value of cash flow hedge	—	—	—	—	1,162	1,162	—	30	1,192
Unrealized gain on change in fair value of available-for sale marketable securities	—	—	—	—	18	18	—	—	18
Reallocation of ownership percentage between parent and subsidiary	—	—	15	—	—	15	—	(15)	—
Net income	—	—	—	21,431	—	21,431	—	550	21,981
Balance, December 31, 2018	39,778	39	527,662	(181,361)	4,116	350,456	929	8,694	359,150
Exchange of noncontrolling interest OP units for common shares	20	—	186	—	—	186	(20)	(186)	—
Issuance of common shares under dividend reinvestment plan	10	—	137	—	—	137	—	—	137
Issuance of common shares - ATM Program, net of offering costs	1,612	2	21,244	—	—	21,246	—	—	21,246
Exchange offer costs	—	—	(120)	—	—	(120)	—	—	(120)
Repurchase of common shares [2]	(65)	—	(776)	—	—	(776)	—	—	(776)
Share-based compensation	137	—	6,483	—	—	6,483	—	—	6,483
Distributions	—	—	—	(46,371)	—	(46,371)	—	(1,051)	(47,422)
Unrealized loss on change in fair value of cash flow hedge	—	—	—	—	(9,607)	(9,607)	—	(221)	(9,828)
Net income	—	—	—	23,683	—	23,683	—	545	24,228
Balance, December 31, 2019	41,492	41	554,816	(204,049)	(5,491)	345,317	909	7,781	353,098

See the accompanying notes to consolidated financial statements.

Whitestone REIT and Subsidiaries
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in thousands, except per share and unit data)

	Common Shares		Additional Paid-in	Accumulated	Accumulated Other Comprehensive	Total Shareholders'	Noncontrolling Interests		Total
	Shares	Amount	Capital	Deficit	Gain (Loss)	Equity	Units	Dollars	Equity
Balance, December 31, 2019	41,492	$ 41	$ 554,816	$ (204,049)	$ (5,491)	$ 345,317	909	$ 7,781	$ 353,098
Exchange of noncontrolling interest OP units for common shares	136	1	1,161	—	—	1,162	(136)	(1,162)	—
Issuance of common shares under dividend reinvestment plan	11	—	89	—	—	89	—	—	89
Issuance of common shares - ATM Program, net of offering costs	171	—	2,241	—	—	2,241	—	—	2,241
Exchange offer costs	—	—	(43)	—	—	(43)	—	—	(43)
Repurchase of common shares [(2)]	(178)	—	(2,077)	—	—	(2,077)	—	—	(2,077)
Share-based compensation	759	—	6,063	—	—	6,063	—	—	6,063
Distributions	—	—	—	(17,794)	—	(17,794)	—	(340)	(18,134)
Unrealized loss on change in fair value of cash flow hedge	—	—	—	—	(8,889)	(8,889)	—	(173)	(9,062)
Reallocation of ownership percentage between parent and subsidiary	—	—	—	—	(20)	(20)		20	—
Net income	—	—	—	6,034	—	6,034	—	117	6,151
Balance, December 31, 2020	42,391	$ 42	$ 562,250	$ (215,809)	$ (14,400)	$ 332,083	773	$ 6,243	$ 338,326

(1) Represents the impact of change in accounting principal for our modified retrospective adoption of ASU 2014-09. See Note 2 of the notes to the consolidated financial statements for additional disclosure.

(2) During the years ended December 31, 2020, 2019 and 2018, the Company acquired common shares held by employees who tendered owned common shares to satisfy the tax withholding on the lapse of certain restrictions on restricted shares.

See the accompanying notes to consolidated financial statements.

Whitestone REIT and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2020	2019	2018
Cash flows from operating activities:			
Net income from continuing operations	$ 6,151	$ 23,634	$ 21,981
Net income from discontinued operations	—	594	—
Net income	6,151	24,228	21,981
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	28,303	26,740	25,679
Amortization of deferred loan costs	1,113	1,095	1,092
Loss on sale of marketable securities	—	—	20
Gain on sale or disposal of assets and loan forgiveness, net	(1,370)	(638)	(4,547)
Bad debt	5,649	1,484	1,391
Share-based compensation	6,063	6,483	6,741
Equity in earnings of real estate partnership	(921)	(15,076)	(8,431)
Changes in operating assets and liabilities:			
Escrows and acquisition deposits	(885)	(177)	(295)
Accrued rents and accounts receivable	(6,055)	(2,998)	(1,893)
Receivable due from related party	142	(83)	610
Distributions from real estate partnership	1,039	6,926	1,324
Unamortized lease commissions, legal fees and loan costs	(1,343)	(1,824)	(1,676)
Prepaid expenses and other assets	2,255	(4,163)	1,175
Accounts payable and accrued expenses	2,518	5,609	(2,429)
Payable due to related party	(182)	249	(1,621)
Tenants' security deposits	299	487	436
Net cash provided by operating activities	42,776	47,748	39,557
Cash flows from investing activities:			
Acquisitions of real estate	—	(34,804)	—
Additions to real estate	(7,362)	(13,243)	(11,638)
Proceeds from note receivable	922	—	—
Proceeds from sales of properties	—	—	12,574
Proceeds from financed receivable due from related party	—	5,661	9,812
Proceeds from sales of marketable securities	—	—	30
Net cash provided by (used in) investing activities	(6,440)	(42,386)	10,778
Net cash provided by investing activities of discontinued operations	—	594	—
Cash flows from financing activities:			
Distributions paid to common shareholders	(25,203)	(45,627)	(44,944)
Distributions paid to OP unit holders	(511)	(1,055)	(1,155)
Proceeds from issuance of common shares, net of offering costs	2,241	21,244	—
Payments of exchange offer costs	(43)	(120)	(126)
Proceeds from bonds and notes payable	1,734	100,000	—
Net proceeds from (payments of) credit facility	10,000	(66,700)	9,000
Repayments of notes payable	(12,164)	(8,095)	(2,543)
Payments of loan origination costs	—	(2,970)	(30)
Repurchase of common shares	(2,077)	(776)	(1,961)
Net cash used in financing activities	(26,023)	(4,099)	(41,759)
Net increase in cash, cash equivalents and restricted cash	10,313	1,857	8,576
Cash, cash equivalents and restricted cash at beginning of period	15,643	13,786	5,210
Cash, cash equivalents and restricted cash at end of period [1]	$ 25,956	$ 15,643	$ 13,786

(1) For a reconciliation of cash, cash equivalents and restricted cash, see supplemental disclosures below.

Whitestone REIT and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
Supplemental Disclosures
(in thousands)

	Year Ended December 31,		
	2020	**2019**	**2018**
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 24,741	$ 25,360	$ 24,610
Cash paid for taxes	$ 353	$ 396	$ 304
Non cash investing and financing activities:			
Disposal of fully depreciated real estate	$ 88	$ 234	$ 937
Financed insurance premiums	$ 1,431	$ 1,238	$ 1,273
Value of shares issued under dividend reinvestment plan	$ 89	$ 137	$ 133
Value of common shares exchanged for OP units	$ 1,162	$ 186	$ 1,546
Change in fair value of available-for-sale securities	$ —	$ —	$ 18
Change in fair value of cash flow hedge	$ (9,062)	$ (9,828)	$ 1,192
Reallocation of ownership percentage between parent and subsidiary	$ (20)	$ —	$ 15
Property received as termination fee	$ 251	$ —	$ 250

	December 31,		
	2020	**2019**	**2018**
Cash, cash equivalents and restricted cash			
Cash and cash equivalents	$ 25,777	$ 15,530	$ 13,658
Restricted cash	179	113	128
Total cash, cash equivalents and restricted cash	$ 25,956	$ 15,643	$ 13,786

See the accompanying notes to consolidated financial statements.

1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

Whitestone REIT ("Whitestone") was formed as a real estate investment trust, pursuant to the Texas Real Estate Investment Trust Act on August 20, 1998. In July 2004, we changed our state of organization from Texas to Maryland pursuant to a merger where we merged directly with and into a Maryland real estate investment trust formed for the sole purpose of the reorganization and the conversion of each of our outstanding common shares of beneficial interest of the Texas entity into 1.42857 common shares of beneficial interest of the Maryland entity. We serve as the general partner of Whitestone REIT Operating Partnership, L.P. (the "Operating Partnership" or "WROP" or "OP"), which was formed on December 31, 1998 as a Delaware limited partnership. We currently conduct substantially all of our operations and activities through the Operating Partnership. As the general partner of the Operating Partnership, we have the exclusive power to manage and conduct the business of the Operating Partnership, subject to certain customary exceptions. As of December 31, 2020, 2019 and 2018, we owned 58, 58, and 57 commercial properties, respectively, in and around Austin, Chicago, Dallas-Fort Worth, Houston, Phoenix and San Antonio.

As of December 31, 2020, these properties consist of:

Consolidated Operating Portfolio

- 52 wholly-owned properties that meet our Community Centered Properties® strategy;

Redevelopment, New Acquisitions Portfolio

- one wholly-owned property, Las Colinas Village, that meets our Community Centered Properties® strategy, and is classified as part of our new acquisition portfolio. Acquired properties are categorized in the new acquisition portfolio until the earlier of attainment of 90% occupancy or 18 months of ownership; and

- five parcels of land held for future development.

As of December 31, 2020, we, through our equity-method investment in Pillarstone Capital REIT Operating Partnership LP ("Pillarstone" or "Pillarstone OP"), owned a majority interest in eight properties that do not meet our Community Centered Property® strategy containing approximately 0.9 million square feet of GLA (the "Pillarstone Properties"). We own 81.4% of the total outstanding units of Pillarstone OP, which we account for using the equity method. We also manage the day-to-day operations of Pillarstone OP.

We anticipate that the global health crisis caused by COVID-19 and the related responses intended to control its spread will continue to adversely affect business activity, particularly relating to our retail tenants, across the markets in which we operate. As part of the initial responses to the virus, many governmental authorities implemented measures such as enhanced screenings, quarantine or shelter in place requirements and travel restrictions, including local governments in Texas and Arizona, where all but one of our properties are located. In May 2020, parts of the U.S. began to ease certain restrictions and allow for the reopening of businesses but with required or recommended safety protocols. Due to the increase in the number of COVID-19 cases in the fall of 2020, parts of the U.S. implemented additional stay in place orders and other restrictions. While as of the date of this Annual Report on Form 10-K, service businesses are permitted to be open with limited occupancy in Texas and Arizona, the timing and ultimate impact of any steps to reopen the economy as a whole and on our and our tenants' businesses and financial condition remains uncertain. As a result, there can be no assurance that service businesses will remain open in the near term, or that state and local governments will not take additional measures to control a possible resurgence of COVID-19 in Texas and/or Arizona, any of which may adversely impact our or our tenants' businesses and their ability to pay their rental payments or otherwise occupy their space. Though COVID-19 vaccines have become available in the U.S. there remain uncertainties as to the logistics of distribution and the overall efficacy of the vaccine program, and there can be no assurances regarding the timing for when vaccines or other therapies will be widely available and effective and the related impact on the economic recovery. In light of the changing nature of the COVID-19 pandemic, we are unable to predict the extent that its impact will have on our financial condition, results of operations and cash flows due to numerous uncertainties including, but not limited to, the duration and spread of the pandemic, its severity in our markets and elsewhere, governmental actions to contain the spread of the pandemic and respond to the reduction in global economic activity, the unknown timing or effectiveness of treatments, possible resurgences of COVID-19 cases in future periods and how quickly and to what extent normal economic and operating conditions can resume.

The Company is closely monitoring the impact of the COVID-19 pandemic on all aspects of its business and markets, including how it will impact the businesses of its tenants. The Company has put in place a temporary response team to address tenant concerns in light of the COVID-19 pandemic. The response team is in ongoing communication with the Company's tenants and is assisting tenants in identifying local, state and federal resources that may be available to support their businesses and employees during the pandemic, including stimulus funds that may be available under the CARES Act. To date, the Company has received a number of rent relief requests from tenants, most often in the form of rent deferral requests, as a result of the COVID-19 pandemic. The Company is evaluating each tenant rent relief request on an case-by-case basis, considering a number of factors. Not all tenant requests will ultimately result in lease concessions, nor is the Company forgoing its contractual rights under its lease agreements at this time. As of the date of this Annual Report on Form 10-K, as a result of the impact of the COVID-19 pandemic, we have received payments of approximately 95% of contractual base rent and common area maintenance reimbursables billed for the fourth quarter.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation. We are the sole general partner of the Operating Partnership and possess full legal control and authority over the operations of the Operating Partnership. As of December 31, 2020, 2019 and 2018, we owned a majority of the partnership interests in the Operating Partnership. Consequently, the accompanying consolidated financial statements include the accounts of the Operating Partnership.

Noncontrolling interest in the accompanying consolidated financial statements represents the share of equity and earnings of the Operating Partnership allocable to holders of partnership interests other than us. Net income or loss is allocated to noncontrolling interests based on the weighted-average percentage ownership of the Operating Partnership during the year. Issuance of additional common shares of beneficial interest in Whitestone (the "common shares") and units of limited partnership interest in the Operating Partnership that are convertible into cash or, at our option, common shares on a one-for-one basis (the "OP units") changes the percentage of ownership interests of both the noncontrolling interests and Whitestone.

Profit-sharing Method. In accordance with the Financial Accounting Standards Board's ("FASB") guidance applicable to sales of real estate or interests therein, specifically FASB Accounting Standards Codification ("ASC") 360-20, "Real Estate Sales," Topic 606, "Revenue from Contracts with Customers" and ASC 610, "Other Income–Gains and Losses from the Derecognition of Nonfinancial Assets," we did not recognize the sale of assets to Pillarstone OP in the Contribution (as defined in Note 5) and accounted for the transaction under the profit-sharing method for the year ended December 31, 2017. We recognized Pillarstone OP's real estate assets and notes payables in our consolidated balance sheets. Additionally, the profits and losses of Pillarstone OP not attributable to the Company are reported as profit sharing expense. As a result of the adoption of Topic 606 and ASC 610, the Company derecognized the underlying assets and liabilities associated with the Contribution as of January 1, 2018 and recognized the Company's investment in Pillarstone OP under the equity method.

Equity Method. For the years prior to December 31, 2017, Pillarstone OP was accounted for under the profit-sharing method. We adopted Topic 606 and ASC 610 as of January 1, 2018, resulting in the derecognition of the underlying assets and liabilities associated with the Contribution (defined in Note 5) as of January 1, 2018 and the recognition of the Company's investment in Pillarstone OP under the equity method. See Note 5 for additional disclosure on Pillarstone OP.

As of December 31, 2020, we, through our investment in Pillarstone OP, owned a majority interest in eight properties that do not meet our Community Centered Property® strategy containing approximately 0.9 million square feet of GLA. We own 81.4% of the total outstanding units of Pillarstone OP. We also manage the day-to-day operations of Pillarstone OP. In this Annual Report on Form 10-K, unless otherwise indicated, we do not include the Pillarstone Properties when we refer to our properties.

Basis of Accounting. Our financial records are maintained on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recorded when incurred.

Use of Estimates. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates that we use include the estimated fair values of properties acquired, the estimated useful lives for depreciable and amortizable assets and costs, the grant date fair value of common share units included in share-based compensation expense, the estimated allowance for doubtful accounts, the estimated fair value of interest rate swaps and the estimates supporting our impairment analysis for the carrying values of our real estate assets. Actual results could differ from those estimates. In particular, the COVID-19 pandemic has adversely impacted and is likely to further adversely impact the Company's business and markets, including the Company's operations and the operations of its tenants. The full extent to which the pandemic will directly or indirectly impact the Company's business, results of operations and financial condition, including revenues, expenses, reserves and allowances, fair value measurements, and asset impairment charges, will depend on future developments that are highly uncertain and difficult to predict. These developments include, but are not limited to, the duration and spread of the pandemic, its severity in our markets and elsewhere, the impact on our tenants' businesses and financial condition, governmental actions to contain the spread of the pandemic and respond to the reduction in global economic activity, and how quickly and to what extent normal economic and operating conditions can resume.

Reclassifications. We have reclassified certain prior year amounts in the accompanying consolidated financial statements in order to be consistent with the current fiscal year presentation. Other than the effects noted below, these reclassifications had no effect on net income, total assets, total liabilities or equity.

Restricted Cash. We classify all cash pledged as collateral to secure certain obligations and all cash whose use is limited as restricted cash. During 2015, pursuant to the terms of our $15.1 million 4.99% Note, due January 6, 2024, which is collateralized by our Anthem Marketplace property, we were required by the lenders thereunder to establish a cash management account controlled by the lenders to collect all amounts generated by our Anthem Marketplace property in order to collateralize such promissory note.

Share-Based Compensation. From time to time, we award nonvested restricted common share awards or restricted common share unit awards, which may be converted into common shares, to executive officers and employees under our 2018 Long-Term Equity Incentive Ownership Plan (the "2018 Plan"). Awarded shares and units vest when certain performance conditions are met. We recognize compensation expense when achievement of the performance conditions is probable based on management's most recent estimates using the fair value of the shares as of the grant date. We recognized $6.1 million, $6.5 million and $6.8 million in share-based compensation expense for the years ended December 31, 2020, 2019 and 2018, respectively.

At our annual meeting of shareholders on May 11, 2017, our shareholders voted to approve the 2018 Plan. The 2018 Plan provides for the issuance of up to 3,433,831 common shares and OP units pursuant to awards under the 2018 Plan. The 2018 Plan became effective on July 30, 2018, which was the day after the 2008 Plan expired.

Noncontrolling Interests. Noncontrolling interests are the portion of equity in a subsidiary not attributable to a parent. The ownership interests not held by the parent are considered noncontrolling interests. Accordingly, we have reported noncontrolling interests in equity on the consolidated balance sheets but separate from Whitestone's equity. On the consolidated statements of operations and comprehensive income (loss), subsidiaries are reported at the consolidated amount, including both the amount attributable to Whitestone and noncontrolling interests. Consolidated statements of changes in equity are included for both quarterly and annual financial statements, including beginning balances, activity for the period and ending balances for shareholders' equity, noncontrolling interests and total equity.

Revenue Recognition. All leases on our properties are classified as operating leases, and the related rental income is recognized on a straight-line basis over the terms of the related leases. Differences between rental income earned and amounts due per the respective lease agreements are capitalized or charged, as applicable, to accrued rents and accounts receivable. Percentage rents are recognized as rental income when the thresholds upon which they are based have been met. Recoveries from tenants for taxes, insurance, and other operating expenses are recognized as revenues in the period the corresponding costs are incurred. We combine lease and nonlease components in lease contracts, which includes combining base rent, recoveries, and percentage rents into a single line item, *Rental*, within the consolidated statements of operations and comprehensive income (loss). Additionally, we have tenants who pay real estate taxes directly to the taxing authority. We exclude these costs paid directly by the tenant to third parties on our behalf from revenue recognized and the associated property operating expense.

Other property income primarily includes amounts recorded in connection with management fees and lease termination fees. Pillarstone OP pays us management fees for property management, leasing and day-to-day advisory and administrative services. Their obligations are satisfied over time. Pillarstone OP is billed monthly and typically pays quarterly. Revenues are governed by the Management Agreements (as defined in Note 5). Refer to Note 5 to our accompanying consolidated financial statements for additional information regarding the Management Agreements with Pillarstone OP. Additionally, we recognize lease termination fees in the year that the lease is terminated and collection of the fee is probable. Amounts recorded within other property income are accounted for at the point in time when control of the goods or services transfers to the customer and our performance obligation is satisfied.

Cash and Cash Equivalents. We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents as of December 31, 2020 and 2019 consisted of demand deposits at commercial banks and brokerage accounts. We may have net book credit balances in our primary disbursement accounts at the end of a reporting period. We classify such credit balances as accounts payable in our consolidated balance sheets as checks presented for payment to these accounts are not payable by our banks under overdraft arrangements, and, therefore, do not represent short-term borrowings.

Marketable Securities. We classify our existing marketable equity securities as available-for-sale in accordance with the Financial Accounting Standards Board's ("FASB") Investments-Debt and Equity Securities guidance. These securities are carried at fair value with unrealized gains and losses reported in equity as a component of accumulated other comprehensive income or loss. The fair value of the marketable securities is determined using Level 1 inputs under FASB Accounting Standards Codification ("ASC") 820, "*Fair Value Measurements and Disclosures.*" Level 1 inputs represent quoted prices available in an active market for identical investments as of the reporting date. Gains and losses on securities sold are based on the specific identification method, and are reported as a component of interest, dividend and other investment income.

Real Estate

Development Properties. Land, buildings and improvements are recorded at cost. Expenditures related to the development of real estate are carried at cost which includes capitalized carrying charges and development costs. Carrying charges (interest, real estate taxes, loan fees, and direct and indirect development costs related to buildings under construction) are capitalized as part of construction in progress. The capitalization of such costs ceases when the property, or any completed portion, becomes available for occupancy. For the year ended December 31, 2020, approximately $481,000 and $306,000 in interest expense and real estate taxes, respectively, were capitalized. For the year ended December 31, 2019, approximately $500,000 and $320,000 in interest expense and real estate taxes, respectively, were capitalized. For the year ended December 31, 2018, approximately $574,000 and $365,000 in interest expense and real estate taxes, respectively, were capitalized. Due to the COVID-19 pandemic, we have taken a prudent pause in acquisitions activity and are carefully evaluating development and redevelopment activities on a case-by-case basis.

Acquired Properties and Acquired Lease Intangibles. We allocate the purchase price of the acquired properties to land, building and improvements, identifiable intangible assets and to the acquired liabilities based on their respective fair values at the time of purchase. Identifiable intangibles include amounts allocated to acquired out-of-market leases, the value of in-place leases and customer relationship value, if any. We determine fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends and specific market and economic conditions that may affect the property. Factors considered by management in our analysis of determining the as-if-vacant property value include an estimate of carrying costs during the expected lease-up periods considering market conditions, and costs to execute similar leases. In estimating carrying costs, management includes real estate taxes, insurance and estimates of lost rentals at market rates during the expected lease-up periods, tenant demand and other economic conditions. Management also estimates costs to execute similar leases including leasing commissions, tenant improvements, legal and other related expenses. Intangibles related to out-of-market leases and in-place lease value are recorded as acquired lease intangibles and are amortized as an adjustment to rental revenue or amortization expense, as appropriate, over the remaining terms of the underlying leases. Premiums or discounts on acquired out-of-market debt are amortized to interest expense over the remaining term of such debt.

Depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of 5 to 39 years for improvements and buildings, respectively. Tenant improvements are depreciated using the straight-line method over the life of the improvement or remaining term of the lease, whichever is shorter.

Impairment. We review our properties for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of the assets, including accrued rental income, may not be recoverable through operations. We determine whether an impairment in value has occurred by comparing the estimated future cash flows (undiscounted and without interest charges), including the estimated residual value of the property, with the carrying cost of the property. If impairment is indicated, a loss will be recorded for the amount by which the carrying value of the property exceeds its fair value. Management has determined that there has been no impairment in the carrying value of our real estate assets as of December 31, 2020.

Accrued Rents and Accounts Receivable. Included in accrued rents and accounts receivable are base rents, tenant reimbursements and receivables attributable to recording rents on a straight-line basis. We review the collectability of charges under our tenant operating leases on a regular basis, taking into consideration changes in factors such as the tenant's payment history, the financial condition of the tenant, business conditions in the industry in which the tenant operates and economic conditions in the area where the property is located including the impact of the COVID-19 pandemic on tenants' businesses and financial condition. With the adoption of ASC No. 842, Leases ("Topic 842"), as of January 1, 2019 we recognize an adjustment to rental revenue if we deem it probable that the receivable will not be collected. Prior to the adoption of Topic 842, we recognized an allowance for doubtful accounts and bad debt expense of the specific rents receivable. Our review of collectability under our operating leases includes any accrued rental revenues related to the straight-line method of reporting rental revenue. As of December 31, 2020 and 2019, we had an allowance for uncollectible accounts of $16.4 million and $11.2 million, respectively. For the years ending December 31, 2020 and 2019, we recorded an adjustment to rental revenue in the amount of $5.6 million and $1.5 million, respectively. Included in the adjustment to rental revenue for the year ending December 31, 2020, was a bad debt adjustment of $2.3 million and a straight-line rent reserve adjustment of $1.2 million related to credit loss for the conversion of 102 tenants to cash basis revenue as a result of COVID-19 collectability analysis. For the year ending December 31, 2018, we recorded bad debt expense in the amount of $1.4 million.

Unamortized Lease Commissions and Loan Costs. Leasing commissions are amortized using the straight-line method over the terms of the related lease agreements. Loan costs are amortized on the straight-line method over the terms of the loans, which approximates the interest method. Costs allocated to in-place leases whose terms differ from market terms related to acquired properties are amortized over the remaining life of the respective leases.

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

Federal Income Taxes. We elected to be taxed as a REIT under the Code beginning with our taxable year ended December 31, 1999. As a REIT, we generally are not subject to federal income tax on income that we distribute to our shareholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income at regular corporate rates. We believe that we are organized and operate in such a manner as to qualify to be taxed as a REIT, and we intend to operate so as to remain qualified as a REIT for federal income tax purposes.

State Taxes. We are subject to the Texas Margin Tax, which is computed by applying the applicable tax rate (1% for us) to the profit margin, which, generally, will be determined for us as total revenue less a 30% standard deduction. Although the Texas Margin Tax is not considered an income tax, FASB ASC 740, *"Income Taxes"* ("ASC 740") applies to the Texas Margin Tax. As of December 31, 2020, 2019 and 2018, we recorded a margin tax provision of $0.4 million, $0.4 million and $0.4 million, respectively.

Fair Value of Financial Instruments. Our financial instruments consist primarily of cash, cash equivalents, accounts receivable, accounts and notes payable and investments in marketable securities. The carrying value of cash, cash equivalents, accounts receivable and accounts payable are representative of their respective fair values due to their short-term nature. The fair value of our long-term debt, consisting of fixed rate secured notes, variable rate secured notes and an unsecured revolving credit facility aggregate to approximately $646.4 million and $653.7 million as compared to the book value of approximately $645.2 million and $645.9 million as of December 31, 2020 and 2019, respectively. The fair value of our long-term debt is estimated on a Level 2 basis (as provided by ASC 820, *"Fair Value Measurements and Disclosures*" ("ASC 820")), using a discounted cash flow analysis based on the borrowing rates currently available to us for loans with similar terms and maturities, discounting the future contractual interest and principal payments.

The fair value of our loan guarantee to Pillarstone OP is estimated on a Level 3 basis (as provided by ASC 820, "*Fair Value Measurements and Disclosures"*), using a probability-weighted discounted cash flow analysis based on a discount rate, discounting the loan balance. The fair value of the loan guarantee is $0.1 million and $0.1 million as compared to the book value of approximately $0.1 million and $0.1 million as of December 31, 2020 and 2019, respectively.

Disclosure about fair value of financial instruments is based on pertinent information available to management as of December 31, 2020 and 2019. Although management is not aware of any factors that would significantly affect the fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since December 31, 2020 and current estimates of fair value may differ significantly from the amounts presented herein.

Derivative Instruments and Hedging Activities. We utilize derivative financial instruments, principally interest rate swaps, to manage our exposure to fluctuations in interest rates. We have established policies and procedures for risk assessment, and the approval, reporting and monitoring of derivative financial instruments. We recognize our interest rate swaps as cash flow hedges with the effective portion of the changes in fair value recorded in comprehensive income (loss) and subsequently reclassified into earnings in the period that the hedged transaction affects earnings. Any ineffective portion of a cash flow hedge's change in fair value is recorded immediately into earnings. Our cash flow hedges are determined using Level 2 inputs under ASC 820. Level 2 inputs represent quoted prices in active markets for similar assets or liabilities; quoted prices in markets that are not active; and model-derived valuations whose inputs are observable. As of December 31, 2020, we consider our cash flow hedges to be highly effective.

Concentration of Risk. Substantially all of our revenues are obtained from office and retail locations in the Austin, Chicago, Dallas-Fort Worth, Houston, Phoenix and San Antonio metropolitan areas. We maintain cash accounts in major U.S. financial institutions. The terms of these deposits are on demand to minimize risk. The balances of these accounts sometimes exceed the federally insured limits, although no losses have been incurred in connection with these deposits.

Recent Accounting Pronouncements. In April 2020, the FASB issued guidance on the application of Topic 842, relating to concessions being made by lessors in response to the COVID-19 pandemic. The guidance notes that it would be acceptable for entities to make an election to account for lease concessions relating to the effects of the COVID-19 pandemic consistent with how those concessions would be accounted for under Topic 842 as though enforceable rights and obligations for those concessions existed, even if such enforceable rights and obligations are not explicitly contained in the lease contract. Thus, for concessions relating to the COVID-19 pandemic, an entity would not have to analyze each contract to determine whether enforceable rights and obligations for concessions exist in the contract, and would have the option to apply, or not to apply, the general lease modification guidance in Topic 842 as it stands. We have elected this option to account for lease concessions relating to the effects of the COVID-19 pandemic consistent with how those concessions would be accounted for under Topic 842 as though enforceable rights and obligations for those concessions existed. Therefore, such concessions are not accounted for as a lease modification under Topic 842.

In May 2014, the FASB issued guidance, as amended in subsequent updates, establishing a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and superseded most of the existing revenue recognition guidance. The standard also required an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also required certain additional disclosures. This guidance became effective for the reporting periods beginning on or after December 15, 2017, and interim periods within those fiscal years. We adopted this guidance on a modified retrospective basis beginning January 1, 2018 and have derecognized the underlying assets and liabilities associated with the Contribution as of January 1, 2018 and have recognized the Company's investment in Pillarstone OP under the equity method of accounting. The Company made an adjustment which decreased the Company's accumulated deficit as of January 1, 2018 by $19.1 million. See Note 5 for further details.

In February 2016, FASB issued ASU No. 2016-2 which provided the principles for the recognition, measurement, presentation and disclosure of leases. Additional guidance and targeted improvements to Topic 842 were made through the issuance of supplementary ASUs in July 2018, December 2018 and March 2019.

Effective January 1, 2019, we adopted the new lease accounting guidance in Topic 842. As the lessee and lessor, we have elected the package of practical expedients permitted in Topic 842. Accordingly, we have accounted for our existing operating leases as operating leases under the new guidance, without reassessing (a) whether the contract contains a lease under

Topic 842, (b) whether classification of the operating lease would be different in accordance with Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments (as of December 31, 2018) would have met the definition of initial direct costs in Topic 842 at lease commencement. Additionally, as the lessee and lessor we will use hindsight in determining the lease term and in assessing impairment of our right-of-use assets. As a result of the adoption of the new lease accounting guidance, as the lessee, we recognized on January 1, 2019 (a) a lease liability of approximately $1.1 million, which represents the present value of the remaining lease payments of approximately $1.2 million discounted using our incremental borrowing rate of 4.5%, and (b) a right-of-use asset of approximately $1.1 million. The adoption of Topic 842 did not have a material impact to our net income and related per share amounts.

Upon adoption of Topic 842, lessees and lessors are required to apply a modified retrospective transition approach. Reporting entities are permitted to choose one of two methods to recognize and measure leases within the scope of Topic 842:

- Apply Topic 842 to each lease that existed at the beginning of the earliest comparative period presented in the financial statements as well as leases that commenced after that date. Under this method, prior comparative periods presented are adjusted. For leases that commenced prior to the beginning of the earliest comparative period presented, a cumulative-effect adjustment is recognized at that date.

- Apply the guidance to each lease that had commenced as of the beginning of the reporting period in which the entity first applies the lease standard with a cumulative-effect adjustment as of that date. Prior comparative periods would not be adjusted under this method.

We have elected an optional transition method that allows entities to initially apply Topic 842 at January 1, 2019, the date of adoption, and to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. As the lessor, we have not assessed unamortized legal costs as part of the package of practical expedients, and we will not make any adjustment to retained earnings at the date of adoption to write off unamortized legal costs. We will continue to amortize unamortized legal costs as of December 31, 2018 over the life of the respective leases. We did not have a cumulative-effect adjustment as of the adoption date. Additionally, the optional transition method does allow us to not have to apply the new standard (including disclosure requirements) to comparative periods presented. Those periods can continue to be presented in accordance with prior generally accepted accounting principles.

Topic 842 requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases and operating leases. Based on our election of the package of practical expedients, our existing commercial leases, where we are the lessor, continue to be accounted for as operating leases under the new standard. However, Topic 842 changed certain requirements regarding the classification of leases that could result in us recognizing certain long-term leases entered into or modified after January 1, 2019 as sales-type leases or finance leases, as opposed to operating leases. We will continue to monitor our leases following the adoption date to ensure that they are classified in accordance with the new lease standards.

We elected a practical expedient which allows lessors to not separate non-lease components from the lease component when the timing and pattern of transfer for the lease components and non-lease components are the same and if the lease component is classified as an operating lease. As a result, we now present all rentals and reimbursements from tenants as a single line item, *Rental*, within the consolidated statements of operations and comprehensive income (loss).

We review the collectability of charges under our tenant operating leases on a regular basis, taking into consideration changes in factors such as the tenant's payment history, the financial condition of the tenant, business conditions in the industry in which the tenant operates and economic conditions in the area where the property is located, including the impact of the COVID-19 pandemic on tenants' businesses and financial condition. Each tenant is included in one of several portfolios and an allowance is calculated using the calculation methodology for the respective portfolio. With the adoption of Topic 842, we will recognize an adjustment to rental revenue if we deem it probable that the receivable will not be collected. Prior to the adoption of Topic 842, we recognized an allowance for doubtful accounts and bad debt expense of the specific rents receivable. Our review of collectability under our operating leases includes any accrued rental revenues related to the straight-line method of reporting rental revenue.

In November 2016, the FASB issued guidance requiring that the statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents.

Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance became effective for the reporting periods beginning on or after December 15, 2017, and interim periods within those fiscal years. We adopted this guidance effective January 1, 2018, and we have reconciled cash and cash equivalents and restricted cash and restricted cash equivalents on a retrospective basis, whereas under the previous guidance, we reported restricted cash and restricted cash equivalents under cash flows from financing activities.

In January 2017, the FASB issued guidance clarifying the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or dispositions) of assets or businesses. This guidance became effective for the reporting periods beginning on or after December 15, 2017, and interim periods within those fiscal years. We adopted this guidance on a prospective basis beginning January 1, 2018 and believe the majority of our future acquisitions will qualify as asset acquisitions and the associated transaction costs will be capitalized as opposed to expensed under previous guidance. For the year ending December 31, 2019, we capitalized $0.1 million in associated transaction costs.

In February 2017, the FASB issued guidance clarifying the scope of asset derecognition guidance, adding guidance for partial sales of nonfinancial assets and clarifying recognizing gains and losses from the transfer of nonfinancial assets in contracts with noncustomers. This guidance became effective for the reporting periods beginning on or after December 15, 2017, and interim periods within those fiscal years. We adopted this guidance on a modified retrospective basis beginning January 1, 2018 and have derecognized the underlying assets and liabilities associated with the Contribution as of January 1, 2018 and have recognized the Company's investment in Pillarstone OP under the equity method of accounting. The Company made an adjustment which decreased the Company's accumulated deficit as of January 1, 2018 by $19.1 million. See Note 5 for further details.

3. MARKETABLE SECURITIES

In January 2018, we sold all of our remaining marketable securities and had no marketable securities as of December 31, 2020.

During the year ended December 31, 2018, available-for-sale securities were sold for total proceeds of $30,000. The gross realized losses on these sales totaled $20,000. For purposes of determining gross realized gains and losses, the cost of securities sold is based on specific identification.

4. REAL ESTATE

As of December 31, 2020, we owned 58 commercial properties in the Austin, Chicago, Dallas-Fort Worth, Houston, Phoenix and San Antonio areas comprised of approximately 5.0 million square feet of gross leasable area ("GLA"). Five of the 58 commercial properties are land parcels held for future development.

Property Acquisitions. On December 6, 2019, we acquired Las Colinas Village, a property that meets our Community Centered Property® strategy, for $34.8 million in cash and net prorations. Las Colinas Village, a 104,919 square foot property, was 86% leased at the time of purchase and is located in Irving, Texas.

Unaudited pro forma results of operations. The following unaudited pro forma results summarized below reflect our consolidated results of operations as if our acquisitions for the years ended December 31, 2020, 2019 and 2018 were acquired on January 1, 2018. The unaudited consolidated pro forma results of operations is not necessarily indicative of what the actual results of operations would have been, assuming the transactions had been completed as set forth above, nor do they purport to represent our results of operations for future periods.

	Year Ended December 31,		
(in thousands, except per share data)	**2020**	**2019**	**2018**
Total revenues	$ 117,915	$ 122,286	$ 123,243
Net income	$ 6,151	$ 24,047	$ 21,876
Net income attributable to Whitestone REIT [(1)]	$ 6,034	$ 23,502	$ 21,326
Basic Earnings Per Share:	$ 0.14	$ 0.58	$ 0.54
Diluted Earnings Per Share:	$ 0.14	$ 0.57	$ 0.52
Weighted-average common shares outstanding:			
Basic [(2)]	42,244	40,184	39,274
Diluted [(2)]	42,990	41,462	40,612

[(1)] Net income attributable to Whitestone REIT reflects historical ownership percentages and does not reflect the effects of the April 2017 Offering (as defined in Note 14), assuming the sale of the common shares took place on January 1, 2017, as the related impact on ownership percentage is minimal.

[(2)] Pro forma weighted averages reflect the April 2017 Offering, assuming the sale of the common shares took place on January 1, 2017.

Acquisition costs. Acquisition-related costs of $0.0 million and $0.1 million are capitalized in real estate assets in our balance sheets for the years ended December 31, 2020 and 2019, respectively. No acquisition-related costs are included in general and administrative expenses in our statements of operations and comprehensive income (loss) for the year ended 2018.

Development properties. As of December 31, 2019, we had substantially completed construction at our Anthem Marketplace Phase II property. As of December 31, 2019, we had incurred approximately $1.4 million in construction costs. The 6,853 square foot Community Centered Property® was 100% occupied as of December 31, 2019 and is located in Phoenix, Arizona, and adjacent to Anthem Marketplace.

As of December 31, 2018, we had substantially completed construction at our Pinnacle of Scottsdale Phase II property. As of December 31, 2018, we had incurred approximately $5.5 million in construction costs, including approximately $0.6 million in previously capitalized interest and real estate taxes. The 27,063 square foot Community Centered Property® was 100% leased at December 31, 2018 and is located in Scottsdale, Arizona, adjacent to Pinnacle of Scottsdale.

As of December 31, 2018, we had substantially completed construction at our Shops at Starwood Phase III property. As of December 31, 2018, we had incurred approximately $8.4 million in construction costs, including approximately $1.1 million in previously capitalized interest and real estate taxes. The 35,351 square foot Community Centered Property® was 72% leased at December 31, 2018 and is located in Frisco, Texas, a northern suburb of Dallas, Texas, adjacent to Shops at Starwood.

Property dispositions. On September 24, 2018, we completed the sale of Torrey Square, located in Houston, Texas, for $8.7 million. We recorded a gain on sale of $4.4 million. We have not included Torrey Square in discontinued operations as it did not meet the definition of discontinued operations.

On February 27, 2018, we completed the sale of Bellnott Square, located in Houston, Texas, for $4.7 million. We recorded a gain on sale of $0.3 million. We have not included Bellnott Square in discontinued operations as it did not meet the definition of discontinued operations.

On November 15, 2019, we received a $0.8 million principal payment in connection with the sale of two retail buildings we completed on November 29, 2016. We recorded a gain on sale of $0.8 million. In 2016, we provided seller-financing for the retail buildings, Webster Pointe and Centre South, and deferred a $1.7 million gain until principal payments on the seller-financed loan are received. The purchaser of the retail buildings sold Webster Pointe on November 15, 2019 and paid the entire principal balance of the loan related to the property. We have not included the gain in discontinued operations as it did not meet the definition of discontinued operations at the date of the sale.

On April 24, 2019, we received a $0.7 million principal payment in connection with the sale of three office buildings we completed on December 31, 2014. We recorded a gain on sale of $0.7 million. In 2014, we provided seller-financing for the office buildings, Zeta, Royal Crest and Featherwood, and deferred a $2.5 million gain until principal payments on the seller-financed loan are received. The purchaser of the office buildings sold Zeta on April 24, 2019 and paid the entire principal balance of the loan related to the property. We have included the gain in discontinued operations as it did meet the definition of discontinued operations at the date of sale.

On October 23, 2020, we received a $0.5 million principal payment in connection with the Centre South seller-financed retail building mentioned above. We recorded a $0.5 million gain when the principal payment on the seller-financed loan was received. We have not included the gain in discontinued operations as it did not meet the definition of discontinued operations at the date of the sale.

5. INVESTMENT IN REAL ESTATE PARTNERSHIP

On December 8, 2016, we, through our Operating Partnership, entered into a Contribution Agreement (the "Contribution Agreement") with Pillarstone OP and Pillarstone Capital REIT ("Pillarstone REIT") pursuant to which we contributed all of the equity interests in four of our wholly-owned subsidiaries: Whitestone CP Woodland Ph. 2, LLC, a Delaware limited liability company ("CP Woodland"); Whitestone Industrial-Office, LLC, a Texas limited liability company ("Industrial-Office"); Whitestone Offices, LLC, a Texas limited liability company ("Whitestone Offices"); and Whitestone Uptown Tower, LLC, a Delaware limited liability company ("Uptown Tower," and together with CP Woodland, Industrial-Office and Whitestone Offices, the "Entities") that own 14 non-core properties that did not fit our Community Centered Property® strategy (the "Pillarstone Properties"), to Pillarstone OP for aggregate consideration of approximately $84 million, consisting of (1) approximately $18.1 million of Class A units representing limited partnership interests in Pillarstone OP ("Pillarstone OP Units"), issued at a price of $1.331 per Pillarstone OP Unit; and (2) the assumption of approximately $65.9 million of liabilities, consisting of (a) approximately $15.5 million of our liability under the 2018 Facility (as defined in Note 9); (b) an approximately $16.3 million promissory note of Uptown Tower under the Loan Agreement, dated as of September 26, 2013, between Uptown Tower, as borrower, and U.S. Bank, National Association, as successor to Morgan Stanley Mortgage Capital Holdings LLC, as lender; and (c) an approximately $34.1 million promissory note (the "Industrial-Office Promissory Note") of Industrial-Office issued under the Loan Agreement, dated as of November 26, 2013 (the "Industrial-Office Loan Agreement"), between Industrial-Office, as borrower, and Jackson National Life Insurance Company, as lender (collectively, the "Contribution").

In connection with the Contribution, (1) with respect to each Pillarstone Property (other than Uptown Tower), Whitestone TRS, Inc., a subsidiary of the Company ("Whitestone TRS"), entered into a Management Agreement with the Entity that owns such Pillarstone Property and (2) with respect to Uptown Tower, Whitestone TRS entered into a Management Agreement with Pillarstone OP (collectively, the "Management Agreements"). Pursuant to the Management Agreements with respect to each Pillarstone Property (other than Uptown Tower), Whitestone TRS agreed to provide certain property management, leasing and day-to-day advisory and administrative services to such Pillarstone Property in exchange for (x) a monthly property management fee equal to 5.0% of the monthly revenues of such Pillarstone Property and (y) a monthly asset management fee equal to 0.125% of GAV (as defined in each Management Agreement as, generally, the purchase price of the respective Pillarstone Property based upon the purchase price allocations determined pursuant to the Contribution Agreement, excluding all indebtedness, liabilities or claims of any nature) of such Pillarstone Property. Pursuant to the Management Agreement with respect to Uptown Tower, Whitestone TRS agreed to provide certain property management, leasing and day-to-day advisory and administrative services to Pillarstone OP in exchange for (x) a monthly property management fee equal to 3.0% of the monthly revenues of Uptown Tower and (y) a monthly asset management fee equal to 0.125% of GAV of Uptown Tower. The initial term of each Management Agreement expired on December 31, 2017, after which each Management Agreement became automatically renewable on a month to month basis; provided that each Management Agreement can be terminated by either party thereto upon not less than thirty days' prior written notice to the other party. None of the Management Agreements had been terminated as of December 31, 2020.

In connection with the Contribution, on December 8, 2016, the Operating Partnership entered into a Tax Protection Agreement with Pillarstone REIT and Pillarstone OP pursuant to which Pillarstone OP agreed to indemnify the Operating Partnership for certain tax liabilities resulting from its recognition of income or gain prior to December 8, 2021 if such liabilities result from a transaction involving a direct or indirect taxable disposition of all or a portion of the Pillarstone Properties or if Pillarstone OP fails to maintain and allocate to the Operating Partnership for taxation purposes minimum levels of liabilities as specified in the Tax Protection Agreement, the result of which causes such recognition of income or gain and the Company incurs taxes that must be paid to maintain its REIT status for federal income tax purposes.

As of December 31, 2020, we owned approximately 81.4% of the total outstanding units of Pillarstone OP. Additionally, certain of our officers and trustees serve as officers and trustees of Pillarstone REIT. In connection with the Contribution, in December 2016, we determined that we were the primary beneficiary of Pillarstone OP, through our power to direct the activities of Pillarstone OP, additional working capital required by Pillarstone OP under an OP Unit purchase agreement and our obligation to absorb losses and receive benefits based on our ownership percentage. Accordingly, we accounted for Pillarstone OP as a VIE and fully consolidated it in our consolidated financial statements for the year ended December 31, 2016 and in the subsequent periods.

In November 2017, we received a comment letter from the Staff of the Division of Corporation Finance of the SEC (the "Staff") relating to our Annual Report on Form 10-K for the year ended December 31, 2016. In their letter, the Staff requested that we provide them with an analysis to support our determination that Pillarstone OP is a VIE of which we are the primary beneficiary and that Pillarstone OP should be consolidated in our financial statements in accordance with GAAP. In response to the Staff's comment, we provided the Staff with our analysis of our accounting and financial reporting obligations relating to our interest in Pillarstone OP. After communicating our analysis and conclusions to the Staff and responding to additional questions from the Staff relating to this matter, the Staff did not object to or otherwise take exception to our initial determinations at the time of the consummation of the Contribution in December 2016 but provided a verbal reminder that the determination of the primary beneficiary of a VIE should be continually reassessed, noting that the initial terms of the Management Agreements expired in December 2017, and suggesting that we consider pre-clearing future accounting treatment of Pillarstone OP with the Staff of the Office of the Chief Accountant ("OCA").

In connection with the preparation and review of the Company's financial statements for the quarter ended March 31, 2018, the Company concluded, after consultation with the Company's outside advisors, that it would be prudent to seek the pre-clearance from the Staff of the SEC's Office of the Chief Accountant ("OCA") of the proposed treatment of Pillarstone OP in the Company's financial statements for such quarter. Accordingly, in April 2018, the Company submitted a letter to the OCA seeking their concurrence with the Company's determinations that it maintained its status as the primary beneficiary of Pillarstone OP and, accordingly, should continue to consolidate Pillarstone OP in its financial statements for the quarter ended March 31, 2018 in accordance with GAAP. After further correspondence, including telephonic meetings between the Company, its advisors and the OCA, the OCA informed the Company that it objected to the conclusions that the Company was the primary beneficiary of Pillarstone OP and was required to consolidate it in the Company's financial statements since the Contribution in December 2016 and during the subsequent periods.

After consideration of the OCA's objection to the Company's original accounting, the Company determined that the correct accounting treatment was to apply certain industry specific accounting guidance applicable to real estate transactions, ASC 360-20, the profit sharing method, which required the Company to continue to recognize the underlying assets and liabilities associated with the Contribution in the Company's financial statements, and revised its accounting treatment accordingly. Management evaluated the quantitative and qualitative materiality of the errors and concluded that the difference between applying ASC 360-20 and the consolidation of Pillarstone OP under the VIE guidance was not material to the financial statements of any period presented through December 31, 2017. As a result, the Company elected to correct them in future financial statements, beginning with the consolidated financial statements as and for the period ended June 30, 2018 and in the accompanying prior period consolidated financial statements included in the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2018.

On January 1, 2018, the Company adopted ASU 2014-09 ("Topic 606"), as subsequently amended, using the modified retrospective method and applied Topic 606 to those contracts that were not completed as of January 1, 2018. Topic 606 added a new section, ASC 610, "*Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets*," which effectively superseded industry specific accounting guidance applicable to real estate transactions.

As a result of the adoption of Topic 606 and ASC 610, the Company derecognized the underlying assets and liabilities associated with the Contribution as of January 1, 2018 and recognized the Company's investment in Pillarstone OP under the equity method for the periods after December 31, 2017.

The table below presents the real estate partnership investment in which the Company held an ownership interest (in thousands):

		The Company's Investment as of December 31,			
		2020		2019	
Real estate partnership	**Ownership Interest**				
Pillarstone OP[(1)(2)]	81.4%	$	33,979	$	34,097
Total real estate partnership[(3)]		$	33,979	$	34,097

[(1)] The Company manages these real estate partnership investments and, where applicable, earns acquisition fees, leasing commissions, property management fees, and asset management fees.

[(2)] As of December 31, 2017, the Company had a net deferred gain of $18.0 million relating to the sale of properties to Pillarstone OP prior to the adoption of ASU 2017-05. These deferred gains were included in the Company's investment above. Upon adoption, the Company recorded a cumulative-effect adjustment of $19.1 million to its beginning accumulated deficit as of January 1, 2018 on the Company's Consolidated Statements of Changes in Equity.

[(3)] Representing eight property interests and 0.9 million square feet of GLA, as of December 31, 2020 and 2019.

On October 8, 2019, Pillarstone OP, through an indirect wholly owned subsidiary, Whitestone Industrial-Office, LLC, sold a portfolio of three properties in Houston, Texas to an unaffiliated third party for $39.7 million in cash. Pillarstone OP used the net proceeds to make a large distribution to Whitestone of $5.4 million after customary closing deductions, to pay off mortgage debt on the three properties, and pay off the remaining $5.7 million of its $15.5 million loan from Whitestone. Included in 2019 equity in earnings from real estate partnership is a $13.8 million gain related to this sale.

On December 27, 2018, Pillarstone OP, through an indirect wholly owned subsidiary, Whitestone Industrial-Office, LLC, sold a portfolio of three properties in Houston, Texas to an unaffiliated third party for $15.8 million in cash. Pillarstone OP used the net proceeds, after customary closing deductions, to pay off mortgage debt on the three properties, and repay $8.0 million of its $14.5 million loan from Whitestone. Included in 2018 equity in earnings from real estate partnership is a $6.3 million gain related to this sale.

The table below presents the Company's share of net income from its investment in the real estate partnership which is included in equity in earnings of real estate partnership, net on the Company's Consolidated Statements of Operations and Comprehensive Income (Loss) (in thousands):

	Year Ended December 31,					
	2020		2019		2018	
Pillarstone OP	$	921	$	15,076	$	8,431

Summarized financial information for the Company’s investment in real estate partnership is as follows (in thousands):

	December 31, 2020	December 31, 2019
Assets:		
Real estate, net	$ 49,113	$ 50,338
Other assets	7,657	6,742
Total assets	56,770	57,080
Liabilities and equity:		
Notes payable	15,185	15,434
Other liabilities	3,533	3,575
Equity	38,052	38,071
Total liabilities and equity	56,770	57,080
Company’s share of equity	30,992	31,008
Cost of investment in excess of the Company’s share of underlying net book value	2,987	3,089
Carrying value of investment in real estate partnership	$ 33,979	$ 34,097

	Year Ended December 31, 2020	2019	2018
Rental revenues	$ 9,672	$ 14,253	$ 17,180
Property expenses	(6,858)	(9,045)	(6,687)
Other expenses	(1,440)	(3,449)	(7,848)
Gain (loss) on sale of properties or disposal of assets	(112)	16,943	7,839
Net income	$ 1,262	$ 18,702	$ 10,484

The amortization of the basis difference between the cost of investment and the Company's share of underling net book value for both years ended December 31, 2020 and 2019 was $108,000. The Company amortized the difference into equity in earnings of real estate partnership on the consolidated statements of operations and comprehensive income (loss).

As a result of the adoption of Topic 606 and ASC 610, the Company recognized the Company’s investment in Pillarstone OP under the equity method for the years ended December 31, 2020, 2019 and 2018.

The Company's maximum exposure to loss relating to Pillarstone OP is limited to its investment in Pillarstone OP and its guarantee of promissory notes issued to Pillarstone OP. Since the date of the Contribution, the Company has not provided financial support to Pillarstone OP that it was not previously contractually required to provide under the Management Agreements.

The Company has evaluated its guarantee to Pillarstone OP pursuant to ASC 460, *Guarantees*, and has determined the guarantee to be a performance guarantee, for which ASC 460 contains initial recognition and measurement requirements, and related disclosure requirements. The Company is obligated in two respects: (i) a noncontingent liability, which represents the Company’s obligation to stand ready to perform under the terms of the guarantee in the event that the specified triggering event(s) occur; and (ii) the contingent liability, which represents the Company’s obligation to make future payments if those triggering events occur. The Company recognized a noncontingent liability of $462,000 at the inception of the guarantee at fair value and is recorded on the the Company’s consolidated balance sheet as a liability. The Company amortizes the guarantee liability into income over seven years. For the years ended December 31, 2020, 2019, and 2018, the amortization of the guarantee liability was $39,000, $182,000, and $106,000, respectively.

6. ACCRUED RENTS AND ACCOUNTS RECEIVABLE, NET

Accrued rents and accounts receivable, net, consists of amounts accrued, billed and due from tenants, allowance for doubtful accounts and other receivables as follows (in thousands):

	December 31, 2020	December 31, 2019
Tenant receivables	$ 22,956	$ 16,741
Accrued rents and other recoveries	16,348	16,983
Allowance for doubtful accounts	(16,426)	(11,173)
Other receivables	131	303
Totals	$ 23,009	$ 22,854

7. UNAMORTIZED LEASE COMMISSIONS, LEGAL FEES AND LOAN COSTS

Costs which have been deferred consist of the following (in thousands):

	December 31, 2020	December 31, 2019
Leasing commissions	$ 10,380	$ 9,868
Deferred legal cost	373	393
Deferred financing cost	3,898	3,908
Total cost	14,651	14,169
Less: leasing commissions accumulated amortization	(5,029)	(4,200)
Less: deferred legal cost accumulated amortization	(216)	(179)
Less: deferred financing cost accumulated amortization	(1,720)	(830)
Total cost, net of accumulated amortization	$ 7,686	$ 8,960

A summary of expected future amortization of deferred costs is as follows (in thousands):

Years Ended December 31,	Leasing Commissions	Deferred Legal Costs	Deferred Financing Costs	Total
2021	$ 1,271	$ 40	$ 889	$ 2,200
2022	1,106	32	827	1,965
2023	898	22	243	1,163
2024	696	19	189	904
2025	484	18	30	532
Thereafter	896	26	—	922
Total	$ 5,351	$ 157	$ 2,178	$ 7,686

8. LEASES

Effective January 1, 2019, we adopted the new lease accounting guidance in Topic 842. As the lessee and lessor, we have elected the package of practical expedients permitted in Topic 842. See Note 2 for additional disclosure on Topic 842.

As a Lessor. All leases on our properties are classified as noncancelable operating leases, and the related rental income is recognized on a straight-line basis over the terms of the related leases. Differences between rental income earned and amounts due per the respective lease agreements are capitalized or charged, as applicable, to accrued rents and accounts receivable. Percentage rents are recognized as rental income when the thresholds upon which they are based have been met. Recoveries from tenants for taxes, insurance, and other operating expenses are recognized as revenues in the period the corresponding costs are incurred. We combine lease and nonlease components in lease contracts, which includes combining base rent, recoveries, and percentage rents into a single line item, *Rental*, within the consolidated statements of operations and comprehensive income (loss).

A summary of minimum future rents to be received (exclusive of renewals, tenant reimbursements, contingent rents, and collectability adjustments under Topic 842) under noncancelable operating leases in existence as of December 31, 2020 is as follows (in thousands):

Years Ended December 31,	Minimum Future Rents[1]
2021	$ 81,372
2022	70,836
2023	59,509
2024	47,296
2025	32,939
Thereafter	97,199
Total	$ 389,151

[1] These amounts do not reflect future rental revenues from the renewal or replacement of existing leases and exclude reimbursements of operating expenses and rental increases that are not fixed.

As a Lessee. We have office space, automobile, and office machine leases, which qualify as operating leases, with remaining lease terms of approximately one to five years.

The following table summarizes the fixed, future minimum rental payments, excluding variable costs, which are discounted by our weighted average incremental borrowing rates to calculate the lease liabilities for our operating leases in existence as of December 31, 2020 in which we are the lessee (in thousands):

Years Ended December 31,	Minimum Future Rents
2021	$ 447
2022	85
2023	39
2024	35
2025	29
Total undiscounted rental payments	635
Less imputed interest	32
Total lease liabilities	$ 603

For the year ended December 31, 2020, the total lease costs were $1,077,000. The weighted average remaining lease term for our operating leases was 2.1 years at December 31, 2020. We do not include renewal options in the lease term for calculating the lease liability unless we are reasonably certain we will exercise the option or the lessor has the sole ability to exercise the option. The weighted average incremental borrowing rate was 4.5% at December 31, 2020.

For the year ended December 31, 2019, the total lease costs were $952,000. The weighted average remaining lease term for our operating leases was 1.7 years at December 31, 2019. We do not include renewal options in the lease term for calculating the lease liability unless we are reasonably certain we will exercise the option or the lessor has the sole ability to exercise the option. The weighted average incremental borrowing rate was 4.5% at December 31, 2019.

9. DEBT

Mortgages and other notes payable consist of the following (in thousands):

Description	December 31, 2020	December 31, 2019
Fixed rate notes		
$10.5 million, 4.85% Note, paid off on September 24, 2020 [(1)]	$ —	$ 9,260
$100.0 million, 1.73% plus 1.35% to 1.90% Note, due October 30, 2022 [(2)]	100,000	100,000
$165.0 million, 2.24% plus 1.35% to 1.90% Note, due January 31, 2024 [(3)]	165,000	165,000
$80.0 million, 3.72% Note, due June 1, 2027	80,000	80,000
$19.0 million 4.15% Note, due December 1, 2024	18,687	19,000
$20.2 million 4.28% Note, due June 6, 2023	18,222	18,616
$14.0 million 4.34% Note, due September 11, 2024	13,236	13,482
$14.3 million 4.34% Note, due September 11, 2024	14,014	14,243
$15.1 million 4.99% Note, due January 6, 2024	14,165	14,409
$2.6 million 5.46% Note, due October 1, 2023	2,339	2,386
$50.0 million, 5.09% Note, due March 22, 2029	50,000	50,000
$50.0 million, 5.17% Note, due March 22, 2029	50,000	50,000
Floating rate notes		
Unsecured line of credit, LIBOR plus 1.40% to 1.90%, due January 31, 2023 [(4)]	119,500	109,500
Total notes payable principal	645,163	645,896
Less deferred financing costs, net of accumulated amortization	(978)	(1,197)
	$ 644,185	$ 644,699

(1) Promissory note includes an interest rate swap that fixed the interest rate at 3.55% for the duration of the term through September 24, 2018 and 4.85% beginning September 25, 2018 through September 24, 2020. The promissory note was paid off in September 2020.

(2) Promissory note includes an interest rate swap that fixed the LIBOR portion of Term Loan 3 (as defined below) at 1.73%.

(3) Promissory note includes an interest rate swap that fixed the LIBOR portion of the interest rate at an average rate of 2.24% for the duration of the term through January 31, 2024.

(4) Unsecured line of credit includes certain Pillarstone Properties as of December 31, 2018, in determining the amount of credit available under the 2018 Facility which were released from collateral during 2019.

LIBOR is expected to be discontinued after 2021. A number of our current debt agreements have an interest rate tied to LIBOR. Some of these agreements provide procedures for determining an alternative base rate in the event that LIBOR is discontinued, but not all do so. Regardless, there can be no assurances as to what alternative base rates may be and whether such base rate will be more or less favorable than LIBOR and any other unforeseen impacts of the potential discontinuation of LIBOR. The Company intends to monitor the developments with respect to the potential phasing out of LIBOR after 2021 and work with its lenders to ensure any transition away from LIBOR will have minimal impact on its financial condition, but can provide no assurances regarding the impact of the discontinuation of LIBOR.

On April 30, 2020, the Company entered into a loan in the principal amount of $1,733,510 from U.S. Bank National Association, one of the Company's existing lenders, pursuant to the Paycheck Protection Program (the "PPP Loan") of the CARES Act. The PPP Loan was set to mature on May 6, 2022 (the "Maturity Date"), and accrued interest at 1.00% per annum and could be prepaid in whole or in part without penalty. Principal and interest were payable in 18 monthly installments of $96,864.28, beginning on December 6, 2020, plus a final payment equal to all unpaid principal and accrued interest on the

Maturity Date. Pursuant to the CARES Act, the Company applied for and was granted forgiveness for all of the PPP Loan. Forgiveness was determined by the U.S. Small Business Administration based on the use of loan proceeds for payroll costs, mortgage interest, rent or utility costs and the maintenance of employee and compensation levels. The Company intended to and used all proceeds from the PPP Loan to retain employees and maintain payroll and make mortgage payments, lease payments and utility payments to support business continuity throughout the COVID-19 pandemic, which amounts were eligible for forgiveness, subject to the provisions of the CARES Act. Based on the guidance in FASB ASC 405-20, *"Liabilities - Extinguishment of Liabilities,"* the PPP loan remains a liability until either (1) it is wholly or partially forgiven and we have been legally released, or (2) it is paid off. If the loan is partially or wholly forgiven and legal release is received, the liability is reduced by the amount forgiven and a gain on extinguishment is recognized. The Company recognized a $1,734,000 gain for the PPP Loan forgiveness during the year ended December 31, 2020 based on the legal release from the U.S. Small Business Administration.

On March 22, 2019, we, through our Operating Partnership, entered into a Note Purchase and Guarantee Agreement (the "Note Agreement") together with certain subsidiary guarantors as initial guarantor parties thereto (the "Subsidiary Guarantors") and The Prudential Insurance Company of America and the various other purchasers named therein (collectively, the "Purchasers") providing for the issuance and sale of $100 million of senior unsecured notes of the Operating Partnership, of which (i) $50 million are designated as 5.09% Series A Senior Notes due March 22, 2029 (the "Series A Notes") and (ii) $50 million are designated as 5.17% Series B Senior Notes due March 22, 2029 (the "Series B Notes" and, together with the Series A Notes, the "Notes") pursuant to a private placement that closed on March 22, 2019 (the "Private Placement"). Obligations under the Notes are unconditionally guaranteed by the Company and by the Subsidiary Guarantors.

The principal of the Series A Notes will begin to amortize on March 22, 2023 with annual principal payments of approximately $7.1 million. The principal of the Series B Notes will begin to amortize on March 22, 2025 with annual principal payments of $10.0 million. The Notes will pay interest quarterly on the 22nd day of March, June, September and December in each year until maturity.

The Operating Partnership may prepay at any time all, or from time to time part of, the Notes, in an amount not less than $1,000,000 in the case of a partial prepayment, at 100% of the principal amount so prepaid, plus a make-whole amount. The make-whole amount is equal to the excess, if any, of the discounted value of the remaining scheduled payments with respect to the Notes being prepaid over the aggregate principal amount of such Notes (as described in the Note Agreement). In addition, in connection with a Change of Control (as defined in the Note Purchase Agreement), the Operating Partnership is required to offer to prepay the Notes at 100% of the principal amount plus accrued and unpaid interest thereon.

The Note Agreement contains representations, warranties, covenants, terms and conditions customary for transactions of this type and substantially similar to the Operating Partnership's existing senior revolving credit facility, including limitations on liens, incurrence of investments, acquisitions, loans and advances and restrictions on dividends and certain other restricted payments. In addition, the Note Agreement contains certain financial covenants substantially similar to the Operating Partnership's existing senior revolving credit facility, including the following:

- maximum total indebtedness to total asset value ratio of 0.60 to 1.00;
- maximum secured debt to total asset value ratio of 0.40 to 1.00;
- minimum EBITDA (earnings before interest, taxes, depreciation, amortization or extraordinary items) to fixed charges ratio of 1.50 to 1.00;
- maximum other recourse debt to total asset value ratio of 0.15 to 1.00; and
- maintenance of a minimum tangible net worth (adjusted for accumulated depreciation and amortization) of $372 million plus 75% of the net proceeds from additional equity offerings (as defined therein).

In addition, the Note Agreement contains a financial covenant requiring that maximum unsecured debt not exceed the lesser of (i) an amount equal to 60% of the aggregate unencumbered asset value and (ii) the debt service coverage amount (as described in the Note Agreement). That covenant is substantially similar to the borrowing base concept contained in the Operating Partnership's existing senior revolving credit facility.

The Note Agreement also contains default provisions, including defaults for non-payment, breach of representations and warranties, insolvency, non-performance of covenants, cross-defaults with other indebtedness and guarantor defaults. The occurrence of an event of default under the Note Agreement could result in the Purchasers accelerating the payment of all obligations under the Notes. The financial and restrictive covenants and default provisions in the Note Agreement are substantially similar to those contained in the Operating Partnership's existing credit facility.

Net proceeds from the Private Placement were used to refinance existing indebtedness. The Notes have not been and will not be registered under the Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act. The Notes were sold in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act.

On January 31, 2019, we, through our Operating Partnership, entered into an unsecured credit facility (the "2019 Facility") with the lenders party thereto, Bank of Montreal, as administrative agent (the "Agent"), SunTrust Robinson Humphrey, as syndication agent, and BMO Capital Markets Corp., U.S. Bank National Association, SunTrust Robinson Humphrey and Regions Capital Markets, as co-lead arrangers and joint book runners. The 2019 Facility amended and restated the 2018 Facility (as defined below).

The 2019 Facility is comprised of the following three tranches:

- $250.0 million unsecured revolving credit facility with a maturity date of January 1, 2023 (the "2019 Revolver");
- $165.0 million unsecured term loan with a maturity date of January 31, 2024 ("Term Loan A"); and
- $100.0 million unsecured term loan with a maturity date of October 30, 2022 ("Term Loan B" and together with Term Loan A, the "2019 Term Loans").

Borrowings under the 2019 Facility accrue interest (at the Operating Partnership's option) at a Base Rate or an Adjusted LIBOR plus an applicable margin based upon our then existing leverage. As of December 31, 2020, the interest rate on the 2019 Revolver was 1.80%. The applicable margin for Adjusted LIBOR borrowings ranges from 1.40% to 1.90% for the 2019 Revolver and 1.35% to 1.90% for the 2019 Term Loans. Base Rate means the higher of: (a) the Agent's prime commercial rate, (b) the sum of (i) the average rate quoted by the Agent by two or more federal funds brokers selected by the Agent for sale to the Agent at face value of federal funds in the secondary market in an amount equal or comparable to the principal amount for which such rate is being determined, plus (ii) 1/2 of 1.00%, and (c) the LIBOR rate for such day plus 1.00%. Adjusted LIBOR means LIBOR divided by one minus the Eurodollar Reserve Percentage. The Eurodollar Reserve Percentage means the maximum reserve percentage at which reserves are imposed by the Board of Governors of the Federal Reserve System on eurocurrency liabilities. Pursuant to the 2019 Facility, in the event of certain circumstances that result in the unavailability of LIBOR, including but not limited to LIBOR no longer being a widely recognized benchmark rate for newly originated dollar loans in the U.S. market, the Operating Partnership and the Agent will establish an alternate interest rate to LIBOR giving due consideration to prevailing market conventions and will amend the 2019 Facility to give effect to such alternate interest rate.

The 2019 Facility includes an accordion feature that will allow the Operating Partnership to increase the borrowing capacity by $200.0 million, upon the satisfaction of certain conditions. On March 20, 2020, as a precautionary measure to preserve our financial flexibility in response to potential credit risks posed by the COVID-19 pandemic, the Company drew down approximately $30.0 million under the 2019 Revolver. As of December 31, 2020, subject to any potential future paydowns or increases in the borrowing base, we have $18.4 million remaining availability under the 2019 Revolver. As of December 31, 2020, $384.5 million was drawn on the 2019 Facility and our unused borrowing capacity was $130.5 million, assuming that we use the proceeds of the 2019 Facility to acquire properties, or to repay debt on properties, that are eligible to be included in the unsecured borrowing base. The Company used $446.2 million of proceeds from the 2019 Facility to repay amounts outstanding under the 2018 Facility and intends to use the remaining proceeds from the 2019 Facility for general corporate purposes, including property acquisitions, debt repayment, capital expenditures, the expansion, redevelopment and re-tenanting of properties in its portfolio and working capital.

The Company, each direct and indirect material subsidiary of the Operating Partnership and any other subsidiary of the Operating Partnership that is a guarantor under any unsecured ratable debt will serve as a guarantor for funds borrowed by the

Operating Partnership under the 2019 Facility. The 2019 Facility contains customary terms and conditions, including, without limitation, customary representations and warranties and affirmative and negative covenants including, without limitation, information reporting requirements, limitations on investments, acquisitions, loans and advances, mergers, consolidations and sales, incurrence of liens, dividends and restricted payments. In addition, the 2019 Facility contains certain financial covenants including the following:

- maximum total indebtedness to total asset value ratio of 0.60 to 1.00;
- maximum secured debt to total asset value ratio of 0.40 to 1.00;
- minimum EBITDA (earnings before interest, taxes, depreciation, amortization or extraordinary items) to fixed charges ratio of 1.50 to 1.00;
- maximum other recourse debt to total asset value ratio of 0.15 to 1.00; and
- maintenance of a minimum tangible net worth (adjusted for accumulated depreciation and amortization) of $372 million plus 75% of the net proceeds from additional equity offerings (as defined therein).

We serve as the guarantor for funds borrowed by the Operating Partnership under the 2019 Facility. The 2019 Facility contains customary terms and conditions, including, without limitation, affirmative and negative covenants such as information reporting requirements, maximum secured indebtedness to total asset value, minimum EBITDA (earnings before interest, taxes, depreciation, amortization or extraordinary items) to fixed charges, and maintenance of a minimum net worth. The 2019 Facility also contains customary events of default with customary notice and cure, including, without limitation, nonpayment, breach of covenant, misrepresentation of representations and warranties in a material respect, cross-default to other major indebtedness, change of control, bankruptcy and loss of REIT tax status.

On November 7, 2014, we, through our Operating Partnership, entered into an unsecured revolving credit facility (the “2014 Facility”) with the lenders party thereto, with BMO Capital Markets Corp., Wells Fargo Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and U.S. Bank, National Association, as co-lead arrangers and joint book runners, and Bank of Montreal, as administrative agent (the “Agent”). The 2014 Facility amended and restated our previous unsecured revolving credit facility. On October 30, 2015, we, through our Operating Partnership, entered into the First Amendment to the 2014 Facility (the “First Amendment”) with the guarantors party thereto, the lenders party thereto and the Agent. We refer to the 2014 Facility, as amended by the First Amendment, as the “2018 Facility.”

Pursuant to the First Amendment, the Company made the following amendments to the 2014 Facility:

- extended the maturity date of the $300 million unsecured revolving credit facility under the 2014 Facility (the “2018 Revolver”) to October 30, 2019 from November 7, 2018;
- converted $100 million of outstanding borrowings under the Revolver to a new $100 million unsecured term loan under the 2014 Facility (“Term Loan 3”) with a maturity date of October 30, 2022;
- extended the maturity date of the first $50 million unsecured term loan under the 2014 Facility (“Term Loan 1”) to October 30, 2020 from February 17, 2017; and
- extended the maturity date of the second $50 million unsecured term loan under the 2014 Facility (“Term Loan 2” and together with Term Loan 1 and Term Loan 3, the “2018 Term Loans”) to January 29, 2021 from November 7, 2019.

Borrowings under the 2018 Facility accrued interest (at the Operating Partnership's option) at a Base Rate or an Adjusted LIBOR plus an applicable margin based upon our then existing leverage. The applicable margin for Adjusted LIBOR borrowings ranged from 1.40% to 1.95% for the 2018 Revolver and 1.35% to 2.25% for the 2018 Term Loans. Base Rate means the higher of: (a) the Agent’s prime commercial rate, (b) the sum of (i) the average rate quoted by the Agent by two or more federal funds brokers selected by the Agent for sale to the Agent at face value of federal funds in the secondary market in an amount equal or comparable to the principal amount for which such rate is being determined, plus (ii) 1/2 of 1.00%, and (c) the LIBOR rate for such day plus 1.00%. Adjusted LIBOR means LIBOR divided by one minus the Eurodollar Reserve Percentage. The Eurodollar Reserve Percentage means the maximum reserve percentage at which reserves are imposed by the Board of Governors of the Federal Reserve System on eurocurrency liabilities.

Proceeds from the 2018 Facility were used for general corporate purposes, including property acquisitions, debt repayment, capital expenditures, the expansion, redevelopment and re-tenanting of properties in our portfolio and working capital.

On May 26, 2017, we, through our subsidiary, Whitestone BLVD Place LLC, a Delaware limited liability company, issued a $80.0 million promissory note to American General Life Insurance Company (the “BLVD Note”). The BLVD Note has a fixed interest rate of 3.72% and a maturity date of June 1, 2027. Proceeds from the BLVD Note were used to fund a portion of the purchase price of the acquisition of BLVD Place.

As of December 31, 2020, our $160.7 million in secured debt was collateralized by seven properties with a carrying value of $250.9 million. Our loans contain restrictions that would require the payment of prepayment penalties for the acceleration of outstanding debt and are secured by deeds of trust on certain of our properties and by assignment of the rents and leases associated with those properties. In 2018, we were not in compliance with respect to the tangible Net Worth covenant as defined in the 2018 Facility and had received two waivers in 2018. Had we been unable to obtain a waiver or other suitable relief from the lenders under the 2018 Facility, an Event of Default (as defined in the 2018 Facility) would have occurred, permitting the lenders holding a majority of the commitments under the 2018 Facility to, among other things, accelerate the outstanding indebtedness, which would make it immediately due and payable. The 2019 Facility and the Notes contain a similar tangible Net Worth covenant that resets at a new threshold and changes the definition of Net Worth to add back accumulated depreciation. However, we can make no assurances that we will be in compliance with these covenants or other covenants under the 2019 Facility or the Notes in future periods or, if we are not in compliance, that we will be able to obtain a waiver. As of December 31, 2020, we were in compliance with all loan covenants.

Scheduled maturities of our outstanding debt as of December 31, 2020 were as follows (in thousands):

Year	**Amount Due**
2021	$ 1,829
2022	101,683
2023	147,363
2024	228,573
2025	17,143
Thereafter	148,572
Total	$ 645,163

As of December 31, 2020, we had the following contractual obligations (in thousands):

		Payment due by period (in thousands)			
Consolidated Contractual Obligations	**Total**	**Less than 1 year (2021)**	**1 - 3 years (2022 - 2023)**	**3 - 5 years (2024 - 2025)**	**More than 5 years (after 2025)**
Long-Term Debt - Principal	$ 645,163	$ 1,829	$ 249,046	$ 245,716	$ 148,572
Long-Term Debt - Fixed Interest	85,931	21,301	37,830	16,281	10,519
Long-Term Debt - Variable Interest [1]	9,918	4,959	4,959	—	—
Unsecured credit facility - Unused commitment fee [2]	679	326	353	—	—
Operating Lease Obligations	255	85	106	64	—
Related Party Rent Lease Obligations	380	362	18	—	—
Total	$ 742,326	$ 28,862	$ 292,312	$ 262,061	$ 159,091

(1) As of December 31, 2020, we had one loan totaling $119.5 million which bore interest at a floating rate. The variable interest rate payments are based on LIBOR plus 1.40% to LIBOR plus 1.90%, which reflects our new interest rates under the 2019 Facility. The information in the table above reflects our projected interest rate obligations for the floating rate payments based on one-month LIBOR as of December 31, 2020, of 0.15%.

(2) The unused commitment fees on the 2019 Facility, payable quarterly, are based on the average daily unused amount of the 2019 Facility. The fees are 0.20% for facility usage greater than 50% or 0.25% for facility usage less than 50%. The information in the table above reflects our projected obligations for the 2019 Facility based on our December 31, 2020 balance of $384.5 million.

10. DERIVATIVES AND HEDGING ACTIVITIES

The estimated fair value of our interest rate swaps is as follows (in thousands):

Balance Sheet Location	December 31, 2020 Estimated Fair Value
Prepaid expenses and other assets	$ —
Accounts payable and accrued expenses	$ (14,663)

Balance Sheet Location	December 31, 2019 Estimated Fair Value
Prepaid expenses and other assets	$ 59
Accounts payable and accrued expenses	$ (5,660)

On January 31, 2019, we, through our Operating Partnership, entered into an interest rate swap of $65 million with Bank of Montreal that fixed the LIBOR portion of Term Loan A under the 2019 Facility at 2.43%. Pursuant to the terms of the agreement governing the interest rate swap, Bank of Montreal assigned $12.9 million of the swap to U.S. Bank, National Association, $11.6 million of the swap to Regions Bank, $15.7 million of the swap to SunTrust Bank, and $5.9 million of the swap to Associated Bank. See Note 9 (Debt) for additional information regarding the 2019 Facility. The swap began on February 7, 2019 and matured on November 9, 2020. We designated the interest rate swap as a cash flow hedge with the effective portion of the changes in fair value recorded in comprehensive income (loss).

On January 31, 2019, we, through our Operating Partnership, entered into an interest rate swap of $115 million with Bank of Montreal that fixed the LIBOR portion of Term Loan A under the 2019 Facility at 2.43%. Pursuant to the terms of the agreement governing the interest rate swap, Bank of Montreal assigned $22.7 million of the swap to U.S. Bank, National Association, $20.5 million of the swap to Regions Bank, $27.9 million of the swap to SunTrust Bank, and $10.5 million of the swap to Associated Bank. See Note 9 (Debt) for additional information regarding the 2019 Facility. The swap began on November 9, 2020 and will mature on February 8, 2021. We have designated the interest rate swap as a cash flow hedge with the effective portion of the changes in fair value recorded in comprehensive income (loss) and subsequently reclassified into earnings in the period that the hedged transaction affects earnings. The Company does not expect any amount of the existing gains or losses to be reclassified into earnings through the maturity date.

On January 31, 2019, we, through our Operating Partnership, entered into an interest rate swap of $165 million with Bank of Montreal that fixed the LIBOR portion of Term Loan A under the 2019 Facility at 2.43%. Pursuant to the terms of the agreement governing the interest rate swap, Bank of Montreal assigned $32.6 million of the swap to U.S. Bank, National Association, $29.4 million of the swap to Regions Bank, $40.0 million of the swap to SunTrust Bank, and $15.0 million of the swap to Associated Bank. See Note 9 (Debt) for additional information regarding the 2019 Facility. The swap began on February 8, 2021 and will mature on January 31, 2024. We have designated the interest rate swap as a cash flow hedge with the effective portion of the changes in fair value to be recorded in comprehensive income (loss) and subsequently reclassified into earnings in the period that the hedged transaction affects earnings. The ineffective portion of the change in fair value, if any, will be recognized directly in earnings. The Company does not expect any amount of the existing gains or losses to be reclassified into earnings within the next 12 months.

On September 5, 2018, we, through our Operating Partnership, entered into an interest rate swap with Bank of America that fixed the LIBOR portion of the $9.6 million extension loan on the Whitestone Terravita Marketplace property at 2.85%. The swap began on September 25, 2018 and matured on September 24, 2020. We designated the interest rate swap as a cash flow hedge with the effective portion of the changes in fair value recorded in comprehensive income (loss).

On November 19, 2015, we, through our Operating Partnership, entered into an interest rate swap with Bank of Montreal that fixed the LIBOR portion of Term Loan 3 under the 2018 Facility at 1.73%. In the fourth quarter of 2015, pursuant to the terms of the agreement governing the interest rate swap, Bank of Montreal assigned $35.0 million of the swap to U.S. Bank, National Association, and $15.0 million of the swap to SunTrust Bank. See Note 9 for additional information regarding the 2018 Facility. The swap began on November 30, 2015 and will mature on October 28, 2022. We have designated the interest rate swap as a cash flow hedge with the effective portion of the changes in fair value to be recorded in comprehensive income (loss) and subsequently reclassified into earnings in the period that the hedged transaction affects earnings. The ineffective portion of the change in fair value, if any, will be recognized directly in earnings. The Company does not expect any amount of the existing gains or losses to be reclassified into earnings within the next 12 months.

On November 19, 2015, we, through our Operating Partnership, entered into an interest rate swap with Bank of Montreal that fixed the LIBOR portion of Term Loan 1 under the 2018 Facility at 1.75%. In the fourth quarter of 2015, pursuant to the terms of the agreement governing the interest rate swap, Bank of Montreal assigned $3.8 million of the swap to Regions Bank, $6.5 million of the swap to U.S. Bank, National Association, $14.0 million of the swap to Wells Fargo Bank, National Association, $14.0 million of the swap to Bank of America, N.A., and $5.0 million of the swap to SunTrust Bank. See Note 9 for additional information regarding the 2018 Facility. The swap began on February 3, 2017 and matured on October 30, 2020. We designated the interest rate swap as a cash flow hedge with the effective portion of the changes in fair value recorded in comprehensive income (loss).

On November 19, 2015, we, through our Operating Partnership, entered into an interest rate swap with Bank of Montreal that fixed the LIBOR portion of Term Loan 2 under the 2018 Facility at 1.50%. In the fourth quarter of 2015, pursuant to the terms of the agreement governing the interest rate swap, Bank of Montreal assigned $3.8 million of the swap to Regions Bank, $6.5 million of the swap to U.S. Bank, National Association, $14.0 million of the swap to Wells Fargo Bank, National Association, $14.0 million of the swap to Bank of America, N.A., and $5.0 million of the swap to SunTrust Bank. See Note 9 for additional information regarding the 2018 Facility. The swap began on December 7, 2015 and will mature on January 29, 2021. We have designated the interest rate swap as a cash flow hedge with the effective portion of the changes in fair value to be recorded in comprehensive income (loss) and subsequently reclassified into earnings in the period that the hedged transaction affects earnings. The Company does not expect any amount of the existing gains or losses to be reclassified into earnings through the maturity date.

A summary of our interest rate swap activity is as follows (in thousands):

	Amount Recognized as Comprehensive Income (Loss)	Location of Income (Loss) Recognized in Earnings	Amount of Income (Loss) Recognized in Earnings [1]
Year ended December 31, 2020	$ (9,062)	Interest expense	$ 3,578
Year ended December 31, 2019	$ (9,828)	Interest expense	$ 1,036
Year ended December 31, 2018	$ 1,192	Interest expense	$ 646

(1) There was no ineffective portion of our interest rate swaps recognized in earnings for the years ended December 31, 2020, 2019 and 2018.

11. EARNINGS PER SHARE

Basic earnings per share for our common shareholders is calculated by dividing income from continuing operations excluding amounts attributable to unvested restricted shares and the net income attributable to non-controlling interests by our weighted-average common shares outstanding during the period. Diluted earnings per share is computed by dividing the net income attributable to common shareholders excluding amounts attributable to unvested restricted shares and the net income attributable to non-controlling interests by the weighted-average number of common shares including any dilutive unvested restricted shares.

Certain of our performance-based restricted common shares are considered participating securities, which require the use of the two-class method for the computation of basic and diluted earnings per share. During the years ended December 31, 2020, 2019 and 2018, 820,563, 924,314 and 1,011,268 OP units, respectively, were excluded from the calculation of diluted earnings per share because their effect would be anti-dilutive.

For the years ended December 31, 2020, 2019 and 2018, distributions of $0, $41,000 and $317,000, respectively, were made to the holders of certain restricted common shares, $0, $0, and $16,000 of which were charged against earnings, annually for the years ended December 31, 2020, 2019 and 2018, respectively. See Note 15 for information related to restricted common shares under the 2008 Plan.

(in thousands, except per share data)	Year Ended December 31, 2020	2019	2018
Numerator:			
Income from continuing operations	$ 6,151	$ 23,634	$ 21,981
Less: Net income attributable to noncontrolling interests	(117)	(511)	(550)
Distributions paid on unvested restricted shares	—	(41)	(301)
Income from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	6,034	23,082	21,130
Income from discontinued operations	—	594	—
Less: Net income attributable to noncontrolling interests	—	(34)	—
Income from discontinued operations attributable to Whitestone REIT	—	560	—
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	$ 6,034	$ 23,642	$ 21,130
Denominator:			
Weighted average number of common shares - basic	42,244	40,184	39,274
Effect of dilutive securities:			
Unvested restricted shares	746	1,278	1,338
Weighted average number of common shares - dilutive	42,990	41,462	40,612
Earnings Per Share:			
Basic:			
Income from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	$ 0.14	$ 0.57	$ 0.54
Income from discontinued operations attributable to Whitestone REIT	0.00	0.02	0.00
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	$ 0.14	$ 0.59	$ 0.54
Diluted:			
Income from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	$ 0.14	$ 0.56	$ 0.52
Income from discontinued operations attributable to Whitestone REIT	0.00	0.01	0.00
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	$ 0.14	$ 0.57	$ 0.52

12. FEDERAL INCOME TAXES

Federal income taxes are not provided because we intend to and believe we qualify as a REIT under the provisions of the Code and because we have distributed and intend to continue to distribute all of our taxable income to our shareholders. Our shareholders include their proportionate taxable income in their individual tax returns. As a REIT, we must distribute at least 90% of our real estate investment trust taxable income to our shareholders and meet certain income sources and investment restriction requirements. In addition, REITs are subject to a number of organizational and operational requirements. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income at regular corporate tax rates.

Taxable income differs from net income for financial reporting purposes principally due to differences in the timing of recognition of interest, real estate taxes, depreciation and rental revenue.

For federal income tax purposes, the cash distributions to shareholders are characterized as follows for the years ended December 31:

	2020	2019	2018
Ordinary income (unaudited)	59.9 %	28.6 %	39.1 %
Return of capital (unaudited)	40.1 %	19.4 %	26.5 %
Capital gain distributions (unaudited)	— %	52.0 %	34.4
Total	**100.0 %**	**100.0 %**	**100.0 %**

13. RELATED PARTY TRANSACTIONS

The Contribution. Mr. James C. Mastandrea, the Chairman and Chief Executive Officer of the Company, also serves as the Chairman and Chief Executive Officer of Pillarstone REIT and beneficially owns approximately 78.2% of the outstanding equity in Pillarstone REIT (when calculated in accordance with Rule 13d-3(d)(1) under the Exchange Act of 1934, as amended (the "Exchange Act")). Mr. John J. Dee, the Chief Operating Officer and Corporate Secretary of the Company, also serves as the Senior Vice President and Chief Financial Officer of Pillarstone REIT and beneficially owns approximately 27.0% of the outstanding equity in Pillarstone REIT (when calculated in accordance with Rule 13d-3(d)(1) under the Exchange Act). In addition, Mr. Paul T. Lambert, a Trustee of the Company, also serves as a Trustee of Pillarstone REIT. The Contribution is pursuant to the Company's strategy of recycling capital by disposing of Non-Core Properties that do not fit the Company's Community Centered Property® strategy and the terms of the Contribution Agreement, the OP Unit Purchase Agreement, the Tax Protection Agreement and the Contribution were determined through arm's-length negotiations. The Contribution was unanimously approved and recommended by a special committee of independent Trustees of the Company. See Note 5 for additional disclosure on the Contribution.

Pillarstone OP. For the periods prior to January 1, 2018, Pillarstone OP was accounted for under the profit-sharing method, and related party transactions between the Company and Pillarstone OP were eliminated. As a result of the adoption of Topic 606 and ASC 610 as of January 1, 2018, the Company derecognized the underlying assets and liabilities associated with the Contribution as of January 1, 2018 and recognized the Company's investment in Pillarstone OP under the equity method.

During the ordinary course of business, we have transactions with Pillarstone OP that include, but are not limited to, rental income, interest expense, general and administrative costs, commissions, management and asset management fees, and property expenses.

The following table presents the revenue and expenses with Pillarstone OP included in our consolidated statements of operations and comprehensive income (loss) for the years ended December 31, 2020, 2019 and 2018 (in thousands):

	Location of Revenue (Expense)	2020	2019	2018
Rent	Operating and maintenance	$ (932)	$ (813)	$ (779)
Property management fee income	Management, transaction, and other fees	$ 598	$ 856	$ 1,008
Interest income	Interest, dividend and other investment income	$ —	$ 171	$ 582

On December 8, 2016, we received a $15.4 million financed receivable from Pillarstone OP to provide the financing for the ordinary course of business transactions for Pillarstone OP. The financed receivable had a interest rate of 1.4%-1.95% plus Libor and a maturity date of December 31, 2019. The financed receivable was paid off on October 17, 2019.

14. EQUITY

Under our declaration of trust, as amended, we have authority to issue up to 400 million common shares of beneficial interest, $0.001 par value per share, and up to 50 million preferred shares of beneficial interest, $0.001 par value per share.

Equity Offerings

On May 31, 2019, we entered into nine equity distribution agreements for an at-the-market equity distribution program (the “2019 equity distribution agreements”) providing for the issuance and sale of up to an aggregate of $100 million of the Company’s common shares pursuant to our Registration Statement on Form S-3 (File No. 333-225007). Actual sales will depend on a variety of factors determined by us from time to time, including (among others) market conditions, the trading price of our common shares, capital needs and our determinations of the appropriate sources of funding for us, and were made in transactions that will be deemed to be “at-the-market” offerings as defined in Rule 415 under the Securities Act. We have no obligation to sell any of our common shares and can at any time suspend offers under the 2019 equity distribution agreements or terminate the 2019 equity distribution agreements. For the years ended December 31, 2020 and 2019, we sold 170,942 and 1,612,389 common shares under the 2019 equity distribution agreements, with net proceeds to us of approximately $2.2 million and $21.2 million, respectively. In connection with such sales, we paid compensation of approximately $34,000 and $324,000, respectively, to the sales agents. In light of the significant decline in the price of our common shares since the outbreak of COVID-19, we do not currently anticipate selling shares under the 2019 equity distribution agreements until the price of our common shares increases significantly. However, if necessary, we could choose to issue shares at prevailing market prices if our liquidity position so requires.

On June 4, 2015, we entered into nine amended and restated equity distribution agreements (the “2015 equity distribution agreements”) for an at-the-market distribution program. Pursuant to the terms and conditions of the 2015 equity distribution agreements, we could issue and sell up to an aggregate of $50 million of our common shares pursuant to our Registration Statement on Form S-3 (File No. 333-203727), which expired on April 29, 2018. Actual sales depended on a variety of factors determined by us from time to time, including (among others) market conditions, the trading price of our common shares, capital needs and our determinations of the appropriate sources of funding for us, and were made in transactions that will be deemed to be “at-the-market” offerings as defined in Rule 415 under the Securities Act. We had no obligation to sell any of our common shares, and could at any time suspend offers under the 2015 equity distribution agreements or terminate the 2015 equity distribution agreements. For the years ended December 31, 2020, 2019 and 2018, we did not sell any common shares under the 2015 equity distribution agreements.

Operating Partnership Units

Substantially all of our business is conducted through the Operating Partnership. We are the sole general partner of the Operating Partnership. As of December 31, 2020, we owned a 98.2% interest in the Operating Partnership.

Limited partners in the Operating Partnership holding OP units have the right to redeem their OP units for cash or, at our option, common shares at a ratio of one OP unit for one common share. Distributions to OP unit holders are paid at the same rate per unit as distributions per share to Whitestone common shares. As of December 31, 2020 and 2019, there were 43,043,251 and 42,279,849 OP units outstanding, respectively. We owned 42,270,476 and 41,371,277 OP units as of December 31, 2020 and 2019, respectively. The balance of the OP units is owned by third parties, including certain trustees. Our weighted-average share ownership in the Operating Partnership was approximately 98.1%, 97.7% and 97.5% for the years ended December 31, 2020, 2019 and 2018, respectively. For the years ended December 31, 2020 and 2019, 135,797 and 19,909 OP units, respectively, were redeemed for an equal number of common shares.

Distributions

The following table reflects the total distributions we have paid (including the total amount paid and the amount paid per share) in each indicated quarter (in thousands, except per share data):

	Common Shares		Noncontrolling OP Unit Holders		Total
Quarter Paid	**Distribution Per Common Share**	**Total Amount Paid**	**Distribution Per OP Unit**	**Total Amount Paid**	**Total Amount Paid**
2020					
Fourth Quarter	$ 0.1050	$ 4,432	$ 0.1050	$ 81	$ 4,513
Third Quarter	0.1050	4,430	0.1050	81	4,511
Second Quarter	0.1050	4,413	0.1050	91	4,504
First Quarter	0.2850	11,928	0.2850	258	12,186
Total	**$ 0.6000**	**$ 25,203**	**$ 0.6000**	**$ 511**	**$ 25,714**
2019					
Fourth Quarter	$ 0.2850	$ 11,580	$ 0.2850	$ 262	$ 11,842
Third Quarter	0.2850	11,430	0.2850	264	11,694
Second Quarter	0.2850	11,316	0.2850	265	11,581
First Quarter	0.2850	11,301	0.2850	264	11,565
Total	**$ 1.1400**	**$ 45,627**	**$ 1.1400**	**$ 1,055**	**$ 46,682**

On March 24, 2020 we announced that, in further pursuit of ensuring our financial flexibility, our board of trustees (the “Board”) determined to conserve additional liquidity by reducing our distribution in response to the COVID-19 pandemic. The distribution reduction has resulted in approximately $7.7 million of quarterly cash savings.

The Board will regularly reassess the dividend, particularly as there is more clarity on the duration and severity of the COVID-19 pandemic and as business conditions improve.

Shareholders' Rights Plan

On May 14, 2020, the Board authorized a dividend of one preferred share purchase right (a “Right”) for each outstanding common share payable on May 26, 2020 (the “Record Date”), to the holders of record of common shares as of 5:00 P.M., New York City time, on the Record Date. In connection with the Rights, the Company and American Stock Transfer & Trust Company, LLC, as rights agent, entered into a Rights Agreement, dated as of May 14, 2020 (the “Rights Agreement”). Each Right entitles the registered holder to purchase from the Company one one-thousandth (a “Unit”) of a Series A Preferred Share, par value $0.001 per share (each a “Preferred Share”), of the Company at a purchase price of $30.00 per Unit, subject to adjustment as described in the Rights Agreement. If a person or group of affiliated or associated persons acquires beneficial ownership of 5% or more of our outstanding common shares (20% or more in the case of a passive institutional investor), subject to certain exceptions described in the Rights Agreement, each Right would entitle its holder (other than the acquiring person or group of affiliated or associated persons) to purchase additional common shares at a substantial discount to the public market price. In addition, under certain circumstances, we may exchange the Rights (other than Rights beneficially owned by the acquiring person or group of affiliated or associated persons), in whole or in part, for common shares on a one-for-one basis. The Rights will expire on the earliest of (i) the close of business on May 13, 2021, (ii) the time at which the Rights are redeemed pursuant to the Rights Agreement, (iii) the closing of any merger or other acquisition transaction involving the Company that has been approved by the Board, at which time the Rights are terminated, and (iv) the time at which the Rights are exchanged pursuant to the Rights Agreement. The Rights are in all respects subject to and governed by the provisions of the Rights Agreement.

15. INCENTIVE SHARE PLAN

The Company's 2008 Long-Term Equity Incentive Ownership Plan (as amended, the "2008 Plan") expired in July 2018. At the Company's annual meeting of shareholders on May 11, 2017, our shareholders voted to approve the 2018 Long-Term Equity Incentive Ownership Plan (the "2018 Plan"). The 2018 Plan provides for the issuance of up to 3,433,831 common shares and OP units pursuant to awards under the 2018 Plan. The 2018 Plan became effective on July 30, 2018, which is the day after the 2008 Plan expired.

The Compensation Committee administered the 2008 Plan and administers the 2018 Plan except, in each case, with respect to awards to non-employee trustees, for which the 2008 Plan was and the 2018 Plan is administered by the board of trustees. The Compensation Committee is authorized to grant share options, including both incentive share options and non-qualified share options, as well as share appreciation rights, either with or without a related option. The Compensation Committee is also authorized to grant restricted common shares, restricted common share units, performance awards and other share-based awards. On September 6, 2017, the Compensation Committee approved the grant of an aggregate of 965,000 performance-based restricted common share units under the 2008 Plan which only vest immediately prior to the consummation of a Change in Control (as defined in the 2008 Plan) that occurs on or before September 30, 2024 (the "CIC Units") to certain of our employees. Continued employment is required through the vesting date. If a Change in Control does not occur on or before September 30, 2024, the CIC Units shall be immediately forfeited. The Company considers a Change in Control on or before September 30, 2024 to be improbable, and no expense has been recognized for the CIC Units. If a Change in Control occurs, any outstanding CIC Units would be expensed immediately on the date of the Change in Control using the grant date fair value. The grant date fair value for each CIC Unit of $13.05 was determined based on the Company's closing share price on the grant date.

On September 6, 2017, the Compensation Committee approved the grant of an aggregate of 267,783 performance-based restricted common share units under the 2008 Plan with market-based vesting conditions (the "TSR Units") to certain of our employees. Vesting was contingent upon achieving Total Shareholder Return relative to the peer group defined in the TSR Unit award agreements over a three-year performance period. At the end of the performance period, the number of common shares awarded for each vested TSR Unit was 200% based on the Company's ranking in the peer group (the "TSR Peer Group Ranking"). Continued employment was required through the vesting date. The grant date fair value for each TSR Unit of $12.37 was determined using the Monte Carlo simulation method and was recognized as share-based compensation expense ratably from the September 30, 2017 grant date to the end of the performance period, December 31, 2019. The Monte Carlo simulation model utilizes multiple input variables that determine the probability of satisfying the market condition stipulated in the award grant and calculates the fair value of the award. Expected volatilities utilized in the model were estimated using a historical period consistent with the performance period of approximately three years. The risk-free interest rate was based on the United States Treasury rate for a term commensurate with the expected life of the grant. On January 1, 2020, the remaining unvested 247,978 TSR units that were granted on September 6, 2017 vested at 200% achievement into 495,956 common shares.

On March 16, 2018, the Compensation Committee approved the grant of an aggregate of 387,499 time-based restricted common share units under the 2008 Plan, which vest annually in three equal installments, and 4,300 performance-based restricted common share units to certain of our employees.

On December 1, 2018, the Compensation Committee approved the grant of an aggregate of 229,684 TSR Units under the 2018 Plan to certain of our employees. Vesting was contingent upon achieving Total Shareholder Return relative to the peer group defined in the TSR Unit award agreements over a three-year performance period. At the end of the performance period, the number of common shares awarded for each vested TSR Unit was 50% based on the Company's TSR Peer Group Ranking. Continued employment was required through the vesting date. The grant date fair value for each TSR Unit of $14.89 was determined using the Monte Carlo simulation method and was recognized as share-based compensation expense ratably from the December 1, 2018 grant date to the end of the performance period, December 31, 2020. The Monte Carlo simulation model utilizes multiple input variables that determine the probability of satisfying the market condition stipulated in the award grant and calculates the fair value of the award. Expected volatilities utilized in the model were estimated using a historical period consistent with the performance period of approximately three years. The risk-free interest rate was based on the United States Treasury rate for a term commensurate with the expected life of the grant. On January 1, 2021, the remaining unvested 208,210 TSR units that were granted on December 1, 2018 vested at 50% achievement into 104,105 common shares.

On June 30, 2019, the Compensation Committee approved the grant of an aggregate of 405,417 TSR Units and 317,184 time-based restricted common share units under the 2018 Plan to certain of our employees. On September 30, 2019, the Compensation Committee approved the grant of 17,069 time-based restricted common share units under the 2018 Plan to certain of our employees. Vesting of the TSR Units is contingent upon achieving Total Shareholder Return relative to the peer group defined in the TSR Unit award agreements over a three-year performance period. At the end of the performance period, the number of common shares awarded for each vested TSR Unit will vary from 0% to 200% depending on the Company's TSR Peer Group Ranking. Continued employment is required through the vesting date. The grant date fair value for each TSR Unit of $8.22 was determined using the Monte Carlo simulation method and is being recognized as share-based compensation expense ratably from the June 30, 2019 grant date to the end of the performance period, December 31, 2021. The Monte Carlo simulation model utilizes multiple input variables that determine the probability of satisfying the market condition stipulated in the award grant and calculates the fair value of the award. Expected volatilities utilized in the model were estimated using a historical period consistent with the performance period of approximately three years. The risk-free interest rate was based on the United States Treasury rate for a term commensurate with the expected life of the grant. The time-based restricted common share units have a grant date fair value of $10.63 and $11.69 and vest annually in three equal installments for the June 30, 2019 and September 30, 2019 grants, respectively.

On July 31, 2020, the Compensation Committee approved the grant of an aggregate of 545,000 TSR Units and 530,000 time-based restricted common share units under the 2018 Plan to certain of our employees. Vesting of the TSR Units is contingent upon achieving Total Shareholder Return relative to the peer group defined in the TSR Unit award agreements over a three-year performance period. At the end of the performance period, the number of common shares awarded for each vested TSR Unit will vary from 0% to 200% depending on the Company's TSR Peer Group Ranking. Continued employment is required through the vesting date. The grant date fair value for each TSR Unit of $5.55 was determined using the Monte Carlo simulation method and is being recognized as share-based compensation expense ratably from the July 31, 2020 grant date to the end of the performance period, December 31, 2022. The Monte Carlo simulation model utilizes multiple input variables that determine the probability of satisfying the market condition stipulated in the award grant and calculates the fair value of the award. Expected volatilities utilized in the model were estimated using a historical period consistent with the performance period of approximately three years. The risk-free interest rate was based on the United States Treasury rate for a term commensurate with the expected life of the grant. The time-based restricted common share units have a grant date fair value of $5.83 and vest annually in three equal installments.

A summary of the share-based incentive plan activity as of and for the year ended December 31, 2020 is as follows:

	Shares	Weighted-Average Grant Date Fair Value [(1)]
Non-vested at January 1, 2020	2,339,932	$ 11.52
Granted	1,108,014	5.76
Vested	(511,621)	10.88
Forfeited	(32,479)	10.80
Non-vested at December 31, 2020	2,903,846	$ 9.45
Available for grant at December 31, 2020	375,046	

(1) The fair value of the shares granted were determined based on observable market transactions occurring near the date of the grants.

A summary of our nonvested and vested shares activity for the years ended December 31, 2020, 2019 and 2018 is presented below:

	Shares Granted			Shares Vested		
Year Ended	Non-Vested Shares Issued	Weighted-Average Grant-Date Fair Value		Vested Shares	Total Vest-Date Fair Value	
					(in thousands)	
Year Ended December 31, 2020	1,108,014	$	5.76	(511,621)	$	5,566
Year Ended December 31, 2019	762,630	$	9.46	(284,964)	$	3,352
Year Ended December 31, 2018	653,472	$	11.07	(560,126)	$	7,978

Total compensation recognized in earnings for share-based payments for the years ended December 31, 2020, 2019 and 2018 was $6.1 million, $6.5 million and $6.8 million, respectively.

Based on our current financial projections, we expect 100% of the unvested awards, exclusive of 890,000 CIC Units, to vest over the next 31 months. As of December 31, 2020, there was approximately $3.8 million in unrecognized compensation cost related to outstanding non-vested TSR Units, which are expected to vest over a period of 25 months and approximately $4.6 million in unrecognized compensation cost related to outstanding non-vested time-based shares, which are expected to be recognized over a period of approximately 31 months beginning on January 1, 2020.

We expect to record approximately $8.5 million in share-based compensation subsequent to the year ended December 31, 2020. The unrecognized share-based compensation cost is expected to vest over a weighted average period of 23 months. The dilutive impact of the performance-based shares will be included in the denominator of the earnings per share calculation beginning in the period that the performance conditions are expected to be met. The dilutive impact of the TSR Units is based on the Company's TSR Peer Group Ranking as of the reporting date and weighted according to the number of days outstanding in the period. As of December 31, 2020, the TSR Peer Group Ranking called for 50%, 0%, and 0% attainment of the TSR Units granted in 2018, 2019, and 2020, respectively. The dilutive impact of the CIC Units is based on the probability of a Change in Control. Because the Company considers a Change in Control on or before September 30, 2024 to be improbable, no CIC Units are included in the Company's dilutive shares.

16. GRANTS TO TRUSTEES

On December 4, 2020, six independent trustees, including one independent trustee who served on the board until the 2020 annual meeting of shareholders and did not stand for re-election, and one trustee emeritus were granted a total of 29,587 common shares, which vest immediately and are prorated based on date appointed. The 29,587 common shares granted to our trustees had a grant fair value of $8.17 per share. On December 4, 2020, one of our independent trustees elected to receive a total of 3,427 common shares with a grant date fair value of $8.17 in lieu of cash for board fees. The fair value of the shares granted during the year ended December 31, 2020 was determined using quoted prices available on the date of grant.

On December 12, 2019, each of our six independent trustees and one trustee emeritus were granted approximately 3,000 common shares, which vest immediately and are prorated based on date appointed. The 19,562 common shares granted to our trustees had a grant fair value of $13.54 per share. On December 12, 2019, two of our independent trustees each elected to receive a total of 3,398 common shares with a grant date fair value of $13.54 in lieu of cash for board fees. The fair value of the shares granted during the year ended December 31, 2019 was determined using quoted prices available on the date of grant.

On December 28, 2018, each of our six independent trustees and one trustee emeritus were granted 3,000 common shares, which vest immediately and are prorated based on date appointed. The 21,000 common shares granted to our trustees had a grant fair value of $12.42 per share. On December 28, 2018, two of our independent trustees each elected to receive a total of 4,186 common shares with a grant date fair value of $12.42 in lieu of cash for board fees. The fair value of the shares granted during the year ended December 31, 2018 was determined using quoted prices available on the date of grant.

17. COMMITMENTS AND CONTINGENCIES

On December 12, 2017, a property owner that owns a land parcel adjacent to a Whitestone property filed suit against Whitestone Pinnacle of Scottsdale - Phase II, LLC ("Whitestone Pinnacle") alleging breach of contract and resulting in the delay of the construction of their assisted living facility. The claimant seeks approximately $2.3 million in restitution from

Whitestone Pinnacle. The Company intends to vigorously defend the matter as it believes that these claims are without merit and that it has substantial legal and factual defenses to the claims and allegations contained in the complaint. Based upon the present status of this matter, the Company does not believe it is probable that a loss will be incurred. Accordingly, the Company has not recorded a charge as a result of this action.

We are subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. While the resolution of these matters cannot be predicted with certainty, management believes the final outcome of such matters will not have a material adverse effect on our financial position, results of operations, cash flows or liquidity.

18. SEGMENT INFORMATION

Our management historically has not differentiated by property types and therefore does not present segment information.

19. SELECTED QUARTERLY FINANCIAL DATA (unaudited)

The following is a summary of our unaudited quarterly financial information for the years ended December 31, 2020 and 2019 (in thousands, except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2020				
Revenues	$ 30,584	$ 27,597	$ 29,900	$ 29,834
Net income	$ 1,647	$ 419	$ 914	$ 3,171
Net income attributable to Whitestone REIT	$ 1,612	$ 410	$ 900	$ 3,112
Basic Earnings per share:				
Net income attributable to common shareholders, excluding amounts attributable to unvested restricted shares[(1)]	$ 0.04	$ 0.01	$ 0.02	$ 0.07
Diluted Earnings per share:				
Net income attributable to common shareholders, excluding amounts attributable to unvested restricted shares[(1)]	$ 0.04	$ 0.01	$ 0.02	$ 0.07
2019				
Revenues	$ 29,694	$ 29,578	$ 29,879	$ 30,100
Net income	$ 2,839	$ 3,404	$ 1,849	$ 16,136
Net income attributable to Whitestone REIT	$ 2,774	$ 3,327	$ 1,807	$ 15,776
Basic Earnings per share:				
Income from continuing operations attributable to Whitestone REIT, excluding amounts attributable to unvested restricted shares[(1)]	$ 0.07	$ 0.06	$ 0.04	$ 0.39
Income from discontinued operations attributable to Whitestone REIT[(1)]	$ 0.00	$ 0.02	$ 0.00	0.00
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares [(1)]	$ 0.07	$ 0.08	$ 0.04	$ 0.39
Diluted Earnings per share:				
Income from continuing operations attributable to Whitestone REIT, excluding amounts attributable to unvested restricted shares[(1)]	$ 0.07	$ 0.06	$ 0.04	$ 0.38
Income from discontinued operations attributable to Whitestone REIT[(1)]	$ 0.00	$ 0.02	$ 0.00	(0.01)
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares [(1)]	$ 0.07	$ 0.08	$ 0.04	$ 0.37

(1) The sum of individual quarterly basic and diluted earnings per share amounts may not agree with the year-to-date basic and diluted earning per share amounts as the result of each period's computation being based on the weighted average number of common shares outstanding during that period.

20. SUBSEQUENT EVENTS

On February 4, 2021, the Board of Trustees (the "Board") of the Company, upon recommendation and approval of the Compensation Committee of the Board (the "Compensation Committee"), approved the following cash payments to its employees, including named executive officers, and an increase in the Company's annual cash distribution. In taking these actions, the Board and the Compensation Committee considered the impact of the ongoing COVID-19 pandemic on the Company's business and operations and the Company's commitment to delivering long-term value to its shareholders.

Cash Bonuses Payable to Named Executive Officers

The Company's annual incentive program (the "AIP") provides an opportunity for employees to receive a short-term award based on the achievement of specified organization, operating and financial goals and objectives at the corporate level that are established by the Compensation Committee each year. In July 2020, the Compensation Committee established three targets for 2020 pursuant to the AIP to be based on achievement of specified levels of liquidity, occupancy and the ratio of the Company's dividend to AFFO. The 2020 targets were intended to be challenging to achieve, even at the lowest level, because the Company has historically not paid out cash incentives and did not intend to do so in 2021 unless performance in 2020 was well-above expectation. The Company's CEO and CFO have not received cash incentives pursuant to the AIP for the past nine years. Cash incentive opportunities of the named executive officers pursuant to the AIP were as follows, with potential to earn up to 200% of the target award depending on the level of achievement of the three 2020 targets.

NEO (Named Executive Officers)	AIP Cash Incentive Opportunity at "Target"
James C. Mastandrea	125% of annual base salary, or $750,000
David K. Holeman	100% of annual base salary, or $375,000
John J. Dee	50% of annual base salary, or $125,000
Bradford D. Johnson	80% of annual base salary, or $240,000
Christine J. Mastandrea	80% of annual base salary, or $240,000

Because the Company achieved each of the three 2020 targets at the highest level, each named executive officer was potentially eligible to receive his or her AIP cash incentive at 200% of the target amount. Historically, the Compensation Committee has refrained from exercising discretion to modify cash incentives payable pursuant to the AIP. However, the Compensation Committee and the Board considered that, among other things, despite the fact that the 2020 targets were established at the height of the COVID-19 pandemic and that the Company and executive officers had performed at an exceptional level in 2020, as a result of the impact of the pandemic the Compensation Committee and the Board exercised their discretion to reduce the cash incentives payable to named executive officers to target rather than 200% of target. The Company will pay an aggregate of $1.73 million in cash incentives to the named executive officers in 2021 pursuant to the AIP.

The Compensation Committee and the Board also amended the employment agreements for Messrs. Mastandrea and Holeman and the change in control agreements for Mrs. Mastandrea and Messrs. Dee and Johnson in order to clarify that this reduction in 2020 cash incentive payouts will be disregarded in connection with any severance or change in control and approved retention payments for the named executive officers to be paid on March 15, 2025, subject to the named executive officers remaining employed by the Company through December 31, 2024 (with exceptions for terminations by the Company without cause, by the named executive officers for good reason or due to death or disability). The amounts of such retention payments for Messrs. Mastandrea, Holeman, Dee and Johnson and Mrs. Mastandrea are $750,000, $375,000, $125,000, $240,000 and $240,000, respectively.

Cash Bonuses Payable to Non-Named Executive Officer Employees

The Board approved additional cash bonuses payable to the Company's non-named executive officer employees of up to $300,000 in the aggregate for their contributions during 2020.

Quarterly Dividend

The Board increased the Company's quarterly cash distribution by $0.0025, or 2.4%, to $0.1075 per common share and OP unit for the first quarter of 2021, payable in monthly installments of $0.035833 beginning with the previously announced cash distribution payment in March 2021. Going forward, the Board will continue to evaluate dividend declarations each quarter.

Whitestone REIT and Subsidiaries
Schedule II - Valuation and Qualifying Accounts
December 31, 2020

	(in thousands)			
Description	**Balance at Beginning of Year**	**Charges[1]**	**Deductions from Reserves**	**Balance at End of Year**
Allowance for doubtful accounts:				
Year ended December 31, 2020	$ 11,173	$ 5,649	$ (396)	$ 16,426
Year ended December 31, 2019	9,746	1,484	(57)	11,173
Year ended December 31, 2018	8,608	1,391	(253)	9,746

(1) For the years ended December 31, 2020 and 2019, charges were reductions to revenue. For the year ended December 31, 2018, charges were additions to costs and expense.

Whitestone REIT and Subsidiaries
Schedule III - Real Estate and Accumulated Depreciation
December 31, 2020

Property Name	Initial Cost (in thousands)		Costs Capitalized Subsequent to Acquisition (in thousands)		Gross Amount at which Carried at End of Period (in thousands)(1) (2)		
	Land	Building and Improvements	Improvements (net)	Carrying Costs	Land	Building and Improvements	Total
Whitestone Properties:							
Ahwatukee Plaza	$ 5,126	$ 4,086	$ 357	$ —	$ 5,126	$ 4,443	$ 9,569
Anthem Marketplace	4,790	17,973	1,771	—	4,790	19,744	24,534
Anthem Marketplace Phase II	204	—	502	—	204	502	706
Bissonnet Beltway	415	1,947	529	—	415	2,476	2,891
BLVD Place	63,893	90,942	2,091	—	63,893	93,033	156,926
The Citadel	472	1,777	3,081	—	472	4,858	5,330
City View Village	2,044	4,149	108	—	2,044	4,257	6,301
Davenport Village	11,367	34,101	1,367	—	11,367	35,468	46,835
Desert Canyon	1,976	1,704	922	—	1,976	2,626	4,602
Eldorado Plaza	16,551	30,746	444	—	16,551	31,190	47,741
Fountain Hills Plaza	5,113	15,340	378	—	5,113	15,718	20,831
Fountain Square	5,573	9,828	2,662	—	5,573	12,490	18,063
Fulton Ranch Towne Center	7,604	22,612	2,636	—	7,604	25,248	32,852
Gilbert Tuscany Village	1,767	3,233	1,622	—	1,767	4,855	6,622
Gilbert Tuscany Village Hard Corner	856	794	169	—	856	963	1,819
Heritage Trace Plaza	6,209	13,821	905	—	6,209	14,726	20,935
Headquarters Village	7,171	18,439	1,670	—	7,171	20,109	27,280
Keller Place	5,977	7,577	873	—	5,977	8,450	14,427
Kempwood Plaza	733	1,798	2,295	—	733	4,093	4,826
La Mirada	12,853	24,464	1,320	—	12,853	25,784	38,637
Las Colinas Village	16,706	18,098	192	—	16,706	18,290	34,996
Lion Square	1,546	4,289	4,600	—	1,546	8,889	10,435
The Marketplace at Central	1,305	5,324	1,442	—	1,305	6,766	8,071
Market Street at DC Ranch	9,710	26,779	8,684	—	9,710	35,463	45,173
Mercado at Scottsdale Ranch	8,728	12,560	1,666	—	8,728	14,226	22,954
Paradise Plaza	6,155	10,221	1,360	—	6,155	11,581	17,736
Parkside Village North	3,877	8,629	192	—	3,877	8,821	12,698
Parkside Village South	5,562	27,154	520	—	5,562	27,674	33,236
Pima Norte	1,086	7,162	2,835	—	1,086	9,997	11,083
Pinnacle of Scottsdale	6,648	22,466	1,838	—	6,648	24,304	30,952
Pinnacle of Scottsdale Phase II	883	4,659	2,719	—	883	7,378	8,261
The Promenade at Fulton Ranch	5,198	13,367	671	—	5,198	14,038	19,236
Providence	918	3,675	2,710	—	918	6,385	7,303
Quinlan Crossing	9,561	28,683	904	—	9,561	29,587	39,148
Seville	6,913	25,518	976	—	6,913	26,494	33,407
Shaver	184	633	140	—	184	773	957
Shops at Pecos Ranch	3,781	15,123	680	—	3,781	15,803	19,584
Shops at Starwood	4,093	11,487	774	—	4,093	12,261	16,354
Shops at Starwood Phase III	1,818	7,069	3,516	—	1,818	10,585	12,403
The Shops at Williams Trace	5,920	14,297	1,011	—	5,920	15,308	21,228
South Richey	778	2,584	2,113	—	778	4,697	5,475
Spoerlein Commons	2,340	7,296	1,022	—	2,340	8,318	10,658
The Strand at Huebner Oaks	5,805	12,335	844	—	5,805	13,179	18,984
SugarPark Plaza	1,781	7,125	1,344	—	1,781	8,469	10,250
Sunridge	276	1,186	562	—	276	1,748	2,024
Sunset at Pinnacle Peak	3,610	2,734	758	—	3,610	3,492	7,102
Terravita Marketplace	7,171	9,392	906	—	7,171	10,298	17,469
Town Park	850	2,911	443	—	850	3,354	4,204
Village Square at Dana Park	10,877	40,250	4,360	—	10,877	44,610	55,487

Whitestone REIT and Subsidiaries
Schedule III - Real Estate and Accumulated Depreciation
December 31, 2020

	Initial Cost (in thousands)		Costs Capitalized Subsequent to Acquisition (in thousands)		Gross Amount at which Carried at End of Period (in thousands)(1) (2)		
Property Name	**Land**	**Building and Improvements**	**Improvements (net)**	**Carrying Costs**	**Land**	**Building and Improvements**	**Total**
Westchase	423	1,751	3,356	—	423	5,107	5,530
Williams Trace Plaza	6,800	14,003	1,651	—	6,800	15,654	22,454
Windsor Park	2,621	10,482	8,664	—	2,621	19,146	21,767
Woodlake Plaza	1,107	4,426	3,393	—	1,107	7,819	8,926
Total Whitestone Properties	**$ 305,725**	**$ 688,999**	**$ 92,548**	**$ —**	**$ 305,725**	**$ 781,547**	**$ 1,087,272**
Land Held for Development:							
BLVD Place Phase II-B	10,500	—	14	2,692	10,500	2,706	13,206
Dana Park Development	4,000	—	26	—	4,000	26	4,026
Eldorado Plaza Development	911	—	30	—	911	30	941
Fountain Hills	277	—	—	—	277	—	277
Market Street at DC Ranch	704	—	—	—	704	—	704
Total - Land Held for Development	**$ 16,392**	**$ —**	**$ 70**	**$ 2,692**	**$ 16,392**	**$ 2,762**	**$ 19,154**
Grand Totals - Whitestone Properties	**$ 322,117**	**$ 688,999**	**$ 92,618**	**$ 2,692**	**$ 322,117**	**$ 784,309**	**$ 1,106,426**

Whitestone REIT and Subsidiaries
Schedule III - Real Estate and Accumulated Depreciation
December 31, 2020

Property Name	Encumbrances	Accumulated Depreciation (in thousands)	Date of Construction	Date Acquired	Depreciation Life
Whitestone Properties:					
Ahwatukee Plaza		$ 1,062		8/16/2011	5-39 years
Anthem Marketplace	(3)	3,749		6/28/2013	5-39 years
Anthem Marketplace Phase II		77	3/1/2019		5-39 years
Bissonnet Beltway		2,055		1/1/1999	5-39 years
BLVD Place	(4)	8,857		5/26/2017	5-39 years
The Citadel		2,335		9/28/2010	5-39 years
City View Village		658		3/31/2015	5-39 years
Davenport Village		5,589		5/27/2015	5-39 years
Desert Canyon		950		4/13/2011	5-39 years
Eldorado Plaza		2,937		5/3/2017	5-39 years
Fountain Hills Plaza		2,999		10/7/2013	5-39 years
Fountain Square		3,246		9/21/2012	5-39 years
Fulton Ranch Towne Center		3,993		11/5/2014	5-39 years
Gilbert Tuscany Village		2,001		6/28/2011	5-39 years
Gilbert Tuscany Village Hard Corner		182		8/28/2015	5-39 years
Heritage Trace Plaza		2,615		7/1/2014	5-39 years
Headquarters Village	(5)	4,336		3/28/2013	5-39 years
Keller Place		1,300		8/26/2015	5-39 years
Kempwood Plaza		2,034		2/2/1999	5-39 years
La Mirada		3,061		9/30/2016	5-39 years
Las Colinas Village		507		12/6/2019	5-39 years
Lion Square		5,686		1/1/2000	5-39 years
The Marketplace at Central		2,221		11/1/2010	5-39 years
Market Street at DC Ranch		8,685		12/5/2013	5-39 years
Mercado at Scottsdale Ranch		3,083		6/19/2013	5-39 years
Paradise Plaza		2,931		8/8/2012	5-39 years
Parkside Village North		1,312		7/2/2015	5-39 years
Parkside Village South		3,956		7/2/2015	5-39 years
Pima Norte		3,508		10/4/2007	5-39 years
Pinnacle of Scottsdale	(6)	6,105		12/22/2011	5-39 years
Pinnacle of Scottsdale Phase II		1,329	3/31/2017		5-39 years
The Promenade at Fulton Ranch		2,391		11/5/2014	5-39 years
Providence		2,858		3/30/2001	5-39 years
Quinlan Crossing		4,231		8/26/2015	5-39 years
Seville		2,961		9/30/2016	5-39 years
Shaver		424		12/17/1999	5-39 years
Shops at Pecos Ranch	(7)	3,427		12/28/2012	5-39 years
Shops at Starwood	(8)	2,917		12/28/2011	5-39 years
Shops at Starwood Phase III		1,589	12/31/2016		5-39 years
The Shops at Williams Trace		2,541		12/24/2014	5-39 years
South Richey		2,827		8/25/1999	5-39 years
Spoerlein Commons		2,663		1/16/2009	5-39 years
The Strand at Huebner Oaks		2,243		9/19/2014	5-39 years
SugarPark Plaza		3,525		9/8/2004	5-39 years
Sunridge		979		1/1/2002	5-39 years
Sunset at Pinnacle Peak		1,030		5/29/2012	5-39 years
Terravita Marketplace		2,673		8/8/2011	5-39 years
Town Park		2,360		1/1/1999	5-39 years
Village Square at Dana Park	(9)	10,125		9/21/2012	5-39 years
Westchase		2,578		1/1/2002	5-39 years

Whitestone REIT and Subsidiaries
Schedule III - Real Estate and Accumulated Depreciation
December 31, 2020

Property Name	Encumbrances	Accumulated Depreciation (in thousands)	Date of Construction	Date Acquired	Depreciation Life
Williams Trace Plaza		2,396		12/24/2014	5-39 years
Windsor Park		10,241		12/16/2003	5-39 years
Woodlake Plaza		3,374		3/14/2005	5-39 years
		$ 163,712			
Land Held for Development:					
BLVD Place Phase II-B		—		5/26/2017	Land - Not Depreciated
Dana Park Development		—		9/21/2012	Land - Not Depreciated
Eldorado Plaza Development		—		12/29/2017	Land - Not Depreciated
Fountain Hills		—		10/7/2013	Land - Not Depreciated
Market Street at DC Ranch		—		12/5/2013	Land - Not Depreciated
Total - Land Held For Development		**$ —**			
Grand Totals - Whitestone Properties		**$ 163,712**			

(1) Reconciliations of total real estate carrying value for the three years ended December 31, follows (in thousands):

	2020	2019	2018
Balance at beginning of period	$ 1,099,955	$ 1,052,238	$ 1,149,454
Cumulative effect of accounting change for adoption of ASU 2017-05.	—	—	(95,146)
Additions during the period:			
Acquisitions	—	34,804	—
Improvements	7,613	13,474	11,638
	7,613	48,278	(83,508)
Deductions - cost of real estate sold or retired	(1,142)	(561)	(13,708)
Balance at close of period	**$ 1,106,426**	**$ 1,099,955**	**$ 1,052,238**

(2) The aggregate cost of real estate for federal income tax purposes is $1.1 billion.
(3) This property secures a $15.1 million mortgage note.
(4) This property secures a $80.0 million mortgage note.
(5) This property secures a $19.0 million mortgage note.
(6) This property secures a $20.2 million mortgage note.
(7) This property secures a $14.0 million mortgage note.
(8) This property secures a $14.3 million mortgage note.
(9) A portions of this property secures a $2.6 million mortgage note.

Exhibit No.	Description
3.1.1	Articles of Amendment and Restatement of Whitestone REIT (previously filed as and incorporated by reference to Exhibit 3.1 to the Registrant’s Current Report on Form 8-K, filed on July 31, 2008)
3.1.2	Articles Supplementary (previously filed as and incorporated by reference to Exhibit 3(i).1 to the Registrant’s Current Report on Form 8-K, filed December 6, 2006)
3.1.3	Articles of Amendment (previously filed and incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on August 24, 2010)
3.1.4	Articles of Amendment (previously filed and incorporated by reference to Exhibit 3.2 to the Registrant’s Current Report on Form 8-K, filed on August 24, 2010)
3.1.5	Articles Supplementary (previously filed and incorporated by reference to Exhibit 3.3 to the Registrant’s Current Report on Form 8-K, filed on August 24, 2010)
3.1.6	Articles of Amendment (previously filed as and incorporated by reference to Exhibit 3.1.1 to the Registrant's Current Report on Form 8-K, filed June 27, 2012)
3.1.7	Articles of Amendment (previously filed as and incorporated by reference to Exhibit 3.1.2 to the Registrant's Current Report on Form 8-K, filed June 27, 2012)
3.1.8	Articles of Amendment (previously filed as and incorporated by reference to Exhibit 3.1.8 to the Registrant’s Annual Report on Form 10-K, filed on March 2, 2020)
3.1.9	Articles Supplementary for Series A Preferred Shares (previously filed as and incorporated by reference to Exhibit 3.1 to the Registrant’s Current Report on Form 8-K, filed on May 15, 2020)
3.2	Amended and Restated Bylaws of Whitestone REIT (previously filed as and incorporated by reference to Exhibit 3.1 to the Registrant’s Current Report on Form 8-K, filed October 9, 2008)
4.1*	Description of Securities Registered under Section 12 of the Securities Exchange Act of 1934, as amended
4.2	Rights Agreement, dated May 14, 2020, between Whitestone REIT and American Stock Transfer Trust, LLC, as Rights Agent (previously filed and incorporated by reference to Exhibit 4.1. to the Registrant’s Current Report on Form 8-K, filed on May 15, 2020)
10.1	Agreement of Limited Partnership of Whitestone REIT Operating Partnership, L.P. (previously filed as and incorporated by reference to Exhibit 10.1 to the Registrant’s General Form for Registration of Securities on Form 10, filed on April 30, 2003)
10.2	Certificate of Formation of Whitestone REIT Operating Partnership II GP, LLC (previously filed as and incorporated by reference to Exhibit 10.3 to the Registrant’s General Form for Registration of Securities on Form 10, filed on April 30, 2003)
10.3	Limited Liability Company Agreement of Whitestone REIT Operating Partnership II GP, LLC (previously filed as and incorporated by reference to Exhibit 10.4 to the Registrant’s General Form for Registration of Securities on Form 10, filed on April 30, 2003)
10.4	Agreement of Limited Partnership of Whitestone REIT Operating Partnership II, L.P. (previously filed as and incorporated by reference to Exhibit 10.6 to the Registrant’s General Form for Registration of Securities on Form 10, filed on April 30, 2003)
10.5	Amendment to the Agreement of Limited Partnership of Whitestone REIT Operating Partnership, L.P. (previously filed in and incorporated by reference to Exhibit 10.1 to the Registrant’s Registration Statement on Form S-11, Commission File No. 333-111674, filed on December 31, 2003)
10.6+	Whitestone REIT 2008 Long-Term Equity Incentive Ownership Plan (previously filed and incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K, filed July 31, 2008)
10.7+	First Amendment to the Whitestone REIT 2008 Long-Term Equity Incentive Ownership Plan (previously filed and incorporated by reference to Exhibit 10.30 to the Registrant's Annual Report on Form 10-K, filed on March 1, 2011)
10.8+	Employment Agreement between Whitestone REIT and James C. Mastandrea (previously filed and incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed August 29, 2014)

Exhibit No.	Description
10.9+	Employment Agreement between Whitestone REIT and David K. Holeman (previously filed and incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed August 29, 2014)
10.10+	Change in Control Agreement between Whitestone REIT and John J. Dee (previously filed and incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K, filed August 29, 2014)
10.11+	Change in Control Agreement between Whitestone REIT and Bradford D. Johnson (previously filed and incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K, filed August 29, 2014)
10.12+	Change in Control Agreement between Whitestone REIT and Christine J. Mastandrea (previously filed and incorporated by reference to Exhibit 10.45 to the Registrant's Annual Report on Form 10-K, filed March 2, 2015)
10.13	OP Unit Purchase Agreement, dated December 8, 2016, among Whitestone REIT Operating Partnership, L.P., Pillarstone Capital REIT and Pillarstone Capital REIT Operating Partnership LP (previously filed and incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed December 9, 2016).
10.14	Amended and Restated Limited Partnership Agreement of Pillarstone Capital REIT Operating Partnership LP, dated December 8, 2016 (previously filed and incorporated by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K, filed December 9, 2016).
10.15+	2018 Long-Term Equity Incentive Ownership Plan (previously filed as and incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed on May 12, 2017).
10.16	Second Amended and Restated Credit Agreement, dated as of January 31, 2019, among Whitestone REIT Operating Partnership, L.P., Whitestone REIT, et al., as guarantors, the lenders party thereto, and Bank of Montreal, as Administrative Agent (previously filed and incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K, filed on February 6, 2019).
10.17	Form of Restricted Common Share Unit Award Agreement (Time-Vested) (previously filed and incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, filed on October 30, 2020)
10.18	Form of Restricted Common Share Unit Award Agreement (Performance-Vested) (previously filed and incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q, filed on October 30, 2020)
10.19+	Amendment to Employment Agreement between Whitestone REIT and James C. Mastandrea. (previously filed and incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed on February 10, 2021)
10.20+	Amendment to Employment Agreement between Whitestone REIT and David K. Holeman (previously filed and incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed on February 10, 2021)
10.21+	Amendment to Change in Control Agreement between Whitestone REIT and John J. Dee (previously filed and incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K, filed on February 10, 2021)
10.22+	Amendment to Change in Control Agreement between Whitestone REIT and Bradford D. Johnson (previously filed and incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K, filed on February 10, 2021)
10.23+	Amendment to Change in Control Agreement between Whitestone REIT and Christine J. Mastandrea (previously filed and incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K, filed on February 10, 2021)

Exhibit No.	Description
21.1*	List of subsidiaries of Whitestone REIT
23.1*	Consent of Pannell Kerr Forster of Texas, P.C.
24.1	Power of Attorney (included on the signature page hereto)
31.1*	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certificate of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certificate of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following financial information of the Registrant for the year ended December 31, 2020, formatted in Inline XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets as of December 31, 2020 (unaudited) and December 31, 2019, (ii) the Consolidated Statements of Operations and Comprehensive Income (Loss) for the years ended December 31, 2020, 2019 and 2018 (unaudited), (iii) the Consolidated Statements of Changes in Equity for the years ended December 31, 2020, 2019 and 2018 (unaudited), (iv) the Consolidated Statement of Cash Flows for the years ended December 31, 2020, 2019 and 2018 (unaudited) and (v) the Notes to the Consolidated Financial Statements (unaudited).
104	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document.

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* Filed herewith.
** Furnished herewith.

+ Denotes management contract or compensatory plan or arrangement.

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CORPORATE INFORMATION

BOARD OF TRUSTEES

JAMES C. MASTANDREA
Chairman and Chief Executive Officer, Whitestone REIT; Chairman, Chief Executive Officer and President, Pillarstone Capital REIT and MDC Realty Corporation; former Chairman and Chief Executive Officer of First Union REIT (NYSE); Director, Cleveland State University Foundation Board; Adjunct Professor, Rice University; Guest Lecturer, University of Chicago.

NANDITA V. BERRY
Former 109th Texas Secretary of State; former Board Member of the University of Houston System Board of Regents; former Senior Counsel of Locke Lord LLP and El Paso Energy Corporation; former Board Member of the Houston Zoo, Inc., the South Asian Chamber of Commerce and the Community Family Center of Houston; Adjunct Professor, University of Houston.

PAUL T. LAMBERT
President, Lambert Capital Corporation; former Principal and Managing Partner, Shidler Group; Founder and former Director and Chief Operating Officer, First Industrial Realty Trust; Trustee, Pillarstone Capital REIT.

JEFFREY A. JONES
Managing Director of Stephens Inc.; former Co-Head of Blackhill Partners, an investment banking and restructuring firm; current member of the Board of the Alternative Asset Center at Southern Methodist University; current Board Trustee of the First Presbyterian Church of Dallas Foundation; former Board Member of the CFA Society of Dallas.

JACK L. MAHAFFEY
Former Chairman, President and Chief Executive Officer, Shell Mining Company, former Director, National Coal Association and the National Coal Council.

DAVID F. TAYLOR
Current Chair of Locke Lord, LLP and former Managing Partner of its Houston office; Board of the Greater Houston Partnership, Central Houston, Inc, Theatre Under the Stars, and Oldham Little Church Foundation.

DANIEL G. DEVOS - TRUSTEE EMERITUS
Chairman and CEO of DP Fox Ventures, LLC; Chairman Orlando Magic (NBA); Chairman and CEO Grand Rapids Griffins (AHL); Partner in CWD Real Estate Investment LLC; Trustee and Audit Committee Member of Alticor, Inc., the Parent of Amway Corporation; former Trustee of Pillarstone REIT; former Trustee of First Union REIT (NYSE).

Senior Management Team

JAMES C. MASTANDREA
Chairman and Chief Executive Officer

DAVID K. HOLEMAN
Chief Financial Officer

JOHN J. DEE
Chief Operating Officer

BRADFORD D. JOHNSON
Executive Vice President, Acquisitions & Asset Management

CHRISTINE J. MASTANDREA
Executive Vice President, Corporate Strategy

PETER TROPOLI
General Counsel

J. SCOTT HOGAN
Vice President and Controller

REBECCA ELLIOTT
Vice President of Corporate Communications

DANIEL P. KOVACEVIC
Regional Vice President, Southwest Region

MATT OKMIN
Division Director, Austin/San Antonio

DAVE SPAGNOLO
Division Director, Dallas/Fort Worth

KEVIN REED
Director of Investor Relations

MICHELLE SIV
Director of Human Resources

AUSTIN - SAN ANTONIO
Davenport Village
Quinlan Crossing
City View Village
Parkside Village North
Parkside Village South
The Strand at Huebner Oaks
Windsor Park Centre

DALLAS - FORT WORTH
Eldorado Plaza
Headquarters Village
Heritage Trace Plaza
Keller Place
Las Colinas Village
Shops at Starwood

HOUSTON
BLVD Place
Bissonnet Beltway Plaza
Kempwood Plaza
Lion Square
Providence Plaza
Shaver Street Center
Shops at Williams Trace
South Richey
Sugar Park Plaza
Sunridge Center
Town Park Plaza
West Memorial - Office
Westchase Plaza
Williams Trace Plaza

PHOENIX/CHICAGO
Ahwatukee Plaza
Anthem Marketplace
Desert Canyon
Fountain Hills Plaza
Fountain Square
Fulton Ranch Towne Center
Gilbert Tuscany Village
La Mirada
Market Street at DC Ranch
Marketplace at Central
Mercado at Scottsdale Ranch
Paradise Plaza
Pima Norte
Pinnacle of Scottsdale
Scottsdale Seville
Sunset at Pinnacle Peak
Terravita Marketplace
The Citadel
The Promenade at Fulton Ranch
The Shops at Pecos Ranch
Village Square at Dana Park
Spoerlein Commons

CORPORATE HEADQUARTERS
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Phone: 512.992.3037

SAN ANTONIO DIVISION OFFICE
11225 Huebner Road
San Antonio, TX 78230
Phone: 512.992.3037

INVESTOR RELATIONS
Shareholders are encouraged to contact Kevin Reed, Director of Investor Relations, with questions or requests for information at ir@whitestonereit.com.

A copy of the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission is included as part of this annual report and is available upon written request and online at the SEC website: www.sec.gov.

REGISTRAR & TRANSFER AGENT
American Stock Transfer & Trust Company
6201 15th Avenue
Brooklyn, New York 11219

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