



REITs

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COMPANY UPDATE / ESTIMATE CHANGES

Key Metrics

WSR - NYSE (as of 5/10/17)	\$12.23
Price Target	NA
52-Week Range	\$11.46 - \$16.30
Shares & Units Outstanding (mm)	39.2
Market Cap. (\$mm)	\$479
3-Mo. Average Daily Volume (000)	673.2
Institutional Ownership	36%
Debt/Total Market Capital (3/17)	56.5%
Est 3 -Year FFO Growth Rate	NA
Est 3 - Year Dividend Growth Rate	NA
Dividend	\$1.14
Dividend Yield	9.3%

Core FFO Per Share FY 12/31

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.34		\$0.32	A	\$0.33
2Q	\$0.32	\$0.34	\$0.36		\$0.34
3Q	\$0.33	\$0.34	\$0.33		\$0.34
4Q	\$0.34	\$0.34	\$0.34		\$0.34
Year	\$1.34	\$1.36	\$1.35		\$1.36
P/FFO	9.1x		9.1x		9.0x

The four quarter amounts may not add up to the full year amount due to rounding and the dilution effect of share based compensation.

Previous numbers have not been restated.

Revenue (\$mm)

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$25.4		\$28.3	A	\$33.9
2Q	\$25.1	\$28.1	\$32.2		\$33.5
3Q	\$25.5	\$28.4	\$33.0		\$33.9
4Q	\$28.4	\$28.8	\$33.6		\$34.5
Year	\$104.4	\$113.2	\$127.2		\$135.8

Company Description: *Whitestone REIT, headquartered in Houston, Texas, was founded in 1998. Whitestone owns and operates commercial properties in established or developing culturally diverse neighborhoods. Whitestone owns and manages properties in Texas, Arizona, and Illinois.*

Whitestone REIT

WSR -- NYSE – Neutral -- 4

First Quarter Results

- **First quarter Core FFO per share were \$0.32, two cents below the year ago period.** Our Core FFO per share estimate was \$0.33. Weighted average shares and units outstanding rose 12.6% from the year ago period. Total property revenue increased 11.1%.
- **The acquisition pipeline remains active for Whitestone.** Whitestone has one property that it has entered into a purchase agreement on and another property under letter of intent.
- **We like the company's 9.3% dividend yield.** Management remains comfortable with the current dividend level. Given the company's high payout ratio, we would not expect a dividend increase for the next few years, at least.
- **We are lowering our 2017 Core FFO per share estimate by \$0.01 to \$1.35.** Management maintained 2017 Core FFO per share guidance of \$1.34 to \$1.39.
- **We are maintaining our Neutral rating on Whitestone.** We believe the shares are fairly valued at this time.

Note Important Disclosures on Pages 6 - 7.
Note Analyst Certification on Page 6.

First Quarter Results

Total property revenue increased 11.1% to \$28.3 million in the first quarter compared to \$25.4 million in the year ago period. Rental revenue increased 9.6%. Other revenue increased 15.9%. Total property expenses increased 15.5%.

General and administrative expense increased 27.6% from the year ago period. (G&A includes non-cash share based compensation expense and acquisition cost.) Net income for the quarter was \$1.4 million compared to \$5.0 million last year. Diluted EPS were \$0.04 versus \$0.19. Core funds from operations were \$10.2 million versus \$9.7 million. Core FFO per diluted common share and unit were \$0.32, down two cents from the year ago period on 12.6% more shares and units outstanding.

Occupancy & Leasing

Total occupancy of the operating portfolio was 88.6% at the end of the quarter. Total occupancy [including the Pillarstone (PRLE - \$3.55) properties] was 86%. The total lease value added in 1Q17 was \$16.3 million. The company signed 91 leases in 1Q17 compared to 122 leases signed in 1Q16.

Acquisitions, Dispositions & Developments

During the quarter, WSR substantially completed construction on its two development projects in Scottsdale, Arizona and Frisco, Texas.

In April, Whitestone entered into purchase agreements for two Texas properties for a total of \$204.6 million. Eldorado Plaza, located in the Dallas suburb of McKinney, is a 221,577 square foot lifestyle center. This center was 97% leased as of April 15, 2017 and contains the option to purchase an additional 1.86 acres of developable land. BLVD Place, located in Uptown Houston, is a 216,944 square foot lifestyle center. This center was 99% leased as of April 15, 2017. WSR plans to develop a mixed use building on the developable land at this site. Whitestone closed on the acquisition of Eldorado Plaza last week and expects to close on BLVD Place later this quarter.

Offering

In April, WSR completed a public offering of 8,000,000 common shares at a price of \$13.00 per share. The net proceeds from this offering of \$100 million were used to initially repay a portion of debt on its credit facility and will subsequently be used to fund part of the recently announced acquisitions.

Financials

The company has \$10.6 million of debt maturing and scheduled amortization payments in 2017. Maturities and scheduled amortization payments continue to be light in 2018 at \$12.1 million. As of March 31, 2017, 65% of the company's debt was at a fixed rate. The company's weighted average interest rate on all fixed debt at the end of the first quarter was 4.0%.

Guidance

Management maintained 2017 Core FFO per share guidance of \$1.34 to \$1.39. Management's guidance does not include any additional unannounced acquisitions or dispositions. Same property NOI growth is expected to be between 3% and 5%. Our 2017 Core FFO per share estimate is \$1.35.

Whitestone REIT

Consolidated Statement of Income (In thousands, except per share data)			
	1Q17	1Q16	% Change
Property revenues			
Rental revenues	\$21,296	\$19,422	9.6%
Other revenues	6,971	6,013	15.9%
Total property revenues	28,267	25,435	11.1%
Property expenses			
Property operations and maintenance	5,494	4,794	14.6%
Real estate taxes	3,920	3,354	16.9%
Total property expenses	9,414	8,148	15.5%
Other expenses (income)			
General and administrative	6,169	4,836	27.6%
Depreciation and amortization	6,008	5,392	11.4%
Executive relocation expense			
Involuntary conversion			
Interest expense	5,153	4,804	7.3%
Interest income	(138)	(97)	
Total other expense	17,192	14,935	15.1%
Income from continuing operations before loss on disposal of assets and income taxes	1,661	2,352	-29.4%
Provision for income taxes	(81)	(156)	
Loss on sale or disposal of assets	(23)	2	
Income (loss) from discontinued operations			
Gain on sale of property		2,890	
Net income (loss)	1,557	5,088	-69.4%
Less: Redeemable operating partnership units	53	91	
Less: Non-controlling interests in consolidated partnership	64		
Less: Net income (loss) attributable to noncontrolling interests	117	91	
Net income (loss) attributable to Whitestone REIT	\$1,440	\$4,997	-71.2%
Earnings per share - diluted	\$0.04	\$0.19	-78.9%
Weighted average number of common shares outstanding:			
Diluted	30,409	27,489	10.6%

Funds From Operations	1Q17	1Q16	% Change
Net income (loss) attributable to Whitestone REIT	\$1,440	\$4,997	-71.2%
Depreciation and amortization of real estate assets	5,795	5,311	9.1%
Loss (gain) on disposal of assets	22	(2,892)	
Net income (loss) attributable to noncontrolling interests	53	91	-41.8%
FFO	\$7,310	\$7,507	-2.6%
Non cash share-based compensation	2,451	2,025	
Acquisition costs	418	170	145.9%
Relocation arrangement			
Rent support agreement payments			
Legal and professional costs			
Gain on insurance settlement			
Core FFO	\$10,179	\$9,702	4.9%
Diluted FFO per common share and OP unit	\$0.23	\$0.26	-11.5%
Core FFO per common share and OP unit	\$0.32	\$0.34	-5.9%
Weighted average number of common shares and OP units - dilutive	31,509	27,980	12.6%

Source: Company report

Consolidated Balance Sheet

(in thousands)	Dec. 31, 2015	Dec. 31, 2016	Mar. 31, 2017
Real Estate Assets			
Land	\$876,668	\$831,979	\$852,707
Buildings and Improvements	7,287,862	6,942,452	6,964,854
Less Acc. Depreciation and Amortization	(2,382,568)	(2,427,108)	(2,477,356)
	\$5,781,962	\$5,347,323	\$5,340,205
Real Estate Assets Held for Sale		5,861	
Developments in Progress	75,991	167,355	185,228
Net Investment in Real Estate Assets	5,857,953	5,520,539	5,525,433
Cash and Cash Equivalents	36,892	18,951	27,553
Cash in Escrow			
Receivables - Tenants	87,286	94,676	90,485
Receivables - Other	17,958	6,227	11,519
Mortgage Notes Receivable	18,238	16,803	16,347
Investments in Unconsolidated Affiliates	276,383	266,872	262,216
Intangible Lease Assets and Other Assets	185,281	180,572	196,419
Total Assets	\$6,479,991	\$6,104,640	\$6,129,972
Mortgage and Other Notes Payable	4,710,628	4,465,294	4,522,480
Liabilities Related to Assets Held for Sale			
Accounts Payable and Other Liabilities	344,434	280,498	277,568
Total Liabilities	\$5,055,062	\$4,745,792	\$4,800,048
Commitments and Contingencies			
Redeemable Noncontrolling Interests:			
Redeemable Noncontrolling Partnership Interests	25,330	17,996	15,472
Redeemable Noncontrolling Preferred Joint Venture Interest			
Total Redeemable Noncontrolling Interests	25,330	17,996	15,472
Preferred Shares	25	25	25
Common Stock	1,705	1,708	1,711
Additional Paid-In Capital	1,970,333	1,969,059	1,971,155
Other Comprehensive Income (Loss)	1,935		
Deferred Compensation			
Retained Earnings (Accumulated Deficit)	(689,028)	(742,078)	(764,524)
Total Shareholders' Equity	1,284,970	1,228,714	1,208,367
Noncontrolling Interest	114,629	112,138	106,085
Total Equity	1,399,599	1,340,852	1,314,452
Total Liabilities and Shareholders' Equity	\$6,479,991	\$6,104,640	\$6,129,972

Balance Sheet Ratio Analysis	Dec. 31, 2015	Dec. 31, 2016	Mar. 31, 2017
Net R/E Investments / Total Debt	124.4%	123.6%	122.2%
Debt to Equity	336.6%	333.0%	344.1%
Variable Debt as % of Total Debt	25.3%	19.2%	24.2%
Debt to Total Market Capitalization	63.6%	63.0%	66.5%
Total Debt as % of Total Assets	72.7%	73.1%	73.8%
Shareholders' Equity as % of Total Assets	19.8%	20.1%	19.7%

Previous numbers have not been restated.

Source: Company reports

Valuation

At 9.0x our fiscal 2018 Core FFO per share forecast, Whitestone REIT is selling at a discount to its peer group. If we look at our 2018 Non-Core FFO per share estimate of \$1.25, WSR is trading at a 9.8x multiple, still a discount to its peer group. (Non-Core FFO includes the impact of non-cash share based compensation and acquisition costs. These costs are added back to Non-Core FFO to arrive at Core FFO.) Based on historical multiples, the peer group does not look cheap to us. We believe WSR should trade at a discount to its peer group, given its one year and two year expected FFO growth rates and shorter history as a public company. We believe the shares are fairly valued at this time and rate the stock Neutral.

Peer REITs	Symbol	Price	Current	Yield	Payout Ratio	FFO Per Share			2 -Year Exp.	18/17E	Price/FFO	
		5/10/2017	Dividend			2016	2017E	2018E	Avg. Growth	Growth Rate	2017E	2018E
Vornado Realty Trust	VNO	\$94.88	\$2.84	3.0%	54.8%	\$7.68	\$5.18	\$5.50	-14.2%	6.2%	18.3x	17.3x
Washington Real Estate Investment Trust	WRE	\$31.27	\$1.20	3.8%	66.3%	\$1.76	\$1.81	\$1.88	3.4%	3.9%	17.3x	16.6x
Lexington Realty Trust	LXP	\$9.60	\$0.70	7.3%	72.2%	\$1.10	\$0.97	\$1.01	-4.1%	4.1%	9.9x	9.5x
Cousins Properties	CUZ	\$8.48	\$0.24	2.8%	40.7%	\$0.72	\$0.59	\$0.64	-5.6%	8.5%	14.4x	13.3x
Investors Real Estate Trust	IRET	\$5.80	\$0.28	4.8%	68.3%	\$0.76	\$0.41	\$0.41	-23.0%	0.0%	14.1x	14.1x
Peer Average		\$30.01	\$1.05	4.4%	60.5%	\$2.40	\$1.79	\$1.89	-8.7%	4.5%	14.8x	14.2x
S&P 500	SPX	2,399.63	\$48.08	2.0%	36.8%	\$117.75	\$130.61	\$140.05	9.5%	7.2%	18.4x	17.1x
Whitestone REIT	WSR	\$12.23	\$1.14	9.3%	84.4%	\$1.34	\$1.35	\$1.36	0.7%	0.7%	9.1x	9.0x

Note: IRET is rated Neutral by Hilliard Lyons; the rest are not rated.
 IRET has an April fiscal year end.
 Whitestone's FFO estimates are Core FFO.
 Peer group is based on a select group of REITs NAREIT considers WSR's peers.
 SPX figures are EPS not FFO per share.

Source: HL Estimates, Baseline, and Thomson One.

Dividend - Whitestone's dividend is declared quarterly and paid monthly. The annual amount is \$1.14 per share. We find the current dividend yield of 9.3% attractive. Given the company's high payout ratio, we would not expect a dividend increase for a few years, at least. Over the long term, management would like to maintain a dividend payout ratio of 85%.

Suitability

We assign shares of Whitestone REIT a suitability rating of 4 on our scale of 1 - 4 (1=most conservative, 4=most aggressive). Our rating is based on the company's small market cap, low relative trading volume, and lower occupancy rate than the peer group.

Risks and Considerations

Risks to investment in WSR include, but are not limited to: general economic risk, interest rate risk, inability to secure financing or raise capital, a change in consumer spending, slower than expected capital deployment, bankruptcy of tenants, tenant closings, inclement weather, political risk, demographic changes in WSR's markets, and the inability to lease up properties as quickly as anticipated. Whitestone and Pillarstone Capital REIT share some management and board members.

We note that Whitestone is thinly traded. Liquidity could be a concern for some investors.

Annual yield is calculated by dividing the distribution amount by the current market price of the security. For US income tax purposes, the Company may classify all or a portion of its distributions as dividends or other non-dividend distributions. Note that for some investors, for US income tax purposes all or a portion of the Company's 2016 dividend or distribution was treated as return of capital and not as "dividend income" as reflected on the IRS Form 1099-Div for the 2016 tax year. The Company generally makes a final determination regarding the proper tax treatment of distributions after calendar year end. We urge each shareholder to consult with his or her own tax advisor to determine the tax consequences of the distributions received, including any state, local or foreign tax considerations.

Additional information is available upon request.

Analyst Certification

I, Carol L. Kemple, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Hilliard Lyons acted as a manager or co-manager of an offering of securities of Whitestone REIT in the past 12 months.

Hilliard Lyons expects to receive investment banking compensation from Whitestone REIT in the coming 3 months.

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid total returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price decline in the next 12 months.

Suitability Ratings

1 - A large cap, core holding with a solid history

2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	32	26%	13%	88%
Hold/Neutral	79	64%	8%	92%
Sell	12	10%	0%	100%

As of 8 May 2017

Other Disclosures

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

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