



REITs

Analyst: Carol L. Kemple
 502.588.1839 / CKemple@hilliard.com
 Institutional Sales Desk: George Moorin
 502.588.9141 / GMoorin@hilliard.com
 J.J.B. Hilliard, W.L. Lyons, LLC
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COMPANY UPDATE / ESTIMATE CHANGES

Key Metrics

WSR - NYSE (as of 11/1/17)	\$13.48
Price Target	NA
52-Week Range	\$10.80 - \$14.78
Shares & Units Outstanding (mm)	39.6
Market Cap. (\$mm)	\$534
3-Mo. Average Daily Volume (000)	490
Institutional Ownership	45%
Debt/Total Market Capital (9/17)	56.3%
Est 3 - Year FFO Growth Rate	NA
Est 3 - Year Dividend Growth Rate	NA
Dividend	\$1.14
Dividend Yield	8.5%

Core FFO Per Share FY 12/31

	2016	Prior 2017E	Curr. 2017E		Prior 2018E	Curr. 2018E
1Q	\$0.34		\$0.32	A	\$0.32	\$0.32
2Q	\$0.32		\$0.31	A	\$0.32	\$0.32
3Q	\$0.33		\$0.33	A	\$0.33	\$0.32
4Q	\$0.34	\$0.32	\$0.32		\$0.33	\$0.33
Year	\$1.34	\$1.29	\$1.29		\$1.30	\$1.29
P/FFO	10.1x		10.4x			10.4x

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	\$33.4	\$33.2
2Q	\$25.1		\$30.2	A	\$33.1	\$32.9
3Q	\$25.5		\$33.7	A	\$33.6	\$33.5
4Q	\$28.4	\$33.2	\$33.1		\$34.1	\$33.9
Year	\$104.4	\$124.4	\$125.2		\$134.3	\$133.5

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

Third Quarter Results

- **Third quarter Core FFO per share were \$0.33, equal to the year ago period.** Our Core FFO per share estimate was \$0.32. Weighted average shares and units outstanding rose 34.4% from the year ago period. Total property revenue increased 31.9%.
- **The acquisition pipeline remains active for Whitestone.**
- **We like the company's 8.5% dividend yield.** Given the company's high payout ratio, we would not expect a dividend increase for the next few years, at least.
- **We are maintaining our 2017 Core FFO per share estimate of \$1.29.** Management maintained 2017 Core FFO per share guidance of \$1.29 to \$1.34.
- **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.

Third Quarter Results

Total property revenue increased 31.9% to \$33.7 million in the third quarter compared to \$25.5 million in the year ago period. Rental revenue increased 25.4%. Other revenue increased 54.7%. Total property expenses increased 31.9%.

General and administrative expense declined 10.2% from the year ago period (G&A includes non-cash share based compensation expense and acquisition cost). Net income for the quarter was \$3.0 million compared to \$0.9 million last year. Diluted EPS were \$0.07 versus \$0.03. Core funds from operations were \$13.1 million versus \$9.8 million. Core FFO per diluted common share and unit were \$0.33, flat with the year ago period on 34.4% more shares and units outstanding.

Occupancy & Leasing

Total occupancy of the operating portfolio was 90.1% (excluding developments) at the end of the quarter. Total occupancy [including the Pillarstone (PRLE - \$3.03) properties] was 87%. The total lease value added in 3Q17 was \$18.9 million. The company signed 92 leases in 3Q17 compared to 113 leases signed in 3Q16.

Acquisitions & Dispositions

No acquisitions or dispositions were completed in the quarter. The company plans to sell about \$50.0 million of assets in 4Q17.

ATM

The company did not purchase any shares in the quarter.

Financials

The company has \$8.8 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 September 30, 2017, 66% 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 third quarter was 3.9%.

Guidance

WSR maintained 2017 Core FFO per share guidance of \$1.29 to \$1.34. Management's guidance does not include any additional unannounced acquisitions or dispositions. Same property NOI growth is expected to be between 2% and 4%. Our 2017 Core FFO per share estimate remains at \$1.29.

Whitestone REIT

Consolidated Statement of Income (In thousands, except per share data)			
	3Q17	3Q16	% Change
Property revenues			
Rental revenues	\$24,891	\$19,844	25.4%
Other revenues	8,762	5,664	54.7%
Total property revenues	33,653	25,508	31.9%
Property expenses			
Property operations and maintenance	6,104	4,904	24.5%
Real estate taxes	5,181	3,414	51.8%
Total property expenses	11,285	8,318	35.7%
Other expenses (income)			
General and administrative	5,581	6,218	-10.2%
Depreciation and amortization	7,247	5,449	33.0%
Executive relocation expense			
Involuntary conversion			
Interest expense	6,376	4,669	36.6%
Interest income	(142)	(164)	
Total other expense	19,062	16,172	17.9%
Income from continuing operations before loss on disposal of assets and income taxes	3,306	1,018	224.8%
Provision for income taxes	(126)	(80)	
Loss on sale or disposal of assets			
Income (loss) from discontinued operations			
Gain on sale of property	(40)	26	
Net income (loss)	3,140	964	225.7%
Less: Redeemable operating partnership units	84	15	
Less: Non-controlling interests in consolidated partnership	63		
Less: Net income (loss) attributable to noncontrolling interests		15	
Net income (loss) attributable to Whitestone REIT	\$2,993	\$949	215.4%
Earnings per share - diluted	\$0.07	\$0.03	133.3%
Weighted average number of common shares outstanding:			
Diluted	38,589	29,024	33.0%

Funds From Operations	3Q17	3Q16	% Change
Net income (loss) attributable to Whitestone REIT	\$2,993	\$949	215.4%
Depreciation and amortization of real estate assets	7,015	5,405	29.8%
Loss (gain) on disposal of assets	37	(26)	
Net income (loss) attributable to noncontrolling interests	84	15	460.0%
FFO	\$10,129	\$6,343	59.7%
Non cash share-based compensation	2,704	3,042	
Acquisition costs	264	427	-38.2%
Relocation arrangement			
Rent support agreement payments			
Legal and professional costs			
Gain on insurance settlement			
Core FFO	\$13,097	\$9,812	33.5%
Diluted FFO per common share and OP unit	\$0.25	\$0.21	19.0%
Core FFO per common share and OP unit	\$0.33	\$0.33	0.0%
Weighted average number of common shares and OP units - dilutive	39,673	29,511	34.4%

Source: Company report

Whitestone REIT
Consolidated Balance Sheets

<i>(In thousands)</i>	12/31/2015	12/31/2016	9/30/2017
Assets			
Real estate assets, at cost			
Property	835,538	920,310	1,144,558
Accumulated depreciation	(89,580)	(107,258)	(124,268)
Real estate assets held-for-sale			
Total real estate assets	\$745,958	\$813,052	\$1,020,290
Cash and cash equivalents	2,587	4,168	6,338
Restricted cash	121	56	105
Marketable Securities	435	517	242
Escrows and acquisition deposits	6,668	6,620	9,116
Accrued rents and accounts receivable, net of allowance for doubtful accounts	15,466	19,951	22,212
Related party receivable			
Unamortized lease commissions and loan costs	9,970	8,083	8,397
Prepaid expenses and other assets	2,672	2,762	3,448
Total assets	\$783,877	\$855,209	\$1,070,148
Liabilities and Equity			
Liabilities:			
Notes payable	499,747	544,020	662,675
Accounts payable and accrued expenses	24,051	28,692	35,041
Tenants' security deposits	5,254	6,125	6,746
Dividends and distributions payable	7,834	8,729	11,401
Other liabilities			
Total liabilities	\$536,886	\$587,566	\$715,863
Commitments and contingencies:			
Equity:			
Preferred shares, par value			
Common shares, par value	27	29	38
Additional paid-in-capital	359,971	396,494	509,774
Accumulated other comprehensive income	(129)	859	1,004
Accumulated deficit	(116,895)	(141,695)	(167,397)
Total Whitestone REIT shareholders' equity	\$242,974	\$255,687	\$343,419
Noncontrolling interest	4,017	11,956	10,866
Total equity	246,991	267,643	354,285
Total liabilities and equity	\$783,877	\$855,209	\$1,070,148

Balance Sheet Ratio Analysis	12/31/2015	12/31/2016	9/30/2017
Total R/E Investments / Total Debt	149.3%	149.5%	154.0%
Debt to Equity	202.3%	203.3%	187.0%
Debt as % of Total Assets	63.8%	63.6%	61.9%
Shareholders' Equity as % of Total Assets	31.0%	29.9%	32.1%

Previous numbers have not been restated.

Source: Company reports

Valuation

At 10.4 times our fiscal 2018 Core FFO per share forecast, Whitestone REIT is selling at a discount to its peer group but in line with its five year historic forward P/FFO multiple. If we look at our 2018 Non-Core FFO per share estimate of \$1.19, WSR is trading at an 11.3x multiple. (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.) We believe WSR should trade at a discount to its peer group, given its low one year and negative 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	
		11/2/2017	Dividend			2016	2017E	2018E	Avg. Growth	Growth Rate	2017E	2018E
Vornado Realty Trust	VNO	\$74.60	\$2.40	3.2%	60.9%	\$7.68	\$3.94	\$3.97	-24.2%	0.8%	18.9x	18.8x
Washington Real Estate Investment Trust	WRE	\$32.46	\$1.20	3.7%	65.9%	\$1.76	\$1.82	\$1.87	3.1%	2.7%	17.8x	17.4x
Lexington Realty Trust	LXP	\$10.08	\$0.70	6.9%	72.9%	\$1.10	\$0.96	\$1.02	-3.6%	6.3%	10.5x	9.9x
Cousins Properties	CUZ	\$9.02	\$0.24	2.7%	39.3%	\$0.72	\$0.61	\$0.64	-5.6%	4.9%	14.8x	14.1x
Investors Real Estate Trust	IRET	\$5.84	\$0.28	4.8%	70.0%	\$0.76	\$0.40	\$0.37	-25.7%	-7.5%	14.6x	15.8x
Peer Average		\$26.40	\$0.96	4.3%	61.8%	\$2.40	\$1.55	\$1.57	-11.2%	1.4%	15.3x	15.2x
S&P 500	SPX	2,579.36	\$49.49	1.9%	37.8%	\$117.75	\$131.03	\$141.07	9.9%	7.7%	19.7x	18.3x
Whitestone REIT	WSR	\$13.48	\$1.14	8.5%	88.4%	\$1.34	\$1.29	\$1.29	-1.9%	0.0%	10.4x	10.4x

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: NAREIT, HL Estimates, and Thomson Eikon.

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 8.5% 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 received investment banking compensation from Whitestone REIT in the past 12 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	39	32%	8%	92%
Hold/Neutral	74	60%	9%	91%
Sell	8	7%	0%	100%
Restriction	2	2%	100%	0%

As of 5 October 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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