Whitestone REIT
Form 10-K
February 29, 2016

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

FORM 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015
OR
o 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 | Name of each exchange on which registered |
|---|---|
| Common Shares of Beneficial Interest, par value $0.001 per share | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of Class)

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

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 o No x

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

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

The aggregate market value of the common shares held by nonaffiliates of the registrant as of June 30, 2015 (the last business day of the registrant's most recently completed second fiscal quarter) was $344,674,385.

As of February 26, 2016, the registrant had 27,004,048 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 2016 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, 2015.

WHITESTONE REIT
FORM 10-K
Year Ended December 31, 2015

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Unless the context otherwise requires, all references in this report 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 are 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,” “pla “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:

- the imposition of federal 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;

- uncertainties related to the national economy, the real estate industry in general and in our specific markets;

- legislative or regulatory changes, including changes to laws governing REITs;

- adverse economic or real estate developments or conditions in Texas, Arizona or Illinois;

- increases in interest rates and operating costs;

- 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 tenants or obtain new tenants 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; and
- the need to fund tenant improvements or other capital expenditures out of operating cash flow.

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.

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PART I

Item 1. Business.

General

We are a Maryland Real Estate Investment Trust ("REIT") engaged in owning and operating commercial properties in culturally diverse markets in major metropolitan areas. Founded in 1998, we changed our state of organization from Texas to Maryland in December 2003. 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, 2015, we owned a real estate portfolio of 70 properties containing approximately 6.0 million square feet of gross leasable area ("GLA"), located in Texas, Arizona and Illinois. Our property portfolio has a gross book value of approximately $836 million and book equity, including noncontrolling interests, of approximately $247 million as of December 31, 2015.

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, 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 and medical, educational and financial services. Our goal is for each property to become a Whitestone-branded business center or retail community that serves a neighboring five-mile radius around our property. We employ and develop a diverse group of associates who understand the needs of our multicultural communities and tenants.

Our 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-Forth Worth, Houston, Phoenix and San Antonio.

Diversifying Geographically. Our current portfolio is concentrated in Houston and Phoenix. 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 "Legacy Portfolio") 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. For example, in December 2014, we sold three suburban office properties in Clear Lake, Texas that were part of the Legacy Portfolio.

- Prudent Management of Capital Structure. We currently have 50 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 total indebtedness to undepreciated book value of real estate assets that is at or less than 60%. As of December 31, 2015, our ratio of total indebtedness to undepreciated book value of real estate assets was 60%.

- 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, 2015, we owned a 98.2% interest in the Operating Partnership.

As of December 31, 2015, we owned a real estate portfolio consisting of 70 properties located in three states. The aggregate occupancy rate of our total portfolio was 87% based on gross leasable area as of both December 31, 2015 and 2014.

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, 2015, our total revenues were approximately $93.4 million.

Our largest property, Village Square at Dana Park ("Dana Park"), a retail community purchased on September 21, 2012 and located in the Mesa submarket of Phoenix, Arizona, accounted for 8.0% of our total revenue for the year ended December 31, 2015. Dana Park also accounted for 6.7% of our real estate assets, net of accumulated depreciation, for the year ended December 31, 2015. Of our 70 properties, 30 and 25 are located in the Houston, Texas and Phoenix, Arizona metropolitan areas, respectively.

Economic Environment

The recent challenging economic conditions continue to negatively impact the volume of real estate transactions, occupancy levels and tenants' ability to pay rent. Moreover, low interest rates and desire for higher yielding investments with moderate risk has resulted in lower capitalization rates and higher prices for commercial real estate acquisitions. Each of these factors could negatively impact the value of public real estate companies, including ours. However, the majority of our retail properties are located in densely populated metropolitan areas and are occupied by tenants that generally provide basic necessity-type items and services which have tended to be less affected by economic changes. Furthermore, a substantial portion of our portfolio is in metropolitan areas in Texas that have been impacted less by the economic slowdown compared to other metropolitan areas.

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 generally 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.

Employees

As of December 31, 2015, we had 95 employees.

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 Securities and Exchange Commission ("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. You may also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also 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."

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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

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. While many U.S. real estate markets have generally stabilized since the pervasive and fundamental disruptions associated with the last recession, which resulted in increased unemployment, weakening of tenant financial condition, large-scale business failures and tight credit markets, the financial markets have been volatile recently, and oil prices have declined dramatically over the past year. 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. Although the U.S. economy generally appears to have emerged from the worst aspects of the last recession, high levels of unemployment have persisted, and rental rates and valuations for retail space have not fully recovered to pre-recession levels and may not for a number of years. In addition, financial markets may again experience significant and prolonged disruption, including as a result of unanticipated events, 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.

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.

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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. 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 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, as seen in recent months, 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.

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;
- 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 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.

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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.

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Risks Associated with Our Operations

Because a majority of our gross leasable area 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, 2015, 42% and 35% of our gross leasable area was 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, including as a result of the recent significant decline in oil prices, 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 experiences an economic downturn, our operations and ability to make distributions to our shareholders could be adversely impacted. 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.

We lease our properties to approximately 1,500 tenants and leases for approximately 10% to 20% of our gross leasable area 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, 2015, approximately 30% of the aggregate gross leasable area of our properties is subject to leases that expire prior to December 31, 2017. 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. 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. 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.

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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, 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.”

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; and

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•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.

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 and increasing online consumer purchases.

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.

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. While we employ a number of measures to prevent, detect and mitigate these threats, there is no guarantee such efforts will be successful in preventing a cyber-attack. Cybersecurity incidents could compromise the confidential information of our tenants, employees and third party vendors and affect the efficiency of our business operations, which in turn could have a material adverse effect on our reputation, competitiveness and results of operations.

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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. In future periods, we may identify deficiencies in our system of internal controls over financial reporting that may require remediation. There can be no assurances that any such future deficiencies identified 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.

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.

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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, 2015, we had fixed rate hedges on $218.1 million of our variable rate debt, including $200 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 $127.6 million as of December 31, 2015. 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.

On November 7, 2014, we, through our Operating Partnership, entered into an unsecured credit facility (the “2014 Facility”) with the lenders party thereto, with BMO Capital Markets, 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”). On October 30, 2015, we, through the 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 “Facility.” Proceeds from the 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. We intend to use the additional proceeds from the Facility 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.

The Facility is comprised of the following four tranches:

- $300 million unsecured revolving credit facility with a maturity date of October 30, 2019;

- $50 million unsecured term loan with a maturity date of October 30, 2020; and

- $50 million unsecured term loan with a maturity date of January 29, 2021; and

- $100 million unsecured term loan with a maturity date of October 30, 2022.

The Facility includes an accordion feature that will allow the Operating Partnership to increase the borrowing capacity to $700 million, upon the satisfaction of certain conditions. As of December 31, 2015, $327.6 million was drawn on the Facility and our unused borrowing capacity was $172.4 million, assuming that we use the proceeds of the Facility to acquire properties, or to repay debt on properties, that are eligible to be included in the unsecured borrowing base. The 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 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 status. The amount available to us and our ability to borrow under the Facility is subject to our compliance with these requirements. Maintaining compliance with these covenants could limit our ability to implement our business plan effectively, or at all.

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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, 2015, we had approximately $172.1 million of mortgage debt secured by 20 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.

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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.

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 (including any applicable alternative minimum 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.

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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 25% (20% for taxable years beginning after December 31, 2017) 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.

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We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our common shares.

At any time, the federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. We cannot predict when or if any new federal income tax law, regulation, or administrative interpretation, or any amendment to any existing federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective and any such law, regulation, or interpretation may take effect retroactively. We and our shareholders could be adversely affected by any such change in, or any new, federal income tax law, regulation or administrative interpretation.

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

The American Taxpayer Relief Act of 2012 ("ATRA") was enacted on January 3, 2013. Under ATRA, for taxable years beginning in 2013, 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%, and there is no certainty as to how long this rate will be applicable. Dividends payable by REITs, however, generally are not eligible for the current reduced rate. Although ATRA does not adversely affect the taxation of REITs or dividends payable by REITs, it could cause non-corporate taxpayers to perceive investments in REITs to be relatively less attractive than investments in the stocks of regular "C" corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our common shares.

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.

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.

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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.

Our classified board of trustees may prevent others from effecting a change in the control of our board of trustees.

We believe that classification of our board of trustees will help to assure the continuity and stability of our business strategies and policies as determined by the board of trustees. However, the classified board provision could have the effect of making the replacement of incumbent trustees more time-consuming and difficult. At least two annual meetings of shareholders, instead of one, will generally be required to effect a change in a majority of our board of trustees. Thus, the classified board provision could increase the likelihood that incumbent trustees will retain their positions. The staggered terms of trustees may delay, defer or prevent a transaction or a change in control that might involve a premium price for our common shares or otherwise be in the best interest of the shareholders.

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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.

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Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

General

As of December 31, 2015, we owned 70 commercial properties, including 30 properties in Houston, seven properties in Dallas-Fort Worth, three properties in San Antonio, four properties in Austin, 25 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 2.6% of our total revenues for the year ended December 31, 2015.

We directly manage the operations and leasing of our properties. Substantially all of our revenues consist of base rents received under leases that generally have terms that range from less than one year to 15 years. The following table summarizes certain information relating to our properties as of December 31, 2015:

| Commercial Properties | Gross Leasable Area | Average Occupancy as of 12/31/15 | | Annualized Base Rental Revenue (in thousands) [1] | Average Annualized Base Rental Revenue Per Sq. Ft. [2] |
|---|---|---|---|---|---|
| Retail | 4,002,644 | 90 | % | $56,747 | $15.75 |
| Office/Flex | 1,190,404 | 85 | % | 8,445 | $8.35 |
| Office | 521,134 | 80 | % | 6,881 | $16.50 |
| Total - Operating Portfolio | 5,714,182 | 88 | % | 72,073 | 14.33 |
| Redevelopment, New Acquisitions [3] | 242,329 | 74 | % | 3,791 | 21.14 |
| Total | 5,956,511 | 87 | % | $75,864 | $14.64 |

(1) Calculated as the tenant's actual December 31, 2015 base rent (defined as cash base rents including abatements) multiplied by 12. Excludes vacant space as of December 31, 2015. 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, 2015 equaled approximately $197,000 for the month ended December 31, 2015.

(2) Calculated as annualized base rent divided by gross leasable area leased as of December 31, 2015. Excludes vacant space as of December 31, 2015.

(3) Includes (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.

Our largest property, Dana Park, a retail community purchased on September 21, 2012 and located in the Mesa submarket of Phoenix, Arizona, accounted for 8.0% of our total revenue for the year ended December 31, 2015. Dana Park also accounted for 6.7% of our real estate assets, net of accumulated depreciation, for the year ended December 31, 2015.

As of December 31, 2015, approximately $172.1 million of our total debt of $499.7 million was secured by 20 of our operating properties with a combined net book value of $213.9 million.

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Location of Properties

Of our 70 properties, 30 are located in the greater Houston metropolitan statistical area. These 30 properties represent 32% of our revenue for the year ended December 31, 2015. An additional 25 properties are located in the greater Phoenix metropolitan statistical area and represent 42% of our revenue for the year ended December 31, 2015.

According to the United States Census Bureau, Houston and Phoenix ranked 5th and 12th, respectively, in the largest United States metropolitan statistical areas as of July 1, 2014. The following table sets forth information about the unemployment rate in Houston, Phoenix and Nationally during the last six months of 2015.

| | July | Aug. | Sept. | Oct. | Nov. | Dec. |
|---|---|---|---|---|---|---|
| National (1) | 5.3 % | 5.1 % | 5.1 % | 5.0 % | 5.0 % | 5.0 % |
| Houston (2) | 4.7 % | 4.6 % | 4.6 % | 4.8 % | 4.9 % | 4.6 % (3) |
| Phoenix (2) | 5.7 % | 5.8 % | 5.5 % | 5.2 % | 5.0 % | 4.7 % (3) |

(1) Seasonally adjusted.
(2) Not seasonally adjusted.
(3) Represents estimate.

Source: Bureau of Labor Statistics

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General Physical and Economic Attributes

The following table sets forth certain information relating to each of our properties owned as of December 31, 2015.
Whitestone REIT and Subsidiaries
Property Details
As of December 31, 2015

| Community Name | Location | Year Built/ Renovated | Gross Leasable Square Feet | Percent Occupied at 12/31/2015 | | 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) |
|---|---|---|---|---|---|---|---|---|
| Retail Communities: | | | | | | | | |
| Ahwatukee Plaza | Phoenix | 1979 | 72,650 | 92 | % | $914 | $13.67 | $13.48 |
| Anthem Marketplace | Phoenix | 2000 | 113,293 | 94 | % | 1,578 | 14.82 | 15.80 |
| Bellnott Square | Houston | 1982 | 73,930 | 43 | % | 319 | 10.03 | 10.22 |
| Bissonnet Beltway | Houston | 1978 | 29,205 | 95 | % | 360 | 12.98 | 12.87 |
| Centre South | Houston | 1974 | 39,134 | 82 | % | 266 | 8.29 | 8.82 |
| The Citadel | Phoenix | 2013 | 28,547 | 95 | % | 378 | 13.94 | 16.19 |
| City View Village | San Antonio | 2005 | 17,870 | 100 | % | 510 | 28.54 | 28.82 |
| Corporate Park Woodland II | Houston | 2000 | 16,220 | 80 | % | 188 | 14.49 | 14.57 |
| Desert Canyon | Phoenix | 2000 | 62,533 | 91 | % | 739 | 12.99 | 13.43 |
| Fountain Hills | Phoenix | 2009 | 111,289 | 91 | % | 1,728 | 17.06 | 17.36 |
| Fountain Square | Phoenix | 1986 | 118,209 | 87 | % | 1,584 | 15.40 | 16.37 |
| Fulton Ranch Towne Center | Phoenix | 2005 | 113,281 | 89 | % | 1,762 | 17.48 | 18.27 |
| Gilbert Tuscany Village | Phoenix | 2009 | 49,415 | 88 | % | 739 | 16.99 | 18.35 |
| Heritage Trace Plaza | Dallas | 2006 | 70,431 | 100 | % | 1,521 | 21.60 | 22.01 |
| Holly Knight | Houston | 1984 | 20,015 | 85 | % | 363 | 21.34 | 20.63 |
| Headquarters Village | Dallas | 2009 | 89,134 | 92 | % | 2,157 | 26.30 | 28.10 |
| Keller Place | Dallas | 2001 | 93,541 | 93 | % | 830 | 9.54 | 11.54 |
| Kempwood Plaza | Houston | 1974 | 101,008 | 92 | % | 895 | 9.63 | 9.55 |
| Lion Square | Houston | 2014 | 117,592 | 86 | % | 1,095 | 10.83 | 11.06 |
| The Marketplace at Central | Phoenix | 2012 | 111,130 | 98 | % | 799 | 7.34 | 8.40 |
| Market Street at DC Ranch | Phoenix | 2003 | 242,459 | 91 | % | 4,298 | 19.48 | 19.44 |
| Mercado at Scottsdale Ranch | Phoenix | 1987 | 118,730 | 67 | % | 1,549 | 19.47 | 19.86 |
| Paradise Plaza | Phoenix | 1983 | 125,898 | 92 | % | 1,554 | 13.42 | 14.04 |
| Parkside Village North | Austin | 2005 | 27,045 | 100 | % | 758 | 28.03 | 29.84 |
| Parkside Village South | Austin | 2012 | 90,101 | 98 | % | 2,184 | 24.73 | 26.39 |
| Pinnacle of Scottsdale | Phoenix | 1991 | 113,108 | 96 | % | 1,928 | 17.76 | 17.88 |
| Providence | Houston | 1980 | 90,327 | 98 | % | 830 | 9.38 | 9.22 |
| Quinlan Crossing | Austin | 2012 | 109,892 | 96 | % | 2,387 | 22.63 | 23.75 |
| Shaver | Houston | 1978 | 21,926 | 85 | % | 197 | 10.57 | 12.93 |
| Shops at Pecos Ranch | Phoenix | 2009 | 78,767 | 95 | % | 1,509 | 20.17 | 20.45 |
| Shops at Starwood | Dallas | 2006 | 55,385 | 97 | % | 1,461 | 27.19 | 29.97 |
| The Shops at Williams Trace | Houston | 1985 | 132,991 | 94 | % | 1,556 | 12.45 | 14.52 |
| South Richey | Houston | 1980 | 69,928 | 100 | % | 802 | 11.47 | 9.85 |
| Spoerlein Commons | Chicago | 1987 | 41,455 | 83 | % | 710 | 20.63 | 20.37 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| The Strand at Huebner Oaks | San Antonio | 2000 | 73,920 | 94 | % | 1,439 | 20.71 | 21.05 |
| SugarPark Plaza | Houston | 1974 | 95,032 | 92 | % | 978 | 11.19 | 11.55 |
| Sunridge | Houston | 1979 | 49,359 | 82 | % | 430 | 10.62 | 10.28 |
| Sunset at Pinnacle Peak | Phoenix | 2000 | 41,530 | 90 | % | 602 | 16.11 | 16.72 |
| Terravita Marketplace | Phoenix | 1997 | 102,733 | 94 | % | 1,324 | 13.71 | 13.21 |
| Torrey Square | Houston | 1983 | 105,766 | 84 | % | 687 | 7.73 | 8.30 |
| Town Park | Houston | 1978 | 43,526 | 94 | % | 840 | 20.53 | 20.82 |
| Village Square at Dana Park | Phoenix | 2009 | 323,026 | 90 | % | 5,871 | 20.19 | 20.23 |
| Webster Pointe | Houston | 1984 | 26,060 | 74 | % | 164 | 8.50 | 11.62 |
| Westchase | Houston | 1978 | 49,573 | 81 | % | 522 | 13.00 | 12.70 |

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Whitestone REIT and Subsidiaries
Property Details
As of December 31, 2015
(continued)

| Community Name | Location | Year Built/ Renovated | Gross Leasable Square Feet | Percent Occupied at 12/31/2015 | | 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] |
|---|---|---|---|---|---|---|---|---|
| Williams Trace Plaza | Houston | 1983 | 129,222 | 94 | % | 1,629 | 13.41 | 13.92 |
| Windsor Park | San Antonio | 2012 | 196,458 | 82 | % | 1,813 | 11.25 | 10.95 |
| Total/Weighted Average | | | 4,002,644 | 90 | % | 56,747 | 15.75 | 16.27 |
| | | | | | | | | |
| Office Communities: | | | | | | | | |
| 9101 LBJ Freeway | Dallas | 1985 | 125,874 | 71 | % | $1,222 | $13.67 | $14.29 |
| Pima Norte | Phoenix | 2007 | 35,110 | 63 | % | 371 | 16.77 | 18.08 |
| Uptown Tower | Dallas | 1982 | 253,981 | 80 | % | 3,535 | 17.40 | 17.21 |
| Woodlake Plaza | Houston | 1974 | 106,169 | 96 | % | 1,753 | 17.20 | 17.17 |
| Total/Weighted Average | | | 521,134 | 80 | % | 6,881 | 16.50 | 16.61 |
| Office/Flex Communities: | | | | | | | | |
| Brookhill | Houston | 1979 | 74,757 | 85 | % | $241 | $3.79 | $3.92 |
| Corporate Park Northwest | Houston | 1981 | 174,359 | 85 | % | 1,763 | 11.90 | 11.96 |
| Corporate Park West | Houston | 1999 | 175,665 | 87 | % | 1,603 | 10.49 | 10.57 |
| Corporate Park Woodland | Houston | 2000 | 99,937 | 88 | % | 852 | 9.69 | 9.93 |
| Dairy Ashford | Houston | 1981 | 42,902 | 99 | % | 267 | 6.29 | 6.22 |
| Holly Hall Industrial Park | Houston | 1980 | 90,000 | 91 | % | 723 | 8.83 | 8.32 |
| Interstate 10 Warehouse | Houston | 1980 | 151,000 | 99 | % | 721 | 4.82 | 4.84 |
| Main Park | Houston | 1982 | 113,410 | 77 | % | 653 | 7.48 | 7.74 |
| Plaza Park | Houston | 1982 | 105,530 | 51 | % | 546 | 10.14 | 9.70 |
| Westbelt Plaza | Houston | 1978 | 65,619 | 74 | % | 497 | 10.24 | 9.56 |
| Westgate Service Center | Houston | 1984 | 97,225 | 74 | % | 579 | 8.05 | 8.69 |
| Total/Weighted Average | | | 1,190,404 | 85 | % | 8,445 | 8.35 | 8.37 |
| | | | | | | | | |
| Total/Weighted Average - Operating Portfolio | | | 5,714,182 | 88 | % | 72,073 | 14.33 | 14.71 |
| | | | | | | | | |
| Davenport Village | Austin | 1999 | 128,934 | 79 | % | $2,500 | $24.54 | $25.52 |
| Gilbert Tuscany Village Hard Corner | Phoenix | 2009 | 14,603 | — | % | — | — | — |
| The Promenade at Fulton Ranch | Phoenix | 2007 | 98,792 | 78 | % | 1,291 | 16.75 | 18.00 |
| Total/Weighted Average - Development Portfolio [4] | | | 242,329 | 74 | % | 3,791 | 21.14 | 22.23 |
| | | | | | | | | |
| Anthem Marketplace | Phoenix | N/A | — | — | | — | — | — |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Dana Park Development | Phoenix | N/A | — | — | — | — | — |
| Fountain Hills | Phoenix | N/A | — | — | — | — | — |
| Market Street at DC Ranch | Phoenix | N/A | — | — | — | — | — |
| Pinnacle Phase II | Phoenix | N/A | — | — | — | — | — |
| Shops at Starwood Phase III | Dallas | N/A | — | — | — | — | — |
| Total/Weighted Average - Property Held For Development (5) | | | — | — | — | — | — |
| Grand Total/Weighted Average | | | 5,956,511 | 87 % | $75,864 | $14.64 | $15.05 |

(1) Calculated as the tenant's actual December 31, 2015 base rent (defined as cash base rents including abatements) multiplied by 12. Excludes vacant space as of December 31, 2015. 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, 2015 equaled approximately $197,000 for the month ended December 31, 2015.

(2) Calculated as annualized base rent divided by gross leasable area leased as of December 31, 2015. Excludes vacant space as of December 31, 2015.

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(3) Represents (i) the contractual base rent for leases in place as of December 31, 2015, 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, 2015.

(4) Includes (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.

(5) As of December 31, 2015, these parcels of land were held for development and, therefore, had no gross leasable area.

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Significant Tenants

The following table sets forth information about our 15 largest tenants as of December 31, 2015, based upon annualized rental revenues at December 31, 2015.

| 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] | Phoenix, Houston and Austin | $2,022 | 2.6 | % | 11/14/1982, 5/8/1991, 7/1/2000, 4/1/2014 and 4/1/2014 | 2017, 2020, 2021, 2024 and 2034 |
| Bashas' Inc. [3] | Phoenix | 823 | 1.1 | % | 10/9/2004 and 4/1/2009 | 2024 and 2029 |
| Haggens Food & Pharmacy [4] | Phoenix | 660 | 0.9 | % | 2/27/1996 and 7/12/2000 | 2020 and 2022 |
| Wells Fargo & Company [5] | Phoenix | 645 | 0.9 | % | 10/24/1996 and 4/16/1999 | 2016 and 2018 |
| Alamo Drafthouse Cinema | Austin | 639 | 0.8 | % | 2/1/2012 | 2027 |
| Walgreens & Co. [6] | Phoenix and Houston | 530 | 0.7 | % | 11/14/1982, 11/2/1987 and 11/3/1996 | 2017, 2027 and 2049 |
| Dollar Tree [7] | Phoenix and Houston | 530 | 0.7 | % | 8/10/1999, 6/29/2001, 11/8/2009, 12/17/2009 and 5/21/2013 | 2016, 2017, 2020, 2020 and 2023 |
| University of Phoenix | San Antonio | 520 | 0.7 | % | 10/18/2010 | 2018 |
| Petco [8] | Phoenix and Houston | 484 | 0.6 | % | 7/6/1998 and 10/15/2006 | 2019 and 2026 |
| Kroger Co. | Dallas | 483 | 0.6 | % | 12/15/2000 | 2022 |
| Ross Dress for Less, Inc. [9] | San Antonio, Phoenix and Houston | 472 | 0.6 | % | 2/11/2009, 6/18/2012 and 2/7/2013 | 2020, 2023 and 2023 |
| Paul's Ace Hardware | Phoenix | 460 | 0.6 | % | 3/1/2008 | 2018 |
| Rock Solid Images | Houston | 372 | 0.5 | % | 4/1/2004 | 2016 |
| Sterling Jewelers Inc. | Phoenix | 354 | 0.5 | % | 11/23/2004 | 2020 |
| Super Bravo, Inc. | Houston | 349 | 0.5 | % | 6/15/2011 | 2023 |
| | | $9,343 | 12.3 | % | | |

(1) Annualized Base Rental Revenues represents the monthly base rent as of December 31, 2015 for each applicable tenant multiplied by 12.

(2) As of December 31, 2015, we had five 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 $997,000, which represents 1.3% 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 0.5% 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 2020, was $321,000, which represents 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 2017, was $318,000, which represents 0.4% of our total annualized base rental revenue.

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(3) As of December 31, 2015, 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 0.2% 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 $704,000, which represents 0.9% of our total annualized base rental revenue.

(4) As of December 31, 2015, 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 February 27, 1996, and is scheduled to expire in 2022, was $235,000, which represents 0.3% of our total annualized base rental revenue. The annualized rental revenue for the lease that commenced on July 12, 2000, and is scheduled to expire in 2020, was $425,000, which represents 0.6% of our total annualized base rental revenue.

(5) As of December 31, 2015, 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 2016, was $114,000, which represents 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 2018, was $531,000, which represents 0.7% of our total annualized base rental revenue.

(6) As of December 31, 2015, we had three 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 0.4% 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 $169,000, which represents 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 2017, was $82,000, which represents 0.1% of our total annualized base rental revenue.

(7) As of December 31, 2015, 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 June 29, 2001, and is scheduled to expire in 2016, was $108,000, which represents 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 2017, was $146,000, which represents 0.2% of our total annualized base rental revenue. The annualized rental revenue for the lease that commenced on August 10, 1999, and is scheduled to expire in 2020, was $55,000, which represents less than 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 2020, was $110,000, which represents 0.2% of our total annualized base rental revenue. The lease that commenced on May 21, 2013, and is scheduled to expire in 2023, was $110,000, which represents 0.2% of our total annualized base rental revenue.

(8) As of December 31, 2015, we had two leases with the same tenant occupying space at properties located in Phoenix and Houston. The annualized rental revenue for the lease that commenced on October 15, 2006, and is scheduled to expire in 2026, was $260,000, which represents 0.3% of our total annualized base rental revenue. The annualized rental revenue for the lease that commenced on July 6, 1998, and is scheduled to expire in 2019, was $224,000, which represents 0.3% of our total annualized base rental revenue.

(9) As of December 31, 2015, we had three leases with the same tenant occupying space at properties located in San Antonio, Phoenix and Houston. The annualized rental revenue for the lease that commenced on June 18, 2012, and is scheduled to expire in 2023, was $175,000, which represents 0.2% of our total annualized base rental revenue. The annualized rental revenue for the lease that commenced on February 11, 2009, and is scheduled to expire in 2020, was $187,000, which represents 0.2% of our total annualized base rental revenue. The annualized rental revenue for the lease that commenced on February 7, 2013, and is scheduled to expire in 2023, was $110,000,

which represents 0.2% of our total annualized base rental revenue.

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Lease Expirations

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

| Year | Number of Leases | Gross Leasable Area Approximate Square Feet | Gross Leasable Area Percent of Total | Annualized Base Rent as of December 31, 2015 Amount (in thousands) | Annualized Base Rent as of December 31, 2015 Percent of Total |
|---|---|---|---|---|---|
| 2016 | 410 | 1,038,717 | 17.4 % | $13,507 | 17.8 % |
| 2017 | 265 | 756,554 | 12.7 % | 11,725 | 15.5 % |
| 2018 | 244 | 850,346 | 14.3 % | 12,992 | 17.1 % |
| 2019 | 186 | 555,628 | 9.3 % | 9,329 | 12.3 % |
| 2020 | 156 | 707,357 | 11.9 % | 10,027 | 13.2 % |
| 2021 | 72 | 294,519 | 4.9 % | 3,982 | 5.2 % |
| 2022 | 47 | 314,818 | 5.3 % | 4,150 | 5.5 % |
| 2023 | 25 | 182,554 | 3.1 % | 2,341 | 3.1 % |
| 2024 | 26 | 188,295 | 3.2 % | 2,690 | 3.5 % |
| 2025 | 20 | 64,434 | 1.1 % | 1,217 | 1.6 % |
| Total | 1,451 | 4,953,222 | 83.2 % | $71,960 | 94.8 % |

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.

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

Item 4. Mine Safety Disclosures.

Not applicable.

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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 February 26, 2016, we had 27,004,048 common shares of beneficial interest outstanding held by a total of 1,236 shareholders of record.

The following table sets forth the quarterly high, low and closing prices per share of our common shares for the years ended December 31, 2015 and 2014 as reported on the NYSE.

| For the Year Ended December 31, 2015 | High | Low | Close |
|---|---|---|---|
| First Quarter | $16.36 | $15.04 | $15.88 |
| Second Quarter | $16.39 | $12.89 | $13.02 |
| Third Quarter | $13.53 | $9.90 | $11.53 |
| Fourth Quarter | $12.94 | $10.94 | $12.01 |

| For the Year Ended December 31, 2014 | High | Low | Close |
|---|---|---|---|
| First Quarter | $14.89 | $13.21 | $14.44 |
| Second Quarter | $14.96 | $13.57 | $14.91 |
| Third Quarter | $15.68 | $13.76 | $13.94 |
| Fourth Quarter | $15.57 | $13.75 | $15.11 |

On February 26, 2016, the closing price of our common shares reported on the NYSE was $11.05 per share.

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.

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

| | 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 |
| 2015 | | | | | |
| Fourth Quarter | $0.2850 | $7,666 | $0.2850 | $143 | $7,809 |
| Third Quarter | 0.2850 | 7,664 | 0.2850 | 122 | 7,786 |
| Second Quarter | 0.2850 | 6,601 | 0.2850 | 111 | 6,712 |
| First Quarter | 0.2850 | 6,526 | 0.2850 | 113 | 6,639 |
| Total | $1.1400 | $28,457 | $1.1400 | $489 | $28,946 |
| | | | | | |
| 2014 | | | | | |
| Fourth Quarter | $0.2850 | $6,484 | $0.2850 | $114 | $6,598 |
| Third Quarter | 0.2850 | 6,457 | 0.2850 | 126 | 6,583 |
| Second Quarter | 0.2850 | 6,367 | 0.2850 | 152 | 6,519 |
| First Quarter | 0.2850 | 6,231 | 0.2850 | 158 | 6,389 |
| Total | $1.1400 | $25,539 | $1.1400 | $550 | $26,089 |

Equity Compensation Plan Information

Please refer to Item 12 of this report for information concerning securities authorized under our equity incentive plan.

Issuer Purchases of Equity Securities

During the three months ended December 31, 2015, certain of our employees tendered owned common shares to satisfy the tax withholding on the lapse of certain restrictions on restricted common shares issued under our 2008 Long-Term Equity Incentive Ownership Plan (the "2008 Plan"). The following table summarized all of these repurchases during the three months ended December 31, 2015.

| Period | Total Number of Shares Purchased [1] | Average Price Paid for Shares | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| October 1, 2015 through October 31, 2015 | — | $— | N/A | N/A |
| November 1, 2015 through November 30, 2015 | — | — | N/A | N/A |
| December 1, 2015 through December 31, 2015 | 28,293 | 12.01 | N/A | N/A |
| Total | 28,293 | $12.01 | | |

(1) The number of shares purchased represents common shares held by employees who tendered owned common shares to satisfy the tax withholding on the lapse of certain restrictions on restricted common shares issued under the 2008 Plan. With respect to these shares, the price paid per share is based on the fair market value at the time of tender.

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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”) and to the Morgan Stanley Capital International US REIT Index (“REIT Index”) from December 31, 2010 to December 31, 2015. The graph assumes that the value of the investment in our common shares and in the S&P 500 and REIT indices was $100 at December 31, 2010 and that all dividends were reinvested. The closing price of our common shares on December 31, 2010 (on which the graph is based) was $14.80. 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.

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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 report.

| | Year Ended December 31, (in thousands, except per share data) | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| Operating Data: | | | | | |
| Revenues | $93,416 | $72,382 | $60,492 | $44,994 | $33,299 |
| Property expenses | 31,335 | 25,152 | 22,678 | 16,842 | 12,596 |
| General and administrative | 20,312 | 15,274 | 10,912 | 7,616 | 6,648 |
| Depreciation and amortization | 19,761 | 15,725 | 13,100 | 9,889 | 7,435 |
| Executive relocation expense | — | — | — | 2,177 | — |
| Interest expense | 14,910 | 10,579 | 9,975 | 8,553 | 6,224 |
| Interest, dividend and other investment income | (313) | (90) | (136) | (290) | (460) |
| Income from continuing operations before loss on disposal of assets and income taxes | 7,411 | 5,742 | 3,963 | 207 | 856 |
| Provision for income taxes | (372) | (282) | (293) | (275) | (214) |
| Loss on disposal of assets | (185) | (111) | (49) | (97) | (146) |
| Income (loss) from continuing operations | 6,854 | 5,349 | 3,621 | (165) | 496 |
| Income from discontinued operations | 11 | 510 | 298 | 218 | 440 |
| Gain on sale of property | — | — | — | — | 397 |
| Gain on sale of properties from discontinued operations | — | 1,887 | — | — | — |
| Net income | 6,865 | 7,746 | 3,919 | 53 | 1,333 |
| Less: net income attributable to noncontrolling interests | 116 | 160 | 125 | 3 | 210 |
| Net income attributable to Whitestone REIT | $6,749 | $7,586 | $3,794 | $50 | $1,123 |

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| | Year Ended December 31, (in thousands, except per share data) | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| Earnings per share - basic | | | | | |
| Income (loss) from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares | $0.25 | $0.23 | $0.19 | $(0.01) | $0.08 |
| Income from discontinued operations attributable to Whitestone REIT | — | 0.10 | 0.02 | 0.01 | 0.04 |
| Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares | $0.25 | $0.33 | $0.21 | $0.00 | $0.12 |
| Earnings per share - diluted | | | | | |
| Income (loss) from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares | $0.24 | $0.22 | $0.19 | $(0.01) | $0.08 |
| Income from discontinued operations attributable to Whitestone REIT | — | 0.10 | 0.01 | 0.01 | 0.04 |
| Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares | $0.24 | $0.32 | $0.20 | $0.00 | $0.12 |
| Balance Sheet Data: | | | | | |
| Real estate (net) | $745,958 | $602,068 | $474,760 | $350,076 | $241,073 |
| Real estate (net), discontinued operations | — | — | 5,506 | 5,673 | 5,815 |
| Other assets | 37,919 | 32,229 | 27,708 | 29,622 | 26,605 |
| Total assets | $783,877 | $634,297 | $507,974 | $385,371 | $273,493 |
| Liabilities | $536,886 | $420,974 | $287,059 | $212,484 | $142,786 |
| Whitestone REIT shareholders' equity | 242,974 | 210,072 | 215,818 | 166,031 | 115,958 |
| Noncontrolling interest in subsidiary | 4,017 | 3,251 | 5,097 | 6,856 | 14,749 |
| | $783,877 | $634,297 | $507,974 | $385,371 | $273,493 |
| Other Data: | | | | | |
| Proceeds from issuance of common shares | $49,649 | $6,458 | $63,887 | $58,679 | $59,683 |
| Acquisitions of and additions to real estate (1) | 163,050 | 142,065 | 137,024 | 118,207 | 88,903 |
| Distributions per share (2) | 1.13 | 1.13 | 1.12 | 1.12 | 1.09 |
| Funds from operations (3) | 26,696 | 21,920 | 17,314 | 10,273 | 8,707 |
| Operating Portfolio Occupancy at year end | 88 % | 87 % | 88 % | 87 % | 87 % |
| Average aggregate gross leasable area | 5,734 | 5,075 | 4,537 | 3,833 | 3,366 |
| Average rent per square foot | $14.62 | $13.57 | $12.60 | $11.86 | $10.37 |

(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 unconsolidated partnerships 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, except per share data) | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| Net income attributable to Whitestone REIT | $6,749 | $7,586 | $3,794 | $50 | $1,123 |
| Depreciation and amortization of real estate assets [1] | 19,646 | 15,950 | 13,339 | 10,108 | 7,625 |
| Loss (gain) on sale or disposal of assets [1] | 185 | (1,776) | 56 | 112 | (251) |
| Net income attributable to noncontrolling interests | 116 | 160 | 125 | 3 | 210 |
| FFO | $26,696 | $21,920 | $17,314 | $10,273 | $8,707 |

[1] Including amounts for discontinued operations.

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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 business center or retail community that serves a neighboring five-mile radius around our property. We employ and develop a diverse group of associates who understand the needs of our multicultural communities and tenants.

As of December 31, 2015, we owned and operated 70 commercial properties consisting of:

Operating Portfolio

- 46 retail properties containing approximately 4.0 million square feet of gross leasable area and having a total carrying amount (net of accumulated depreciation) of $596.2 million;
- four office properties containing approximately 0.5 million square feet of gross leasable area and having a total carrying amount (net of accumulated depreciation) of $36.2 million; and
- 11 office/flex properties containing approximately 1.2 million square feet of gross leasable area and having a total carrying amount (net of accumulated depreciation) of $36.5 million.

Redevelopment, New Acquisitions Portfolio

- three retail properties containing approximately 0.2 million square feet of leasable space and having a total carrying amount (net of accumulated depreciation) of $64.9 million; and
- six parcels of land held for future development having a total carrying amount of $12.2 million.

As of December 31, 2015, we had an aggregate of 1,471 tenants. We have a diversified tenant base with our largest tenant comprising only 2.6% of our total revenues for the year ended December 31, 2015. 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 408 new and renewal leases during 2015, totaling 965,897 square feet and $61.8 million in total lease value.

We employed 95 full-time employees as of December 31, 2015. 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.

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## How We Derive Our Revenue

Substantially all of our revenue is derived from rents received from leases at our properties. We had rental income and tenant reimbursements of approximately $93,416,000 for the year ended December 31, 2015 as compared to $72,382,000 for the year ended December 31, 2014, an increase of $21,034,000, or 29%. The year ended December 31, 2015 included $18,633,000 in increased revenues from New Store operations. We define "New Stores" as properties acquired since the beginning of the period being compared. For purposes of comparing the year ended December 31, 2015 to the year ended December 31, 2014, New Stores include properties acquired between January 1, 2013 and December 31, 2014. During the twelve months ended December 31, 2015, Same Store revenues increased $2,401,000 in the aggregate. We define "Same Stores" as properties owned during the entire period being compared. For purposes of comparing the year ended December 31, 2015 to the year ended December 31, 2014, Same Stores include properties owned from January 1, 2013 to December 31, 2014. Same Store average occupancy decreased from 86.8% for the year ended December 31, 2014 to 86.5% for the year ended December 31, 2015, decreasing Same Store revenue $285,000. The Same Store revenue rate per average leased square foot increased $0.64 for the year ended December 31, 2015 to $17.28 per average leased square foot as compared to the year ended December 31, 2014 revenue rate per average leased square foot of $16.64, increasing Same Store revenue $2,686,000. The revenue rate per average leased square feet is calculated by dividing the total revenue by the average square feet leased during the period.

## 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. 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. We expect this trend to continue in 2016.

### Scheduled Lease Expirations

We tend to lease space to smaller businesses that desire shorter term leases. As of December 31, 2015, approximately 30% of our gross leasable area was subject to leases that expire prior to December 31, 2017. Over the last three years, we have renewed expiring leases with respect to approximately 76% of our gross leasable area. 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 have continued to successfully grow our gross leasable area through the acquisition of additional properties, and we expect to actively pursue and consummate additional acquisitions in the foreseeable future. We believe that over the next few years we will continue to have excellent opportunities to acquire quality properties at historically attractive prices. 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.

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Property Acquisitions

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 Acquisitions. On August 28, 2015, we acquired the hard corner at our Gilbert Tuscany Village property for approximately $1.7 million in cash and net prorations. The 14,603 square foot single-tenant property was vacant at the time of purchase and is located in Gilbert, Arizona.

On August 26, 2015, we acquired two parcels of undeveloped land totaling 3.12 acres for 120,000 OP units. The OP units, are convertible on a one-for-one basis for Whitestone REIT common shares, subject to certain restrictions. The undeveloped land parcels are adjacent to our Keller Place property.

On August 26, 2015, we acquired Keller Place, a property that meets our Community Centered Property™ strategy, for approximately $12.0 million in cash and net prorations. The 93,541 square foot property was 92% leased at the time of purchase and is located in the Keller suburb of Fort Worth, Texas.

On August 26, 2015, we acquired Quinlan Crossing, a property that meets our Community Centered Property™ strategy, for approximately $37.5 million in cash and net prorations. The 109,892 square foot property was 95% leased at the time of purchase and is located in Austin, Texas.

On July 2, 2015, we acquired Parkside Village North, a property that meets our Community Centered Property™ strategy, for approximately $12.5 million in cash and net prorations. The 27,045 square foot property was 100% leased at the time of purchase and is located in Austin, Texas.

On July 2, 2015, we acquired Parkside Village South, a property that meets our Community Centered Property™ strategy, for approximately $32.5 million in cash and net prorations. The 90,101 square foot property was 100% leased at the time of purchase and is located in Austin, Texas.

On May 27, 2015, we acquired Davenport Village, a property that meets our Community Centered Property™ strategy, for approximately $45.5 million in cash and net prorations. The 128,934 square foot property was 85% leased at the time of purchase and is located in Austin, Texas.

On March 31, 2015, we acquired City View Village, a property that meets our Community Centered Property™ strategy, for approximately $6.3 million in cash and net prorations. The 17,870 square foot property was 100% leased at the time of purchase and is located in San Antonio, Texas.

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Leasing Activity

As of December 31, 2015, we owned 70 properties with 5,956,511 square feet of gross leasable area, which were approximately 87% occupied. Our occupancy rate for all properties remained constant at approximately 87% occupied as of December 31, 2014 and December 31, 2015, respectively. The following is a summary of the Company's leasing activity for the year ended December 31, 2015:

| | 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 | 223 | 477,639 | 3.0 | $2.09 | $15.57 | $14.75 | 11.4 | % |
| New Leases | 68 | 173,441 | 3.5 | 4.18 | 14.40 | 14.69 | 4.0 | % |
| Total | 291 | 651,080 | 3.1 | $2.65 | $15.26 | $14.73 | 9.4 | % |

| | Number of Leases Signed | GLA Signed | Weighted Average Lease Term (2) | TI and Incentives per Sq. Ft. (3) | Contractual Rent Per Sq. Ft (4) |
|---|---|---|---|---|---|
| Non-Comparable | | | | | |
| Renewal Leases | 10 | 25,362 | 3.6 | $5.62 | $17.09 |
| New Leases | 107 | 326,403 | 5.1 | 13.90 | 13.80 |
| Total | 117 | 351,765 | 5.0 | $13.31 | $14.04 |

(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 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 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

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

| | 2015 | 2014 |
|---|---|---|
| Capital expenditures: | | |
| Tenant improvements and allowances | $5,794 | $3,820 |
| Developments / redevelopments | 4,938 | 4,311 |

| | | |
|---|---|---|
| Leasing commissions and costs | 1,818 | 1,576 |
| Maintenance capital expenditures | 1,987 | 1,199 |
| Total capital expenditures | $14,537 | $10,906 |

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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 U.S. generally accepted accounting principles ("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, "Summary of Significant Accounting Policies," 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 have established an allowance for doubtful accounts against the portion of tenant accounts receivable which is estimated to be uncollectible.

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 and real estate taxes) 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, 2015, approximately $106,000 and $69,000 in interest expense and real estate taxes, respectively, were capitalized. For the year ended December 31, 2014, approximately $93,000 and $58,000 in interest expense and real estate taxes, respectively, were capitalized. For the year ended December 31, 2013, approximately $114,000 and $100,000 in interest expense and real estate taxes, respectively, were capitalized.

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, 2015.

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Accrued Rents and Accounts Receivable. Included in accrued rent and accounts receivable are base rents, tenant reimbursements and receivables attributable to recording rents on a straight-line basis. An allowance for the uncollectible portion of accrued rents and accounts receivable is determined based upon customer credit-worthiness (including expected recovery of our claim with respect to any tenants in bankruptcy), historical bad debt levels, and current economic trends. As of December 31, 2015 and 2014, we had an allowance for uncollectible accounts of $6.6 million and $5.0 million, respectively. As of December 31, 2015, 2014 and 2013, we recorded bad debt expense in the amount of $2.0 million, $1.6 million and $1.6 million, respectively, related to tenant receivables that we specifically identified as potentially uncollectible based on our assessment of each tenant's credit-worthiness. Bad debt expenses and any related recoveries are included in property operation and maintenance expense.

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. As part of our executive relocation arrangement, as discussed in Note 12 to our accompanying consolidated financial statements, we issued a note receivable for $975,000 to the buyer, with an interest rate of 4.5% and a maturity of December 31, 2013. On December 5, 2013, the note was renewed through June 30, 2014 and bears interest at a rate of 5.2% during the renewal period. We are currently working with the buyer to renew the note receivable.

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, Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") ASC 740, "Income Taxes" ("ASC 740") applies to the Texas Margin Tax. As of December 31, 2015, 2014 and 2013, we recorded a margin tax provision of $0.4 million, $0.3 million and $0.3 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 $498.8 million and $394.9 million as compared to the book value of approximately $499.7 million and $394.1 million as of December 31, 2015 and 2014, 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.

Disclosure about fair value of financial instruments is based on pertinent information available to management as of December 31, 2015 and 2014. 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, 2015 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 hedges' 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, 2015, we consider our cash flow hedges to be highly effective.

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Recent accounting pronouncements. In April 2015, the FASB issued guidance requiring that debt issuance costs related to a recognized liability be presented on the balance sheet as a direct reduction from the carrying amount of that debt liability, consistent with the presentation of debt discounts. In August 2015, the FASB issued guidance to clarify that debt issuance costs related to line-of-credit agreements may still be presented as an asset and subsequently amortized ratably over the term of such arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015 and is to be applied retrospectively. We expect this guidance to reduce total assets and total notes payable on our consolidated balance sheets for amounts classified as deferred financing costs specific to debt issuance costs. We do not expect this guidance to have any other effect on our consolidated financial statements.

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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 $0.2850 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, 2015, our cash provided from operating activities was $36,169,000 and our total dividends and distributions paid were $28,946,000. Therefore, we had cash flows from operations in excess of distributions of approximately $7,223,000. The Facility includes a $300 million unsecured borrowing capacity under a revolving credit facility, two $50 million term loans and one $100 million term loan. The Facility also includes an accordion feature that will allow 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 Facility will provide adequate capital for our 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. Our ability to access the equity markets will be dependent on a number of factors as well, including general market conditions for REITs and market perceptions about our Company.

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 (Summary of Significant Accounting Policies) to the accompanying consolidated financial statements, pursuant to the term of our $15.1 million 4.99% Note, due January 6, 2024 (See Note 6 (Debt) 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 of approximately $2,587,000 at December 31, 2015, as compared to $4,236,000 at December 31, 2014. The decrease of $1,649,000 was primarily the result of the following:

Sources of Cash

- Cash flow from operations of $36,169,000 for the year ended December 31, 2015;
- Net proceeds of $49,649,000 from issuance of common shares;
- Net proceeds of $107,500,000 from our the Facility;
- Proceeds from sales of marketable securities of $496,000;
- Cash flow from discontinued operations of $11,000;

Uses of Cash

- Payment of dividends and distributions to common shareholders and OP unit holders of $28,946,000;
- Real estate acquisitions of $147,950,000;
- Additions to real estate of $12,719,000;
- Payments of loans of $2,847,000;
- Payments of loan origination costs of $1,534,000;
- Repurchase of common shares $1,357,000; and
- Change in restricted cash of $121,000.

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

Equity Offerings

On June 26, 2015, we completed the sale of 3,750,000 common shares, $0.001 par value per share, at a purchase price of $13.3386 per share. Total net proceeds from the offering, after deducting offering expenses, were approximately $49.7 million, which were contributed to the Operating Partnership in exchange for OP units. The Operating Partnership used the net proceeds from this offering to repay a portion of the Facility and for general corporate purposes.

On October 8, 2013, we completed the sale of 4,000,000 common shares, $0.001 par value per share, and on October 28, 2013, upon the underwriters' exercise of the over-allotment option, we completed the sale of 600,000 additional common shares, at a price to the public of $13.54 per share. Total net proceeds from the offering, including the over-allotment shares, and after deducting the underwriting discount and offering expenses, were approximately $59.7 million, which we contributed to the Operating Partnership in exchange for OP units. The Operating Partnership used the net proceeds from this offering for general corporate purposes, which included acquisitions of additional properties, the repayment of outstanding indebtedness, capital expenditures (including tenant improvements), the expansion, redevelopment and/or re-tenanting of properties in our portfolio, working capital and other general purposes.

On June 19, 2013, we entered into five equity distribution agreements for an at-the-market distribution program. On August 14, 2013, we entered into a sixth equity distribution agreement on substantially similar terms as the existing equity distribution agreements and amended the existing equity distribution agreements in order to add an additional placement agent (together, the “2013 equity distribution agreements”). Pursuant to the terms and conditions of the 2013 equity distribution agreements, we could issue and sell up to an aggregate of $50 million of our common shares. Actual sales would depend on a variety of factors to be 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 will be made in transactions that will be deemed to be “at-the-market” offerings as defined in Rule 415 under the Securities Act of 1933, as amended (the “Securities Act”). We had no obligation to sell any of our common shares, and could at any time suspend offers under the agreements or terminate the agreements. For the year ended December 31, 2015, we sold 456,090 common shares under the 2013 equity distribution agreements, with net proceeds to us of approximately $6.4 million. In connection with such sales, we paid compensation of $0.1 million to the sales agents. For the year ended December 31, 2014, we sold 282,239 common shares under the 2013 equity distribution agreements, with net proceeds to us of approximately $4.2 million. In connection with such sales, we paid compensation of $0.2 million to the sales agents.

On June 4, 2015, we entered into nine amended and restated equity distribution agreements (the “2015 equity distribution agreements”). Pursuant to the terms and conditions of the 2015 equity distribution agreements, we can issue and sell up to an aggregate of $50 million of our common shares. Actual sales will depend on a variety of factors to be 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 will be 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 2015 equity distribution agreements or terminate the 2015 equity distribution agreements. We have not sold any common shares under the 2015 equity distribution agreements.

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Debt

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

| Description | December 31, 2015 | 2014 |
|---|---|---|
| Fixed rate notes | | |
| $10.5 million, LIBOR plus 2.00% Note, due September 24, 2018 (1) | $10,220 | $10,460 |
| $50.0 million, 0.84% plus 1.35% to 1.90% Note, due October 30, 2020 (2) | 50,000 | 50,000 |
| $50.0 million, 1.50% plus 1.35% to 1.90% Note, due January 29, 2021 (3) | 50,000 | 50,000 |
| $100.0 million, 1.73% plus 1.65% to 2.25% Note, due October 30, 2022 (4) | 100,000 | — |
| $37.0 million 3.76% Note, due December 1, 2020 | 35,146 | 36,090 |
| $6.5 million 3.80% Note, due January 1, 2019 | 6,190 | 6,355 |
| $19.0 million 4.15% Note, due December 1, 2024 | 19,000 | 19,000 |
| $20.2 million 4.28% Note, due June 6, 2023 | 20,040 | 20,200 |
| $14.0 million 4.34% Note, due September 11, 2024 | 14,000 | 14,000 |
| $14.3 million 4.34% Note, due September 11, 2024 | 14,300 | 14,300 |
| $16.5 million 4.97% Note, due September 26, 2023 | 16,450 | 16,450 |
| $15.1 million 4.99% Note, due January 6, 2024 | 15,060 | 15,060 |
| $9.2 million, Prime Rate less 2.00% Note, due December 29, 2017 (5) | 7,886 | 7,888 |
| $2.6 million 5.46% Note, due October 1, 2023 | 2,550 | 2,583 |
| $11.1 million 5.87% Note, due August 6, 2016 | 11,305 | 11,607 |
| Floating rate notes | | |
| Unsecured line of credit, LIBOR plus 1.40% to 1.95%, due October 30, 2019 | 127,600 | 120,100 |
| | $499,747 | $394,093 |

(1) Promissory note includes an interest rate swap that fixed the interest rate at 3.55% for the duration of the term.

(2) Promissory note includes an interest rate swap that fixed the LIBOR portion of Term Loan 1 (as defined below) at 0.84% through February 3, 2017 and 1.75% beginning February 3, 2017 through October 30, 2020.

(3) Promissory note includes an interest rate swap that fixed the LIBOR portion of Term Loan 2 (as defined below) at 1.50%.

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

(5) Promissory note includes an interest rate swap that fixed the interest rate at 5.72% for the duration of the term. As part of our acquisition of Paradise Plaza in August 2012, we recorded a discount on the note of $1.3 million, which amortizes into interest expense over the life of the loan and results in an imputed interest rate of 4.13%.

Our mortgage debt was collateralized by 20 operating properties as of December 31, 2015 with a combined net book value of $213.9 million and 20 operating properties as of December 31, 2014 with a combined net book value of $216.9 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 the assignment of certain rents and leases associated with those properties.

On December 24, 2014, we assumed a $2.6 million promissory note as part of our acquisition of the hard corner at Village Square at Dana Park (see Note 4 to the accompanying consolidated financial statements). The 5.46% fixed interest rate note matures October 1, 2023.

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On November 26, 2014, we, operating through our subsidiary, Whitestone Headquarters Village, LLC, a Delaware limited liability company, entered into a $19.0 million promissory note (the “Headquarters Note”), with a fixed interest rate of 4.15% payable to Morgan Stanley Bank, N.A. and a maturity date of December 1, 2024. Proceeds from the Headquarters Note were used to repay a portion of the Facility.

On September 3, 2014, we, operating through our subsidiary, Whitestone Pecos Ranch, LLC, a Delaware limited liability company, entered into a $14.0 million promissory note (the “Pecos Note”), with a fixed interest rate of 4.34% payable to Wells Fargo Bank, National Association and a maturity date of September 11, 2024. Proceeds from the Pecos Note were used to repay a portion of the Facility.

On August 26, 2014, we, operating through our subsidiary, Whitestone Shops at Starwood, LLC, a Delaware limited liability company, entered into a $14.3 million promissory note (the “Starwood Note”), with a fixed interest rate of 4.34% payable to Wells Fargo Bank, National Association and a maturity date of September 11, 2024. Proceeds from the Starwood Note were used to repay a portion of the Facility.

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, 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 “Facility.”

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

- extended the maturity date of the $400 million unsecured revolving credit facility under the 2014 Facility (the “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 “Term Loans”) to January 29, 2021 from November 7, 2019.

Borrowings under the 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, 2015, the interest rate was 2.182%. The applicable margin for Adjusted LIBOR borrowings ranges from 1.40% to 1.95% for the Revolver and 1.35% to 2.25% for the 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.

We serve as the guarantor for funds borrowed by the Operating Partnership under the Facility. The 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 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.

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The Facility includes an accordion feature that will allow the Operating Partnership to increase the borrowing capacity to $700 million, upon the satisfaction of certain conditions. The Facility, which is available to us for acquisitions of properties and working capital, is our primary source of additional credit. As of December 31, 2015, $327.6 million was drawn on the Facility and our unused borrowing capacity was $172.4 million, assuming that we use the proceeds of the Facility to acquire properties, or to repay debt on properties, that are eligible to be included in the unsecured borrowing base. Proceeds from the 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. We intend to use the additional proceeds from the Facility for general corporate purposes, including property acquisitions, debt repayment, capital expenditure, the expansion, redevelopment and re-tenanting of properties in our portfolio and working capital.

Certain other of our loans are subject to customary covenants.  As of December 31, 2015, we were in compliance with all loan covenants.

Annual maturities of notes payable as of December 31, 2015 are due during the following years:

| Year | Amount Due (in thousands) |
|---|---|
| 2016 | $13,269 |
| 2017 | 10,213 |
| 2018 | 12,136 |
| 2019 | 135,649 |
| 2020 | 82,827 |
| Thereafter | 245,653 |
| Total | $499,747 |

Capital Expenditures

We continually evaluate our properties' performance and value. 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 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.

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Contractual Obligations

As of December 31, 2015, we had the following contractual obligations (see Note 8 of our accompanying consolidated financial statements for further discussion regarding the specific terms of our debt):

| | | Payment due by period (in thousands) | | | |
|---|---|---|---|---|---|
| Contractual Obligations | Total | Less than 1 year (2016) | 1 - 3 years (2017 - 2018) | 3 - 5 years (2019 - 2020) | More than 5 years (after 2020) |
| Long-Term Debt - Principal | $499,747 | $13,269 | $22,349 | $218,476 | $245,653 |
| Long-Term Debt - Fixed Interest | 80,589 | 13,030 | 24,753 | 23,002 | 19,804 |
| Long-Term Debt - Variable Interest (1) | 8,036 | 2,096 | 4,193 | 1,747 | — |
| Unsecured credit facility - Unused commitment fee (2) | 1,322 | 345 | 690 | 287 | — |
| Operating Lease Obligations | 186 | 74 | 88 | 21 | 3 |
| Total | $589,880 | $28,814 | $52,073 | $243,533 | $265,460 |

(1) As of December 31, 2015, we had one loans totaling $127.6 million which bore interest at a floating rate. The variable interest rate payments are based on LIBOR plus 1.35% to LIBOR plus 1.95%, which reflects our new interest rates under our 2014 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, 2015, of 0.24%.

(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, 2015 balance of $327.6 million.

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Distributions

During 2015, we paid distributions to our common shareholders and OP unit holders of $28.9 million, compared to $26.1 million in 2014. 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, 2015 and 2014:

| | 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 |
| 2015 | | | | | |
| Fourth Quarter | $0.2850 | $7,666 | $0.2850 | $143 | $7,809 |
| Third Quarter | 0.2850 | 7,664 | 0.2850 | 122 | 7,786 |
| Second Quarter | 0.2850 | 6,601 | 0.2850 | 111 | 6,712 |
| First Quarter | 0.2850 | 6,526 | 0.2850 | 113 | 6,639 |
| Total | $1.1400 | $28,457 | $1.1400 | $489 | $28,946 |
| | | | | | |
| 2014 | | | | | |
| Fourth Quarter | $0.2850 | $6,484 | $0.2850 | $114 | $6,598 |
| Third Quarter | 0.2850 | 6,457 | 0.2850 | 126 | 6,583 |
| Second Quarter | 0.2850 | 6,367 | 0.2850 | 152 | 6,519 |
| First Quarter | 0.2850 | 6,231 | 0.2850 | 158 | 6,389 |
| Total | $1.1400 | $25,539 | $1.1400 | $550 | $26,089 |

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Results of Operations

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

The following table provides a general comparison of our results of operations for the years ended December 31, 2015 and 2014 (dollars in thousands, except per share data):

| | Year Ended December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Number of properties owned and operated | 70 | 63 |
| Aggregate gross leasable area (sq. ft.) | 5,956,511 | 5,485,793 |
| Ending occupancy rate - operating portfolio[1] | 88 % | 87 % |
| Ending occupancy rate - all properties | 87 % | 87 % |
| | | |
| Total property revenues | $93,416 | $72,382 |
| Total property expenses | 31,335 | 25,152 |
| Total other expenses | 54,670 | 41,488 |
| Provision for income taxes | 372 | 282 |
| Loss on disposal of assets | 185 | 111 |
| Income from continuing operations | 6,854 | 5,349 |
| Income from discontinued operations, net of taxes | 11 | 510 |
| Gain on sale of property from discontinued operations | — | 1,887 |
| Net income | 6,865 | 7,746 |
| Less: Net income attributable to noncontrolling interests | 116 | 160 |
| Net income attributable to Whitestone REIT | $6,749 | $7,586 |
| | | |
| Funds from operations core[2] | $35,754 | $28,153 |
| Property net operating income [3] | 62,081 | 47,230 |
| Distributions paid on common shares and OP units | 28,946 | 26,089 |
| Distributions per common share and OP unit | $1.1400 | $1.1400 |
| Distributions paid as a % of funds from operations core | 81 % | 93 % |

(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 to net income, see “Funds From Operations” below.

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

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Property revenues. We had rental income and tenant reimbursements of approximately $93,416,000 for the year ended December 31, 2015 as compared to $72,382,000 for the year ended December 31, 2014, an increase of $21,034,000, or 29%. The year ended December 31, 2015 included $18,633,000 in increased revenues from New Store operations. We define "New Stores" as properties acquired since the beginning of the period being compared. For purposes of comparing the year ended December 31, 2015 to the year ended December 31, 2014, New Stores include properties acquired between January 1, 2014 and December 31, 2015. During the twelve months ended December 31, 2015, Same Store revenues increased $2,401,000 in the aggregate. We define "Same Stores" as properties owned during the entire period being compared. For purposes of comparing the year ended December 31, 2015 to the year ended December 31, 2014, Same Stores include properties owned from January 1, 2014 to December 31, 2015. Same Store average occupancy decreased from 86.8% for the year ended December 31, 2014 to 86.5% for the year ended December 31, 2015, decreasing Same Store revenue $285,000. The Same Store revenue rate per average leased square foot increased $0.64 for the year ended December 31, 2015 to $17.28 per average leased square foot as compared to the year ended December 31, 2014 revenue rate per average leased square foot of $16.64, increasing Same Store revenue $2,686,000. The revenue rate per average leased square feet is calculated by dividing the total revenue by the average square feet leased during the period.

Property expenses. Our property expenses were $31,335,000 for the year ended December 31, 2015, as compared to $25,152,000 for the year ended December 31, 2014, an increase of $6,183,000, or 25%. The primary components of total property expenses, Same Store property expenses and New Store property expenses are detailed in the tables below (in thousands):

| | Year Ended December 31, | | | |
|---|---|---|---|---|
| Overall Property Expenses | 2015 | 2014 | Increase | % Increase |
| Real estate taxes | $12,637 | $9,747 | $2,890 | 30% |
| Utilities | 4,788 | 4,235 | 553 | 13% |
| Contract services | 5,297 | 4,295 | 1,002 | 23% |
| Repairs and maintenance | 3,253 | 2,370 | 883 | 37% |
| Bad debt | 2,025 | 1,573 | 452 | 29% |
| Labor and other | 3,335 | 2,932 | 403 | 14% |
| Total | $31,335 | $25,152 | $6,183 | 25% |

| | Year Ended December 31, | | Increase | % Increase |
|---|---|---|---|---|
| Same Store Property Expenses | 2015 | 2014 | (Decrease) | (Decrease) |
| Real estate taxes | $9,512 | $9,387 | $125 | 1% |
| Utilities | 4,250 | 4,203 | 47 | 1% |
| Contract services | 4,439 | 4,235 | 204 | 5% |
| Repairs and maintenance | 2,836 | 2,366 | 470 | 20% |
| Bad debt | 1,708 | 1,495 | 213 | 14% |
| Labor and other | 2,795 | 2,910 | (115) | (4)% |
| Total | $25,540 | $24,596 | $944 | 4% |

| | Year Ended December 31, | | | |
|---|---|---|---|---|
| New Store Property Expenses | 2015 | 2014 | Increase | % Increase |
| Real estate taxes | $3,125 | $360 | $2,765 | Not meaningful |
| Utilities | 538 | 32 | 506 | Not meaningful |
| Contract services | 858 | 60 | 798 | Not meaningful |
| Repairs and maintenance | 417 | 4 | 413 | Not meaningful |
| Bad debt | 317 | 78 | 239 | Not meaningful |
| Labor and other | 540 | 22 | 518 | Not meaningful |
| Total | $5,795 | $556 | $5,239 | Not meaningful |

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Real estate taxes. Real estate taxes increased $2,890,000, or 30%, during the year ended December 31, 2015 as compared to 2014, primarily as a result of New Store real estate taxes, which increased $2,765,000. Same Store real estate taxes increased $125,000, or 1%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. 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.

Utilities. Utilities increased $553,000, or 13%, during the year ended December 31, 2015 as compared to 2014. The increase in utility expenses was primarily attributable to New Store increases of $506,000 for the year ended December 31, 2015. Same Store utilities expenses increased approximately $47,000, or 1%, during the year ended December 31, 2015 as compared to 2014. The majority of the Same Store increase was attributable to increased electricity usage and related charges.

Contract services. Contract services increased $1,002,000, or 23%, during the year ended December 31, 2015 as compared to 2014, primarily as a result of New Store contract services, which increased $798,000. Same Store contract services increased $204,000, or 5%.

Repairs and maintenance. Repairs and maintenance increased $883,000, or 37%, during the year ended December 31, 2015 as compared to 2014. New Store repairs and maintenance increased $413,000 for the year ended December 31, 2015 as compared to 2014. Same Store repairs and maintenance increased $470,000, or 20%, during year ended December 31, 2015 as compared to 2014. The majority of the Same Store increase was attributable to increased electrical repairs of $139,000, exterior painting of $100,000 and roofing repairs of $75,000.

Bad debt. Bad debt for the year ended December 31, 2015 increased $452,000, or 29%, as compared to 2014. New Store bad debt increased $239,000 for the year ended December 31, 2015 as compared to the year ended December 31, 2014. Same Store bad debt increased $213,000 or 14% for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The overall bad debt expense was approximately 2% of revenue for the years ended December 31, 2015 and December 31, 2014.

Labor and other. Labor and other expenses increased $403,000, or 14%, for year ended December 31, 2015 as compared to 2014. New Store labor and other expenses increased $518,000 for the year ended December 31, 2015 as compared to 2014. Same Store labor and other expenses decreased $115,000, or 4%, during year ended December 31, 2015 as compared to 2014.

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Same Store and New Store net operating income. The components of Same Store, New Store and total property net operating income and net income are detailed in the table below (in thousands):

| | Year Ended December 31, 2015 | 2014 | Increase (Decrease) | % Increase (Decrease) |
|---|---|---|---|---|
| Same store (52 properties, exclusive of land held for development) | | | | |
| Property revenues | | | | |
| Rental revenues | $57,045 | $54,596 | $2,449 | 4 % |
| Other revenues | 15,468 | 15,516 | (48 ) | — % |
| Total property revenues | 72,513 | 70,112 | 2,401 | 3 % |
| Property expenses | | | | |
| Property operation and maintenance | 16,029 | 15,199 | 830 | 5 % |
| Real estate taxes | 9,511 | 9,397 | 114 | 1 % |
| Total property expenses | 25,540 | 24,596 | 944 | 4 % |
| Total same store net operating income | 46,973 | 45,516 | 1,457 | 3 % |
| New store (12 properties, exclusive of land held for development) | | | | |
| Property revenues | | | | |
| Rental revenues | 14,798 | 1,697 | 13,101 | 772 % |
| Other revenues | 6,105 | 573 | 5,532 | 965 % |
| Total property revenues | 20,903 | 2,270 | 18,633 | 821 % |
| Property expenses | | | | |
| Property operation and maintenance | 2,669 | 206 | 2,463 | 1,196 % |
| Real estate taxes | 3,126 | 350 | 2,776 | 793 % |
| Total property expenses | 5,795 | 556 | 5,239 | 942 % |
| Total new store net operating income | 15,108 | 1,714 | 13,394 | 781 % |
| Total property net operating income | 62,081 | 47,230 | 14,851 | 31 % |
| Less total other expenses, provision for income taxes and loss on disposal of assets | 55,227 | 41,881 | 13,346 | 32 % |
| Income from continuing operations | 6,854 | 5,349 | 1,505 | 28 % |
| Income from discontinued operations, net of taxes | 11 | 2,397 | (2,386 ) | (100 )% |
| Net income | $6,865 | $7,746 | $(881 ) | (11 )% |

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Other expenses. Our other expenses were $54,670,000 for the year ended December 31, 2015, as compared to $41,488,000 for the year ended December 31, 2014, an increase of $13,182,000, or 32%. The primary components of other expenses, net are detailed in the table below (in thousands):

| | Year Ended December 31, 2015 | 2014 | Increase (Decrease) | % Increase (Decrease) |
|---|---|---|---|---|
| General and administrative | $20,312 | $15,274 | $5,038 | 33 % |
| Depreciation and amortization | 19,761 | 15,725 | 4,036 | 26 % |
| Interest expense | 14,910 | 10,579 | 4,331 | 41 % |
| Interest, dividend and other investment income | (313) | (90) | (223) | 248 % |
| Total other expenses | $54,670 | $41,488 | $13,182 | 32 % |

General and administrative. General and administrative expenses increased approximately $5,038,000, or 33%, for the year ended December 31, 2015 as compared to 2014. The increase in general and administrative expenses included increased share-based compensation costs of $2,682,000, increased legal fees of $1,135,000, increased salaries and benefits of $587,000, increased acquisition costs of $237,000, increased office expenses of $283,000 and increased other expenses of $114,000.

Total compensation recognized in earnings for share-based payments for the years ended December 31, 2015 and 2014 was $7.3 million and $4.7 million, respectively. Based on our current financial projections, we expect approximately 82% of the unvested awards to vest over the next 39 months. As of December 31, 2015, there was approximately $9.9 million in unrecognized compensation cost related to outstanding non-vested performance-based shares, which are expected to vest over a period of 39 months, and approximately $3.4 million in unrecognized compensation cost related to outstanding non-vested time-based shares, which are expected to be recognized over a period of approximately 15 months beginning on January 1, 2016.

We expect to record approximately $13.3 million in share-based compensation subsequent to the year ended December 31, 2015. The unrecognized share-based compensation cost is expected to vest over a weighted average period of 25 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.

Depreciation and amortization. Depreciation and amortization increased $4,036,000, or 26%, for the year ended December 31, 2015 as compared to 2014. New Store depreciation increased $3,525,000 and Same Store depreciation increased $485,000. The increase in Same Store depreciation is attributable to redevelopment and re-tenanting investments. Depreciation on corporate assets and amortization of commission costs increased $26,000.

Interest expense. Interest expense increased $4,331,000, or 41%, for the year ended December 31, 2015 as compared to 2014. An increase in our average outstanding notes payable balance of $142,738,000 accounted for $4,651,000 in increased interest expense, offset by a decrease in our effective interest rate to 3.11% for the year ended December 31, 2015 as compared to 3.26% for the year ended December 31, 2014, resulting in a $633,000 decrease in interest expense. Amortization of loan fees increased interest expense by $313,000 for the year ended December 31, 2015 as compared to the year ended December 31, 2014.

Interest, dividend and other investment income. Interest, dividend and other investment income increased $223,000, or 248%, for the year ended December 31, 2015 as compared to 2014. During the year ended December 31, 2015, our interest income increased $191,000, our gains on sales of investments in available-for-sale securities increased $44,000 and our dividend income decreased $12,000 as compared to the amounts realized during the year ended December 31, 2014.

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Discontinued operations. Discontinued operations are comprised of the of three office buildings known as Zeta, Royal Crest and Featherwood, located in Houston, Texas. On December 31, 2014, we completed the sale of the three office buildings for $10.3 million. As part of the transaction, we provided short-term seller financing of $2.5 million. We recorded a gain on sale of $4.4 million, including recognizing a $1.9 million gain on sale for the year ended December 31, 2015 and deferring the remaining $2.5 million gain on sale to be recognized upon receipt of principal payments on the financing provided by us.

The primary components of discontinued operations are detailed in the table below (in thousands):

| | Year Ended December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Property revenues | | |
| Rental revenues | $51 | $1,560 |
| Other revenues | — | 66 |
| Total property revenues | 51 | 1,626 |
| | | |
| Property expenses | | |
| Property operation and maintenance | 41 | 562 |
| Real estate taxes | — | 172 |
| Total property expenses | 41 | 734 |
| | | |
| Other expenses | | |
| Interest expense | — | 314 |
| Depreciation and amortization | — | 58 |
| Total other expense | — | 372 |
| | | |
| Income before loss on disposal of assets and income taxes | 10 | 520 |
| | | |
| Provision for income taxes | — | (10) |
| Gain on sale or disposal of property or assets in discontinued operations | 1 | 1,887 |
| | | |
| Income from discontinued operations | $11 | $2,397 |

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Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

The following table provides a general comparison of our results of operations for the years ended December 31, 2014 and December 31, 2013 (dollars in thousands, except per share data):

| | Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| Number of properties owned and operated[1] | 63 | | 57 | |
| Aggregate gross leasable area (sq. ft.) | 5,485,793 | | 4,853,930 | |
| Ending occupancy rate - operating portfolio[2] | 87 | % | 88 | % |
| Ending occupancy rate - all properties | 87 | % | 87 | % |
| | | | | |
| Total property revenues | $72,382 | | $60,492 | |
| Total property expenses | 25,152 | | 22,678 | |
| Total other expenses | 41,488 | | 33,851 | |
| Provision for income taxes | 282 | | 293 | |
| Loss on disposal of assets | 111 | | 49 | |
| Income from continuing operations | 5,349 | | 3,621 | |
| Income from discontinued operations, net of taxes | 510 | | 298 | |
| Gain on sale of property from discontinued operations | 1,887 | | — | |
| Net income | 7,746 | | 3,919 | |
| Less: Net income attributable to noncontrolling interests | 160 | | 125 | |
| Net income attributable to Whitestone REIT | $7,586 | | $3,794 | |
| | | | | |
| Funds from operations core[3] | $28,153 | | $20,796 | |
| Property net operating income [4] | 47,230 | | 37,814 | |
| Distributions paid on common shares and OP units | 26,089 | | 20,985 | |
| Distributions per common share and OP unit | $1.1400 | | $1.1400 | |
| Distributions paid as a % of funds from operations core | 93 | % | 101 | % |

(1) Excludes 112,400 square feet of gross leasable area in three office buildings sold on December 31, 2014, Zeta, Royal Crest and Featherwood, located in Houston, Texas.
(2) 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.
(3) For an explanation and reconciliation of funds from operations to net income, see “Funds From Operations” below.
(4) For an explanation and reconciliation of property net operating income to net income, see “Property Net Operating Income” below.

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Property revenues. We had rental income and tenant reimbursements of approximately $72,382,000 for the year ended December 31, 2014 as compared to $60,492,000 for the year ended December 31, 2013, an increase of $11,890,000, or 20%. The year ended December 31, 2014 included $10,762,000 in increased revenues from New Store operations. We define "New Stores" as properties acquired since the beginning of the period being compared. For purposes of comparing the year ended December 31, 2014 to the year ended December 31, 2013, New Stores include properties acquired between January 1, 2013 and December 31, 2014. During the twelve months ended December 31, 2014, Same Store revenues increased $1,128,000 in the aggregate. We define "Same Stores" as properties owned during the entire period being compared. For purposes of comparing the year ended December 31, 2014 to the year ended December 31, 2013, Same Stores include properties owned from January 1, 2013 to December 31, 2014. Same Store average occupancy increased from 85.6% for the year ended December 31, 2013 to 86.1% for the year ended December 31, 2014, increasing Same Store revenue $303,000. The Same Store revenue rate per average leased square foot increased $0.23 for the year ended December 31, 2014 to $15.66 per average leased square foot as compared to the year ended December 31, 2013 revenue rate per average leased square foot of $15.43, increasing Same Store revenue $825,000. The revenue rate per average leased square feet is calculated by dividing the total revenue by the average square feet leased during the period.

Property expenses. Our property expenses were $25,152,000 for the year ended December 31, 2014, as compared to $22,678,000 for the year ended December 31, 2013, an increase of $2,474,000, or 11%. The primary components of total property expenses, Same Store property expenses and New Store property expenses are detailed in the tables below (in thousands):

| | Year Ended December 31, | | Increase | % Increase |
|---|---|---|---|---|
| Overall Property Expenses | 2014 | 2013 | (Decrease) | (Decrease) |
| Real estate taxes | $9,747 | $8,599 | $1,148 | 13 % |
| Utilities | 4,235 | 3,518 | 717 | 20 % |
| Contract services | 4,295 | 3,894 | 401 | 10 % |
| Repairs and maintenance | 2,370 | 2,120 | 250 | 12 % |
| Bad debt | 1,573 | 1,649 | (76) | (5)% |
| Labor and other | 2,932 | 2,898 | 34 | 1 % |
| Total | $25,152 | $22,678 | $2,474 | 11 % |

| | Year Ended December 31, | | Increase | % Increase |
|---|---|---|---|---|
| Same Store Property Expenses | 2014 | 2013 | (Decrease) | (Decrease) |
| Real estate taxes | $7,703 | $7,715 | $(12) | — % |
| Utilities | 3,497 | 3,320 | 177 | 5 % |
| Contract services | 3,596 | 3,660 | (64) | (2)% |
| Repairs and maintenance | 1,973 | 2,035 | (62) | (3)% |
| Bad debt | 1,279 | 1,571 | (292) | (19)% |
| Labor and other | 2,448 | 2,818 | (370) | (13)% |
| Total | $20,496 | $21,119 | $(623) | (3)% |

| | Year Ended December 31, | | Increase | % Increase |
|---|---|---|---|---|
| New Store Property Expenses | 2014 | 2013 | (Decrease) | (Decrease) |
| Real estate taxes | $2,044 | $884 | $1,160 | Not meaningful |
| Utilities | 738 | 198 | 540 | Not meaningful |
| Contract services | 699 | 234 | 465 | Not meaningful |
| Repairs and maintenance | 397 | 85 | 312 | Not meaningful |
| Bad debt | 294 | 78 | 216 | Not meaningful |
| Labor and other | 484 | 80 | 404 | Not meaningful |
| Total | $4,656 | $1,559 | $3,097 | Not meaningful |

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Real estate taxes. Real estate taxes increased $1,148,000, or 13%, during the year ended December 31, 2014 as compared to 2013, primarily as a result of New Store real estate taxes, which increased $1,160,000. Same Store real estate taxes decreased $12,000 for the year ended December 31, 2014 as compared to the year ended December 31, 2013. 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.

Utilities. Utilities increased $717,000, or 20%, during the year ended December 31, 2014 as compared to 2013. The increase in utility expenses was primarily attributable to New Store increases of $540,000 for the year ended December 31, 2014. Same Store utilities expenses increased approximately $177,000, or 5%, during the year ended December 31, 2014 as compared to 2013. The majority of the Same Store increase was attributable to increased electricity usage and related charges.

Contract services. Contract services increased $401,000, or 10%, during the year ended December 31, 2014 as compared to 2013, primarily as a result of New Store contract services, which increased $465,000. Same Store contract services decreased $64,000, or 2%.

Repairs and maintenance. Repairs and maintenance increased $250,000, or 12%, during the year ended December 31, 2014 as compared to 2013. New Store repairs and maintenance increased $312,000 for the year ended December 31, 2014 as compared to 2013. Same Store repairs and maintenance decreased $62,000, or 3%, during year ended December 31, 2014 as compared to 2013.

Bad debt. Bad debt for the year ended December 31, 2014 decreased $76,000, or 5%, as compared to 2013. New Store bad debt increased $216,000 for the year ended December 31, 2014 as compared to the year ended December 31, 2013. Same Store bad debt decreased $292,000 or 19% for the year ended December 31, 2014 as compared to the year ended December 31, 2013. The overall bad debt expense was approximately 2% of revenue for the year ended December 31, 2014 and approximately 3% of revenue for the year ended December 31, 2013. We vigorously pursue past due accounts, but expect collection of rents to continue to be challenging for the foreseeable future.

Labor and other. Labor and other expenses increased $34,000, or 1%, for year ended December 31, 2014 as compared to 2013. New Store labor and other expenses increased $404,000 for the year ended December 31, 2014 as compared to 2013. Same Store labor and other expenses decreased $370,000, or 13%, during year ended December 31, 2014 as compared to 2013.

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Same Store and New Store net operating income. The components of Same Store, New Store and total property net operating income and net income are detailed in the table below (in thousands):

| | Year ended December 31, | | Increase | % Increase |
|---|---|---|---|---|
| | 2014 | 2013 | (Decrease) | (Decrease) |
| Same store (48 properties) | | | | |
| Property revenues | | | | |
| Rental revenues | $43,585 | $43,006 | $579 | 1 % |
| Other revenues | 12,574 | 12,025 | 549 | 5 % |
| Total property revenues | 56,159 | 55,031 | 1,128 | 2 % |
| Property expenses | | | | |
| Property operation and maintenance | 12,793 | 13,394 | (601) | (4)% |
| Real estate taxes | 7,703 | 7,725 | (22) | — % |
| Total property expenses | 20,496 | 21,119 | (623) | (3)% |
| Total same store net operating income | 35,663 | 33,912 | 1,751 | 5 % |
| New store (15 properties) | | | | |
| Property revenues | | | | |
| Rental revenues | 12,708 | 4,291 | 8,417 | 196 % |
| Other revenues | 3,515 | 1,170 | 2,345 | 200 % |
| Total property revenues | 16,223 | 5,461 | 10,762 | 197 % |
| Property expenses | | | | |
| Property operation and maintenance | 2,612 | 685 | 1,927 | 281 % |
| Real estate taxes | 2,044 | 874 | 1,170 | 134 % |
| Total property expenses | 4,656 | 1,559 | 3,097 | 199 % |
| Total new store net operating income | 11,567 | 3,902 | 7,665 | 196 % |
| Total property net operating income | 47,230 | 37,814 | 9,416 | 25 % |
| Less total other expenses, provision for income taxes and loss on disposal of assets | 41,881 | 34,193 | 7,688 | 22 % |
| Income from continuing operations | 5,349 | 3,621 | 1,728 | 48 % |
| Income from discontinued operations, net of taxes | 2,397 | 298 | 2,099 | 704 % |
| Net income | $7,746 | $3,919 | $3,827 | 98 % |

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Other expenses. Our other expenses were $41,488,000 for the year ended December 31, 2014, as compared to $33,851,000 for the year ended December 31, 2013, an increase of $7,637,000, or 23%. The primary components of other expenses, net are detailed in the table below (in thousands):

| | Year Ended December 31, | | Increase | % Increase |
|---|---|---|---|---|
| | 2014 | 2013 | (Decrease) | (Decrease) |
| General and administrative | $15,274 | $10,912 | $4,362 | 40 % |
| Depreciation and amortization | 15,725 | 13,100 | 2,625 | 20 % |
| Interest expense | 10,579 | 9,975 | 604 | 6 % |
| Interest, dividend and other investment income | (90) | (136) | 46 | (34)% |
| Total other expenses | $41,488 | $33,851 | $7,637 | 23 % |

General and administrative. General and administrative expenses increased approximately $4,362,000, or 40%, for the year ended December 31, 2014 as compared to 2013. The increase in general and administrative expenses included increased share-based compensation costs of $2,381,000, increased payroll costs of $1,601,000, increased acquisition costs of $176,000, increased office expenses of $113,000 and increased other expenses of $91,000.

Total compensation recognized in earnings for share-based payments for the years ended December 31, 2014 and 2013 was $4.7 million and $2.3 million, respectively. Based on our current financial projections, we expect approximately 81% of the unvested awards to vest over the next 54 months. As of December 31, 2014, there was approximately $15.7 million in unrecognized compensation cost related to outstanding non-vested performance-based shares, which are expected to vest over a period of 54 months and approximately $0.8 million in unrecognized compensation cost related to outstanding non-vested time-based shares, which are expected to be recognized over a period of approximately 27 months beginning on January 1, 2015.

We expect to record approximately $16.5 million in share-based compensation subsequent to the year ended December 31, 2014. The unrecognized share-based compensation cost is expected to vest over a weighted average period of 38 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.

Depreciation and amortization. Depreciation and amortization increased $2,625,000, or 20%, for the year ended December 31, 2014 as compared to 2013. New Store depreciation increased $1,901,000 and Same Store depreciation increased $667,000. The increase in Same Store depreciation is attributable to redevelopment and re-tenanting investments. Depreciation on corporate assets and amortization of commission costs increased $57,000.

Interest expense. Interest expense increased $604,000, or 6%, for the year ended December 31, 2014 as compared to 2013. An increase in our average outstanding notes payable balance of $59,113,000 accounted for $2,176,000 in increased interest expense, offset by a decrease in our effective interest rate to 3.26% for the year ended December 31, 2014 versus 3.68% for the year ended December 31, 2013, resulting in a $1,255,000 decrease in interest expense. Early extinguishment of debt fees of $169,000 incurred during the year ended December 31, 2013 and decreased amortized loan fees of $148,000 both decreased interest expense for the year ended December 31, 2014 as compared to the year ended December 31, 2013.

Interest, dividend and other investment income. Interest, dividend and other investment income decreased $46,000, or 34%, for the year ended December 31, 2014 as compared to 2013. During the year ended December 31, 2014, our gains on sales of investments in available-for-sale securities decreased $41,000, our dividend income decreased $12,000 and our interest income increased $7,000 as compared to the amounts realized during the year ended December 31, 2013.

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Discontinued operations. Discontinued operations are comprised of the of three office buildings known as Zeta, Royal Crest and Featherwood, located in Houston, Texas. On December 31, 2014, we completed the sale of the three office buildings for $10.3 million. As part of the transaction, we provided short-term seller financing of $2.5 million. We recorded a gain on sale of $4.4 million, including recognizing a $1.9 million gain on sale for the year ended December 31, 2014 and deferring the remaining $2.5 million gain on sale to be recognized upon receipt of principal payments on the financing provided by us.

The primary components of discontinued operations are detailed in the table below (in thousands):

| | Year Ended December 31, | |
|---|---|---|
| | 2014 | 2013 |
| Property revenues | | |
| Rental revenues | $1,560 | $1,565 |
| Other revenues | 66 | 88 |
| Total property revenues | 1,626 | 1,653 |
| | | |
| Property expenses | | |
| Property operation and maintenance | 562 | 664 |
| Real estate taxes | 172 | 168 |
| Total property expenses | 734 | 832 |
| | | |
| Other expenses | | |
| Interest expense | 314 | 329 |
| Depreciation and amortization | 58 | 175 |
| Total other expense | 372 | 504 |
| | | |
| Income before loss on disposal of assets and income taxes | 520 | 317 |
| | | |
| Provision for income taxes | (10) | (12) |
| Gain (loss) on sale or disposal of property or assets in discontinued operations | 1,887 | (7) |
| | | |
| Income from discontinued operations | $2,397 | $298 |

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Reconciliation of Non-GAAP Financial Measures

Funds From Operations ("FFO")

The National Association of Real Estate Investment Trusts ("NAREIT") defines FFO as net income (loss) available to common shareholders computed in accordance with U.S. GAAP, excluding gains or losses from sales of operating real estate assets, impairment charges on properties held for investment and extraordinary items, plus depreciation and amortization of operating properties, including our share of unconsolidated real estate joint ventures and partnerships. We calculate FFO in a manner consistent with the NAREIT definition.

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

Historical cost accounting for real estate assets in accordance with U.S. 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 U.S. 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.

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, non-cash share-based compensation expense, rent support agreement payments received from sellers on acquired assets 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, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| FFO AND FFO CORE | | | |
| Net income attributable to Whitestone REIT | $6,749 | $7,586 | $3,794 |
| Depreciation and amortization of real estate assets [1] | 19,646 | 15,950 | 13,339 |
| Loss (gain) on disposal or sale of assets [1] | 185 | (1,776) | 56 |
| Net income attributable to noncontrolling interests [1] | 116 | 160 | 125 |
| FFO | $26,696 | $21,920 | $17,314 |

| | | | |
|---|---|---|---|
| Share-based compensation expense | $7,339 | $4,736 | $2,284 |
| Acquisition costs | 1,719 | 1,341 | 1,010 |
| Rental support payments received | — | 156 | 188 |
| FFO Core | $35,754 | $28,153 | $20,796 |

(1) Includes amounts from discontinued operations.

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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 and gain or loss on sale or disposition of assets, 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") | 2015 | 2014 | 2013 |
| Net income attributable to Whitestone REIT | $6,749 | $7,586 | $3,794 |
| General and administrative expenses | 20,312 | 15,274 | 10,912 |
| Depreciation and amortization | 19,761 | 15,725 | 13,100 |
| Interest expense | 14,910 | 10,579 | 9,975 |
| Interest, dividend and other investment income | (313) | (90) | (136) |
| Provision for income taxes | 372 | 282 | 293 |
| Loss on sale or disposal of assets | 185 | 111 | 49 |
| Income from discontinued operations | (11) | (510) | (298) |
| Gain on sale of property | — | (1,887) | — |
| Net income attributable to noncontrolling interests | 116 | 160 | 125 |
| NOI | $62,081 | $47,230 | $37,814 |

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

We had no significant off-balance sheet arrangements as of December 31, 2015.

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## 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, 2015, $372.1 million, or approximately 74%, 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 at this time of approximately 3.82% per annum with expirations ranging from 2016 to 2024 (see Note 8 to our accompanying consolidated financial statements for further detail). Holding other variables constant, a 1% increase or decrease in interest rates would cause a $16.8 million decline or increase, respectively, in the fair value for our fixed rate debt.

### Variable Interest Rate Debt

As of December 31, 2015, $127.6 million, or approximately 26%, of our outstanding debt was subject to floating interest rates of LIBOR plus 1.40% to 1.95% 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 $1.3 million.

## Item 8. Financial Statements and Supplementary Data.

The information required by this Item 8 is incorporated by reference to our 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, 2015, 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, 2015, 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.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under this framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2015.

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-3 of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There have been no changes during the Company's quarter ended December 31, 2015, in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information.

None.

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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 2016 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 2016 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, 2015:

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|---|---|---|---|
| Equity compensation plans approved by security holders | — (1) | $— | 957,084 (2) |
| Equity compensation plans not approved by security holders | — | — | — (3) |
| Total | — | $— | 957,084 |

(1) Excludes 3,119,221 common shares subject to outstanding restricted common share units granted pursuant to our 2008 Long-Term Equity Incentive Ownership Plan, as amended (the "Plan").

(2) Pursuant the Plan, the maximum aggregate number of common shares that may be issued under the Plan will be increased upon each issuance of common shares by the Company so that at any time the maximum number of shares that may be issued under the Plan shall equal 12.5% of the aggregate number of common shares of the Company and OP units issued and outstanding (other than units issued to or held by the Company).

(3) Excludes 8,333 restricted common shares issued to trustees outside the 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 2016 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 2016 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 2016 annual meeting of shareholders.

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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 F-1 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.

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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: February 29, 2016 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.

| | |
|---|---|
| February 29, 2016 | /s/ James C. Mastandrea<br>James C. Mastandrea, Chairman and CEO<br>(Principal Executive Officer) |
| February 29, 2016 | /s/ David K. Holeman<br>David K. Holeman, Chief Financial Officer<br>(Principal Financial and Principal Accounting Officer) |
| February 29, 2016 | /s/ Daryl J. Carter<br>Daryl J. Carter, Trustee |
| February 29, 2016 | /s/ Donald F. Keating<br>Donald F. Keating, Trustee |
| February 29, 2016 | /s/ Paul T. Lambert<br>Paul T. Lambert, Trustee |
| February 29, 2016 | /s/ Jack L. Mahaffey<br>Jack L. Mahaffey, Trustee |

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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.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees and Shareholders of
Whitestone REIT:

We have audited the accompanying consolidated balance sheets of Whitestone REIT and subsidiaries (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive income, changes in equity and cash flows for each of the years in the three year period ended December 31, 2015. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedules as listed in the accompanying index. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Whitestone REIT and subsidiaries as of December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the years in the three year period ended December 31, 2015 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Whitestone REIT and subsidiaries' internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 29, 2016 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

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

Houston, Texas
February 29, 2016

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees and Shareholders of
Whitestone REIT:

We have audited the internal control over financial reporting of Whitestone REIT and subsidiaries (the “Company”) as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). 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 Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 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.

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.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, 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), the consolidated balance sheets of Whitestone REIT and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive income, changes in equity, and cash flows for each of the years in the three year period ended December 31, 2015, and our report dated February 29, 2016, expressed an unqualified opinion on those consolidated financial statements.

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

Houston, Texas
February 29, 2016

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Whitestone REIT and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

| | December 31, 2015 | 2014 |
|---|---|---|
| ASSETS | | |
| Real estate assets, at cost | | |
| Property | $835,538 | $673,655 |
| Accumulated depreciation | (89,580) | (71,587) |
| Total real estate assets | 745,958 | 602,068 |
| Cash and cash equivalents | 2,587 | 4,236 |
| Restricted cash | 121 | — |
| Marketable securities | 435 | 973 |
| Escrows and acquisition deposits | 6,668 | 4,092 |
| Accrued rents and accounts receivable, net of allowance for doubtful accounts | 15,466 | 11,834 |
| Unamortized lease commissions and loan costs | 9,970 | 8,879 |
| Prepaid expenses and other assets | 2,672 | 2,215 |
| Total assets | $783,877 | $634,297 |
| LIABILITIES AND EQUITY | | |
| Liabilities: | | |
| Notes payable | $499,747 | $394,093 |
| Accounts payable and accrued expenses | 24,051 | 15,882 |
| Tenants' security deposits | 5,254 | 4,372 |
| Dividends and distributions payable | 7,834 | 6,627 |
| Total liabilities | 536,886 | 420,974 |
| 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, 2015 and December 31, 2014, respectively | — | — |
| Common shares, $0.001 par value per share; 400,000,000 shares authorized; 26,991,493 and 22,835,695 issued and outstanding as of December 31, 2015 and December 31, 2014, respectively | 27 | 23 |
| Additional paid-in capital | 359,971 | 304,078 |
| Accumulated deficit | (116,895) | (93,938) |
| Accumulated other comprehensive loss | (129) | (91) |
| Total Whitestone REIT shareholders' equity | 242,974 | 210,072 |
| Noncontrolling interest in subsidiary | 4,017 | 3,251 |
| Total equity | 246,991 | 213,323 |
| Total liabilities and equity | $783,877 | $634,297 |

See the accompanying notes to consolidated financial statements.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Property revenues | | | |
| Rental revenues | $71,843 | $56,293 | $47,297 |
| Other revenues | 21,573 | 16,089 | 13,195 |
| Total property revenues | 93,416 | 72,382 | 60,492 |
| Property expenses | | | |
| Property operation and maintenance | 18,698 | 15,405 | 14,079 |
| Real estate taxes | 12,637 | 9,747 | 8,599 |
| Total property expenses | 31,335 | 25,152 | 22,678 |
| Other expenses (income) | | | |
| General and administrative | 20,312 | 15,274 | 10,912 |
| Depreciation and amortization | 19,761 | 15,725 | 13,100 |
| Interest expense | 14,910 | 10,579 | 9,975 |
| Interest, dividend and other investment income | (313) | (90) | (136) |
| Total other expense | 54,670 | 41,488 | 33,851 |
| Income from continuing operations before loss on sale or disposal of assets and income taxes | 7,411 | 5,742 | 3,963 |
| Provision for income taxes | (372) | (282) | (293) |
| Loss on sale or disposal of assets | (185) | (111) | (49) |
| Income from continuing operations | 6,854 | 5,349 | 3,621 |
| Income from discontinued operations | 11 | 510 | 298 |
| Gain on sale of property from discontinued operations | — | 1,887 | — |
| Income from discontinued operations | 11 | 2,397 | 298 |
| Net income | 6,865 | 7,746 | 3,919 |
| Less: Net income attributable to noncontrolling interests | 116 | 160 | 125 |
| Net income attributable to Whitestone REIT | $6,749 | $7,586 | $3,794 |

See the accompanying notes to consolidated financial statements.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Basic Earnings Per Share: | | | |
| Income from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares | $0.25 | $0.23 | $0.19 |
| Income from discontinued operations attributable to Whitestone REIT | 0.00 | 0.10 | 0.02 |
| Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares | $0.25 | $0.33 | $0.21 |
| Diluted Earnings Per Share: | | | |
| Income from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares | $0.24 | $0.22 | $0.19 |
| Income from discontinued operations attributable to Whitestone REIT | 0.00 | 0.10 | 0.01 |
| Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares | $0.24 | $0.32 | $0.20 |
| | | | |
| Weighted average number of common shares outstanding: | | | |
| Basic | 24,631 | 22,278 | 18,027 |
| Diluted | 25,683 | 22,793 | 18,273 |
| | | | |
| Distributions declared per common share / OP unit | $1.1400 | $1.1400 | $1.1400 |
| | | | |
| Consolidated Statements of Comprehensive Income | | | |
| | | | |
| Net income | $6,865 | $7,746 | $3,919 |
| | | | |
| Other comprehensive gain (loss) | | | |
| | | | |
| Unrealized gain (loss) on cash flow hedging activities | 46 | (136) | 173 |
| Unrealized gain (loss) on available-for-sale marketable securities | (85) | 96 | 180 |
| | | | |
| Comprehensive income | 6,826 | 7,706 | 4,272 |
| | | | |
| Less: Comprehensive income attributable to noncontrolling interests | 115 | 160 | 136 |
| | | | |
| Comprehensive income attributable to Whitestone REIT | $6,711 | $7,546 | $4,136 |

See the accompanying notes to consolidated financial statements.

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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 | Loss | Equity | Units | Dollars | Equity |
| Balance, December 31, 2012 | 16,943 | $16 | $224,237 | $ (57,830 ) | $ (392 ) | $ 166,031 | 685 | $6,856 | $172,887 |
| Exchange of noncontrolling interest OP units for common shares | 123 | 1 | 1,236 | — | (3 ) | 1,234 | (123) | (1,234 ) | — |
| Exchange offer costs | — | — | (40 ) | — | — | (40 ) | — | | |