

WHITESTONE REIT

1450 W. Sam Houston Parkway N., Suite 111 Houston, Texas 77043

April 30, 2007

Dear Shareholders:

It has been an exciting, challenging, and at times turbulent, first seven months serving you and leading Whitestone REIT on a course toward prosperity and growth.

When I joined the company in July 2006 as an independent trustee, my main objective was to assist with the REIT being listed on a major stock exchange. In reviewing the company's structure, finances and portfolio, it quickly became apparent that the REIT was in declining financial condition and was in many ways not ready for listing on a major exchange. At the request of the Board of Trustees, I assumed the role of Chairman and Interim Chief Executive Officer on October 2, 2006 with a new set of priorities: Create a solid financial platform; internalize management and implement necessary systems; and position and grow the REIT so that it can be listed on a stock exchange.

To meet those objectives required building a management team familiar with turnaround thinking and driven by an operating and growth mentality. The new leadership team was built in just 42 days and inherited an under-performing portfolio with significant deferred maintenance requiring us to create a new company structure with accounting systems and controls. With our people, systems, and controls in place, we then began to strengthen the balance sheet. In addition, the current leadership team carefully crafted a five-year business plan that was approved by the Board of Trustees in December 2006 designed to maximize income, value appreciation, and overall return to our shareholders. The plan is now an integral component of Whitestone's future and is the document from which we are directing the company's new course.

With many of the strategies in the business plan already initiated, we are working diligently through the turnaround into the growth segment of our plan. We have had to deal with several difficulties to transition the REIT's properties to internal management during the turnaround. While this has been somewhat distracting, our focus has remained on leasing vacant space, reconfiguring the portfolio, creating a positive corporate culture and philosophy, and enhancing the professional development of the entire Whitestone team to strengthen operations. With these initiatives underway, we continue working to improve operational efficiencies for our property management and reviewing acquisitions to geographically diversify the portfolio.

This letter offers me the opportunity to share with you the positive direction in which we are headed and a look toward the future, which includes the challenges and the work ahead of us as we execute our business plan. In writing my first annual letter to our shareholders, I am pleased to report that the problems and obstacles we have overcome in the past seven months have stimulated and encouraged our management team to succeed in serving you, the owners of Whitestone REIT.

The Starting Point

Shareholder Liquidity – The Primary Goal

My primary goal is getting the REIT listed on a major stock exchange to provide the long awaited liquidity. When I joined Whitestone as a trustee, listing the company was not feasible. With most of the properties in one market, an external management company, and no institutional investor ownership interest in the stock, if the company were listed, the share price would have been driven downward by the market based on the perceived

WHITESTONE REIT

Annual Letter to Shareholders
April 30, 2007
Page 2

risk. For our current investors, the result would have been a decrease in the value of your investment. To achieve the goal of a successful listing, we need to remove some of the risk and create institutional shareholder interest. Institutional investors generally provide support for a company's stock, which can help to decrease price volatility.

Declining Financial Situation

At the beginning of 2006, the underlying foundation of the company was being challenged by poor operating performance. The declining financial condition of the company was indicated in the following excerpts from the May 1, 2006 Annual Letter to Shareholders: “. . . a drop in occupancy from 86% to 82% . . . rising operating expenses, depreciation and amortization and higher interest rates . . . resulting in a drop in net income [of] 28% . . .” The letter also noted a decrease in the annual dividend from \$0.7072 per share to \$0.60 per share due to the lower occupancy and earnings.

Last year's annual letter clearly pointed out the occupancy problem, which had been declining since 2003. With lower revenues, the Board of Trustees became concerned when clearly, operating revenues were not sufficient to cover 100% of the dividend and the much-needed capital improvements to the portfolio. In addition, cash that could have bought properties for the REIT's portfolio was used to make a loan to an affiliated, but non-owned partnership, which provided no long-term appreciation to the shareholders. As the trend worsened, the Board found the situation untenable and decided to make changes.

Beginning the Turnaround to Chart a New Course

Restructuring and Repositioning with New Team, Direction, and Brand Identity

Our turnaround began by effectively reshaping the company from one that had no employees, was managed externally, and was driven by raising capital through the broker/dealer network, to a vertically integrated, self-managed, market-driven REIT that institutional investors would find attractive for investment. The initial phase of the turnaround began when we assumed operations management in late 2006 and continued into early 2007. During this time, we implemented meaningful and necessary changes for the company, including new leadership, management, direction and brand identity. The important milestones that have been accomplished during the first seven months have begun the process to reverse the unfavorable trends and poor operating performance of the properties, portfolio, and the REIT. Much work remains to be done by our internal management team whose focus is dedicated to Whitestone REIT's properties.

New Leadership Installed

When I became your new Chairman and Interim CEO, I asked John Dee, who has worked with me for more than 10 years, to join the company as our Chief Operating Officer. John's previous experience includes over 25 years with publicly-listed REITs in the areas of finance, treasury, accounting, systems, and operations, which complements my experience of entrepreneurship and my 35 years in real estate, initially in commercial banking as a financier of real estate projects, then developing commercial and residential real estate, and nearly 10 years leading public real estate companies.

Internalized Management

When we set out to internalize the management team, we began with three people and within six weeks, we had built an entire company including 47 people and created a fully-equipped office at an estimated initial direct cost of approximately \$200,000, instead of paying \$10 million to acquire the outside management company that was being offered to Whitestone. More important to shareholders is that an internal management team, committed

WHITESTONE REIT

Annual Letter to Shareholders

April 30, 2007

Page 3

to Whitestone, has a greater vested interest to operate a successful company, than an outside management firm that managed competing properties in the same markets where our properties are located.

Strategic Decision to Diversify Geographically

The five-year business plan calls for reworking our current portfolio of 36 properties, with approximately 3,100,000 square feet of office, retail, and warehouse space, and over 750 tenants ranging in size from 500 to 55,000 square feet. In addition, the plan includes geographic diversity beyond Texas by expanding our portfolio to a billion dollars within the same categories of properties, but in three additional markets that have strong demographics similar to Houston. We will remain focused on “value-added” commercial properties ranging in size from 50,000 square feet to 200,000 square feet. The plan also identifies a portion of our portfolio that we plan to sell, a portion we will retain and manage, and a portion in which we will invest to increase the value.

New Brand Identity

On April 3, 2007, our Board of Trustees approved a name change to Whitestone REIT from Hartman Commercial Properties REIT (HCP REIT). This change is consistent with a full re-branding as we diversify the company’s focus on acquisitions and investments.

Favorable Federal Ruling

On April 6, 2007, a Federal judge favorably ruled to uphold the Maryland bylaw changes and the amended declaration of trust adopted by the Board of Trustees on December 2, 2006. This ruling was important to the stability of the company and to provide the necessary time to execute our business plan. The judge’s decision has been appealed, which unfortunately, will add to the legal fees that are burdening the REIT.

Completing the Turnaround

Nurturing Culture, Philosophy and Professional Development

People are our most important asset. With our management in place, we will complete the turnaround by re-engineering the portfolio, instilling a positive corporate culture and philosophy, and developing our people.

Reconfiguring the Portfolio

The real estate assets of the REIT contain many marginal properties that were previously rolled into the REIT from partnerships. To stabilize the portfolio, we have targeted a leasing goal of 90% occupancy and established a plan to shed non-performing properties to stem the negative impact on earnings. We can accomplish ambitious goals with our strong management team, company platform, financial flexibility, relationships, and balance sheet. We expect to grow beyond the marginal properties, and we are confident and optimistic that in time, the portfolio will better perform.

Cost of Litigation

Shareholders of Whitestone have had to endure a lengthy and difficult transition of leadership due to the unfortunate litigation that has shrouded our work. This has been both frustrating and costly to all involved. Whitestone has experienced significant financial impact from litigation in the state and Federal courts, as well as an attempted unsolicited consent solicitation to remove the Board of Trustees. The litigation has been costly for legal fees spent to defend the interests of the company and our shareholders. At the time of filing a lawsuit in the state court, we estimated the cost would be \$350,000. Unfortunately, the proxy consent solicitation and resulting litigation took us into the state and Federal court systems resulting in legal fees at this writing of approximately \$2 million, or \$0.20 per share.

WHITESTONE REIT

Annual Letter to Shareholders

April 30, 2007

Page 4

The extensive activity in both the state and federal courts has repeatedly affirmed the REIT's positions. Four different judges have considered motions arising from the litigation, and almost every ruling has been in favor of the REIT. With a recent favorable ruling by the Federal court determining that changes to our bylaws and declaration of trust were appropriate, we are hopeful that these expenses will diminish, and that we will be given the opportunity to give our entire attention to operations, acquisitions and prosperity for the REIT. We will continue to work to eliminate this obstacle as soon as reasonably possible, and while we cannot assume the final outcome of the litigation, we are committed to minimizing the distractions and ultimately the costs.

Instituting a Positive Corporate Culture and Philosophy

At the core of Whitestone REIT's foundation is a corporate culture and philosophy that is based on values and morals to guide our work. These key principles are embedded throughout our organization and embodied in the work ethic of our management team.

Each Whitestone employee and trustee is required to subscribe to the following principles:

1. Make decisions and behave in an honest, ethical, moral, and legal manner.
2. Place the interests of our shareholders ahead of our management's and trustees' interests.
3. Develop and train our employees for professional and personal growth.
4. Value our tenants, vendors, and all other stakeholders.
5. Pursue excellence in everything we do.
6. Stretch beyond our perceived abilities to attain success.

As Chairman and Interim CEO, I recognize that it is my responsibility to lead by example, and I am personally and professionally committed to these principles. I believe that an organization must have these values throughout to create a cultural platform for success. Investors should benefit from better business decisions we make based on integrity and ethical soundness leading to fewer legal complications.

Nurturing the Professional Development of Our Team

Our core values include a deep belief in the individuals whom we carefully selected to join our team. We believe that the development of individual skills and talents is the key to organization-wide success; hence we have commenced the Management Leadership Program that extends over 15 months to provide on-going professional development and succession for members of our team.

We are instituting programs for professional development not simply because a well-trained team increases efficiencies and effectiveness, but also because we want to create an environment in which professionals can grow and attain their individual goals while attending to the goals of the shareholders, the company, and the tenants. We want Whitestone team members throughout our organization to feel supported, and then to carry that support outward into our external relationships. The culture of success is being built from the inside-out by caring for and training our people who will be inspired to value our shareholders and stakeholders.

Incentive-based Management Ownership Compensation

As we develop our team members, we must also link their job performance to the interests of the shareholders. We will do this with an incentive-based management ownership compensation program that is being designed to maximize your total return on investments by establishing a commonality of interest on the part of management and shareholders based on values inherent in our culture and philosophy. We hold the shared belief that management should be promoted based on potential, and rewarded for performance only after shareholders' invested interests and goals are achieved.

WHITESTONE REIT

Annual Letter to Shareholders
April 30, 2007
Page 5

Preparing Whitestone for Public Listing

Many of the necessary changes have been made to position Whitestone for listing on a major exchange. We believe that with the discipline and standards in place, we have made significant progress toward listing on a national stock exchange. This will be possible because we have an internalized, experienced management team in place, as well as a commitment to systems to meet SEC requirements. I have had the privilege of meeting with many institutional investors around the country who look for investment opportunities in companies that fit Whitestone's new business model. Eventually, with an institutional following, we will be able to list Whitestone's shares on an exchange.

Measurable Information about Our Company

Noticeable Improvements with Work Ahead

With the management team and systems in place, we should measure our progress, as well as our success and accomplishments. The following metrics show where we have been and where we are now. Our plan is to change the direction of downward trends.

The most common measures of performance of a REIT are the following:

- "Funds From Operations" (FFO), as defined by the National Association of Real Estate Investment Trusts (NAREIT), is net income (computed in accordance with generally accepted accounting principles), excluding gains (or losses) from debt restructuring and sales of property, plus depreciation and amortization.
- "Adjusted Funds From Operations" (AFFO) is FFO less capitalized amounts for building and tenant improvements, leasing commissions, and straight-line rents. This amount generally indicates the funds available for distribution.

We will show occupancy, real estate assets, net income, FFO, AFFO, dividends, and appropriate per share amounts, and other pertinent information going forward.

Summary of Highlighted Data (In thousands of \$'s, except %'s and per share data)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Occupancy	92%	88%	86%	82%	83%
Real Estate Assets	\$117,029	\$131,721	\$141,998	\$173,789	\$173,858
Net Income	3,705	3,474	3,424	2,448	1,781
Per common share	\$0.53	\$0.50	\$0.49	\$0.31	\$0.19
FFO ⁽¹⁾	10,899	10,825	11,138	9,851	8,993
AFFO ⁽¹⁾	8,328	8,895	9,045	7,355	6,868
Dividends Paid	8,436	8,973	8,973	9,389	9,831
Per common share and OP unit	\$0.67	\$0.70	\$0.70	\$0.71	\$0.63
Dividends paid as a % of AFFO	101%	101%	99%	128%	143%

(1) See our discussion of FFO and AFFO as non-GAAP financial measures, which includes a reconciliation to net income in accordance with GAAP, at the end of the Form 10-K on page R-1.

WHITESTONE REIT

Annual Letter to Shareholders
April 30, 2007
Page 6

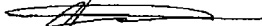
The decline in occupancy rates contributed to decreases in net income, FFO, and AFFO, resulting in dividends paid not being 100% covered from operations and requiring a decrease in the dividend rate earlier in 2006. As shown in the table above, the dividends in 2005 and 2006 exceeded AFFO, meaning that some portion of the dividends was paid from borrowings against the line of credit or from new capital that was raised for acquisitions. While much has been accomplished in a few short months, the data clearly illustrates that considerable work lies ahead to complete the Whitestone REIT turnaround. We are both optimistic and realistic. A major component of the five-year business plan that requires immediate attention is unburdening the portfolio of marginal properties previously rolled into the REIT and investing in several of our properties to redevelop them. Accomplishing this – in addition to acquiring a geographically diverse property mix and increasing occupancy in the rest of our properties – is the plan we are executing to improve the performance of the REIT.

Committed to Our Future

At times, I am amazed at the progress we have made in such a short time. It is no accident that these changes have occurred and I am confident that the future is equally promising. Our key assets are our public company platform, our leadership and management team, our banking and investor relationships, and our compelling desire to succeed. I remain optimistic about the real estate industry, the commercial value-added segment of the business, and the future of Whitestone REIT. The management team and I are committed to seeing Whitestone REIT through to success.

I appreciate your ongoing confidence and thank you for supporting us as we continue to work diligently to enhance your investment.

Sincerely,



James C. Mastandrea
Chairman and Interim Chief Executive Officer