



WHITESTONE REIT

November 27, 2007

Dear Shareholders:

When we file our quarterly reports with the regulators, I enjoy providing a brief update to you and encourage you to read the entire report which can be found on our website (www.whitestonereit.com). Our Quarterly Report on Form 10-Q for period ended September 30, 2007 was filed with the Securities and Exchange Commission (SEC) on November 14, 2007. So that you stay informed of our activities, we make all of our financial filings available on our website as soon as they are filed. The Quarterly Report is reviewed by the independent Audit Committee of your Board of Trustees and Whitestone's independent auditors, Pannell Kerr Forster of Texas, P.C. The Form 10-Q complies with the rules and regulations of both the SEC and the Sarbanes-Oxley Act and should be read in conjunction with the audited consolidated financial statements and footnotes which are included in our Annual Report on Form 10-K for the year ended December 21, 2006, which is also posted on our website.

Our vision is clear and our business plan is on track.

- For the first three quarters of 2007, our leasing department has signed approximately 700,000 square feet of new, renewal or expansion leases with a total lease value of \$33.1 million.
- Our occupancy has increased to 85% for properties owned during the entire year. Additionally, leases approximating 83,000 square feet were completed during the third quarter and are not yet included in our occupancy. These tenants will take possession in the fourth quarter and will help increase our occupancy substantially by year end.
- Our average annual rent per square foot was \$10.43 for the three months ended September 30, 2007, a 9% increase from \$9.58 for the same period of 2006.
- We executed an interest rate swap to mitigate the risks associated with adverse movements in interest rates. If interest rates remain the same as of the date of the swap for twelve months, Whitestone will realize interest savings of approximately \$250,000; if interest rates move up during that period, the savings will be in excess of that amount.

2600 South Gessner
Suite 500
Houston, Texas 77063

Phone (713) 827-9595
Toll Free (866) 789-7348
Fax (713) 465-8847

info@whitestonereit.com
www.whitestonereit.com

- We are executing on our business plan by identifying eleven properties in Houston for renovation or redevelopment. Westchase Retail and Office Plaza, located on Gessner at Westpark, will begin construction during November 2007. The Holly Knight project is near completion and the remaining nine properties will be completed during 2008.
- We acquired our first property outside of Texas. Pima Norte, a class “A” garden office property located in Carefree, AZ, was added to our portfolio in October. We are continuing to build our pipeline of prospective acquisitions and look for more acquisitions in the near future.
- We have identified certain properties to be evaluated for selling in order to redeploy the capital in assets producing greater returns.

These accomplishments, which are not all inclusive, provide Whitestone with a great deal of forward momentum. We have the capacity to grow. We have approximately \$11 million in cash and \$7.5 million available on our line of credit. Our earnings are up slightly; our property operations and maintenance expenses are up about 30%. The majority of these cost increases relate to work that had been deferred prior to our managing our own properties. A quick fix for earnings improvement is to forego property maintenance. However, that is simply an expense that is not on an operating statement until time catches up with the deteriorated condition of the properties and something must be done. That is where we are now with a number of properties. It is important to understand that our operating philosophy has nothing to do with a short term strategy of maximizing quarterly earnings. Our focus is to secure the dividend and maximize shareholder value.

Prior to October 2, 2006, we were externally managed, which makes a comparison of costs difficult given the different nature of the expenses incurred by an externally-managed REIT versus an internally-managed one. As an externally-managed REIT, we were charged fees based on percentages of gross revenues, asset values, capital raised, and expenses submitted for reimbursement. U.S. Generally Accepted Accounting Principles allow for many of these fees to be capitalized as an asset or accounted for as a reduction in equity.

Subsequent to October 2, 2006, we operated as an internally-managed REIT and many of the costs that were previously capitalized or recorded as a reduction in equity are now charged to general and administrative expense and reflected in the Consolidated Statements of Operations.

The chart below is a comparison of the total costs incurred for general and administrative services between the three months ended September 30, 2007 and 2006. Excluding legal costs related to the litigation with our former external manager, costs for general and administrative services for the three months ended September 30, 2007 increased by approximately \$0.05 million or 4% over the three months ended September 30, 2006.

	Capitalized in Balance Sheet		Charged to Statement of Operations		Total	
	Three Months Ended September 30,		Three Months Ended September 30,		Three Months Ended September 30,	
	2007	2006	2007	2006	2007	2006
	(Unaudited)		(Unaudited)		(Unaudited)	
Personnel Cost	\$ -	\$ -	\$ 737	\$ -	\$ 737	\$ -
Office Expense	-	-	229	-	229	-
Professional Fees (Acctg, Legal, etc.)	-	-	113	372	113	372
Offering Costs:						
Selling Commissions	-	76	-	-	-	76
Discounts	-	-	-	-	-	-
Dealer Manager Fee	-	27	-	-	-	27
Expense Reimbursements	-	27	-	-	-	27
Acquisition Fees	-	22	-	-	-	22
Leasing Fees	213	160	-	-	213	160
Property Management Fees	-	-	-	556	-	556
Total, excluding litigation cost	<u>\$ 213</u>	<u>\$ 312</u>	<u>\$ 1,079</u>	<u>\$ 928</u>	<u>\$ 1,292</u>	<u>\$ 1,240</u>
Litigation Cost	-	-	334	-	334	-
Total, including litigation cost	<u>\$ 213</u>	<u>\$ 312</u>	<u>\$ 1,413</u>	<u>\$ 928</u>	<u>\$ 1,626</u>	<u>\$ 1,240</u>

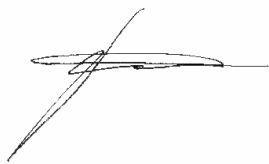
Significant legal expense has been incurred in 2007 related to the ongoing litigation with our former external manager. On October 26, 2007, the Court of Appeals for the Fifth Circuit issued an opinion affirming the judgment of the Federal District Court issued in April 2007, which was in Whitestone's favor. It is too early to express an opinion concerning the likelihood of whether either party will pursue any further action in this matter. You can read the opinion on our website (www.whitstonereit.com).

The litigation in the 333rd Judicial District Court of Harris County, Texas was rescheduled for trial from October 2007 to February 2008. Limited discovery has been conducted in the case as of this date, therefore, it is too early to express an opinion regarding the likelihood of an adverse outcome, although we intend to vigorously defend against those claims and vigorously prosecute our affirmative claims. For a detailed discussion of the litigation, please refer to Note 12 of the consolidated financial statements in the Form 10-Q available at our website.

Our Trustee's recently approved the fourth quarter dividend of \$0.15 per share to be paid in monthly installments of \$.05 per share on or about January 1, February 1 and March 1, 2008. We continue to distribute funds in excess of our cash flow, due primarily to the cost of litigation but expect this shortfall to be temporary in nature based on the trends we are experiencing. We anticipate that cash flows from operating activities and our borrowing capacity will provide adequate capital for our working capital requirements, anticipated capital expenditures, litigation costs and scheduled debt payments during the next twelve months. 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. I am very positive about Whitestone REIT's future and encourage you to call, write or e-mail me when you have questions, and you are welcome to visit us anytime.

Your ongoing confidence is appreciated as well as your continued support.

Sincerely,

A handwritten signature in black ink, appearing to read 'James C. Mastandrea', with a long horizontal line extending to the right.

James C. Mastandrea
Chairman and Chief Executive Officer