



update

Leadership: Navigating the Winds of Change

**James C. Mastandrea,
Chairman and CEO**

Strong leaders will weather today's economic storm by making tough decisions and communicating openly with their stakeholders.

The financial Market has investors concerned, and many are taking a day-to-day measure of the value of their portfolios. Headlines focused on uncertainty and volatility in the Market only add to the anxiety.

The Market value of your shares of Whitestone, as a public non-traded REIT, is difficult to determine. In the absence of this, and given current Market conditions, I want to reassure you that the Company remains financially strong, is well positioned to ride out the storm, and ready to grow.

As turnaround specialists, your management team has already taken swift action to preserve value during the Market's downward cycle. During the two years since the team was formed, we

**Management is doing things right;
Leadership is doing the right things.**

-- Peter Drucker

have been nimble and quick to take advantage of opportunities in times of rapid change.

The difficult decisions we have made have resulted in a stronger Whitestone REIT, as evidenced by our:

- ◆ Becoming self-sufficient and self-funded, eliminating our dependence on a continuous flow of equity and debt capital to maintain our properties and pay our dividend,
- ◆ Increasing revenues by increasing rental rates and occupancies,
- ◆ Controlling our operating expenses through strong financial controls and establishing good vendor relationships,
- ◆ Restructuring our balance sheet by shifting from short term variable rate financing to long term fixed-rate financing, reducing our overall interest rate by about 1%,
- ◆ Reducing our annual dividend to a level supported by Funds From Operations, an amount which is paid by our cash flow and not through external financings or property sales,

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Our Executive Team

(713) 827-9595

James C. Mastandrea
Chairman & Chief Executive Officer

John J. Dee
Chief Operating Officer

David K. Holeman
Chief Financial Officer

Daniel Nixon, Jr.
Sr. Vice President Leasing & Redevelopment

Valarie King
Sr. Vice President Property Management

Samuel Demissie
Vice President Acquisitions & Asset Management

Greg Belsheim
Vice President Human Resources

Roger Nassif
Vice President, Construction

Richard A. Vaughan
Vice President, Leasing Development

Theodore R. Zeck
Vice President, Information Systems

Anne Gregory
Assistant Vice President,
Marketing & Investor Relations

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- ♦ Suspending all pay increases and bonuses for senior management,
- ♦ Directly linking management stock ownership awards to targeted financial goals.

I am especially proud of the management team's rapid execution to replace our short term variable rate debt with long term fixed rate debt in a very difficult credit environment where many outstanding companies have been unable to obtain financing. Many other publicly-traded REITs, faced with too much short term liability, are challenged with refinancing issues.

For example, one of the largest US-based publicly-held REITs, General Growth properties (NYSE: GGP), announced in a September 22nd press release that they are actively seeking financing sources to help pay loans that are about to mature by selling core and non-core assets, preferred equity in selected asset pools, or several other options.

In contrast, Whitestone was able to secure new financing at an overall reduced rate, which has stretched out our maturities five to seven years. This new financing will be used to pay down our corporate line of credit, and for future acquisitions and redevelopment of our current properties.

We appreciate the confidence our lenders have expressed in our strong management team and our strategic growth plan.

The turbulent up-and-down cycle of real estate – in any economy –

requires skill in pinpointing opportunities that can only be learned through years of experience. At Whitestone, we are preparing to take advantage of opportunities the current climate will create and meet the challenges of the future. ■

Property Enhancement

Since October 2006, we have been engaged in a concerted effort to reinvest in the properties to upgrade their appearance, functionality, and to attract a more financially stable tenant base.

Leadership
is practiced not so much in words
as in actions and in attitudes.

Harold Geneen, Chairman, ITT Corp.

Ultimately, these improvements will result in higher rents and more stable occupancies, which will result in increased market value and return for our shareholders.

Our most recent actions:

- ♦ Enhanced Landscaping: initiated a program of mulching twice a year, mowing 48 times a year, and 2 to 3 annual color changes.
- ♦ Parking Lots: completed extensive repairs at Kempwood Plaza, Torrey Square, and I-10 Office/Warehouse.

- ♦ Janitorial Initiatives: as occupancy increases, janitorial costs have increased – we have planned for these as they occur.
- ♦ Security: we have added security personnel to four retail properties and three warehouse properties to support our tenants and protect the value of our properties.
- ♦ Repainting and New Fascia at I-10 Office/Warehouse, Corporate Park Northwest, and Corporate Park Woodland.

Damage from Hurricane Ike

Some of our properties had minor to moderate harm on account of

Ike, ranging from broken signage and uprooted landscaping; others had more significant issues such as damaged roofing and exterior siding.

A detailed analysis of the total cost of Hurricane Ike, after the insurance deductible to be borne by the Company, is still being conducted. ■



Corporate Park Woodland, a Whitestone office/warehouse property in Northern Houston, shows off a new coat of paint.

Changes in the Economy & In Areas Where We Own Properties

During the company's annual meeting, held in July, Jim Mastandrea reviewed Whitestone REIT's overall strategy for growth, highlighting changes in the existing property portfolio and plans to geographically diversify outside of Houston, reducing shareholder risk.

Today, he continues to highlight the importance of geographically diversifying the Whitestone portfolio. During a recent management meeting, Jim said, "Our vulnerability to Hurricane Ike further underscored the importance of geographically diversifying our investment portfolio by acquiring properties in other major markets."

The management team, during a recent strategic planning workshop, reviewed progress made toward this goal. Our acquisition department has presented to our investment committee the due diligence packages for several properties and portfolios that can expand our asset base and diversify our geographic reach.

The following is some recent information about our Houston & Texas markets, and the national markets (Dow Jones Industrial Average & Dow Jones Equity REIT Index), the purpose of which is to inform you of some of the challenges we face:

The Houston & Texas Markets

- ♦ The commercial real estate market is beginning to soften. For example, 99c Only Stores recently announced it is closing all 48 of their Texas stores. This impacts a number of institutional property owners in addition to Whitestone, which holds the leases on two of these stores.
- ♦ The economic impact of Hurricane Ike is estimated to be \$11.5 billion in Texas alone.
- ♦ Positive Pockets: In western Houston, an area known as the "energy corridor," bounded by I-10, Beltway 8 and Texas 6, is in transition. Several major developments are underway, including an expansion of British Petroleum's campus and multiple acres of new commercial real estate projects. Whitestone's presence in this growing area includes four office/warehouse properties.

National REIT Market

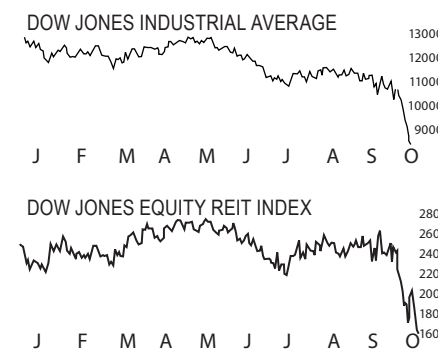
The following highlights and background statements are from BMO Capital Markets "Non-Listed REITs: Reversal of Fortune?", September 2008, pp. 5 and 7.

- ♦ The correction and subsequent volatility of traded REITs would seem to validate an advantage of non-listed REITs; however for those non-listed investors expecting a liquidity event, the current environment makes portfolio liquidation and public listing much less attractive.

- ♦ The non-listed REIT industry has expanded, with 44 non-listed REITs, up from 34 last year. New property types also debuted in the non-listed universe, including timber, storage, and land.
- ♦ Two large non-listed REITs [Whitestone REIT and Piedmont Office Realty Trust] recently completed internalizations of management and became self-advised; we expect public listings when market conditions improve.
- ♦ We suspect that the two non-listed REITs that internalized management (often the last step in preparing a public listing) would have made the jump to the publicly traded world were it not for market conditions. So their investors must wait for the public markets to improve for them to achieve their liquidity event. ■

INDICATORS: JAN. 1 - OCT. 15, '08

Stocks fell sharply, with the Dow Jones Industrial Average sliding more than 700 points in October. The Dow Jones Equity REIT Index followed the same pattern.





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Your Vote is Important!

Tuesday, November 4th, 2008

Mark your calendars! Be sure to exercise your right to vote. The United States presidential election will coincide with the 2008 Senate elections in 33 states, House of Representatives elections in all states, and gubernatorial elections in 11 states, as well as various state referendums and local elections.



Forward Looking Statements

Statements included herein that state the Company's or management's intentions, hopes, beliefs, expectations or predictions of the future are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995, which by their nature, involve known and unknown risks and uncertainties. The Company's actual results, performance or achievements could differ materially from those expressed or implied by these statements. Reference is made to the Company's regulatory filings with the Securities and Exchange Commission for information or factors that may impact the Company's performance.
