



# Whitestone REIT (WSR)

Updated March 9<sup>th</sup>, 2025 by Kay Ng

## Key Metrics

|                             |         |  |       |   |          |
|-----------------------------|---------|--|-------|---|----------|
| <b>Current Price:</b>       | \$14.26 | <b>5 Year CAGR Estimate:</b>               | 7.1%  | <b>Market Cap:</b>                        | \$732M   |
| <b>Fair Value Price:</b>    | \$12.60 | <b>5 Year Growth Estimate:</b>             | 6.0%  | <b>Ex-Dividend Date<sup>1</sup>:</b>      | 04/03/25 |
| <b>% Fair Value:</b>        | 113%    | <b>5 Year Valuation Multiple Estimate:</b> | -2.4% | <b>Dividend Payment Date<sup>1</sup>:</b> | 04/13/25 |
| <b>Dividend Yield:</b>      | 3.8%    | <b>5 Year Price Target</b>                 | \$17  | <b>Years Of Dividend Growth:</b>          | 3        |
| <b>Dividend Risk Score:</b> | F       | <b>Retirement Suitability Score:</b>       | D     | <b>Rating:</b>                            | Hold     |

## Overview & Current Events

Whitestone is a retail REIT that owns about 55 properties with about 4.9 million square feet of gross leasable area primarily in fast-growing U.S. markets such as Texas and Arizona. Its tenant base is very diversified consisting of 1,466 tenants with no single tenant exceeding 2.1% of annualized base rental revenue. Its strategy is to prioritize renting to strong tenants and service-oriented businesses, including grocery, restaurant, health and fitness, financial services, logistics services, education, and entertainment, etc. in neighborhoods with high disposable income. Whitestone was founded in 1998 and is headquartered in Houston, Texas.

Whitestone reported its fourth-quarter and full-year 2024 results on 3/3/25. During the quarter, it witnessed an occupancy rate of 94.1% versus 94.2% in Q4 2023. For the quarter, revenues grew 8.8% to \$40.8 million versus Q4 2023. Funds from operations ("FFO") rose 33% year over year to \$14.7 million, as did FFO per share -- rising 33% to \$0.28. Same-store net operating income ("SSNOI") rose 5.8% to \$25.0 million. Also, rental rate growth was 21.9%, which aligned with 21.8% a year ago, supported by rental rate growth in renewal leases at 19.0% versus 15.3% a year ago and new leases at 36.1% vs. 37.3% a year ago. There were 29 new leases and 50 renewal leases in the quarter.

For 2024, revenue growth was 5.0% to \$154.3 million, FFO growth was 12% to \$50.7 million, and FFO per share was up 11.4% at \$0.98. Whitestone initiated its 2025 FFO per share to be \$1.03-1.07. Therefore, we initiate our 2025 FFOPS estimate at \$1.05, the midpoint of management's guidance. The REIT raised its monthly dividend by nearly 9% to \$0.045 per share, equating to an annualized payout of \$0.54 per share.

## Growth on a Per-Share Basis

| Year                      | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023   | 2024   | 2025          | 2030          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>FFOPS</b>              | \$1.04 | \$0.93 | \$0.95 | \$0.97 | \$0.90 | \$0.83 | \$0.86 | \$1.03 | \$0.88 | \$0.98 | <b>\$1.05</b> | <b>\$1.41</b> |
| <b>DPS</b>                | \$1.14 | \$1.14 | \$1.14 | \$1.14 | \$1.14 | \$0.60 | \$0.43 | \$0.47 | \$0.48 | \$0.49 | <b>\$0.54</b> | <b>\$0.72</b> |
| <b>Shares<sup>1</sup></b> | 27.0   | 29.2   | 38.5   | 39.8   | 40.6   | 43.3   | 50.0   | 50.0   | 50.8   | 51.3   | <b>51.8</b>   | <b>54.2</b>   |

Since Whitestone began reporting FFO, it has seen minimal growth in its FFOPS. This is not a result of decreased FFO but instead an increase in shares outstanding. Since 2015, Whitestone has nearly doubled its share count, primarily to fund acquisitions. In part due to that share dilution, there was no dividend growth from 2016 to 2019, and a dividend cut occurred during the pandemic. In February 2021 and 2022, the REIT declared dividend increases. While it did not declare a dividend increase in 2023, it resumed increasing the dividend in March 2024. That said, the REIT should have the capacity to improve its dividend in the long run. For now, we use an estimated dividend growth rate of 6% through 2030, which would lead to a sustainable payout ratio of ~51% for a REIT.

Whitestone's exposure to the high growth Sun Belt market, as well as its investments in acquisitions, re-development, and development projects will drive future growth. The continuation of SSNOI growth since Q1 2021 is a good sign. We would like to see it stay that way. For now, we estimate a FFOPS growth rate of 6% through 2030 on a long-term recovery path.

<sup>1</sup> Projected dividend dates; Shares in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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## Valuation Analysis

| Year      | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | Now  | 2030 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| P/FFO     | 11.5 | 15.5 | 15.2 | 12.9 | 14.6 | 9.2  | 9.6  | 10.7 | 11.2 | 14.2 | 13.6 | 12.0 |
| Avg. Yld. | 9.5% | 7.9% | 7.9% | 9.3% | 8.7% | 5.5% | 4.5% | 4.2% | 4.9% | 3.7% | 3.8% | 4.3% |

From 2020 to 2024, Whitestone traded at a price to funds from operations multiple (P/FFO) of 11.0. And from 2015-2024, it traded at a P/FFO of 12.5. We target a fair P/FFO of 12. The stock appears to be a bit pricey today.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year   | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 110% | 123% | 120% | 118% | 127% | 72%  | 50%  | 46%  | 55%  | 50%  | 51%  | 51%  |

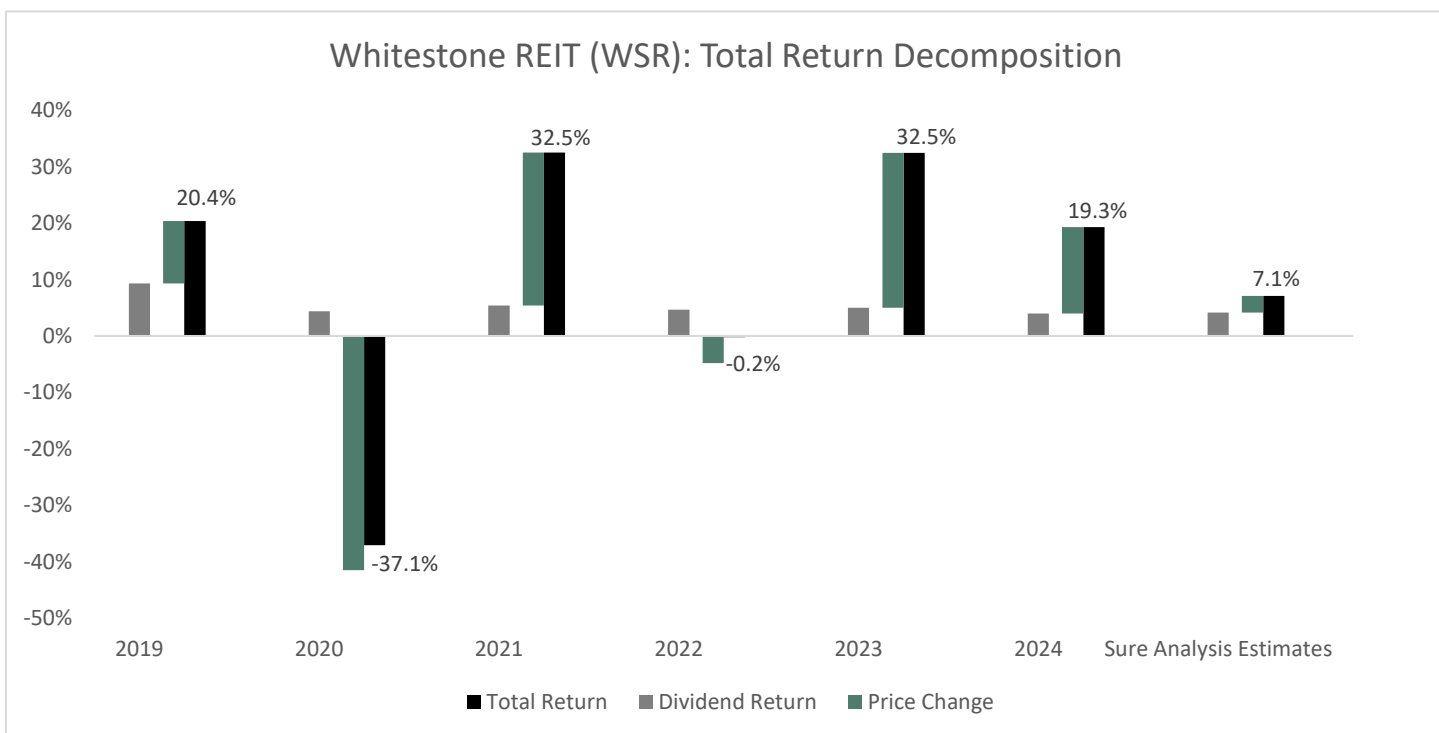
Whitestone had some financial troubles during the previous recession in 2008. From 2007 to 2008, its rental income dropped by \$5.8 million, and it took until 2012 for the rental income to return to the 2007 highs. Whitestone cut its dividend by 63% in 2020. The company is now steadily increasing its dividend, but it's a long way off from the pre-pandemic levels. Currently, the payout ratio of about 50% is sustainable.

At the end of Q4 2024, Whitestone had a debt-to-asset ratio of 61% and debt-to-equity ratio of 1.6 times. At the end of the quarter, the REIT had \$5.2 million in cash and cash equivalents. Moreover, its payout ratio is much more sustainable than pre-pandemic levels because of a lower dividend.

## Final Thoughts & Recommendation

Whitestone has an expected annualized total return of 7.1% over the next five years, stemming from a 3.8% dividend yield and 6.0% FFOPS growth, partly offset by a -2.4% valuation headwind. The stock appears to be on the path of recovery. We give WSR a hold rating currently.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year             | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  | 2024  |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue          | 93    | 104   | 126   | 120   | 119   | 118   | 125   | 139   | 148   | 156   |
| Gross Profit     | 62    | 70    | 84    | 82    | 82    | 79    | 86    | 96    | 102   | 110   |
| Gross Margin     | 66.5% | 67.4% | 66.6% | 68.8% | 69.1% | 67.3% | 68.6% | 68.9% | 68.9% | 70.4% |
| SG&A Exp.        | 20    | 24    | 24    | 23    | 22    | 21    | 23    | 18    | 21    | 23    |
| D&A Exp.         | 20    | 22    | 27    | 26    | 27    | 28    | 29    | 32    | 33    | 35    |
| Operating Profit | 22    | 24    | 33    | 33    | 34    | 30    | 34    | 46    | 48    | 50    |
| Operating Margin | 23.6% | 22.9% | 25.9% | 27.9% | 28.5% | 25.2% | 27.5% | 33.2% | 32.4% | 32.3% |
| Net Profit       | 7     | 8     | 8     | 21    | 24    | 6     | 12    | 35    | 19    | 37    |
| Net Margin       | 7.2%  | 7.6%  | 6.6%  | 17.9% | 19.9% | 5.1%  | 9.6%  | 25.3% | 12.8% | 23.7% |
| Free Cash Flow   | 36    | 41    | 41    | 40    | 48    | 43    | 47    | 44    | 48    | 58    |
| Income Tax       | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0     |

## Balance Sheet Metrics

| Year                 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|----------------------|------|------|------|------|------|------|------|------|------|------|
| Total Assets         | 782  | 855  | 1070 | 1029 | 1056 | 1045 | 1102 | 1103 | 1113 | 1135 |
| Cash & Equivalents   | 3    | 4    | 5    | 14   | 16   | 26   | 16   | 6    | 5    | 5    |
| Accounts Receivable  | 15   | 20   | 21   | 21   | 23   | 23   | 22   | 25   | 16   | 81   |
| Total Liabilities    | 535  | 588  | 712  | 670  | 703  | 707  | 703  | 678  | 694  | 691  |
| Accounts Payable     | 24   | 29   | 36   | 34   | 39   | 51   | 46   | 36   | 37   | 41   |
| Long-Term Debt       | 498  | 544  | 659  | 618  | 645  | 644  | 643  | 625  | 640  | 632  |
| Shareholder's Equity | 243  | 256  | 348  | 350  | 345  | 332  | 393  | 418  | 414  | 444  |
| LTD/E Ratio          | 2.05 | 2.13 | 1.90 | 1.76 | 1.87 | 1.94 | 1.64 | 1.49 | 1.55 | 1.42 |

## Profitability & Per Share Metrics

| Year             | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|------------------|------|------|------|------|------|------|------|------|------|------|
| Return on Assets | 1.0% | 1.0% | 0.9% | 2.0% | 2.3% | 0.6% | 1.1% | 3.2% | 1.7% | 3.3% |
| Return on Equity | 3.0% | 3.2% | 2.8% | 6.1% | 6.8% | 1.8% | 3.3% | 8.7% | 4.5% | 8.5% |
| ROIC             | 1.0% | 1.0% | 0.9% | 2.1% | 2.4% | 0.6% | 1.2% | 3.4% | 1.8% | 3.4% |
| Shares Out.      | 27   | 29   | 39   | 40   | 41   | 43   | 50   | 50   | 51   | 51   |
| Revenue/Share    | 3.64 | 3.68 | 3.47 | 2.95 | 2.88 | 2.74 | 2.71 | 2.79 | 2.91 | 3.06 |
| FCF/Share        | 1.41 | 1.43 | 1.14 | 0.97 | 1.15 | 1.00 | 1.02 | 0.89 | 0.94 | 1.14 |

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

### Disclaimer

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