Risk Factors Comparison 2024-03-13 to 2023-03-08 Form: 10-K

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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 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, nor can we 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 resources to correct defects or to make improvements before a property can be sold. ~~We cannot~~ **There can be no** ~~assure~~ **assurance** 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. 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. A number of our tenants operate service and retail businesses that require in- person interactions with their customers to generate revenues ~~, and~~ **. Public health emergencies such as** the COVID- 19 pandemic **have** affected customers' willingness to frequent some of our tenants' businesses, which has impacted and may continue to impact their ability to fulfill their obligations to us in the event of a resurgence of COVID- 19 or the rise of a variant of the virus. Although ~~the negative impact of the COVID- 19 pandemic appears to be much improved, with~~ most tenant businesses **have returned to** operating at pre- pandemic levels, for certain categories of our tenants, such as dry cleaners and fitness tenants, the negative impact of COVID- 19 was more severe and the recovery is still in progress. Cash flow generated by the businesses of certain tenants may not be sufficient for such tenants to meet their obligations to us and in some cases we may need to secure replacement tenants. Our financial position could be weakened and our ability to fulfill our obligations under our indebtedness and make distributions to our shareholders 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. Inflation may adversely affect our financial condition and results of operations. Inflation has become a growing concern. Inflationary price increases could have an adverse effect on consumer spending, which could impact our tenants' sales and, in turn, our tenants' business operations. This could affect the amount of rent these tenants pay, including if their leases provide for percentage rent or percentage of sales rent, and their ability to pay rent. Also, inflation could cause increases in operating expenses, which could increase occupancy costs for tenants and, to the extent that we are unable to recover operating expenses from tenants, could increase operating expenses for us. In addition, if the rate of inflation exceeds the scheduled rent increases included in our leases, then our net operating income and our profitability would decrease. Continued inflation could also result in further increases in market interest rates, which could not only negatively impact consumer spending and tenant investment decisions but would also increase the borrowing costs associated with our existing or any future variable rate debt, to the extent such rates are not effectively hedged or fixed, or any future debt that we incur. 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, further increasing interest rates, 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. 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. 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~~ **While we require our tenants to pay taxes, 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. 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 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 their 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. 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. Risks Associated with Our Operations Because a majority of our GLA 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, ~~2022~~ **2023** , ~~24~~ **22** % and ~~45~~ **47** % of our GLA was located 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 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 were to experience an economic downturn, our operations and ability to make distributions to our shareholders could be adversely impacted. **Pandemics, epidemics, or other health crises could materially and adversely impact and disrupt our business, financial condition, results of operations and cash flows.** The **potential resurgence of** COVID- 19 **, emergence of new variants, or future** ~~pandemic~~ **pandemics** ~~has in~~ **or health crises may intensify** ~~the~~ **other** ~~past and may continue~~ **risks outlined herein, potentially leading** to ~~materially and adversely~~ -- **adverse effects on** ~~impact and disrupt~~ our business, financial ~~condition~~ **position** , **operational** results **,** ~~of operations and~~ cash flows ~~. Any future outbreak of any COVID- 19 variants or any other highly infectious or contagious disease could have a similar impact. The continued impact of COVID- 19~~ , ~~including any resurgences or the rise of any variants of the virus, future pandemics or other health crises may heighten other risks discussed herein, which could adversely affect our business, financial condition, results of operations, cash flows~~ and market value. **These events may** ~~A worsening of the COVID- 19 pandemic or outbreaks of other highly infectious diseases could materially and adversely~~ affect **our** ~~us, particularly if~~ business ~~conditions, the regulatory environment or the public health situation returns to that experienced during the height of the COVID- 19 pandemic. These types of health crises may impact our business~~ in the following ~~ways~~ **manners** : • closures of, or other operational issues at, our properties resulting from government or tenant action; • changes in consumer behavior in favor of e- commerce, which could result in reduced economic brick- and- mortar retail activity impacting our tenants' ability to meet their rental and other obligations to us in full or at all; • the ability of our tenants who have been granted rent deferrals to timely pay deferred rent; • any inability to renew leases or lease vacant space on favorable terms, or at all; • tenant bankruptcies; • liquidity issues resulting from reduced cash flows from operations; • negative impacts to the credit and / or capital markets making it difficult to access capital on favorable terms or at all; • impairment in value of our tangible or intangible assets; • a general decline in business activity and demand for real estate transactions adversely affecting our ability to grow our portfolio of properties, dispose of non- core properties and service our indebtedness; • supply chain disruptions adversely affecting our tenants' operations, as well as general labor shortages; and • impacts on the health of our personnel and a disruption in the continuity of our business. Because substantially all of our income is derived from rentals of commercial real property, our business, income, cash flow, results of operations, financial condition, liquidity, prospects and ability to service our debt obligations and our ability to pay dividends and other distributions to our shareholders would be adversely affected if a significant number of tenants are unable to meet their obligations or their revenues decline. The extent to which a resurgence of COVID- 19 pandemic, or a future pandemic, impacts our operations and those of our tenants will depend on future developments, which are highly uncertain and cannot be predicted with confidence. We lease our properties to approximately 1, 500 tenants and leases for approximately 10 % to 20 % of our GLA 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, ~~2022~~ **2023** , approximately ~~30~~ **33** % of the aggregate GLA of our properties is subject to leases that expire prior to December 31, ~~2024~~ **2025** . 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, including rising interest rates, 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. 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, including as a result of climate change, 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 **exposes us to physical risks from climate change and** 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. "

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, health and safety concerns and increasing online consumer purchases. 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 **including advance hacking tools and techniques such as artificial intelligence** . We have experienced cyber- attacks, and while to date none of these incidents have been material to our operations, we expect to continue to face such threats in the future. We employ a number of measures to prevent, detect and mitigate these threats, but especially in light of increasingly sophisticated techniques used in cybersecurity attacks, there is no guarantee such efforts will be successful in preventing future cyber- attacks where we cannot fully anticipate, detect, repel, or implement fully effective preventative measures. In addition, cybersecurity incidents could compromise the confidential information of our tenants, employees and third party vendors that we collect in the ordinary course of our business. Laws and expectations relating to data protection and privacy vary by jurisdiction and continue to evolve, and we believe increased regulation in additional jurisdictions is likely to develop in the future. For example, the California Consumer Privacy Act (CCPA) that went into effect on January 1, 2020, as amended to include additional privacy protection for consumers by the California Privacy Rights Act (CPRA) that went into effect on January 1, 2023, requires covered companies to, among other things, provide new disclosures to California consumers, and afford such consumers new abilities to opt- out of certain sales of personal information. A cyber- attack or our ability or perceived inability to comply with regulations related to cybersecurity and / or data protection and privacy could materially and adversely affect the efficiency of our business operations, which in turn could have a material adverse effect on our reputation, competitiveness and results of operations. **Please refer to Item 1C of this 10- K for additional information.** We are subject to risks related to corporate social and environmental responsibility and reputation. A number of factors influence our reputation and brand value, including how we are perceived by our tenants, business partners, investors, associates, other stakeholders and the communities in which we do business. We face increasing scrutiny related to environmental, social and governance (" ESG ") activities and disclosures and risk damage to our reputation if we fail to act appropriately and responsibly in ESG matters, including, among others, environmental stewardship, supply chain management, climate change, human rights, diversity and inclusion, workplace ethics and conduct, philanthropic activity and support for the communities we serve and in which we operate. Any damage to our reputation could impact the willingness of our business partners and customers to do business with us, or could negatively impact our associate hiring, engagement and retention, all of which could have a material adverse effect on our business, results of operations and cash flows. Loss of our key management could adversely affect performance and the value of our common shares. We are dependent on the efforts of our key management. Although we believe qualified replacement could be found for any departures of key executives, the loss of their services could adversely affect our performance and the value of our common shares. ~~The~~ **Risk related to the redemption of our partnership units in Pillarstone Capital REIT Operating Partnership. As set forth in the Amended and Restated Limited Partnership Agreement of Pillarstone OP, dated as of December 8, 2016 (the " Pillarstone Partnership Agreement "), we have the contractual right to have our limited partnership interests in Pillarstone redeemed at our discretion. However, upon receipt of a redemption notice, Pillarstone OP has the option to pay the applicable redemption price in cash, based on the market value of** Pillarstone REIT **common shares,** ~~shareholder rights plan could adversely impact the value of our~~ **or** ~~investment~~ in Pillarstone ~~OP~~ **REIT common shares** . On December 26, 2021, the Board of Trustees of Pillarstone REIT adopted a new **shareholder** rights agreement (the " Pillarstone Rights Agreement ") ~~, pursuant to which each holder of Pillarstone REIT common stock received one preferred share purchase right (a " Right ") per common share held as of the applicable record date. Each Right entitles the registered holder to purchase from Pillarstone REIT one one- thousandth (a " Unit ") of a series D preferred share of Pillarstone at a purchase price (" Purchase Price ") of $ 7. 00 per Unit, subject to adjustment. The Rights are exercisable upon the occurrence of certain events as described in the Pillarstone Rights Agreement, including the acquisition by certain holders of 5 % or more of the common shares of Pillarstone REIT (an " Acquiring Person "). Upon the acquisition of Pillarstone REIT common shares by an Acquiring Person, each holder of a Right (other than an Acquiring Person), will have the right to receive upon exercise a number of Pillarstone REIT common shares having a market value of two times the Purchase Price. As set forth in the Amended and Restated Limited Partnership Agreement of Pillarstone OP, dated as of December 8, 2016 (the " Pillarstone Partnership Agreement "), we have the contractual right to have our limited partnership interests in Pillarstone redeemed at our discretion. However, upon receipt of a redemption notice, Pillarstone OP has the option to pay the applicable redemption price in cash, based on the market value of Pillarstone REIT common shares, or in Pillarstone REIT common shares. To the extent we seek to have our partnership units in Pillarstone OP redeemed and Pillarstone OP elects to pay the applicable redemption price in Pillarstone REIT common shares (and such shares represent 5 % or more of~~

~~the outstanding common shares of Pillarstone REIT), the Rights could become exercisable. To the extent the Rights are exercised as a result of our Pillarstone OP units being redeemed for Pillarstone REIT common shares, our ownership interest in Pillarstone REIT would be significantly diluted, which could adversely impact the value of our investment in Pillarstone OP~~ . Because Pillarstone REIT ~~seeks~~ **sought** to use the Pillarstone Rights Agreement to prevent Whitestone OP from exercising its contractual Redemption Right, on July 12, 2022, Whitestone OP filed suit against Pillarstone REIT in the Court of Chancery of the State of Delaware challenging the Pillarstone Rights Agreement ~~due to~~ **. On January 25, 2024, the Delaware Court of Chancery: held that** Pillarstone ~~REIT' s alleged (i) breach~~ **breached** ~~of the Pillarstone Partnership Agreement, (ii) breach of its fiduciary duty as general partner of Pillarstone OP to Whitestone OP, and (iii) breach of~~ the implied covenant of good faith and fair dealing **when it adopted** ~~under the Pillarstone Partnership Agreement. The lawsuit seeks rescission and voiding of~~ the Pillarstone Rights Agreement **that thwarted Whitestone OP from exercising the unfettered contractual redemption right it obtained in connection with its investment in the partnership** ; ~~a declaration~~ **and the Court held** that the **Rights Plan was unenforceable as to the limited partner and allowed Whitestone OP to exercise its redemption right; allowed** Pillarstone **to determine the current value** ~~Rights Agreement is unenforceable, invalid, and~~ of ~~no force and effect~~ **the Partnership' s assets** ; ~~an~~ **and** ~~order permanently enjoining enforcement of the~~ **, as necessary, later enter a monetary judgment against** Pillarstone ~~Rights Agreement;~~ **for the difference between the amount Whitestone would have received in or around December 2021** ~~an~~ **and** ~~award~~ **the current value. On January 25, 2024, the Company exercised its notice** of ~~monetary damages; and broad restrictions on~~ **redemption for substantially all of its investment in Pillarstone OP. On March 4, 2024,** Pillarstone REIT ~~' s ability to conduct~~ **authorized and filed the Chapter 11 bankruptcy of itself, Pillarstone OP, and the remainder of** its **special purpose entities in the United States Bankruptcy Court for the Northern District of Texas. As of the date of this filing, Whitestone has not received consideration for its redemption of its equity investment in Pillarstone OP as required by the partnership agreement. We intend to pursue collection of amounts due from Pillarstone OP through all means, including further litigation if necessary and while we do not know the ultimate amount to be collected, we believe the amount will be in excess of the current carrying value of our equity investment in Pillarstone OP. Risk of Litigation We assess the likelihood of any adverse judgments or outcomes to our cases, as well as potential ranges of probable losses, in a manner consistent with FASB ASC 450, Contingencies. However, it is possible that our financial position, cash flow, or results of operations could be negatively affected in any particular period by the resolution of one or more proceedings. We establish reserves for specific legal matters when we determine that the likelihood of loss is probable and the amount of loss can be reasonably estimated. These reserves are reevaluated periodically and adjusted as necessary to reflect changes in circumstances. Due to the uncertainty surrounding litigation, actual losses may differ from these estimates. Litigation is subject to inherent uncertainties, and there can be no assurance that the resolution of any particular legal proceeding will not have a material adverse impact on our** business, **financial condition** ~~including buying properties~~ , ~~enforcing~~ **or results of operations. Depending on the nature and timing of any such disputes and** ~~the~~ **their resolutions** ~~Rights Agreement~~ , ~~incurring expenses,~~ **litigation could lead to charges that may be material to** ~~or~~ **our** ~~engaging~~ **financial statements** in ~~transactions~~ **any given reporting period** . ~~On September 8~~ **Shareholders and potential investors are cautioned to consider the risks and uncertainties associated with legal proceedings** , ~~2022~~ **as detailed herein** , **when making investment decisions regarding** the Company' s **securities** ~~Motion to Preserve the Status Quo was granted by the Court, limiting Pillarstone from engaging in any acts outside the ordinary course of business and otherwise imposing restrictions on Pillarstone to ensure that Whitestone' s right of redemption is not impaired while the underlying dispute is being considered by the Court. While we do not believe the overall impact of the Pillarstone Rights Agreement on the carrying value of our investment in Pillarstone OP is material, we cannot reasonably estimate a range of possible loss at this time~~ . Risk associated with the Kroger acquisition of Albertsons. On October 14, 2022, Kroger Co. (" Kroger") announced its intention to acquire Albertsons Companies, Inc. (" Albertsons"). In connection with obtaining the regulatory clearance necessary to close the transaction, ~~Albertsons company is prepared to establish~~ **C & S Wholesale Grocers has entered into** a ~~subsidiary~~ **definitive agreement** to **purchase** ~~be spun off to~~ Albertsons' **413** ~~shareholders. The subsidiary is anticipated by Kroger to comprise 100 to 375~~ stores. As of December 31, ~~2022~~ **2023** , Whitestone REIT had 5 grocers owned by Albertsons. **It does** ~~Whitestone REIT has no~~ **not appear that** ~~knowledge as to whether~~ any of the Albertsons' stores currently leasing from Whitestone REIT **are likely to be purchased by C & S Wholesale Grocers. Kroger has stated that they anticipate the closing** will ~~be part~~ **occur by August** of **2024** ~~Albertsons' subsidiary or if spinoff~~ and **that** ~~the~~ **they are in active and ongoing dialogue with the Federal Trade Commission and individual state Attorneys General regarding the proposed** merger **and divestiture plan** ~~will clear the necessary regulatory hurdles in order to close~~ . 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. Turbulence in the United States credit markets have in the past, and may in the future impact liquidity in the debt markets, making financing terms for borrowers less attractive, and may result 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 continue to 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, further increases in interest rates on variable rate debt will continue to increase our interest expense, which could reduce net earnings and cash available for payment of our debt obligations and distributions to our shareholders. 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, ~~2022~~ **2023** , we had fixed rate hedges on $ ~~265~~ **315** million of our variable rate unsecured credit facility. We may enter into additional interest rate swap agreements for our variable rate debt not currently subject to hedges, which totaled $ **96** ~~103. 5~~ million as of December 31, ~~2022~~ **2023** . 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. As of December 31, ~~2022~~ **2023** , we had outstanding indebtedness, net of cash, of $ ~~619~~ **636** . ~~8~~ **0** million, including, through our Operating Partnership, $ ~~100~~ **92** . ~~0~~ **9** million aggregate principal amount of the Notes (as defined below) and $ ~~368~~ **411** . ~~5~~ **0** million drawn on the 2022 Facility (as defined below). As of December 31, ~~2022~~ **2023** , our unused borrowing capacity under our 2022 Facility was $ ~~146~~ **104** . ~~4~~ **0** million. Obligations under the Notes and the 2022 Facility are guaranteed by the Company and certain subsidiary guarantors. Our current debt agreements, including the agreements governing the Notes and the 2022 Facility, contain, and any future debt agreements may contain, a number of restrictive and financial covenants that impose significant operating and financial constraints on us. Such restrictive covenants may significantly limit our ability to: • incur additional debt, including issuing guarantees; • incur liens; • make certain investments; • sell or otherwise dispose of assets; • make acquisitions; • engage in mergers or consolidations or certain other " change of control " transactions; • make distributions to our shareholders; • engage in restructuring activities; • engage in certain sale and leaseback transactions; and • issue or repurchase common shares or other securities. Such agreements may also require us to satisfy other requirements, including maintaining certain financial ratios and condition tests. Our ability to meet these requirements can be affected by events beyond our control, and we may be unable to meet them. To the extent we fail to meet any such requirements and are in default under our debt obligations, our financial condition may be materially adversely affected. Further, these restrictions may limit our ability to engage in activities that could otherwise benefit us. To the extent that we are unable to engage in activities that support the growth, profitability and competitiveness of our business, our results of operations may be materially adversely affected. 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, ~~2022~~ **2023** , we had approximately $ ~~157~~ **136** . ~~5~~ **7** million of mortgage debt secured by ~~seven~~ **five** 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 ~~. The discontinuation and replacement of LIBOR with an alternative reference rate, may adversely affect our interest expense. In September 2022, we, through our Operating Partnership, amended and restated our unsecured credit facility (the " 2022 Facility ") to include, among other things, a replacement rate for LIBOR. These changes could result in interest obligations that are slightly more than or do not otherwise correlate exactly over time with the payments that would have been made on such debt if U. S. dollar LIBOR was available in its current form and there can be no assurances as to what other alternative base rates may be and whether SOFR or any other such base rate will be more or less favorable than LIBOR or if there will be any other unforeseen impacts of the discontinuation of LIBOR. The Company is monitoring the developments with respect to the phasing out of LIBOR after 2021 and working with its lenders to ensure the transition away from LIBOR will have minimal impact on its financial condition, but can provide no assurances regarding the impact of the discontinuation of LIBOR on its financial condition~~. 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 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. 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 shortterm 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 our OP units. 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 20 % 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. Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends. 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 %. Dividends payable by REITs, however, generally are not eligible for the reduced rates on qualified dividend income. Instead, our ordinary dividends generally are taxed at the higher tax rates applicable to ordinary income, the current maximum rate of which is 37 %. However, for taxable years prior to 2026, individual stockholders are generally allowed to deduct 20 % of the aggregate amount of ordinary dividends distributed by us, subject to certain limitations, which would reduce the maximum marginal effective tax rate for individuals on the receipt of such ordinary dividends to 29. 6 %. 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. Changes to the U. S. federal income tax laws, including the enactment of certain tax reform measures, could have an adverse impact on our business and financial results. We cannot predict whether, when, or to what extent any new U. S. federal tax laws, regulations, interpretations, or rulings will impact the real estate investment industry or REITs. Prospective investors are urged to consult their tax advisors regarding the effect of potential future changes to the federal tax laws on an investment in our shares. 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 continue to 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. 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. The terms of our employment agreements with our executive officers and severance arrangements with other employees and the terms of certain equity awards granted to our employees may deter others from seeking to acquire us or reduce the price of any such acquisition. We have entered into employment agreements with our executive officers and severance arrangements with other of our employees, and have granted equity awards to a number of our employees. In certain cases, upon a change of control acquisition of us, such agreements and awards would entitle the officer or employee to severance payments and vesting of otherwise unvested awards. The cost of these payments and the impact of the vesting of such awards could deter a third party from seeking to acquire us or could cause the price payable to shareholders in connection with any such acquisition to be lower than it otherwise may have been. These effects could delay or prevent offers to acquire us and increase the difficulty in consummating any such offers, even if such a transaction would be in our shareholders’ best interests. 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. 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. General Risk Factors 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. 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, further increasing 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. In addition, financial markets may again experience significant and prolonged disruption, including as a result of unanticipated events, or as a result of recent uncertainty regarding legislative and regulatory shifts relating to, among other things, taxation and trade, and 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. 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; • continuing deterioration of the brick- and- mortar retail industry; • 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, health and safety epidemics, and other uninsured losses **, some of which may increase due to climate change; • geopolitical instability, including the ongoing conflict between Russia and Ukraine, the conflict in the Gaza Strip and unrest in the Middle East** ; • 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. 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; • the failure of an acquired property to perform as expected; and • 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 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. **Shareholder activism efforts or unsolicited offers from a third- party could cause a material disruption to our business and financial results. We may be subject to various legal and business challenges due to actions instituted by shareholder activists or unsolicited third- party offers. Perceived uncertainties as to our future direction as a result of shareholder activism may lead to the perception of a change in the direction of the business or other instability and may affect our relationships with vendors, prospective and existing tenants, prospective and current employees and others. Proposed or future laws and regulations may increase the chance we become the target of shareholder activist campaigns, including ESG- related actions. If shareholder activist campaigns are initiated against us, our response to such actions could be costly and time- consuming, which could divert the attention and resources of the Board, Chief Executive Officer and senior management from the pursuit of our business strategies, which could harm our business, negatively impact our stock price, and have an adverse effect on our business and financial results.** 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. We may identify deficiencies in our system of internal controls over financial reporting that may require remediation. 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.