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Market Intelligence

Whitestone REIT NYSE:WSR

Shareholder/Analyst Call

Thursday, May 14, 2020 6:00 PM GMT

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Call Participants

EXECUTIVES

David K. Holeman
Chief Financial Officer

James C. Mastandrea
Chairman & CEO

John J. Dee
COO, Executive VP & Secretary

Kevin Reed
Director of Investor Relations

Presentation

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Whitestone Annual Meeting. I would like to hand the call over to Mr. John Dee. Please go ahead, sir.

John J. Dee
COO, Executive VP & Secretary

Welcome to our 2020 Annual Meeting of Shareholders of Whitestone Real Estate Investment Trust. I'm John Dee, Chief Operating Officer and Corporate Secretary of Whitestone. We're excited to hold our first virtual annual meeting.

While we enjoy physically greeting and seeing all of our shareholders at our annual meetings, this year, it was important to do a virtual annual meeting due to travel restrictions and social distance requirements brought on by the coronavirus outbreak. By using the virtual format, we're able to communicate with you and enable increased attendance and participation from any location that has Internet access, reduce cost and increase overall safety for both our company and our shareholders. This approach is environmentally friendly and also aligns with our broader sustainability goals.

Our agenda today includes the following. First, we'll introduce our Board of Trustees and the associates of Whitestone assisting with the annual meeting. Second, we'll conduct the formal business of the annual meeting by reading each proposal, allowing shareholders to vote if they have not already done so and approving the preliminary results. The formal business will be followed by a report of financial results by Dave Holeman and then a report of the company by Jim Mastandrea. After Mr. Mastandrea has completed his comments, we will answer questions from our shareholders. Our meeting will conclude by 1:00 p.m.

To ask a question or vote at our virtual annual meeting, you will need to use your computer screen. At the lower part of your screen, in the left corner, should be a large white box for typing questions. When you complete your question, click on the box that shows Submit. If you have not voted and wish to vote during the annual meeting, you will click on the small blue box showing Vote Here at the lower right side of your screen. You should see the 3 proposals on your screen after you click Vote Here. Click on the button next to each proposal to vote. Be sure to click the blue box showing Submit when you have completed voting for all the proposals. We'll repeat these instructions for voting and asking questions during the annual meeting.

Let's begin now with the introduction of members of our Board of Trustees and other associates of Whitestone who are assisting with our annual meeting. Jim Mastandrea is our Chairman and Chief Executive Officer. Our independent trustees are: Don Keating, Paul Lambert, Jack Mahaffey, Nandita Berry, David Taylor, and our newest trustee, who joined the Board in February of 2020, Jeff Jones. Also at the annual meeting is: Dave Holeman, Whitestone's Chief Financial Officer; Kevin Reed, our Director of Investor Relations; and Peter Tropoli, our in-house General Counsel. And we have many more associates of Whitestone who are also shareholders and able to attend our first-ever virtual annual meeting.

The next item on our agenda is the formal business. So we are calling our 2020 annual meeting to order on this May 14, 2020. And the time is approximately 12:05, Central Time. The notice of our meeting and the proxy statement were mailed on April 3, 2020, to all common shareholders of record at the close of business on February 18, 2020. Dave Holeman will act as our inspector of election for this meeting. He has taken the oath of office and will now provide us with his report.

David K. Holeman
Chief Financial Officer

On the record date, February 18, 2020, a total of 42,046,732 common shares were outstanding. The holders of 35,722,258 common shares are present in person or by proxy. Each common share is entitled to one vote. A total of 85% of voting shares are present or represented by the proxy at the meeting, which is more than the majority of the outstanding voting shares. Accordingly, there is a quorum.

John J. Dee
COO, Executive VP & Secretary

Thank you, Dave. We have 3 proposals. Kevin Reed, our Director of Investor Relations and a shareholder, will read each of the proposals as they appeared in our proxy statement. And Dave Holeman, our CFO and a shareholder, will make a second for each proposal.

The first item for consideration is Proposal 1. Kevin, please read the first proposal.

Kevin Reed
Director of Investor Relations

Proposal #1 is the election of one trustee, Jeff Jones, to serve until our 2021 Annual Meeting of Shareholders and until his successor has been duly elected and qualified.

John J. Dee
COO, Executive VP & Secretary

Dave, please second the proposal.

David K. Holeman
Chief Financial Officer

I second the proposal.

John J. Dee
COO, Executive VP & Secretary

The nominations are closed. Shareholders who have sent in their proxy cards or voted using the phone or the Internet do not need to vote today. If you have not voted and wish to do so during today's meeting, please use your computer screen.

In the lower right corner is a small blue box with the words Vote Here. Click on the blue box, and you will see the 3 proposals. You can vote by clicking on the buttons next to each proposal. After you make your selection for all of the proposals, click on the blue box with the word Submit, which is immediately below the last proposal. I will repeat these voting instructions after we read the last proposal and before we close the polls for voting. We will give the preliminary results of the voting after we have announced the proxy proposals. Voting submitted today during our meeting will be included in the final voting results after the votes have been validated by our inspector of election.

The second item for consideration is proposal 2. Kevin, please read the second proposal.

Kevin Reed
Director of Investor Relations

Proposal #2 is the approval of an advisory nonbinding vote for the compensation program of our named executive officers.

John J. Dee
COO, Executive VP & Secretary

Dave, please make the second.

David K. Holeman
Chief Financial Officer

I second the proposal.

John J. Dee
COO, Executive VP & Secretary

The third item for consideration is proposal 3. Kevin, please read the third proposal.

Kevin Reed
Director of Investor Relations

Proposal #3, to ratify the appointment of Pannell Kerr Forster of Texas, P.C. as our independent registered public accounting firm for the fiscal year ending December 31, 2020.

John J. Dee

COO, Executive VP & Secretary

Dave, please second the proposal.

David K. Holeman
Chief Financial Officer

I second the proposal.

John J. Dee
COO, Executive VP & Secretary

If you are voting today, you will need to do so using your computer screen. In the lower right corner of your computer screen is a small blue box with the words Vote Here. Click on the blue box, you will then see the 3 proposals. You can vote by clicking on the buttons next to each proposal. After making your selection for all the proposals, click on the blue box with the word Submit, which is immediately below the last proposal. Voting done at the meeting but not reflected in the preliminary report will be included upon validation in the final report of the inspector of election.

The inspector of election will present his preliminary report for proposals 1, 2 and 3.

David K. Holeman
Chief Financial Officer

Thanks, John. Mr. Secretary, the following is the preliminary report.

For Proposal #1, the election of one trustee to serve until our 2021 Annual Meeting of Shareholders and until a successor has been duly elected and qualified. Mr. Jones received 24,440,784 votes for being elected or 97% of the votes cast by shareholders in person or by proxy at the annual meeting for election as a trustee. This represents the affirmative vote of a plurality and a majority of all the votes cast with respect to proposal #1 as of this preliminary report.

For Proposal #2, the approval on an advisory nonbinding basis of the compensation of our named executive officers, we received 17,447,927 votes for and 7,415,499 votes against cast by shareholders in person or by proxy at the annual meeting. The votes for represent the affirmative vote of a majority of all of the votes cast as of this preliminary report.

For Proposal #3, to ratify the appointment of Pannell Kerr Forster of Texas, P.C. as our independent registered public accounting firm for the fiscal year ending December 31, 2020, we received 34,718,271 votes for and 671,952 votes against passed by shareholders in person or by proxy at the annual meeting. The votes for represent the affirmative vote of a majority of all of the votes cast as of this preliminary report.

John J. Dee
COO, Executive VP & Secretary

We will be closing the voting poll very soon. If you are voting at today's meeting, use your computer screen. In the lower right corner is a small blue box with the words Vote Here. Click on the blue box, and you will see the 3 proposals. You can vote by clicking on the buttons next to each proposal. After you make your selections for all proposals, click on the blue box with the word Submit, which is immediately below the last proposal. We'll give just a few moments now for shareholders to vote, then announce the outcome for each proposal and continue with reports from Dave Holeman and Jim Mastandrea.

[Voting]

John J. Dee
COO, Executive VP & Secretary

There being no further business to come before the meeting and all our proxy cards and ballots having been voted and the virtual voting having been completed, the polls are now closed.

Based upon the preliminary report for Proposal #1, Mr. Jones has been elected as a trustee to serve until 2021 until his successor is elected and qualified. For Proposal #2, the shareholders have approved in an advisory nonbinding basis the compensation of the named executive officers. For Proposal #3, the shareholders have ratified the appointment of Pannell Kerr Forster of Texas, P.C. as Whitestone's independent registered accounting firm for the year ended December

31, 2020. We would like to thank our shareholders for their support for their proposals and for voting. This concludes the formal business of our meeting, and the annual meeting is adjourned at this time.

Next on our agenda is Dave Holeman, who will provide us with a report of our financial results. Dave will be followed by Jim Mastandrea with comments about Whitestone. Finally, we'll answer questions submitted by the shareholders. If you wish to submit a question, on your computer screen, please click inside the large white box in the lower left corner of your screen where it shows Ask a Question. When you have submitted -- when you have completed typing your question, click on the blue box showing Submit.

Dave Holeman, our Chief Financial Officer, will give us a report of Whitestone's financial results. Dave?

David K. Holeman
Chief Financial Officer

Thanks, John. I will give a financial report for Whitestone REIT for 2019 and the first quarter of 2020.

Please note that some statements made during my remarks and Jim's remarks to follow are not historical and may be deemed forward-looking statements. Actual results may differ materially from those forward-looking statements due to a number of risks, uncertainties and other factors. Please refer to the company's filings with the SEC, including Whitestone's most recent Form 10-Q and the Form 10-K for a detailed discussion of these factors. Acknowledging the fact that this call may be webcast for a period of time, it is also important to note that this call includes time-sensitive information that may be accurate only as of today's date, May 14, 2020. The company undertakes no obligation to update the information.

Also, during this presentation, we may reference certain non-GAAP financial measures, which we believe allow investors to better understand the financial position and performance of the company. Included in the SEC filings are the reconciliations of non-GAAP measures to GAAP measures.

In 2019, we further enhanced the overall quality of our assets through stringent asset management and the addition of Las Colinas Village located in our Dallas market. I will provide a few more details on our newest acquisition later in my remarks. Additionally, tenant mix continues to improve as evidenced by the increase in our annual base rent per square foot and strong same-store net operating income growth in 2019.

Our annual base rent per leased square foot increased to $19.77 and our same-store net operating income for the fourth quarter grew 4.7% from the fourth quarter of 2018. Our same-store net operating income increased 2.4% for the full year. The primary drivers of same-store growth are embedded contractual rent increases, rental rate increases from new and renewal leases, occupancy levels and expense recovery and management.

Our leasing volume for 2019 was very productive, signing 208 renewal leases, representing 726,000 square feet with a total lease value of $60 million, and 109 new leases, representing 227,000 square feet with a total lease value of $28 million. Leasing spreads, which represent the new rate on leases signed versus the previous rate, increased 10.2% and 9.6% on renewal and new leases signed during the year. At year-end, our total occupancy was 90.3%.

General and administrative expenses as a percentage of revenue improved 80 basis points to 16.6% in 2019 compared to 2018. Net income attributable to Whitestone REIT for the year was $23.7 million or $0.57 per share compared to $21.4 million or $0.52 per share in 2018.

Our funds from operations, as defined by NAREIT, was $38 million for 2019 or $0.90 per share compared to $39.4 million or $0.94 per share in 2018. Funds from operations core, which adjusts the NAREIT FFO definition in 2018 and 2019 for non-cash stock compensation, early debt extinguishment costs, and in 2018, proxy contest professional fees, was $44.9 million or $1.06 per share in 2019 compared to $48.8 million or $1.16 per share in 2018.

As anticipated and communicated previously, funds from operations core per share declined for the year due to: property dispositions from harvesting of value created; providing recycled capital for future investment opportunities; higher legal fees related to litigation; and higher interest cost driven by fixing the interest rate on a greater percentage of our debt and extending maturities.

While our funds from core operations per share decreased from 2018, we believe the progress we have made in 2019 has been significant, which includes: upgrading the portfolio through selective dispositions; improving our debt structure through reducing leverage; increasing tenure; and fixing the rate on a larger percentage of our debt. We have also reduced our general and administrative costs and enhanced our corporate governance, which should result in long-term value creation for all of our shareholders.

Now let me turn briefly to our balance sheet. Our total undepreciated real estate assets were $1.1 billion as of the end of the year, up $48 million from a year ago, reflecting acquisitions, investments in existing assets and development of additional leasable area. As of year-end, the real estate debt, net of cash, was $640 million, down from $644 million a year ago. And our debt as a percentage of total market capitalization improved to 52% from 56% a year ago. During 2019, we raised $21.6 million at an average price of $13.38 per share, utilizing our at-the-market offering program.

Let me now give a couple of brief comments on our acquisition and disposition activity for the year. In December, we completed the off-market acquisition of Las Colinas Village, a 105,000-square foot center located in the upwardly mobile, young professional community of Irving, Texas, along North Dallas' Platinum Corridor, an area with very strong demographics. The acquisition was funded in a leverage-positive manner using proceeds from dispositions, debt from our credit facility and equity from issuance of shares under our at-the-market offering program. And with our Dallas regional team in place, this will further scale our operating platform with no additional overhead required.

On the disposition front, in late 2019, we sold 3 Houston non-core properties for $39.7 million, representing a 6.8% cap rate. And regarding our long-term goals that we communicated in 2018 for improvement of debt leverage and G&A expense, I am pleased to report that we have made significant progress.

Now let me touch on our financial results for the most recent quarter ended March 31, 2020. Our results for the quarter were largely in line with our expectations through mid-March prior to COVID-19. As a result of the COVID-19 impact on our tenant base, we have stress-tested the collectability of our impacted tenants. As a result of this review, we recorded a $900,000 credit loss and straight line rent reserve primarily associated with the COVID-19 pandemic. Collectability will be a fluid process over the next several quarters and be adjusted as facts and circumstances change. Our COVID-19 revenue reduction in the quarter impacted net income, funds from operations and funds from operations core by approximately $0.02 per share and impacted our same-store net operating income growth by approximately 180 basis points.

A short summary of the key highlights for the first quarter included occupancy of 89.3%, an increase in our annualized base rent per leased square foot of 2.2% to $19.77 compared to the prior year quarter. Our leasing volume in the first quarter was productive as well with 56 renewals of 168,000 square feet with a lease value of $15.9 million, and 24 new leases, representing 50,000 -- 53,000 square feet and a lease value of $6 million. Our leasing spreads for the first quarter on new and renewal leases were a positive 7.2% and a positive 10.4%, respectively, on a GAAP basis.

Our same-store net operating income decreased 0.9% for the first quarter primarily as a result of the credit loss reserve of approximately 180 basis points associated with the COVID-19 pandemic. Our general and administrative expenses improved in the first quarter as a percent of revenue to 15.6% from 18.3% a year ago and 15.9% in the fourth quarter of 2019.

Today and throughout this crisis, all of our centers have remained open and operating, and we expect them to come to greater life in May. In each center, we have implemented protective measures, which include enhanced cleaning procedures. Our grocery tenants are experiencing record sales. And we are encouraged by the efforts of many of our restaurant tenants in providing needed food to the surrounding neighborhoods through creative takeout and curbside solutions, which could become future additional revenue sources for them.

Our monthly operating expenses, including property operating expenses, taxes, general and administrative expenses, debt service and CapEx, run about 69% of our revenue. So our April shortfall of collections to operating expenses is about $800,000. I will touch briefly -- I will touch on our liquidity later in my remarks.

Approximately 40% of our tenants have requested help. And we have been actively working to understand their individual financial and operational situations. We've also looked to assist them in accessing financial resources, including the governmental assistance programs that are available. We believe that a large number of our tenants have applied for these programs and have or will ultimately receive funds, which help them to pay wages, rent and other obligations. We are working with those tenants who have requested help on a case-by-case basis. We expect that these discussions will lead to agreed upon payment deferral plans largely completed in the second quarter as we and the tenants have a better understanding of their financial resources and the amount of financial aid they are receiving and very importantly, their ability to get back up and running quickly. We expect that these payment deferral agreements will generally result in short-term payment plans for unpaid rent, not payment forgiveness.

While most of the tenants that have not paid us have been significantly impacted by the COVID-19 crisis, we do have less impacted tenants with significant financial resources that are acting in an opportunistic manner. And we intend to aggressively pursue the amounts due us under our contractual agreements in these situations. Generally speaking, the process of working with tenants on rent deferrals is very fluid and difficult to predict at this point. Additionally, we do expect some businesses will not reopen. And this could impact our near-term results and cash flows. We remain very confident in our long-term prospects due to great properties, markets and a strong team.

Now turning to liquidity. Over the past 60 days since the pandemic hit, we have been carefully analyzing the company's potential liquidity needs in terms of this year as well as 2021, taking into account numerous factors, including debt maturities and potential revenues versus expenses. In terms of debt maturities, we have one $9 million mortgage loan that matures in 2020 and no maturities in 2021.

In terms of potential revenues versus expenses, we need to collect approximately 69% of our rents to cover our operating expenses, debt service, G&A and CapEx. Through May 5, we have collected 64% of our April rents. And so far in May, we have collected 40%, which is about the same amount we had collected in April at this point in time. Our collection efforts are ongoing, and we are dedicating a significant amount of our workforce to this effort. Taking all of these factors into consideration, early on, we took decisive steps to preserve capital, including drawing $30 million on our credit facility and reducing our annual dividend by approximately $31 million.

Lastly, in light of the current circumstances, we have withdrawn previously issued earnings guidance for 2020. We expect to have greater clarity on the COVID-19 short-term and long-term impact on our business as we move throughout the year.

John J. Dee
COO, Executive VP & Secretary

Thank you, Dave. Jim Mastandrea, our Chairman and Chief Executive Officer, will give us his comments about Whitestone. Jim?

James C. Mastandrea
Chairman & CEO

Yes. Thank you, John, and thank you, Dave. And I'd like to thank you all for being in attendance at this meeting today, even though it's the first virtual meeting and particularly thank our trustees for being here.

Thank you for joining Whitestone's 2020 Annual Shareholders' Meeting. It is a pleasure to be here with you today and to share the highlights of 2019, Whitestone's action in response to COVID-19 pandemic and where we see the company for the balance of 2020. This is our first annual meeting that we have done electronically, as I've mentioned, and we ask in advance for your patience.

Whitestone's motto has become strive to perform better today than we did yesterday. 2019 was a very good year for Whitestone as we continued to perform and execute on our strategic plan that is focused on excellence to all shareholders. As we headed into 2020, the country faced some dramatic setbacks with the pandemic of the coronavirus. And on March 2020, we immediately took actions to protect our shareholders. I will discuss the actions after my recap of 2019.

Ever since we began the transformation of Whitestone in 2006, we have focused on a set of core values and beliefs that are the foundation of everything we do. Our impressive and successful growth would not have been possible without those values that guide us. We hold strongly to our commitment and responsibility to our employees, our shareholders, our bondholders and lenders, our tenants, the environment and the communities where our properties are located.

Our commitment to our stakeholders begins with employees who are the cornerstone of Whitestone. In 2019, we further enhanced our team through our continued and signature employee development programs. And our employees, we've always recognized, are the driving force that connects Whitestone to our other stakeholders, especially our tenants in the communities where we operate. Commitment to the betterment of the tenants and the communities is central to our values through development, redevelopment enhancement of our properties, Whitestone is connected to the tenants and the communities in which we operate.

Central to our values are the biblical principles relating to seeding, fertilizing and harvesting. We apply those principles to every aspect of our real estate business. We focus on the specific markets, specific product types, specific tenants, created systems and processes and operating standards that are specific that enable us to scale our business. In 2019, we stayed the course, we timed our capital-raising needs with acquisitions and successfully leased and renewed spaces in these thriving businesses.

As a result of this commitment and the efforts of our team, our shareholders were rewarded with the top total shareholder return of all the U.S. shopping center REITs over the past 3 years. Our track record demonstrates the strength of our business model, which has produced consistent, stable and predictable investment returns on a relative basis to our peers.

In 2010, we identified the potential impact that the Internet would have on consumers, creating a paradigm shift in methods of making purchases from in-store to online. We saw both a problem and an opportunity. The problem was the impact the shift in retail purchases would have on the retail real estate. The opportunity was to find a way to fill the void created to meet consumers' lifestyle needs that could not be purchased on the Internet. We integrated our management team's depth and breadth that included making targeted acquisitions in specific multiple markets, implementing leasing and managing processes that were proactive and developing strategic plans that add value to our properties. We began standardizing our methods and processes while scaling our platform and continuously optimizing our capital structure.

Changes in the habits of American consumer over the past decade has created a paradigm shift in the retail industry as traditional retail stores continued to close. Some digitally friendly retailers began to expand in physical stores and some have lost relevance with the consumer while we remain focused on the consumer. The domino effect from store closures created reduced revenues, reduced net operating income and reduced property values. This has been amplified with total store closures we experienced during the national pandemic. The existence of operating covenants legally transferring the control of the real estate to the surviving tenants and take away the ability for owners to react quickly to market changes.

This zero-sum game benefits the tenants with greater income and creates a loss for the property owners with lower income that is now being played out as a result of the coronavirus pandemic. Today, many owners are hamstrung and unable to react quickly to reposition themselves to collect rent and CAMs, re-lease space and preserve their income stream. Whitestone's policy has been to avoid restrictive tenant covenants. And as a result, we have historically experienced and currently are experiencing minimal impact from national retail store closures.

During the 2019 -- during 2019, we continued to effectively build our base operation and manage our capital structure, which consists primarily of one class of common shares, an unsecured $515 million credit and a $100 million bond. The weighted average remaining term on all that is 5.2 years with a mix rate of almost 90% -- with a fixed rate of almost 90% on our debt.

In 2019, we increased net income per share by 6% to $0.55. We paid $1.14 in dividends, funding from operating cash flow and proceeds from property sales, reflecting the value created. We successfully sold non-core properties, reducing debt and resulting in a gain in the sale of $13.8 million and net proceeds received by Whitestone of $11 million.

We grew annualized base rent per square foot of 2.2% to $19.77 and same-store net operating income growth of 2.4%. we scaled our general and administrative expenses, improving 60 basis points to 16.8% of revenue. Finally, we renewed -- we improved our debt-to-EBITDA leverage from 8.5 down to 2.4.

Now I will share Whitestone's action in response to the COVID-19 pandemic. With a strong capital structure, which I've just related, and operating discipline, we were able to act quickly and decisively as the country was beginning to shut down due to the coronavirus pandemic.

On March 24, 2020, we entered a blind corner. We shifted from our normal operating mode to virtual operating mode, repositioning Whitestone's entire team. Our actions included suspending all acquisitions, postponing all redevelopment and development, drawing down $30 million under our revolving credit, reducing our annual dividends by $30 million, freezing all current salaries -- employee salaries and Board fee increases, reducing our overhead by 10% and minimizing all unnecessary expenditures and costs, including travel. The result of these actions provided us with a strong balance sheet and the ability to focus entirely on working with our tenants to collect rents as we manage our business through the pandemic.

In the first quarter of 2020, our revenues were $30.6 million, net operating income was $21.7 million, FFO was $10.6 million and FFO core per share was $0.24. In April, we've collected $6.2 million in rental income, which is 64%, as Dave mentioned, of the billings and declared a dividend of $0.105 per share to be paid out in April, May and June.

Given the relative impact of the coronavirus, our revenue collection is exceptional. We credit this success, first and foremost, to our team of dedicated experts with the depth of our employee training and development; and second, to the strength of our business model in the specific markets and specific product types we are in, our systems, processes, operating standards and the quality of our investments in real estate with favorable leases with tenants.

Where we see the company for the balance of 2020. Our going-forward position is bright, and we remain committed to creating value through accretive property acquisitions when the market opportunities prevail in desirable locations in high-growth markets as well from many new opportunities that will result from the current recession. Our track record demonstrates what we expect to be doing.

From 2016 to 2019, we invested approximately $28 million in development and redevelopment at 8 owned properties that produced an initial $2.9 million in annual net operating income, created an additional $13 million in property value above the invested cost and realized an unlevered cash-on-cash return of 10.4%. This is on land that we acquired -- with properties that we acquired previously. And the land basically came in at a very low or no cost at all.

Going forward, our current portfolio of properties provides the opportunity to create an additional $30 million of annual net operating income through the investment of $270 million of capital in developed -- of additional -- in development of additional leasing square footage, pad sites and property expansions on land we own and redevelopment of existing centers. We believe this invested capital, allocated across our portfolio of our quality properties, would create approximately $500 million of real estate value or $230 million in value creation above our invested capital.

We also intend to capitalize on new opportunities that become a fallout of pandemic. Our team is in place. Our operations are strong. With our current depth and breadth in our markets and properties and infrastructure, we believe we are at the right place at the right time, and there is an abundance of capital available for opportunistic deals. As judicious stewards of capital, a strong support of Board and access to capital, we are committed to the advantages that will come our way to see a bright future at Whitestone.

I look forward to 2020 and beyond with a company and a team that stood the stress test of our industry. Our platform is now stronger and has proven to sustain down cycles. Our tenant base is solid, our acquisition pipeline is deep and a list of our goals and objectives are clear. We expect to emerge from the current economic setback stronger than before, always poised to sustain down cycles and prepared to grow once again in the up cycles.

The Internet will continue to have a significant impact on retail and retail real estate values, and we will continue to navigate with an e-commerce resistant business model successfully through the coronavirus pandemic. We have stayed true to our values and our strategic plan to produce excellence to all of our stakeholders in 2019 and become an industry leader. Our Internet e-commerce-resistant business model demonstrated its strength and resilience under economic uncertainty and is built to grow. And I might add that we will stay -- continue to stay true to these values.

In closing, know that I remain committed to serving God, and through Him, to hold strongly to my commitment and responsibility to our employees, our shareholders, our bondholders, our lenders, our tenants, the environment and the communities where our properties are located. Thank you continued support and confidence. I remain your Chairman and CEO. John?

John J. Dee
COO, Executive VP & Secretary
Thank you, Jim. We will take a short break for a couple of minutes so that we can organize the questions we've received from our shareholders. Operator, please mute our line. Thank you.

Question and Answer

John J. Dee
COO, Executive VP & Secretary

Thank you for your patience while we took a brief break to organize the questions. The first question is REITs typically distribute 90% of their income based on IRS regulations. How is Whitestone going to maintain its tax status as a REIT with the dividend that has been reduced? Dave?

David K. Holeman
Chief Financial Officer

Thanks for the question. This is Dave Holeman, CFO. Whitestone's Board and management regularly assess our dividend level. We look at numerous factors, including cash flow and then obviously the tax requirements. The Board took decisive steps obviously in the first quarter to preserve financial flexibility by lowering the dividend. And the Board will regularly reassess the dividend, particularly as there's more clarity on the duration and severity of the national COVID-19 crisis.

John J. Dee
COO, Executive VP & Secretary

Thank you, Dave. The next question, have any rents been waived or reduced and put on to the end of the leases?

James C. Mastandrea
Chairman & CEO

We haven't waived any rents. We have entered into some agreements with some tenants, where we'll collect the rents prior to year-end or early in 2021. Our collections are in that 64% range, and as I understand that they might even be higher than that, which is really excellent in this industry and particularly in our group.

David K. Holeman
Chief Financial Officer

I might just add that the process is going to be very fluid. We are working with the tenants that have been impacted and looking up to come to payment deferral solutions, not rent relief, not rent forgiveness solutions. And we're looking for win-wins for us and our tenant base.

John J. Dee
COO, Executive VP & Secretary

Thank you, Jim and Dave. The next question, prior to COVID-19, Whitestone REIT was aggressively extended and has now gone into a survival mode, like so many other companies, including reducing its dividend. If it is feasible at this point to look forward beyond COVID-19, is the intent to restore the dividend to previous levels or to maintain the currently low level, at least compared to the previous dividend? Dave?

David K. Holeman
Chief Financial Officer

Thanks, John. The current situation is unprecedented. We are currently -- we and many companies are extremely impacted by the COVID-19 pandemic. Whitestone was positioned very well. Prior to this, our financial results in '19 were strong. Our total shareholder return was strong. But we, like many companies, have been significantly impacted. We aren't certain as to the duration of the impact. But Whitestone is very well positioned to ride it through. And our Board has taken decisive steps to position the company and protect all shareholders.

James C. Mastandrea
Chairman & CEO

And I'll add to that, Dave, if you will, for our shareholders. I would like to remind our shareholders that this company was built during a recession. So we learned a lot from that. And also in my previous 35 years in the business, I've learned a lot from several down cycles that we went through. We've never really operated the company beyond its means. We've continually stress-tested. And for 10 years, we've produced an incredible track record from 2010 through 2019. So I do want to say that where we looked at, what we paid out in terms of dividend ratio to funds from operation, that's what these companies were designed for when they were legislated in Congress, to pay the shareholders, particularly the retirees. So we always felt that we operated within the tolerance. And if you look at the combination of the operating income we produced and the value that we added to our properties prior to sale, that far exceeds any of those payouts. How it's related and how it's stated through financial analysts is a different story. So we thought -- we've always believed that the company was operating very well.

Let me just say that when we faced this pandemic, we had termed the company was structured as if we were pacing a down cycle. We just didn't think it would come as fast as it did. And given in my remarks, as I've mentioned, how quickly we reacted to this, we were absolutely perfectly positioned to face what we were facing and then look at this in terms of a down cycle. So from our perspective operating the business, we've now -- we haven't quite stabilized it yet, probably another quarter or 2. We are having quite success capturing enough rents each month to cover our operating costs, and we're increasing from there. We see going into the next 2 quarters, opportunities. We're already seeing potential sellers that we were negotiating deals with before, where we had a large equity portion of a property we might acquire plus a debt, offering to let us take the property, adjust the debt. So we're going to see some opportunities. Whitestone is going to be capitalized to do that. And we also have an exceptionally strong operating team. So I hope that helps in terms of understanding how we've done business. John?

John J. Dee
COO, Executive VP & Secretary

Thank you, Jim and Dave. The final question, did Whitestone applied for a PPP loan under the CARES Act? Dave?

David K. Holeman
Chief Financial Officer

Thanks, John. Whitestone did enter into a loan in the principal amount of approximately $1.7 million for the Paycheck Protection Program. And the company intends to use the proceeds to pay our employees as the program was set up.

John J. Dee
COO, Executive VP & Secretary

Okay. Thank you very much, Dave. We've completed answering the questions we've received from the shareholders. And this concludes Whitestone's 2020 Annual Meeting of Shareholders. Thank you for attending our virtual annual meeting and for your support. Please be safe and stay healthy. Thank you.

James C. Mastandrea
Chairman & CEO
Thank you.