

HARTMAN COMMERCIAL PROPERTIES REIT  
Form POS AM  
June 17, 2005

As filed with the Securities and Exchange Commission on June 17, 2005

Registration No. 333-111674

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**POST-EFFECTIVE AMENDMENT NO. 1 TO  
FORM S-11  
FOR REGISTRATION UNDER THE SECURITIES ACT OF 1933  
OF SECURITIES OF CERTAIN REAL ESTATE COMPANIES**

**Hartman Commercial Properties REIT**  
**(Exact Name of Registrant as Specified in Its Governing Instruments)**

**1450 West Sam Houston Parkway North, Suite 100  
Houston, Texas 77043  
(713) 467-2222**

(Address, Including Zip Code and Telephone Number,  
Including Area Code, of Registrant's Principal Executive Offices)

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**Allen R. Hartman, President  
Hartman Commercial Properties REIT  
1450 West Sam Houston Parkway, North, Suite 100  
Houston, Texas 77043  
(713) 467-2222**

(Name, Address, Including Zip Code and Telephone Number,  
Including Area Code, of Agent for Service)

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**Approximate date of commencement of proposed sale to the public:** As soon as practicable following effectiveness of this Registration Statement.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. "

**CALCULATION OF REGISTRATION FEE**

<b>Title of Securities Being Registered</b>	<b>Amount Being Registered</b>	<b>Proposed Maximum Offering Price Per Share</b>	<b>Proposed Maximum Aggregate Offering Price</b>	<b>Amount of Registration Fee</b>
Common Shares of Beneficial Interest, par value \$.001 per share	<b>10,000,000</b>	<b>\$10.00</b>	<b>\$100,000,000</b>	<b>\$8,090.00 (1)</b>
Common Shares of Beneficial Interest, par value \$.001 per share (2)	<b>1,000,000</b>	<b>\$9.50</b>	<b>\$9,500,000</b>	<b>\$768.55 (1)</b>

(1) Previously paid.

(2) Represents shares issuable pursuant to our dividend reinvestment plan.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant files a further amendment that specifically states that this Registration Statement will thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement becomes effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JUNE 17, 2005  
**Hartman Commercial Properties REIT**  
**Maximum Offering of 11,000,000 Common Shares of Beneficial Interest**  
**Minimum Offering of 200,000 Common Shares of Beneficial Interest**  
**Minimum Purchase of 100 Shares (\$1,000) in Most States**

Hartman Commercial Properties REIT is a Maryland real estate investment trust that was originally organized in 1998 as a Texas real estate investment trust under the name Hartman Commercial Properties REIT. We invest in and operate retail, industrial and office properties located primarily in the Houston and San Antonio, Texas metropolitan areas. We intend to expand our investments to retail, industrial and office properties located in major metropolitan cities in the United States, principally in the Southern United States. As of June 1, 2005, we owned 35 real estate properties.

This prospectus supersedes and replaces our prospectus dated September 15, 2004, as supplemented by Supplements No. 1 through 4 thereto, for this offering. We are offering up to 10,000,000 common shares of beneficial interest and a minimum of 200,000 common shares of beneficial interest on a best efforts basis at a price of \$10.00 per share. We also are offering up to 1,000,000 common shares of beneficial interest to be issued under our dividend reinvestment plan at a purchase price of \$9.50 per share. The shares will be offered to investors on a best efforts basis. This offering will terminate on or before September 15, 2006.

	<u>Per Share</u>	<u>Total Minimum</u>	<u>Total Maximum</u>
<b><u>Primary Offering</u></b>			
Price to Public	\$ 10.00	\$ 2,000,000	\$ 100,000,000
Selling			
Commissions*	.35	70,000	3,500,000
Dealer Manager Fee	.25	50,000	2,500,000
Proceeds to Us	\$ 9.40	\$ 1,880,000	\$ 94,000,000
<b><u>Dividend Reinvestment Plan</u></b>			
Price to Public	\$ 9.50	—	\$ 9,500,000
Selling			
Commissions*	—	—	—
Dealer Manager Fee	—	—	—
Proceeds to Us	\$ 9.50	—	\$ 9,500,000

\* Selling commissions of up to 7.0% of gross offering proceeds will be paid for sales through participating broker-dealers; however, no selling commissions will be paid to D.H. Hill Securities, LLP, our dealer manager, with respect to shares sold by registered representatives or principals of D.H. Hill Securities, LLP who are affiliated with our company, and no selling commissions will be paid in connection with the purchases pursuant to our dividend reinvestment plan. We anticipate that approximately 50% of the shares sold pursuant to this offering will not be subject to selling commissions. A reduction in selling commissions will increase the amount of proceeds of this offering available for us to invest in real property

**Investing in our common shares involves a high degree of risk. You should purchase common shares only if you can afford a complete loss. See “Risk Factors” beginning on page 17.** The most significant risks relating to your investment include the following:

No public market currently exists for our common shares. Our shares cannot be readily sold, and if you are able to sell your shares, you will likely have to sell them at a substantial discount. We intend to either liquidate our assets or list our shares for trading on an exchange within twelve years of the termination of this offering.

All of our properties are located in the Houston and San Antonio metropolitan areas. Our operations may be adversely impacted by an economic downturn in Houston and/or San Antonio. If we raise substantially less than the maximum offering, we may not be able to invest in a geographically diverse portfolio of properties.

We will rely on Hartman Management, L.P., our advisor, to select properties and other investments and conduct our operations. We are obligated to pay substantial fees to our advisor and its affiliates, some of which are payable based upon factors other than the quality of services provided to us. Our advisor and its affiliates will face conflicts of interest, such as competing demands upon their time, their involvement with other entities and the allocation of opportunities among affiliated entities and us.

We may incur substantial debt, which could hinder our ability to pay dividends to our shareholders or could decrease the value of your investment in the event that income on, or the value of, the property securing such debt falls.

The amount of dividends we may make is uncertain.

We may not qualify as a REIT in a given taxable year. If we were to fail to qualify as a REIT in any taxable year, we would be subject to federal income tax (including any applicable

alternative minimum tax) on our taxable income at regular corporate rates, and 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.

**Neither the Securities and Exchange Commission, the Attorney General of the State of New York nor any other state securities regulator has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

No one is authorized to make any statement about this offering different from those that appear in this prospectus. The use of projections or forecasts in this offering is prohibited. Any representation to the contrary and any predictions, written or oral, as to the amount or certainty of any present or future cash benefit or tax consequence that may flow from an investment in this offering is not permitted.

The dealer manager of this offering is D.H. Hill Securities, LLP. The dealer manager is not required to sell any specific number or dollar amount of our common shares but will use its best efforts to sell the shares offered hereby. Your subscription payments will be placed in an account held by the escrow agent, Wells Fargo Bank, N.A., and will be held in trust for your benefit, pending release to us.

The date of this prospectus is \_\_\_\_\_, 2005

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We may suffer from delays in locating suitable investments, which could adversely affect the return on your investment.	17
Our accumulated deficit may negatively impact our ability to fund our working capital needs or our ability to pay dividends.	18
You will not have the opportunity to evaluate our investments before we make them.	18
Our shares in this offering are being sold by our dealer manager, D.H. Hill Securities, LLP, on a “best efforts” basis. Because of the	18

“best efforts” nature of this offering, there is no guarantee that we will be able to raise substantially more than the minimum offering amount.

If we are unable to raise substantially more than the minimum offering amount, we will be limited in the number and type of investments we may make and the value of your investment in us will fluctuate with the performance of the specific investments we make. 18

Because of the lack of geographic diversification of our portfolio, an economic downturn in the Houston and San Antonio, Texas metropolitan areas could adversely impact our operations and ability to pay dividends to our shareholders. 18

This is the first publicly offered REIT sponsored by Mr. Hartman, and the prior performance of private real estate investment programs sponsored by affiliates of Mr. Hartman may not be an indication of our future results. 19

If we lose or are unable to obtain key personnel, our ability to implement our investment strategies could be delayed or hindered. 19

Our rights, and the rights of our shareholders, to recover claims against our officers, trustees and our advisor are limited. 19

We may need to incur borrowings to meet REIT minimum distribution requirements. 19

An increase in market interest rates may have an adverse effect on our ability to sell shares in this offering. 20

We expect to acquire or develop several properties 20

with the proceeds of this offering that, if unsuccessful, could adversely impact our ability to pay dividends to our shareholders.

Our use of borrowings to fund acquisitions and improvements on properties could result in foreclosures and unexpected debt service expenses upon refinancing.

21

We operate in a competitive business and many of our competitors have greater resources and operating flexibility than we do. 21

Approximately 35.1% of our gross leasable area is subject to leases that expire prior to December 31, 2006. 21

We depend on tenants for our revenue and on anchor tenants to attract non-anchor tenants. 21

The bankruptcy or insolvency of major tenants would adversely impact our operations. 22

We may be subject to risks as the result of joint ownership of real estate with third parties. 22

We may have difficulty selling our real estate investments, which may have an adverse impact on our ability to pay dividends. 22

It is likely that you will not have the benefit of an independent due diligence review in connection with this offering. 22

We established the offering price on an arbitrary basis. 23

Provisions in our charter may discourage a takeover attempt. 23

You may experience immediate dilution and could suffer additional dilution as the result of the conversion of OP Units and issuances of additional shares. 23

Complying with REIT requirements may cause us to forego otherwise attractive opportunities. 24

Complying with REIT requirements may force us to liquidate otherwise attractive investments. 24

Risks Related to Conflicts of Interest 24

Hartman Management will face conflicts of interest relating to the purchase and leasing of properties, and such conflicts may not be resolved in our favor. 24



Our advisor may face a conflict of interest when allocating personnel and resources between our operations and the operations of other entities it manages.

Certain of our officers and trustees face conflicts of interests relating to the positions they hold with other entities. 25

Allen R. Hartman controls other entities that compete with us for his time as well as tenants and acquisition opportunities. 25

Hartman Management will face conflicts of interest relating to joint ventures, which could result in a disproportionate benefit to a Hartman program or third party other than us. 25

Hartman Management will face conflicts of interest relating to the incentive fee structure under our advisory agreement, which could result in actions that are not necessarily in the long-term best interests of our shareholders. 26

There is no separate counsel for our affiliates and us, which could result in conflicts of interest. 26

Our UPREIT structure may result in potential conflicts of interest. 27

We have acquired a majority of our properties from entities controlled by Mr. Hartman. 27

Risks Related to Our Business in General 27

Our charter permits our board of trustees to issue capital shares with terms that may subordinate the rights of the holders of our current common shares or discourage a third party from acquiring us. 27

Maryland law prohibits certain business combinations, which may make it more difficult for us to be acquired. 27

Your investment return may be reduced if we are required to register as an investment company under the 28

Investment Company Act.  
 You are bound by the majority vote on matters on which you are entitled to vote. 29

Shareholders have limited control over changes in our policies and operations. 29

You are limited in your ability to sell your shares pursuant to our share redemption program. 29

If you are able to resell your shares to us pursuant to our redemption program, you will likely receive substantially less than the fair market value for your shares. 30

Payment of fees to Hartman Management and its affiliates will reduce cash available for investment and dividends. 30

There can be no assurance that we will be able to pay or maintain cash dividends or that dividends will increase over time. 30

Adverse economic and geopolitical conditions could negatively affect our returns and profitability. 30

We are uncertain of our sources for funding of future capital needs, which could adversely affect the value of our investments. 31

General Risks Related to Investments in Real Estate 31

Your investment will be directly affected by general economic and regulatory factors we cannot control or predict. 31

Properties that have significant vacancies could be difficult to sell, which could diminish the return on your investment. 31

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 our ability to pay cash dividends to our shareholders. 32

Uninsured losses relating to real property or excessively expensive premiums for insurance coverage may adversely affect your returns. 32

Our operating results may be negatively affected by potential development and construction delays and resultant increased costs and risks. 32

Uncertain market conditions relating to the future disposition of properties could adversely affect the return on your investment. 33

The costs of compliance with environmental laws and other governmental laws and regulations may adversely affect our income and the cash available for any dividends. 33

Discovery of previously undetected environmentally hazardous conditions may adversely affect our operating results. 33

Our properties may contain or develop harmful mold, which could lead to liability for adverse health effects and costs of remediating the problem. 34

Our costs associated with complying with the Americans with Disabilities Act may affect cash available for dividends.

If we sell properties by providing financing to purchasers, we will bear the risk of default by the purchaser. 34

Risks Associated with Debt Financing 34

We may incur mortgage indebtedness and other borrowings, which may increase our business risks. 34

If mortgage debt is unavailable at reasonable rates, we may not be able to finance the properties, which could reduce the number of properties we can acquire and the amount of cash dividends we can make. 35

Lenders may require us to enter into restrictive covenants relating to our operations, which could limit our ability to pay dividends to our shareholders. 35

If we enter into financing arrangements involving balloon payment obligations, it may adversely affect our ability to pay dividends. 35

Risks Associated with Section 1031 Exchange Transactions 35

We may have increased exposure to liabilities from litigation as a result of any participation by us in Section 1031 Exchange Transactions. 35

We will be subject to risks associated with co-tenancy arrangements that otherwise may not be present in a real estate investment. 36

Actions by a co-tenant might have the result of subjecting the property to liabilities in excess of those contemplated and may have the effect of reducing your returns. 36

Our participation in the Section 1031 Exchange Transactions may limit our ability to borrow funds in the future, which could adversely affect the value of our investments. 36

Federal Income Tax Risks 36

If we failed to qualify as a REIT, our operations and dividends to shareholders would be adversely impacted. 36

If Hartman OP was classified as a “publicly-traded partnership” under the Internal Revenue Code, our operations and dividends to shareholders could be adversely affected. 37

Dividends to tax-exempt investors may be classified as unrelated business tax income. 37

Investors subject to ERISA must address special consideration when determining whether to acquire common shares. 37

Certain fees paid to Hartman OP may affect our REIT status. 38

Recharacterization of the Section 1031 Exchange Transactions may result in taxation of income from a prohibited transaction, which would diminish our cash dividends to our shareholders. 38

You may have tax liability on dividends that you elect to reinvest in our common shares. 38

In certain circumstances, we may be subject to federal and state income taxes as a REIT, which would reduce our cash available for payment of dividends to our shareholders. 38

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## SUITABILITY STANDARDS

An investment in our company involves significant risk and is only suitable for persons who have adequate financial means, desire a relatively long-term investment and who will not need immediate liquidity from their investment.

In consideration of these factors, we have established suitability standards for investors in this offering and subsequent purchasers of our shares. These suitability standards require that a purchaser of shares have, excluding the value of a purchaser's home, furnishings and automobiles, either:

- a net worth of at least \$150,000; or
- a gross annual income of at least \$45,000 and a net worth of at least \$45,000.

In addition, we will not sell shares to investors in the states named below unless they meet special suitability standards:

**Arizona, Michigan, New Jersey, New Mexico, North Carolina, Tennessee and Texas** - Investors must have either (1) a net worth of at least \$225,000, or (2) gross annual income of at least \$60,000 and a net worth of at least \$60,000.

**Kansas** - Investors must have either (1) a net worth of at least \$225,000 and a net worth of at least 10 times their investment in us, or (2) gross annual income of at least \$60,000 and a net worth of at least \$60,000.

**Maine** - Investors must have either (1) a net worth of at least \$225,000, or (2) gross annual income of at least \$50,000 and a net worth of at least \$50,000.

**California, Ohio and Oklahoma** - In addition to the suitability requirements described above, investors must have a net worth of at least 10 times their investment in us.

For purposes of determining suitability of an investor, net worth in all cases should be calculated excluding the value of an investor's home, furnishings and automobiles. In the case of sales to fiduciary accounts, these suitability standards must be met by the fiduciary account, by the person who directly or indirectly supplied the funds for the purchase of the shares if such person is the fiduciary or by the beneficiary of the account.

Those selling shares on our behalf must make every reasonable effort to determine that the purchase of shares in this offering is a suitable and appropriate investment for each shareholder based on information provided by the shareholder regarding the shareholder's financial situation and investment objectives. See "Plan of Distribution - Suitability Standards" for a detailed discussion of the determinations regarding suitability that we require of all those selling shares on our behalf.

## QUESTIONS AND ANSWERS ABOUT THIS OFFERING

Below we have provided answers to some of the more frequently asked questions relating to an offering of this type. Please see the remainder of this prospectus for more detailed information about this offering.

### **Q: What is a REIT?**

A: In general, a REIT is an entity that:

- combines the capital of many investors to acquire or provide financing for real properties;
- enables individual investors to invest in a professionally managed portfolio of real estate assets;
- provided certain income tax requirements are satisfied, avoids the “double taxation” treatment of income that generally results from investments in a corporation because a REIT is not generally subject to federal corporate income taxes on that portion of its income distributed to shareholders; and
- pays dividends to investors of at least 90.0% of its taxable income.

**Q: What is Hartman Commercial Properties REIT?**

A: Hartman Commercial Properties REIT is a Maryland real estate investment trust organized in December 2003 for the purpose of merging with Hartman Commercial Properties REIT, a Texas real estate investment trust organized in August 1998. On June 4, 2004, the shareholders of the Texas entity approved the merger, and on July 28, 2004, the reorganization was completed. We are the surviving entity as a result of the merger. The sole purpose of the reorganization was to change our state of domicile to Maryland. We acquire and manage retail, industrial and office properties in the Houston and San Antonio metropolitan areas. We owned 35 commercial properties on June 1, 2005, primarily consisting of retail centers, industrial and office properties.

**Q: What is the experience of your executive officers and trustees?**

A: Allen R. Hartman has been our president, secretary and member of our board of trustees since our formation in 1998. He is also the sole limited partner of our advisor and property manager, Hartman Management, L.P. (which we refer to as Hartman Management or the Management Company), as well as the President, Secretary, sole trustee and sole shareholder of the general partner of Hartman Management. Since 1984, Mr. Hartman, as an individual general partner, has been the sponsor of 17 private limited and general partnerships that have invested in commercial real estate in Houston, Texas. Mr. Hartman has over 30 years of experience in the commercial real estate industry. From 1978 to 1983, Mr. Hartman owned and operated residential rental properties.

Terry L. Henderson has been our Chief Financial Officer and a member of our board of trustees since April 27, 2005, when he was appointed by the board of trustees to replace Robert W. Engel, who resigned those positions effective April 26, 2005. Mr. Henderson has been the Chief Financial Officer of Hartman Management since 2003. Mr. Henderson is a Certified Public Accountant and a member of various professional CPA organizations. He holds a Bachelor of Business Administration in Accounting from Texas Tech University. Prior to joining Hartman Management, Mr. Henderson was the Chief Financial Officer for Senterra Real Estate Group in Houston, Texas from 1990 to 2003.

Chand Vyas has been a member of our board of trustees since 2002. Mr. Vyas is the Chairman and Chief Executive Officer of EPS Technology, a global information technology and business process outsourcing company that he founded in 2000. From 1982 until 1998, Mr. Vyas served as Chief Executive Officer of Ziegler Coal Holding Company, where he led a buyout of Ziegler from its parent company, Houston Natural Gas, in 1985. In subsequent years, under Mr. Vyas' leadership, Ziegler grew many fold through acquisitions including the purchase of Old Ben Coal from British Petroleum as well as Shell Mining Company from Shell Oil. Ziegler Coal Holding Company went public in 1994 with the largest initial public offering underwritten during that year's third quarter.

Jack L. Mahaffey has been a member of our board of trustees since 2000. Mr. Mahaffey served as the President of Shell Mining Co. from 1984 until 1991. Since his retirement in 1991, Mr. Mahaffey has managed his personal investments. Mr. Mahaffey graduated from Ohio State University with a B.S. and M.S. in Petroleum Engineering and served in the United States Air Force. He is a former board member of the National Coal Association and the National Coal Council.

Samuel C. Hathorn has been a member of our board of trustees since 2000. Mr. Hathorn has been in the home building and land development business for over thirty years. He has held both divisional and senior management positions with three different large publicly held home builders/developers during his real estate career. Since 1981, Mr. Hathorn has been a senior executive with Weyerhaeuser Company (NYSE). Since 1984, Mr. Hathorn has been President and Chief Executive Officer of Trendmaker Homes, the Houston, Texas based home building and land development subsidiary of Weyerhaeuser Company. Mr. Hathorn is a licensed CPA in the State of California and holds a Bachelor of Science degree in accounting. He currently serves as a director of National Beverage Corp. (AMEX).

Chris A. Minton has been a member of our board of trustees since 2000. Mr. Minton was employed by Lockheed Martin for 35 years and was a Vice-President of Lockheed's Technology Services Group from 1993 until 1995. While employed at Lockheed, he supervised the business operations of six operating companies that employed over 30,000 people. Since his retirement from Lockheed in 1995, Mr. Minton

has managed his personal investments and served as a consultant to a privately held aircraft mechanics school and to a Lockheed Martin subsidiary company. Mr. Minton graduated from Villanova University with a Bachelors Degree, and he is a licensed CPA (retired status) in the State of Texas. He has been awarded the Gold Knight of Management award for achievements as a professional manager by the National Management Association.

**Q: Who is Hartman Management, L.P.?**

A: Hartman Management is our advisor and property manager. Hartman Management was organized as a Texas corporation in 1990 and reorganized as a Texas limited partnership in 2001. Hartman Management manages our day-to-day operations and our portfolio of properties. As of December 31, 2004, Hartman Management had sponsored or advised private real estate programs that had raised approximately \$140 million from approximately 2,858 investors, including investors in us, and that owned and operated more than 5.4 million square feet of commercial real estate properties.

**Q: In what types of real property will you invest?**

A: We generally will seek to use the offering proceeds available for investment after the payment of fees and expenses to acquire commercial retail, office and industrial properties that we intend to hold for a period of seven to ten years from the date of acquisition. We will seek to invest in commercial properties in major metropolitan cities in the United States, principally in the Southern United States. We may invest in other property types or geographic areas in order to reduce overall portfolio risk or enhance overall portfolio returns if our advisor determines that it would be advantageous to do so.

**Q: May you invest in anything other than real property?**

A: Yes. We anticipate there will be opportunities to acquire some or all of the ownership interests of unaffiliated enterprises having real property investments consistent with those we intend to acquire directly. In addition, if our advisor determines that, due to the state of the real estate market or in order to diversify our investment portfolio, it would be advantageous to us, we may also provide mortgage loans to owners of commercial retail, office or industrial properties or purchase such mortgage loans or participations in mortgage loans from other mortgage lenders. Because there are significant limitations on the amount of non-real estate assets that a REIT may own without losing its status as a REIT, we will be significantly limited as to ownership of non-real estate investments. These limitations may limit our ability to maximize profits.

**Q: How are you different from your competitors who offer unlisted REIT shares to the public?**

A: We have a track record of acquiring properties for prices that provide us the ability to add value. Our REIT has an existing, growing portfolio of properties and we intend that growth trend to continue. One very important difference is that we use Hartman Management, our advisor, also as our property manager. Many of our competitors outsource that function to unaffiliated third parties or establish an affiliated property manager that also performs services for unaffiliated third-party developers. Hartman Management only manages properties in various Hartman programs. Other third-party managers work for multiple, unrelated owners. We believe Hartman Management is able to provide us more individualized service.

**Q: Who will choose the investments you make?**

A: Hartman Management is our advisor and makes recommendations on all investments to our board of trustees. Hartman Management is wholly owned by Allen R. Hartman, who is our President and a member of our board of trustees. Mr. Hartman has extensive experience investing in commercial real estate. In addition, various other officers and key employees of Hartman Management have extensive experience in the areas of commercial



property management, leasing, development or investment. The officers, trustees and key employees of Hartman Management are Terry L. Henderson, John Crossin and Valarie L. King, and they will assist Mr. Hartman in making property acquisition recommendations on behalf of Hartman Management to our board of trustees. Our board of trustees, including a majority of our independent trustees, must approve all of our investments.

**Q: How will Hartman Management select potential properties for acquisition?**

A: Hartman Management will generally seek to acquire good quality retail, office and industrial buildings located in major metropolitan cities in the United States, principally in the Southern United States, and leased to creditworthy companies. Many factors enter into what we consider to be “good quality,” including a location that generates and retains tenants because it is good for their business, construction that is attractive, meets building codes and uses materials that withstand ordinary use, and sufficient tenancy to generate current returns on investment. Current tenants of our existing properties include Kroger Food Stores, National Oilwell, 99 Cents Only Stores Texas, Bally Total Fitness, Sears Homestore, Circuit City, Michael’s, PETsMART and Carrier. Some of the properties may be acquired from affiliated entities, such as the private real estate programs sponsored or advised by Hartman Management.

To find properties that best meet our selection criteria for investment, Hartman Management’s property acquisition team will study regional demographics and market conditions and interview local brokers to gain practical knowledge of the regional economic and market dynamics. An experienced commercial construction engineer will inspect the structural soundness and the operating systems of each building, and an environmental firm will investigate all environmental issues to help ensure that each property meets our quality specifications.

**Q: How many properties do you currently own?**

A: As of June 1, 2005, we owned 35 commercial properties. These properties are retail, industrial and office properties located in the Houston and San Antonio metropolitan areas. Because we have not identified any specific properties to acquire with the proceeds from this offering, we are considered to be a partial blind pool.

**Q: Do you intend to acquire some of your properties in joint ventures?**

A: We may want to acquire properties in joint ventures if we determine it necessary in order to diversify our portfolio of properties in terms of geographic region, property type or tenant industry group. Also, a joint venture may enable us to invest net proceeds from this offering sooner than would be possible otherwise, since the amount of gross proceeds raised in the early stages of this offering may be insufficient to acquire title to all of a real property targeted for investment. Such joint ventures may be with our affiliates or with third parties. In January 2004, we entered into a joint venture with an affiliate to acquire an office building in Houston, Texas. We may also make or invest in mortgage loans secured by properties owned by such joint ventures.

**Q: What steps do you take to make sure you invest in environmentally compliant property?**

A: We will obtain a Phase I environmental assessment of each property purchased. In addition, we expect that in most cases we will obtain a representation from the seller that, to its knowledge, the property is not contaminated with hazardous materials.

**Q: What will be the terms of your leases?**

A: We will seek to secure leases with creditworthy tenants before or at the time we acquire a property. We expect that our leases generally will be economically net leases, which means that the tenant would be responsible for the cost of repairs, maintenance, property taxes, utilities, insurance and other operating costs. In most of these leases, we will probably be responsible for the replacement of specific structural components of a property, such as the roof of the building or the parking lot. We expect that our leases generally will have terms of three to five or more years, some of which may have renewal options.

**Q: How will you own your real estate properties?**

A: As an “UPREIT,” we expect to own substantially all of our real estate properties through Hartman REIT Operating Partnership, L.P., which we refer to as Hartman OP or the Operating Partnership. We organized Hartman OP to own, operate and manage real properties on our behalf. We are the sole

general partner and own 55.84% of the outstanding units of partnership interest of Hartman OP. We may, however, own investments directly or through other entities.

**Q: What is an “UPREIT”?**

A: UPREIT stands for Umbrella Partnership Real Estate Investment Trust. We use this structure because a sale of property directly to the REIT is generally a taxable transaction to the selling property owner. In an UPREIT structure, a seller of a property who desires to defer taxable gain on the sale of his property may transfer the property to the UPREIT in exchange for limited partnership units in the UPREIT and defer taxation of gain until the seller later exchanges his UPREIT units on a one-for-one basis for REIT shares. If the REIT shares are publicly traded, the former property owner will achieve liquidity for his investment. Using an UPREIT structure gives us an advantage in acquiring desired properties from persons who may not otherwise sell their properties because of unfavorable tax results.

**Q: If I buy shares, will I receive dividends and how often?**

A: Provided we have sufficient cash flow to pay dividends, we intend to declare dividends to our shareholders on a quarterly basis and to pay the dividends on a monthly basis during the following quarter. We intend to coordinate our dividend distribution dates with our monthly new investor admission dates so our investors will be entitled to be paid dividends in the next declaration of quarterly dividends following their admission. We have paid cash dividends ever since our operations commenced in 1999. Our board of trustees will make the determination of whether to authorize a dividend and the amount thereof consistent with its duties. We will not pay a dividend when we are unable to pay our debts as they become due in the usual course of business. However, in order to maintain our qualification as a REIT, we must make aggregate annual distributions equal to at least 90.0% of our taxable income (which does not necessarily equal net income as calculated in accordance with accounting principles generally accepted in the United States (GAAP)).

**Q: How do you calculate the payment of dividends to shareholders?**

A: We intend to calculate our dividends on a monthly basis to shareholders of record. As a result, any dividend payments will begin to accrue immediately upon our monthly admission of new shareholders. Such dividends will be paid to new shareholders beginning with the dividend payment made on the third month following their acquisition of our common shares.

**Q: May I reinvest my dividends in shares of Hartman Commercial Properties REIT?**

A: Yes. You may participate in our dividend reinvestment plan by checking the appropriate box on the subscription agreement or by filling out an enrollment form, which we will provide to you at your request. The purchase price for shares purchased under the dividend reinvestment plan will be \$9.50.

**Q: Will the dividends I receive be taxable as ordinary income?**

A: Generally, dividends that you receive, including dividends that are reinvested pursuant to our dividend reinvestment plan, will be taxed as ordinary income to the extent they are from current or accumulated earnings and profits. We expect that some portion of your dividends may not be subject to tax in the year in which they are received because depreciation expense reduces the amount of taxable income but does not reduce cash available for distribution to our shareholders. The portion of your dividend that is not subject to tax immediately is considered a return of capital for tax purposes and will reduce the tax basis of your investment. This, in effect, can defer a portion of your tax until your investment is sold or we are liquidated, at which time you will be taxed at capital gains rates. Any dividend or distribution that we properly designate as a capital gain distribution generally will be treated as

long-term capital gain without regard to the period for which you have held your shares. However, because each investor's tax considerations are different, we suggest that you consult with your tax advisor. You should also review the section of this prospectus entitled "Federal Income Tax Considerations."

**Q: What will you do with the money raised in this offering?**

A: We intend to use substantially all of the net proceeds from this offering to acquire and operate commercial real estate primarily consisting of retail, office and industrial properties leased to creditworthy companies. Assuming that approximately one-half of the shares we sell in this offering are sold by our dealer manager without the payment of commissions, we estimate that approximately \$8.95 of per share proceeds will be available for the purchase of real estate, with the remaining proceeds to pay fees and expenses of this offering and an acquisition fee to our advisor.

Until we invest the proceeds of this offering in real estate, we may invest in short-term, highly liquid or other authorized investments. Such short-term investments will not earn as high of a return as we expect to earn on our real estate investments, and we may not be able to invest the proceeds in real estate promptly.

Holders of interests in Hartman OP have the right to exchange those interests for our shares. We expect few, if any, of the holders of interests in Hartman OP will elect to exchange such interests during this offering and that the loss of cash proceeds from any such exchange will be immaterial. See “The Operating Partnership Agreement — Exchange Rights” for a summary of these rights.

**Q: What kind of offering is this?**

A: We are offering to the public up to 10,000,000 common shares of beneficial interest on a “best efforts” basis. We are also offering up to 1,000,000 common shares of beneficial interest to be issued pursuant to our dividend reinvestment plan.

**Q: How does a “best efforts” offering work?**

A: When shares are offered on a “best efforts” basis, the broker-dealers participating in the offering are only required to use their best efforts to sell the shares and have no firm commitment or obligation to purchase any of the shares. Therefore, we may not sell all or any of the shares that we are offering.

**Q: How long will this offering last?**

A: The offering will not last beyond September 15, 2006.

**Q: Who can buy shares?**

A: An investment in our company is only suitable for persons who have adequate financial means and who will not need immediate liquidity from their investment. Residents of most states can buy shares in this offering provided that they have either (1) a net worth of at least \$45,000 and an annual gross income of at least \$45,000, or (2) a net worth of at least \$150,000. For this purpose, net worth does not include your home, home furnishings and automobiles. These minimum levels may be higher in certain states, so you should carefully read the more detailed description in the “Plan of Distribution - Suitability Standards” section of this prospectus.

**Q: May I make an investment through my IRA, SEP or other tax-deferred account?**

A: Yes. You may make an investment through your individual retirement account (IRA), a simplified employee pension (SEP) plan or other tax-deferred account. In making these investment decisions, decision makers should, at a minimum, consider (1) whether the investment is in accordance with the documents and instruments governing such IRA, plan or other account, (2) whether the investment satisfies the fiduciary requirements associated with

such IRA, plan or other account, (3) whether the investment will generate unrelated business taxable income (UBTI) to such IRA, plan or other account, (4) whether there is sufficient liquidity for such investment under such IRA, plan or other account, (5) the need to value the assets of such IRA, plan or other account annually or more frequently, and (6) whether such investment would constitute a prohibited transaction under applicable law.

**Q: Have you arranged for a custodian for investments made through IRA, SEP or other tax-deferred accounts?**

A: Yes. Resources Trust Company has agreed to serve as custodian for investments made through IRA, SEP and certain other tax-deferred accounts. We will pay the fees related to the establishment of investor accounts with Resources Trust Company, and we will also pay the fees related to the maintenance of any such account for the first year following its establishment. Thereafter, Resources Trust Company has agreed to provide this service to our shareholders with annual maintenance fees charged at their standard rate. Resources Trust Company is a member of the Fiserv, Inc. family of financial services companies. Fiserv, Inc. is a publicly traded financial services company based in Brookfield, Wisconsin.

**Q: Is there any minimum investment required?**

A: Yes. Generally, you must invest at least \$1,000. Thereafter, you may purchase additional shares in \$250 increments. Investors who already own our shares can make purchases for less than the minimum investment. These minimum investment levels may be higher in certain states, so you should carefully read the more detailed description of the minimum investment requirements appearing in the “Plan of Distribution - Minimum Purchase Requirements” section of this prospectus.

**Q: How do I subscribe for shares?**

A: If you choose to purchase shares in this offering, you will need to complete and sign a subscription agreement, like the one contained in this prospectus as Appendix B, for a specific number of shares and pay for the shares at the time you subscribe. Your payment will be placed into an escrow account with Wells Fargo Bank, N.A., where your funds will be held, along with those of other subscribers, until we admit new investors, which we expect to do monthly. Separate escrow accounts will be established for subscriptions of residents of New York and Pennsylvania. See the section of this prospectus captioned “Plan of Distribution - Subscription Procedures” for a detailed discussion of how to subscribe for shares.

**Q: If I buy shares in this offering, how may I later sell them?**

A: At the time you purchase the shares, they will not be listed for trading on any securities exchange or over-the-counter market. In fact, we cannot be sure that any public market will ever develop for the shares. As a result, you may find it difficult to find a buyer for your shares. If you are able to find a buyer for your shares, you may sell your shares to that buyer only if the buyer satisfies the suitability standards applicable to him or her, including any suitability standards imposed by such potential buyer’s state of residence, or unless such sale would cause the buyer to own more than 9.8% of the outstanding common shares. See the “Suitability Standards,” “Plan of Distribution - Suitability Standards” and “Description of Shares - Restrictions on Transfer” sections of this prospectus.

In addition, after you have held your shares for at least one year, you may be able to have your shares repurchased by us pursuant to our share redemption program. Subject to the limitations described in this prospectus, we will also redeem shares upon the request of the estate, heir or beneficiary of a deceased shareholder. Redemption of shares, when requested, will be made quarterly on a first-come, first-served basis with a priority given to redemptions upon death of a shareholder. The redemption price is set at \$9.50 for the first three years following the termination of this offering. Thereafter, the redemption price will be set at 95.0% of the fair market value of the shares, as estimated by our advisor or by another firm we might choose for that purpose. See the “Description of Shares - Share Redemption Program” section of this prospectus.

**Q: What are your exit strategies?**



A: We will seek to return your investment to you by listing our shares on the New York Stock Exchange, the American Stock Exchange, the Nasdaq National Market or another national exchange within twelve years from the termination of this offering or, if we do not obtain such a listing, by making an orderly disposition of our properties and distributing the net proceeds from such sales to you, unless a majority of the members of our board of trustees, including a majority of our independent trustees, in their

relationship as fiduciaries to us and to our shareholders, approves otherwise and sets a future date for our listing and/or termination.

**Q: Who is the transfer agent?**

A: American Stock Transfer and Trust Co.  
59 Maiden Lane  
New York, New York 10038  
(212) 936-5100

To ensure that any account changes are made promptly and accurately, all account changes, including your address, ownership type and distribution mailing address, should be directed to Hartman Commercial Properties REIT, Attn: Investor Relations.

**Q: Will I be notified of how my investment is doing?**

A: Yes. We will provide you with periodic updates on the performance of your investment with us, including:

- monthly newsletters or dividend reports;
- three quarterly financial reports, which are filed with the Securities and Exchange Commission and will be distributed to you upon request;
- an annual report; and
- an annual IRS Form 1099-DIV, if required; and
- supplements to this prospectus.

We will provide this information to you via one or more of the following methods, in our discretion and with your consent, if necessary:

- United States mail or other courier;
- facsimile;
- electronic delivery; and
- posting on our affiliated website, at [www.hartmanmgmt.com](http://www.hartmanmgmt.com).

**Q: When will I receive my detailed tax information?**

A: Your Form 1099 tax information will be placed in the mail by January 31 of each year.

**Q: Who can help answer my questions?**

A: If you have more questions about the offering or if you would like additional copies of this prospectus, you should contact your registered representative or contact:

Hartman Commercial Properties REIT  
Attn: Investor Relations  
1450 West Sam Houston Parkway North, Suite 100  
Houston, Texas 77043  
(713) 467-2222



## PROSPECTUS SUMMARY

*This prospectus summary highlights selected information contained elsewhere in this prospectus. Because it is a summary, this section does not contain all of the information that is important to your decision whether to invest in our common shares. To understand this offering fully, you should read the entire prospectus carefully, including the “Risk Factors” section and the financial statements.*

### **Hartman Commercial Properties REIT**

Hartman Commercial Properties REIT is a Maryland real estate investment trust. We invest in and operate retail, industrial and office properties located primarily in the Houston and San Antonio metropolitan areas. We intend to expand our investments to retail, office and industrial properties located in major metropolitan cities in the United States, principally in the Southern United States. We conduct substantially all of our operations and activities through Hartman REIT Operating Partnership, L.P., which we refer to elsewhere in this prospectus as Hartman OP or the Operating Partnership. We are the sole general partner of Hartman OP and, as of June 1, 2005, we owned 7,343,162.16 OP Units in Hartman OP, which represented 55.84% of all outstanding OP Units on such date. The term “OP Units” refers to the units of partnership interest of Hartman OP. We owned 35 commercial properties as of June 1, 2005, primarily consisting of retail centers, industrial and office properties. Our properties are typically leased to a variety of tenants under long-term leases. Some tenants are national companies; others are local businesses. Our business and properties are more fully described in the “Description of Real Estate and Operating Data” section of this prospectus.

We have made an election to be taxed as a REIT. Consequently, we generally are not subject to federal income tax on income that we distribute to our shareholders. Under the Internal Revenue Code of 1986, as amended, REITs are subject to numerous organizational and operational requirements, including a requirement that they distribute at least 90% of their taxable income for all future years beginning with 2001. We refer to the Internal Revenue Code of 1986, as amended, as the “Internal Revenue Code” in this prospectus. If we fail to qualify for taxation as a REIT in any year, our income will be taxed at regular corporate rates, and we may be precluded from qualifying for treatment as a REIT for the four-year period following our failure to qualify. Even if we continue to qualify as a REIT for federal income tax purposes, we may still be subject to state and local taxes on our income and property and to federal income and excise taxes on our undistributed income. We encourage you to read the section of this prospectus titled “Federal Income Tax Considerations” for more information about how we are taxed.

Our office is located at 1450 West Sam Houston Parkway North, Suite 100, Houston, Texas 77043. Our telephone number is (713) 467-2222.

### **Our Advisor**

Our advisor is Hartman Management, a Texas limited partnership. Hartman Management manages our day-to-day operations and identifies acquisitions and investments on our behalf. Hartman Management also manages our portfolio of properties. We sometimes refer to Hartman Management as our property manager in this prospectus.

### **Our Management**

We operate under the direction of our board of trustees, the members of which are accountable to our shareholders and us as fiduciaries. Our board of trustees, including a majority of our independent trustees, must approve certain matters set forth in our Articles of Amendment and Restatement (sometimes referred to herein as the “charter” or the “Declaration of Trust”). We have six members on our board of trustees. Four of the trustees are independent of Hartman Management and have responsibility for reviewing its performance. Our trustees are elected annually by our shareholders. Although we have executive officers who will manage our operation, we do not have any paid

employees. Hartman Management has employees whom it compensates out of the fees we pay to it. Except with respect to share purchase rights and options to purchase common shares that may be granted to our executive officers, only our non-employee trustees are compensated for their services to us.

## Terms of The Offering

We are offering up to 10,000,000 common shares of beneficial interest to the public at \$10.00 per share. We are also offering up to 1,000,000 shares pursuant to our dividend reinvestment plan at \$9.50 per share. We plan to offer common shares of beneficial interest until the earlier of September 15, 2006 or the date we sell all 11,000,000 shares in this offering. However, we may terminate this offering at any time prior to such termination date. This offering must be registered, or exempt from registration, in every state in which we offer or sell shares. Generally, such registrations are for a period of one year. Therefore, we may have to stop selling shares in any state in which the registration is not renewed annually. Funds in escrow will be invested in short-term, highly liquid or other authorized investments that can be readily sold or otherwise disposed of for cash without any dissipation of the offering proceeds invested. Since we now have met the requirement to sell a minimum of 200,000 shares, not including shares sold to residents of either New York or Pennsylvania, to the public for \$10.00 per share, those funds held in escrow prior to the satisfaction of this condition have been released to us. We also have satisfied the requirements that subscriptions for at least \$5,475,000 be received and accepted before we could accept subscriptions from any Pennsylvania residents, and that subscriptions for at least \$2,500,000 (excluding subscriptions from residents of Pennsylvania) be received and accepted before we could accept subscriptions from any New York residents. Accordingly, at the present time all proceeds from subscriptions that we accept in the offering (including subscriptions from residents of New York or Pennsylvania) are held in escrow until investors are admitted as shareholders. We intend to admit new shareholders monthly. Each time new investors are admitted, we will hold such investment proceeds in our account until we withdraw funds for the acquisition of investments, or the payment of fees and expenses.

## Summary Risk Factors

An investment in our common shares is subject to significant risks that are described in more detail in the “Risk Factors” and “Conflicts of Interest” sections of this prospectus, which begin on pages 17 and 59, respectively. If we are unable to effectively manage the impact of these risks, we may not meet our investment objectives and, therefore, you may lose some or all of your investment. The following is a summary of the risks that we believe are most relevant to an investment in our common shares:

- There is no public trading market for the shares, and we cannot assure you that one will ever develop. Until the shares are publicly traded, you will have difficulty selling your shares, and even if you are able to sell your shares, you will likely have to sell them at a substantial discount.
- All of our properties are located in the Houston and San Antonio metropolitan areas. Because of the lack of geographic diversification of our portfolio, an economic downturn in the Houston and San Antonio metropolitan areas could adversely impact our operations and ability to pay dividends to our shareholders.
- We have not identified any investments that we will make with the proceeds of this offering. You will not have the opportunity to evaluate our investments prior to our making them. You must rely totally upon Hartman Management’s ability to select our investments.
- The number of properties that we will acquire and the diversification of our investments will be reduced to the extent that we sell less than all of the 11,000,000 shares being offered. If we do not sell substantially more than the minimum offering of 200,000 shares, we may buy only one property with the proceeds of this offering and the value of your investment may fluctuate more widely with the performance of the specific investment. There is a greater risk that you will lose money in your investment if we cannot diversify our portfolio of investments by geographic location and property type.
- Our ability to achieve our investment objectives and to pay dividends depends on the performance of Hartman Management, our advisor, for the day-to-day management of our business and the selection of our real estate

properties, mortgage loans and other investments.

- We will pay significant fees to Hartman Management and its affiliates, some of which are payable based upon factors other than the quality of services provided to us.
- We may incur substantial debt. Loans we obtain will be secured by some of our properties, which will put those properties at risk of forfeiture if we are unable to pay our debts and could hinder our ability to pay dividends to our shareholders in the event that income on such properties, or their value, falls.

- We may not remain qualified as a REIT for federal income tax purposes, which would subject us to the payment of tax on our income at corporate rates and reduce the amount of funds available for payment of dividends to our shareholders.
- We depend on tenants for our revenue and on anchor tenants to attract non-anchor tenants. We cannot predict what the occupancy level will be in a particular building or that any tenant will remain solvent. We also cannot predict the future value of our properties. Accordingly, we cannot guarantee that you will receive cash dividends or appreciation of your investment.
- To ensure that we continue to qualify as a REIT, our charter prohibits any shareholder from owning more than 9.8% of our outstanding common shares.
- You will not have preemptive rights as a shareholder, so any shares that we issue in the future may dilute your interest in our company. In addition, our charter permits our board of trustees to issue capital shares that may subordinate the rights of holders of our common shares.
- Approximately 35.1% of our gross leasable area is subject to leases that expire prior to December 31, 2006.
- If we do not obtain listing of our common shares on the New York Stock Exchange, the American Stock Exchange, the Nasdaq National Market or another national exchange by the twelfth anniversary of the termination of the offering, our charter provides that we must liquidate our assets unless a majority of our board of trustees, including a majority of our independent trustees, shall approve otherwise.
- The vote of shareholders owning a majority of our shares will bind all of the shareholders as to certain matters such as the election of trustees and any amendment to our charter.
- Potential liability as the result of environmental matters could adversely affect our operations.
- Allen R. Hartman controls other entities that compete with us for his time as well as for tenants and acquisition opportunities. Accordingly, Mr. Hartman will face conflicts of interest resulting from his duties to these other entities.
- We have acquired a majority of our properties from entities owned, in whole or in part, by Allen R. Hartman.

### **Description of Properties, Investments and Borrowing**

As of June 1, 2005, we owned 35 commercial properties. We have not contracted to acquire any investments with the proceeds of this offering, nor has our advisor identified any assets in which there is a reasonable probability that we will invest. Although all of our properties are retail, industrial or office properties located in the Houston and San Antonio, Texas metropolitan areas, we will seek to invest in retail, office and industrial properties located in major metropolitan cities throughout the United States, principally in the Southern United States. All acquisitions of properties will be evaluated for tenant creditworthiness and the reliability and stability of the properties' future income and capital appreciation within a seven to ten-year holding period. In addition, we may acquire interests in other entities with similar real property investments. Our properties may be acquired, developed and operated by us alone or jointly with another party. We may enter into one or more joint ventures for the acquisition of properties with certain of our affiliates, other third parties, including the present and future real estate limited partnerships sponsored by our advisor. We may also serve as mortgage lender to these joint ventures or other Hartman real estate programs.



Our charter permits us to incur indebtedness of up to 300.0% of our net asset value as of the date of any borrowing. However, our board of trustees has adopted a policy that we will generally limit our aggregate borrowing to 50.0% of the aggregate value of our assets as of the date of any borrowing, unless substantial justification exists that borrowing a greater amount is in our best interests. Our policy limitation does not apply to individual properties. As a result, it can be expected that, with respect to the acquisition of one or more of our properties, we may incur indebtedness of more than 50.0% of the asset value of the property acquired. We expect to borrow up to 50.0% of our aggregate asset value if interest rates and loan terms are favorable. Our board of trustees must review our aggregate borrowing at least quarterly. Our charter further provides that we may borrow in excess of 300.0% of our aggregate asset value only if approved by our independent trustees, in which event we must disclose the justification for such excess borrowing in our next quarterly report to shareholders.

### **Estimated Use of Proceeds of This Offering**

We estimate that we will use at least 89.5% of the proceeds of this offering to invest in properties and for general working capital purposes, but our estimate is based on the number of shares we sell in this offering through our dealer manager by registered representatives and principals of our dealer manager who are affiliates of the Company, since the commissions that would otherwise be payable for such sales will be retained and used to invest in properties. If actual sales are a lower proportion of total shares sold, then the percentage of the proceeds that will be so available will be lower. On the date of this prospectus, we had not identified any particular properties that we intend to acquire with the proceeds of this offering. We will use the remainder of the offering proceeds to pay selling commissions, fees and expenses related to this offering and fees and expenses related to the selection and acquisition of properties. You should read the “Estimated Use of Proceeds” and “Current Status of the Offering” sections of this prospectus for further detail regarding the use of the proceeds of this offering.

### **Investment Objectives**

Our investment objectives are:

- to maximize cash dividends paid to you;
- to obtain and preserve long-term capital appreciation in the value of our properties to be realized upon our ultimate sale of such properties; and
- to provide you with a return of your investment by listing the shares on the New York Stock Exchange, the American Stock Exchange, the Nasdaq National Market or another national exchange within twelve years of the termination of this offering or, if we do not obtain listing of the shares within twelve years of the termination of this offering, by making an orderly disposition of our properties and distributing the cash to you.

To achieve these objectives, we intend to increase net income from our operations through selective acquisitions and sophisticated and professional management of our properties. We intend to hold our properties until we determine that they should be sold, which we expect to be generally seven to ten years from the date of acquisition. To the extent that any of our properties are sold, we may reinvest the net proceeds of such sale in additional properties or distribute such net proceeds to equity holders. See the “Investment Objectives and Criteria” section of this prospectus for a more complete description of our business and objectives.

### **Dividend Policy**

We have paid regular dividends to our shareholders since our inception, and we intend to continue to pay regular dividends. Dividends will be determined by our board of trustees and will be dependent upon a number of factors. To maintain our qualification to be taxed as a REIT, we are required to distribute at least 90% of our taxable income. We expect to continue to declare dividends on a quarterly basis to be paid on a monthly basis, and to pay such dividends to investors in this offering after we have admitted them as shareholders. Please see the “Description of Shares — Dividends” section of this prospectus for a description of our dividend policy and a table showing all dividends we declared prior to March 31, 2005.

### **Conflicts of Interest**

We have no paid employees. Hartman Management directs, supervises and manages our day-to-day activities in accordance with an advisory agreement. Hartman Management also supervises our property acquisitions. Allen R. Hartman is the president and sole owner of Hartman Management. Mr. Hartman is also our president and is a member

of our board of trustees.

Hartman Management, as our advisor, will experience conflicts of interest in connection with the management of our business affairs, including the following:

- Our board of trustees oversees our operations. We have six members on our board of trustees. Four of our trustees are independent of Hartman Management and have responsibility for reviewing its performance.
- We pay Hartman Management significant compensation for services it performs, the majority of which is not dependent on the quality of the service provided to us. We also reimburse Hartman Management for expenses it pays on our behalf.

- Hartman Management will experience conflicts of interest in connection with the management of our business and properties, such as:

-Mr. Hartman and other employees of Hartman Management will need to allocate their time between our operations and the operations of other companies managed by Hartman Management that are affiliated with Mr. Hartman.

-We compete for tenants with other companies affiliated with Mr. Hartman also managed by Hartman Management.

- We may acquire properties from entities affiliated with Mr. Hartman but otherwise not affiliated with us.

-Hartman Management must determine which properties we should acquire and which properties should be acquired by another Hartman program.

-Hartman Management will receive fees in connection with transactions involving the purchase, management and sale of our properties regardless of the quality of the property acquired or service provided to us.

See the “Conflicts of Interest” section of this prospectus for a detailed discussion of the various conflicts of interest relating to your investment, as well as the procedures that we have established to resolve a number of these potential conflicts.

The following chart shows the ownership structure of the various Hartman entities that are affiliated with Hartman Management:

- 
- (1) Allen R. Hartman is the sole shareholder of Hartman Property Management Holdings, LLC.
  - (2) Allen R. Hartman owns 3.47% of the issued and outstanding common shares of Hartman Commercial Properties REIT. Units of Hartman REIT Operating Partnership, L.P. may be converted into common shares of Hartman Commercial Properties REIT. Assuming Mr. Hartman makes such a conversion, and assuming that he is deemed the beneficial owner of Houston R. E. Income Properties XIV, Mr. Hartman will own 25.41% of the issued and outstanding common shares of Hartman Commercial Properties REIT.
  - (3) Allen R. Hartman is the sole limited partner of Hartman Management, L.P., which serves as the advisor and the property manager to Hartman Commercial Properties REIT. Hartman Property Management Holdings, LLC is the sole general partner of Hartman Management, L.P.
  - (4) Hartman Commercial Properties REIT is the 55.84% owner and the general partner of Hartman REIT Operating Partnership, L.P.
  - (5) Hartman REIT Operating Partnership II, L.P. is a wholly owned subsidiary of Hartman REIT Operating Partnership, L.P. and was formed in order to secure a loan from GMAC.

(6)Hartman REIT Operating Partnership III, L.P. is a wholly owned subsidiary of Hartman REIT Operating Partnership, L.P. and was formed in order to secure a revolving line of credit facility with a consortium of banks led by KeyBank National Association.

### Prior Offering Summary

Our founder, Allen R. Hartman, has previously sponsored 17 privately offered real estate limited partnerships over the last 20 years. As of December 31, 2004, Mr. Hartman had raised approximately \$140 million from approximately 2,858 investors in these real estate programs. Neither Mr. Hartman, nor any of our other affiliates, have previously sponsored or organized a publicly offered REIT. The “Prior Performance Summary” section of this prospectus contains a discussion of the programs sponsored by Mr. Hartman from January 1, 1995 to date. Certain statistical data relating to such programs with investment objectives similar to ours is also provided in the “Prior Performance Tables” included as Appendix A to this prospectus. Our prior performance, and the prior performance of the other programs previously sponsored by Mr. Hartman, are not necessarily indicative of the results that we will achieve. Therefore, you should not assume that you will experience returns, if any, comparable to those experienced by our shareholders in the past or by investors in other prior Hartman real estate programs.

### Compensation to Hartman Management and Its Affiliates

Hartman Management and its affiliates will receive compensation and fees for services relating to this offering and the investment and management of our assets. The most significant items of compensation are summarized in the following table:

Type of Compensation	Form of Compensation	Estimated Amount for Maximum Offering (11,000,000 shares - \$109,500,000)
<i>Offering Stage</i>		
Sales Commissions	Up to 7.0% of gross offering proceeds for sales made by participating broker-dealers and no selling commissions on sales through our dealer manager by registered representatives or principals of our dealer manager who are affiliates of our company, which are anticipated to be approximately one-half of all sales (blended average of 3.5%); no selling commissions will be paid with respect to purchases under our dividend reinvestment plan	\$3,500,000
Dealer Manager Fee	Up to 2.5% of gross offering proceeds; no dealer manager fee will be paid with respect to purchases under our dividend reinvestment plan	\$2,500,000
Organization and Offering Expenses	Up to 2.5% of gross offering proceeds	\$2,737,500



Type of Compensation	Form of Compensation	Estimated Amount for Maximum Offering (11,000,000 shares - \$109,500,000)
<i>Acquisition and Development Stage</i>		
Acquisition Fees	2.0% of gross offering proceeds	\$2,190,000
<i>Operational Stage</i>		
Property Management and Leasing Fees	Based upon the customary property management and leasing fees applicable to the geographic location and type of property ( <i>i.e.</i> , generally 2.0% to 4.0% of gross revenues for management of commercial office buildings and 5.0% of gross revenues for management of retail and industrial properties)	N/A
Asset Management Fee	Annual fee of 0.25% of our gross asset value. The fee is payable quarterly in an amount equal to 0.0625% of gross asset value as of the last day of the immediately preceding quarter	N/A
Real Estate Commissions	1.0% of contract price for properties sold for substantial assistance in connection with sale	N/A
Subordinated Participation in Net Sale Proceeds (payable only if our shares are not listed on an exchange)	15.0% of remaining amounts of net sale proceeds after return of capital plus payment to investors of a 7.0% annual, cumulative, noncompounded return on capital	N/A
Subordinated Incentive Listing Fee (payable only if our shares are listed on an exchange)	15.0% of the amount by which our adjusted market value exceeds the aggregate capital contributions contributed by investors plus payment to investors of a 7.0% annual, cumulative, noncompounded return on capital	N/A

There are many additional conditions and restrictions on the amount of compensation that Hartman Management and its affiliates may receive. There are also some smaller items of compensation and expense reimbursements that Hartman Management may receive. For a more detailed explanation of these fees and expenses payable to Hartman Management and its affiliates, see the “Estimated Use of Proceeds” section of this prospectus and the “Management Compensation” section of this prospectus.

### **Dividend Reinvestment Plan**

You may participate in our dividend reinvestment plan, pursuant to which you may have the dividends you receive from us reinvested in our common shares. The purchase price per share under our dividend reinvestment plan will be

\$9.50. If you participate in our dividend reinvestment plan, you will be taxed on income attributable to the reinvested dividends. Your participation in our dividend reinvestment plan would mean that you would have to rely solely on sources other than our dividends from which to pay such taxes. As a result, you may have a tax liability without receiving cash dividends to pay such liability. We may terminate the dividend reinvestment plan in our discretion at any time upon ten days notice to plan participants.

### **Share Redemption Program**

After you have held your shares for a minimum of one year, our share redemption program may provide an opportunity for you to redeem your shares. We will limit the number of shares redeemed pursuant to our share redemption program as follows: (1) during any 12-month period, we will not redeem in excess of 5.0% of the number of our common shares outstanding at the beginning of such 12-month period; and (2) funding for the redemption of shares will be dependent upon whether we have sufficient excess cash to repurchase shares. Funds available for redemptions generally will be limited to 1.0% of our operating cash flow from the previous fiscal year,



plus any proceeds from our dividend reinvestment plan. The funds we may set aside for our share redemption program may not be sufficient to accommodate all requests made in any year. For three years after we complete this offering, the redemption price for purchases under our share redemption program will be \$9.50 per share. Thereafter, the redemption price will equal 95.0% of our per share value as estimated by Hartman Management or another financial advisor evaluation firm we choose for this purpose. The share redemption program has different rules if shares are being redeemed in connection with the death of a shareholder. See “Description of Shares - Share Redemption Program” for more information about our share redemption program. Our board of trustees may amend or terminate the share redemption program at any time.

### **Hartman REIT Operating Partnership, L.P.**

We own our existing investments, and generally intend to own our additional investments, through Hartman REIT Operating Partnership, L.P. (Hartman OP or the Operating Partnership) or subsidiaries thereof, or other operating partnerships. This structure is sometimes referred to as an Umbrella Partnership Real Estate Investment Trust, or UPREIT. We may, however, own investments directly or through other entities. We are the sole general partner of Hartman OP. As of June 1, 2005, Hartman OP had 416 limited partners. The UPREIT structure enables us to acquire real estate properties in exchange for limited partnership units in Hartman OP. This structure also enables sellers of properties to transfer their properties to Hartman OP in exchange for units of Hartman OP and defer gain recognition for tax purposes with respect to such transfers. At present, we have no plans to acquire any specific properties in exchange for units of Hartman OP. The holders of units in Hartman OP may have their units exchanged for cash or our common shares under certain circumstances described in the section of this prospectus captioned “The Operating Partnership Agreement.”

### **ERISA Considerations**

The section of this prospectus entitled “Investment by Tax-Exempt Entities and ERISA Considerations” describes the effect the purchase of shares will have on individual retirement accounts (IRAs) and retirement plans subject to the Employee Retirement Income Security Act of 1974, as amended (ERISA), and/or the Internal Revenue Code. ERISA is a federal law that regulates the operation of certain tax-advantaged retirement plans. Any retirement plan trustee or individual considering purchasing shares for a retirement plan or an IRA should read carefully the section of this prospectus captioned “Investment by Tax-Exempt Entities and ERISA Considerations.”

### **Description of Shares**

#### ***General***

Generally, your investment will be recorded on our books only, and we will issue a certificate evidencing ownership of our common shares only to shareholders who make a written request to us. If you wish to transfer your shares, you will be required to send an executed transfer form to us, along with a fee to cover reasonable transfer costs, in an amount as determined by our board of trustees. We will provide the required form to you upon request.

#### ***Shareholder Voting Rights and Limitations***

We will hold annual meetings of our shareholders for the purpose of electing our trustees and conducting other business matters that may be presented at such meetings. We may also call a special meeting of shareholders from time to time for the purpose of conducting certain matters. You are entitled to one vote for each common share you own at any of these meetings.

#### ***Restriction on Share Ownership***

Our charter contains a restriction on ownership of the shares that prevents any one person from owning more than 9.8% in value of our outstanding shares or more than 9.8% in value or number (whichever is more restrictive) of our outstanding common shares. These restrictions are designed to enable us to comply with share accumulation restrictions imposed on REITs by the Internal Revenue Code. For a more complete description of the shares, including restrictions on the ownership of shares, please see the “Description of Shares” section of this prospectus.

## RISK FACTORS

Your purchase of shares involves a number of risks. You should specifically consider the following before making your investment decision.

### **Risks Related to an Investment in Hartman Commercial Properties REIT**

*There is no public trading market for your shares; therefore, it will be difficult for you to sell your shares.*

There is no current public market for the shares. Therefore, you should purchase the shares only as a long-term investment. The suitability standards described in this prospectus also apply to potential subsequent purchasers of our shares. If you are able to find a buyer for your shares, you may not sell your shares to such buyer unless the buyer meets the suitability standards applicable to him or her, including any suitability standards imposed by such potential purchaser's state of residence. Our charter also imposes restrictions on the ownership of common shares that will apply to potential transferees that may inhibit your ability to sell your shares. Moreover, except for requests for redemptions by the estate, heir or beneficiary of a deceased shareholder, our board of trustees may reject any request for redemption of shares or amend, suspend or terminate our share redemption program at any time. Therefore, it will be difficult for you to sell your shares promptly or at all. You may not be able to sell your shares in the event of an emergency, and, if you are able to sell your shares, you may have to sell them at a substantial discount. It is also likely that your shares would not be accepted as the primary collateral for a loan. See "Suitability Standards," "Plan of Distribution - Suitability Standards," "Description of Shares - Restrictions on Transfer" and "- Share Redemption Program" elsewhere herein for a more complete discussion of the restrictions on your ability to transfer your shares.

*If we, through Hartman Management, are unable to find suitable investments, then we may not be able to achieve our investment objectives or pay dividends.*

Our ability to achieve our investment objectives and to pay dividends is dependent upon the performance of Hartman Management, our advisor, in the acquisition of our investments, the selection of tenants and the determination of any financing arrangements. You must rely entirely on the management ability of Hartman Management and the oversight of our board of trustees. We cannot be sure that Hartman Management will be successful in obtaining suitable investments on financially attractive terms or that, if it makes investments on our behalf, our objectives will be achieved. If we, through Hartman Management, are unable to find suitable investments, we will hold the proceeds of this offering in an interest-bearing account, invest the proceeds in short-term, investment-grade investments or, ultimately, liquidate. In such an event, our ability to pay dividends to our shareholders would be adversely affected.

*We may suffer from delays in locating suitable investments, which could adversely affect the return on your investment.*

We could suffer from delays in locating suitable investments, particularly as a result of our reliance on our advisor at times when management of our advisor is simultaneously seeking to locate suitable investments for other Hartman programs. Delays we encounter in the selection, acquisition and development of properties could adversely affect your returns. In addition, where we acquire properties prior to the start of construction or during the early stages of construction, it will typically take several months to complete construction and rent available space. Therefore, you could suffer delays in the distribution of cash dividends attributable to those particular properties. In addition, if we are unable to invest our offering proceeds in income-producing real properties in a timely manner, our ability to pay dividends to our shareholders would be adversely affected. As of the date of this prospectus, we have not identified specific properties that we will purchase with the proceeds of this offering. Because we are conducting this offering on a "best efforts" basis over several months, our ability to commit to purchase specific properties will be partially dependent on our ability to raise sufficient funds for such acquisitions. We may be delayed in making investments due to delays in the sale of our shares, delays in negotiating or obtaining the necessary purchase documentation, delays in

locating suitable investments and other factors. We will invest all proceeds we receive from this offering in short-term, highly-liquid investments until we use such funds for acquisitions. We expect that the income we earn on these temporary investments will be lower than the rate of return associated with our historical dividends. Therefore, the temporary investment of proceeds from this offering for an extended time may result in a lower rate of return for shareholders.

***Our accumulated deficit may negatively impact our ability to fund our working capital needs or our ability to pay dividends.***

As of March 31, 2005, we had an accumulated deficit of \$6.2 million. Historically, we have paid dividends to our shareholders in excess of our cash flow. If this were to continue, we may be unable to fund our working capital needs. Alternatively, we may be required to reduce or suspend the payment of dividends to our shareholders.

***You will not have the opportunity to evaluate our investments before we make them.***

Because we have not identified any investments that we may make with the proceeds of this offering, this offering is considered to be a “blind pool” offering and we are not able to provide you with information to evaluate our investments prior to acquisition. We will seek to invest substantially all of the offering proceeds available for investment, after the payment of fees and expenses, in the acquisition of properties. In addition, we will make or invest in mortgage loans or participations therein if our advisor determines, due to the state of the real estate market or in order to diversify our investment portfolio or otherwise, that such investments are advantageous to us. Our management intends to limit such mortgage investments to 15.0% of our total investment portfolio unless our management determines that prevailing economic or portfolio circumstances require otherwise. However, we are not limited to such investments. We have established policies relating to the creditworthiness of tenants, managers and borrowers, but our board of trustees will have wide discretion in implementing these policies, and you will not have the opportunity to evaluate potential tenants, managers or borrowers. For a more detailed discussion of our investment policies, see “Investment Objectives and Criteria - Acquisition and Investment Policies.”

***Our shares in this offering are being sold by our dealer manager, D.H. Hill Securities, LLP, on a “best efforts” basis. Because of the “best efforts” nature of this offering, there is no guarantee that we will be able to raise substantially more than the minimum offering amount.***

Our dealer manager, D.H. Hill Securities, LLP, is selling our shares on a “best efforts” basis, whereby the brokers participating in the offering are only required to use their best efforts to sell our shares and have no firm commitment or obligation to purchase any of the shares. As a result, we cannot assure you as to the amount of proceeds that will be raised in this offering or that we will be able to raise substantially more than the minimum offering amount.

***If we are unable to raise substantially more than the minimum offering amount, we will be limited in the number and type of investments we may make and the value of your investment in us will fluctuate with the performance of the specific investments we make.***

If we are unable to raise substantially more than the minimum offering amount, we will make fewer investments resulting in less diversification in terms of the number of investments owned, the geographic regions in which our investments are located and the types of investments that we make. In such event, the likelihood of our profitability being affected by the performance of any one of our investments will increase. For example, if we only are able to invest in one additional property, we would not achieve significant diversification of our assets. Additionally, we are not limited in the number or size of our investments or the percentage of net proceeds we may dedicate to a single investment. Your investment in our shares will be subject to greater risk to the extent that we lack a diversified portfolio of investments.

***Because of the lack of geographic diversification of our portfolio, an economic downturn in the Houston and San Antonio, Texas metropolitan areas could adversely impact our operations and ability to pay dividends to our shareholders.***

All of our assets and revenues are currently derived from properties located in the Houston and San Antonio, Texas metropolitan areas. Our results of operation are directly contingent on our ability to attract financially sound

commercial tenants. If Houston or San Antonio experiences a significant economic downturn, our ability to locate and/or retain financially sound tenants may decrease. Likewise, we may be required to lower our rental rates to attract desirable tenants in such an environment. Consequently, because of the lack of geographic diversity among our current assets, if Houston or San Antonio experiences an economic downturn, our operations and ability to pay dividends to our shareholders could be adversely impacted.

***This is the first publicly offered REIT sponsored by Mr. Hartman, and the prior performance of private real estate investment programs sponsored by affiliates of Mr. Hartman may not be an indication of our future results.***

Although Mr. Hartman and other members of our advisor's management have significant experience in the acquisition, finance, management and development of commercial real estate, this is the first publicly offered REIT sponsored by Mr. Hartman. Accordingly, the prior performance of real estate investment programs sponsored by affiliates of Mr. Hartman and our advisor may not be indicative of our future results. Presently, our advisor is funded by Mr. Hartman. If our capital resources, or those of our advisor, are insufficient to support our operations, we will not be successful.

To be successful in this market, we must, among other things:

- identify and acquire investments that further our investment strategies;
- increase awareness of the Hartman name within the investment products market outside of the Houston and San Antonio, Texas metropolitan areas;
- establish and maintain our network of licensed securities brokers and other agents;
- attract, integrate, motivate and retain qualified personnel to manage our day-to-day operations;
- respond to competition for our targeted real estate properties and other investments as well as for potential investors in us; and
- continue to build and expand our operations structure to support our business.

We cannot guarantee that we will succeed in achieving these goals, and our failure to do so could cause you to lose all or a portion of your investment.

***If we lose or are unable to obtain key personnel, our ability to implement our investment strategies could be delayed or hindered.***

Our success depends to a significant degree upon the continued contributions of certain executive officers and other key personnel, including Allen R. Hartman. We do not have an employment agreement with Mr. Hartman, and we cannot guarantee that he will remain affiliated with us. If Mr. Hartman or any of the key personnel of Hartman Management were to cease their affiliation with us, our operating results could suffer. We have not purchased "key person" life insurance on the life of Mr. Hartman. We believe that our future success depends, in large part, upon our advisor's ability to retain and hire highly skilled managerial, operational and marketing personnel. Competition for such personnel is intense, and we cannot assure you that our advisor will be successful in attracting and retaining such skilled personnel. If we lose or are unable to obtain the services of key personnel, our ability to implement our investment strategies could be delayed or hindered.

***Our rights, and the rights of our shareholders, to recover claims against our officers, trustees and our advisor are limited.***

Our charter limits the liability of our trustees and officers to us and our shareholders for monetary damages to the maximum extent permitted under Maryland law. In addition, our charter, in the case of our trustees, officers, employees and agents, and the advisory agreement, in the case of our advisor, require us to indemnify our trustees, officers, employees and agents and our advisor and its affiliates for actions taken by them in good faith and without negligence or misconduct. As a result, our shareholders and we may have more limited rights against our trustees,

officers, employees and agents, and our advisor and its affiliates, than might otherwise exist under common law. In addition, we may be obligated to fund the defense costs incurred by our trustees, officers, employees and agents or our advisor in some cases. See the section captioned “Management - Limited Liability and Indemnification of Trustees, Officers, Employees and Other Agents” elsewhere herein.

***We may need to incur borrowings to meet REIT minimum distribution requirements.***

In order to maintain our qualification as a REIT, we are required to distribute to our shareholders at least 90% of our annual net taxable income (excluding any net capital gain). In addition, the Internal Revenue Code will subject us 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 capital gain net income for that year and



(iii) 100% of our undistributed taxable income from prior years. Although we intend to pay dividends to our shareholders in a manner that allows us to meet the foregoing 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 Hartman OP's income, and the cash available for distribution by us to our shareholders consists of our share of cash distributions made by Hartman OP. Because we are the sole general partner of Hartman OP, our trustees will determine the amount of any distributions made by it. The trustees may consider a number of factors in making such distributions, including:

- the amount of the cash available for distribution;
- our UPREIT's financial condition;
- our UPREIT'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 such income and deduction of such 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 short-term or long-term basis to meet the REIT distribution requirements and to avoid the 4% excise tax described above. In such circumstances, we might 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 such borrowings or that such borrowings would not be advisable in the absence of such tax consideration.

***An increase in market interest rates may have an adverse effect on our ability to sell shares in this offering.***

One of the factors that investors may consider in deciding whether to buy our shares is our dividend rate as a percentage of our share price, relative to market interest rates. If market interest rates increase, prospective investors may desire a higher dividend on our shares or seek securities paying higher dividends or interest. The value of an investment in our shares to prospective investors likely will be based primarily on the income and return that we derive from our properties and our related distributions to shareholders, and not from the market value or underlying appraised value of the properties themselves. If interest rates rise without an increase in our dividend rate, potential investors may require a higher dividend yield on our shares as market rates on interest-bearing securities, such as bonds, rise. Rising interest rates may make an investment in our shares less attractive and may have an adverse effect on our ability to sell shares in this offering.

***We expect to acquire or develop several properties with the proceeds of this offering that, if unsuccessful, could adversely impact our ability to pay dividends to our shareholders.***

We expect to acquire or develop several properties with the proceeds of this offering. The acquisition of additional properties will subject us to risks associated with managing the properties, including tenant retention and tenant defaults of lease obligations. A larger portfolio of properties will also generate additional operating expenses. Specific examples of risks that could relate to acquisitions include:

- risks that investments will fail to perform in accordance with expectations;
- risks that judgments with respect to the costs of necessary improvements will prove inaccurate; and

- general investment risks associated with any real estate investment.

To the extent that we acquire a property that needs substantial renovation or repositioning, it will bear certain risks including:

- the risks of construction delays or cost overruns that may increase project costs and could make such project uneconomical;
- the risk that occupancy or rental rates at the completed project will not be sufficient to enable us to pay operating expenses or earn the targeted rate of return on our investment; and
- the risk of incurrence of redevelopment costs in connection with projects that are not completed.

In the case of an unsuccessful acquisition or redevelopment project, our loss could exceed our investment in such project, which could adversely impact our ability to pay dividends to our shareholders.

***Our use of borrowings to fund acquisitions and improvements on properties could result in foreclosures and unexpected debt service expenses upon refinancing.***

We have relied on borrowings to fund acquisitions and we expect to continue to rely on borrowings and other external sources of financing to fund the costs of property acquisitions, capital expenditures and other items. As of March 31, 2005, we had aggregate debt of \$59.8 million secured by our assets. Accordingly, we are subject to the risk that our cash flow will not sufficiently cover required debt service payments.

If we cannot meet our required mortgage payment obligations, the property or properties subject to such mortgage indebtedness could be foreclosed upon by or otherwise transferred to our lender, with a consequent loss of income and asset value to us. The interest rates attributable to the debt are adjustable and could rise substantially over the term of the mortgages. Additionally, we may be required to refinance our debt subject to “lump sum” or “balloon” payment maturities or on other terms less favorable than the original loan or at a time we would otherwise prefer to not refinance such debt. A refinancing on such terms or at such times could increase our debt service payments, which could adversely impact the cash we would have available for distribution to our shareholders.

Our organizational documents permit us to borrow up to 300% of our net asset value as of the date of any borrowing. Our board of trustees has adopted a policy that we will generally limit our aggregate borrowing to 50.0% of the aggregate value of our assets as of the date of any borrowing, unless substantial justification exists that borrowing a greater amount is in our best interests. If we increase our use of financing, we would become subject to an increased risk of default and an increase in debt service requirements. These risks could also adversely affect our financial condition and results of our operations and, consequently, our ability to pay dividends to our shareholders.

***We operate in a competitive business and many of our competitors have greater resources and operating flexibility than we do.***

Numerous real estate companies that operate in the Houston and San Antonio, Texas metropolitan areas compete with us in developing and acquiring office, retail and industrial properties and seeking tenants to occupy such properties. Moreover, as we seek to expand our investments and operations into other geographic locations and other asset types, we will encounter significantly more competition from entities that have more financial and other resources, and more operating experience, than us or our advisor. Such competition could adversely affect our business. In addition, the number of entities and the amount of funds competing for suitable investments may increase. Any such increase would result in increased demand for these assets and therefore increased prices paid for them. If we pay higher prices for properties and other investments, our profitability will be reduced and you may experience a lower return on your investment.

***Approximately 35.1% of our gross leasable area is subject to leases that expire prior to December 31, 2006.***

As of December 31, 2004, 35.1% of the aggregate gross leasable area of our properties is subject to leases that expire prior to December 31, 2006. We are subject to the risk that:

- tenants will not renew such leases;
- we will not be able to re-lease the space subject to such leases; and
- the terms of any renewal or re-lease will not be as favorable as current leases.

If any of these risks materialize, our cash flow and ability to pay dividends could be adversely affected.

***We depend on tenants for our revenue and on anchor tenants to attract non-anchor tenants.***

As rental income from real property comprises substantially all of our income, the inability of a single major tenant or a number of smaller tenants to meet their obligations would adversely affect our income. Tenants may have the right to terminate their leases upon the occurrence of certain customary events of default or, in some cases, if the lease held by an anchor tenant or other principal tenant of the property expires, is terminated or the property subject to the lease is vacated, even

if rent continues to be paid under the lease. The weakening of a significant tenant's financial condition or the loss of an anchor tenant may adversely affect our cash flow and amounts available for distribution to our shareholders.

***The bankruptcy or insolvency of major tenants would adversely impact our operations.***

As of December 31, 2004, the five largest tenants of our properties generated approximately 10.95% of the combined rent of our properties. The bankruptcy or insolvency of a major tenant or a number of small tenants would have an adverse impact on our income and dividends. Generally, under bankruptcy law, a tenant has the option of continuing or terminating any unexpired lease. If the tenant continues its current lease, the tenant must cure all defaults under the lease and provide adequate assurance of its future performance under the lease. If the tenant terminates the lease, our claim for breach of the lease (absent collateral securing the claim) will be treated as a general unsecured claim. General unsecured claims are the last claims paid in a bankruptcy, and funds may not be available to pay such claims. As of March 31, 2005, none of our major tenants were in bankruptcy or had materially defaulted on their lease. However, any of our tenants could become insolvent or declare bankruptcy in the future.

***We may be subject to risks as the result of joint ownership of real estate with third parties.***

We may invest in properties and assets jointly with other persons or entities. Joint ownership of properties, under certain circumstances, may involve risks not otherwise present, including:

- the possibility that our partners or co-investors might become insolvent or bankrupt;
- that such partners or co-investors might have economic or other business interests or goals that are inconsistent with our business interests or goals;
- the possibility that we may incur liabilities as the result of the action taken by our partner or co-investor; or
- that such partners or co-investors may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives, including our policy with respect to maintaining our qualification as a REIT.

***We may have difficulty selling our real estate investments, which may have an adverse impact on our ability to pay dividends.***

Equity real estate investments are relatively illiquid. We have a limited ability to vary our portfolio in response to changes in economic or other conditions. The real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond our control. 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. We cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. We are especially vulnerable to these risks because all but one of our current properties are located in one geographical location. In addition, mortgage payments and, to the extent a property is not occupied entirely by tenants subject to triple net leases, certain significant expenditures such as real estate taxes and maintenance costs generally are not reduced when circumstances cause a reduction in income from the investment. The occurrence of such events would adversely affect our income and ability to pay dividends to our shareholders.

***It is likely that you will not have the benefit of an independent due diligence review in connection with this offering.***

Although some of our selected dealers may perform an independent due diligence review in connection with this offering, our dealer manager is not expected to perform a due diligence review and it is likely that you will not have the benefit of an independent due diligence review and investigation of the type normally performed by unaffiliated, independent underwriters in connection with the offering of securities. Further, any due diligence investigation of us by the dealer manager cannot be considered to be an independent review and, therefore, may not be as meaningful as a review conducted by an independent broker-dealer or investment banker.

***We established the offering price on an arbitrary basis.***

Our board of trustees determined the selling price of the common shares, and such price bears no relationship to any established criteria for valuing issued or outstanding shares.

***Provisions in our charter may discourage a takeover attempt.***

To maintain our qualification as a REIT, no less than six individuals, as defined in the Internal Revenue Code to include certain entities, can own, actually or constructively, more than 50% in value of our issued and outstanding shares at any time during the last half of a taxable year. Attribution rules in the Internal Revenue Code determine if any individual or entity actually or constructively owns our shares under this requirement. Additionally, at least 100 persons must beneficially own our shares during at least 335 days of a taxable year. Also, rent from “related party tenants” is not qualifying income for purposes of the gross income tests of the Internal Revenue Code. To help insure that we meet these tests, our charter restricts the acquisition and ownership of our shares.

Our charter, with certain exceptions, authorizes our trustees to take such actions as are necessary and desirable to preserve our qualification as a REIT. Unless exempted by our board of trustees, no person may own more than 9.8% in value of our outstanding shares or more than 9.8% in value or number (whichever is more restrictive) of our outstanding common shares. Our board of trustees may not grant such an exemption to any proposed transferee whose ownership of in excess of the foregoing limits would result in the termination of our status as a REIT. See “Description of Shares - Restrictions on Transfer.” These restrictions on transferability and ownership will not apply if our board of trustees determines that it is no longer in our best interests to continue to qualify as a REIT. These ownership limits could delay, defer or prevent a transaction or a change in control that might involve a premium price for our common shares or otherwise be in the best interest of our shareholders. See “Description of Shares - Restrictions on Transfer.”

Our charter authorizes us to issue additional authorized but unissued common shares or preferred shares. In addition, our board of trustees, without any action by our shareholders, may amend our charter to increase or decrease the aggregate number of shares or the number of shares of any class or series that we have authority to issue, and 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. See “Description of Shares - Common Shares” and “- Power to Issue Additional Common Shares and Preferred Shares.” Although our board of trustees has no intention to do so at the present time, it could establish a series of preferred shares that could delay, defer or prevent a transaction or a change in control that might involve a premium price for our common shares or otherwise be in the best interest of our shareholders.

Our Declaration of Trust and bylaws also contain other provisions that may delay, defer or prevent a transaction or a change in control that might involve a premium price for our common shares or otherwise be in the best interest of our shareholders. See “Description of Shares - Provisions of Maryland Law and of Our Charter and Bylaws - Board of Trustees,” “- Control Share Acquisitions” and “- Advance Notice of Trustee Nominations and New Business.”

***You may experience immediate dilution and could suffer additional dilution as the result of the conversion of OP Units and issuances of additional shares.***

Purchasers of our common shares in this offering may experience immediate dilution in the net tangible book value of the common shares from the offering price. The public offering price of \$10.00 per common share exceeds our pro forma net tangible book value of \$7.51 per share after this offering. As of the date of this prospectus, and on a pro forma basis assuming this offering had been completed on June 1, 2005, you would have incurred immediate dilution of \$2.49 per common share, or 24.9%. See the “Dilution” section of this prospectus. As of June 1, 2005, Hartman OP had 13,151,499.156 OP Units outstanding after giving effect to the reorganization, 5,808,336.99 of which are not owned by us. These OP Units are convertible, on a one-to-one basis, into our common shares. Shareholders could

experience further dilution upon the future conversion of OP Units into common shares. See “Dilution.”

In addition, existing shareholders and potential investors in this offering do not have preemptive rights to any shares issued by us in the future. Our charter currently has authorized 450,000,000 shares of beneficial interest, of which 400,000,000 shares are designated as common shares and 50,000,000 shares are designated as preferred shares. Subject to any limitations set forth under Maryland law, our board of trustees may increase the number of authorized shares of beneficial interest,



increase or decrease the number of designated shares, or reclassify any unissued shares without the necessity of obtaining shareholder approval. All of such shares may be issued in the discretion of our board of trustees. Therefore, in the event that we (1) sell shares in this offering or sell additional shares in the future, including those issued pursuant to the dividend reinvestment plan, (2) sell securities that are convertible into our common shares, (3) issue our common shares in a private offering of securities to institutional investors, (4) issue our common shares upon the exercise of the options granted to our independent trustees or employees of Hartman Management or its affiliates, or (5) issue common shares to sellers of properties acquired by us in connection with an exchange of units of partnership interest in Hartman OP, existing shareholders and investors purchasing shares in this offering will likely experience dilution of their equity investment in us. Because the units of partnership interest in Hartman OP may be exchanged for our common shares, any merger, exchange or conversion between Hartman OP and another entity ultimately could result in the issuance of a substantial number of shares of our common shares, thereby diluting the percentage ownership interest of other shareholders. Because of these and other reasons described in this “Risk Factors” section, you should not expect to be able to own a significant percentage of our shares.

***Complying with REIT requirements may cause us to forego otherwise attractive opportunities.***

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. We may be required to pay dividends to our shareholders at disadvantageous times or when we do not have funds readily available for distribution. Thus, compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

***Complying with REIT requirements may force us to liquidate otherwise attractive investments.***

To qualify as a REIT, we must also 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 REIT 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 securities can be represented by 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 such failure within 30 days after the end of the calendar quarter to avoid losing our REIT status and suffering adverse tax consequences. As a result, we may be required to liquidate otherwise attractive investments.

**Risks Related to Conflicts of Interest**

We will be subject to conflicts of interest arising out of our relationships with our advisor and its affiliates, including the material conflicts discussed below. The “Conflicts of Interest” section of this prospectus provides a more detailed discussion of the conflicts of interest between us and our advisor and its affiliates, and our policies to reduce or elimin