

HARTMAN COMMERCIAL PROPERTIES REIT

Form S-11/A

July 29, 2004

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As filed with the Securities and Exchange Commission on July 29, 2004

Registration No. 333-111674

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

**AMENDMENT NO. 3 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)

**Allen R. Hartman, President  
Hartman Commercial Properties REIT  
1450 West Sam Houston Parkway, North, Suite 100  
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(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. o

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. o

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. o

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

**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.**

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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 JULY 29, 2004

**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 30, 2004, we owned 33 real estate properties.

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 , 2006.

	<b>Per Share</b>	<b>Total Minimum</b>	<b>Total Maximum</b>
	<hr/>	<hr/>	<hr/>
<b>Primary Offering</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
	<hr/>	<hr/>	<hr/>
Proceeds to Us	<b>\$ 9.40</b>	<b>\$1,880,000</b>	<b>\$ 94,000,000</b>
	<hr/>	<hr/>	<hr/>
<b>Dividend Reinvestment Plan</b>			
Price to Public	\$ 9.50		\$ 9,500,000
Selling Commissions*			
Dealer Manager Fee			
	<hr/>		<hr/>
Proceeds to Us	<b>\$ 9.50</b>		<b>\$ 9,500,000</b>
	<hr/>		<hr/>

\* 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 with respect to shares sold by Wunderlich Securities, Inc., our dealer manager, without the involvement of participating broker-dealers, and no selling commissions will be paid in connection with 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 Wunderlich Securities, Inc. The dealer manager is not required to sell any specific number of shares 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 Iowa, N.A., and will be held in trust for your benefit, pending release to us. If we do not sell at least \$2.0 million in shares by , 2005, which is one year from the date of this prospectus, your funds in the escrow account will be returned to you, and we will stop selling shares.

The date of this prospectus is      , 2004

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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, 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.

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**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 33 commercial properties on June 30, 2004, 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. (Hartman Management), 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.

Robert W. Engel has been our chief financial officer and a member of our board of trustees since 2000, and is the controller of Hartman Management. Mr. Engel is a graduate from the University of Texas with a BBA with highest honors with a major in Accounting. Mr. Engel is a CPA and holds memberships in the American Institute of Certified Public Accountants, and the Texas Society of Certified Public Accountants. Mr. Engel is also a CPM, with membership in the Institute of Real Estate Management, and a CCIM as a member of the CCIM Institute. He is a licensed real estate broker in the State of Texas. From 1991 to 1999, Mr. Engel served as vice president and controller for Reingquest/Fred Rizk Construction Company.

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. For the last twenty-one years, Mr. Hathorn has been a senior executive with Weyerhaeuser Real Estate Company (WRECO), a wholly owned subsidiary of 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 WRECO. 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

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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 C.P.A. (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 November 30, 2003, Hartman Management had sponsored or advised private real estate programs that had raised approximately \$120 million from approximately 1,100 investors, including investors in us, and that owned and operated more than 4.5 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, Robert W. Engel, John Crossin and Valarie L. King, and they will assist Mr. Hartman in making property acquisition

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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, Michaels, 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 30, 2004, we owned 33 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.

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**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 53.37% 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

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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 , 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

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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 Iowa, N.A., where your funds will be held, along with those of other subscribers, until we sell at least 200,000 shares and, for sales thereafter, 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: What happens if you don't sell at least 200,000 shares?**

A: If we do not sell at least 200,000 shares, or \$2.0 million, before , 2005, we will terminate the offering and stop selling shares. In such event, within ten days after termination of the offering, the escrow agent will return all invested funds. Different escrow procedures apply to Pennsylvania and New York investors. See Plan of Distribution Special Notice to Pennsylvania Investors and Plan of Distribution Special Notice to New York Investors.

**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

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\$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*.

**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

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**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 July 28, 2004, we owned 6,648,658.37 OP Units in Hartman OP, which represented 53.37% of all outstanding OP Units on such date. The term OP Units refers to the units of partnership interest of Hartman OP. We owned 33 commercial properties as of June 30, 2004, 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.

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### **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 , 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. If 200,000 shares are not sold by , 2005, this offering will be terminated and subscribers' funds will be returned promptly. 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. After the initial 200,000 shares are sold, subscription proceeds will continue to be held in escrow until investors are admitted as shareholders, except that subscribers residing in Pennsylvania may not be admitted until subscriptions have been received and accepted for \$5,475,000 and subscribers residing in New York may not be admitted until subscriptions have been received for \$2,500,000. 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.

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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 35.0% of our gross leasable area is subject to leases that expire prior to December 31, 2005.

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 30, 2004, we owned 33 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.

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### **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 without the involvement of participating broker-dealers 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 section 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 pay dividends on a monthly basis, and to pay such dividends to investors in this offering after we have sold the minimum offering amount and have admitted our initial investors. 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 made prior to June 30, 2004.

### **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.

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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 3.85% 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 27.51% 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 53% 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.

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Our founder, Allen R. Hartman, has previously sponsored 17 privately offered real estate limited partnerships over the last 20 years. As of November 30, 2003, Mr. Hartman had raised approximately \$120 million from approximately 1,100 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:

<b>Type of Compensation</b>	<b>Form of Compensation</b>	<b>Estimated Amount for Maximum Offering (11,000,000 shares \$109,500,000)</b>
<b><i>Offering Stage</i></b>		
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 without participating broker-dealers, 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	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	2.5% of gross offering proceeds	\$ 2,737,500
<b><i>Acquisition and Development Stage</i></b>		
Acquisition Fees	2.0% of gross offering proceeds	\$ 2,190,000

***Operational Stage***

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

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<b>Type of Compensation</b>	<b>Form of Compensation</b>	<b>Estimated Amount for Maximum Offering (11,000,000 shares \$109,500,000)</b>
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 30, 2004, Hartman OP had 416 limited partners. The UPREIT

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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.

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**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 on 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.

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

As of March 31, 2004, we had an accumulated deficit of \$4.7 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, Wunderlich Securities, Inc., 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 the minimum offering amount.***

Our dealer manager, Wunderlich Securities, Inc., 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 achieve sales of the minimum offering amount. If we do not achieve sales of the minimum offering amount, we will return all funds held in our escrow account and we will stop selling shares. In the event the offering terminates before we have sold a minimum of 200,000 shares, escrow expenses may be deducted from the total amount of interest earned on the funds deposited in the escrow account. Funds returned to subscribers will include interest earned, less escrow expenses. However, with respect to subscriptions received from investors in states where deductions are prohibited, the subscriber will be paid his or her pro rata portion of interest earned on subscription proceeds deposited in the escrow account without any deduction for expenses. Wunderlich Securities, Inc. has been the subject of disciplinary action taken by the National Association of Securities Dealers, Inc. (NASD). For more information regarding these actions, please contact the NASD.

***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, in the event we only raise the minimum amount of \$2.0 million, we may be able to invest in only one additional property. If we only are able to one 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. In addition, if we are unable to raise substantially more than the minimum offering amount, our fixed operating expenses, as a percentage of gross income, would be higher, and our financial condition and ability to pay dividends could be adversely affected.

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***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

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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;

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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 June 30, 2004, we had aggregate debt of \$49.0 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 35.0% of our gross leasable area is subject to leases that expire prio*