HARTMAN COMMERCIAL PROPERTIES REIT
Form 424B3
April 13, 2005

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Filed Pursuant to Rule 424(b)(3)
Registration No. 333-111674

PROSPECTUS SUPPLEMENT NO. 2
Dated April 6, 2005
(To Prospectus Dated September 15, 2004, as supplemented by Prospectus Supplement No. 1 dated October 12, 2004)

Hartman Commercial Properties REIT

1450 West Sam Houston Parkway North, Suite 100
Houston, Texas 77043-3124
(713) 467-2222

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

This document supplements, and should be read in conjunction with, the prospectus of Hartman Commercial Properties REIT dated September 15, 2004, as previously supplemented by Supplement No. 1 thereto dated October 12, 2004. Unless otherwise defined in this supplement, capitalized terms used in this supplement shall have the same meanings as set forth in the prospectus.

The purposes of this Prospectus Supplement are as follows:

(1) to update the status of our offering of common shares of beneficial interest in Hartman Commercial Properties REIT;

(2) to revise the "Investment Objectives and Criteria Real Property Investments" section of the prospectus to describe the acquisition of Woodlake Plaza, an office building located in Houston, Texas; and

(3) to provide you with a copy of our Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the Securities and Exchange Commission on March 31, 2005, which amends and supplements certain information contained in the prospectus, as further described herein.

Any statement contained in the prospectus shall be deemed to be modified or superseded to the extent that information in this prospectus supplement modifies or supersedes such statement. Any statement that is modified or superseded shall not be deemed to constitute a part of the prospectus except as modified or superseded by this prospectus supplement.

This prospectus supplement should be read in conjunction with, and may not be delivered or utilized without, the prospectus, as supplemented. This prospectus supplement is qualified by reference to the prospectus, as supplemented, except to the extent that information contained in this prospectus supplement supersedes the information contained therein. Capitalized terms used and not defined herein shall have the meanings given to them in the prospectus.

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

Investing in our common shares involves a high degree of risk. You should purchase common shares only if you can afford a complete loss of your investment. See "Risk Factors" beginning on page 17 of the attached prospectus for a discussion of these risks.

The date of this Prospectus Supplement is April 6, 2005

Status of the Offering

Our Registration Statement on Form S-11 (SEC File No. 333-111674) was declared effective by the SEC on September 15, 2004 with respect to the Public Offering described in the prospectus of up to 10,000,000 shares of the Company's common stock to the public at a price of $10 per share, plus up to 1,000,000 shares available for sale pursuant to our dividend reinvestment plan, to be offered at a price of $9.50 per share, and the Company commenced the Public Offering on such date.

The 10,000,000 shares offered to the public in the Public Offering are being offered to investors on a best efforts basis, which means that 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.

As of December 31, 2004, no shares had been issued pursuant to the Public Offering, because its terms provided that the Company would not admit new shareholders pursuant to the Public Offering, or receive any proceeds therefrom, until subscriptions aggregating at least $2,000,000 (200,000 shares) were received and accepted by the Company, not including shares sold to residents of either New York or Pennsylvania. As of December 31, 2004, we had received and accepted subscriptions for a total of 147,432 shares for gross offering proceeds of $1,474,320 held in escrow as of such date.

As of April 1, 2005, we had accepted subscriptions for 546,481 shares (not including shares sold to residents of either New York or Pennsylvania) and, accordingly, 546,481 shares had been issued pursuant to the Public Offering as of such date with gross offering proceeds received of $5,464,810. After subtracting offering expenses of $688,245 (including $442,329 in selling commissions, dealer manager fees and discounts, $136,620 in offering expenses reimbursed to the Management Company and $109,296 in acquisition fees paid to the Management Company), net proceeds were $4,776,565.

$1,550,000 of these proceeds were applied to reduce our balance under our line of credit with Union Planters Bank, N.A. This revolving loan agreement, under which the full balance is due for repayment June 30, 2005, provides for interest at a rate, adjusted monthly, of either (at our option) 30-day LIBOR plus 225 basis points, or Union Planter's Bank, N.A.'s prime rate less 50 basis points, with either rate subject to a floor of 3.75% per annum. The current effective interest rate is 4.96625% per annum. The remaining net proceeds of $3,226,565 were allocated to working capital and funds available for investment.

Real Property Investments

The section captioned "Investment Objectives and Criteria Real Property Investments" on page 79 of the prospectus is supplemented with the following information:

Woodlake Plaza

On March 14, 2005, we purchased an office building containing approximately 106,169 rentable square feet located on an approximately 3.4963-acre tract of land in Houston, Texas ("Woodlake Plaza"). The total purchase price of Woodlake Plaza was $5.5 million, plus closing costs, and was paid in cash with no assumption of debt. The purchase price for the transaction was determined through negotiations between CSFB 1998-P1 Gessner Office Limited Partnership, the seller, and us. In evaluating Woodlake Plaza as a potential acquisition and determining the appropriate amount of consideration to be paid by us, a variety of factors were considered, including the amount of rental income, expected capital expenditures, costs of maintenance, location, environmental issues, demographics, tenant mix, quality of tenants, length of leases, price per square foot, and occupancy. Our advisor and property manager, Hartman Management, L.P., believes that Woodlake Plaza is well located, has acceptable roadway access, attracts high-quality tenants, is well maintained and has been professionally managed. CSFB 1998-P1 Gessner Office Limited Partnership is not affiliated with us, Hartman REIT Operating Partnership, L.P., Hartman REIT Operating Partnership II, L.P., or Hartman Management, L.P.

Hartman Management, L.P., our affiliated advisor and property manager, will manage and arrange for leasing of Woodlake Plaza. Among other things, Hartman Management will have the authority to negotiate and enter into leases of the property on our behalf, to incur costs and expenses, to pay property operating costs and expenses from property cash flow or reserves and to require that we provide sufficient funds for the payment of operating expenses. As compensation, Hartman Management will receive property management and leasing fees

equal to what other management companies generally charge for the management and leasing of similar properties in the Houston, Texas area.

Woodlake Plaza was built 1975, and includes among its major tenants Hibernia Corporation, Management Alliance Group and Rock Solid Images.

Hibernia Corporation is a financial holding company that, through its banking and non-banking subsidiaries, principally Hibernia National Bank, provides an array of financial products and services throughout Louisiana and portions of Texas. As of December 31, 2004, Hibernia Corporation operated in 314 locations in 34 Louisiana parishes and 34 Texas counties and two mortgage loan production and retail brokerage services offices in southern Mississippi. Hibernia Corporation also maintains a transactional website that offers certain banking services online. The annual base rent payable under the Hibernia lease is $15.50 per rentable square foot. The lease expires on October 31, 2012, and Hibernia has an option to extend its lease for a period of 10 years.

Management Alliance Group is a human resources and employment services firm providing staffing solutions in specific professional and technical skill sets to Fortune 500 corporations and other organizations in the United States. Management Alliance Group offers three kinds of staffing solutions: permanent placement, specialty/temporary and contract staffing. Management Alliance Group conducts its business from offices in Dallas, Houston and Austin, Texas; Atlanta, Georgia; Denver, Colorado; Phoenix, Arizona; Philadelphia, Pennsylvania, and Raleigh, North Carolina. The annual base rent payable under the Management Alliance Group lease is $13.50 per rentable square foot. The lease expires on September 30, 2008.

Rock Solid Images provides solutions for seismic reservoir characterization, and specializes in the integration of surface seismic and borehole data to build seismic-scale models of reservoir properties such as porosity and fluid saturation. In addition to providing turn-key seismic reservoir studies, Rock Solid Images develops software for rock-physics and seismic modeling and seismic attribute calculation and classification via industry funded consortia. The annual base rent payable under the Rock Solid Images lease is $13.00 per rentable square foot. The lease expires on July 31, 2009, and Rock Solid Images has an option to extend its lease for a period of 5 years.

The current aggregate annual base rent for all tenants in Woodlake Plaza is approximately $1,370,403.

Annual Report on Form 10-K for the Year Ended December 31, 2004

Attached hereto and incorporated by reference herein is our Annual Report on Form 10-K for the year ended December 31, 2004, which we filed with the U.S. Securities and Exchange Commission on March 31, 2005. The information contained in the Form 10-K amends and supplements certain information contained in the prospectus, including those sections entitled "Description of Real Estate and Operating Data" beginning on page 80 of the prospectus (see Item 2 of the Form 10-K); "Selected Financial Data" on page 87 of the prospectus (see Item 6 of Form 10-K); "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 88 of the prospectus (see Item 7 of Form 10-K); and "Financial Information" beginning on page F-1 of the prospectus (see Item 8 of the Form 10-K).

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

[Mark One]

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2004

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 000-50256

Hartman Commercial Properties REIT

(Exact Name of Registrant as Specified in Its Charter)

Maryland	**76-0594970**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1450 West Sam Houston Parkway North, Suite 100, Houston, Texas 77043-3124
(Address of Principal Executive Offices) (Zip Code)
Registrant's telephone number, including area code: **(713) 467-2222**

Securities registered pursuant to section 12(b) of the Act:
None

Securities registered pursuant to section 12(g) of the Act:
Common Shares of Beneficial Interest, par value $0.001 per share

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

The aggregate market value of the voting stock held by nonaffiliates of the Registrant as of June 30, 2004 (the last business day of the Registrant's most recently completed second fiscal quarter) was $64,337,462 assuming a market value of $10 per share.

As of March 22, 2005, the Registrant had 7,443,420 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant incorporates by reference portions of its Definitive Proxy Statement for the 2005 Annual Meeting of Shareholders, which shall be filed no later than April 30, 2005, into Part III of this Form 10-K to the extent stated herein.

HARTMAN COMMERCIAL PROPERTIES REIT
FORM 10-K
Year Ended December 31, 2004

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Forward-Looking Statements

This annual report contains forward-looking statements, including discussion and analysis of the Company's financial condition, anticipated capital expenditures required to complete projects, amounts of anticipated cash distributions to its shareholders in the future and other matters. These forward-looking statements are not historical facts but are the intent, belief or current expectations of the Company's management based on its knowledge and understanding of the Company's business and industry. Forward-looking statements are typically identified by the use of terms such as "may," "will," "should," "potential," "predicts," "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates" or the negative of such terms and variations of these words and similar expressions. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond the Company's control, are difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements.

Forward-looking statements that were true at the time made may ultimately prove to be incorrect or false. You are cautioned to not place undue reliance on forward-looking statements, which reflect management's view only as of the date of this Form 10-K. The Company undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results. Factors that could cause actual results to differ materially from any forward-looking statements made in this Form 10-K include changes in general economic conditions, changes in real estate conditions, construction costs that may exceed estimates, construction delays, increases in interest rates, lease-up risks, inability to obtain new tenants upon the expiration of existing leases, and the potential need to fund tenant improvements or other capital expenditures out of operating cash flow. The forward-looking statements should be read in light of these factors and the factors identified in the "Risk Factors" section of the Company's Registration Statement on Form S-11, as amended, as previously filed with the Securities and Exchange Commission.

PART I

Item 1. Business.

General Development of Business

Hartman Commercial Properties REIT (the "Company") 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 by the conversion of each outstanding common share of beneficial interest of the Texas entity into 1.42857 common shares of beneficial interest of the Maryland entity. The Company has made an election to be taxed as a real estate investment trust ("REIT"). The Company invests in and operates retail, industrial and office properties located primarily in the Houston and San Antonio metropolitan areas, and plans to expand its investments to retail, office and industrial properties located in major metropolitan cities in the United States, principally in the Southern United States. The Company intends to lease each respective property to one or more tenants. In addition, the Company may make or invest in mortgage loans consistent with its REIT status.

Substantially all of the Company's business is conducted through Hartman REIT Operating Partnership, L.P., a Delaware limited partnership organized in 1998 (the "Operating Partnership"). The Company is the owner of a 53.37% interest in the Operating Partnership and is the sole general partner of the Operating Partnership.

The Company's advisor is Hartman Management, L.P. (the "Management Company"), a Texas limited partnership formed in 1990. The Management Company is an affiliate of the Company. The Management Company is responsible for managing the Company's affairs on a day-to-day basis and for identifying and making acquisitions and investments on behalf of the Company.

As of March 22, 2005, the Company had 7,443,420 common shares of beneficial interest (common stock) outstanding. As of such date, the Company had no shares of preferred stock issued and outstanding and no common stock equivalents outstanding. No stock options had been issued as of March 22, 2005.

On December 31, 2004, the Company owned 34 properties. One additional property, containing approximately 106,169 feet of gross leasable area, was acquired on March 14, 2005. All of the Company's properties are located in the metropolitan Houston, Texas and San Antonio, Texas areas. The properties primarily consist of retail centers and each is designed to meet the needs of surrounding local communities. A supermarket or one or more nationally and/or regionally recognized tenants typically anchors each of the properties. In the aggregate, at December 31, 2004 the properties contained approximately 2,635,000 square feet of gross leasable area.

As of December 31, 2004, the properties were approximately 86.2% leased. As of such date, anchor space at the properties, representing approximately 10.0% of total leasable area, was 91.4% leased, while non-anchor space, accounting for the remaining 90.0% balance, was approximately 85.6% leased. A substantial number of the tenants of the properties are local tenants. Indeed, 74.5% of the tenants are local tenants and 12.2% and 13.3% of the tenants are national and regional tenants, respectively.

Substantially all of the Company's revenues consist of base rents and percentage rents received under long-term leases. For the year ended December 31, 2004, total rents and other income were $23,106,301 and percentage rents were $-0-. Approximately 66.5% of all existing leases provide for annual increases in the base rental payments with a "step up" rental clause.

Recent Developments

Initial Public Offering

On September 15, 2004, the Company's Registration Statement on Form S-11, with respect to a public offering (the "Public Offering") of up to 10,000,000 common shares of beneficial interest to be offered at a price of $10.00 per share, was declared effective under the Securities Act of 1933. The Registration Statement also covers up to 1,000,000 shares available for sale pursuant to our dividend reinvestment plan, to be offered at a price of $9.50 per share. The shares are being offered to investors on a best efforts basis, which means that 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.

As of December 31, 2004, no shares had been issued pursuant to the Public Offering, because its terms provided that the Company would not admit new shareholders pursuant to the Public Offering, or receive any proceeds therefrom, until subscriptions aggregating at least $2,000,000 (200,000 shares) were received and accepted by the Company, not including shares sold to residents of either New York or Pennsylvania. As of December 31, 2004, the Company had received and accepted subscriptions for a total of 147,432 shares for gross offering proceeds of $1,474,320 held in escrow as of such date.

As of February 11, 2005, the Company had accepted subscriptions for 277,775 shares (not including shares sold to residents of either New York or Pennsylvania) and, accordingly, 277,775 shares had been issued pursuant to the Public Offering as of such date with gross offering proceeds received of $2,777,750. The terms of the Public Offering provide that we will pay a dealer manager fee of up to 2.5% of the gross offering proceeds to D.H. Hill Securities, LLP, our dealer manager for the Public Offering, and also that we will pay selling commissions of up to 7.0% of the gross offering proceeds for any sales through participating broker-dealers and the dealer manager, other than sales by employees of the Management Company sponsored by the dealer manager. Additionally, in connection with the Public Offering, we have agreed to pay the Management Company, in its capacity as our advisor (i) up to 2.5% of the gross offering proceeds as reimbursement for the Management Company's payment of organization and offering expenses on behalf of the Company and (ii) an acquisition fee equal to 2.0% of the gross offering proceeds for its services in connection with the selection, purchase, development or construction of real property (payable upon receipt by the Company of such proceeds, rather than when a property is acquired). We accrued an aggregate of $218,260 in dealer manager fees and selling commissions for the subscriptions accepted through February 11, 2005, resulting in net proceeds to the Company (after the payment of such fees and commissions) of $2,559,490. Out of such net proceeds, we accrued amounts payable to the Management Company of $69,444 as a reimbursement of organization and offering expenses and $55,555 pursuant to the acquisition fee described above.

Additional subscription proceeds will be held in escrow until investors are admitted as shareholders. We intend to admit new stockholders at least monthly pursuant to the Public Offering. At that time, subscription proceeds may be released to the Company from escrow and applied to the making of investments and the payment or reimbursement of the dealer manager fee, selling commissions and other organization and offering expenses. Until required for such purposes, net offering proceeds will be held in short-term, liquid investments.

Recent Acquisitions

On September 8, 2004, the Company purchased Stafford Plaza, a retail shopping center containing approximately 95,032 rentable square feet located on an approximately 8.66-acre tract of land in Houston, Texas. The total purchase price of Stafford Plaza was $8.9 million, plus closing costs, and was paid through cash drawn on the Company's line of credit. The purchase price for the transaction was determined through negotiations between STPL Associates LP, the seller, and the Company. STPL Associates LP is not affiliated with the Company, Hartman REIT Operating Partnership, L.P., Hartman REIT Operating Partnership II, L.P., or Hartman Management, L.P. Stafford Plaza, which was built in 1974, includes among its major tenants The TJX Companies, Inc., Blockbuster, Inc. and Exxon Mobil Corporation. The current aggregate annual base rent for all tenants in Stafford Plaza is approximately $856,029.

On March 14, 2005, the Company purchased Woodlake Plaza, an office building containing approximately 106,169 rentable square feet located on an approximately 3.4963-acre tract of land in Houston, Texas. The total purchase price of Woodlake Plaza was $5.5 million, plus closing costs, and was paid through cash drawn on the Company's line of credit. The purchase price for the transaction was determined through negotiations between CSFB 1998-P1 Gessner Office Limited Partnership, the seller, and the Company. CSFB 1998-P1 Gessner Office Limited Partnership is not affiliated with the Company, Hartman REIT Operating Partnership, L.P., Hartman REIT Operating Partnership II, L.P., or Hartman Management, L.P. Woodlake Plaza, which was built in 1975, includes among its major tenants Hibernia Corporation, Management Alliance Group and Rock Solid Images. The current aggregate annual base rent for all tenants in Woodlake Plaza is approximately $1,370,403.

Investment Objectives and Criteria

The following is an overview of our current policies with respect to investments, borrowing, affiliate transactions, equity capital and certain other activities. All of these policies have been established in our governance documents or by our management and may be amended or revised from time to time (and at any time) by our management or trustees without a vote or the approval of our shareholders. Any change to these policies would be made, however, only after a review and analysis of such change, in light of then existing business and other circumstances, and then only if we believe that it is advisable to do so in the best interest of our shareholders. We cannot assure you that our policies or investment objectives will be attained or that the value of our common shares will not decrease.

General

We invest in commercial real estate properties, primarily neighborhood retail centers and office and industrial properties. Our primary business and investment objectives are:

- to maximize cash dividends paid to our shareholders;
- to continue to qualify as a REIT for federal income tax purposes;
- 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 our shareholders with liquidity for their investment in us 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 after the completion of the Public Offering.

In addition, to the extent that our advisor determines that it is advantageous to make or invest in mortgage loans, we will also seek to obtain fixed income through the receipt of payments on mortgage loans. 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. We cannot assure

you that we will attain these objectives or that our capital will not decrease. Pursuant to our advisory agreement, our advisor will be indemnified for claims relating to any failure to succeed in achieving these objectives.

We may not materially change our investment objectives, except upon approval of shareholders holding a majority of the shares. Our independent trustees will review our investment objectives at least annually to determine that our policies are in the best interests of our shareholders. Each such determination will be set forth in the minutes of our board of trustees. Decisions relating to the purchase or sale of our investments will be made by the Management Company, as our advisor, subject to approval by our board of trustees, including a majority of our independent trustees.

Acquisition and Investment Policies

We intend to continue to acquire community retail centers and office and industrial properties for long-term ownership and for the purpose of producing income. These are properties that generally have premier business addresses in especially desirable locations. Such properties generally are of high quality construction, offer personalized tenant amenities and attract higher quality tenants. We generally intend to hold our properties seven to ten years, which we believe is the optimal period to enable us to capitalize on the potential for increased income and capital appreciation of our properties. However, economic or market conditions may influence us to hold our investments for different periods of time. Also, it is our management's belief that targeting this type of property for investment will enhance our ability to enter into joint ventures with other institutional real property investors (such as pension funds, public REITs and other large institutional real estate investors), thus allowing greater diversity of investment by increasing the number of properties in which we invest. Our management also believes that a portfolio consisting of a preponderance of this type of property enhances our liquidity opportunities for investors by making the sale of individual properties, multiple properties or our investment portfolio as a whole attractive to institutional investors and by making a possible listing of our shares attractive to the public investment community.

We acquire assets primarily for income. Although we have historically invested in properties that have been constructed and have operating histories, we anticipate that we may become more active in investing in raw land or in properties that are under development or construction. To the extent feasible, we will invest in a portfolio of properties that will satisfy our investment objectives of maximizing cash available for payment of dividends, preserving our capital and realizing capital appreciation upon the ultimate sale of our properties.

Our policy is to continue to acquire properties in the Houston and San Antonio, Texas metropolitan areas where we believe opportunities exist for acceptable investment returns. We anticipate that we will continue to focus on properties in the $1,000,000 to $10,000,000 value range. We typically lease our properties to a wide variety of tenants on a "triple-net" basis which means that the tenant is responsible for paying the cost of all maintenance and minor repairs, property taxes and insurance relating to its leased space. Our management believes that its extensive experience, market knowledge and network of industry contacts in the Houston and San Antonio metropolitan areas, and the limitation of our investments to this area, gives us a competitive advantage and enhances our ability to identify and capitalize on acquisitions. Although we anticipate that we will continue to focus primarily on acquisition opportunities in Houston and San Antonio, Texas, we are also exploring opportunities in Texas outside of Houston and San Antonio. Specifically, we are exploring the feasibility of acquiring commercial real estate in Dallas, Texas.

Although, we currently intend to invest in or develop community retail centers and other office and industrial properties in the Houston and San Antonio metropolitan areas, our future investment or redevelopment activities are not limited to any geographic area or to a specified property use. We may invest in any geographic area and we may invest in other commercial properties such as manufacturing facilities, and warehouse and distribution facilities in order to reduce overall portfolio risk, enhance overall portfolio returns, or respond to changes in the real estate market if our advisor determines that it would be advantageous to do so. Further, to the extent that our advisor determines it is in our best interest, due to the state of the real estate market or in order to diversify our investment portfolio or otherwise, we may make or invest in mortgage loans secured by the same types of commercial properties in which we intend to invest. 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.

Although we are not limited as to the form our investments may take, all of our properties are owned by the Operating Partnership or by a wholly owned subsidiary of the Operating Partnership in fee simple title. We expect to continue to pursue our investment objectives through the direct ownership of properties. However, in the future, we may also participate with other entities (including non-affiliated entities) in property ownership, through joint ventures, limited liability companies, partnership, co-tenancies or other types of common ownership. We presently have no plans to own any properties jointly with another entity or entities. In addition, we may purchase properties and lease them back to the sellers of such properties. While we will use our best efforts to structure any such sale-leaseback transaction such that the lease will be characterized as a "true lease" so that we will be treated as the owner of the property for federal income tax purposes, we cannot assure you that the Internal Revenue Service will not challenge such characterization. In the event that any such sale-leaseback transaction is recharacterized as a financing transaction for federal income tax purposes, deductions for depreciation and cost recovery relating to such property would be disallowed.

We may also enter into arrangements with the seller or developer of a property whereby the seller or developer agrees that, if during a stated period the property does not generate a specified cash flow, the seller or developer will pay in cash to us a sum necessary to reach the specified cash flow level, subject in some cases to negotiated dollar limitations.

In determining whether to purchase a particular property, we may, in accordance with customary practices, obtain an option on such property. The amount paid for an option, if any, is normally surrendered if the property is not purchased and is normally credited against the purchase price if the property is purchased.

In purchasing, leasing and developing properties, the Company will be subject to risks generally incident to the ownership of real estate, including:

changes in general or local economic conditions;

changes in supply of or demand for similar or competing properties in an area;

changes in interest rates and availability of permanent mortgage funds that may render the sale of a property difficult or unattractive;

adverse changes in tax, real estate, environmental and zoning laws;

a taking of any of our properties by eminent domain;

acts of God, such as earthquakes or floods and other uninsured losses;

periods of high interest rates and tight money supply that may make the sale of properties more difficult;

a reduction in rental income as a result of the inability to maintain occupancy levels due to tenant turnover or tenant bankruptcies; and

general overbuilding or excess supply in the market area.

Some or all of the foregoing factors may affect our properties, which could adversely affect our operations and ability to pay dividends to shareholders. The Company and its performance will be subject to additional risks as have been listed in the Company's Registration Statement on Form S-11, as amended, as previously filed with the Securities and Exchange Commission.

Terms of Leases and Tenant Credit Worthiness

While the terms and conditions of any lease that we enter into with our tenants may vary substantially from those described herein, we expect that a majority of our leases will be office leases customarily used between landlords and tenants in the geographic area where the property is located. Such leases generally provide for terms of three to five years and require the tenant to pay a pro rata share of building expenses. Under such typical leases,

the landlord is directly responsible for all real estate taxes, sales and use taxes, special assessments, utilities, insurance and building repairs, and other building operation and management costs.

We will execute new tenant leases and tenant lease renewals, expansions and extensions with terms that are dictated by the current submarket conditions and the verifiable creditworthiness of each particular tenant. We will use a number of industry credit rating services to determine the creditworthiness of potential tenants and any personal guarantor or corporate guarantor of each potential tenant. The reports produced by these services will be compared to the relevant financial data collected from these parties before consummating a lease transaction. Our advisor will promulgate leasing guidelines for use by the Management Company in evaluating prospective tenants and proposed lease terms and conditions.

Borrowing Policies

Most of our current properties are subject to mortgages. If we acquire a property for cash in the future, we will most likely fund a portion of the purchase price with debt. By operating and acquiring on a leveraged basis, we will have more funds available for investment in properties. This will allow us to make more investments than would otherwise be possible, resulting in a more diversified portfolio of assets. When interest rates on mortgage loans are high or financing is otherwise unavailable on a timely basis, we may purchase certain properties for cash with the intention of obtaining a mortgage loan for a portion of the purchase price at a later time.

Our organizational and governance documents generally limit the maximum amount of indebtedness that we may incur to 300% of our net assets as of the date of any borrowing. Notwithstanding the foregoing, we may exceed such borrowing limits if any excess in borrowing over such 300% level is approved by a majority of our independent trustees and disclosed to our shareholders in a subsequent quarterly report. Further, we do not have a policy limiting the amount of indebtedness we may incur or the amount of mortgages which may be placed on any one piece of property. As a general policy, however, we intend to maintain a ratio of total liabilities to total assets that is less than 50%. As of December 31, 2004, we had a ratio of total liabilities to total assets of 46.5%. However, we may not be able to continue to achieve this objective.

The Management Company will refinance properties during the term of a loan only in limited circumstances, such as when a decline in interest rates makes it beneficial to prepay an existing mortgage, when an existing mortgage matures or if an attractive investment becomes available and the proceeds from the refinancing can be used to purchase such investment. The benefits of the refinancing may include an increased cash flow resulting from reduced debt service requirements, an increase in dividend distributions from proceeds of the refinancing, and an increase in property ownership if refinancing proceeds are reinvested in real estate.

We may not borrow money from any of our trustees or from the Management Company and its affiliates unless such loan is approved by a majority of the trustees, including a majority of the independent trustees, not otherwise interested in the transaction as fair, competitive and commercially reasonable and no less favorable to us than a comparable loan between unaffiliated parties.

Disposition Policies

We intend to hold each property that we acquire for an extended period, and we have no current intention to dispose of any of our properties. However, a property may be sold before the end of the expected holding period if, in the judgment of the Management Company, the value of the property might decline substantially, an opportunity has arisen to improve other properties, we can increase cash flow through the disposition of the property, or the sale of the property is in our best interests. The determination of whether a particular property should be sold or otherwise disposed of will be made after consideration of relevant factors, including prevailing economic conditions, with a view to achieving maximum capital appreciation. The selling price of a leased property will be determined in large part by the amount of rent payable by the tenants. The terms of payment will be affected by custom in the area in which the property being sold is located and the then-prevailing economic conditions.

If our shares are not listed for trading 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 the Public Offering, unless such date is extended by the majority vote of both our board of trustees and our independent trustees, our Declaration of Trust requires us to begin the sale of all of our properties and distribution to our shareholders of the

net sale proceeds resulting from our liquidation. If at any time after twelve years of the termination of the Public Offering we are not in the process of either (i) listing our shares for trading on a national securities exchange or including such shares for quotation on the Nasdaq Stock Market or (ii) liquidating our assets, investors holding a majority of our shares may vote to liquidate us in response to a formal proxy to liquidate. Depending upon then prevailing market conditions, it is our intention to begin to consider the process of listing or liquidation prior to the twelfth anniversary of the termination of the Public Offering. In making the decision to apply for listing of our shares, the trustees will try to determine whether listing our shares or liquidating our assets will result in greater value for our shareholders. The circumstances, if any, under which the trustees will agree to list our shares cannot be determined at this time. Even if our shares are not listed or included for quotation, we are under no obligation to actually sell our portfolio within this period since the precise timing will depend on real estate and financial markets, economic conditions of the areas in which the properties are located and federal income tax effects on shareholders that may prevail in the future. We may not be able to liquidate our assets. We will continue in existence until all properties are sold and our other assets are liquidated.

Securities of or Interests in Persons Primarily Engaged in Real Estate Activities and Other Issuers

Consistent with the requirements necessary to maintain our qualification as a REIT for Federal income tax purposes, we may acquire securities of entities engaged in real estate activities or securities of other issuers, including for the purpose of exercising control over such entities. We may acquire all or substantially all of the securities or assets of REITs or similar entities where such investments would be consistent with our investment policies. We anticipate that we will only acquire securities or other interests in issuers engaged in commercial real estate activities involving retail, office or industrial properties. We may also invest in entities owning undeveloped acreage. Neither our Declaration of Trust nor our bylaws place any limit or restriction on the percentage of our assets that may be invested in securities of or interests in other issuers. The governance documents of the Operating Partnership also do not contain any such restrictions.

We may also invest in limited partnership and other ownership interests in entities that own real property. We expect that we may make such investments when we consider it more efficient to acquire an entity owning such real property rather than to acquire the properties directly. We also may acquire less than all of the ownership interests of such entities if we determine that such interests are undervalued and that a liquidation event in respect of such interests are expected within the investment holding periods consistent with that for our direct property investments.

Other than our interest in the Operating Partnership, we currently do not own any securities of other entities. We do not presently intend to acquire securities of any non-affiliated entities.

Equity Capital

If our trustees determine to raise additional equity capital, they have the authority, without shareholder approval, to issue additional common shares or preferred shares of beneficial interests. Additionally, our trustees could cause the Operating Partnership to issue OP Units which are convertible into our common shares. Subject to limitations contained in the organizational and governance documents of the Operating Partnership and us, the trustees could issue, or cause to be issued, such securities in any manner (and on such terms and for such consideration) they deem appropriate, including in exchange for real estate. We have issued securities in exchange for real estate and we expect to continue to do so in the future. Existing shareholders have no preemptive right to purchase such shares in any offering, and any such offering might cause dilution of an existing shareholder's investment in the Company.

Environmental Matters

All real property and the operations conducted on real property are subject to federal, state and local laws and regulations relating to environmental protection and human health and safety. These laws and regulations generally govern wastewater discharges, air emissions, the operation and removal of underground and above-ground storage tanks, the use, storage, treatment, transportation and disposal of solid and hazardous materials, and the remediation of contamination associated with disposals. Under these laws and regulations, a current or previous owner or operator of real property may be liable for the cost of removal or remediation of hazardous or toxic substances on, under or in such property. Some of these laws and regulations may impose joint and several liability

on tenants, owners or operators for the costs of investigation or remediation of contaminated properties, regardless of fault or the legality of the original disposal and whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances.

Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require substantial expenditures. Environmental laws provide for sanctions in the event of noncompliance and may be enforced by governmental agencies or, in certain circumstances, by private parties. Certain environmental laws and common law principles could be used to impose liability for release of and exposure to hazardous substances, including asbestos-containing materials into the air, and third parties may seek recovery from owners or operators of real properties for personal injury or property damage associated with exposure to released hazardous substances. Additionally, concern about indoor exposure to mold has been increasing as exposure to mold may cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold at any of our properties could require us to undertake a costly remediation program to contain or remove the mold from the affected property, and could expose us to liability from our tenants, their employees and others. The cost of defending against claims of liability, of compliance with environmental regulatory requirements, of remediating any contaminated property, or of paying personal injury claims could materially adversely affect our business, assets or results of operations and, consequently, amounts available for payments of dividends to the Company's shareholders. In addition, the presence of these substances, or the failure to properly remediate these substances, may adversely affect our ability to sell or rent such property or to use the property as collateral for future borrowing.

Some of these laws and regulations have been amended so as to require compliance with new or more stringent standards as of future dates. Compliance with new or more stringent laws or regulations or stricter interpretation of existing laws may require material expenditures by us. We cannot assure you that future laws, ordinances or regulations will not impose any material environmental liability, or that the current environmental condition of our properties will not be affected by the operations of the tenants, by the existing condition of the land, by operations in the vicinity of the properties, such as the presence of underground storage tanks, or by the activities of unrelated third parties. In addition, there are various local, state and federal fire, health, life-safety and similar regulations that we may be required to comply with, and which may subject us to liability in the form of fines or damages for noncompliance.

We will not purchase any property unless and until we obtain what is generally referred to as a "Phase I" environmental site assessment and are generally satisfied with the environmental status of the property. A Phase I environmental site assessment basically consists of a visual survey of the building and the property in an attempt to identify areas of potential environmental concerns, visually observing neighboring properties to assess surface conditions or activities that may have an adverse environmental impact on the property, and contacting local governmental agency personnel and performing a regulatory agency file search in an attempt to determine any known environmental concerns in the immediate vicinity of the property. A Phase I environmental site assessment does not generally include any sampling or testing of soil, groundwater or building materials from the property. Certain properties that we have acquired contain, or contained, dry-cleaning establishments utilizing solvents. Where believed to be warranted, samplings of building materials or subsurface investigations were undertaken with respect to these and other properties. To date, the costs associated with these investigations and any subsequent remedial measures taken have not been material to the Company.

We believe that our properties are in compliance in all material respects with all federal, state and local ordinances and regulations regarding the handling, discharge and emission of hazardous or toxic substances. We have not been notified by any governmental authority, and are not otherwise aware, of any material noncompliance, liability or claim relating to hazardous or toxic substances in connection with any of our present or former properties. We have not recorded in our financial statements any material liability in connection with environmental matters. Nevertheless, it is possible that the environmental assessments available to us do not reveal all potential environmental liabilities. It is also possible that subsequent investigations will identify material contamination, that adverse environmental conditions have arisen subsequent to the performance of the environmental assessments, or that there are material environmental liabilities of which management is unaware.

Competition

The Company may experience competition for tenants from owners and managers of similar projects, which may include the Company's affiliates. The Company will experience competition in the acquisition of real estate and the making of mortgages from similar companies with access to greater resources than those available to the Company. At the time the Company elects to dispose of its properties, the Company will also be in competition with sellers of similar properties to locate suitable purchasers for its properties.

Employees

Although we have executive officers who have management responsibilities with respect to the Company, we do not have any direct employees. The employees of the Management Company and other affiliates of the Company perform a full range of real estate services for the Company, including acquisitions, property management, accounting, asset management, wholesale brokerage and investor relations. As of December 31, 2004, the Management Company had 81 full time and one part time employees, none of whom was represented by a union.

Economic Dependency

The Company is dependent on its affiliates for services that are essential to the Company, including the sale of the Company's shares of common stock, asset acquisition decisions, property management and other general administrative responsibilities. In the event that these companies were unable to provide these services to the Company, the Company would be required to obtain such services from other sources.

Relationship with the Management Company and Allen R. Hartman

The Management Company is primarily responsible for managing our day-to-day business affairs and assets and carrying out the directives of our board of trustees. The Management Company is wholly owned by Allen R. Hartman, who is our President and a member of our board of trustees. Mr. Hartman is primarily responsible for the management decisions of the Management Company and its affiliates, including the selection of investment properties to be recommended to our board of trustees, the negotiation for these investments, and the property management and leasing of these investment properties. The Management Company seeks to invest in commercial properties that satisfy our investment objectives, typically retail, industrial and office properties. Our board of trustees, including a majority of our independent trustees, must approve all acquisitions of real estate properties.

Before the commencement of the Company's Public Offering described above, Mr. Hartman received 126,000 of our common shares of beneficial interest for services he provided in connection with our formation and initial capitalization. As of December 31, 2004, we had acquired a total of 34 properties. We acquired 28 of those 34 properties from entities controlled by Mr. Hartman. We acquired these properties by either paying cash, issuing our shares or issuing units of limited partnership interest in the Operating Partnership ("OP Units"). In total, Mr. Hartman received the following as a result of such transactions:

897,117.19 OP Units, as adjusted to reflect the Company's July 2004 reorganization, in consideration of Mr. Hartman's general partner interest in the selling entities;

The ability to limit his future exposure to general partner liability as a result of Mr. Hartman no longer serving as the general partner to certain of the selling entities; and

The repayment of debt encumbering various of our properties which was personally guaranteed by Mr. Hartman.

We owed $47,386 and $41,306 in dividends payable to Mr. Hartman on his common shares at December 31, 2004 and December 31, 2003, respectively. Mr. Hartman owned 3.9% and 3.4% of our issued and outstanding common shares as of December 31, 2004 and December 31, 2003, respectively.

Property Management and Advisory Agreements

In January 1999, we entered into a property management agreement with the Management Company. Effective September 1, 2004, this agreement was amended and restated. Prior to September 1, 2004, in consideration for supervising the management and performing various day-to-day affairs, we paid the Management Company a management fee of 5% and a partnership management fee of 1% based on Effective Gross Revenues from the properties, as defined. After September 1, 2004, we pay the Management Company management fees in an amount not to exceed the fees customarily charged in arm's length transactions by others rendering similar services in the same geographic area, as determined by a survey of brokers and agents in such area. We expect these fees to be between approximately 2% and 4% of Gross Revenues, as such term is defined in the amended and restated property management agreement, for the management of commercial office buildings and approximately 5% of Gross Revenues for the management of retail and industrial properties. Effective September 1, 2004, we entered into an advisory agreement with the Management Company which provides that we pay the Management Company a fee of one-fourth of .25% of Gross Asset Value, as such term is defined in the advisory agreement, per quarter for asset management services. We incurred total management, partnership and asset management fees of $1,339,822 and $1,232,127 for the years ended December 31, 2004 and 2003, respectively, of which $54,331 and $93,006 were payable at December 31, 2004 and 2003, respectively.

During July 2004, we amended certain terms of its Declaration of Trust. Under the amended terms, the Management Company may be required to reimburse us for operating expenses exceeding certain limitations determined at the end of each fiscal quarter. Expenses did not exceed the limitations in 2004.

Under the provisions of the property management agreements, costs incurred by the Management Company for the management and maintenance of the properties are reimbursable to the Management Company. At December 31, 2004 and 2003, $188,772 and $288,305, respectively, was payable to the Management Company related to these reimbursable costs.

In consideration of leasing the properties, we also pay the Management Company leasing commissions of 6% for leases originated by the Management Company and 4% for expansions and renewals of existing leases based on Effective Gross Revenues from the properties. We incurred total leasing commissions to the Management Company of $952,756 and $978,398 for the years ended December 31, 2004 and 2003, respectively, of which $232,343 and $175,725 were payable at December 31, 2004 and 2003, respectively.

The fees payable to the Management Company under the new agreements effective September 1, 2004 were not significantly different from those that would have been payable under the former agreement.

In connection with the Public Offering, we reimburse the Management Company up to 2.5% of the gross selling price of all common shares sold for organization and offering expenses (excluding selling commissions and a dealer manager fee) incurred by the Management Company on behalf of us. No such reimbursable expenses were incurred for the year ended December 31, 2004 because we had not received the minimum subscription proceeds required to break escrow. As of February 11, 2005, we had incurred reimburseable organization and offering expenses of $69,444.

Also in connection with the Public Offering, the Management Company receives an acquisition fee equal to 2% of the gross selling price of all common shares sold for services in connection with the selection, purchase, development or construction of properties for us. No such fees were incurred for the year ended December 31, 2004 because we had not received the minimum subscription proceeds required to break escrow. As of February 11, 2005, we had incurred acquisition fees payable to the Management Company of $55,555.

Pursuant to the requirements of our Declaration of Trust, we have undertaken that, if our shares are not listed for trading 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 the Public Offering, unless such date is extended by the majority vote of both our board of trustees and our independent trustees, we will begin the sale of all of our properties and distribution to our shareholders of the net sale proceeds resulting from our liquidation. The advisory agreement provides for two alternative forms of additional, subordinated incentive compensation to the Management Company related to this contingency, the first of which will take effect if we are required to liquidate our properties and distribute the proceeds, and the second of which will take effect if our common shares become listed on a national securities exchange or the Nasdaq National Market:

Type of Compensation	Amount of Compensation
Subordinated Participation in Net Sale Proceeds (payable only if our shares are not listed on an exchange and the Company is liquidated)	15.0% of remaining amounts of net sale proceeds after return of investors' capital plus payment to investors of a 7.0% annual, cumulative, noncompounded return on capital. 20.0% of any such Subordinate Participation in Net Sale Proceeds (up to 1.0% of gross proceeds from the Public Offering) will be distributed by the Management Company to the dealer manager, which in turn will redistribute such amount to certain broker-dealers participating in the Public Offering.
Subordinated Incentive Listing Fee (payable only if our shares are listed on an exchange)	15.0% of the amount (if any) by which (i) our adjusted market value plus dividends paid by us prior to listing with respect to the shares sold in the Public Offering exceeds (ii) investors' aggregate capital contributions plus payment to investors of a 7.0% annual, cumulative, noncompounded return on capital. 20.0% of any such Subordinated Incentive Listing Fee (up to 1.0% of gross proceeds from the Public Offering) will be distributed by the Management Company to the dealer manager, which in turn will redistribute such amount to certain broker-dealers participating in the Public Offering.

Payments from the Management Company

The Management Company paid the Company $106,824, $106,789 and $79,168 for office space in 2004, 2003 and 2002, respectively. Such amounts are included in rental income in our consolidated statements of income.

Relationship to the Dealer Manager for the Public Offering

Certain employees of D.H. Hill Securities, the dealer manager for our Public Offering, are also employees of the Management Company. Two of such persons who will have a significant amount of influence on D.H. Hill Securities' day-to-day operations in its capacity as dealer manager for us are Robert W. Engel, our Chief Financial Officer and the Controller of the Management Company, and Richard A. Vaughan, Vice President and Director of Investor Services for the Management Company.

Conflicts of Interest

We are subject to various conflicts of interest arising out of our relationship with the Management Company and its affiliates, including conflicts related to the arrangements described above pursuant to which the Management Company and its affiliates will be compensated by us. Some of the conflicts of interest in our transactions with the Management Company and its affiliates, and the corporate governance measures we adopted to address these conflicts, are described below.

Interests in Other Real Estate Programs

The Management Company and its partners, officers, employees or affiliates are advisors or general partners of other Hartman programs, including partnerships that have investment objectives similar to ours, and we expect that they will organize other such programs in the future. The Management Company and such officers, employees or affiliates have legal and financial obligations with respect to these programs that are similar to their obligations to us.

Allen R. Hartman and his affiliates have sponsored other privately offered real estate programs with substantially similar investment objectives as ours, and which are still operating and may acquire additional properties in the future. Conflicts of interest may arise between these entities and us.

Mr. Hartman or his affiliates may acquire, for their own account or for private placement, properties that Mr. Hartman deems not suitable for purchase by us, whether because of the greater degree of risk, the complexity of structuring inherent in such transactions, financing considerations or for other reasons, including properties with potential for attractive investment returns.

Competition in Acquiring Properties

Conflicts of interest will exist to the extent that we may acquire properties in the same geographic areas where properties owned by other Hartman programs are located. In such a case, a conflict could arise in the leasing of properties in the event that we and another Hartman program were to compete for the same tenants in negotiating leases, or a conflict could arise in connection with the resale of properties in the event that we and another Hartman program were to attempt to sell similar properties at the same time. Conflicts of interest may also exist at such time as we or our affiliates managing property on our behalf seek to employ developers, contractors or building managers as well as under other circumstances. The Management Company will seek to reduce conflicts relating to the employment of developers, contractors or building managers by making prospective employees aware of all such properties seeking to employ such persons. In addition, the Management Company will seek to reduce conflicts that may arise with respect to properties available for sale or rent by making prospective purchasers or tenants aware of all such properties. However, these conflicts cannot be fully avoided in that there may be established differing compensation arrangements for employees at different properties or differing terms for resales or leasing of the various properties.

Affiliated Property Manager

We anticipate that properties we acquire will be managed and leased by the Management Company as our affiliated property manager, pursuant to the Management Agreement described above. The Management Agreement has a three-year term, which we can terminate only in the event of gross negligence or willful misconduct on the part of the Management Company. We expect the Management Company to also serve as property manager for properties owned by affiliated real estate programs, some of which may be in competition with our properties. As described above, management fees to be paid to the Management Company are based on a percentage of the rental income received by the managed properties.

Joint Ventures with Affiliates of the Management Company

We may determine to enter into joint ventures with other Hartman programs (as well as other parties) for the acquisition, development or improvement of properties. The Management Company and its affiliates may have conflicts of interest in determining which Hartman program should enter into any particular joint venture agreement. The co-venturer may have economic or business interests or goals which are or which may become inconsistent with our business interests or goals. In addition, should any such joint venture be consummated, the Management Company may face a conflict in structuring the terms of the relationship between our interests and the interest of the co-venturer and in managing the joint venture. Since the Management Company and its affiliates will control both us and any affiliated co-venturer, agreements and transactions between the co-venturers with respect to any such joint venture will not have the benefit of arm's-length negotiation of the type normally conducted between unrelated co-venturers.

Receipt of Fees and Other Compensation by the Management Company and its Affiliates

A transaction involving the purchase and sale of properties may result in the receipt of commissions, fees and other compensation by the Management Company and its affiliates, including acquisition fees, the dealer manager fee, property management and leasing fees, real estate brokerage commissions, and participation in nonliquidating net sale proceeds. However, the fees and compensation payable to the Management Company and its affiliates relating to the sale of properties are only payable after the return to the shareholders of their capital contributions plus cumulative returns on such capital. Subject to oversight by our board of trustees, the Management Company has considerable discretion with respect to all decisions relating to the terms and timing of

all transactions. Therefore, the Management Company may have conflicts of interest concerning certain actions taken on our behalf, particularly due to the fact that such fees will generally be payable to the Management Company and its affiliates regardless of the quality of the properties acquired or the services provided to us.

No Arm's-Length Agreements

All agreements, contracts or arrangements between or among Mr. Hartman and his affiliates, including the Management Company, and us were not negotiated at arm's-length. Such agreements include the Management Agreement, our Declaration of Trust, the Operating Partnership's partnership agreement, and various agreements involved in our acquisition of properties acquired from Mr. Hartman or his affiliates. The policies with respect to conflicts of interest described herein were designed to lessen the potential conflicts that arise from such relationships. As described below, all conflict of interest transactions must also be approved by the conflicts committee of our board of trustees in the future.

Additional Conflicts of Interest

We will potentially be in conflict of interest positions with Mr. Hartman and the Management Company as to various other matters in our day-to-day operations, including matters related to the:

- computation of fees and/or reimbursements under the Operating Partnership's partnership agreement and the Management Agreement;
- enforcement of the Management Agreement;
- termination of the Management Agreement;
- order and priority in which we pay the obligations of the Operating Partnership, including amounts guaranteed by or due to Mr. Hartman or his affiliates;
- order and priority in which we pay amounts owed to third parties as opposed to amounts owed to the Management Company;
- timing, amount and manner in which we refinance any indebtedness; and
- extent to which we repay or refinance the indebtedness which is recourse to Mr. Hartman prior to nonrecourse indebtedness and the terms of any such refinancing.

Certain Conflict Resolution Procedures

Conflicts Committee

In order to reduce or eliminate certain potential conflicts of interest, we have created a conflicts committee of our board of trustees comprised of all of our independent trustees. Serving on the board or, or owning an interest in, the Company will not, by itself, preclude a trustee from serving on the conflicts committee. The conflicts committee is empowered to act on any matter permitted under Maryland law, provided that it first determine that the matter at issue is such that the exercise of independent judgment by affiliates of the Management Company could reasonably be compromised. Those conflict of interest matters that we cannot delegate to a committee under Maryland law must be acted upon by both the board of trustees and the conflicts committee. Among the matters we expect the conflicts committee to act upon are:

- the continuation, renewal or enforcement of our agreements with the Management Company and its affiliates, including the Advisory Agreement and the dealer manager agreement;
- public offerings of securities;

property sales;

property acquisitions;

transactions with affiliates;

compensation of our officers and trustees who are affiliated with our advisors;

whether and when we seek to list our common shares on the New York Stock Exchange, the American Stock Exchange, the Nasdaq National Market or another national exchange; and

whether and when we seek to sell the company or its assets.

Other Declaration of Trust Provisions Relating to Conflicts of Interest

In addition to the creation of the conflicts committee, our Declaration of Trust contains many other restrictions relating to (1) transactions we enter into with the Management Company and its affiliates, (2) certain future offerings, and (3) allocation of investment opportunities among affiliated entities. These restrictions include, among others, the following:

We will not purchase or lease properties in which the Management Company, any of our trustees or any of their respective affiliates has an interest without a determination by a majority of the trustees, including a majority of the independent trustees, not otherwise interested in such transaction, that such transaction is fair and reasonable to us and at a price to us no greater than the cost of the property to the seller or lessor unless there is substantial justification for any amount that exceeds such cost and such excess amount is determined to be reasonable. In no event will we acquire any such property at an amount in excess of its appraised value. We will not sell or lease properties to the Management Company, any of our trustees or any of their respective affiliates unless a majority of the trustees, including a majority of the independent trustees, not otherwise interested in the transaction, determines the transaction is fair and reasonable to us.

We will not make any loans to the Management Company, any of our trustees or any of their respective affiliates, except that we may make or invest in mortgage loans involving the Management Company, our trustees or their respective affiliates, provided that an appraisal of the underlying property is obtained from an independent appraiser and the transaction is approved as fair and reasonable to us and on terms no less favorable to us than those available from third parties. In addition, the Management Company, any of our trustees and any of their respective affiliates will not make loans to us or to joint ventures in which we are a joint venture partner unless approved by a majority of the trustees, including a majority of the independent trustees, not otherwise interested in the transaction as fair, competitive and commercially reasonable, and no less favorable to us than comparable loans between unaffiliated parties.

The Management Company and its affiliates shall be entitled to reimbursement, at cost, for actual expenses incurred by them on behalf of us or joint ventures in which we are a joint venture partner, subject to the limitation that for any year in which we qualify as a REIT, the Management Company must reimburse us for the amount, if any, by which our total operating expenses, including the asset management fee, paid during the previous fiscal year exceeds the greater of: (i) 2.0% of our average invested assets for that fiscal year, or (ii) 25.0% of our net income, before any additions to reserves for depreciation, bad debts or other similar non-cash reserves and before any gain from the sale of our assets, for that fiscal year.

In the event that an investment opportunity becomes available that is suitable, under all of the factors considered by the Management Company, for both us and one or more other entities affiliated with the Management Company and its affiliates, and for which more than one of such entities has sufficient uninvested funds, then the entity that has had the longest period of time elapse since it was offered an investment opportunity will first be offered such investment opportunity. It shall be the duty of our board of trustees, including the independent trustees, to insure that this method is applied fairly to us. In determining whether or not an investment opportunity is suitable for more than one program, the Management Company, subject to approval by our board of trustees, shall examine, among others, the following factors:

- the anticipated cash flow of the property to be acquired and the cash requirements of each program;
- the effect of the acquisition both on diversification of each program's investments by type of property and geographic area and on diversification of the tenants of its properties;
- the policy of each program relating to leverage of properties;
- the income tax effects of the purchase to each program;
- the size of the investment; and
- the amount of funds available to each program and the length of time such funds have been available for investment.

If a subsequent development, such as a delay in the closing of a property or a delay in the construction of a property, causes any such investment, in the opinion of our board of trustees and the Management Company, to be more appropriate for a program other than the program that committed to make the investment, the Management Company may determine that another program affiliated with the Management Company or its affiliates will make the investment. Our board of trustees has a duty to ensure that the method used by the Management Company for the allocation of the acquisition of properties by two or more affiliated programs seeking to acquire similar types of properties is applied fairly to us.

We will not accept goods or services from the Management Company or its affiliates or enter into any other transaction with the Management Company or its affiliates unless a majority of our trustees, including a majority of the independent trustees, not otherwise interested in the transaction approve such transaction as fair and reasonable to us and on terms and conditions not less favorable to us than those available from unaffiliated third parties.

Financial Information About Segments

See Note 14 to the consolidated financial statements for information about our reportable segments.

Web Site Address

The Company electronically files its Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports with the Securities and Exchange Commission ("SEC"). Copies of the Company's filings with the SEC may be obtained from the Company's website at www.hartmanmgmt.com or at the SEC's website, at http://www.sec.gov. Access to these filings is free of charge. The Company's code of ethics and certain other corporate governance documentation may also be obtained from the Company's website at www.hartmanmgmt.com. The information on our web site is not, and should not be considered to be, a part of this report.

Item 2. Description of Real Estate and Operating Data.

On December 31, 2004, the Company owned the 34 properties discussed below. All of the Company's properties are located in the metropolitan Houston, Texas and San Antonio, Texas areas. The Company's properties primarily consist of retail centers and each is designed to meet the needs of surrounding local communities. A supermarket or one or more nationally and/or regionally recognized tenants typically anchors each of the Company's properties. In the aggregate, the Company's properties contain approximately 2,635,000 square feet of gross leasable area. No individual property in the Company's portfolio currently accounts for more than 10% of the Company's aggregate leasable area.

As of December 31, 2004, the Company's properties were approximately 86.2% leased. Anchor space at the properties, representing approximately 10.0% of total leasable area, was 91.4% leased, while non-anchor space, accounting for the remaining 90.0% balance, was approximately 85.6% leased. A substantial number of the Company's tenants are local tenants. Indeed, 74.5% of the Company's tenants are local tenants and 12.2% and 13.3% of the Company's tenants are national and regional tenants, respectively. The Company defines:

national tenants as any tenant that operates in at least four metropolitan areas located in more than one region (i.e. Northwest, Midwest, Southwest or Southeast);

regional tenants as any tenant that operates in two or more metropolitan areas located within the same region; and

local tenants as any tenant that operates stores only within the metropolitan Houston, Texas or San Antonio, Texas area.

Substantially all of the Company's revenues consist of base rents and percentage rents received under long-term leases. For the year ended December 31, 2004, total rents and other income were $23,106,301 and percentage rents were $-0-. Approximately 66.5% of all existing leases provide for annual increases in the base rental payments with a "step up" rental clause.

The following table lists the five properties that generated the most rents during the year 2004.

Property		Total Rents Received in 2004	Percent of Company's Total Rents Received in 2004
Windsor Park	$	2,210,247	9.57%
Corporate Park West		1,700,224	7.36
Corporate Park Northwest		1,547,294	6.70
Lion Square		1,256,219	5.44
Plaza Park		1,016,687	4.40
Total	$	7,730,671	33.47%

The Company currently does not have any individual properties that are material to its operations. As of December 31, 2004, the Company had no property that accounted for over 10% of either the Company's total assets or total gross revenue.

The next several pages contain summary information for the properties the Company owned on December 31, 2004.

General Physical Attributes

The following table lists, for all properties the Company owned on December 31, 2004, the year each property was developed or significantly renovated, the total leasable area of each property, the purchase price the Company paid for such property and the anchor or largest tenant at such property.

Property	Year Developed/ Renovated	Total Leasable Area (Sq. Ft.)	Purchase Price	Anchor or Largest Tenant
Bissonnet/Beltway	1978	29,205	$ 2,361,323	Cash America International
Webster Point	1984	26,060	1,870,365	Houston Learning Academy
Centre South	1974	44,593	2,077,198	Carlos Alvarez
Torrey Square	1983	105,766	4,952,317	99 Cents Only Stores
Providence	1980	90,327	4,592,668	99 Cents Only Stores
Holly Knight	1984	20,015	1,612,801	Quick Wash Laundry
Plaza Park	1982	105,530	4,195,116	American Medical Response
Northwest Place II	1984	27,974	1,089,344	Terra Mar, Inc.
Lion Square	1980	119,621	5,835,108	Kroger Food Stores, Inc.