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## Working the REIT numbers game

Veteran real estate fund operator hopes No. 20 brings in \$250M

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Al Hartman hopes to raise \$250 million in a nontraded real estate investment trust recently green-lighted by the U.S. Securities and Exchange Commission.

Hartman Short Term Income Properties XX Inc. is offering the stock to the public, with proceeds earmarked for the acquisition of office and retail buildings throughout Texas.

This is the latest investment vehicle to emerge through Hartman, who runs a collection of Houston-based real estate companies and funds that bear his name.

Hartman has typically created private, nontraded real estate investment trusts, or REITs, which raise money from investors whose net worth is typically north of \$1 million.

Hartman Short Term Income Properties XX — or No. 20, as Hartman describes it — is a public, rather than private, nontraded REIT. That classification means it can raise money from nonaccredited investors with net worth as low as \$250,000.

Despite the fact that some industry experts note the market may be becoming saturated by funds looking to capitalize on the dramatic drop in real estate prices, Hartman wanted access to a wider investment pool so he can attempt to raise more money in one fund than ever before.

### MORE COMPETITION

“The buying opportunity is better now than it’s been in 20 years,” says Hartman, CEO of No. 20. “It’s probably the best time to buy properties in a generation.”



MICHAEL STRAVATO/HBJ

**Al Hartman: ‘We’re looking at this like we’re a kid in a candy store.’**

Previous Hartman funds did not purchase properties from late 2005 to mid-2007 when values had peaked, but have snapped up approximately 10 assets in the last two years.

“We’ve been buying with a vengeance,” he says. “We’re looking at this like we’re a kid in a candy store.”

Other U.S. investment funds can also smell the sweet aroma of a buying opportunity.

Indeed, competition for investment dollars and prime properties has increased as real estate funds position themselves to pounce.

There are only three dozen public nontraded REITs currently raising funds, and most are much larger than Hartman’s No. 20 hopes to become.

The three largest REITs based on assets under management as of January that are still raising funds were: Georgia-based Wells Real Estate Investment Trust II Inc. (\$5.4 billion); Houston-based Hines Real Estate Investment Trust Inc. (\$3.4 billion); and Florida-based CNL Lifestyle Properties Inc. (\$2.7 billion), according to industry research firm Blue Vault Partners LLC.

There is at least \$80 billion worth of REIT shares currently available to investors, but the market is only raising \$6 billion to \$7 billion a year, according to Blue Vault.

“The market is extremely saturated,” says Vee Kimbrell, managing partner at Atlanta-based Blue Vault. “We just aren’t seeing the growth and volume like we’ve seen in the past.”

# REIT: Seeking access to wider investment pool to buy up low-priced distressed properties

Broker/dealers who market nontraded REIT stocks to financial planners, who in turn sell their clients on the programs, say the market is so inundated with funds that they have to offer something unique to stand out. And Hartman says he has a specific niche in mind.

He figures that the country's biggest REITs have so much money to deploy that they're busy chasing large office tower deals, so his strategy is to buy suburban office and retail properties that are not fully occupied, with the intention of making a profit by filling them with tenants. However, Blue Vault data reveals other REITs with similar goals.

## LAWSUITS ON RISE

This is the only public nontraded REIT controlled by Hartman, but it's not the first one he's established.

He created Hartman Commercial Properties REIT in 2004 with the intention of raising \$100 million. A subsequent disagreement among the board of directors over the value of the REIT's management company

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**Al Hartman**  
Hartman Short Term Income Properties XX Inc.

led to a lawsuit that broke the REIT apart. An out-of-court settlement resulted in the REIT and management company separating, with board members taking over the company and renaming it Whitestone REIT. The original REIT raised \$20 million before the break-up.

Blue Vault's Kimbrell says similar lawsuits have been filed concerning the valuation of a management company as it is

being internalized into a REIT, typically by REITs preparing to list their shares for sale on a stock exchange.

No. 20 may be Hartman's only public REIT, but he likes his chances in that space, due to another double-digit number — his 25 years of experience in private real estate investment.

In fact, Hartman's most recent fund has to date raised \$40 million of its \$50 million goal.

The fund is currently under contract to acquire an eight-story office building at 616 FM 1960 from Koll Bren Schreiber Realty Advisors. The 142,000-square-foot building is 74 percent occupied by tenants such as Chase Bank and AEI Engineering.

During his career, Hartman estimates he has raised a total of \$300 million and acquired 75 Texas properties through various funds.

"Our historical internal rate of return has been 13 percent to 14 percent per year over 25 years," Hartman says. "I've never lost money on a property." ■

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