



SERVICE & VALUES:

How Houston's HI-REIT is leading the way

BY BRANDI SMITH

"Exceptional" and "inspired" are two easy ways to describe the company Houston's AI Hartman has built over nearly four decades. So it's no wonder those words are pivotal in Hartman Income REIT Inc.'s approach to managing its 55 properties in Houston, San Antonio, Dallas, and Austin.

"We offer Exceptional Service, Inspired Values," says Hartman. "We do everything we can to make the tenants happy and retain the tenants that we have."

HI-REIT also believes in the "Power of Proven Results" when it comes to its investors.

"... strategy ..."

Hartman's track record dates back to 40 years ago when he was a young man, working as a door-to-door home remodeling salesman.

"I was making quite a bit of money doing that. I wanted to shelter my income, so I took the excess capital and started buying houses and apartments with the money," Hartman explains. "I was able to shelter my income and then grow my investment portfolio."

He had an eye for value-add properties he could get at

a reasonable price. He fixed them up, leased them out, and sold them within a couple of years. By the age of 27, Hartman had bought 40 homes and apartments.

"I made more money doing that than I was selling home improvements door-to-door," he says. "Within a few years, I went into real estate full-time, though I shifted from residential to commercial."

In 1983, he formed Hartman Management and began bringing on investors, maintaining the approach that had helped him succeed to this point: buying value-add properties.

"I gravitated toward that strategy because it can make more profit by leasing property up or improving a property," says Hartman. "We went about finding properties that had tenant vacancy and needed some attention."

Then the oil bust hit Houston. Property values tanked as more than 225,000 jobs were cut and office vacancies jumped above 20 percent.

"For the next ten years, everything dropped," Hartman remembers. "But I never lost a property."



Instead, he was able to add to his portfolio. He kept raising money and bought about 20 foreclosures in a row.

"We did really well with them," says Hartman.

He learned a lot through that downturn, including why his tried-and-true method helped him succeed when so many others had failed.

"People often ride the values up and overpay when you're in a good market. We've never had that issue," Hartman explains. "We're always buying properties that have some vacancies and need some attention, so we don't worry about overpaying for the properties."

SERVICE & VALUES:

How Houston's HI-REIT is leading the way

< Continued from Page 8



That lesson was one he fell back on when Houston suffered another oil slump just a few years ago.

"Everything just cratered, but we had access to capital. So we were able to go out in a market that was down and aggressively buy property," says Hartman, crediting his company's low leverage and relationship with a variety of different lenders for its access to financing. "That was an especially fruitful time for us."

Even now, he says Houston's Energy Corridor is still recovering from the setback. Because vacancy in the area remains high, HI-REIT is buying up properties set for foreclosure.

"When we bought a property just a few months ago, the seller had to write a check for \$600,000 just to reduce the loan. That happened to us twice," Hartman says. "We've had two properties in the past four or five months where we paid less than the loan amount."

"... the kind of upside we get ..."

Having weathered the downturns, he stayed at it and is now working on his 21st private equity fund. In 2008, HI-REIT managed 16 properties. That number is now up to 55, totaling nearly 8 million square feet of property throughout Texas. Additionally, the company employs 175 people.

"We're raising money at the rate of about \$50 million a year. With leverage, it's about \$100 million a year. We're growing rapidly," says Hartman. "We're valued at \$750 million in assets right now. We want to grow that to \$1 billion by 2021, \$2 billion by 2025 and \$5 billion by 2030."

As the company amasses assets, it focuses on variety. Currently, its properties break down as 60 percent office, 30 percent retail, and 10 percent industrial. The latter is more of a focus than it's ever been for HI-

REIT. It's launching its first institutional fund to raise \$50 million to develop industrial properties.

"It's going to be called 'Last Mile' because that seems to be where a lot of demand is: last-mile delivery from the distribution warehouses to the home," Hartman says. "That segment of the industry is growing."

As for the other product types, he points out that his company is buying in San Antonio, Houston, and Dallas. Since 2010, Hartman says the assets HI-REIT goes after have been in the \$20 million range, though one last year was \$35 million.

"This 19-story office building in Dallas was a foreclosure. The bank probably owned it for about eight or ten years and put about \$3 million of improvements in the property. They could never lease it up, so they let it go for a steep discount," he explains, adding that HI-REIT's in the process of leasing it now.

Another North Texas example comes from Richardson, where the company bought the Richardson Heights shopping center for \$20 million. At the time, it had only 50 percent occupancy, if that. It's nearly 90 percent occupied now, and pending leases will take it over that mark. It's current appraised value: \$45 million.

"That's the kind of upside we get with these properties," Hartman says.

"That's why we're so successful."

"... an extraordinary team ..."

He adds that none of this success would be possible without his incredible staff.

"The team we've assembled is really extraordinary. They're highly accomplished, highly engaged, really committed, and loyal. They put a lot

SERVICE & VALUES:

How Houston's HI-REIT is leading the way

of time and effort into their respective roles," says Hartman. "You can't run a company at all without having an extraordinary team."

The company also emphasizes God to operate in a manner consistent with biblical principles.

"We lift up Christ in the workplace, and we put God first," Hartman explains, offering examples such as bible studies, a benevolence fund to help team members in need and a life coach who's there to help. "We want to develop the team members both spiritually and with their skillset in the business."

"... what people want ..."

Just as HI-REIT goes above and beyond for its people, it does the same for its tenants, which is why its new tagline -- Exceptional Service, Inspired Values -- is so important.

"We typically buy B properties. Some B-plus, some B-minus, but they're in that range of B properties," says Hartman. "However, we offer our tenants A service, as though they're in an A building."

The result is longer stays by tenants, who tend to be happier.

"Exceptional Service, Inspired Values just crystallized everything that we do, brought everything together. That white glove service is what people want," Hartman says, adding that NPS surveys reveal property managers are also happier and more engaged in offering this upgraded concierge service.

Those surveys go out every six months, and Hartman says there's a constant challenge to move the numbers up.

"It is absolutely paying off because when a tenant moves out of an office building, it costs a lot of money," he explains. "If you retain them, it's a lot less costly. One of our core values is 'Keep the tenant you have; it's sacred. Keep the customer you have; it's sacred.'"

"... our track record ..."

The company's successes have lured several investment bankers who are interested in putting together an IPO for HI-REIT, though Hartman suggests the market isn't healthy enough for that step at this time.

"We're in the process of merging our assets and putting everything together in anticipation of doing an IPO, perhaps next year," he says.

The company has been able to attract bulge bracket banks, such as Citibank, Royal Bank of Canada, Raymond James, Wells Fargo, Bank of America, Merrill Lynch and even JP Morgan.

"The reason we're able to do this is because of our track record because we've done so well," says Hartman. "Most companies our size who do what we do aren't able to attract those kind of underwriters, so it's a real tribute to the success that we've achieved."

As HI-REIT looks to the future, one thing is clear: it will continue to garner praise in many forms, not the least of which is hailed exceptional and inspired. ■

Ask About our 6% Commission Special

400 NORTH BELT

400 N Sam Houston Pkwy E, Houston, TX 77060



Amenities

- Move-in Ready Suites
- On-site security
- On-site Management
- On-site deli
- On-site banking
- Fitness center



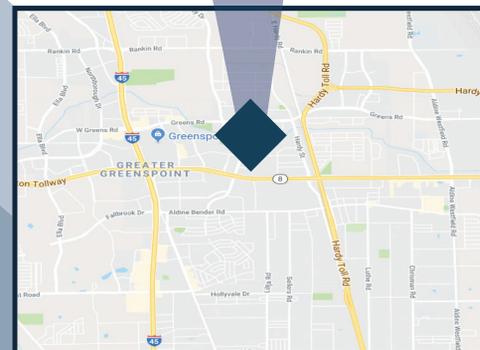
Location

Located with easy access to the Hardy Toll Road, Sam Houston Toll Road, I-45, and the George Bush Intercontinental Airport, and is convenient to numerous restaurants, hotels & banks.



Key Features

- 9' ceilings
- Full-height, solid-core doors
- Life safety monitoring system
- Attached 6-story parking garage.



CALL US TODAY

THOMAS EMDE, Leasing Agent
713.467.2222 | leasing@hi-reit.com



HARTMAN
EXCEPTIONAL SERVICE + INSPIRED VALUES