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

FORM 10-Q

☒ **Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2019

☐ **Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File Number 333-207711

HARTMAN vREIT XXI, INC.

(Exact name of registrant as specified in its charter)

Maryland	**38-3978914**
(State of Organization)	**(I.R.S. Employer Identification Number)**
2909 Hillcroft Suite 420 Houston Texas	**77057**
(Address of principal executive offices)	**(Zip Code)**

(713) 467-2222

(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: None

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☒ Emerging Growth Company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of November 1, 2019 there were 8,372,152 shares of the registrant's common stock issued and outstanding, 22,100 of which were held by an affiliate of the registrant.

HARTMAN vREIT XXI, INC.
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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

HARTMAN vREIT XXI, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30, 2019	December 31, 2018
	(Unaudited)	
ASSETS		
Real estate assets, at cost	$ 35,498,649	$ 29,674,731
Accumulated depreciation and amortization	(3,846,985)	(1,209,392)
Real estate assets, net	31,651,664	28,465,339
Cash and cash equivalents	30,485,831	5,839,035
Restricted cash	258,578	152,900
Investment in unconsolidated joint venture	8,026,720	8,026,720
Escrowed investor proceeds	168,890	50,790
Deferred lease commissions, net	173,512	70,266
Accrued rent and accounts receivable, net	308,218	159,102
Prepaid expenses and other assets	776,191	399,148
Due from related parties	62,396	338,939
Total assets	$ 71,912,000	$ 43,502,239
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Notes payable, net	$ 5,875,278	$ 14,086,330
Accounts payable and accrued expenses	1,652,283	920,922
Subscriptions for common stock	168,890	50,790
Tenants' security deposits	200,111	125,916
Total liabilities	7,896,562	15,183,958
Commitments and contingencies		
Special Limited Partnership Interests	1,000	1,000
Stockholders' equity:		
Common stock, Class A, $0.01 par value, 850,000,000 shares authorized, 7,709,742 and 3,591,757 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively	77,097	35,917
Common stock, Class T, $0.01 par value, 50,000,000 shares authorized, 431,831 shares and 129,668 shares issued and outstanding at September 30, 2019 and December 31, 2018,	4,318	1,297
Preferred stock, $0.01 par value, 50,000,000 shares authorized, no shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively	—	—
Additional paid-in capital	73,996,417	34,003,619
Accumulated distributions and net loss	(10,063,394)	(5,723,552)
Total stockholders' equity	64,014,438	28,317,281
Total liabilities and total equity	$ 71,912,000	$ 43,502,239

The accompanying notes are an integral part of these consolidated financial statements.

HARTMAN vREIT XXI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Revenues				
Rental revenues	$ 1,367,235	$ 355,973	$ 4,131,922	$ 929,912
Tenant reimbursements and other revenues	172,951	69,360	511,425	206,754
Total revenues	1,540,186	425,333	4,643,347	1,136,666
Expenses (income)				
Property operating expenses	748,859	132,030	1,973,312	284,406
Asset management fees	62,957	22,669	188,017	60,386
Organization and offering costs	116,428	29,700	183,119	110,428
Real estate taxes and insurance	253,545	78,895	724,688	218,056
Depreciation and amortization	884,229	211,371	2,637,593	552,246
General and administrative	90,586	157,804	300,218	248,191
Interest expense	102,903	85,393	405,370	225,028
Interest and dividend income	(179,777)	—	(321,611)	—
Total expenses, net	2,079,730	717,862	6,090,706	1,698,741
Loss from operations	(539,544)	(292,529)	(1,447,359)	(562,075)
Equity in earnings (losses) of unconsolidated entity	—	(300,190)	—	(396,979)
Net loss	$ (539,544)	$ (592,719)	$ (1,447,359)	$ (959,054)
Basic and diluted loss per common share:				
Net loss attributable to common stockholders	$ (0.08)	$ (0.20)	$ (0.28)	$ (0.40)
Weighted average number of common shares outstanding, basic and diluted	6,662,832	2,896,327	5,228,371	2,384,200

The accompanying notes are an integral part of these consolidated financial statements.

HARTMAN vREIT XXI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

	Class A and Class T Common Stock				
	Shares	**Amount**	**Additional Paid-in Capital**	**Accumulated Distributions And Net Loss**	**Total**
Balance at June 30, 2018	2,693,337	$ 26,933	$ 23,884,963	$ (3,637,612)	$ 20,274,284
Issuance of common shares	418,209	4,182	4,415,574	—	4,419,756
Selling commissions	—	—	(289,234)	—	(289,234)
Dividends and distributions (stock based)	—	—	0	(142,243)	(142,243)
Dividends and distributions (DRP based)	—	—	—	(165,508)	(165,508)
Dividends and distributions (cash based)	—	—	0	(224,168)	(224,168)
Net loss	—	—	—	(592,719)	(592,719)
Balance at September 30, 2018	3,111,546	$ 31,115	$ 28,011,303	$ (4,762,250)	$ 23,280,168

	Class A and Class T Common Stock				
	Shares	**Amount**	**Additional Paid-in Capital**	**Accumulated Distributions And Net Loss**	**Total**
Balance at June 30, 2019	5,834,508	$ 58,345	$ 52,993,009	$ (8,319,764)	$ 44,731,590
Issuance of common shares	2,307,065	23,070	22,659,595	—	22,682,665
Selling commissions	—	—	(1,656,187)	—	(1,656,187)
Dividends and distributions (stock based)	—	—	—	(159,209)	(159,209)
Dividends and distributions (DRP based)	—	—	—	(470,632)	(470,632)
Dividends and distributions (cash based)	—	—	—	(574,245)	(574,245)
Net loss	—	—	—	(539,544)	(539,544)
Balance at September 30, 2019	8,141,573	$ 81,415	$ 73,996,417	$ (10,063,394)	$ 64,014,438

The accompanying notes are an integral part of these consolidated financial statements.

HARTMAN vREIT XXI, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Class A and Class T Common Stock				
	Shares	Amount	Additional Paid-in Capital	Accumulated Distributions And Net Loss	Total
Balance at December 31, 2017	1,851,317	$ 18,513	$ 16,713,160	$ (2,389,537)	$ 14,342,136
Issuance of common shares	1,260,229	12,602	12,231,514	—	12,244,116
Selling commissions	—	—	(933,371)	—	(933,371)
Dividends and distributions (stock based)	—	—	—	(423,833)	(423,833)
Dividends and distributions (DRP based)	—	—	—	(414,609)	(414,609)
Dividends and distributions (cash based)	—	—	—	(575,217)	(575,217)
Net loss	—	—	—	(959,054)	(959,054)
Balance at September 30, 2018	3,111,546	$ 31,115	$ 28,011,303	$ (4,762,250)	$ 23,280,168

	Class A and Class T Common Stock				
	Shares	Amount	Additional Paid-in Capital	Accumulated Distributions And Net Loss	Total
Balance at December 31, 2018	3,721,425	$ 37,214	$ 34,003,619	$ (5,723,552)	$ 28,317,281
Issuance of common shares	4,430,130	44,301	43,275,121	—	43,319,422
Redemptions	(9,982)	(100)	(93,215)	—	(93,315)
Selling commissions	—	—	(3,189,108)	—	(3,189,108)
Dividends and distributions (stock based)	—	—	—	(492,728)	(492,728)
Dividends and distributions (DRP based)	—	—	—	(1,080,229)	(1,080,229)
Dividends and distributions (cash based)	—	—	—	(1,319,526)	(1,319,526)
Net loss	—	—	—	(1,447,359)	(1,447,359)
Balance at September 30, 2019	8,141,573	$ 81,415	$ 73,996,417	$ (10,063,394)	$ 64,014,438

The accompanying notes are an integral part of these consolidated financial statements.

HARTMAN vREIT XXI, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Cash flows from operating activities:		
Net loss	$ (1,447,359)	$ (959,054)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Stock based compensation	18,750	18,750
Depreciation and amortization	2,637,593	552,246
Deferred loan and lease commission costs amortization	93,238	30,728
Equity in earnings of unconsolidated joint venture	—	396,979
Bad debt (recoveries) expense	(39,080)	29,707
Changes in operating assets and liabilities:		
Accrued rent and accounts receivable	(110,036)	(125,931)
Deferred lease commissions	(119,162)	(37,153)
Prepaid expenses and other assets	(38,035)	(3,589)
Accounts payable and accrued expenses	513,874	93,144
Due to/from related parties	276,543	(113,392)
Tenants' security deposits	20,736	47,500
Net cash provided by (used in) operating activities	**1,807,062**	**(70,065)**
Cash flows from investing activities:		
Acquisition deposit	(743,250)	—
Additions to real estate	(5,644,493)	(5,096,676)
Net cash used in investing activities	**(6,387,743)**	**(5,096,676)**
Cash flows from financing activities:		
Proceeds from issuance of common stock	42,095,197	11,382,247
Payment of redemption of common stock	(93,315)	—
Dividends and distributions paid in cash	(1,191,245)	(551,376)
Payment of selling commissions	(3,189,108)	(933,371)
Deferred loan costs paid	(19,624)	(70,151)
Escrowed investor proceeds	(118,100)	(66,134)
Subscriptions for common stock	118,100	66,139
Proceeds from term loan notes	—	2,520,000
Proceeds from revolving credit facility	2,550,000	—
Repayments under revolving credit facility	(10,818,750)	—
Net cash provided by financing activities	**29,333,155**	**12,347,354**
Net increase in cash and cash equivalents and restricted cash	24,752,474	7,180,613
Cash and cash equivalents and restricted cash, beginning of period	5,991,935	2,485,740
Cash and cash equivalents and restricted cash, end of period	$ 30,744,409	$ 9,666,353
Supplemental cash flow information:		
Cash paid for interest	$ 328,480	$ 190,556
Supplemental disclosures of non-cash investing and financing activities:		
(Decrease)/Increase in distributions payable	$ 54,490	$ 43,273
Distributions paid in stock	$ 1,518,467	$ 795,169

The accompanying notes are an integral part of these consolidated financial statements.

Note 1 — Organization and Business

Hartman vREIT XXI, Inc. (the "Company") is a Maryland corporation formed on September 3, 2015. The Company elected to be treated as a real estate investment trust ("REIT") beginning with its taxable year ended December 31, 2017. The Company's fiscal year end is December 31.

In its initial public offering (the "Offering"), the Company is offering to the public up to $250,000,000 in any combination of shares of Class A and Class T common stock and up to $19,000,000 in shares of Class A and Class T common stock to stockholders pursuant to its distribution reinvestment plan.

On June 24, 2019, the Company filed a registration statement on Form S-11 (Registration No. 333-232308) registering $220,000,000 in any combination of shares of Class A and Class T common stock to be sold on a "best efforts" basis in the Company's follow-on offering. The Company continues to sell shares of its Class A and Class T common shares pursuant to the Offering, which it may continue to do until the earlier of the effective date of the follow-on offering or December 21, 2019.

Class A common stock was being offered to the public at an initial price of $10.00 per share and to stockholders at an initial price of $9.50 per share for Class A common stock purchased pursuant to the distribution reinvestment plan.

Class T common stock was being offered to the public at an initial price of $9.60 per share and to stockholders at an initial price of $9.12 per share for Class T common stock purchased pursuant to the distribution reinvestment plan.

Beginning September 7, 2019, the sale price of the Company's Class A and Class T common shares to the public is $13.00 and $12.48 per share, representing the net asset value per share as determined by the board of directors plus the applicable sales commissions and managing broker dealer fees. The sale price of Class A and Class T common shares to the Company's shareholders pursuant to the distribution reinvestment plan is $11.70 and $11.23 per share.

The Company's board of directors may, in its sole discretion and from time to time, change the price at which the Company offers shares to the public in the primary offering or pursuant to its distribution reinvestment plan to reflect changes in estimated value per share and other factors that the board of directors deems relevant.

The Company's advisor is Hartman XXI Advisors, LLC (the "Advisor"), a Texas limited liability company and wholly owned subsidiary of Hartman Advisors, LLC. Hartman Income REIT Management, Inc., an affiliate of the Advisor, is the Company's sponsor and property manager ("Sponsor" or "Property Manager"). Subject to certain restrictions and limitations, the Advisor 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.

Substantially all the Company's business is conducted through Hartman vREIT XXI Operating Partnership, L.P., a Texas limited partnership (the "OP"). The Company is the sole general partner of the OP. The initial limited partners of the OP are Hartman vREIT XXI Holdings LLC, a wholly owned subsidiary of the Company ("XXI Holdings"), and Hartman vREIT XXI SLP LLC ("SLP LLC"), a wholly owned subsidiary of Hartman Advisors, LLC. SLP LLC has invested $1,000 in the OP in exchange for a separate class of limited partnership interests (the "Special Limited Partnership Interests"). As the Company accepts subscriptions for shares, it will transfer substantially all the net proceeds of the Offering to the OP as a capital contribution. The partnership agreement provides that the OP will be operated in a manner that will enable the Company to (1) satisfy the requirements for being classified as a REIT for tax purposes, (2) avoid any federal income or excise tax liability and (3) ensure that the OP will not be classified as a "publicly traded partnership" for purposes of Section 7704 of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), which classification could result in the OP being taxed as a corporation, rather than as a partnership. In addition to the administrative and operating costs and expenses incurred by the OP in acquiring and operating real properties, the OP will pay all the Company's administrative costs and expenses and such expenses will be treated as expenses of the OP.

As of September 30, 2019, the Company had accepted investors' subscriptions for, and issued 7,709,742 shares, net of redemptions, of its Class A common stock and 431,831 shares of its Class T common stock in its initial public offering, including 173,162 Class A shares and 8,612 Class T shares issued pursuant to its distribution reinvestment plan, resulting in gross proceeds of $79,915,643.

Note 2 — Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements included in this report are unaudited; however, amounts presented in the consolidated balance sheet as of December 31, 2018 are derived from our audited consolidated financial statements as of that date. The unaudited consolidated financial statements as of September 30, 2019, have been prepared by the Company in accordance with accounting principles generally accepted in the United States ("GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission, including Form 10-Q and Regulation S-X, on a basis consistent with the annual audited consolidated financial statements. The unaudited consolidated financial statements presented herein reflect all adjustments (consisting of normal recurring accruals and adjustments), which are, in the opinion of management, necessary to fairly present the financial position of the Company as of September 30, 2019, and the results of its consolidated operations for the three and nine months ended September 30, 2019 and 2018, the consolidated statements of stockholders' equity for the three and nine months ended September 30, 2019 and 2018 and the consolidated statements of cash flows for the nine months ended September 30, 2019 and 2018. The results of the nine months ended September 30, 2019 are not necessarily indicative of the results to be expected for the year ending December 31, 2019.

The consolidated financial statements herein are condensed and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

The Company's consolidated financial statements include the Company's accounts and the accounts of the OP, Hartman Village Pointe, LLC, Hartman Richardson Tech Center, LLC, Hartman Spectrum, LLC, Hartman 11211, LLC and XXI Holdings, the subsidiaries over which the Company has control. All intercompany balances and transactions are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents. Cash and cash equivalents as of September 30, 2019 and December 31, 2018 consisted of demand deposits at commercial banks.

Restricted Cash

Restricted cash on the accompanying consolidated balance sheets consists of amounts escrowed for future real estate taxes, insurance, capital expenditures and debt service, as required by certain of our mortgage debt agreements.

Financial Instruments

The accompanying consolidated balance sheets include the following financial instruments: cash and cash equivalents, accrued rent and accounts receivable, accounts payable and accrued expenses, notes payable, net and balances with related parties. The Company considers the carrying value, other than notes payable, net, to approximate the fair value of these financial instruments based on the short duration between origination of the instruments and their expected realization. Based on borrowing rates currently available to the Company for loans with similar terms, the carrying value of its notes payable approximates fair value.

Revenue Recognition

The Company's leases are accounted for as operating leases. Certain leases provide for tenant occupancy during periods for which no rent is due and/or for increases or decreases in the minimum lease payments over the terms of the leases. Revenue is recognized on a straight-line basis over the terms of the individual leases. Revenue recognition under a lease begins when the tenant takes possession of or controls the physical use of the leased space. When the Company acquires a property, the term of existing leases is considered to commence as of the acquisition date for the purposes of this calculation. The Company's accrued rents are included in accrued rent and accounts receivable, net, on the accompanying consolidated balance sheets. The Company will defer the recognition of contingent rental income, such as percentage rents, until the specific target that triggers the contingent rental income is achieved. Additionally, cost recoveries from tenants are included in the Tenant Reimbursement and Other Revenues line item in the consolidated statements of operations in the period the related costs are incurred.

The Company adopted ASU 2014-09, "Revenue from Contracts with Customers," ("ASU 2014-09") which amends the guidance for revenue recognition to eliminate the industry-specific revenue recognition guidance and replace it with a principle based approach for determining revenue recognition. The Company adopted ASU 2014-09 effective January 1, 2018 using the modified retrospective approach and the adoption of this guidance did not have a material impact on the consolidated financial statements. The Company's revenue is primarily derived from leasing activities, which is specifically excluded from ASU 2014-09. The Company's other revenue is comprised of tenant reimbursements for real estate taxes, insurance, common area maintenance, and operating expenses. Reimbursements from real estate taxes and certain other expenses are also excluded from of ASU 2014-09.

Investment in Unconsolidated Entities

On April 11, 2017, the Company entered into a membership interest purchase agreement with Hartman XX Operating Partnership ("XX OP"), the operating partnership of Hartman Short Term Income Properties XX, Inc., a related party, pursuant to which the Company may acquire up to $10,000,000 of XX OP's equity ownership in Hartman Three Forest Plaza LLC. As of September 30, 2018, the Company owned an approximately 48.8% equity interest in Hartman Three Forest Plaza LLC for $8,700,000. The Company's investment in Hartman Three Forest Plaza LLC was accounted for under the equity method.

On October 1, 2018, Hartman Three Forest Plaza LLC contributed the Three Forest Plaza property to Hartman SPE, LLC, a special purpose entity formed for the purpose of refinancing certain indebtedness of Hartman Short Term Income Properties XX, Inc., Hartman Short Term Income Properties XIX, Inc. and Hartman Income REIT, Inc.

The Company received a 5.89% membership interest in Hartman SPE, LLC in exchange for its 48.8% minority interest in Three Forest Plaza LLC.

Effective March 1, 2019, the Company's board of directors approved the exchange of 3.42% of the Company's 5.89% ownership interest in Hartman SPE, LLC for 700,302 shares of common stock of Hartman Short Term Income Properties XX, Inc. The exchange reduced the Company's ownership interest in Hartman SPE, LLC from 5.89% to 2.47%. The Company's investment in Hartman SPE, LLC and Hartman Short Term Income Properties XX, Inc. is stated at cost and accounted for under the cost method.

Real Estate

Allocation of Purchase Price of Acquired Assets

Acquisitions of integrated assets and activities that do not meet the definition of a business are accounted for as asset acquisitions. The Company believes most of its future acquisitions of operating properties will qualify as asset acquisitions. Third party transaction costs, including acquisition fees paid to Advisor, associated with asset acquisitions will be capitalized while internal acquisition costs will continue to be expensed as incurred.

Upon acquisition, the purchase price of properties is allocated to the tangible assets acquired, consisting of land and buildings, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, other value of in-place leases and leasehold improvements and value of tenant relationships, any assumed debt and asset retirement obligations, if any, based on their fair values. Acquisition costs, including acquisition fees paid to the Advisor, are capitalized as part of the purchase price. Initial valuations are subject to change during the measurement period, but the measurement period ends as soon as the information is available. The measurement period shall not exceed one year from the acquisition date.

Land and building and improvement fair values are derived based upon the Company's estimate of fair value after giving effect to estimated replacement cost less depreciation or estimates of the relative fair value of these assets using discounted cash flow analysis or similar methods.

The fair values of above-market and below-market in-place lease values, including below-market renewal options for which renewal has been determined to be reasonably assured, are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (a) the contractual amounts to be paid pursuant to the in-place leases and (b) an estimate of fair market lease rates for the corresponding in-place leases and below-market renewal options, which is generally obtained from independent appraisals, measured over a period equal to the remaining non-cancelable term of the lease. The above-market and below-market lease and renewal option values are capitalized as intangible lease assets or liabilities and amortized as an adjustment of rental income over the remaining expected terms of the respective leases.

The fair values of in-place leases include direct costs associated with obtaining a new tenant, opportunity costs associated with lost rentals which are avoided by acquiring an in-place lease, and tenant relationships. Direct costs associated with obtaining a new tenant include commissions, tenant improvements, and other direct costs and are estimated based on independent appraisals and management's consideration of current market costs to execute a similar lease. These direct costs are included in intangible lease assets and are amortized to expense over the remaining terms of the respective leases. The value of opportunity costs is calculated using the contractual amounts to be paid pursuant to the in-place leases over a market absorption period for a similar lease. Customer relationships are valued based on expected renewal of a lease or the likelihood of obtaining a particular tenant for other locations. These intangibles are included in real estate assets in the consolidated balance sheets and are being amortized to expense over the remaining term of the respective leases.

The Company determines the fair value of any assumed debt by calculating the net present value of the scheduled mortgage payments using interest rates for debt with similar terms and remaining maturities that the Company believes it could obtain at the date of acquisition. Any difference between the fair value and stated value of the assumed debt is recorded as a discount or premium and amortized over the remaining life of the loan as interest expense.

In allocating the purchase price of each of the Company's properties, the Company makes assumptions and uses various estimates, including, but not limited to, the estimated useful lives of the assets, the cost of replacing certain assets and discount rates used to determine present values. The Company uses Level 3 inputs to value acquired properties. Many of these estimates are obtained from independent third-party appraisals. However, the Company is responsible for the source and use of these estimates. These estimates require judgment and are subject to being imprecise; accordingly, if different estimates and assumptions were derived, the valuation of the various categories of the Company's properties or related intangibles could in turn result in a difference in the depreciation or amortization expense recorded in the Company's consolidated financial statements. These variances could be material to the Company's results of operations and financial condition.

Depreciation and amortization

Depreciation is computed using the straight-line method over the estimated useful lives of 5 to 39 years for buildings and improvements. Tenant improvements are depreciated using the straight-line method over the lesser of the life of the improvement or the remaining term of the lease. In-place leases are amortized using the straight-line method over the weighted average years' remaining calculated on terms of all of the leases in-place when acquired.

Impairment

The Company reviews its real estate assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of the assets, including accrued rental income, may not be recoverable through operations. The Company determines whether an impairment in value has occurred by comparing the estimated future cash flows (undiscounted and without interest charges), including the estimated residual value of the property, with the carrying cost of the property. If impairment is indicated, a loss will be recorded for the amount by which the carrying value of the property exceeds its fair value. Management has determined that there is no impairment indicated in the carrying value of the Company's real estate assets as of September 30, 2019.

Projections of expected future cash flows require management to estimate future market rental income amounts subsequent to the expiration of current lease agreements, property operating expenses, discount rates, the number of months it takes to re-lease the property and the number of years the property is held for investment. The use of inappropriate assumptions in the future cash flow analysis would result in an incorrect assessment of the property's future cash flow and fair value and could result in the overstatement of the carrying value of our real estate and related intangible assets and net income.

Fair Value Measurement

Fair value measures are classified into a three-tiered fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1:	Observable inputs such as quoted prices in active markets.
Level 2:	Directly or indirectly observable inputs, other than quoted prices in active markets.
Level 3:	Unobservable inputs in which there is little or no market data, which require a reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value are based on one or more of the following valuation techniques:

Market Approach:	Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
Cost Approach:	Amount required to replace the service capacity of an asset (replacement cost).
Income Approach:	Techniques used to convert future amounts to a single amount based on market expectations (including present-value, option-pricing, and excess-earnings models).

The Company's estimates of fair value were determined using available market information and appropriate valuation methods. Considerable judgment is necessary to interpret market data and develop estimated fair value. The use of different market assumptions or estimation methods may have a material effect on the estimated fair value amounts. The Company classifies assets and liabilities in the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement.

Accrued Rent and Accounts Receivable

Included in accrued rent and accounts receivable are base rents, tenant reimbursements and receivables attributable to recording rents on a straight-line basis. An allowance for the uncollectible portion of accrued rent and accounts receivable is determined based upon customer credit-worthiness (including expected recovery of our claim with respect to any tenants in bankruptcy), historical bad debt levels, and current economic trends.

Prepaid expenses and other assets

Prepaid expenses and other assets include acquisition deposits, which is the money that the Company advances to the seller on a purchase of a property. As of September 30, 2019 and December 31, 2018, the Company had acquisition deposits of $743,250 and $110,000 which are included as part of prepaid expenses and other assets in the consolidated balance sheets.

Organization and Offering Costs

As of September 30, 2019, total organization and offering costs incurred for the Offering amounted to $1,377,522. The total organizational and offering costs incurred by the Company (including selling commissions, dealer manager fees and all other underwriting compensation) will not exceed 15% of the aggregate gross proceeds from the sale of the shares of common stock sold in the Offering.

Organization costs, when recorded by the Company, are expensed as incurred, and offering costs, which include selling commissions, dealer manager fees and all other underwriting compensation, are deferred and charged to stockholders' equity as such amounts are reimbursed or paid by the Advisor, the dealer manager or their affiliates from gross offering proceeds.

For the three and nine months ended September 30, 2019 and 2018, such costs totaled $116,428 and $29,700, and $183,119 and $110,428, respectively.

Income Taxes

The Company elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code, commencing in the taxable year ended December 31, 2017. If the Company qualifies for taxation as a REIT, the Company generally will not be subject to federal corporate income tax to the extent it distributes its REIT taxable income to its stockholders, so long as it distributes at least 90 percent of its REIT taxable income (which is computed without regard to the dividends paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with GAAP). REITs are subject to a number of other organizational and operational requirements. Even if the Company qualifies for taxation as a REIT, it may be subject to certain state and local taxes on its income and property, and federal income and excise taxes on its undistributed income. Prior to qualifying to be taxed as a REIT, the Company is subject to normal federal and state corporation income taxes.

For the three months ended September 30, 2019 and 2018, the Company had net loss of $539,544 and $592,719, respectively. For the nine months ended September 30, 2019 and 2018, the Company incurred a net loss of $1,447,359 and $959,054, respectively. The Company does not anticipate forming any taxable REIT subsidiaries or otherwise generating future taxable income which may be offset by the net loss carry forward. The Company considers that any deferred tax benefit and corresponding deferred tax asset which may be recorded in light of the net loss carry forward would be properly offset by an equal valuation allowance in that no future taxable income is expected. Accordingly, no deferred tax benefit or deferred tax asset has been recorded in the consolidated financial statements.

The Company is required to recognize in its consolidated financial statements the financial effects of a tax position only if it is determined that it is more likely than not that the tax position will not be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Management has reviewed the Company's tax positions and is of the opinion that material positions taken by the Company would more likely than not be sustained upon examination. Accordingly, the Company has not recognized a liability related to uncertain tax positions.

Loss Per Share

The computations of loss per common share are based upon the weighted average number of common shares outstanding and potentially dilutive securities. The Company's potentially dilutive securities include special limited partnership interests – see Note 11. For the three and nine months ended September 30, 2019 and 2018, there were no shares issuable in connection with these potentially dilutive securities. These potentially dilutive securities were excluded from the computations of diluted net loss per share for the three and nine months ended September 30, 2019 and 2018 because no shares are issuable.

Concentration of Risk

The Company maintains cash accounts in one U.S. financial institution. The terms of the Company's deposits are on demand to minimize risk. The balances of the Company's depository accounts may exceed the federally insured limit. No losses have been incurred in connection with these deposits.

The geographic concentration of the Company's real estate assets makes it susceptible to adverse economic developments in the State of Texas. Any adverse economic or real estate developments in these markets, such as business layoffs or downsizing, relocations of businesses, increased competition or any other changes, could adversely affect the Company's operating results and its ability to make distributions to stockholders.

Major tenants are defined as those tenants which individually comprise more than 10% of the Company's total rental revenues. One tenant of the Spectrum Building represents 39% of total annualized rental revenue for the nine months ended September 30, 2019. There were no major tenants for the same period ended September 30, 2018.

Reclassification

Certain items in the comparative consolidated financial statements have been reclassified to conform to the presentation adopted in the current period. Restricted cash reporting line was added on the face of the consolidated balance sheets. The balance currently reported as restricted cash was reported previously in the prepaid expenses and other assets.

Recent Accounting Pronouncements

On January 1, 2019, the Company adopted ASU 2016-02, "Leases," which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for in the same manner as operating leases today.

The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. In connection with the new revenue guidance (ASC 606), the new revenue standard will apply to other components of revenue deemed to be non-lease components, such as reimbursement for certain expenses which are based on usage. Under the new guidance, we will continue to recognize the lease components of lease revenue on a straight-line basis over our respective lease terms as we do under prior guidance. However, we would recognize these non-lease components under the new revenue guidance as the related services are delivered. As a result, the total revenue recognized over time would not differ under the new guidance. This does not result in a difference from how the Company has historically recognized revenue for these lease and non-lease components.

Additionally, ASU 2016-02 requires that lessees and lessors capitalize, as initial direct costs, only those costs that are incurred due to the execution of a lease. Under ASU 2016-02, allocated payroll costs and other costs that are incurred regardless of whether the lease is obtained will no longer be capitalized as initial direct costs and instead will be expensed as incurred. This does not result in a difference from how the Company has historically recognized lease acquisition costs. The adoption of ASU 2016-02 had no material impact on the consolidated financial statements.

On January 1, 2019, the Company adopted ASU 2018-07, "Improvements to Non-employee Stock-Based Payment Accounting." The updated guidance simplifies aspects of share-based compensation issued to non-employees by making the guidance consistent with the accounting for employee share-based compensation. The adoption of this guidance had no material impact on the consolidated financial statements.

On January 1, 2018, the Company adopted the new accounting standard codified in Accounting Standards Codification (“ASC”) 606 - “Revenue from Contracts with Customers,” which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASC 606 replaces most existing revenue recognition guidance under GAAP. The standard permits the use of either the retrospective or cumulative effect transition method. Certain contracts with customers, principally lease contracts, are not within the scope of the new guidance. The Company has elected to use the retrospective method. The adoption of ASC 606 - had no material impact on the beginning cumulative accumulated distributions and net loss at January 1, 2018.

On January 1, 2018, the Company adopted Accounting Standards Update ("ASU") No. 2016-01, “Recognition and Measurement of Financial Assets and Liabilities,” issued by the Financial Accounting Standards Board (“FASB”), which enhances the reporting requirements surrounding the measurement of financial instruments and requires equity securities to be measured at fair value with changes in the fair value recognized through net income for the period. The adoption of ASU No. 2016-01 had no material effect on the consolidated financial position or consolidated results of operations.

On January 1, 2018, the Company adopted ASU No. 2016-17, “Interest Held Through Related Parties That Are Under Common Control,” issued by the FASB, which amends the accounting guidance when determining the treatment of certain VIE’s to include the interest of related parties under common control in a VIE when considering whether or not the reporting entity is the primary beneficiary of the VIE when considering consolidation. The adoption of ASU No. 2016-17 had no material effect on the consolidated financial position or consolidated results of operations.

On January 1, 2018, the Company adopted ASU No. 2016-18, “Classification of Restricted Cash,” issued by the FASB, which addresses the Statement of Cash Flow classification and presentation of restricted cash transactions. The standard permits the use of either the retrospective or cumulative effect transition method. The Company has elected to use the retrospective method. The adoption of ASU No. 2016-18 had no material effect on the Company’s consolidated financial position or consolidated results of operations.

Recent Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, “Measurement of Credit Losses on Financial Instruments.” The updated guidance requires measurement and recognition of expected credit losses for financial assets, including trade and other receivables, held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This is different from the current guidance as this will require immediate recognition of estimated credit losses expected to occur over the remaining life of many financial assets. Generally, the pronouncement requires a modified retrospective method of adoption. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the impact this guidance will have on the consolidated financial statements when adopted.

Note 3 – Real Estate

The Company's real estate assets as of September 30, 2019 and December 31, 2018 consisted of the following:

	September 30, 2019	December 31, 2018
Land	$ 5,163,217	$ 4,289,060
Buildings and improvements	24,436,798	20,181,464
In-place lease value intangible	5,898,634	5,204,207
	35,498,649	29,674,731
Less accumulated depreciation and amortization	(3,846,985)	(1,209,392)
Total real estate assets	$ 31,651,664	$ 28,465,339

Depreciation expense for the three months ended September 30, 2019 and 2018 was $359,697 and $109,115, respectively and $1,086,099 and $266,303 for the nine months ended September 30, 2019 and 2018, respectively. Amortization expenses for the three months ended September 30, 2019 and 2018 was $524,532 and $102,256, respectively, and $1,551,494 and $285,943, respectively, for the nine months ended September 30, 2019 and 2018.

The Company identifies and records the value of acquired lease intangibles at the property acquisition date. Such intangibles include the value of acquired in-place leases and above and below-market leases. Acquired lease intangibles are amortized over the leases' remaining terms. With respect to all properties owned by the Company, the Company considers all of the in-place leases to be market rate leases.

The amount of total in-place lease intangible asset and the respective accumulated amortization are as follows:

	September 30, 2019	December 31, 2018
In-place lease value intangible	$ 5,898,634	$ 5,204,207
In-place leases – accumulated amortization	(2,303,211)	(751,717)
Acquired in-place lease intangible assets, net	$ 3,595,423	$ 4,452,490

Acquisition fees incurred were $0 and $0 for the three months ended September 30, 2019 and 2018 and $123,750 and $126,000 for the nine months ended September 30, 2019 and 2018, respectively. The acquisition fees have been capitalized and added to the real estate assets, at cost, in the accompanying consolidated balance sheets. Asset management fees incurred were $62,957 and $22,669 for the three months ended September 30, 2019 and 2018, respectively, and $188,017 and $60,386 for the nine months ended September 30, 2019 and 2018, respectively. Asset management fees are captioned as such in the accompanying consolidated statements of operations.

On January 10, 2019, the Company, through Hartman 11211, LLC, a wholly-owned subsidiary of the OP, acquired a fee simple interest in an office building containing approximately 77,882 square feet of office space located in Houston, Texas. The property is commonly known as 11211 Katy Freeway.

11211 Katy Freeway was acquired from an unrelated third-party seller, for a purchase price, as amended, of $4,494,536, exclusive of closing costs. The Company financed the purchase of 11211 Katy Freeway with proceeds from the Company's public offering and loan proceeds from the Company's master credit facility agreement with a bank.

The following table summarizes the fair value of the assets acquired and the liabilities assumed based upon the Company's purchase price allocation of the 11211 Katy Freeway property acquisition:

Assets acquired:		
Real estate assets	$	4,494,536
Total assets		4,494,536
Liabilities assumed:		
Prepaid rents		(15,966)
Security deposits		(53,459)
Total liabilities assumed		(69,425)
Fair value of net assets acquired	$	4,425,111

On March 14, 2018, the Company, through Hartman Richardson Tech Center, LLC, a wholly-owned subsidiary of the OP, acquired a fee simple interest in a four building, multi-tenant flex/R&D property containing approximately 96,660 square feet of office space and located in Richardson, Texas. The property is commonly known as Richardson Tech.

Richardson Tech was acquired from an unrelated third-party seller, for a purchase price, as amended, of $5,040,000, exclusive of closing costs. The Company financed the payment of the purchase price for Richardson Tech with proceeds from the Offering and $2,520,000 mortgage loan proceeds from a bank.

The following table summarizes the fair value of the assets acquired and the liabilities assumed based upon the Company's purchase price allocation of the Richardson Tech property acquisition:

Assets acquired:		
Real estate assets	$	5,040,000
Total assets		5,040,000
Liabilities assumed:		
Security deposits		(45,650)
Total liabilities assumed		(45,650)
Fair value of net assets acquired	$	4,994,350

Note 4 — Investment in unconsolidated entities

The Company owned an approximate 48.8% equity interest in Hartman Three Forest Plaza LLC. The Company's investment in Hartman Three Forest Plaza LLC was accounted for under the equity method. Equity in earnings (losses) of the unconsolidated entity was $(300,190) and $(396,979) related to Three Forest Plaza LLC for the three and nine months ended September 30, 2018, respectively.

Equity in losses of unconsolidated entity is captioned as such in the accompanying consolidated statements of operations.

On October 1, 2018, Three Forest Plaza LLC contributed the Three Forest Plaza property to Hartman SPE, LLC, a special purpose entity formed for the purpose of refinancing certain indebtedness of Hartman Short Term Income Properties XX, Inc, Hartman Short Term Income Properties XIX, Inc and Hartman Income REIT, Inc. The Company received a 5.89% membership interest in Hartman SPE, LLC in exchange for its 48.8% minority interest in Three Forest Plaza, LLC.

Effective March 1, 2019, the Company's board of directors approved the exchange of 3.42% of the Company's 5.89% ownership interest in Hartman SPE, LLC for 700,302 shares of common stock of Hartman Short Term Income Properties XX, Inc. The exchange reduced the Company's ownership interest in Hartman SPE, LLC from 5.89% to 2.47%.

The Company's investment in Hartman SPE, LLC and Hartman Short Term Income Properties XX, Inc. is stated at cost and accounted for under the cost method. The Company did not receive any distributions from Hartman SPE, LLC for the nine months ended September 30, 2019. The Company recognized dividend income of $122,552 and $245,104 from Hartman Short Term Income Properties XX, Inc. for the three and nine months ended September 30, 2019.

Note 5 — Accrued Rent and Accounts Receivable, net

Accrued rent and accounts receivable, net, consisted of the following:

	September 30, 2019	December 31, 2018
Tenant receivables	94,465	$ 71,955
Accrued rent	239,303	151,777
Allowance for uncollectible accounts	(25,550)	(64,630)
Accrued rents and accounts receivable, net	$ 308,218	$ 159,102

As of September 30, 2019 and December 31, 2018, the Company had an allowance for uncollectible accounts of $25,550 and $64,630, respectively, related to tenant receivables that the Company has specifically identified as potentially uncollectible based on assessment of each tenant's credit-worthiness. For the three months ended September 30, 2019 and 2018, the Company recorded bad debt (recovery) expense in the amount of $(26,501) and $35,660, respectively, and $(39,080) and $29,707 for the nine months ended September 30, 2019 and 2018, respectively. Bad debt expense and any related recoveries are included in property operating expenses in the accompanying consolidated statements of operations.

Note 6 — Notes Payable, net

The following table summarizes the Company's outstanding notes payable as September 30, 2019 and December 31, 2018:

Property/Facility	Current Maturity	Rate (1)	September 30, 2019	December 31, 2018
Village Pointe (2)	December 2019	L + 275bps	$ 3,525,000	$ 3,525,000
Richardson Tech Center (2)	March 2021	L + 275bps	2,520,000	2,520,000
Master Credit Facility Agreement - EWB (3)	December 2021	P - 10bps	—	8,268,750
			6,045,000	14,313,750
Less unamortized loan costs			(169,722)	(227,420)
			$ 5,875,278	$ 14,086,330

(1) One-month LIBOR ("L"); Prime ("P")

(2) Payable in monthly installments of interest only until the maturity date. The interest rate as of September 30, 2019 was 4.77%.

(3) The Company is a party to a $20 million master credit facility agreement ("MCFA") with East West Bank. The borrowing base of the MCFA may be adjusted from time to time subject to the lender's underwriting with respect to real property collateral which secure the amount available to be borrowed. As of September 30, 2019 the MCFA is secured by the Spectrum Building and the 11211 Katy Freeway Building. The interest rate as of September 30, 2019 was 4.9%. The outstanding balance under the MCFA was $0 as of September 30, 2019 and the amount available to be borrowed was $10,818,750.

The Company was in compliance with all loan covenants as of September 30, 2019.

Interest expense for the three months ended September 30, 2019 and 2018 was $102,903 and $85,393, respectively, including $25,774 and $11,434 of deferred loan cost amortization. Interest expense for the nine months ended September 30, 2019 and 2018 was $405,370 and $225,028 respectively, including $77,322 and $28,456 of deferred loan cost amortization. Unamortized deferred loan costs were $169,722 and $227,420 as of September 30, 2019 and December 31, 2018, respectively. Interest expense of $13,282 and $13,714 was payable as of September 30, 2019 and December 31, 2018, respectively, and is included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

Note 7 — Related Party Arrangements

The Advisor is a wholly owned subsidiary of Hartman Advisors LLC, a Texas limited liability company owned 70% by Allen R. Hartman individually and 30% by the Property Manager. The Property Manager is a wholly owned subsidiary of Hartman Income REIT Management, LLC, which is wholly owned by Hartman Income REIT, Inc. and its subsidiaries, of which approximately 16% of the voting stock is owned by Allen R. Hartman, the Company's Chief Executive Officer and Chairman of the Board of Directors.

The Advisor and certain affiliates of the Advisor will receive fees and compensation in connection with the Offering, and the acquisition, management and sale of the Company’s real estate investments. In addition, in exchange for $1,000, the OP has issued the Advisor a separate, special limited partnership interest, in the form of Special Limited Partnership Interests. See Note 11 (“Special Limited Partnership Interest”) below.

The Advisor will receive reimbursement for organizational and offering expenses incurred on the Company’s behalf, but only to the extent that such reimbursements do not exceed actual expenses incurred by the Advisor and would not cause the cumulative selling commission, the dealer manager fee and other organization and offering expenses borne by the Company to exceed 15.0% of gross offering proceeds from the sale of shares in the Offering.

The Advisor, or its affiliates, will receive an acquisition fee equal to 2.5% of the cost of each investment the Company acquires, which includes the amount actually paid or allocated to fund the purchase, development, construction or improvement of each investment, including acquisition expenses and any debt attributable to each investment. Acquisition fees of $0 and $0 were earned by the Advisor for the three months ended September 30, 2019 and 2018, respectively, and $123,750 and $126,000 were earned for the nine months ended September 30, 2019 and 2018, respectively,

The Advisor, or its affiliates, will receive a debt financing fee equal to 1.0% of the amount available under any loan or line of credit originated or assumed, directly or indirectly, in connection with the acquisition, development, construction, improvement of properties or other permitted investments, which will be in addition to the acquisition fee paid to the Advisor. No debt financing fees were earned by Advisor for the nine months ended September 30, 2019 and 2018.

The Company pays the Property Manager, an affiliate of the Advisor, property management fees equal to 3% of the effective gross revenues of the managed property. The Company pays and expects to pay the Property Manager leasing fees in an amount equal to the leasing fees charged by unaffiliated persons rendering comparable services in the same geographic location of the applicable property, provided that such fees will only be paid if a majority of the Company’s board of directors, including a majority of its independent directors, determines that such fees are fair and reasonable in relation to the services being performed. The Property Manager may subcontract the performance of its property management and leasing duties to third parties and the Property Manager will pay a portion of its property management fee to the third parties with whom it subcontracts for these services. The Company will reimburse the costs and expenses incurred by the Property Manager on the Company’s behalf, including the wages and salaries and other employee-related expenses of all employees of the Property Manager or its subcontractors who are engaged in the operation, management, maintenance or access control of our properties, including taxes, insurance and benefits relating to such employees, and travel and other out-of-pocket expenses that are directly related to the management of specific properties. Other charges, including fees and expenses of third-party professionals and consultants, will be reimbursed, subject to the limitations on fees and reimbursements contained in the Company's Articles of Amendment and Restatement (as amended and restated, the "Charter").

If the Property Manager provides construction management services related to the improvement or finishing of tenant space in the Company’s real estate properties, the Company pays the Property Manager a construction management fee in an amount that is usual and customary for comparable services rendered to similar projects in the geographic market of the project; provided, however, that the Company will only pay a construction management fee if a majority of the Company’s board of directors, including a majority of its independent directors, determines that such construction management fee is fair and reasonable and on terms and conditions not less favorable than those available from unaffiliated third parties.

The Company pays the Advisor a monthly asset management fee equal to one-twelfth of 0.75% of the higher of (i) the cost or (ii) the value of all real estate investments the Company acquires.

If Advisor or affiliate provides a substantial amount of services, as determined by the Company’s independent directors, in connection with the sale of one or more assets, the Company will pay the Advisor a disposition fee equal to (1) in the case of the sale of real property, the lesser of: (A) one-half of the aggregate brokerage commission paid (including the disposition fee) or, if none is paid, the amount that customarily would be paid, or (B) 3% of the sales price of each property sold, and (2) in the case of the sale of any asset other than real property, 3% of the sales price of such asset.

The Company will reimburse the Advisor for all expenses paid or incurred by the Advisor in connection with the services provided to the Company, subject to the limitation that, commencing four fiscal quarters after the Company’s acquisition of its first asset, the Company will not reimburse the Advisor for any amount by which its operating expenses (including the asset management fee) at the end of the four preceding fiscal quarters exceeds the greater of: (1) 2% of the Company’s average invested assets (as defined in the Charter), or (2) 25% of the Company’s net income determined without reduction for any additions to reserves for depreciation, bad debts or other similar non-cash reserves and excluding any gain from the sale of the Company’s assets for that period. Notwithstanding the above, the Company may reimburse the Advisor for expenses in excess of this limitation if a majority of the Company’s independent directors determines that such excess expenses are justified based on unusual and non-recurring factors.

For the three months ended September 30, 2019 and 2018, the Company incurred property management fees and reimbursable costs of $175,502 and $41,919, respectively, payable to the Property Manager and asset management fees of $62,957 and $22,669, respectively, payable to the Advisor. For the nine months ended September 30, 2019 and 2018, the Company incurred property management fees and reimbursable costs of $524,816 and $98,275, respectively, payable to the Property Manager and asset management fees of $188,017 and $60,386, respectively, payable to the Advisor. Property management fees and reimbursable costs paid to the Property Manager are included in property operating expenses in the accompanying consolidated statements of operations. Asset management fees paid to the Advisor are included in asset management fees in the accompanying consolidated statements of operations.

The Company pays construction management fees and leasing commissions to the Property Manager in connection with the construction management and leasing of the Company's properties. For the three months ended September 30, 2019 and 2018, the Company incurred construction management fees of $29,609 and $1,274, respectively, and $45,939 and $28,284, respectively, for leasing commissions. For the nine months ended September 30, 2019 and 2018, the Company incurred construction management fees of $70,579 and $3,071, respectively, and $119,162 and $37,153, respectively, for leasing commissions. Construction management fees are capitalized and included in real estate assets in the consolidated balance sheets. Leasing commissions are capitalized and reported net of the amortized amount in the consolidated balance sheets.

As of September 30, 2019, the Company had $219,909 due to the Advisor, and $165,089 due from Hartman Short Term Income Properties XX, Inc. and $117,216 due from other Hartman affiliates. As of December 31, 2018, the Company had $31,892 due to the Advisor, and $509,852 due from Hartman Short Term Income Properties XX, Inc. and $139,021 due to other Hartman affiliates.

Note 8 — Loss Per Share

Basic loss per share is computed using net loss attributable to common stockholders and the weighted average number of common shares outstanding.

	Three months ended September 30,		Nine months ended September 30,	
	2019	**2018**	**2019**	**2018**
Numerator:				
Net loss attributable to common stockholders	$ (539,544)	$ (592,719)	$ (1,447,359)	$ (959,054)
Denominator:				
Basic weighted average shares outstanding	6,662,832	2,896,327	5,228,371	2,384,200
Basic loss per common share	$ (0.08)	$ (0.20)	$ (0.28)	$ (0.40)

Note 9 – Stockholders' Equity

Under the Charter, the Company has the authority to issue 900,000,000 shares of common stock, $0.01 per share par value, classified and designated as 850,000,000 shares of Class A common stock, 50,000,000 shares of Class T common stock, and 50,000,000 shares of preferred stock with a par value of $0.01 per share. On September 30, 2015, the Company sold 22,100 shares of common stock to Hartman Advisors, LLC at a purchase price of $9.05 per share for an aggregate purchase price of $200,005, which was paid in cash. The Company's board of directors is authorized to amend the Charter, without the approval of the Company's stockholders, to increase the aggregate number of authorized shares of capital stock or the number of shares of any class or series that the Company has authority to issue.

Common Stock

Shares of Class A and Class T common stock entitle the holders to one vote per share on all matters which stockholders are entitled to vote, to receive dividends and other distributions as authorized by the Company's board of directors in accordance with the Maryland General Corporation Law and to all rights of a stockholder pursuant to the Maryland General Corporation Law. Neither Class A or Class T common stock have any preferences or preemptive conversion or exchange rights.

Preferred Stock

The board of directors, with the approval of a majority of the entire board of directors and without any action by the stockholders, may amend the Charter from time to time to increase or decrease the aggregate number of authorized shares of capital stock or the number of authorized shares of capital stock of any class or series. If the Company were to create and issue preferred stock or convertible stock with a distribution preference over common stock, payment of any distribution preferences of outstanding preferred stock or convertible stock would reduce the amount of funds available for the payment of distributions on our common stock. Further, holders of preferred stock are normally entitled to receive a preference payment in the event we liquidate, dissolve or wind up before any payment is made to our common stockholders, likely reducing the amount common stockholders would otherwise receive upon such an occurrence. In addition, under certain circumstances, the issuance of preferred stock or a separate class or series of common stock may render more difficult or tend to discourage a merger, tender offer or proxy contest, the assumption of control by a holder of a large block of our securities and the removal of incumbent management.

Stock-Based Compensation

The Company awards vested restricted common shares to non-employee directors as compensation in part for their service as members of the board of directors of the Company. For the three and nine months ended September 30, 2019 and 2018, the Company granted 625 and 625 shares and 1,875 and 1,875 shares, respectively, of restricted common stock to independent directors as compensation for services. The Company recognized $6,250 and $6,250 and $18,750 and $18,750 as stock-based compensation expense for the three and nine months ended September 30, 2019 and 2018, respectively.

Distributions

The following table reflects the total distributions paid in cash and issued in shares of our common stock for the period from January 2017 (the month the Company first paid distributions) through September 30, 2019:

Period	**Cash (1)**	**DRP & Stock (2)**	**Total**
First Quarter 2017	$ 26,621	$ 19,340	$ 45,961
Second Quarter 2017	62,283	72,105	134,388
Third Quarter 2017	105,154	114,788	219,942
Fourth Quarter 2017	127,336	162,380	289,716
First Quarter 2018	153,832	192,202	346,034
Second Quarter 2018	182,226	245,363	427,589
Third Quarter 2018	215,317	293,079	508,396
Fourth Quarter 2018	236,895	344,918	581,813
First Quarter 2019	304,955	388,228	693,183
Second Quarter 2019	387,574	484,395	871,969
Third Quarter 2019	498,717	645,844	1,144,561
Total	$ 2,300,910	$ 2,962,642	$ 5,263,552

(1) Distributions are paid on a monthly basis. Distributions for all record dates of a given month are paid approximately 20 days following the end of such month.
(2) Amount of distributions paid in shares of common stock pursuant to our distribution reinvestment plan and stock dividend distribution.

Note 10 — Incentive Plans

The Company has adopted a long-term incentive plan (the "Incentive Award Plan") that provides for the grant of equity awards to employees, directors and consultants and those of the Company's affiliates. The Incentive Award Plan authorizes the granting of restricted stock, stock options, stock appreciation rights, restricted or deferred stock units, dividend equivalents, other stock-based awards and cash-based awards to directors, officers, employees and consultants of the Company and the Company's affiliates selected by the board of directors for participation in the Incentive Award Plan. Stock options and shares of restricted common stock granted under the Incentive Award Plan will not, in the aggregate, exceed an amount equal to 5.0% of the outstanding shares of the Company's common stock on the date of grant or award of any such stock options or shares of restricted stock. The Company recognized stock based compensation expenses of $18,750 and $18,750 with respect to the independent director compensation for the nine months ended September 30, 2019 and 2018.

Note 11 — Special Limited Partnership Interest

Pursuant to the limited partnership agreement for the OP, SLP LLC, the holder of the Special Limited Partnership Interest, will be entitled to receive distributions equal to 15.0% of the OP's net sales proceeds from the disposition of assets, but only after the Company's stockholders have received, in the aggregate, cumulative distributions equal to their total invested capital plus a 6.0% cumulative, non-compounded annual pre-tax return on such aggregated invested capital. In addition, the holder of the Special Limited Partnership Interest is entitled to receive a payment upon the redemption of the Special Limited Partnership Interests. Pursuant to the limited partnership agreement for the OP, the Special Limited Partnership Interests will be redeemed upon: (1) the listing of the Company's common stock on a national securities exchange; (2) the occurrence of certain events that result in the termination or non-renewal of the Company's advisory agreement with the Advisor ("Advisory Agreement") other than by the Company for "cause" (as defined in the Advisory Agreement); or (3) the termination of the Advisory Agreement by the Company for cause. In the event of the listing of the Company's shares of common stock or a termination of the Advisory Agreement other than by the Company for cause, the Special Limited Partnership Interests will be redeemed for an aggregate amount equal to the amount that the holder of the Special Limited Partnership Interests would have been entitled to receive, as described above, if the OP had disposed of all of its assets at their fair market value and all liabilities of the OP had been satisfied in full according to their terms as of the date of the event triggering the redemption. Payment of the redemption price to the holder of the Special Limited Partnership Interests will be paid, at the holder's discretion, in the form of (i) limited partnership interests in the OP, (ii) shares of the Company's common stock, or (iii) a non-interest bearing promissory note. If the event triggering the redemption is a listing of the Company's shares on a national securities exchange only, the fair market value of the assets of the OP will be calculated taking into account the average share price of the Company's shares for a specified period. If the event triggering the redemption is an underwritten public offering of the Company's shares, the fair market value will take into account the valuation of the shares as determined by the initial public offering price in such offering. If the triggering event of the redemption is the termination or non-renewal of the Advisory Agreement other than by the Company for cause for any other reason, the fair market value of the assets of the OP will be calculated based on an appraisal or valuation of the Company's assets. In the event of the termination or non-renewal of the Advisory Agreement by the Company for cause, all of the Special Limited Partnership Interests will be redeemed by the OP for the aggregate price of $1.

Note 12 – Commitments and Contingencies

Economic Dependency

The Company is dependent on the Sponsor and the Advisor for certain services that are essential to the Company, including the identification, evaluation, negotiation, purchase and disposition of properties, management of the daily operations of the Company's real estate portfolio, and other general and administrative responsibilities. In the event that these companies are unable to provide the respective services, the Company will be required to obtain such services from other providers.

Litigation

The Company is subject to various claims and legal actions that arise in the ordinary course of business. Management of the Company believes that the final disposition of such matters will not have a material adverse effect on the financial position of the Company.

Note 13 – Subsequent Events

On October 1, 2019, the Company through Hartman 1400 Broadfield LLC ("1400 Broadfield LLC), Hartman 16420 Park Ten LLC ("16420 Park Ten LLC"), and Hartman 7915 FM 1960 LLC ("7915 FM 1960 LLC"), each a wholly-owned subsidiary of the OP, acquired a fee simple interest in three separate buildings located in Houston, Texas, a six-story office building comprising approximately 102,893 square feet, commonly referred to as the 1400 Broadfield Building; a five-story office building comprising approximately 83,760 square feet, commonly referred to as the 16420 Park Ten Building; and a three-story office building comprising approximately 67,581 square feet, commonly referred to as the 7915 FM 1960 Building.

The three properties were acquired from Houston Portfolio, LLC., an unrelated third party, for a purchase price of $20,550,000, exclusive of closing costs. The Company financed the payment of the purchase price for the three buildings with proceeds from the Company's public offering.

An acquisition fee of approximately $513,750 was earned by Advisor in connection with the purchase of the buildings.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Note Regarding Forward-Looking Statements

As used herein, the terms "we," "us" or "our" refer to Hartman vREIT XXI, Inc. and, as required by context, Hartman vREIT XXI Operating Partnership L.P., which we refer to as our "operating partnership," and their respective subsidiaries.

Certain statements included in this quarterly report on Form 10-Q (this "Quarterly Report") that are not historical facts (including statements concerning investment objectives, other plans and objectives of management for future operations or economic performance, or assumptions, or forecasts related thereto) are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are only predictions. We caution that forward-looking statements are not guarantees. Actual events on our investments and results of operations could differ materially from those expressed or implied in any forward-looking statements. Forward-looking statements are typically identified by the use of terms such as "may," "should," "expect," "could," "intend," "plan," "anticipate," "estimate," "believe," "continue," "predict," "potential" or the negative of such terms and other comparable terminology.

The forward-looking statements included herein are based upon our current expectations, plans, estimates, assumptions and beliefs which involve numerous risks and uncertainties. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. Factors that could have a material adverse effect on our operations and future prospects include, but are not limited to:

- our ability to raise capital in our ongoing initial public offering;
- the fact that we have a limited operating history and commenced operations on November 14, 2016;
- our ability to effectively deploy the proceeds raised in our initial public offering;
- the imposition of federal taxes if we fail to qualify as a REIT in any taxable year or forego an opportunity to ensure REIT status;
- uncertainties related to the national economy, the real estate industry in general and in our specific markets;
- legislative or regulatory changes, including changes to laws governing REITS;
- construction costs that may exceed estimates or construction delays;
- increases in interest rates;
- availability of credit or significant disruption in the credit markets;
- litigation risks;
- risks inherent to the real estate business, including tenant defaults, potential liability related to environmental matters and the lack of liquidity of real estate investments;
- inability to obtain new tenants upon the expiration of existing leases at our properties;
- inability to generate sufficient cash flows due to market conditions, competition, uninsured losses, changes in tax or other applicable laws;

- the potential need to fund tenant improvements or other capital expenditures out of operating cash flow;
- conflicts of interest arising out of our relationship with our advisor and its affiliates;
- our ability to generate sufficient cash flows to pay distributions to our stockholders;
- our ability to retain our executive officers and other key personnel of our advisor and other affiliates of our advisor; and
- changes to generally accepted accounting principles, or GAAP.

Any of the assumptions underlying the forward-looking statements included herein could be inaccurate, and undue reliance should not be placed upon any forward-looking statements included herein. All forward-looking statements are made as of the date of this Quarterly Report, and the risk that actual results will differ materially from the expectations expressed herein will increase with the passage of time. Except as otherwise required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements made after the date of this Quarterly Report, whether as a result of new information, future events, changed circumstances or any other reason.

All forward-looking statements included in this Quarterly Report should be read in light of the factors identified in the “Risk Factors” section of our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on April 16, 2019.

Overview

We were formed as a Maryland corporation on September 3, 2015 to acquire, develop and operate a diverse portfolio of value-oriented commercial properties, including office, retail, industrial and warehouse properties, located primarily in Texas. We intend to acquire properties in which there is a significant potential for growth in income and value from re-tenanting, repositioning, redevelopment, and operational enhancements. We believe that real estate, and in particular commercial real estate, provides an excellent investment for those investors looking for diversification, income and wealth preservation and growth in their portfolio. We believe that we have significant experience in acquiring and managing these types of properties, largely through our relationships with our sponsor and other affiliates.

On June 24, 2016, our registration statement on Form S-11, registering our initial public offering of up to $269,000,000 in shares of our common stock, was declared effective by the SEC, and we commenced our initial public offering. On January 9, 2017, we amended our charter to (i) designate our authorized shares of common stock as Class A shares of common stock and Class T shares of common stock and (ii) convert each share of our common stock outstanding as of date of the amendment to our charter into a share of our Class A common stock. On February 6, 2017, our amended registration statement on Form S-11, providing for our public offering of up to $269,000,000 in Class A shares of our common stock and Class T shares of our common stock, was declared effective by the SEC and we commenced offering Class A and Class T shares of our common stock.

In our initial public offering, we are offering up to $250,000,000 in any combination of Class A and Class T shares of our common stock to the public and up to $19,000,000 in Class A and Class T shares of our common stock to our stockholders pursuant to our distribution reinvestment plan.

On June 24, 2019, we filed a registration statement on Form S-11 (Registration No. 333-232308) registering $220,000,000 in any combination of shares of Class A and Class T common stock to be sold on a “best efforts” basis in our follow-on offering. We continue to sell shares of our Class A and Class T common shares pursuant to the Offering, which we may continue to do until the earlier of the effective date of the follow-on offering or December 21, 2019.

Class A common stock was being offered to the public at an initial price of $10.00 per share and to stockholders at an initial price of $9.50 per share for Class A common stock purchased pursuant to the distribution reinvestment plan.

Class T common stock was being offered to the public at an initial price of $9.60 per share and to stockholders at an initial price of $9.12 per share for Class T common stock purchased pursuant to the distribution reinvestment plan.

Beginning September 7, 2019, the sale price of the Company's Class A and Class T common shares to the public is $13.00 and $12.48 per share, representing the net asset value per share as determined by the board of directors plus the sales and managing broker dealer commissions and fees. The sale price of Class A and Class T common shares to the Company's shareholders pursuant to the distribution reinvestment plan is $11.70 and $11.23 per share.

The Company’s board of directors may, in its sole discretion and from time to time, change the price at which the Company offers shares to the public in the primary offering or pursuant to its distribution reinvestment plan to reflect changes in estimated value per share and other factors that the board of directors deems relevant.

As of September 30, 2019, we had accepted subscriptions for, and issued 7,709,742 shares, net of redemptions, of our Class A common stock, including 173,162 shares issued pursuant to our distribution reinvestment plan, and 431,831 shares of our Class T common stock, including 8,612 shares issued pursuant to our distribution reinvestment plan resulting in gross proceeds of $79,915,643. We intend to use the net proceeds from our initial public offering to continue to acquire commercial real estate properties located primarily in Texas. We intend to offer shares of our common stock on a continuous basis until the termination of our follow-on offering. We reserve the right to terminate our initial public offering at any time. D.H. Hill Securities, LLLP is the dealer manager for our initial public offering and is responsible for the distribution of our common stock in our initial public offering.

Hartman XXI Advisors, LLC, which we refer to as our advisor, manages our day-to-day operations and our portfolio of properties and real estate-related assets, subject to certain limitations and restrictions. Our advisor sources and presents investment opportunities to our board of directors. Our advisor also provides investment management, marketing, investor relations and other administrative services on our behalf.

Substantially all of our business is conducted through Hartman vREIT XXI Operating Partnership, L.P., a Texas limited partnership, which we refer to as our operating partnership. We are the sole general partner of our operating partnership and Hartman vREIT XXI Holdings LLC, and Hartman vREIT XXI SLP, LLC, affiliates of our advisor, are the initial limited partners of our operating partnership. As we accept subscriptions for shares of our common stock, we will transfer substantially all of the net proceeds of the offering to our operating partnership as a capital contribution. The limited partnership agreement of our operating partnership provides that our operating partnership will be operated in a manner that will enable us to (1) satisfy the requirements for being classified as a REIT for federal income tax purposes, (2) avoid any federal income or excise tax liability and (3) ensure that our operating partnership will not be classified as a “publicly traded partnership” for purposes of Section 7704 of the Internal Revenue Code of 1986, as amended, which classification could result in our operating partnership being taxed as a corporation rather than as a partnership. In addition to the administrative and operating costs and expenses incurred by our operating partnership in acquiring and operating our investments, our operating partnership will pay all of our administrative costs and expenses, and such expenses will be treated as expenses of our operating partnership. We will experience a relative increase in liquidity as additional subscriptions for shares of our common stock are received and a relative decrease in liquidity as offering proceeds are used to acquire and operate our assets.

We elected under Section 856 (c) the Internal Revenue Code to be taxed as a REIT beginning with our taxable year ended December 31, 2017. As a REIT for federal income tax purposes, we generally will not be subject to federal income tax on income that we distribute to our stockholders. If we fail to qualify as a REIT in any taxable year after the taxable year in which we initially elect to be taxed as a REIT, we will be subject to federal income tax on our taxable income at regular corporate rates and will not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year in which qualification is denied. Failing to qualify as a REIT could materially and adversely affect our net income.

Investment Objectives and Strategy: Hartman Advantage

Our primary investment objectives are to:

- realize growth in the value of our investments;
- preserve, protect and return stockholders' capital contributions; and
- grow net cash from operations and pay regular cash distributions to our stockholders.

We cannot assure our stockholders that we will achieve these objectives.

The cornerstone of our investment strategy is our advisor's discipline in acquiring a portfolio of real estate properties, specifically properties that are located in Texas, that offer a blend of current and potential income based on in place occupancy plus relatively significant potential for growth in income and value from re-tenanting, repositioning or redevelopment. We refer to this strategy as "value add" or the "Hartman Advantage."

We rely upon the value add or Hartman Advantage strategy to evaluate numerous potential commercial real estate acquisition and investment opportunities per completed acquisition or investment.

We do not anticipate that there will be any market for our shares of common stock unless they are listed on a national securities exchange. In the event that our shares of common stock are not listed or traded on an established securities exchange prior to the tenth anniversary of the completion or termination of our initial public offering, our charter requires that the board of directors must seek the approval of our stockholders of a plan to liquidate our assets, unless the board of directors has obtained the approval of our stockholders (1) to defer the liquidation of our assets or (2) of an alternate strategy.

We believe that we have sufficient capital to meet our existing debt service and other operating obligations for the next year and that we have adequate resources to fund our cash needs. However, our operations are subject to a variety of risks, including, but not limited to, changes in national economic conditions, the restricted availability of financing, changes in demographic trends and interest rates and declining real estate valuations. As a result of these uncertainties, there can be no assurance that we will meet our investment objectives or that the risks described above will not have an adverse effect on our properties or results of operations.

Our Real Estate Investments

As of September 30, 2019, our investments in real estate assets consist of a retail shopping center located in San Antonio, Texas, which we refer to as the Village Pointe Property; a flex/R&D property located in Richardson, Texas, which we refer to as the Richardson Tech Center Property; an office property located in San Antonio, Texas, which we refer to as the Spectrum Building; and an office property located in Houston, Texas, which we refer to as the 11211 Building. We own a 2.47% interest in an affiliate special purpose entity which owns 39 office, retail and light industrial properties in Houston, Dallas, and San Antonio, Texas, which refer to as the Hartman SPE interest. We own 700,302 common shares of an affiliate, Hartman Short Term Income Properties, XX, Inc.

Property Name	Space Type	Location	Gross Leasable Area SF	Percent Occupied	Annualized Base Rental Revenue (in thousand)	Average Base Rental Revenue per Occupied SF	Average Net Effective Annual Base Rent per Occupied SF
Village Pointe	Retail	San Antonio	54,246	79 %	$ 581,858	$ 13.53	$ 13.53
Richardson Tech	Flex/R&D	Dallas	96,660	75 %	634,651	8.70	8.74
Spectrum	Office	San Antonio	175,390	84 %	3,350,430	22.82	22.82
11211 Katy Freeway	Office	Houston	77,882	59 %	810,007	17.75	17.79
Grand Total			**404,178**	**76 %**	**$ 5,376,946**	**$ 17.44**	**$ 17.45**

Hartman SPE LLC and Hartman Short Term Income Properties XX, Inc.

On October 1, 2018, we acquired a 5.89% member interest in Hartman SPE LLC in exchange for our 48.8% minority interest in an office property owned jointly with Hartman Short Term Income Properties XX, Inc.

Effective March 1, 2019, we exchanged 3.42% of our 5.89% interest in Hartman SPE LLC for 700,302 common shares of Hartman Short Term Income Properties XX, Inc.

REIT Compliance

We elected under Section 856(c) of the Internal Revenue Code to be taxed as a REIT beginning with the taxable year ended December 31, 2017. As a REIT we generally are not subject to federal income tax on income that we distribute to our stockholders. If we fail to qualify as a REIT in any taxable year after the year in which we initially elected to be treated as a REIT, we will be subject to federal income tax on our taxable income at regular corporate rates and will not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year in which our qualification is denied. Such an event could materially and adversely affect our net income. However, we believe that we are organized and will operate in a manner that will enable us to qualify for treatment as a REIT for federal income tax purposes.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our results of operations and financial condition, as reflected in the accompanying consolidated financial statements and related notes, require us to make estimates and assumptions that are subject to management's evaluation and interpretation of business conditions, changing capital market conditions and other factors related to the ongoing viability of our customers. With different estimates or assumptions, materially different amounts could be reported in our consolidated financial statements. There have been no material changes to our critical accounting policies and estimates other than as set forth in the Annual Report for the year ended December 31, 2018. See Note 2 to our consolidated financial statements in this Quarterly Report for a discussion of our currently adopted accounting policies.

RESULTS OF OPERATIONS

Comparison of the three and nine months ended September 30, 2019 versus September 30, 2018.

As of September 30, 2019, our investments in real estate assets consist of a retail shopping center located in San Antonio, Texas, which we refer to as the Village Pointe Property; a flex/R&D property located in Richardson, Texas, which we refer to as the Richardson Tech Center Property; an office property located in San Antonio, Texas, which we refer to as the Spectrum Building; and an office property located in Houston, Texas, which we refer to as the 11211 Building. We own a 2.47% interest in an affiliate special purpose entity which owns 39 office, retail and light industrial properties in Houston, Dallas, and San Antonio, Texas, which refer to as the Hartman SPE interest. We own 700,302 common shares of an affiliate, Hartman Short Term Income Properties, XX, Inc.

Revenues – The primary source of our revenue is rental revenues and tenant reimbursements. For the three months ended September 30, 2019 and 2018 we had total rental revenues and tenant reimbursements of $1,540,186 and $425,333, respectively. The increase is primarily attributable to the acquisitions of the Spectrum Building and the 11211 Building, which generated total revenue of $939,641 and $219,536, respectively, for the three months ended September 30, 2019. For the nine months ended September 30, 2019 and 2018 we had total rental revenues and tenant reimbursements of $4,643,347 and $1,136,666, respectively. The increase in total rental revenues and tenant reimbursements was primarily due to the addition of the Spectrum Building and the 11211 Building which generated total revenue of $2,864,939 and $633,715, respectively, for the nine months ended September 30, 2019.

Operating expenses **–** Operating expenses consist of property operating expenses (contract services, repairs and maintenance, utilities and management fees); real estate taxes and insurance; and asset management fees. For the three months ended September 30, 2019 and 2018, we had operating expenses of $1,065,361 and $233,594, respectively. The increase is primarily attributable to the acquisitions of the Spectrum Building and the 11211 Building. For the nine months ended September 30, 2019 and 2018, we had operating expenses of $2,886,017 and $562,848, respectively. The increase is primarily attributable to the acquisitions of the Spectrum Building and the 11211 Building.

Fees to affiliates **–** We pay asset management fees to our advisor in connection with the management of our company. Asset management fees to our advisor were $62,957 and $22,669 for the three months ended September 30, 2019 and 2018, respectively. Asset management fees to our advisor were $188,017 and $60,386 for the nine months ended September 30, 2019 and 2018, respectively. We pay property management to our Property Manager in connection with the management of our properties. For the three months ended September 30, 2019 and 2018 we incurred $175,502 and $41,919, respectively, for property management fees. For the nine months ended September 30, 2019 and 2018 we incurred $524,816 and $98,275, respectively, for property management fees. The increase is primarily attributable to the acquisitions of the Spectrum Building and the 11211 Building.

Real estate taxes and insurance – Real estate taxes and insurance were $253,545 and $78,895 for the three months ended September 30, 2019 and 2018, respectively. Real estate taxes and insurance were $724,688 and $218,056 for the nine months ended September 30, 2019 and 2018, respectively. The increase is primarily attributable to the acquisitions of the Spectrum Building and the 11211 Building.

Depreciation and amortization – Depreciation and amortization were $884,229 and $211,371 for the three months ended September 30, 2019 and 2018, respectively. Depreciation and amortization were $2,637,593 and $552,246 for the nine months ended September 30, 2019 and 2018, respectively. The increase is primarily attributable to the acquisitions of the Spectrum Building and the 11211 Building.

General and administrative expenses - General and administrative expenses were $90,586 and $157,804 for the three months ended September 30, 2019 and 2018, respectively. General and administrative expenses were $300,218 and $248,191 for the nine months ended September 30, 2019 and 2018, respectively. General and administrative expenses consist primarily of audit fees, transfer agent fees, other professional fees, and independent director's compensation.

Net loss – We generated a net loss of $539,544 and $592,719 for the three months ended September 30, 2019 and 2018, respectively and a net loss of $1,447,359 and $959,054 for the nine months ended September 30, 2019 and 2018, respectively. Decrease in net loss for the three months ended September 30, 2019 compared to the three months ended September 30, 2018 of $53,175 is primarily attributable to $300,000 of equity in loss of unconsolidated Three Forest Plaza property recorded in 2018 and not in 2019 and increase in rental revenues of $1,035,000, offset by increase in property operating expenses of $617,000 and an increase in depreciation and amortization expense of $673,000 . Increase in net loss for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 of $488,305 is primarily attributable to increased property operating expenses, depreciation and amortization expenses and slight increase in all other expenses, offset by an increase in total revenues, mainly attributable to the acquisitions of the Spectrum Building and the 11211 Building.

Funds From Operations and Modified Funds From Operations

Funds From Operations, or FFO, is a non-GAAP financial measure defined by the National Association of Real Estate Investment Trusts ("NAREIT"), an industry trade group, which we believe is an appropriate supplemental measure to reflect the operating performance of a real estate investment trust, or REIT in conjunction with net income. FFO is used by the REIT industry as a supplemental performance measure. FFO is not equivalent to our net income or loss as determined under GAAP.

We define FFO, a non-GAAP measure, consistent with the standards established by the White Paper on FFO approved by the Board of Governors of NAREIT, as revised in February 2004, or the White Paper. The White Paper defines FFO as net income or loss computed in accordance with GAAP, excluding gains or losses from sales of property and asset impairment write-downs, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures are calculated to reflect FFO. Our FFO calculation complies with NAREIT's policy described above.

The historical accounting convention used for real estate assets requires straight-line depreciation of buildings and improvements, which implies that the value of real estate assets diminishes predictably over time, especially if such assets are not adequately maintained or repaired and renovated as required by relevant circumstances and/or is requested or required by lessees for operational purposes in order to maintain the value disclosed. We believe that, since real estate values historically rise and fall with market conditions, including inflation, interest rates, the business cycle, unemployment and consumer spending, presentations of operating results for a REIT using historical accounting for depreciation may be less informative. Additionally, we believe it is appropriate to disregard impairment charges, as this is a fair value adjustment that is largely based on market fluctuations and assessments regarding general market conditions which can change over time. An asset will only be evaluated for impairment if certain impairment indications exist and if the carrying, or book value, exceeds the total estimated undiscounted future cash flows (including net rental and lease revenues, net proceeds on the sale of the property, and any other ancillary cash flows at a property or group level under GAAP) from such asset. Investors should note, however, that determinations of whether impairment charges have been incurred are based partly on anticipated operating performance, because estimated undiscounted future cash flows from a property, including estimated future net rental and lease revenues, net proceeds on the sale of the property, and certain other ancillary cash flows, are taken into account in determining whether an impairment charge has been incurred. While impairment charges are excluded from the calculation of FFO as described above, investors are cautioned that due to the fact that impairments are based on estimated future undiscounted cash flows and the relatively limited term of our operations, it could be difficult to recover any impairment charges.

Historical accounting for real estate involves the use of GAAP. Any other method of accounting for real estate such as the fair value method cannot be construed to be any more accurate or relevant than the comparable methodologies of real estate valuation found in GAAP. Nevertheless, we believe that the use of FFO, which excludes the impact of real estate related depreciation and amortization and impairments, provides a more complete understanding of the our performance to investors and to management, and when compared year over year, reflects the impact on our operations from trends in occupancy rates, rental rates, operating costs, general and administrative expenses, and interest costs, which may not be immediately apparent from net income. However, FFO and MFFO, as described below, should not be construed to be more relevant or accurate than the current GAAP methodology in calculating net income or in its applicability in evaluating our operating performance. The method utilized to evaluate the value and performance of real estate under GAAP should be construed as a more relevant measure of operational performance and considered more prominently than the non-GAAP FFO and MFFO measures and the adjustments to GAAP in calculating FFO and MFFO.

Changes in the accounting and reporting promulgations under GAAP (for acquisition fees and expenses from a capitalization/depreciation model to an expensed-as-incurred model) that were put into effect in 2009 and other changes to GAAP accounting for real estate subsequent to the establishment of NAREIT's definition of FFO have prompted an increase in cash-settled expenses, specifically acquisition fees and expenses for all industries as items that are expensed under GAAP, that are typically accounted for as operating expenses. Management believes these fees and expenses do not affect our overall long-term operating performance. Publicly registered, non-listed REITs typically have a significant amount of acquisition activity and are substantially more dynamic during their initial years of investment and operation. While other start up entities may also experience significant acquisition activity during their initial years, we believe that non-listed REITs are unique in that they have a limited life with targeted exit strategies within a relatively limited time frame after the acquisition activity ceases. We intend to use the remaining net proceeds raised in our follow-on offering to continue to acquire properties, and intend to begin the process of achieving a liquidity event (*i.e.*, the listing of our common stock on a national exchange, a merger or sale or our company or another similar transaction) within ten years of the completion of our initial public offering. The Institute for Portfolio Alternatives, or "IPA," an industry trade group, has standardized a measure known as Modified Funds From Operations, or "MFFO," which the IPA has recommended as a supplemental measure for publicly registered non-listed REITs and which we believe to be another appropriate supplemental measure to reflect the operating performance of a non-listed REIT having the characteristics described above. MFFO is not equivalent to our net income or loss as determined under GAAP, and MFFO may not be a useful measure of the impact of long-term operating performance on value if we do not continue to operate with a limited life and targeted exit strategy, as currently intended. We believe that, because MFFO excludes costs that we consider more reflective of investing activities and other non-operating items included in FFO and also excludes acquisition fees and expenses that affect our operations only in periods in which properties are acquired, MFFO can provide, on a going forward basis, an indication of the sustainability (*i.e.*, the capacity to continue to be maintained) of our operating performance after the period in which we are acquiring our properties and once our portfolio is in place. By providing MFFO, we believe we are presenting useful information that assists investors and analysts to better assess the sustainability of our operating performance after our public offering has been completed and our properties have been acquired. We also believe that MFFO is a recognized measure of sustainable operating performance by the non-listed REIT industry. Further, we believe MFFO is useful in comparing the sustainability of our operating performance after our public offering and acquisitions are completed with the sustainability of the operating performance of other real estate companies that are not as involved in acquisition activities. Investors are cautioned that MFFO should only be used to assess the sustainability of our operating performance after our public offering has been completed and properties have been acquired, as it excludes acquisition costs that have a negative effect on our operating performance during the periods in which properties are acquired.

We define MFFO, a non-GAAP measure, consistent with the IPA's Guideline 2010-01, Supplemental Performance Measure for Publicly Registered, Non-Listed REITs: Modified Funds from Operations, or the Practice Guideline, issued by the IPA in November 2010. The Practice Guideline defines MFFO as FFO further adjusted for the following items, as applicable, included in the determination of GAAP net income: acquisition fees and expenses; amounts relating to deferred rent receivables and amortization of above and below market leases and liabilities (which are adjusted in order to reflect such payments from a GAAP accrual basis to a cash basis of disclosing the rent and lease payments); accretion of discounts and amortization of premiums on debt investments; mark-to-market adjustments included in net income; nonrecurring gains or losses included in net income from the extinguishment or sale of debt, hedges, foreign exchange, derivatives or securities holdings where trading of such holdings is not a fundamental attribute of the business plan, unrealized gains or losses resulting from consolidation from, or deconsolidation to, equity accounting, and after adjustments for consolidated and unconsolidated partnerships and joint ventures, with such adjustments calculated to reflect MFFO on the same basis. The accretion of discounts and amortization of premiums on debt investments, nonrecurring unrealized gains and losses on hedges, foreign exchange, derivatives or securities holdings, unrealized gains and losses resulting from consolidations, as well as other listed cash flow adjustments are adjustments made to net income in calculating the cash flows provided by operating activities and, in some cases, reflect gains or losses which are unrealized and may not ultimately be realized.

Our MFFO calculation complies with the IPA's Practice Guideline described above. In calculating MFFO, we exclude acquisition related expenses. We do not currently exclude amortization of above and below market leases, fair value adjustments of derivative financial instruments, deferred rent receivables and the adjustments of such items related to noncontrolling interests. Under GAAP, acquisition fees and expenses are characterized as operating expenses in determining operating net income. These expenses are paid in cash by us, and therefore such funds will not be available to distribute to investors. All paid and accrued acquisition fees and expenses negatively impact our operating performance during the period in which properties are acquired and will have negative effects on returns to investors, the potential for future distributions, and cash flows generated by us, unless earnings from operations or net sales proceeds from the disposition of other properties are generated to cover the purchase price of the property, these fees and expenses and other costs related to such property. Accordingly, MFFO may not be an accurate indicator of our operating performance, especially during periods in which properties are being acquired. MFFO that excludes such costs and expenses would only be comparable to non-listed REITs that have completed their acquisition activities and have similar operating characteristics to us. Further, under GAAP, certain contemplated non-cash fair value and other non-cash adjustments are considered operating non-cash adjustments to net income in determining cash flow from operating activities. In addition, we view fair value adjustments of derivatives and gains and losses from dispositions of assets as non-recurring items or items which are unrealized and may not ultimately be realized, and which are not reflective of on-going operations and are therefore typically adjusted for when assessing operating performance. The purchase of properties, and the corresponding expenses associated with that process, is a key operational feature of our business plan to generate operational income and cash flows in order to make distributions to investors. Acquisition fees and expenses will not be reimbursed by the advisor if there are no further proceeds from the sale of shares in our public offering, and therefore such fees and expenses will need to be paid from either additional debt, operational earnings or cash flows, net proceeds from the sale of properties or from ancillary cash flows.

Our management uses MFFO and the adjustments used to calculate it in order to evaluate our performance against other non-listed REITs which have limited lives with short and defined acquisition periods and targeted exit strategies shortly thereafter. As noted above, MFFO may not be a useful measure of the impact of long-term operating performance on value if we do not continue to operate in this manner. We believe that our use of MFFO and the adjustments used to calculate it allow us to present our performance in a manner that reflects certain characteristics that are unique to non-listed REITs, such as their limited life, limited and defined acquisition period and targeted exit strategy, and hence that the use of such measures is useful to investors. For example, acquisitions costs are funded from the remaining net proceeds of our public offerings and other financing sources and not from operations. By excluding expensed acquisition costs, the use of MFFO provides information consistent with management's analysis of the operating performance of the properties. Additionally, fair value adjustments, which are based on the impact of current market fluctuations and underlying assessments of general market conditions, but can also result from operational factors such as rental and occupancy rates, may not be directly related or attributable to our current operating performance. By excluding such changes that may reflect anticipated and unrealized gains or losses, we believe MFFO provides useful supplemental information.

Presentation of this information is intended to provide useful information to investors as they compare the operating performance of different REITs, although it should be noted that not all REITs calculate FFO and MFFO the same way, so comparisons with other REITs may not be meaningful. FFO and MFFO are not necessarily indicative of cash flow available to fund cash needs and should not be considered as an alternative to net income (loss) or income (loss) from continuing operations as an indication of our performance, as an alternative to cash flows from operations as an indication of its liquidity, or indicative of funds available to fund its cash needs including its ability to make distributions to its stockholders. FFO and MFFO should be reviewed in conjunction with other GAAP measurements as an indication of our performance. MFFO is useful in assisting management and investors in assessing the sustainability of operating performance in future operating periods, and in particular, after the offering and acquisition stages are complete and net asset value is disclosed. FFO and MFFO are not useful measures in evaluating net asset value because impairments are taken into account in determining net asset value but not in determining FFO or MFFO.

Neither the SEC, NAREIT nor any other regulatory body has passed judgment on the acceptability of the adjustments that we use to calculate FFO or MFFO. In the future, the SEC, NAREIT, or another regulatory body may decide to standardize the allowable adjustments across the non-listed REIT industry and as a result we may have to adjust our calculation and characterization of FFO or MFFO.

The table below summarizes our calculation of FFO and MFFO for the three and nine months ended September 30, 2019 and 2018 and a reconciliation of such non-GAAP financial performance measures to our net loss.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Net loss	$ (539,544)	$ (592,719)	$ (1,447,359)	$ (959,054)
Depreciation and amortization of real estate assets	884,229	211,371	2,637,593	552,246
Depreciation and amortization attributable to equity in earnings (losses) (1)	—	465,795	—	1,180,762
FFO attributable to unconsolidated entity, Hartman SPE, LLC (2)	132,308	—	411,119	—
Funds from operations (FFO)	476,993	84,447	1,601,353	773,954
Organization and offering costs	116,428	29,700	183,119	110,428
Modified funds from operations (MFFO)	$ 593,421	$ 114,147	$ 1,784,472	$ 884,382

(1) Depreciation and amortization attributable to the equity in earnings (losses) of the Three Forest Property.

(2) For the three and nine months ended September 30, 2019, Hartman SPE, LLC had a net loss of $(1,141,853) and $(2,385,428), respectively, depreciation and amortization expense of $6,498,460 and $19,029,908, respectively, and FFO of $5,356,608 and $16,644,480. The Company's weighted average ownership interest in Hartman SPE, LLC for the three and nine months ended September 30, 2019 was 2.47%.

Distributions

The following table summarizes the distributions we paid in cash and in shares of our common stock and the amount of distributions reinvested pursuant to the distribution reinvestment plan for the period from January 2017 (the month we first paid distributions) through September 30, 2019:

Period		**Cash (1)**	**DRP & Stock (2)**	**Total**
First Quarter 2017	$	26,621	19,340	45,961
Second Quarter 2017	$	62,283	72,105	134,388
Third Quarter 2017	$	105,154	114,788	219,942
Fourth Quarter 2017	$	127,336	162,380	289,716
First Quarter 2018	$	153,832	192,202	346,034
Second Quarter 2018	$	182,226	245,363	427,589
Third Quarter 2018	$	215,317	293,079	508,396
Fourth Quarter 2018	$	236,895	344,918	581,813
First Quarter 2019	$	304,955	388,228	693,183
Second Quarter 2019	$	387,574	484,395	871,969
Third Quarter 2019	$	498,717	645,844	1,144,561
Total	$	2,300,910	2,962,642	5,263,552

(1) Distributions are paid on a monthly basis. Distributions for all record dates of a given month are paid approximately 20 days following the end of such month.

(2) Amount of distributions paid in shares of common stock pursuant to our distribution reinvestment plan and stock dividend distribution.

For the nine months ended September 30, 2019, we paid aggregate distributions of $2,709,713, including stock distributions and distributions paid in shares of common stock pursuant to our distribution reinvestment plan. During the same period, cash provided by operating activities was $1,807,062, our net loss was $1,447,359 and our FFO was $1,601,353. For a discussion of how we calculate FFO, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Funds From Operations and Modified Funds From Operations."

For the period from inception to September 30, 2019, we paid aggregate distributions of $5,263,552, including stock distributions and distributions paid in shares of common stock pursuant to or distribution reinvestment plan. During this period, cash provided by operating activities was $(55,914), our net loss was $(4,325,391) and our FFO was $2,115,880. No portion of our distributions for the period from inception to September 30, 2019 were paid from cash flow from operating activities.

Liquidity and Capital Resources

As of September 30, 2019, we had accepted investors' subscriptions for, and issued, 7,709,742 shares, net of redemptions, of our Class A common stock and 431,831 shares of our Class T common stock in our initial public offering, including 173,162 Class A shares and 8,612 Class T shares issued pursuant to our distribution reinvestment plan, resulting in aggregate gross offering proceeds of $79,915,643.

Our principal demands for funds are and will continue to be for real estate and real estate-related acquisitions, for the payment of operating expenses, for the payment of interest on our outstanding indebtedness, and for the payment of distributions. Generally, we expect to meet cash needs for items other than acquisitions from our cash flow from operations; provided, that some or all of our distributions have been and may continue to be paid from sources other than cash from operations (as discussed below). We expect to meet cash needs for acquisitions from the remaining net proceeds of our follow-on offering and from financings.

Some or all of our distributions have been and may continue to be paid from sources other than cash flow from operations, including proceeds of our public offerings, cash advances to us by our advisor, cash resulting from a waiver of asset management fees and borrowings secured by our assets in anticipation of future operating cash flow. We may have little, if any, cash flow from operations available for distribution until we make substantial investments and those investments stabilize. In addition, to the extent our investments are in development or redevelopment projects or in properties that have significant capital requirements, our ability to make distributions may be negatively impacted, especially during our early periods of operation.

We use, and intend to use in the future, secured and unsecured debt to acquire properties and make other investments. As of September 30, 2019, our outstanding secured debt is $6,045,000. There is no limitation on the amount we may invest in any single property or other asset or on the amount we can borrow for the purchase of any individual property or other investment. Under our charter, we are prohibited from borrowing in excess of 300% of our "net assets" (as defined by our charter) as of the date of any borrowing; however, we may exceed that limit if approved by a majority of our independent directors and if such excess is disclosed to the stockholders in the next quarterly report along with the explanation for such excess borrowings. Our board of directors has adopted a policy to limit our aggregate borrowings to approximately 50% of the aggregate value of our assets unless substantial justification exists that borrowing a greater amount is in our best interests. Such limitation, however, does not apply to individual real estate assets and only will apply once we have ceased raising capital in our public offering and invested substantially all of our capital. As a result, we expect to borrow more than 50% of the contract purchase price of each real estate asset we acquire to the extent our board of directors determines that borrowing these amounts is prudent.

Our advisor may, but is not required to, establish capital reserves from remaining gross offering proceeds, out of cash flow generated by operating properties and other investments or out of non-liquidating net sale proceeds from the sale of our properties and other investments. Capital reserves are typically utilized for non-operating expenses such as tenant improvements, leasing commissions and major capital expenditures. Alternatively, a lender may require its own formula for escrow of capital reserves.

Potential future sources of capital include proceeds from additional private or public offerings of our securities, secured or unsecured financings from banks or other lenders, proceeds from the sale of properties and undistributed funds from operations. If necessary, we may use financings or other sources of capital in the event of unforeseen significant capital expenditures.

Cash Flows from Operating Activities

As of September 30, 2019, we had operations from four commercial real estate properties and investments in unconsolidated real estate entities. During the nine months ended September 30, 2019, net cash provided by operating activities was $1,807,062 versus $(70,065) net cash used in operating activities for the nine months ended September 30, 2018. The increase in cash provided by operating activities for the nine months ended September 30, 2019 was primarily due to $2,085,000 increase in depreciation and amortization expenses for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018.

Cash Flows from Investing Activities

During the nine months ended September 30, 2019, net cash used in investing activities was $(6,387,743) versus $(5,096,676) for the nine months ended September 30, 2018. The increase in cash used in investing activities for the nine months ended September 30, 2019 was primarily due to $743,000 increase in acquisition deposits and $548,000 increase in additions to real estate for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018.

Cash Flows from Financing Activities

Net cash provided by financing activities for the nine months ended September 30, 2019 was $29,333,155 versus $12,347,354 net cash provided by financing activities for the nine months ended September 30, 2018. Cash flows from financing activities consisted primarily of proceeds from our ongoing public offering which increased $30,713,000 for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. This increase was offset by a decrease of $10,819,000 due to repayments under the revolving credit facility.

Contractual Commitments and Contingencies

We use, and intend to use in the future, secured and unsecured debt, as a means of providing additional funds for the acquisition of our properties and our real estate-related assets. We believe that the careful use of borrowings will help us achieve our diversification goals and potentially enhance the returns on our investments. Under our charter, we are prohibited from borrowing in excess of 300% of our net assets, which generally approximates to 75% of the aggregate cost of our assets. We may borrow in excess of this amount if such excess is approved by a majority of the independent directors and disclosed to stockholders in our next quarterly report, along with a justification for such excess. In such event, we will monitor our debt levels and take action to reduce any such excess as practicable. Our aggregate borrowings are reviewed by our board of directors at least quarterly. As of September 30, 2019, our borrowings were not in excess of 300% of the value of our net assets.

In addition to using our capital resources for investing purposes and meeting our debt obligations, we expect to use our capital resources to make certain payments to our advisor. We expect to make payments to our advisor or its affiliates in connection with the selection and origination or purchase of real estate and real estate-related investments, the management of our assets, the management of the development or improvement of our assets and costs incurred by our advisor in providing services to us.

As of September 30, 2019, we had notes payable totaling an aggregate principal amount of $6,045,000. For more information on our outstanding indebtedness, see Note 6 (Notes Payable, net) to the consolidated financial statements included in this report.

Off-Balance Sheet Arrangements

As of September 30, 2019 and December 31, 2018, we had no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Recent Accounting Pronouncements

Based on preliminary assessments, we do not expect the adoption of any recently issued but not yet effective or early-adopted accounting standards to have a material effect on our consolidated financial position or our consolidated results of operations. See Note 2 to the consolidated financial statements included in this Quarterly Report.

Related-Party Transactions and Agreements

We have entered into agreements with our Advisor and its affiliates whereby we have paid, and may continue to pay, certain fees to, or reimburse certain expenses of, our Advisor and its affiliates. See Item 13, "Certain Relationships and Related Transactions and Director Independence" in our Annual Report on Form 10-K for the year ended December 31, 2018 and Note 7 (Related Party Arrangements) to the consolidated financial statements included in this Quarterly Report for a discussion of the various related-party transactions, agreements and fees.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We will be exposed to interest rate changes primarily as a result of long-term debt used to acquire properties and make loans and other permitted investments. Our interest rate risk management objectives will be to limit the impact of interest rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve these objectives, we expect to borrow primarily at fixed rates or variable rates with the lowest margins available and, in some cases, with the ability to convert variable rates to fixed rates. With regard to variable rate financing, we will assess interest rate cash flow risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

In connection with the preparation of this Form 10-Q, as of September 30, 2019, an evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). In performing this evaluation, management reviewed the selection, application and monitoring of our historical accounting policies. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of September 30, 2019, these disclosure controls and procedures were effective and designed to ensure that the information required to be disclosed in our reports filed with the SEC under the Exchange Act is recorded, processed, summarized and reported as and when required.

Without limiting the foregoing, the Chief Financial Officer determined, subsequent to the period covered by this Quarterly Report, that the Company should have filed a post-effective amendment to its registration statement (333-207711) on or before October 24, 2019 as a result of the Company's property acquisitions which occurred on October 1, 2019. Absent the occurrence of the property acquisitions prior to October 24, 2019, no post-effective amendment filing would have been required. Our disclosure control procedures were not effective in this case resulting in this inadvertent error and we have determined the error was not as a result of any inherit design or operating deficiency. Additional safeguards have been implemented to strengthen the disclosure controls relating to the acquisition of additional properties. The required registration statement amendment will be filed with the SEC as soon as practicable.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal controls over financial reporting that occurred during the quarter ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financing reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

N/A

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended September 30, 2019, we did not sell any equity securities that were not registered under the Securities Act of 1933, as amended, or the Securities Act.

The table below sets forth information regarding the shares of our common stock redeemed pursuant to our share redemption program during the three months ended September 30, 2019.

	Total Number of Shares Requested to be Redeemed (1)	Total Number of Shares Redeemed	Average Price Paid per Share (2)	Approximate Dollar Value of Shares Available That May Yet Be Redeemed Under the Program (3)
July 2019	—	—	$ —	
August 2019	1,682	—	$ 8.88	
September 2019	—	—	$ —	
Total	1,682	—	$ 8.88	

(1) We generally redeem shares in the month following the end of the fiscal quarter in which requests were received.

(2) Pursuant to the share redemption program, we currently redeem shares at prices determined as follows:

a. For shares that have been held at least one year, the lesser of 90.0% of the price paid to acquire the shares or 90.0% of the offering price of shares in our most recent offering;
b. For shares that have been held at least two years, the lesser of 92.5% of the price paid to acquire the shares or 92.5% of the offering price of shares in our most recent offering;
c. For shares that have been held at least three years, the lesser of 95.0% of the price paid to acquire the shares or 95.0% of the offering price of shares in our most recent offering;
d. For shares that have been held at least four years, the lesser of 97.5% of the price paid to acquire the shares or 97.5% of the offering price of shares in our most recent offering;
e. Thereafter, the lesser of 100.0% of the price paid to acquire the shares or 90.0% of the net asset value per share, as determined by the board of directors.

Notwithstanding the foregoing, the redemption price for redemptions sought upon a stockholder's death or disability or upon confinement to a long-term care facility, is available only for stockholders who purchased their shares directly from us or the persons specifically set forth in the share redemption program.

(3) The number of shares that may be redeemed pursuant to our share redemption program will not exceed (i) 5% of the weighted-average number of shares outstanding during the 12-month period immediately prior to the effective date of the redemption and (ii) those share redemptions that can be funded with proceeds from our distribution reinvestment plan plus, if we had positive net operating cash flow for the previous fiscal year, 1% of all operating cash flow from the previous fiscal year.

On June 24, 2016, our Registration Statement on Form S-11 (File No. 333-207711), registering our initial public offering of up to $269,000,000 in shares of our common stock, was declared effective by the SEC under the Securities Act and we commenced our initial public offering. On January 9, 2017, we amended our charter, to (i) designate our authorized shares of common stock as Class A shares of common stock and Class T shares of common stock and (ii) convert each share of our common stock outstanding as of date of the amendment to our charter into a share of our Class A common stock. On February 6, 2017, our amended registration statement on Form S-11 (File No. 333-207711), registering our public offering of up to $269,000,000 in shares of our Class A common stock and Class T common stock, was declared effective by the SEC and we commenced offering shares of our Class A and Class T common stock in our initial public offering.

In our initial public offering we are offering up to $250,000,000 in any combination of shares of our Class A and Class T common stock to the public and up to $19,000,000 in shares of our Class A and Class T common stock to our stockholders pursuant to our distribution reinvestment plan.

On June 24, 2019, we filed a registration statement on Form S-11 (Registration No. 333-232308) registering $220,000,000 in any combination of shares of Class A and Class T common stock to be sold on a "best efforts" basis in our follow-on offering. We continue to sell shares of our Class A and Class T common shares pursuant to the Offering, which we may continue to do until the earlier of the effective date of the follow-on offering or December 21, 2019.

We are currently offering Class A common stock to the public at the initial price of $13.00 per share and to stockholders at a price of $11.70 per share for Class A common stock purchased pursuant to the distribution reinvestment plan. We are currently offering Class T common stock to the public at the initial price of $12.48 per share and to stockholders at a price of $11.23 per share for Class T common stock purchased pursuant to the distribution reinvestment plan.

From our inception through September 30, 2019, we had recognized selling commissions, dealer manager fees and organization and other offering costs in our initial public offering in the amounts set forth below. The dealer manager for our public offering reallowed all of the selling commissions and a portion of the dealer manager fees to participating broker-dealers.

Type of Expense		**Amount**	**Estimated/Actual**
Selling commissions and dealer manager fees	$	5,923,425	Actual
Finders' fees		—	—
Expenses paid to or for underwriters		—	—
Other organization and offering costs		1,377,522	Actual
Total expenses	$	7,300,947	

As of September 30, 2019, the net offering proceeds to us from our initial public offering after deducting the total expenses incurred as described above, were $70,863,300. For the period from inception through September 30, 2019, the ratio of the cost of raising capital to capital raised was approximately 9.14%.

We intend to use substantially all of the available net proceeds from our initial public offering to continue to invest in a portfolio of real properties. As of September 30, 2019, we had used $27,533,000 of the net proceeds from our initial public offering, plus debt financing, to purchase four properties and we had used $8,700,000 of net offering proceeds to invest in an unconsolidated real estate joint venture between our company and Hartman XX Limited Partnership, the operating partnership of our affiliate, Hartman Short Term Income Properties XX, Inc.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit	Description
3.1	Third Articles of Amendment and Restatement (incorporated by reference to Exhibit 3.1 to Pre-Effective Amendment No. 3 to the Post-Effective Amendment No. 1 to the Company's Registration statement on Form S-11 (Registration No. 333-207711) filed on January 12, 2017.)
3.2	Bylaws (incorporated by reference to Exhibit 3.2 to Pre-Effective Amendment No. 5 to the Company's Registration statement on Form S-11 (Registration No. 333-207711) filed on May 23, 2016.)
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HARTMAN vREIT XXI, INC.

Date: November 13, 2019

By: /s/ Allen R. Hartman
Allen R. Hartman,
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

Date: November 13, 2019

By: /s/ Louis T. Fox, III
Louis T. Fox, III,
Chief Financial Officer,
(Principal Financial and Principal Accounting Officer)