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 June 30, 2019

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

Commission File Number 000-53912

HARTMAN SHORT TERM INCOME PROPERTIES XX, INC.

(Exact name of registrant as specified in its charter)

Maryland (State of Organization)	**26-3455189** (I.R.S. Employer Identification Number)
2909 Hillcroft **Suite 420** **Houston** **Texas** (Address of principal executive offices)	**77057** (Zip Code)

(713) 467-2222
(Registrant's telephone number, including area code)

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, 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. (Check one):

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

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

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. ☒

As of August 1, 2019, there were 18,417,687 shares of the Registrant's common stock issued and outstanding, 19,000 of which were held by an affiliate of the Registrant.

Hartman Short Term Income Properties XX, Inc. and Subsidiaries
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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

HARTMAN SHORT TERM INCOME PROPERTIES XX, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (in thousands, except share data)		
	June 30, 2019	**December 31, 2018**
ASSETS	Unaudited	
Real estate assets, at cost	$ 588,270	$ 583,112
Accumulated depreciation and amortization	(103,504)	(89,840)
Real estate assets, net	484,766	493,272
Cash and cash equivalents	1,812	17,780
Accrued rent and accounts receivable, net	13,534	11,881
Notes receivable - related party	16,922	6,676
Deferred leasing commission costs, net	9,378	8,301
Goodwill	250	250
Prepaid expenses and other assets	20,775	34,945
Investment in affiliate	8,978	8,978
Total assets	$ 556,415	$ 582,083
LIABILITIES AND EQUITY		
Liabilities:		
Notes payable, net	$ 298,636	$ 305,907
Due to related parties	1,757	1,496
Accounts payable and accrued expenses	13,703	21,335
Tenants' security deposits	5,049	4,864
Total liabilities	319,145	333,602
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, $0.001 par value, 200,000,000 convertible, non-voting shares authorized, 1,000 shares issued and outstanding at June 30, 2019 and December 31, 2018, respectively	—	—
Common stock, $0.001 par value, 750,000,000 authorized, 18,417,687 shares and 17,711,384 shares issued and outstanding at June 30, 2019 and December 31, 2018, respectively	18	18
Additional paid-in capital	173,950	165,084
Accumulated distributions and net loss	(101,436)	(95,162)
Total stockholders' equity	72,532	69,940
Noncontrolling interests in subsidiary	164,738	178,541
Total equity	237,270	248,481
Total liabilities and equity	$ 556,415	$ 582,083

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

HARTMAN SHORT TERM INCOME PROPERTIES XX, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenues				
Rental revenues	$ 17,114	$ 9,584	$ 35,343	$ 19,536
Tenant reimbursements and other revenues	2,269	2,071	7,216	3,606
Total revenues	19,383	11,655	42,559	23,142
Expenses (income)				
Property operating expenses	5,392	3,927	13,010	7,524
Asset management fees	440	440	880	880
Real estate taxes and insurance	3,077	1,628	6,234	3,090
Depreciation and amortization	6,634	3,204	13,664	7,458
General and administrative	1,486	1,118	2,663	1,464
Interest expense	3,523	1,732	7,192	3,294
Interest and dividend income	(238)	(287)	(513)	(597)
Total expenses, net	20,314	11,762	43,130	23,113
Net (loss) income	(931)	(107)	(571)	29
Net (loss) income attributable to noncontrolling interests	(688)	40	(663)	12
Net (loss) income attributable to common stockholders	$ (243)	$ (147)	$ 92	$ 17
Net (loss) income attributable to common stockholders per share	$ (0.01)	$ (0.01)	$ 0.01	$ —
Weighted average number of common shares outstanding, basic and diluted	18,418	18,010	18,182	18,008

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

HARTMAN SHORT TERM INCOME PROPERTIES XX, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited, in thousands)

	Preferred Stock		Common Stock						
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Accumulated Distributions and Net Loss	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance, March 31, 2018	1	$ —	18,010	$ 18	$ 167,947	$ (84,175)	$ 83,790	$ 13,175	$ 96,965
Issuance of common shares	—	—	—	—	—	—	—	—	—
Dividends and distributions (cash)	—	—	—	—	—	(3,151)	(3,151)	(137)	(3,288)
Net (loss) income	—	—	—	—	—	(147)	(147)	40	(107)
Balance, June 30, 2018	1	$ —	18,010	$ 18	$ 167,947	$ (87,473)	$ 80,492	$ 13,078	$ 93,570

	Preferred Stock		Common Stock						
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Accumulated Distributions and Net Loss	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance, March 31, 2019	1	$ —	18,418	$ 18	$ 174,056	$ (97,968)	$ 76,106	$ 167,561	$ 243,667
Issuance of common shares	—	—	—	—	(106)	—	(106)	—	(106)
Purchase of non-controlling interest	—	—	—	—	—	—	—	—	—
Dividends and distributions (cash)	—	—	—	—	—	(3,225)	(3,225)	(2,135)	(5,360)
Net loss	—	—	—	—	—	(243)	(243)	(688)	(931)
Balance, June 30, 2019	1	$ —	18,418	$ 18	$ 173,950	$ (101,436)	$ 72,532	$ 164,738	$ 237,270

HARTMAN SHORT TERM INCOME PROPERTIES XX, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited, in thousands)

	Preferred Stock		Common Stock						
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Accumulated Distributions and Net Loss	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2017	1	$ —	18,004	$ 18	$ 167,871	$ (81,188)	$ 86,701	$ 13,338	$ 100,039
Issuance of common shares	—	—	6	—	76	—	76	—	76
Dividends and distributions (cash)	—	—	—	—	—	(6,302)	(6,302)	(272)	(6,574)
Net income	—	—	—	—	—	17	17	12	29
Balance, June 30, 2018	1	$ —	18,010	$ 18	$ 167,947	$ (87,473)	$ 80,492	$ 13,078	$ 93,570

	Preferred Stock		Common Stock						
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Accumulated Distributions and Net Loss	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2018	1	$ —	17,712	$ 18	$ 165,084	$ (95,162)	$ 69,940	$ 178,541	$ 248,481
Issuance of common shares	—	—	6	—	76	—	76	—	76
Purchase of non-controlling interest	—	—	700	—	8,790	—	8,790	(8,858)	(68)
Dividends and distributions (cash)	—	—	—	—	—	(6,366)	(6,366)	(4,282)	(10,648)
Net income (loss)	—	—	—	—	—	92	92	(663)	(571)
Balance, June 30, 2019	1	$ —	18,418	$ 18	$ 173,950	$ (101,436)	$ 72,532	$ 164,738	$ 237,270

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

HARTMAN SHORT TERM INCOME PROPERTIES XX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Six Months Ended June 30,	
	2019	**2018**
Cash flows from operating activities:		
Net (loss) income	$ (571)	29
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Stock based compensation	38	38
Depreciation and amortization	13,664	7,458
Deferred loan and lease commission costs amortization	1,138	1,013
Bad debt (recovery) provision, net	(101)	477
Changes in operating assets and liabilities:		
Accrued rent and accounts receivable	(1,552)	(1,858)
Deferred leasing commissions	(1,623)	(2,062)
Prepaid expenses and other assets	3,368	(799)
Accounts payable and accrued expenses	(8,411)	(1,797)
Due to/from related parties	261	(104)
Tenants' security deposits	185	130
Net cash provided by operating activities	6,396	2,525
Cash flows from investing activities:		
Acquisition deposits	529	—
Investment in affiliate	(10,546)	(6,339)
Lender required reserves	10,273	—
Repayment of note receivable - related party	300	713
Additions to real estate	(5,158)	(3,792)
Net cash used in investing activities	(4,602)	(9,418)
Cash flows from financing activities:		
Distributions to common stockholders	(6,406)	(6,574)
Distributions to non-controlling interest	(4,282)	—
Borrowings under insurance premium finance note	1,576	604
Repayment under insurance premium finance note	(787)	(302)
Payments of deferred loan costs	(72)	—
Repayments under term loan notes	(7,791)	(744)
Borrowings under revolving credit agreements	—	10,525
Net cash (used in) provided by financing activities	(17,762)	3,509
Net decrease in cash and cash equivalents	(15,968)	(3,384)
Cash and cash equivalents at the beginning of period	17,780	3,957
Cash and cash equivalents at the end of period	$ 1,812	573
Supplemental cash flow information:		
Cash paid for interest	$ 6,654	$ 3,096
Supplemental disclosure of non-cash activities:		
Director's stock compensation shares issued	$ 76	$ 76
Common shares issued to acquire non-controlling interest	$ 8,782	$ —
Acquisition of non-controlling interest	$ (8,858)	$ —

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

Note 1 - Organization and Business

Hartman Short Term Income Properties XX, Inc. (the "Company"), is a Maryland corporation formed on February 5, 2009. The Company elected to be treated as a real estate investment trust ("REIT") beginning with the taxable year ending December 31, 2011. As used herein, the "Company," "we," "us," or "our"refer to Hartman Short Term Income Properties XX, Inc. and its consolidated subsidiaries, including the Operating Partnership, except where context otherwise requires.

On July 19, 2018, we entered into a limited liability company agreement with our affiliates Hartman Income REIT, Inc. ("HIREIT"), Hartman Short Term Income Properties XIX, Inc. ("Hartman XIX") and Hartman vREIT XXI, Inc. ("vREIT XXI") to form Hartman SPE, LLC ("SPE LLC"), a special purpose entity.

On October 1, 2018, SPE LLC, as borrower, and Goldman Sachs Mortgage Company entered into a term loan agreement pursuant to which the lender made a term loan to SPE LLC in the principal amount of $259,000,000.

Contemporaneously therewith and together with our affiliates HIREIT, Hartman XIX and vREIT XXI, we contributed a total of 39 commercial real estate properties ("Properties") to SPE, LLC, subject to the then existing mortgage indebtedness encumbering the Properties, in exchange for membership interests in SPE LLC. Proceeds of the Loan were immediately used to extinguish the existing mortgage indebtedness encumbering the Properties.

Substantially all of our business is conducted through our wholly owned subsidiary, Hartman XX Limited Partnership, a Texas limited partnership (the "Operating Partnership") and SPE LLC. Our wholly-owned subsidiary, Hartman XX REIT GP LLC, a Texas limited liability company, is the sole general partner of the Operating Partnership. We are the sole limited partner of the Operating Partnership. Our wholly-owned subsidiary, Hartman SPE Management, LLC ("SPE Management") is the manager of SPE LLC. Our single member interests in our limited liability company subsidiaries are owned by the Operating Partnership or its wholly owned subsidiaries.

Subject to certain restrictions and limitations, Hartman Advisors LLC ("Advisor") is responsible for managing our affairs on a day-to-day basis and for identifying and making acquisitions and investments on our behalf pursuant to an advisory agreement (the "Advisory Agreement") by and among the Company and Advisor. Management of the Company's properties and the Properties, is provided pursuant to property management agreements with Hartman Income REIT Management, Inc. (the "Property Manager"), a wholly-owned subsidiary of HIREIT.

As of June 30, 2019, the Company owned 43 commercial properties comprising approximately 6.66 million square feet plus three pad sites, all located in Texas. As of June 30, 2019, the Company owned 15 properties located in Richardson, Arlington and Dallas, Texas, 25 properties located in Houston, Texas and three properties located in San Antonio, Texas. As of June 30, 2018, the Company owned 17 commercial properties comprising approximately 2.93 million square feet plus three pad sites, all located in Texas. As of June 30, 2018, the Company owned nine properties located in Richardson, Arlington and Dallas, Texas, six properties located in Houston, Texas and two properties located in San Antonio, Texas.

On July 21, 2017, the Company and Hartman Short Term Income Properties XIX, Inc. ("Hartman XIX"), entered into an agreement and plan of merger (the "XIX Merger Agreement"). On July 21, 2017, as subsequently modified on May 8 2018, the Company, the Operating Partnership, Hartman Income REIT, Inc. ("HIREIT") and Hartman Income REIT Operating Partnership LP, the operating partnership of HIREIT, ("HIROP"), entered into an agreement and plan of merger (the "HIREIT Merger Agreement," and together with the XIX Merger Agreement, the "Merger Agreements").

Subject to the terms and conditions of the XIX Merger Agreement, including the satisfaction of all closing conditions set forth in the Merger Agreements, Hartman XIX will merge with and into the Company, with the Company surviving the merger (the "Hartman XIX Merger"). Subject to the terms and conditions of the HIREIT Merger Agreement, (i) HIREIT will merge with and into the Company, with HIREIT surviving the merger (the "HIREIT Merger," and together with the Hartman XIX Merger, the "REIT Mergers"), and (ii) HIROP will merge and with and into the Operating Partnership, with the Operating Partnership surviving the merger (the "Partnership Merger," and together with the REIT Mergers, the "Mergers"). The REIT Mergers are intended to qualify as a "reorganization" under, and within the meaning of, Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and the Partnership Merger is intended to be treated as a tax-deferred exchange under Section 721 of the Code.

Subject to the terms and conditions of the XIX Merger Agreement, (i) each share of common stock of Hartman XIX (the "XIX Common Stock") issued and outstanding immediately prior to the Effective Time (as defined in the XIX Merger Agreement) will

be automatically cancelled and retired and converted into the right to receive 9,171.98 shares of common stock, $0.01 par value per share, of the Company ("Company Common Stock"), (ii) each share of 8% cumulative preferred stock of Hartman XIX issued and outstanding immediately prior to the Effective Time will be automatically cancelled and retired and converted into the right to receive 1.238477 shares of Company Common Stock, and (iii) each share of 9% cumulative preferred stock of Hartman XIX issued and outstanding immediately prior to the Effective Time will be automatically cancelled and retired and converted into the right to receive 1.238477 shares of Company Common Stock.

Subject to the terms and conditions of the HIREIT Merger Agreement, (a) in connection with the HIREIT Merger, (i) each share of common stock of HIREIT (the "HIREIT Common Stock") issued and outstanding immediately prior to the REIT Merger Effective Time (as defined in the HIREIT Merger Agreement) will be automatically cancelled and retired and converted into the right to receive 0.752222 shares of Company Common Stock, and (ii) each share of subordinate common stock of HIREIT will be automatically cancelled and retired and converted into the right to receive 0.863235 shares of Company Common Stock, and (b) in connection with the Partnership Merger, each unit of limited partnership interest in HIREIT Operating Partnership ("HIREIT OP Units") issued and outstanding immediately prior to the Partnership Merger Effective Time (as defined in the HIREIT Merger Agreement) (other than any HIREIT OP Units held by HIREIT) will be automatically cancelled and retired and converted into the right to receive 0.752222 validly issued, fully paid and non-assessable units of limited partnership interests in XX Operating Partnership.

Each Merger Agreement contains customary covenants, including covenants prohibiting HIREIT and Hartman XIX and their respective subsidiaries and representatives from soliciting, providing information or entering into discussions concerning proposals relating to alternative business combination transactions, subject to certain limited exceptions.

The Merger Agreements may be terminated under certain circumstances, including but not limited to (i) by the mutual written consent of all the parties to a Merger Agreement, (ii) by either the Company or HIREIT or Hartman XIX, as applicable, if a final and non-appealable order is entered prohibiting or disapproving the applicable Mergers, (iii) by either the Company or HIREIT or Hartman XIX, as applicable, if the required approval of the applicable Mergers by the stockholders of the Company or HIREIT or Hartman XIX, as applicable (the "Stockholder Approvals"), have not been obtained, (iv) by either the Company or HIREIT or Hartman XIX, as applicable, upon a material uncured breach by the other party that would cause the closing conditions in the applicable Merger Agreement not to be satisfied, or (v) by either the Company or HIREIT or Hartman XIX, as applicable, if the applicable Mergers have not been completed on or before December 31, 2019. No termination fees or penalties are payable by any party to any Merger Agreement in the event of the termination of any Merger Agreement.

The Merger Agreements contain certain representations and warranties made by the parties thereto. The representations and warranties of the parties were made solely for purposes of the contract among the parties, and are subject to certain important qualifications and limitations set forth in confidential disclosure letters delivered by the parties to the Mergers to the other parties to the Mergers. Moreover, certain of the representations and warranties are subject to a contractual standard of materiality that may be different from what may be viewed as material to stockholders, and the representations and warranties are primarily intended to establish circumstances in which either of the parties may not be obligated to consummate the Mergers, rather than establishing matters as facts.

Each Merger Agreement sets forth certain conditions of the parties thereto to consummate the Mergers contemplated by such Merger Agreement, including (i) receipt of the applicable stockholder approvals, (ii) receipt of all regulatory approvals, (iii) the absence of any judgments, orders or laws prohibiting or restraining the consummation of the applicable Mergers, (iv) the effectiveness with the Securities and Exchange Commission (the "SEC") of the registration statement on Form S-4 to be filed by the Company to register the shares of Company Common Stock to be issued as consideration in the REIT Mergers, (v) the delivery of certain documents, consents and legal opinions, and (vi) the truth and correctness of the representations and warranties of the respective parties, subject to the materiality standards contained in the Merger Agreements. In addition, the consummation of the HIREIT Merger and the Partnership Merger is a condition to the consummation of the Hartman XIX Merger, and vice versa. There can be no guarantee that the conditions to the closing of the Mergers set forth in the Merger Agreements will be satisfied.

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 June 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 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 June 30, 2019, and the results of consolidated operations for the three and six months ended June 30, 2019 and 2018, the consolidated statements of stockholders' equity for the six months ended June 30, 2019 and 2018 and the consolidated statements of cash flows for the six months ended June 30, 2019 and 2018. The results of the six months ended June 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.

These unaudited consolidated financial statements include the accounts of the Company, the Operating Partnership and its subsidiaries, and Hartman SPE, LLC. All significant intercompany balances and transactions have been eliminated.

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 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

Cash and cash equivalents on the accompanying consolidated balance sheets include all cash and liquid investments with maturities of three months or less. Cash and cash equivalents as of June 30, 2019 and December 31, 2018 consisted of demand deposits at commercial banks. We maintain accounts which may from time to time exceed federally insured limits. We have not experienced any losses in these accounts and believe that the Company is not exposed to any significant credit risk and regularly monitors the financial stability of these financial institutions.

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 and balances due to/due from related parties, as well as related party notes receivable. The Company considers the carrying value of these financial instruments to approximate their respective fair values due to their short-term nature. Disclosure about the fair value of financial instruments is based on relevant information available as of June 30, 2019 and December 31, 2018.

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. 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 income statement in the period the related costs are incurred.

As of January 1, 2018, the Company adopted Accounting Standards Update ("ASU") 2014-09, "*Revenue from Contracts with Customers*," 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. Additionally, the Company's property dispositions have historically been cash sales with no contingencies and no future involvement in the property, as a result, the new guidance did not have an effect on the Company's real estate transactions, however, the Company will account future sales of real estate properties in accordance with requirements of ASU 2014-09.

Real Estate

Allocation of Purchase Price of Acquired Assets

Upon the acquisition of real properties, it is the Company's policy to allocate the purchase price of properties to acquired tangible assets, 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, based in each case on their fair values. The Company utilizes internal valuation methods to determine the fair values of the tangible assets of an acquired property (which includes land and buildings).

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 determination of the fair values of the assets and liabilities acquired requires the use of significant assumptions with regard to the current market rental rates, rental growth rates, discount rates and other variables. The use of inappropriate estimates would result in an incorrect assessment of the purchase price allocations, which could impact the amount of the Company's reported net loss.

Real Estate Joint Ventures and Partnerships

To determine the method of accounting for partially owned real estate joint ventures and partnerships, management determines whether an entity is a VIE and, if so, determines which party is the primary beneficiary by analyzing whether we have both the power to direct the entity's significant economic activities and the obligation to absorb potentially significant losses or receive potentially significant benefits. Significant judgments and assumptions inherent in this analysis include the design of the entity structure, the nature of the entity's operations, future cash flow projections, the entity's financing and capital structure, and contractual relationships and terms. We consolidate a VIE when we have determined that we are the primary beneficiary.

Primary risks associated with our involvement with our VIEs include the potential funding of the entities' debt obligations or making additional contributions to fund the entities' operations or capital activities.

Partially owned, non-variable interest real estate joint ventures and partnerships over which we have a controlling financial interest are consolidated in our consolidated financial statements. In determining if we have a controlling financial interest, we consider factors such as ownership interest, authority to make decisions, kick-out rights and substantive participating rights.Partially owned real estate joint ventures and partnerships where we do not have a controlling financial interest, but have the ability to exercise significant influence, are accounted for using the equity method.

Management continually analyzes and assesses reconsideration events, including changes in the factors mentioned above, to determine if the consolidation or equity method treatment remains appropriate.

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 our real estate assets as of June 30, 2019 and December 31, 2018.

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 release 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.

Deferred Leasing Commission Costs

Leasing commissions are amortized using the straight-line method over the term of the related lease agreements.

Goodwill

GAAP requires the Company to test goodwill for impairment at least annually or more frequently whenever events or circumstances occur indicating goodwill might be impaired. The Company applies a one-step quantitative test to determine if the estimated fair value is less than the carrying amount. If the carrying amount exceeds the estimated fair value, the Company will record a goodwill impairment equal to such excess, not to exceed the total amount of goodwill. No goodwill impairment has been recognized in the accompanying consolidated financial statements.

Noncontrolling Interests

Noncontrolling interests is the portion of equity in a subsidiary not attributable to a parent. The ownership interests not held by the parent are considered noncontrolling interests. Accordingly, the Company has reported noncontrolling interests in equity on the consolidated balance sheets but separate from the Company's equity. On the consolidated statements of operations, subsidiaries are reported at the consolidated amount, including both the amount attributable to the Company and noncontrolling interests. The consolidated statement of stockholders' equity is included for financial statements, including beginning balances, activity for the period and ending balances for stockholders' equity, noncontrolling interests and total equity.

Stock-Based Compensation

The Company follows Accounting Standards Codification ("ASC") 718 - Compensation - Stock Compensation, with regard to issuance of stock in payment of services. ASC 718 requires that compensation cost relating to share-based payment transactions be recognized in the consolidated financial statements. The compensation cost is measured based on the estimated grant date fair value, as of the grant date of the Company's common stock, of the equity or liability instruments issued. Stock-based compensation expense are recorded over the vesting period and is included in general and administrative expense in the accompanying consolidated statements of operations.

Income Taxes

The Company has elected to be treated as a REIT under the Internal Revenue Code of 1986, as amended, beginning with its taxable year ended December 31, 2011. To qualify as a REIT, the Company must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of the Company's annual REIT taxable income to stockholders (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). As a REIT, the Company generally will not be subject to federal income tax on income that it distributes as dividends to its stockholders. If the Company fails to qualify as a REIT in any taxable year, it will be subject to federal income tax on its taxable income at regular corporate income tax rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which qualification is lost, unless the Internal Revenue Service grants the Company relief under certain statutory provisions. Such an event could materially and adversely affect the Company's net income and net cash available for distribution to stockholders. However, the Company believes that it is organized and will operate in such a manner as to qualify for treatment as a REIT.

The Company has formed a taxable REIT subsidiary which may generate 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. Accordingly, no deferred tax benefit or deferred tax asset has been recorded in the accompanying 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.

Income Per Share

The computations of basic and diluted income 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 preferred shares that are convertible into the Company's common stock. As of June 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 income per share for the six months ended June 30, 2019 and 2018 because no shares are issuable and inclusion of such potentially dilutive securities would have been anti-dilutive.

Concentration of Risk

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.

Recently Adopted 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.

As of June 30, 2019, the Company, through SPE LLC has a ground lease for a parking lot located adjacent to the property at 601 Sawyer, Houston, Texas. The parking lot lease agreement expires at the end of September 2020. The Sawyer property is included in the Company's consolidated financial statements as of June 30, 2019 and for the six months ended June 30, 2019 because of the consolidation of SPE with the Company. SPE commenced operations and is consolidated with the Company for periods beginning after September 30, 2018.

Lease payments under the parking lot lease agreement are $3,500 per month. As of June 30, 2019, 15 monthly payments remain under the lease agreement for a total of $52,500.

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 Company is the lessor only under the parking lot lease described above. Application of the guidance will result in recording a right-of-use asset and lease liability of $52,500 for the parking lot ground lease for which it is the lessee and lease expense will be recognized on a straight-line basis.

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 impact on our consolidated financial statements.

On January 1, 2019, the Company adopted ASU 2017-12, "Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities". The purpose of this updated guidance is to better align a company's financial reporting for hedging activities with the economic objectives of those activities. The transition guidance provides companies with the option of either adopting the new standard early using a modified retrospective transition method in any interim period after issuance of the update, or alternatively adopting the new standard for fiscal years beginning after December 15, 2018. The adoption of this guidance had no impact on our consolidated financial statements.

On January 1, 2018, the Company adopted ASU 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. In connection with our adoption of ASU 2016-17, we have determined that SPE LLC is a VIE and that the Company is the primary beneficiary. Accordingly, the accounts of SPE LLC are included in our consolidated financial position as of December 31, 2018 and beginning October 1, 2018, in our consolidated results of operations. The Company and its affiliates, Hartman XIX and HIREIT, are guarantors of the SPE LLC note payable.

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. We are currently evaluating the impact this guidance will have on our consolidated financial statements when adopted.

Note 3 — Real Estate

The Company's real estate assets consisted of the following, in thousands:

	June 30, 2019	December 31, 2018
Land	$ 145,050	$ 145,050
Buildings and improvements	342,430	337,272
In-place lease value intangible	100,790	100,790
	588,270	583,112
Less: accumulated depreciation and amortization	(103,504)	(89,840)
Total real estate assets	$ 484,766	$ 493,272

Depreciation expense for the three months ended June 30, 2019 and 2018 was $3,908,000 and $1,628,000, respectively. Depreciation expense for the six months ended June 30, 2019 and 2018 was $8,221,000 and $3,381,000, respectively. Amortization expense of in-place lease value intangible was $2,726,000 and $1,576,000 for the three months ended June 30, 2019 and 2018, respectively. Amortization expense of in-place lease value intangible was $5,443,000 and $4,077,000 for the six months ended June 30, 2019 and 2018, respectively.

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, we consider 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, in thousands:

	June 30, 2019	December 31, 2018
In-place lease value intangible	$ 100,790	$ 100,790
In-place leases – accumulated amortization	(63,431)	(57,989)
Acquired lease intangible assets, net	$ 37,359	$ 42,801

As of June 30, 2019, the Company owned 43 commercial properties comprising approximately 6.66 million square feet plus three pad sites, all located in Texas. As of June 30, 2019, the Company owned 15 properties located in Richardson, Arlington and Dallas, Texas, 25 properties located in Houston, Texas and three properties located in San Antonio, Texas. As of June 30, 2018, the Company owned 17 commercial properties comprising approximately 2.93 million square feet plus three pad sites, all located in Texas. As of June 30, 2018, the Company owned nine properties located in Richardson, Arlington and Dallas, Texas, six properties located in Houston, Texas and two properties located in San Antonio, Texas.

Asset management fees incurred and paid to Advisor were $440,000 and $880,000 for the three and six months ended June 30, 2019 and 2018, respectively. Asset management and acquisition fees are captioned as such in the accompanying consolidated statements of operations.

Note 4 - Accrued Rent and Accounts Receivable, net

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

	June 30, 2019	December 31, 2018
Tenant receivables	$ 4,150	$ 2,931
Accrued rent	8,824	8,386
Allowance for uncollectible accounts	(1,608)	(1,710)
Affiliate interest receivable	2,168	2,274
Accrued rents and accounts receivable, net	$ 13,534	$ 11,881

As of June 30, 2019 and December 31, 2018, the Company had an allowance for uncollectible accounts of $1,608,000 and $1,710,000, respectively. For the three months ended June 30, 2019 and 2018, the Company recorded bad debt (recovery) expense in the amount of $(877,000) and $481,000, respectively, related to tenant receivables that we have specifically identified as potentially uncollectible based on our assessment of each tenant's credit-worthiness. For the six months ended June 30, 2019 and 2018, the Company recorded bad debt (recovery) expense in the amount of $(102,000) and $477,000, respectively. For the three and six months ended June 30, 2019 and 2018, the Company did not record any write-offs. Bad debt expense and any related recoveries are included in property operating expenses in the accompanying consolidated statements of operations.

Note 5 — Deferred Leasing Commission Costs, net

Costs which have been deferred consist of the following, in thousands:

	June 30, 2019	December 31, 2018
Deferred leasing commissions costs	$ 14,876	$ 12,671
Less: accumulated amortization	(5,498)	(4,370)
Deferred leasing commission costs, net	$ 9,378	$ 8,301

Note 6 — Notes Payable

The Operating Partnership is a party to four, cross-collateralized, term loan agreements with an insurance company. The term loans are secured by the Richardson Heights Property, the Cooper Street Property, the Bent Tree Green Property and the Mitchelldale Property. The loans require monthly payments of principal and interest due and payable on the first day of each month. Monthly payments are based on a 27-year loan amortization. Each of the loan agreements are subject to customary covenants, representations and warranties which must be maintained during the term of the loan agreements. Each of the loan agreements provides for a fixed interest rate of 4.61%. As of June 30, 2019, the Company was in compliance with all loan covenants, with respect to the loans

above. Each of the loan agreements are secured by a deed of trust, assignment of licenses, permits and contracts, assignment and subordination of the management agreements and assignment of rents. The terms of the security instruments provide for the cross collateralization/cross default of the each of the loans. The outstanding balance of the four loans was $43,896,000 and $44,584,000 as of June 30, 2019 and December 31, 2018, respectively.

On October 1, 2018, the Company through SPE LLC and Goldman Sachs Mortgage Company entered into a $259,000,000 term loan agreement. The Company together with its affiliates HIREIT, Hartman XIX and vREIT XXI, contributed a total of 39 commercial real estate properties ("Properties") to SPE, LLC, a recently formed Delaware limited liability company, subject to the mortgage indebtedness encumbering the Properties, in exchange for membership interests in SPE LLC. Proceeds of the Loan were immediately used to extinguish the existing mortgage indebtedness encumbering the Properties.

The term of the loan is five years, comprised of an initial two-year term with three one-year extension options. Each extension option shall be subject to certain conditions precedent including (i) no default then outstanding, (ii) 30 days prior written notice, (iii) the properties must have a specified in-place net operating income debt yield and (iv) purchase of an interest rate cap as described below for the exercised option term or terms.

The outstanding principal of the loan will bear interest at the one-month LIBOR rate plus 1.8%. As a condition to the funding of the Loan, SPE LLC has entered into an interest rate cap arrangement with SMBC Capital Markets, Inc. that caps LIBOR at 3.75% during the initial term of the Loan.

The Loan Agreement contains various customary covenants, including but not limited to financial covenants, covenants requiring monthly deposits in respect of certain property costs, such as taxes, insurance, tenant improvements, and leasing commissions, covenants imposing restrictions on indebtedness and liens, and restrictions on investments and participation in other asset disposition, merger or business combination or dissolution transactions.

The Loan Agreement is secured by, among other things, mortgages on the Properties. The Company, HIREIT and Hartman XIX, entered into a guaranty agreement in favor of the lender, whereby each guarantor unconditionally guaranties the full and timely performance of the obligations set forth in the loan agreement and all other loan documents, including the payment of all indebtedness and obligations due under the loan agreement.

The following is a summary of the Company's notes payable as of June 30, 2019, in thousands:

Property/Facility	Payment (1)	Maturity Date	Rate	June 30, 2019	December 31, 2018
Richardson Heights (2)	P&I	July 1, 2041	4.61%	$ 17,471	$ 17,760
Cooper Street (2)	P&I	July 1, 2041	4.61%	7,518	7,632
Bent Tree Green (2)	P&I	July 1, 2041	4.61%	7,518	7,632
Mitchelldale (2)	P&I	July 1, 2041	4.61%	11,389	11,560
Promenade (3)	P&I	October 1, 2020	4.00%	—	7,102
Hartman SPE LLC	IO	October 9, 2020	4.26%	259,000	259,000
				$ 302,896	$ 310,686
Less: unamortized deferred loan costs				(4,260)	(4,779)
				$ 298,636	$ 305,907

(1) Principal and interest (P&I) or interest only (IO).

(2) Each promissory note contains a call option wherein the holder of the promissory note may declare the outstanding balance due and payable on either July 1, 2024, July 1, 2029, July 1, 2034, or July 1, 2039.

(3) Hartman SPE LLC loan proceeds for the repayment of the Promenade loan were in escrow as of October 1, 2018. The loan was paid in full with the refinancing proceeds on February 15, 2019.

Loan costs are amortized using the straight-line method over the terms of the loans, which approximates the interest method. Costs which have been deferred consist of the following, in thousands:

	June 30, 2019	December 31, 2018
Deferred loan costs	$ 7,155	$ 7,082
Less: deferred loan cost accumulated amortization	(2,895)	(2,303)
Total cost, net of accumulated amortization	$ 4,260	$ 4,779

Interest expense incurred for the three months ended June 30, 2019 and 2018 was $3,523,000 and $1,732,000, respectively, which includes amortization expense of deferred loan costs. Interest expense incurred for the six months ended June 30, 2019 and 2018 was $7,192,000 and $3,294,000, respectively, which includes amortization expense of deferred loan costs. Interest expense of $366,000 and $421,000 was payable as of June 30, 2019 and December 31, 2018, respectively, and is included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

The Company is not in compliance with the financial reporting covenant to provide audited financial statements for Hartman SPE, LLC within 120 days after the end of its fiscal year, which is December 31. The servicer for the lender has extended the time for delivery of the audited annual financial statements.

Note 7 — Income Per Share

Basic income per share is computed using net income attributable to common stockholders and the weighted average number of common shares outstanding. Diluted earnings per share reflect common shares issuable from the assumed conversion of convertible preferred stock into common shares. Only those items that have a dilutive impact on basic earnings per share are included in the diluted earnings per share.

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Numerator:				
Net income attributable to common stockholders	$ (243)	$ (147)	$ 92	$ 17
Denominator:				
Weighted average number of common shares outstanding, basic and diluted	18,418	18,010	18,182	18,008
Basic and diluted loss per common share:				
Net income attributable to common stockholders per share	$ (0.01)	$ (0.01)	$ 0.01	$ —

Note 8 — Income Taxes

Federal income taxes are not provided for because we qualify as a REIT under the provisions of the Internal Revenue Code and because we have distributed and intend to continue to distribute all of our taxable income to our stockholders. Our stockholders include their proportionate taxable income in their individual tax returns. As a REIT, we must distribute at least 90% of our real estate investment trust taxable income to our stockholders and meet certain income sources and investment restriction requirements. In addition, REITs are subject to a number of organizational and operational requirements. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate tax rates.

The Company has formed a taxable REIT subsidiary which may generate 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. Accordingly, no deferred tax benefit or deferred tax asset has been recorded in the accompanying 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.

Taxable income (loss) differs from net income (loss) for financial reporting purposes principally due to differences in the timing of recognition of interest, real estate taxes, depreciation and amortization and rental revenue.

Note 9 — Related Party Transactions

Hartman Advisors LLC, is 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 Subsidiaries of which approximately 20% is owned by Allen R. Hartman who is the Chief Executive Officer and Chairman of the Board of Directors.

The Company pays acquisition fees and asset management fees to the Advisor in connection with the acquisition of properties and management of the Company. The Company pays property management and leasing commissions to the Property Manager in connection with the management and leasing of the Company's properties. For the three months ended June 30, 2019 and 2018 the Company incurred property management fees and reimbursements of $2,007,000 and $966,000, respectively, and $1,255,000 and $1,570,000, respectively for leasing commissions owed to our Property Manager. For the six months ended June 30, 2019 and 2018 the Company incurred property management fees and reimbursements of $3,972,000 and $1,940,000, respectively, and $2,205,000 and $2,062,000, respectively for leasing commissions owed to our Property Manager.

For the three and six months ended June 30, 2019 and 2018, the Company incurred asset management fees of $440,000 and $880,000, respectively, owed to the Advisor. Property management fees and reimbursements are included in property operating expense in the accompanying consolidated statements of operations. Asset management fees are captioned as such in the accompanying consolidated statements of operations.

The Company had a balance due to the Property Manager of $2,678,000 and $444,000 as of June 30, 2019 and December 31, 2018, respectively.

The Company had a note receivable due from an affiliate, Hartman Short Term Income Properties XIX, Inc. ("Hartman XIX"), of $4,200,000 and $4,200,000 as of June 30, 2019 and December 31, 2018, respectively, which is included in Notes receivable – related party in the accompanying consolidated balance sheets. The original amount of the loan was $4,500,000, which is not evidenced by a promissory note. Interest has been accrued on the loan amount at an annual rate of 6%. The Company recognized interest income on the affiliate note in the amount of $63,000 and $66,000 for the three months ended June 30, 2019 and 2018, respectively, which is included in interest and dividend income in the accompanying consolidated statements of operations. The Company recognized interest income on the affiliate note in the amount of $125,000 and $128,000 for the six months ended June 30, 2019 and 2018, respectively,

The Company owed the Advisor $1,566,000 and $1,204,000 for asset management fees as of June 30, 2019 and December 31, 2018, respectively. These fees are monthly fees equal to one-twelfth of 0.75% of the sum of the higher of the cost or value of each asset. The asset management fee will be based only on the portion of the cost or value attributable to the Company's investment in an asset, if the Company do not own all or a majority of an asset.

The Company had a net due from other related parties of $2,487,000 and $152,000 as of June 30, 2019 and December 31, 2018, respectively.

The Company owns 1,561,523 shares of the common stock of HIREIT which it acquired for cash consideration of $8,978,000. The Company's investment in HIREIT is accounted for under the cost method. The Company's approximately 11% ownership interest in HIREIT is less than a controlling stake, and is reflected as "Investment in Affiliate" on the accompanying consolidated balance sheets. The Company received dividend distributions from HIREIT of $106,000 and $213,000 for the three and six months ended June 30, 2019 and 2018, respectively, which is included in interest and dividend income in the accompanying consolidated statements of operations.

In May 2016, the Company, through its taxable REIT subsidiary, Hartman TRS, Inc. ("TRS"), loaned $7,231,000 pursuant to a promissory note in the face amount of up to $8,820,000 to Hartman Retail II Holdings Company, Inc. ("Retail II Holdings"), an affiliate of the Advisor and the Property Manager, in connection with the acquisition of a retail shopping center by Hartman Retail II DST, a Delaware statutory trust sponsored by the Property Manager. Pursuant to the terms of the promissory note, TRS received

a two percent (2%) origination fee of amounts advanced under the promissory note, and interest at ten percent (10%) per annum on the outstanding principal balance. The outstanding principal balance of the promissory note will be repaid as investor funds are raised by Hartman Retail II DST. The promissory note matured on May 17, 2019. This note is due on demand. This note receivable had an outstanding balance of $2,176,000 and $2,476,000 as of June 30, 2019 and December 31, 2018, respectively, which is included in Notes receivable – related party in the accompanying consolidated balance sheets. For the three months ended June 30, 2019 and 2018, respectively, the Company recognized interest income on this affiliate note in the amount of $58,000 and $163,000, respectively, which is included in interest and dividend income in the accompanying consolidated statements of operations. For the six months ended June 30, 2019 and 2018, the Company recognized interest income on this affiliate note in the amount of $119,000 and $256,000, respectively. As of June 30, 2019 and December 31, 2018, the balance due from TRS by Retail II Holdings is $212,000 and $151,000, respectively.

In February 2019, the Company through TRS, loaned $7,226,000 pursuant to a promissory note in the face amount of up to $7,500,000 to Hartman Retail III Holdings Company, Inc. ("Retail III Holdings"), an affiliate of the Advisor and the Property Manager, in connection with the acquisition of a retail shopping center by Hartman Retail III DST, a Delaware statutory trust sponsored by the Advisor. This note receivable had an outstanding balance of $7,226,000 as of June 30, 2019, which is included in Notes receivable – related party in the accompanying consolidated balance sheets. Pursuant to the terms of the promissory note, TRS receives a two percent (2%) origination fee of amounts advanced under the promissory note, and interest at ten percent (10%) per annum on the outstanding principal balance. The outstanding principal balance of the promissory note will be repaid as investor funds are raised by Hartman Retail III DST. The maturity date of the promissory note is February 29, 2020.

In March 2019, the Company through TRS, loaned $3,320,000 pursuant to a promissory note in the face amount of up to $3,500,000 to Hartman Ashford Bayou, LLC ("Ashford Bayou"), an affiliate of the Advisor and the Property Manager, in connection with the acquisition of office building by Ashford Bayou, a wholly owned subsidiary of Hartman Total Return, Inc. This note receivable had an outstanding balance of $3,320,000 as of June 30, 2019, which is included in Notes receivable – related party in the accompanying consolidated balance sheets. Pursuant to the terms of the promissory note, TRS receives a two percent (2%) origination fee of amounts advanced under the promissory note, and interest at ten percent (10%) per annum on the outstanding principal balance. The outstanding principal balance of the promissory note will be repaid as investor funds are raised by Hartman Total Return, Inc. The maturity date of the promissory note is March 31, 2020.

Variable interest entities ("VIEs") are defined as entities with a level of invested equity that is not sufficient to fund future operations on a stand-alone basis, or whose equity holders lack certain characteristics of a controlling financial interest. For identified VIEs, an assessment must be made to determine which party to the VIE, if any, has both the power to direct the activities of the VIE that most significantly impacts the performance of the VIE and the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The Company is not deemed to be the primary beneficiary of Retail II Holdings, Retail III Holdings or Ashford Bayou, each of which qualifies as a VIE. Accordingly, the assets and liabilities and revenues and expenses of Retail II Holdings , Retail III Holdings and Ashford Bayou have not been included in the accompanying consolidated financial statements.

The Board of Directors voted to acquire an additional 3.42% ownership interest of Hartman SPE, LLC from Hartman vREIT XXI, Inc. in exchange for 700,302 shares of the Company's common stock with a total value of $8,858,826 ($12.65 per share). The exchange increased the Company's ownership interest in Hartman SPE, LLC from 32.74% to 36.16%. The transaction was effective March 1, 2019.

Note 10 - Stockholders' Equity

Under the Company's articles of incorporation, the Company has authority to issue 750,000,000 shares of common stock, $0.001 par value per share, and 200,000,000 shares of preferred stock, $0.001 par value per share.

Common Stock

Shares of 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. The common stock has no preferences or preemptive, conversion or exchange rights.

Preferred Stock

Under the Company's articles of incorporation, the Company's board of directors has the authority to issue one or more classes or series of preferred stock, and prior to the issuance of such stock, the board of directors has the power to classify or reclassify, in one or more series, any unissued shares and designate the preferences, rights and privileges of such shares. As of June 30, 2019, and December 31, 2018, respectively, the Company has issued 1,000 shares of convertible preferred stock to the Advisor at a price of $10.00 per share.

Common Stock Issuable Upon Conversion of Convertible Preferred Stock

The convertible preferred stock issued to the Advisor will convert to shares of the Company's common stock if (1) the Company has made total distributions on then outstanding shares of the Company's common stock equal to the issue price of those shares plus a 6% cumulative, non-compounded, annual return on the issue price of those outstanding shares, (2) the Company lists its common stock for trading on a national securities exchange if the sum of prior distributions on then outstanding shares of the Company's common stock plus the aggregate market value of the Company's common stock (based on the 30-day average closing meets the same 6% performance threshold, or (3) the Company's advisory agreement with the Advisor expires without renewal or is terminated (other than because of a material breach by the Advisor), and at the time of such expiration or termination the Company is deemed to have met the foregoing 6% performance threshold based on the Company's enterprise value and prior distributions and, at or subsequent to the expiration or termination, the stockholders actually realize such level of performance upon listing or through total distributions. In general, the convertible stock will convert into shares of common stock with a value equal to 15% of the excess of the Company's enterprise value plus the aggregate value of distributions paid to date on then outstanding shares of common stock over the aggregate issue price of those outstanding shares plus a 6% cumulative, non-compounded, annual return on the issue price of those outstanding shares. With respect to conversion in connection with the termination of the advisory agreement, this calculation is made at the time of termination even though the actual conversion may occur later, or not at all.

Stock-Based Compensation

The Company awards shares of restricted common stock to non-employee directors as compensation in part for their service as members of the board of directors of the Company. These shares are fully vested when granted. These shares may not be sold while an independent director is serving on the board of directors. For the three and six months ended June 30, 2019 and 2018, respectively, the Company granted 1,500 and 1,500 shares of restricted common stock to independent directors as compensation for services and recognized $19,000 and $19,000 as stock-based compensation expense, respectively. Share based compensation expense is based upon the estimated fair value per share. Stock-based compensation expense is included in general and administrative expenses in the accompanying consolidated statements of operations.

Distributions

The following table reflects the total distributions the Company has paid, including the total amount paid, thousands, and amount paid per common share, in each indicated quarter:

Quarter Paid	Distributions per Common Share	Total Distributions
2019		
2nd Quarter	0.175	3,225
1st Quarter	0.175	3,141
Total 2019 year to date	$ 0.35	$ 6,366
2018		
4th Quarter	$ 0.175	$ 3,101
3rd Quarter	0.175	3,151
2nd Quarter	0.175	3,152
1st Quarter	0.175	3,151
Total 2018	$ 0.70	$ 12,555

Note 11 - Incentive Award Plan

The Company has adopted an incentive plan (the "Omnibus Stock Incentive Plan" or the "Incentive Plan") that provides for the grant of incentive stock options, non-qualified stock options, stock appreciation rights, deferred stock awards, restricted stock awards, dividend equivalent rights and other stock-based awards within the meaning of Internal Revenue Code Section 422, or any combination of the foregoing. The Company has initially reserved 5,000,000 shares of the Company's common stock for the issuance of awards under the Company's stock incentive plan, but in no event more than ten (10%) percent of the Company's issued and outstanding shares. The number of shares reserved under the Company's stock incentive plan is also subject to adjustment in the event of a stock split, stock dividend or other change in the Company's capitalization. Generally, shares that are forfeited or canceled from awards under the Company's stock incentive plan also will be available for future awards.

Incentive Plan compensation expense is included in general and administrative expenses in the accompanying consolidated statements of operations.

Note 12 - Commitments and Contingencies

Economic Dependency

The Company is dependent on the Property Manager 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

The Company has evaluated subsequent events through the filing of this Quarterly Report on Form 10-Q, and determined that there have been no events that have occurred that would require adjustments to our disclosures in the consolidated financial statements.

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

Unless the context otherwise requires, all references in this report to the "Company," "we," "us" or "our" are to Hartman Short Term Income Properties XX, Inc.

Forward-Looking Statements

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 and 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.

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:

- the fact that we have had a net loss for each annual period since our inception;
- the risk that the pending Mergers will not be consummated within the expected time period or at all;
- the occurrence of any event, change or other circumstances that could give rise to the termination of the Merger Agreements;
- the failure to satisfy the conditions to completion of the pending Mergers;
- risks related to disruption of management's attention from the ongoing business operations due to the pending Mergers;
- the effect of the announcement of the pending Mergers on our operating results and business generally;
- the outcome of any legal proceedings relating to the pending Mergers;
- 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;
- the fact that we pay fees and expenses to our advisor and its affiliates that were not negotiated on an arm's length basis and the fact that the payment of these fees and expenses increases the risk that our stockholders will not earn a profit on their investment in us;
- 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.

The forward-looking statements should be read in light of these factors and the factors identified in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2018 as filed with the SEC on April 8, 2019.

The following discussion and analysis should be read in conjunction with the accompanying interim consolidated financial information.

Overview

We were formed as a Maryland corporation on February 5, 2009 to invest in and operate real estate and real estate-related assets on an opportunistic basis. We may acquire a wide variety of commercial properties, including office, industrial, retail, and other real properties. These properties may be existing, income-producing properties, newly constructed properties or properties under development or construction. In particular, we focus on acquiring properties with significant possibilities for short-term capital appreciation, such as those requiring development, redevelopment or repositioning or those located in markets with high growth potential. We also may invest in real estate-related securities and, to the extent that our advisor determines that it is advantageous, we may invest in mortgage loans.

On February 9, 2010, we commenced our initial public offering of up to $250,000,000 in shares of our common stock to the public at a price of $10 per share and up to $23,750,000 in shares of common stock to our stockholders pursuant to our distribution reinvestment plan at a price of $9.50 per share. On April 25, 2013, we terminated our initial public offering. As of the termination of our initial public offering on April 25, 2013, we had accepted subscriptions for and issued shares of our common stock, including shares of our common stock issued pursuant to our distribution reinvestment plan, resulting in aggregate gross offering proceeds of $43,943,731.

On July 16, 2013, we commenced our follow-on public offering, or our "follow-on offering," of up to $200,000,000 in shares of our common stock to the public at a price of $10.00 per share and up to $19,000,000 in shares of our common stock to our stockholders pursuant to our distribution reinvestment plan at a price of $9.50 per share. Effective March 31, 2016, we terminated the offer and sale of our common shares to the public in our follow-on offering. Effective July 16, 2016, we terminated the sale of additional shares of our common stock to our stockholders pursuant to our distribution reinvestment plan. As of June 30, 2019, we had accepted subscriptions for, and issued shares of our common stock in our follow-on offering, including shares of our common stock issued pursuant to our distribution reinvestment plan, resulting in aggregate gross proceeds of $181,800,895.

As of June 30, 2019 we owned 43 commercial real properties comprising approximately 6,664,000 square feet plus three pad sites, all located in Texas.

We operate under the direction of our board of directors, the members of which are accountable to us and our stockholders. We are externally managed by Hartman Advisors, LLC, which we refer to as our "advisor," pursuant to an advisory agreement by and among us and our advisor, which we refer to as the "Advisory Agreement." Subject to certain restrictions and limitations, our advisor manages our day-to-day operations and our portfolio of properties and real estate related assets. 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. The key personnel of our advisor are involved in the selection, acquisition, financing and disposition of our properties, and raising the capital to purchase properties. The key personnel of our advisor have extensive experience in selecting and operating commercial real estate and in operating investment entities that acquire commercial real estate. Our affiliated property manager is Hartman Income REIT Management, Inc. which we refer to as our "property manager," which is responsible for operating, leasing and maintaining our properties. Our property manager is the wholly owned subsidiary of Hartman Income REIT, Inc. which we refer to as "HIREIT," a real estate investment trust that has investment objectives that are similar to those that we employ.

Pending Mergers

On July 21, 2017, we entered into (i) an agreement and plan of merger (the "XIX Merger Agreement") between us and Short Term Income Properties XIX, Inc., a Texas corporation and a related party ("Hartman XIX"), and (ii) an agreement and plan of merger (the "HIREIT Merger Agreement," and together with the XIX Merger Agreement, the "Merger Agreements") by and among us, our operating partnership, Hartman Income REIT, Inc., a Maryland corporation and a related party ("HIREIT"), and Hartman Income REIT Operating Partnership LP, a Delaware limited partnership, the operating partnership of HIREIT ("HIREIT Operating Partnership").

Subject to the terms and conditions of the XIX Merger Agreement, Hartman XIX will merge with and into us, with our company surviving the merger (the "Hartman XIX Merger"). Subject to the terms and conditions of the HIREIT Merger Agreement,

(i) HIREIT will merge with and into us, with our company surviving the merger (the "HIREIT Merger," and together with the Hartman XIX Merger, the "REIT Mergers"), and (ii) HIREIT Operating Partnership will merge with and into our operating partnership, with our operating partnership surviving the merger (the "Partnership Merger," and together with the REIT Mergers, the "Mergers").

Subject to the terms and conditions of the XIX Merger Agreement, (i) each share of common stock of Hartman XIX (the "XIX Common Stock") issued and outstanding immediately prior to the Effective Time (as defined in the XIX Merger Agreement) will be automatically canceled and retired and converted into the right to receive 9,171.98 shares of our common stock, (ii) each share of 8% cumulative preferred stock of Hartman XIX issued and outstanding immediately prior to the Effective Time will be automatically canceled and retired and converted into the right to receive 1.238477 shares of our common stock, and (iii) each share of 9% cumulative preferred stock of Hartman XIX issued and outstanding immediately prior to the Effective Time will be automatically canceled and retired and converted into the right to receive 1.238477 shares of our common stock.

Subject to the terms and conditions of the HIREIT Merger Agreement, (a) in connection with the HIREIT Merger, (i) each share of common stock of HIREIT (the "HIREIT Common Stock") issued and outstanding immediately prior to the REIT Merger Effective Time (as defined in the HIREIT Merger Agreement) will be automatically cancelled and retired and converted into the right to receive 0.752222 shares of our common stock, and (ii) as provided in the HIREIT Merger Agreement, as amended May 8, 2018, each share of subordinate common stock of HIREIT will be automatically cancelled and retired and converted into the right to receive 0.863235 shares of our common stock, and (b) in connection with the Partnership Merger, each unit of limited partnership interest in HIREIT Operating Partnership ("HIREIT OP Units") issued and outstanding immediately prior to the Partnership Merger Effective Time (as defined in the HIREIT Merger Agreement) (other than any HIREIT OP Units held by HIREIT) will be automatically cancelled and retired and converted into the right to receive 0.752222 validly issued, fully paid and non-assessable units of limited partnership interests in our operating partnership.

Each Merger Agreement contains customary covenants, including covenants prohibiting HIREIT and Hartman XIX and their respective subsidiaries and representatives from soliciting, providing information or entering into discussions concerning proposals relating to alternative business combination transactions, subject to certain limited exceptions.

The Merger Agreements may be terminated under certain circumstances, including but not limited to (i) by the mutual written consent of all the parties to a Merger Agreement, (ii) by either us or HIREIT or Hartman XIX, as applicable, if a final and non-appealable order is entered prohibiting or disapproving the applicable Mergers, (iii) by either us or HIREIT or Hartman XIX, as applicable, if the required approval of the applicable Mergers by our stockholders or HIREIT or Hartman XIX, as applicable (the "Stockholder Approvals"), have not been obtained, (iv) by either us or HIREIT or Hartman XIX, as applicable, upon a material uncured breach by the other party that would cause the closing conditions in the applicable Merger Agreement not to be satisfied, or (v) by either us or HIREIT or Hartman XIX, as applicable, if the applicable Mergers have not been completed on or before December 31, 2019 (the "Outside Date".) No termination fees or penalties are payable by any party to any Merger Agreement in the event of the termination of any Merger Agreement.

The Company expects that the Board of Directors of the Company, HIREIT, and Hartman XIX, respectively, will extend the Outside Date currently applicable to the Merger Agreements.

The Merger Agreements contain certain representations and warranties made by the parties thereto. The representations and warranties of the parties were made solely for purposes of the contract among the parties, and are subject to certain important qualifications and limitations set forth in confidential disclosure letters delivered by the parties to the Mergers to the other parties to the Mergers. Moreover, certain of the representations and warranties are subject to a contractual standard of materiality that may be different from what may be viewed as material to stockholders, and the representations and warranties are primarily intended to establish circumstances in which either of the parties may not be obligated to consummate the Mergers, rather than establishing matters as facts.

Each Merger Agreement sets forth certain conditions of the parties thereto to consummate the Mergers contemplated by such Merger Agreement, including (i) receipt of the applicable Stockholder Approvals, (ii) receipt of all regulatory approvals, (iii) the absence of any judgments, orders or laws prohibiting or restraining the consummation of the applicable Mergers, (iv) the effectiveness with the SEC of the registration statement on Form S-4 to be filed by us to register the shares of our common stock to be issued as consideration in the REIT Mergers, (v) the delivery of certain documents, consents and legal opinions, and (vi) the truth and correctness of the representations and warranties of the respective parties, subject to the materiality standards contained in the Merger Agreements. In addition, the consummation of the HIREIT Merger and the Partnership Merger is a condition to the consummation of the Hartman XIX Merger, and vice versa. There can be no guarantee that the conditions to the closing of the Mergers set forth in the Merger Agreements will be satisfied.

Each party to the Merger Agreements will bear its own costs and expenses (including legal fees) related to the Merger Agreements and the transactions contemplated by the Merger Agreements.

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.

Effective March 31, 2016 we terminated our follow-on offering. Our board of directors continues to evaluate potential liquidity events to maximize the total potential return to our stockholders, including, but not limited to, a listing of our shares of common stock on a national securities exchange. However, our board of directors has not made a decision to pursue any specific liquidity event, and there can be no assurance that we will complete a liquidity event on the terms described above, or at all.

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 termination of our initial public offering, which terminated on April 25, 2013, 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.

We elected under Section 856(c) of the Internal Revenue Code to be taxed as a REIT beginning with the taxable year ending December 31, 2011. 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 and we intend to operate so as to remain qualified as a REIT for federal income tax purposes.

Our Real Estate Portfolio

As of June 30, 2019, we owned 43 commercial properties listed below.

Property Name	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
Retail:						
Promenade	Dallas	178,907	73 %	$ 1,504	$ 11.49	$ 11.94
Prestonwood Park	Dallas	105,783	86 %	$ 1,875	$ 20.55	$ 22.53
Richardson Heights	Dallas	201,433	74 %	$ 2,959	$ 19.76	$ 28.50
Cooper Street	Dallas	127,696	100 %	$ 1,522	$ 11.92	$ 12.49
One Mason SC	Houston	75,183	93 %	$ 998	$ 14.30	$ 14.66
Chelsea Square SC	Houston	70,275	71 %	$ 516	$ 10.32	$ 11.42
Mission Center SC	Houston	112,971	55 %	$ 661	$ 10.66	$ 10.92
Garden Oaks SC	Houston	106,858	69 %	$ 1,071	$ 14.63	$ 15.18
Harwin	Houston	38,813	82 %	$ 290	$ 9.12	$ 10.75
Fondren	Houston	93,196	89 %	$ 784	$ 9.42	$ 9.94
Northeast Square SC	Houston	40,525	67 %	$ 356	$ 13.02	$ 13.68
Walzem Plaza SC	San Antonio	182,713	72 %	$ 1,438	$ 10.86	$ 11.45
Total - Retail		**1,334,353**	**77%**	**$ 13,974**	**$ 13.58**	**$ 15.47**
Office:						
North Central Plaza	Dallas	193,005	73 %	$ 2,070	$ 14.63	$ 15.69
Gateway Tower	Dallas	266,412	69 %	$ 3,038	$ 16.59	$ 17.17
Bent Tree Green	Dallas	139,609	86 %	$ 2,466	$ 20.50	$ 25.53
Parkway Plaza I&II	Dallas	136,506	79 %	$ 1,726	$ 16.02	$ 18.66
Hillcrest	Dallas	203,688	77 %	$ 2,472	$ 15.77	$ 17.92
Skymark	Dallas	115,700	73 %	$ 1,578	$ 18.57	$ 20.78
Corporate Park Place	Dallas	113,429	77 %	$ 1,347	$ 15.47	$ 18.38
Westway One	Dallas	165,982	92 %	$ 2,847	$ 18.65	$ 24.39
Three Forest Plaza	Dallas	366,549	72 %	$ 4,765	$ 17.99	$ 21.85
Spring Valley	Dallas	94,304	92 %	$ 681	$ 7.81	$ 10.32
Tower Pavilion	Houston	87,589	92 %	$ 1,249	$ 15.48	$ 16.25
The Preserve	Houston	218,689	94 %	$ 3,207	$ 15.61	$ 16.25
Westheimer Central	Houston	182,506	70 %	$ 1,607	$ 12.62	$ 13.66
11811 N Freeway	Houston	156,362	80 %	$ 1,886	$ 15.06	$ 15.63
Atrium I	Houston	118,461	75 %	$ 1,216	$ 13.61	$ 14.71
3100 Timmons	Houston	111,265	77 %	$ 1,143	$ 13.27	$ 14.85
Cornerstone	Houston	71,008	89 %	$ 855	$ 13.53	$ 14.01
Northchase	Houston	128,981	86 %	$ 1,490	$ 13.36	$ 14.07
616 FM 1960	Houston	142,194	53 %	$ 1,214	$ 16.11	$ 17.40
601 Sawyer	Houston	88,258	37 %	$ 615	$ 18.92	$ 19.66
Gulf Plaza	Houston	120,651	84 %	$ 2,185	$ 21.44	$ 27.51
Timbercreek Atrium	Houston	51,035	75 %	$ 637	$ 16.75	$ 18.88
Copperfield	Houston	42,621	82 %	$ 598	$ 17.10	$ 18.80
400 N. Belt	Houston	230,872	56 %	$ 1,417	$ 10.94	$ 14.49
Ashford Crossing	Houston	158,451	61 %	$ 1,525	$ 15.89	$ 19.45
Regency Square	Houston	64,063	85 %	$ 715	$ 13.13	$ 13.52
Energy Plaza	San Antonio	180,119	83 %	$ 3,075	$ 20.68	$ 21.60
One Technology Ctr	San Antonio	196,348	95 %	$ 4,604	$ 24.74	$ 24.87
Total - Office		**4,144,657**	**77%**	**$ 52,228**	**$ 16.46**	**$ 18.56**
Industrial/Flex:						
Central Park	Dallas	73,099	88 %	$ 560	$ 8.72	$ 9.46
Quitman	Houston	736,957	88 %	$ 1,244	$ 1.91	$ 1.92
Mitchelldale	Houston	375,211	90 %	$ 2,207	$ 6.51	$ 7.03
Total - Industrial/Flex		**1,185,267**	**89%**	**$ 4,011**	**$ 3.81**	**$ 4.02**
Grand Total		**6,664,277**	**79%**	**$ 70,213**	**$ 13.36**	**$ 15.04**

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. A summary of our critical accounting policies is included in our Annual Report on Form 10-K for the year ended December 31, 2018, as filed with the SEC on April 8, 2019, in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations." There have been no significant changes to these policies during the six months ended June 30, 2019. See also Note 2 to our consolidated financial statements in this Quarterly Report on Form 10-Q for a discussion of our significant accounting policies.

RESULTS OF OPERATIONS

Comparison of the three and six months ended June 30, 2019 versus June 30, 2018.

As of June 30, 2019 and 2018, respectively, we owned 43 and 17 commercial properties comprising approximately 6,664,000 and 2,928,000 square feet plus three pad sites, all located in Texas. As of June 30, 2019 and 2018, respectively, we owned 15 and nine properties located in Richardson, Arlington, and Dallas, Texas, 25 and six properties located in Houston, Texas and three and two properties located in San Antonio, Texas.

We define same store ("Same Store") properties as those properties which we owned for the entirety of the three and six months ended June 30, 2019 and June 30, 2018. For purposes of the following discussion, all properties are considered Same Store properties.

Net operating income (property revenues minus property expenses), or "NOI," is the measure used by management to assess property performance. NOI is not a measure of operating income or cash flows from operating activities as measured by accounting principles generally accepted in the United States, or "GAAP," and is not indicative of cash available to fund cash needs. As a result, NOI should not be considered an alternative to cash flows as a measure of liquidity. Not all companies calculate NOI in the same manner. We consider NOI to be an appropriate supplemental measure to net income because it assists both investors and management in understanding the operating results of our real estate. Set forth below is a reconciliation of NOI to net loss.

(in thousands)	Three months ended June 30, 2019	2018	Change	Six months ended June 30, 2019	2018	Change
Revenue	$ 10,186	$ 11,655	$ (1,469)	$ 21,953	$ 23,142	$ (1,189)
Property operating expenses	2,349	3,927	(1,578)	6,258	7,524	(1,266)
Real estate taxes and insurance	1,595	1,628	(33)	3,231	3,090	141
Asset management fees	440	440	—	880	880	—
General and administrative	1081	1,118	(37)	1817	1,464	353
Same Store NOI	$ 4,721	$ 4,542	$ 179	$ 9,767	$ 10,184	$ (417)
Reconciliation of Net loss to Property NOI						
Net income - Same Store	$ 716	$ (107)	$ 823	$ 1,516	$ 29	$ 1,487
Depreciation and amortization	2,619	3,204	(585)	5,440	7,458	(2,018)
Interest expense	1,613	1732	(119)	3,268	3294	(26)
Interest and dividend income	(227)	(287)	60	(457)	(597)	140
Same Store NOI	$ 4,721	$ 4,542	$ 179	$ 9,767	$ 10,184	$ (417)
SPE added:						
Revenue	$ 9,197	$ —	$ 9,197	$ 20,606	$ —	$ 20,606
Property operating expenses	3,043	—	3,043	6,752	—	6,752
Real estate taxes and insurance	1,482	—	1,482	3,003	—	3,003
Asset management fees	—	—	—	—	—	—
General and administrative	405	—	405	846	—	846
SPE added NOI	$ 4,267	$ —	$ 4,267	$ 10,005	$ —	$ 10,005
Reconciliation of net income to Property NOI						
Net income	$ (931)	$ (107)	$ (824)	$ (571)	$ 29	$ (600)
Depreciation and amortization	6,634	3,204	3,430	13,664	7,458	6,206
Interest expense	3,523	1,732	1,791	7,192	3,294	3,898
Interest and dividend income	(238)	(287)	49	(513)	(597)	84
All Property NOI	$ 8,988	$ 4,542	$ 4,446	$ 19,772	$ 10,184	$ 9,588

Revenues - The primary source of our revenue is rental revenues and tenant reimbursements. For the three months ended June 30, 2019 and 2018 we had total Same Store rental revenues and tenant reimbursements of $10,186,000 and $11,655,000, respectively. The $1,469,000 decrease is mainly attributable to decrease in year-end expense reconciliation billings of $1,021,000 and decrease in straight line rent of $733,000, offset by increase in rent of $243,000 and increase in free rent concession of $191,000. The large decrease in year-end expense reconciliation billings of $1,021,000 is due to timing difference, as year-end expense reconciliation billings for 2017 were billed in April 2018 while 2018 billings occurred in March 2019. For the six months ended June 30, 2019 and 2018 we had total Same Store rental revenues and tenant reimbursements of $21,953,000 and $23,142,000, respectively. The $1,189,000 decrease is mainly attributable to decrease in straight line rent of $617,000, decrease in utility reimbursement for electricity of $195,000 and decrease in CAM of $134,000. SPE added operation are attributable to the consolidation of Hartman SPE, LLC for financial reporting purposes as of October 1, 2018.

Operating expenses **-** Operating expenses consist of property operating expenses (contract services, repairs and maintenance, utilities and management fees); real estate taxes and insurance; asset management fees and some general and administrative expenses. For the three months ended June 30, 2019 and 2018, we had Same Store property operating expenses of $2,349,000 and $3,927,000, respectively. Property operating expenses decreased $1,578,000 primarily due to a $1,632,000 decrease in the bad debt expense provision. For the six months ended June 30, 2019 and 2018, we had Same Store property operating expenses of $6,258,000 and $7,524,000, respectively. Property operating expenses decreased $1,266,000 primarily due to a $1,214,000 decrease in the bad debt expense provision. The decrease in the bad debt expense provision is attributable to a limited number of

larger tenant balances which have been outstanding more than 90 days been paid and settled and a more positive outlook on the future collection of the previously outstanding balances.

Fees to affiliates **-** We pay acquisition fees and asset management fees to our advisor in connection with the acquisition of properties and management of our company. Asset management fees incurred to our advisor were $440,000 and $880,000 for the three and six months ended June 30, 2019 and 2018, respectively. We pay property management and leasing commissions to our Property Manager in connection with the management and leasing of our properties. Property management fees and expense reimbursements are included in property operating expenses.

Real estate taxes and insurance - Same Store real estate taxes and insurance were $1,595,000 and $1,628,000 for the three months ended June 30, 2019 and 2018, respectively. Same Store real estate taxes and insurance were $3,231,000 and $3,090,000 for the six months ended June 30, 2019 and 2018, respectively.

Depreciation and amortization - Same Store depreciation and amortization were $2,619,000 and $3,204,000 for the three months ended June 30, 2019 and 2018, respectively. In-place lease amortization decreased $711,000 for the three months ended June 30, 2019 versus the three months ended June 30, 2018. Same Store depreciation and amortization expense were $5,440,000 and $7,458,000 for the six months ended June 30, 2019 and 2018, respectively. The decrease of $2,018,000 is primarily due to a decrease of $2,356,000 for in-place lease amortization.

General and administrative expenses - Same Store general and administrative expenses consist primarily of audit fees, transfer agent fees, other professional fees, and independent director compensation. For the three months ended June 30, 2019 and 2018, we had Same Store general and administrative expenses of $1,081,000 and $1,118,000, respectively. For the six months ended June 30, 2019 and 2018, we had Same Store general and administrative expenses of $1,817,000 and $1,464,000, respectively. The increase of $353,000 is mainly attributable to an increase of $219,000 in accounting fees and an increase of $176,000 in leasing commission amortization.

Net income - Same Store net income increased $179,000 for the three months ended June 30, 2019 versus the three months ended June 30, 2018. The difference is primarily attributable to a reduction in property operating expenses offset by a smaller reduction in revenue. Same Store net income decreased $417,000 for the six months ended June 30, 2019 versus the six months ended June 30, 2018. The difference is primarily attributable to a reduction in revenue offset by a smaller reduction in property operating expenses. The accounts of SPE LLC are included in our consolidated financial position as of June 30, 2019 and beginning October 1, 2018, in our consolidated results of operations. For the three months ended June 30, 2019, SPE had contributed additional $4,267,000 in net operating income, with the consolidated net operating income of $8,988,000 for the three months ended June 30, 2019. For the six months ended June 30, 2019, SPE had contributed additional $10,005,000 in net operating income, with the consolidated net operating income of $19,772,000 for the six months ended June 30, 2019.

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 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 Investment Program Association, 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 six months ended June 30, 2019 and 2018 including a reconciliation of such non-GAAP financial performance measures to our net loss, in thousands.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Net income (loss)	$ (931)	$ (107)	$ (571)	$ 29
Depreciation and amortization of real estate assets	6,634	3,204	13,664	7,458
Funds from operations (FFO)	5,703	3,097	13,093	7,487
Modified funds from operations (MFFO)	$ 5,703	$ 3,097	$ 13,093	$ 7,487

Distributions

The following table summarizes the distributions we paid in cash and pursuant to our distribution reinvestment plan for the period from January 2011 (the month we first paid distributions) through June 30, 2019, in thousands:

Period	Cash (1)	DRIP (2)(3)	Total
First Quarter 2011	$ 21	$ 20	$ 41
Second Quarter 2011	45	51	96
Third Quarter 2011	70	70	140
Fourth Quarter 2011	119	101	220
First Quarter 2012	175	150	325
Second Quarter 2012	209	194	403
Third Quarter 2012	236	246	482
Fourth Quarter 2012	271	279	550
First Quarter 2013	316	311	627
Second Quarter 2013	373	388	761
Third Quarter 2013	442	412	854
Fourth Quarter 2013	550	483	1,033
First Quarter 2014	568	535	1,103
Second Quarter 2014	614	577	1,191
Third Quarter 2014	632	605	1,237
Fourth Quarter 2014	665	641	1,306
First Quarter 2015	703	714	1,417
Second Quarter 2015	803	876	1,679
Third Quarter 2015	927	1,020	1,947
Fourth Quarter 2015	1,042	1,108	2,150
First Quarter 2016	1,269	1,209	2,478
Second Quarter 2016	1,707	1,335	3,042
Third Quarter 2016	2,769	444	3,213
Fourth Quarter 2016	3,173	—	3,173
First Quarter 2017	3,135	—	3,135
Second Quarter 2017	3,180	—	3,180
Third Quarter 2017	3,169	—	3,169
Fourth Quarter 2017	3,166	—	3,166
First Quarter 2018	3,151	—	3,151
Second Quarter 2018	3,152	—	3,152
Third Quarter 2018	3,151	—	3,151
Fourth Quarter 2018	3,101	—	3,101
First Quarter 2019	3,141	—	3,141
Second Quarter 2019	3,225	—	3,225
Total	$ 49,270	$ 11,769	$ 61,039

(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) Distributions accrued for the period from December 27, 2010 through December 31, 2010 were paid on January 20, 2011, the date we first paid a distribution.
(3) Amount of distributions paid in shares of common stock pursuant to our distribution reinvestment plan. Effective July 16, 2016, we terminated the sale of additional shares of our common stock to our stockholders pursuant to our distribution reinvestment plan.

Distributions to non-controlling interests were $2,135,000 and $231,000 for the three months ended June 30, 2019 and 2018, respectively. Distributions to non-controlling interests were $4,282,000 and $2,668,000 for the six months ended June 30, 2019 and 2018, respectively.

For six months ended June 30, 2019, we paid aggregate distributions of $6,366,000 in cash to common stockholders. During the same period, cash provided by operating activities was $6,396,000 and our FFO was $13,093,000. For six months ended June 30, 2019, 100% of distributions were paid from cash provided by operating activities. For the six months ended June 30, 2018, we paid aggregate distributions of $6,303,000. During the same period, cash provided by operating activities was $2,525,000 and our FFO was $7,487,000. For the six months ended June 30, 2018, 40% of distributions were paid from cash provided by operating activities and 60% from other proceeds.

Liquidity and Capital Resources

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 June 30, 2019, our outstanding secured debt is $302,896,000. 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. In addition, 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. Our board of directors has approved our current debt leverage.

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.

The consolidated financial statements as of June 30, 2019 include the accounts of the Company, our operating partnership and its subsidiaries and Hartman SPE, LLC. Prior to October 1, 2018, our consolidated financial statements did not include Hartman SPE, LLC.

Cash Flows from Operating Activities

For the six months ended June 30, 2019, net cash provided by operating activities was $6,396,000 versus $2,525,000 for the six months ended June 30, 2018. The increase of $3,871,000 is mainly due to an increase in depreciation and amortization expense of $6,206,000, increase in prepaid expenses and other assets of $4,167,000 partially offset by a decrease in accounts payable and accrued expenses of $6,614,000.

Cash Flows from Investing Activities

For the six months ended June 30, 2019, net cash used in investing activities was $4,602,000 versus $9,418,000 for the six months ended June 30, 2018. The decrease in cash used in investing activities is primarily due to related party note investments by Hartman TRS for affiliate Hartman investment programs.

Cash Flows from Financing Activities

Net cash (used in) provided by financing activities for the six months ended June 30, 2019 and 2018, respectively, was $(17,762,000) and $3,509,000. Cash used in financing activities is primarily due to the retirement of the pre Hartman SPE Promenade loan and shareholder and non-controlling party distributions.

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 June 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 June 30, 2019, we had notes payable totaling an aggregate principal amount of $302,896,000. For more information on our outstanding indebtedness, see Note 6 (Notes payable) to the consolidated financial statements included in this report.

Off-Balance Sheet Arrangements

As of June 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

Management does not believe that any recently issued, but not yet effective accounting standards, if currently adopted, would have a material effect on the accompanying consolidated financial statements. See Note 2 to the notes to the accompanying 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 filed with the SEC on April 8, 2019, and Note 9 (Related Party Transactions) 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 June 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 Securities Exchange Act of 1934, as amended). 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 June 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.

Changes in Internal Control over Financial Reporting

There have been no changes during the quarter ended June 30, 2019 in our internal controls over financial reporting 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

The pendency of the Mergers could adversely affect our business and operations.

Between the date that the Merger Agreements were signed and the date that the Mergers are consummated, the attention of our management may be diverted from day-to-day operations, regardless of whether or not the Mergers are ultimately consummated. The pendency of the Mergers could have an adverse impact on our relationships with other parties, which parties may delay or decline entering into agreements with us as a result of the announcement of our entry into the Merger Agreements. In addition, due to operating covenants to which we are subject pursuant to the Merger Agreements, we may be unable during the pendency of the Mergers to pursue certain transactions, incur certain financing and otherwise pursue other actions that are not in the ordinary course of business, even if such actions could prove beneficial.

There can be no certainty that the Mergers will be consummated, and failure to consummate the Mergers could negatively affect our future business and financial results.

Consummation of the Mergers remains subject to the satisfaction or waiver of a number of significant conditions, some of which are beyond our control, including receipt of the approval of our stockholders and the stockholders of each of Hartman XIX and HIREIT, delivery of certain documents, consents and legal opinions, and the truth and correctness of the representations and warranties of the parties, subject to the materiality standards contained in the Merger Agreements. There can be no certainty that all such conditions will be met or waived, or that the Mergers will be consummated. If the Mergers are not consummated, our ongoing business could be adversely affected and we may be subject to a number of material risks, including that fact that we will have incurred substantial costs and expenses related to the Mergers, such as legal, accounting and advisory fees, which will be payable by us even if the Mergers are not consummated. If the Mergers are not consummated, these risks could materially affect our business and financial results.

There may be unexpected delays in the consummation of the pending Mergers.

Each Merger Agreement provides that either we or Hartman XIX or HIREIT, as applicable, may terminate the Merger Agreement if the applicable Merger has not occurred by December 31, 2019. Certain events may delay the consummation of the Mergers. Some of the events that could delay the consummation of the Mergers include difficulties in obtaining the approval of our stockholders and the stockholders of each of Hartman XIX and HIREIT or satisfying the other closing conditions to which the Mergers are subject.

Our stockholders will be diluted by the pending Mergers.

The Mergers will dilute the ownership position of our current stockholders and result in our stockholders (excluding stockholders affiliated with our advisor or sponsor) having an ownership stake in us that is smaller than their current stake in our company. In connection with the Mergers, we will issue up to approximately 19,192,000 shares of our common stock to the holders of shares of Hartman XIX and HIREIT capital stock, based on the exchange ratios set forth in the Merger Agreements and the shares of Hartman XIX and HIREIT capital stock issued and outstanding as of June 30, 2019. Our current stockholders (excluding stockholders affiliated with our advisor or sponsor) are expected to hold in the aggregate approximately 49% of the issued and outstanding shares of our common stock following the Mergers, based on the ownership of stock by shareholders of each of the Merger Parties and the conversion ratios established in the Merger Agreements and the 18,117,000 shares of our common stock issued and outstanding as of June 30, 2019. In addition, approximately 979,000 units of limited partnership interest in our operating partnership are issuable in connection with the Partnership Merger. Consequently, our stockholders (excluding stockholders affiliated with our advisor or sponsor), as a general matter, will have less influence over the management and policies of us after the Mergers than they exercised over the management and policies of us immediately prior to the Mergers.

Following the consummation of the Mergers, we will assume certain potential liabilities relating to Hartman XIX and HIREIT.

If the Mergers are consummated, we will have assumed certain potential liabilities relating to Hartman XIX and HIREIT. These liabilities could have a material adverse effect on our business to the extent we have not identified such liabilities or have underestimated the amount of such liabilities.

The future results of the combined company will suffer if the combined company does not effectively integrate and manage its expanded operations following the Mergers.

Following the Mergers, we expect to continue to expand our operations through additional acquisitions and other strategic transactions, some of which may involve complex challenges. Our future success will depend, in part, upon our ability to manage expansion opportunities, which may pose substantial challenges to integrate new operations into our existing business in an efficient and timely manner, and upon our ability to successfully monitor our operations, costs, regulatory compliance and service quality, and to maintain other necessary internal controls. There is no assurance that our expansion or acquisition opportunities will be successful, or that we will realize the expected operating efficiencies, cost savings, revenue enhancements or other benefits.

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

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

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 June 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)
April 2019	—	—	$ —	
May 2019	—	—	$ —	
June 2019	—	—	$ —	
Total	—	—	$ —	

(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.

The net offering proceeds to us from our initial public offering and our follow-on offering, after deducting the total expenses incurred, were $153,572,000 excluding $11,554,000 in offering proceeds from shares of our common stock issued pursuant to our distribution reinvestment plan.

As of June 30, 2019, we had used $128,264,000 of the net proceeds from our public offerings, plus debt financing, to purchase our investments in commercial properties. As of June 30, 2019, we had paid $6,013,000 of acquisition fees to our advisor.

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	First Articles of Amendment to Third Amended and Restated Articles of Incorporation of Hartman Short Term Income Properties XX, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Form 10-K filed on April 12, 2012)
3.2	Third Amended and Restated Articles of Incorporation of Hartman Short Term Income Properties XX, Inc. (incorporated by reference to Exhibit 1 to the Company's registration statement on Form 8-A (SEC File No. 000-53912) filed on March 22, 2010)
3.3	Certificate of Correction - Hartman Short Term Income Properties XX, Inc. (incorporated by reference to Exhibit 3.3 to the Company's form 10-Q filed on May 11, 2018
3.4	Bylaws of Hartman Short Term Income Properties XX, Inc. (incorporated by reference to Exhibit 2 to the Company's registration statement on Form 8-A (SEC File No. 000-53912) filed on March 22, 2010)
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (FILED HERE WITH)
31.2	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (FILED HERE WITH)
32.1	Section 1350 Certifications (furnished herewith)
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

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 SHORT TERM INCOME PROPERTIES XX, INC.

Date: August 10, 2019
By: /s/ Allen R. Hartman
Allen R. Hartman,
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

Date: August 10, 2019
By: /s/ Louis T. Fox, III
Louis T. Fox, III,
Chief Financial Officer,
(Principal Financial and Principal Accounting Officer)