

HARTMAN COMMERCIAL PROPERTIES REIT
Form PREC14A
November 29, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

SCHEDULE 14A

**(RULE 14a-101)
SCHEDULE 14A INFORMATION**

**Consent Statement Pursuant To Section 14(A) of the Securities
Exchange Act of 1934 (Amendment No.)**

Filed by the Registrant [X]

Filed by a Party other than the Registrant []

Check the appropriate box:

- ✓ Preliminary Proxy Statement
- .. Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- .. Definitive Proxy Statement
- .. Definitive Additional Materials
- .. Soliciting Material Pursuant to § 240.14a-12

Hartman Commercial Properties REIT
(Name of Registrant as Specified In Its Charter)

Allen R. Hartman
Hartman Management, L.P.
(Name of Person(s) Filing Proxy Statement, if other than the
Registrant)

Payment of Filing Fee (Check the appropriate box):

- ✓ No fee required.
- .. Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- (1) Title of each class of securities to which transaction applies:
- (2) Aggregate number of securities to which transaction applies:
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):
- (4) Proposed maximum aggregate value of transaction:
- (5) Total fee paid:

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Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

PRELIMINARY COPY - - SUBJECT TO COMPLETION

**Allen R. Hartman
Hartman Management, L.P.**

Dear Fellow Common Shareholders of Hartman Commercial Properties REIT:

Written consents are being solicited by Allen R. Hartman and Hartman Management, L.P. and not by Hartman Commercial Properties REIT, a Maryland real estate investment trust ("The Hartman REIT" or the "Company"). We are requesting that you act by written consent to remove the current four members of the Company's current Board of Trustees and to fill the six resulting vacancies with the persons also named below. We are soliciting your written consent to approve the following:

- the removal without cause of James C. Mastandrea, Chand Vyas, Jack L. Mahaffey, and Chris A. Minton from the Company's Board of Trustees and any other person or persons (other than the persons elected pursuant to this proposed action by written consent) elected or appointed to the Board of the Company prior to the effective date of these Proposals to fill any newly-created directorship or vacancy on the Board; and
- the appointment of Allen R. Hartman, Larry Bouffard, Lynch Butler, Devinder N. Mahajan , John G. Ostroot, and William M. Ramsey, to serve as members of the Board to fill four of the newly-created vacancies and two existing vacancies on Board (the "Nominees");

Each of the two Proposals is conditioned upon the approval by the common shareholders of the Company of the other Proposal. Thus, we will not be seeking the removal of the four persons named above from the Company's current Board of Trustees, unless the common shareholders also approve the appointment of the Nominees. Our Nominees will actively work to improve the Company's long-term viability and stock price with the leadership of Allen Hartman.

THE NOMINEES, IF APPOINTED, ARE REQUIRED TO ACT IN THE BEST INTEREST OF THE COMPANY'S COMMON SHAREHOLDERS.

WE BELIEVE THAT YOUR VOICE IN THE FUTURE OF THE HARTMAN REIT CAN BEST BE EXPRESSED THROUGH YOUR CONSENT TO THE TWO PROPOSALS OUTLINED ABOVE.

The enclosed consent solicitation statement contains important information concerning our solicitation and our Nominees--please read it carefully.

WE URGE YOU TO PROTECT YOUR INVESTMENT IN THE HARTMAN REIT NOW BY SIGNING, DATING AND RETURNING THE ENCLOSED WHITE CONSENT CARD TODAY.

The results of our consent solicitation will be communicated to you by the issuance of a press release. Additionally, in accordance with applicable law, prompt notice of the action taken by consent will be provided to common shareholders who have not executed consents.

Please consent with respect to all shares for which you are entitled to give consent, as set forth on your WHITE consent card, in favor of each Proposal as described in the accompanying consent statement.

If you have any questions about our consent solicitation or need any assistance completing your consent card, please call D.F. King & Co., Inc., who is assisting Hartman Management, toll free at 1-800-628-8532.

Thank you for your support,

Allen R. Hartman
Hartman Management, L.P.

Houston, Texas
December [], 2006

IMPORTANT

PLEASE READ THIS CAREFULLY

1. If you hold your shares in your own name, please mark, sign, date and mail the enclosed WHITE consent card to D.F. King & Co., Inc in the postage-paid envelope provided.
2. If your shares are held in the name of a brokerage firm, bank nominees or other institution, only it can execute a consent representing your shares and only on receipt of your specific instructions. Accordingly, you should contact the person responsible for your account and give instructions for a WHITE consent card to be signed representing your shares. We urge you to confirm in writing your instructions to the person responsible for your account and provide a copy of those instructions to us in care of D.F. King & Co., Inc so that we will be aware of all instructions given and can attempt to ensure that those instructions are followed.

If you have any questions or require any assistance in executing your consent, please call:

D. F. KING & CO., INC.
48 WALL STREET, 22ND FLOOR
NEW YORK, NY 10005
Common Shareholders Call Toll-Free: (800) 628-8532

Banks and Brokers Call Collect: (212) 269-5550

PRELIMINARY COPY - - SUBJECT TO COMPLETION
DECEMBER [], 2006

CONSENT SOLICITATION STATEMENT
OF
ALLEN R. HARTMAN
HARTMAN MANAGEMENT, L.P.

Allen R. Hartman and Hartman Management, L.P. (collectively, the "Hartman Parties") are furnishing this Consent Solicitation Statement in connection with their solicitation of written consents from the holders of common shares of beneficial interest in the Company, par value \$.001 per share (the "Shares"), of Hartman Commercial Properties REIT, a Maryland real estate investment trust ("The Hartman REIT" or the "Company"), to take the following actions without a common shareholders' meeting in accordance with Maryland REIT law:

- the removal without cause of James C. Mastandrea, Chand Vyas, Jack L. Mahaffey, and Chris A. Minton from the Company's Board of Trustees and any other person or persons (other than the persons elected pursuant to this proposed action by written consent) elected or appointed to the Board of the Company prior to the effective date of these Proposals to fill any newly-created directorship or vacancy on the Board;
- the appointment of Allen R. Hartman, Larry A. Bouffard, Lynch Butler, Devinder N. Mahajan , John G. Ostroot, and William M. Ramsey, to serve as a member of the Board to fill four of the newly-created vacancies and two existing vacancies on Board (the "Nominees");

Each of the two Proposals is conditioned upon the approval by the common shareholders of the Company of the other Proposal. Thus, we will not be seeking the removal of the four persons named above from the Company's current Board of Trustees unless the common shareholders also approve the appointment of the Nominees.

Each Proposal will be effective without further action when we deliver to The Hartman REIT properly executed and dated and un-revoked written consents from the holders of a majority of the issued and outstanding Shares on the record date for this solicitation, please see "Consent Procedure" on page 16.

The purpose of the consent solicitation is to remove four directors and to elect six new directors to the Board. The Hartman Parties believe that if the Proposals become effective and the Board is reconstituted as a result, the new Board will be better suited to implement new strategies to maximize shareholder value.

THIS CONSENT SOLICITATION IS BEING MADE BY THE HARTMAN PARTIES AND NOT BY OR ON BEHALF OF THE COMPANY. WE ARE ASKING THE COMMON SHAREHOLDERS OF THE COMPANY TO ACT BY WRITTEN CONSENT WITH RESPECT TO THESE PROPOSALS ON THE ACCOMPANYING WHITE CONSENT CARD.

A consent solicitation such as this allows a company's common shareholders to act by submitting written consents to proposed stockholder actions in lieu of voting in person or by proxy at an annual or special meeting of common shareholders. To be adopted by written consent, each Proposal needs to be approved by the holders of a majority of the outstanding Shares on the record date for the solicitation. For a description of the record date see "Consent Procedure" on page 16.

For the Proposals to be effective, the Company must receive properly completed and duly delivered un-revoked written consents to the Proposals from the holders of a majority of the Shares then outstanding within 60 calendar days of the date of the earliest dated consent delivered to the Company. See "*Consent Procedure*."

This Consent Solicitation Statement and the related WHITE consent card are first being sent or given on or about December [], 2006 to holders of Shares.

We urge you to vote in favor of the Proposals by signing, dating and returning the enclosed WHITE consent card. The failure to sign and return a consent will have the same effect as voting against the Proposals.

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QUESTIONS AND ANSWERS ABOUT THIS CONSENT SOLICITATION

The following are some of the questions you, as a shareholder, may have and answers to those questions. The following is not meant to be a substitute for the information contained in the remainder of this document, and the information contained below is qualified by the more detailed descriptions and explanations contained elsewhere in this document. We urge you to read this entire document carefully prior to making any decision on whether to grant any consent hereunder.

Q: WHO IS MAKING THE SOLICITATION?

A: In addition to the Nominees (who are Allen R. Hartman, Larry Bouffard, Lynch Butler, Devinder N. Mahajan, John G. Ostroot, and William M. Ramsey the participants in this consent solicitation (the "*Participants*") are Allen R. Hartman and Hartman Management, L.P.

Allen R. Hartman, age 54, founded the Hartman REIT in 1998 and served as its president, secretary and chairman of the Board of the Company until October 2, 2006, when he was removed from his positions as Chief Executive Officer, Secretary and Chairman of the Board of Trustees of the Company. Mr. Hartman is also the sole limited partner of the Company's former advisor and property manager, Hartman Management, L.P. ("*Hartman Management*"), as well as the president, secretary, manager and sole member of the general partner of the Hartman Management. Since 1984, Mr. Hartman, as an individual general partner, has been the sponsor of 18 private limited and general partnerships that have invested in commercial real estate in Houston, San Antonio and Dallas, Texas. Mr. Hartman has over 30 years of experience in the commercial real estate industry.

On August 20, 1998, The Hartman REIT was formed as a real estate investment trust, pursuant to the Texas Real Estate Investment Trust Act, to consolidate and expand the real estate investment strategy of Mr. Hartman in acquiring and managing retail, office/warehouse and office properties. In July 2004, The Hartman REIT changed its state of organization from Texas to Maryland pursuant to a merger of The Hartman REIT directly with and into a Maryland real estate investment trust formed for the sole purpose of the reorganization and the conversion of each outstanding common share of beneficial interest of the Texas entity into 1.42857 common shares of beneficial interest of the Maryland entity (now The Hartman REIT). The Hartman REIT serves as the general partner of Hartman REIT Operating Partnership, L.P. (the "*Operating Partnership*"), which was formed on December 31, 1998, as a Delaware limited partnership. The Hartman REIT currently conducts substantially all of its operations and activities through the Operating Partnership.

Limited partners in the Operating Partnership holds limited partnership interests ("*OP Units*"). In connection with the reorganization discussed above, OP Unit holders received 1.42857 OP Units for each OP Unit previously held. Distributions to OP Unit holders are paid at the same rate per unit as dividends per share of The Hartman REIT. OP Units holders have the right to require the Operating Partnership to redeem their OP Units. The redemption price is based upon the market value of the Shares, based upon the closing sales price of the Shares, if traded on a national exchange, or an appraised value, if not so traded. Before any redemption, The Hartman REIT may elect to purchase the OP Units for cash or by delivering Shares at a ratio of one OP Unit for one Share. As of March 31, 2006, there were 14,793,289 OP Units outstanding, of which The Hartman REIT and Mr. Hartman own 8,984,952 and 2,291,859.074 OP Units, respectively.

In addition to his OP Unit ownership, Mr. Hartman is the single largest shareholder in the Company, owning beneficially 301,992.926 Shares (approximately 3.2% of the outstanding Shares). As set forth in the Company's Proxy Statement, dated May 1, 2006, filed pursuant to Section 14(A) of the Securities Exchange Act of 1934, Mr. Hartman's economic interest in The Hartman REIT is approximately 22% of the outstanding Shares. Therefore, Mr. Hartman has a substantial congruency of interest with the other shareholders to maximize the long-term value of the Shares.

Since the Company's formation, Hartman Management has acted as the Company's advisor and manager of the Company's day-to-day operations and portfolio of properties. Hartman Management provided the advisory services to The Hartman REIT pursuant to an Advisory Agreement, dated as of August 31, 2004 (the "Advisory Agreement"), and a Property Management Agreement, dated as of September 1, 2004 (the "Management Agreement"). The Company is currently in litigation with Hartman Management and Allen R. Hartman (collectively, "Hartman") involving the management Agreement and the Advisory Agreement in the litigation styled *Hartman Commercial Properties REIT and Hartman REIT Operating Partnership, L.P., Plaintiffs and Counterclaim Defendants vs. Allen R. Hartman and Hartman Management, L.P., Defendants and Counterclaim Plaintiffs, vs. James C. Mastandrea, John J. Dee, Chand Vyas, Jack L. Mahaffey, and Chris A. Minton, Counterclaim Defendants*, Cause No. 2006-63041, which lawsuit is pending in the District Court of Harris County, Texas (the "Litigation"). As set forth in the Hartman Parties' Original Counterclaim filed in the litigation, the Hartman Parties believe that Company did incur material termination penalties and liabilities as a result of the termination of the Property Management Agreement and the Advisory Agreement as well as the conduct subsequent to such termination. A copy of the Hartman's Original Counterclaim is available online at Hartman Management's website www.hartmanmgmt.com.

Q: WHAT ARE YOU ASKING THAT THE COMMON SHAREHOLDERS CONSENT TO?

A: We are asking you to act by written consent to approve the two Proposals. Proposal 1 seeks to remove four members of the Board of Trustees named in the proposal and Proposal 2 seeks to elect six individuals to fill the four vacancies resulting from Proposal 1 and the two existing vacancies on the Board. Each of the two Proposals is conditioned upon the approval by the common shareholders of the Company of the other Proposal. Thus, we will not be seeking the removal of the four persons named above from the Company's current Board of Trustees unless the common shareholders also approve the appointment of the six Nominees.

Q: WHY ARE YOU SOLICITING COMMON SHAREHOLDERS' CONSENT?

A: We are soliciting your written consent for three reasons:

- We believe that the current Board as constituted and the current management team, with James C. Mastandrea, as Chairman and Chief Executive Officer (collectively, the "Mastandrea Board"), are not the right trustees to manage The Hartman REIT;
- We believe that the Mastandrea Board is not pursuing the most effective plan to protect and enhance your investment in The Hartman REIT; and
- We believe that the long-term strategy formulated by the Hartman Parties is the better alternative to enhance your shareholder value.

WHY DO YOU BELIEVE THE MASTANDREA BOARD IS NOT THE RIGHT LEADERSHIP TO MANAGE Q: THE HARTMAN REIT?

A: The following examples from Mr. Mastandrea's business record, among other things, support our belief:

1. *The Eagle Wings Bankruptcy.* Eagle's Wings Aviation Corporation, an aviation services business, where Mr. Mastandrea served as Chief Executive Officer, was forced into receivership in September 2001 and filed for protection under Chapter 11 of the federal bankruptcy laws, in March 2002.

2. *Mastandrea's conflicts of interest by concurrently serving as President & CEO of two public companies.* The Company's October 4, 2006 press release provides that "Mr. Mastandrea also currently serves as Chief Executive Officer, President and Chairman of the Board of Paragon Real Estate Equity and Investment Trust (OTC BB: symbol PRLE.OB) ("Paragon")." Paragon is headquartered in Cleveland, Ohio. The Hartman REIT is headquartered in Houston, Texas. We believe that this situation gives rise to a number of problems:

· Can Mr. Mastandrea effectively serve as the President and CEO of two public companies located in distant locations at the same time?

· Did Mr. Mastandrea breach his fiduciary duties of loyalty and care to the Paragon shareholders by taking over management of the Hartman REIT while he was serving as President and CEO of Paragon?

3. *Mastandrea has been compensated to serve as Paragon's Chairman of the Board, Chief Executive Officer and President until September 29, 2008.*

In a Current Report on Form 8-K, dated September 29, 2006, Paragon disclosed the "pre-payment" of Mr. Mastandrea's services as an officer of Paragon:

James C. Mastandrea, Chairman of the Board, Chief Executive Officer and President of Paragon, signed a Subscription Agreement (the "Mastandrea Subscription Agreement") whereby he will purchase 44,444 restricted shares of Class C Preferred Shares. The consideration for the purchase will be Mr. Mastandrea's services as an officer of Paragon for *the period beginning September 29, 2006 and ending September 29, 2008.*

Each of the trustees of Paragon, namely Daryl J. Carter, John J. Dee, Daniel G. DeVos, Paul T. Lambert, James C. Mastandrea and Michael T. Oliver, signed a Restricted Share Agreement with Paragon, dated September 29, 2006, to receive a total of 12,500 restricted Class C Preferred Shares as of the date of the Restricted Share Agreement in lieu of receiving fees in cash for service as a trustee *for the two years ending September 29, 2008.*

(emphasis added)

4. The Withdrawn Paragon Registration Statement. On January 27, 2006, under Mr. Mastandrea's leadership, Paragon issued a Press Release, headlined "*Paragon Receives Decision from American Stock Exchange.*" This Press Release and SEC filings indicate that Paragon filed a registration statement (SEC File No. 333-129219) in October 2005 to raise \$100 million in public equity. On January 20, 2006, approximately three months later, without selling any securities, Paragon's registration statement was withdrawn. Paragon's failed strategy at being a successful public company is evidenced in an April 12, 2006 Press release regarding Messrs. Mastandrea and John J. Dee's, a fellow director, employment with Paragon:

The independent trustees of Paragon's board authorized the modification of the employment agreements of James C. Mastandrea, President and Chief Executive Officer, and John J. Dee, Senior Vice President and Chief Financial Officer. Mr. Mastandrea and Mr. Dee will continue in their current capacities and responsibilities at Paragon though they are no longer required under their respective employment agreements to work exclusively for Paragon....

Mr. Mastandrea commented, " It has been very challenging and costly to operate Paragon as a public company...While Paragon is still trading on the Over the Counter securities market, we are looking for alternatives for the company."

5. The Paragon De-listing. On September 20, 2005, during Mr. Mastandrea's leadership, Paragon was notified by the American Stock Exchange ("Amex") that it was not in compliance with the continued listing requirements of Section 1003(a)(iii) of the Amex Company Guide due to shareholders' equity of less than \$6.0 million and losses from continuing operations and net losses in its five most recent years. On or about January 27, 2006, Paragon was de-listed from the Amex.

6. Paragon's Market Value. Under Mr. Mastandrea's stewardship, the market value of Paragon's stock declined precipitously. From a high of \$27.75 during the week of June 9, 2003, Paragon's shares have declined to \$0.51 on November 21, 2006. The following graph illustrates the almost (100%) decline of Paragon stock price during a period in when the S&P 500 Index increased by over 60%:

7. Paragon's Losses. Paragon's Form 10-QSB, for the quarterly period ended September 30, 2006, indicates losses of \$(341,144) and \$(858,999) for the nine month period ending September 30, 2006 and 2005, respectively.

8. Paragon Is Now a Corporate Shell. As of November 27, 2006, Paragon's website <http://prgreit.com/> described Paragon as an "an American Stock Exchange-listed real estate company focused on acquiring, owning and operating multi-family and commercial properties. Headquartered in Cleveland, Ohio, the company is driven by a value-added business plan..." However, Note 3, Going Concern, to Paragon's Form 10-QSB, for the quarterly period ended September 30, 2006, indicates otherwise:

Three independent trustees (signed subscription agreements to purchase 125,000 Class C Convertible Preferred Shares for an aggregate contribution of \$500,000 cash **to maintain the Company as a corporate shell** current in its SEC filings so that it may be used in the future for real estate deals or sold to another company. During the third quarter of 2006, the Company received the first quarterly installment of \$125,000 from three trustees for payment of Class C Convertible Preferred Shares. There can be no assurance that we will be able to close a transaction or keep the Company currently filed with the SEC. Even if our management is successful in closing a transaction, investors may not value the transaction in the same manner as we did, and investors may not value the transaction as they would value other transactions or alternatives. **Failure to obtain external sources of capital and complete a transaction will materially and adversely affect the Company's ability to continue operations.**

9. Disgruntled First Union Shareholders Ousted Mastandrea. Mr. Mastandrea was ousted by disgruntled shareholders of First Union Real Estate Equity and Mortgage Investments, where the Schedule 14A Information, which was filed with the Securities and Exchange Commission, provided :

- *"EXPENSES AND SALARIES ARE WAY OUT OF LINE!" First Union "selectively forgets to mention that the stock price of other REITs has increased, unlike the company [i.e. First Union]. Moreover, the Company's dividend was cut, all while salaries, benefits and other expenses have gone in the opposite direction."*
- The dissident shareholders proxy Materials details in a section styled "Mr. Mastandrea has Personally Benefitted at the Expense of First Union Shareholders," through significant option grants, restricted stock awards, "golden parachutes" and Company-paid memberships in several exclusive Cleveland social clubs.
- Mr. Mastandrea has continued to waste First Union's "shareholder dollars on a senseless lawsuit." In the First Union case, Mr. Mastandrea secretly taped a conversation between First Union's lawyer and a third party. Ordering that the secret tape, a federal magistrate said, that "[i]f a party behaves unethically or unprofessionally" it is not entitled to keep the material.

B: We believe that the current Board of Trustees has exposed the REIT to significant liability. On October 13, 2006 the Management Agreement was terminated to be effective November 12, 2006. The Board of Directors listed "numerous unresolved issues and conflicts of interest" between Allen R. Hartman, Hartman Management and the Company. However, as set forth in the Hartman Parties' Counterclaim filed in the Litigation, we believe that Mr. Mastandrea has tortiously interfered with the Hartman Parties' contractual relationships, breached existing agreements and exposed The Hartman REIT to significant legal liability. The Hartman Parties' counter-claim filed in the Litigation seeks monetary damages for breach of contract of the Advisory Agreement and the Management Agreement, tortious interference with prospective relationships and civil conspiracy. A copy of the Hartman Parties' Original Counterclaim is available online at www.hartmanmgmt.com.

Q: WHY DO YOU BELIEVE THE HARTMAN TEAM IS THE BETTER ALTERNATIVE?

A: Our belief is based primarily upon the following three factors:

- Our extensive history of providing consistent cash returns;
- Our business strategy; and