

HRPT PROPERTIES TRUST
Form 10-Q
August 08, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 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, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-9317

HRPT PROPERTIES TRUST

(Exact Name of Registrant as Specified in Its Charter)

Maryland

(State or other Jurisdiction of Incorporation or Organization)

04-6558834

(IRS Employer Identification No.)

400 Centre Street, Newton, Massachusetts 02458

(Address of Principal Executive Offices) (Zip Code)

617-332-3990

(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 is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

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Number of registrant's common shares of beneficial interest, \$0.01 par value per share, outstanding as of August 6, 2007: 211,946,590

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HRPT PROPERTIES TRUST

FORM 10-Q

JUNE 30, 2007

INDEX

PART I Financial Information

Item 1. Financial Statements (unaudited)

Consolidated Balance Sheet – June 30, 2007 and December 31, 2006

Consolidated Statement of Income – Three and Six Months Ended June 30, 2007 and 2006

Consolidated Statement of Cash Flows – Six Months Ended June 30, 2007 and 2006

Notes to Consolidated Financial Statements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 4. Controls and Procedures

Warning Concerning Forward Looking Statements

Statement Concerning Limited Liability

PART II Other Information

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

Item 4. Submission of Matters to a Vote of Security Holders

Item 6. Exhibits

Signatures

References in this Form 10-Q to we , us and our refers to HRPT Properties Trust and its consolidated subsidiaries, unless otherwise noted.

PART I Financial Information**Item 1. Financial Statements**

HRPT PROPERTIES TRUST

CONSOLIDATED BALANCE SHEET

(amounts in thousands, except share data)

	June 30, 2007 (unaudited)	December 31, 2006
ASSETS		
Real estate properties:		
Land	\$ 1,167,702	\$ 1,143,109
Buildings and improvements	4,821,438	4,619,164
	5,989,140	5,762,273
Accumulated depreciation	(736,336)	(668,460)
	5,252,804	5,093,813
Acquired real estate leases	163,224	167,879
Cash and cash equivalents	29,026	17,783
Restricted cash	16,571	21,635
Rents receivable, net of allowance for doubtful accounts of \$5,830 and \$4,737, respectively	182,980	172,566
Other assets, net	106,284	102,273
Total assets	\$ 5,750,889	\$ 5,575,949
LIABILITIES AND SHAREHOLDERS' EQUITY		
Revolving credit facility	\$ 212,000	\$ 40,000
Senior unsecured debt, net	1,991,241	1,941,173
Mortgage notes payable, net	410,892	416,058
Accounts payable and accrued expenses	87,111	93,734
Dividends payable		44,111
Acquired real estate lease obligations	40,942	41,833
Rent collected in advance	22,736	19,592
Security deposits	16,076	15,972
Due to affiliates	8,193	12,708
Total liabilities	2,789,191	2,625,181
Shareholders' equity:		
Preferred shares of beneficial interest, \$0.01 par value: 50,000,000 shares authorized;		
Series B preferred shares; 8 3/4% cumulative redeemable at par on or after September 12, 2007;		
12,000,000 shares issued and outstanding, aggregate liquidation preference \$300,000		
	289,849	289,849
Series C preferred shares; 7 1/8% cumulative redeemable at par on or after February 15, 2011;		
6,000,000 shares issued and outstanding, aggregate liquidation preference \$150,000		
	145,015	145,015
Series D preferred shares; 6 1/2% cumulative convertible; 15,180,000 shares issued and		
outstanding, aggregate liquidation preference \$379,500		
	368,270	368,270
Common shares of beneficial interest, \$0.01 par value:		
300,000,000 shares authorized; 211,946,590 and 210,051,590 shares issued and outstanding,		
respectively		
	2,119	2,101
Additional paid in capital	2,798,279	2,774,461
Cumulative net income	1,767,976	1,703,354
Cumulative common distributions	(2,159,689)	(2,115,299)
Cumulative preferred distributions	(250,121)	(216,983)
Total shareholders' equity	2,961,698	2,950,768
Total liabilities and shareholders' equity	\$ 5,750,889	\$ 5,575,949

See accompanying notes

CONSOLIDATED STATEMENT OF INCOME

(amounts in thousands, except per share data)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Rental income	\$ 209,995	\$ 197,957	\$ 415,045	\$ 387,516
Expenses:				
Operating expenses	81,166	75,959	161,167	147,762
Depreciation and amortization	45,786	40,379	89,297	78,045
General and administrative	9,125	8,540	17,703	16,413
Total expenses	136,077	124,878	268,167	242,220
Operating income	73,918	73,079	146,878	145,296
Interest income	568	310	1,027	1,545
Interest expense (including amortization of debt discounts, premiums and deferred financing fees of \$1,025, \$1,105, \$2,122 and \$2,243, respectively)	(42,301)	(41,854)	(82,572)	(83,148)
Loss on early extinguishment of debt	(711)		(711)	(1,659)
Equity in earnings of equity investments				3,136
Gain on sale of equity investments				116,287
Income from continuing operations	31,474	31,535	64,622	181,457
Loss from discontinued operations		(21)		(108)
Net income	31,474	31,514	64,622	181,349
Preferred distributions	(15,401)	(9,234)	(30,802)	(20,742)
Excess redemption price paid over carrying value of preferred shares				(6,914)
Net income available for common shareholders	\$ 16,073	\$ 22,280	\$ 33,820	\$ 153,693
Weighted average common shares outstanding basic	211,721	209,968	211,168	209,915
Weighted average common shares outstanding diluted	240,914	209,968	240,361	209,915
Earnings per common share:				
Income from continuing operations available for common shareholders basic and diluted	\$ 0.08	\$ 0.11	\$ 0.16	\$ 0.73
Loss from discontinued operations basic and diluted	\$	\$	\$	\$
Net income available for common shareholders basic and diluted	\$ 0.08	\$ 0.11	\$ 0.16	\$ 0.73

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

(amounts in thousands)

(unaudited)

	Six Months Ended June 30,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 64,622	\$ 181,349
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	71,451	63,297
Amortization of debt discounts, premiums and deferred financing fees	2,122	2,243
Amortization of acquired real estate leases	16,044	14,968
Other amortization	7,129	5,371
Loss on early extinguishment of debt	711	1,659
Equity in earnings of equity investments		(3,136)
Gain on sale of equity investments		(116,287)
Distributions of earnings from equity investments		3,136
Change in assets and liabilities:		
Decrease in restricted cash	5,064	2,417
Increase in rents receivable and other assets	(22,462)	(28,185)
Decrease in accounts payable and accrued expenses	(10,705)	(396)
Increase in rent collected in advance	3,144	2,676
Increase in security deposits	104	1,402
Decrease in due to affiliates	(4,515)	(3,331)
Cash provided by operating activities	132,709	127,183
Cash flows from investing activities:		
Real estate acquisitions and improvements	(238,235)	(325,054)
Distributions in excess of earnings from equity investments		2,251
Proceeds from sale of equity investments		308,333
Cash used for investing activities	(238,235)	(14,470)
Cash flows from financing activities:		
Proceeds from issuance of preferred shares, net		145,015
Redemption of preferred shares		(200,000)
Proceeds from issuance of common shares, net	23,661	
Proceeds from borrowings	704,475	964,000
Payments on borrowings	(488,051)	(894,210)
Deferred financing fees	(1,677)	(1,847)
Distributions to common shareholders	(88,501)	(88,166)
Distributions to preferred shareholders	(33,138)	(21,851)
Cash provided by (used for) financing activities	116,769	(97,059)
Increase in cash and cash equivalents	11,243	15,654
Cash and cash equivalents at beginning of period	17,783	19,445
Cash and cash equivalents at end of period	\$ 29,026	\$ 35,099

See accompanying notes

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	Six Months Ended June 30,	
	2007	2006
Supplemental cash flow information:		
Interest paid (including capitalized interest paid of \$489 in 2007)	\$ 80,508	\$ 79,188
Non-cash investing activities:		
Real estate acquisitions	\$	\$ (20,585)
Non-cash financing activities:		
Issuance of common shares	\$ 175	\$ 1,420
Assumption of mortgage notes payable	\$	20,585

See accompanying notes

HRPT PROPERTIES TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(amounts in thousands, except per share data)

Note 1. Basis of Presentation

The accompanying consolidated financial statements of HRPT Properties Trust and its subsidiaries have been prepared without audit. Certain information and footnote disclosures required by accounting principles generally accepted in the United States for complete financial statements have been condensed or omitted. We believe the disclosures made are adequate to make the information presented not misleading. However, the accompanying financial statements should be read in conjunction with the financial statements and notes contained in our Annual Report on Form 10-K for the year ended December 31, 2006. In the opinion of management, all adjustments, which include only normal recurring adjustments considered necessary for a fair presentation, have been included. All intercompany transactions and balances between HRPT Properties Trust and its subsidiaries have been eliminated. Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year. Reclassifications have been made to the prior years' financial statements to conform to the current year's presentation.

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48 Accounting for Uncertainty in Income Taxes, or FIN 48. FIN 48 prescribes how we should recognize, measure and present in our financial statements uncertain tax positions that have been taken or are expected to be taken in a tax return. Pursuant to FIN 48, we can recognize a tax benefit only if it is more likely than not that a particular tax position will be sustained upon examination or audit. To the extent the more likely than not standard has been satisfied, the benefit associated with a tax position is measured as the largest amount that is greater than 50% likely of being realized upon settlement. We are subject to U.S. federal income tax as well as income tax of multiple state and local jurisdictions but, as a REIT, we generally are not subject to income tax on our net income distributed as dividends to our shareholders. As required, we adopted FIN 48 effective January 1, 2007 and have concluded that the effect is not material to our consolidated financial statements. Accordingly, we did not record a cumulative effect adjustment related to the adoption of FIN 48. Tax returns filed for the 2003 through 2006 tax years are subject to examination by taxing authorities.

Note 2. Real Estate Properties

During the six months ended June 30, 2007, we acquired five office properties for \$59,700, excluding closing costs, 14 industrial properties for \$125,475, excluding closing costs, and we funded \$56,510 of improvements to our owned properties using cash on hand and borrowings under our revolving credit facility.

Note 3. Indebtedness

In June 2007 we repaid \$200,000 of our unsecured floating rate senior notes by drawing on our revolving credit facility. We recognized a loss of \$711 from the write off of deferred financing fees in connection with this repayment. We subsequently issued \$250,000 of unsecured senior notes in a public offering in June, raising net proceeds of approximately \$247,400. The notes bear interest at 6.25%, require semi-annual interest payments and mature in June 2017. Net proceeds from this offering were used to reduce amounts outstanding under our revolving credit facility and for general business purposes.

We have a \$750,000 unsecured revolving credit facility that we use for acquisitions, working capital and general business purposes. The interest rate on this facility averaged 5.9% and 5.4% per annum, for the six months ended June 30, 2007 and 2006, respectively. As of June 30, 2007, we had \$212,000 outstanding and \$538,000 available under our revolving credit facility. Our public debt indentures and credit facility agreement contain a number of financial and other covenants, including a credit facility covenant which limits the amount of aggregate distributions on common shares to 90% of operating cash flow available for shareholder distributions as defined in the credit facility agreement. We believe that we are in compliance with these financial and other covenants.

Note 4. Shareholders Equity

During the six months ended June 30, 2007, we sold 1,880 of our common shares for net proceeds of \$23,661 pursuant to a sales agreement with a securities broker dealer, which allows us to sell up to 20,000 of our common shares from time to time in a controlled equity offering program.

Note 5. Earnings per Common Share

Earnings per common share, or EPS, is computed pursuant to the provisions of Statement of Financial Accounting Standards No. 128. The effect of our convertible preferred shares on income from continuing operations and net income available for common shareholders per share is anti-dilutive for the periods presented. The following table provides a reconciliation of both net income and the number of common shares used in the computations of basic and diluted EPS:

	2007			2006		
	Three Months Ended June 30,	Shares	Per Share	Six Months Ended June 30,	Shares	Per Share
	Income			Income		
Income from continuing operations	\$ 31,474			\$ 64,622		
Preferred distributions	(15,401)			(30,802)		
Amounts used to calculate basic EPS	\$ 16,073	211,721	\$ 0.08	\$ 33,820	211,168	\$ 0.16

	2007			2006		
	Three Months Ended June 30,	Shares	Per Share	Six Months Ended June 30,	Shares	Per Share
	Income			Income		
Income from continuing operations	\$ 31,535			\$ 181,457		
Loss from discontinued operations	(21)			(108)		
Preferred distributions	(9,234)			(20,742)		
Excess redemption price paid over carrying value of preferred shares				(6,914)		
Amounts used to calculate basic EPS	\$ 22,280	209,968	\$ 0.11	\$ 153,693	209,915	\$ 0.73

Note 6. Segment Information

As of June 30, 2007, we owned 361 office properties and 163 industrial properties. We account for our office and industrial properties in geographic operating segments for financial reporting purposes based on our method of internal reporting. We define these individual geographic segments as those which currently, or during either of the last two quarters, represent or generate 5% or more of our total square feet, revenues or property net operating income. Property level information by geographic segment and property type as of and for the three and six months ended June 30, 2007 and 2006, is as follows:

	As of June 30, 2007			As of June 30, 2006		
	Office Properties	Industrial Properties	Totals	Office Properties	Industrial Properties	Totals
Property square feet:						
Metro Philadelphia, PA	5,444		5,444	5,448		5,448
Oahu, HI		17,914	17,914		17,929	17,929
Metro Washington, DC	2,658		2,658	2,645		2,645
Metro Boston, MA	3,026		3,026	2,737		2,737
Southern California	1,444		1,444	1,444		1,444
Metro Austin, TX	1,491	1,236	2,727	1,491	1,316	2,807
Other Markets	20,949	9,409	30,358	20,293	4,726	25,019
Totals	35,012	28,559	63,571	34,058	23,971	58,029
Central business district, or CBD	11,324	158	11,482	11,328	158	11,486
Suburban	23,688	28,401	52,089	22,730	23,813	46,543
Total	35,012	28,559	63,571	34,058	23,971	58,029

	Three Months Ended June 30, 2007			Three Months Ended June 30, 2006		
	Office Properties	Industrial Properties	Totals	Office Properties	Industrial Properties	Totals
Property rental income:						
Metro Philadelphia, PA	\$ 31,466	\$	\$ 31,466	\$ 31,632	\$	\$ 31,632
Oahu, HI		16,142	16,142		15,119	15,119
Metro Washington, DC	19,814		19,814	19,495		19,495
Metro Boston, MA	16,175		16,175	14,996		14,996
Southern California	12,507		12,507	11,879		11,879
Metro Austin, TX	7,470	3,193	10,663	7,103	3,759	10,862
Other Markets	88,431	14,797	103,228	84,653	9,321	93,974
Totals	\$ 175,863	\$ 34,132	\$ 209,995	\$ 169,758	\$ 28,199	\$ 197,957
CBD	\$ 71,182	\$ 291	\$ 71,473	\$ 71,477	\$ 279	\$ 71,756
Suburban	104,681	33,841	138,522	98,281	27,920	126,201
Total	\$ 175,863	\$ 34,132	\$ 209,995	\$ 169,758	\$ 28,199	\$ 197,957

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	Three Months Ended June 30, 2007			Three Months Ended June 30, 2006		
	Office Properties	Industrial Properties	Totals	Office Properties	Industrial Properties	Totals
Property net operating income:						
Metro Philadelphia, PA	\$ 16,311	\$	\$ 16,311	\$ 17,216	\$	\$ 17,216
Oahu, HI		12,824	12,824		12,386	12,386
Metro Washington, DC	12,408		12,408	12,266		12,266
Metro Boston, MA	10,638		10,638	10,032		10,032
Southern California	9,030		9,030	8,173		8,173
Metro Austin, TX	3,472	1,705	5,177	3,395	2,074	5,469
Other Markets	51,305	11,136	62,441	50,423	6,033	56,456
Totals	\$ 103,164	\$ 25,665	\$ 128,829	\$ 101,505	\$ 20,493	\$ 121,998
CBD						
	\$ 39,649	\$ 213	\$ 39,862	\$ 40,261	\$ 216	\$ 40,477
Suburban	63,515	25,452	88,967	61,244	20,277	81,521
Total	\$ 103,164	\$ 25,665	\$ 128,829	\$ 101,505	\$ 20,493	\$ 121,998

	Six Months Ended June 30, 2007			Six Months Ended June 30, 2006		
	Office Properties	Industrial Properties	Totals	Office Properties	Industrial Properties	Totals
Property rental income:						
Metro Philadelphia, PA	\$ 62,512	\$	\$ 62,512	\$ 63,493	\$	\$ 63,493
Oahu, HI		31,495	31,495		29,211	29,211
Metro Washington, DC	39,327		39,327	39,210		39,210
Metro Boston, MA	31,489		31,489	30,028		30,028
Southern California	24,998		24,998	23,804		23,804
Metro Austin, TX	15,404	6,370	21,774	13,859	7,094	20,953
Other Markets	176,729	26,721	203,450	162,892	17,925	180,817
Totals	\$ 350,459	\$ 64,586	\$ 415,045	\$ 333,286	\$ 54,230	\$ 387,516
CBD						
	\$ 141,381	\$ 583	\$ 141,964	\$ 142,578	\$ 558	\$ 143,136
Suburban	209,078	64,003	273,081	190,708	53,672	244,380
Total	\$ 350,459	\$ 64,586	\$ 415,045	\$ 333,286	\$ 54,230	\$ 387,516

Property net operating income:						
Metro Philadelphia, PA	\$ 32,286	\$	\$ 32,286	\$ 34,072	\$	\$ 34,072
Oahu, HI		25,123	25,123		23,758	23,758
Metro Washington, DC	24,737		24,737	24,735		24,735
Metro Boston, MA	20,639		20,639	20,004		20,004
Southern California	18,275		18,275	16,562		16,562
Metro Austin, TX	7,622	3,317	10,939	6,693	3,917	10,610
Other Markets	102,640	19,239	121,879	98,078	11,935	110,013
Totals	\$ 206,199	\$ 47,679	\$ 253,878	\$ 200,144	\$ 39,610	\$ 239,754
CBD						
	\$ 78,600	\$ 428	\$ 79,028	\$ 80,075	\$ 431	\$ 80,506
Suburban	127,599	47,251	174,850	120,069	39,179	159,248
Total	\$ 206,199	\$ 47,679	\$ 253,878	\$ 200,144	\$ 39,610	\$ 239,754

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The table below reconciles our calculation of property net operating income, or NOI, to net income available for common shareholders, the most directly comparable financial measure under generally accepted accounting principles, or GAAP, reported in our consolidated financial statements for the three and six months ended June 30, 2007 and 2006. We consider NOI to be appropriate supplemental information to net income available for common shareholders because it helps both investors and management to understand the operations of our properties. We use NOI internally as a performance measure and believe NOI provides useful information to investors regarding our results of operations because it reflects only those income and expense items that are incurred at the property level. Our management also uses NOI to evaluate individual, regional and company wide property level performance. NOI excludes certain components from net income available for common shareholders in order to provide results that are more closely related to our properties' results of operations. NOI does not represent cash generated by operating activities in accordance with GAAP and should not be considered an alternative to net income, net income available for common shareholders or cash flow from operating activities as a measure of financial performance. A reconciliation of NOI to net income available for common shareholders for the three and six months ended June 30, 2007 and 2006, is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Rental income	\$ 209,995	\$ 197,957	\$ 415,045	\$ 387,516
Operating expenses	(81,166)	(75,959)	(161,167)	(147,762)
Property net operating income (NOI)	\$ 128,829	\$ 121,998	\$ 253,878	\$ 239,754
Property net operating income	\$ 128,829	\$ 121,998	\$ 253,878	\$ 239,754
Depreciation and amortization	(45,786)	(40,379)	(89,297)	(78,045)
General and administrative	(9,125)	(8,540)	(17,703)	(16,413)
Operating income	73,918	73,079	146,878	145,296
Interest income	568	310	1,027	1,545
Interest expense	(42,301)	(41,854)	(82,572)	(83,148)
Loss on early extinguishment of debt	(711)		(711)	(1,659)
Equity in earnings of equity investments				3,136
Gain on sale of equity investments				116,287
Income from continuing operations	31,474	31,535	64,622	181,457
Loss from discontinued operations		(21)		(108)
Net income	31,474	31,514	64,622	181,349
Preferred distributions	(15,401)	(9,234)	(30,802)	(20,742)
Excess redemption price paid over carrying value of preferred shares				(6,914)
Net income available for common shareholders	\$ 16,073	\$ 22,280	\$ 33,820	\$ 153,693

Note 7. Subsequent Events

In July 2007, we declared a distribution of \$0.21 per common share, or approximately \$44,500, to be paid on or about August 24, 2007, to shareholders of record on July 25, 2007. We also announced a distribution on our series B preferred shares of \$0.5469 per share, or \$6,563, a distribution on our series C preferred shares of \$0.4453 per share, or \$2,672, and a distribution on our series D preferred shares of \$0.4063, or \$6,167, which will be paid on or about August 15, 2007, to our preferred shareholders of record as of August 1, 2007.

In July 2007, we purchased one hotel property from Hospitality Properties Trust, a publicly traded real estate investment trust that is managed by Reit Management & Research LLC, which is also our manager, for \$13,100, excluding closing costs, using cash on hand and borrowings under our revolving credit facility. This hotel will continue operations under a short term lease agreement with a hotel operating company; this property may be redeveloped in the future as part of a larger project including adjacent property currently owned by us. As of August 6, 2007, we have executed purchase agreements for five additional properties with an aggregate of approximately 271 square feet of space for a total purchase price of \$35,400, excluding closing costs. These potential purchase transactions are subject to completion of diligence and because of these contingencies we can provide no assurances that we will purchase these properties.

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

The following discussion and tables should be read in conjunction with our consolidated financial statements and notes thereto included in this quarterly report and our Annual Report on Form 10-K for the year ended December 31, 2006.

OVERVIEW

We primarily own office and industrial buildings located throughout the United States. We also own approximately 17 million square feet of leased industrial and commercial lands located in Oahu, Hawaii.

Property Operations

As of June 30, 2007, 92.9% of our total square feet was leased, compared to 93.6% leased as of June 30, 2006. These results primarily reflect the 1 percentage point decrease in occupancy at properties we owned continuously since January 1, 2006. Occupancy data for 2007 and 2006 is as follows (square feet in thousands):

	All Properties (1)		Comparable Properties (2)			
	As of the Six Months		As of the Six Months			
	Ended June 30,		Ended June 30,			
	2007	2006	2007		2006	
Total properties	524	487	437		437	
Total square feet	63,571	58,029	54,824		54,824	
Percent leased (3)	92.9	%	93.6	%	92.7	%

(1) Excludes properties sold or under contract for sale.

(2) Based on properties owned continuously since January 1, 2006, and excludes properties under contract for sale.

(3) Percent leased includes (i) space being fitted out for occupancy pursuant to signed leases and (ii) space which is leased, but is not occupied or is being offered for sublease by tenants.

During the three months ended June 30, 2007, we signed new leases for 814,000 square feet and lease renewals for 1,107,000 square feet, at weighted average rental rates that were 3% above rents previously charged for the same space. Average lease terms for leases signed during this period were 7.9 years. Commitments for tenant improvement and leasing costs for leases signed during this period totaled \$35.0 million, or \$18.22 per square foot (approximately \$2.31/sq. ft. per year of the lease term).

During the past twelve months, the leasing market conditions in some of our markets have been improving. The quoted rental rates in most of the areas where our properties are located seem to have increased modestly. Required landlord funded tenant build outs and leasing commissions payable to tenant brokers for new leases and lease renewals have generally stabilized over the past twelve months. These build out costs and leasing commissions are generally amortized as a reduction of our income during the terms of the affected leases. However, these improvements in rent rates and reduced tenant inducement costs have been somewhat offset by a modest decline in space requirements from tenants and increased construction of office properties in certain markets, as reflected in the decline in occupancy we have experienced during this period. We believe that modest increases in effective rents may improve the financial results at some of our currently owned properties. However, there are too many variables for us to reasonably project what the financial impact of market conditions will be on our results for future periods.

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Approximately 3.7% of our leased square feet and 4.2% of our rents are included in leases scheduled to expire through December 31, 2007. Lease renewals and rental rates at which available space may be relet in the future will depend on prevailing market conditions at that time. Lease expirations by year, as of June 30, 2007, are as follows (square feet and dollars in thousands):

Year	Square Feet Expiring (1)	% of Square Feet Expiring	Annualized Rental Income Expiring (2)	% of Annualized Rental Income Expiring	Cumulative % of Annualized Rental Income Expiring
2007	2,188	3.7	% \$ 35,330	4.2	% 4.2
2008	4,654	7.9	% 81,383	9.6	% 13.8
2009	3,781	6.4	% 67,910	8.0	% 21.8
2010	6,305	10.7	% 97,742	11.5	% 33.3
2011	5,898	10.0	% 95,976	11.3	% 44.6
2012	4,809	8.1	% 96,562	11.4	% 56.0
2013	2,469	4.2	% 46,878	5.5	% 61.5
2014	2,706	4.6	% 46,769	5.5	% 67.0
2015	3,241	5.5	% 58,211	6.9	% 73.9
2016	2,476	4.2	% 42,082	5.0	% 78.9
2017 and thereafter	20,547	34.7	% 178,257	21.1	% 100.0
	59,074	100.0	% \$ 847,100	100.0	%
Weighted average remaining lease term (in years):	9.1		6.5		

(1) Square feet is pursuant to signed leases as of June 30, 2007, and includes (i) space being fitted out for occupancy and (ii) space which is leased, but is not occupied or is being offered for sublease by tenants.

(2) Rents are pursuant to signed leases as of June 30, 2007, plus expense reimbursements; includes some triple net lease rents and excludes lease value amortization.

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Our principal source of funds for our operations is rents from tenants at our properties. Rents are generally received from our non-government tenants monthly in advance, and from our government tenants monthly in arrears. As of June 30, 2007, tenants responsible for 1% or more of our total rent were as follows (square feet in thousands):

Tenant	Square Feet (1)	% of Total Square Feet (1)	% of Rent (2)	Expiration
1. U. S. Government	4,826	8.2	% 12.8	% 2007 to 2020
2. GlaxoSmithKline plc	608	1.0	% 1.7	% 2013
3. PNC Financial Services Group	460	0.8	% 1.4	% 2011, 2021
4. Solectron Corporation	894	1.5	% 1.1	% 2014
5. JDA Software Group, Inc.	283	0.5	% 1.1	% 2012
6. The Scripps Research Institute	164	0.3	% 1.1	% 2019
7. Ballard Spahr Andrews & Ingersoll, LLP	235	0.4	% 1.0	% 2008, 2015
Total	7,470	12.7	% 20.2	%

(1) Square feet is pursuant to signed leases as of June 30, 2007, and includes (i) space being fitted out for occupancy and (ii) space which is leased, but is not occupied or is being offered for sublease by tenants.

(2) Rent is pursuant to signed leases as of June 30, 2007, plus estimated expense reimbursements; includes some triple net lease rents and excludes lease value amortization.

Investment Activities

During the six months ended June 30, 2007, we acquired five office properties with 466,000 square feet for \$59.7 million, and 14 industrial properties with 3,294,000 square feet for \$125.5 million. At the time of acquisition, these properties were over 99% leased and projected to yield approximately 9.0% of the aggregate gross purchase price, based on estimated current annual net operating income, or NOI, which we define as GAAP based property rental income less property operating expenses.

Financing Activities

In June 2007 we repaid \$200 million of our unsecured floating rate senior notes by drawing on our revolving credit facility. We recognized a loss of \$711,000 from the write off of deferred financing fees in connection with this repayment. We subsequently issued \$250 million of unsecured senior notes in a public offering in June, raising net proceeds of approximately \$247.4 million. The notes bear interest at 6.25%, require semi-annual interest payments and mature in June 2017. Net proceeds from this offering were used to reduce amounts outstanding under our revolving credit facility and for general business purposes.

During the six months ended June 30, 2007, we sold 1.9 million of our common shares for net proceeds of \$23.7 million pursuant to a sales agreement with a securities broker dealer, which allows us to sell up to 20.0 million of our common shares from time to time in a controlled equity offering program.

RESULTS OF OPERATIONS*Three Months Ended June 30, 2007, Compared to Three Months Ended June 30, 2006*

	Three Months Ended June 30,		\$ Change	% Change	
	2007 (in thousands, except per share data)	2006			
Rental income	\$ 209,995	\$ 197,957	\$ 12,038	6.1	%
Expenses:					
Operating expenses	81,166	75,959	5,207	6.9	%
Depreciation and amortization	45,786	40,379	5,407	13.4	%
General and administrative	9,125	8,540	585	6.9	%
Total expenses	136,077	124,878	11,199	9.0	%
Operating income	73,918	73,079	839	1.1	%
Interest income	568	310	258	83.2	%
Interest expense	(42,301)	(41,854)	(447)	(1.1)	%
Loss on early extinguishment of debt	(711)		(711)	(100.0)	%
Income from continuing operations	31,474	31,535	(61)	(0.2)	%
Loss from discontinued operations		(21)	21	100.0	%
Net income	31,474	31,514	(40)	(0.1)	%
Preferred distributions	(15,401)	(9,234)	(6,167)	(66.8)	%
Net income available for common shareholders	\$ 16,073	\$ 22,280	\$ (6,207)	(27.9)	%
Weighted average common shares outstanding basic	211,721	209,968	1,753	0.8	%
Weighted average common shares outstanding diluted	240,914	209,968	30,946	14.7	%
Earnings per common share:					
Income from continuing operations available for common shareholders basic and diluted	\$ 0.08	\$ 0.11	\$ (0.03)	(27.3)	%
Net income available for common shareholders basic and diluted	\$ 0.08	\$ 0.11	\$ (0.03)	(27.3)	%

Rental income. Rental income increased for the three months ended June 30, 2007, compared to the same period in 2006, primarily due to increases in rental income from our Other Markets segment, as described in the segment information footnote to our consolidated financial statements. Rental income for our Other Markets segment increased \$9.3 million, or 9.8%, primarily because of the acquisition of 47 properties since March 2006. Rental income includes non-cash straight line rent adjustments totaling \$3.9 million in 2007 and \$5.2 million in 2006 and amortization of acquired real estate leases and obligations totaling (\$2.9) million in 2007 and (\$2.3) million in 2006. Rental income also includes lease termination fees totaling \$31,000 in 2007 and \$251,000 in 2006.

Total expenses. The increase in total expenses reflects increases in operating expenses and general and administrative expenses primarily related to our acquisition of properties since March 2006. The increase in depreciation and amortization expense reflects acquisitions made since March 2006 and building and tenant improvement costs incurred throughout our portfolio during the same period.

Interest income. The increase in interest income in 2007 reflects the increase in average invested cash balances.

Loss on early extinguishment of debt. The loss on early extinguishment of debt in 2007 relates to the write off of deferred financing fees associated with the repayment of \$200 million of our floating rate senior notes in June 2007.

Loss from discontinued operations. The 2006 loss from discontinued operations includes operating results from five office properties sold in 2006.

Net income and net income available for common shareholders. The decrease in net income available for common shareholders reflects the increase in depreciation and amortization primarily related to properties acquired since March 2006 and building and tenant improvement costs incurred throughout our portfolio during the same period. Net income available for common shareholders is net income reduced by preferred distributions. The increase in preferred distributions reflects the issuance of our series D preferred shares in October 2006, which are convertible into 29,193 common shares. Proceeds from this issuance were used to reduce amounts outstanding on our revolving credit facility and general business purposes, including property acquisitions.

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Six Months Ended June 30, 2007, Compared to Six Months Ended June 30, 2006

	Six Months Ended June 30,		\$ Change	% Change	
	2007 (in thousands, except per share data)	2006			
Rental income	\$ 415,045	\$ 387,516	\$ 27,529	7.1	%
Expenses:					
Operating expenses	161,167	147,762	13,405	9.1	%
Depreciation and amortization	89,297	78,045	11,252	14.4	%
General and administrative	17,703	16,413	1,290	7.9	%
Total expenses	268,167	242,220	25,947	10.7	%
Operating income	146,878	145,296	1,582	1.1	%