

HRPT PROPERTIES TRUST  
Form 10-Q  
May 09, 2008

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

**FORM 10-Q**

- x** **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2008**

**OR**

- o** **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**

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(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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

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

Number of registrant's common shares of beneficial interest, \$0.01 par value per share, outstanding as of May 6, 2008: **225,444,497**

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HRPT PROPERTIES TRUST

FORM 10-Q

MARCH 31, 2008

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*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)

(unaudited)

|  | March 31,<br>2008 | December 31,<br>2007 |
|--|-------------------|----------------------|
| <b><u>ASSETS</u></b>   |                   |                      |
| Real estate properties:  |                   |                      |
| Land   | \$ 1,201,683      | \$ 1,189,684         |
| Buildings and improvements   | 5,072,208         | 4,966,610            |
|  | 6,273,891         | 6,156,294            |
| Accumulated depreciation   | (847,622)         | (808,216)            |
|  | 5,426,269         | 5,348,078            |
| Acquired real estate leases  | 162,007           | 150,672              |
| Cash and cash equivalents  | 32,065            | 19,879               |
| Restricted cash  | 11,543            | 18,027               |
| Rents receivable, net of allowance for doubtful accounts of \$7,728 and \$6,290, respectively  | 202,335           | 197,967              |
| Other assets, net  | 125,627           | 124,709              |
| Total assets   | \$ 5,959,846      | \$ 5,859,332         |
| <b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>   |                   |                      |
| Revolving credit facility  | \$ 308,000        | \$ 140,000           |
| Senior unsecured debt, net   | 2,240,144         | 2,239,784            |
| Mortgage notes payable, net  | 363,555           | 394,376              |
| Accounts payable and accrued expenses  | 81,040            | 89,441               |
| Acquired real estate lease obligations   | 43,268            | 41,607               |
| Rent collected in advance  | 25,507            | 24,779               |
| Security deposits  | 16,724            | 16,063               |
| Due to affiliates  | 11,329            | 10,399               |
| Total liabilities  | 3,089,567         | 2,956,449            |
| 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; 7,000,000 shares issued and outstanding, aggregate liquidation preference \$175,000 | 169,079           | 169,079              |
| 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              |

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Common shares of beneficial interest, \$0.01 par value:

|  |              |              |
|--|--------------|--------------|
| 350,000,000 shares authorized; 225,444,497 shares issued and outstanding | 2,254        | 2,254        |
| Additional paid in capital   | 2,923,455    | 2,923,455    |
| Cumulative net income  | 1,855,015    | 1,827,609    |
| Cumulative common distributions  | (2,298,882)  | (2,251,539)  |
| Cumulative preferred distributions                                       | (293,927)    | (281,260)    |
| Total shareholders' equity   | 2,870,279    | 2,902,883    |
| Total liabilities and shareholders' equity                               | \$ 5,959,846 | \$ 5,859,332 |

See accompanying notes

## CONSOLIDATED STATEMENT OF INCOME

(amounts in thousands, except per share data)

(unaudited)

|  | <b>Three Months Ended March 31,</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2008</b>                         | <b>2007</b> |
| Rental income  | \$ 215,164                          | \$ 204,964  |
| Expenses:  |                                     |             |
| Operating expenses   | 84,963                              | 79,977      |
| Depreciation and amortization  | 48,363                              | 43,505      |
| General and administrative   | 9,376                               | 8,578       |
| Total expenses   | 142,702                             | 132,060     |
| Operating income   | 72,462                              | 72,904      |
| Interest income  | 332                                 | 459         |
| Interest expense (including amortization of debt discounts, premiums and deferred financing fees of \$1,085 and \$1,097, respectively) | (45,224)                            | (40,271)    |
| Income from continuing operations before income tax expense  | 27,570                              | 33,092      |
| Income tax expense   | (164)                               |             |
| Income from continuing operations  | 27,406                              | 33,092      |
| Income from discontinued operations  |                                     | 56          |
| Net income   | 27,406                              | 33,148      |
| Preferred distributions  | (12,667)                            | (15,401)    |
| Net income available for common shareholders   | \$ 14,739                           | \$ 17,747   |
| Weighted average common shares outstanding basic   | 225,444                             | 210,609     |
| Weighted average common shares outstanding diluted   | 254,637                             | 239,802     |
| Earnings per common share:   |                                     |             |
| Income from continuing operations available for common shareholders basic and diluted  | \$ 0.07                             | \$ 0.08     |
| Income from discontinued operations basic and diluted  | \$                                  | \$          |
| Net income available for common shareholders basic and diluted   | \$ 0.07                             | \$ 0.08     |

See accompanying notes

## CONSOLIDATED STATEMENT OF CASH FLOWS

(amounts in thousands)

(unaudited)

|  | <b>Three Months Ended March 31,</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2008</b>                         | <b>2007</b> |
| <b>Cash flows from operating activities:</b>   |                                     |             |
| Net income   | \$ 27,406                           | \$ 33,148   |
| <b>Adjustments to reconcile net income to cash provided by operating activities:</b> |                                     |             |
| Depreciation   | 39,406                              | 35,005      |
| Amortization of debt discounts, premiums and deferred financing fees                 | 1,085                               | 1,097       |
| Amortization of acquired real estate leases  | 7,473                               | 7,724       |
| Other amortization   | 3,997                               | 3,229       |
| <b>Change in assets and liabilities:</b>   |                                     |             |
| Decrease in restricted cash  | 6,484                               | 7,400       |
| Increase in rents receivable and other assets  | (19,922)                            | (24,931)    |
| Decrease in accounts payable and accrued expenses                                    | (6,217)                             | (23,620)    |
| Increase in rent collected in advance  | 728                                 | 3,340       |
| Increase (decrease) in security deposits   | 661                                 | (102)       |
| Increase (decrease) in due to affiliates   | 930                                 | (5,260)     |
| Cash provided by operating activities  | 62,031                              | 37,030      |
| <b>Cash flows from investing activities:</b>   |                                     |             |
| Real estate acquisitions and improvements  | (127,168)                           | (84,734)    |
| Cash used for investing activities   | (127,168)                           | (84,734)    |
| <b>Cash flows from financing activities:</b>   |                                     |             |
| Proceeds from issuance of common shares, net   |                                     | 12,998      |
| Proceeds from borrowings   | 188,000                             | 120,000     |
| Payments on borrowings   | (50,664)                            | (18,163)    |
| Deferred financing fees  | (3)                                 | (7)         |
| Distributions to common shareholders   | (47,343)                            | (44,111)    |
| Distributions to preferred shareholders  | (12,667)                            | (17,737)    |
| Cash provided by financing activities  | 77,323                              | 52,980      |
| Increase in cash and cash equivalents  | 12,186                              | 5,276       |
| Cash and cash equivalents at beginning of period                                     | 19,879                              | 17,783      |
| Cash and cash equivalents at end of period   | \$ 32,065                           | \$ 23,059   |
| <b>Supplemental cash flow information:</b>   |                                     |             |
| Interest paid (including capitalized interest paid of \$0 and \$226, respectively)   | \$ 50,973                           | \$ 48,005   |

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, 2007. 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 September 2006, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurement", or SFAS No. 157, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurement. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. As required, we adopted SFAS No. 157 on January 1, 2008 and have concluded that the effect is not material to our consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), "Business Combinations", or SFAS 141(R). SFAS 141(R) establishes principles and requirements for how the acquirer shall recognize and measure in its financial statements the identifiable assets acquired, liabilities assumed, any noncontrolling interest in the acquiree and goodwill acquired in a business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. We are currently evaluating the effect that the adoption of SFAS 141(R) will have on our consolidated financial statements.

**Note 2. Real Estate Properties**

During the three months ended March 31, 2008, we acquired two office properties for \$123,700, excluding closing costs, and we funded \$10,458 of improvements to our owned properties using cash on hand and borrowings under our revolving credit facility.

**Note 3. Indebtedness**



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In January 2008, we prepaid, at par, \$28,600 of 8.50% mortgage debt due 2028, using cash on hand and borrowings under our revolving credit facility.

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 3.9% and 5.9% per annum, for the three months ended March 31, 2008 and 2007, respectively. As of March 31, 2008, we had \$308,000 outstanding and \$442,000 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.

## HRPT PROPERTIES TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(amounts in thousands, except per share data)

**Note 4. 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:

|                                     | Income    | 2008<br>Shares | Three Months Ended March 31, |           |                |           |
|-------------------------------------|-----------|----------------|------------------------------|-----------|----------------|-----------|
|                                     |           |                | Per Share                    | Income    | 2007<br>Shares | Per Share |
| Income from continuing operations   | \$ 27,406 |                |                              | \$ 33,092 |                |           |
| Income from discontinued operations |           |                |                              | 56        |                |           |
| Preferred distributions             | (12,667)  |                |                              | (15,401)  |                |           |
| Amounts used to calculate basic EPS | \$ 14,739 | 225,444        | \$ 0.07                      | \$ 17,747 | 210,609        | \$ 0.08   |

**Note 5. Segment Information**

As of March 31, 2008, we owned 368 office properties and 169 industrial and other properties. We account for all of our 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 months ended March 31, 2008 and 2007 is as follows:

|                        | As of March 31, 2008 |                                       |        | As of March 31, 2007 |                                       |        |
|------------------------|----------------------|---------------------------------------|--------|----------------------|---------------------------------------|--------|
|                        | Office<br>Properties | Industrial<br>and Other<br>Properties | Totals | Office<br>Properties | Industrial<br>and Other<br>Properties | Totals |
| Property square feet:  |                      |                                       |        |                      |                                       |        |
| Metro Philadelphia, PA | 5,424                |                                       | 5,424  | 5,448                |                                       | 5,448  |
| Oahu, HI               |                      | 17,914                                | 17,914 |                      | 17,880                                | 17,880 |
| Metro Washington, DC   | 2,658                |                                       | 2,658  | 2,658                |                                       | 2,658  |
| Southern California    | 1,444                |                                       | 1,444  | 1,444                |                                       | 1,444  |
| Metro Boston, MA       | 3,100                |                                       | 3,100  | 3,027                |                                       | 3,027  |
| Metro Austin, TX       | 1,492                | 1,236                                 | 2,728  | 1,491                | 1,316                                 | 2,807  |

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|                               |        |        |        |        |        |        |
|-------------------------------|--------|--------|--------|--------|--------|--------|
| Other Markets                 | 22,086 | 9,961  | 32,047 | 20,849 | 6,114  | 26,963 |
| Totals                        | 36,204 | 29,111 | 65,315 | 34,917 | 25,310 | 60,227 |
| Central business district, or |        |        |        |        |        |        |
| CBD                           | 12,182 | 158    | 12,340 | 11,327 | 158    | 11,485 |
| Suburban                      | 24,022 | 28,953 | 52,975 | 23,590 | 25,152 | 48,742 |
| Total                         | 36,204 | 29,111 | 65,315 | 34,917 | 25,310 | 60,227 |

## HRPT PROPERTIES TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(amounts in thousands, except per share data)

|                         | Three Months Ended<br>March 31, 2008 |                                       |            | Three Months Ended<br>March 31, 2007 |                                       |            |
|-------------------------|--------------------------------------|---------------------------------------|------------|--------------------------------------|---------------------------------------|------------|
|                         | Office<br>Properties                 | Industrial<br>and Other<br>Properties | Totals     | Office<br>Properties                 | Industrial<br>and Other<br>Properties | Totals     |
| Property rental income: |                                      |                                       |            |                                      |                                       |            |
| Metro Philadelphia, PA  | \$ 32,084                            | \$                                    | \$ 32,084  | \$ 31,046                            | \$                                    | \$ 31,046  |
| Oahu, HI                |                                      | 16,863                                | 16,863     |                                      | 15,353                                | 15,353     |
| Metro Washington, DC    | 20,103                               |                                       | 20,103     | 19,513                               |                                       | 19,513     |
| Southern California     | 12,353                               |                                       | 12,353     | 12,491                               |                                       | 12,491     |
| Metro Boston, MA        | 14,295                               |                                       | 14,295     | 15,314                               |                                       | 15,314     |
| Metro Austin, TX        | 8,098                                | 3,297                                 | 11,395     | 7,934                                | 3,177                                 | 11,111     |
| Other Markets           | 92,457                               | 15,614                                | 108,071    | 88,212                               | 11,924                                | 100,136    |
| Totals                  | \$ 179,390                           | \$ 35,774                             | \$ 215,164 | \$ 174,510                           | \$ 30,454                             | \$ 204,964 |
|                         |                                      |                                       |            |                                      |                                       |            |
| CBD                     | \$ 73,948                            | \$ 314                                | \$ 74,262  | \$ 70,199                            | \$ 291                                | \$ 70,490  |
| Suburban                | 105,442                              | 35,460                                | 140,902    | 104,311                              | 30,163                                | 134,474    |
| Total                   | \$ 179,390                           | \$ 35,774                             | \$ 215,164 | \$ 174,510                           | \$ 30,454                             | \$ 204,964 |

|                                | Three Months Ended<br>March 31, 2008 |                                       |            | Three Months Ended<br>March 31, 2007 |                                       |            |
|--------------------------------|--------------------------------------|---------------------------------------|------------|--------------------------------------|---------------------------------------|------------|
|                                | Office<br>Properties                 | Industrial<br>and Other<br>Properties | Totals     | Office<br>Properties                 | Industrial<br>and Other<br>Properties | Totals     |
| Property net operating income: |                                      |                                       |            |                                      |                                       |            |
| Metro Philadelphia, PA         | \$ 17,154                            | \$                                    | \$ 17,154  | \$ 15,975                            | \$                                    | \$ 15,975  |
| Oahu, HI                       |                                      | 13,159                                | 13,159     |                                      | 12,299                                | 12,299     |
| Metro Washington, DC           | 12,201                               |                                       | 12,201     | 12,329                               |                                       | 12,329     |
| Southern California            | 9,022                                |                                       | 9,022      | 9,245                                |                                       | 9,245      |
| Metro Boston, MA               | 8,637                                |                                       | 8,637      | 10,001                               |                                       | 10,001     |
| Metro Austin, TX               | 4,395                                | 1,884                                 | 6,279      | 4,150                                | 1,612                                 | 5,762      |
| Other Markets                  | 52,591                               | 11,158                                | 63,749     | 51,273                               | 8,103                                 | 59,376     |
| Totals                         | \$ 104,000                           | \$ 26,201                             | \$ 130,201 | \$ 102,973                           | \$ 22,014                             | \$ 124,987 |
|                                |                                      |                                       |            |                                      |                                       |            |
| CBD                            | \$ 40,616                            | \$ 214                                | \$ 40,830  | \$ 38,951                            | \$ 215                                | \$ 39,166  |
| Suburban                       | 63,384                               | 25,987                                | 89,371     | 64,022                               | 21,799                                | 85,821     |
| Total                          | \$ 104,000                           | \$ 26,201                             | \$ 130,201 | \$ 102,973                           | \$ 22,014                             | \$ 124,987 |

## HRPT PROPERTIES TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(amounts in thousands, except per share data)

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 months ended March 31, 2008 and 2007. 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 months ended March 31, 2008 and 2007 is as follows:

|   | <b>Three Months Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2008</b>                             | <b>2007</b> |
| Rental income   | \$ 215,164                              | \$ 204,964  |
| Operating expenses  | (84,963)                                | (79,977)    |
| Property net operating income (NOI)                         | \$ 130,201                              | \$ 124,987  |
| Property net operating income                               | \$ 130,201                              | \$ 124,987  |
| Depreciation and amortization                               | (48,363)                                | (43,505)    |
| General and administrative                                  | (9,376)                                 | (8,578)     |
| Operating income  | 72,462                                  | 72,904      |
| Interest income   | 332                                     | 459         |
| Interest expense  | (45,224)                                | (40,271)    |
| Income from continuing operations before income tax expense | 27,570                                  | 33,092      |
| Income tax expense  | (164)                                   | -           |
| Income from continuing operations                           | 27,406                                  | 33,092      |
| Income from discontinued operations                         | -                                       | 56          |
| Net income  | 27,406                                  | 33,148      |
| Preferred distributions                                     | (12,667)                                | (15,401)    |
| Net income available for common shareholders                | \$ 14,739                               | \$ 17,747   |

**Note 7. Subsequent Events**

In April 2008, we declared a distribution of \$0.21 per common share, or approximately \$47,300, to be paid on or about May 23, 2008, to shareholders of record on April 23, 2008. We also announced a distribution on our series B preferred shares of \$0.5469 per share, or \$3,828, 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 May 15, 2008, to our preferred shareholders of record as of May 1, 2008.

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As of May 6, 2008, we have an executed purchase agreement for an additional office property with an aggregate of approximately 374,000 square feet of space for a total purchase price of \$53,050, excluding closing costs. This potential purchase transaction is subject to completion of diligence and other customary conditions; because of these contingencies we can provide no assurances that we will purchase this property.

HRPT PROPERTIES TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(amounts in thousands, except per share data)

On May 5, 2008, we entered into a series of Purchase and Sale Agreements, or the Purchase Agreements, with Senior Housing Properties Trust, or SNH, for the sale by us to SNH, or certain of its subsidiaries, of 48 medical office, clinic and biotech laboratory buildings for an aggregate purchase price of \$565,000. On March 31, 2008, our investment in these properties totaled approximately \$397,800 at cost, and our depreciated book value totaled approximately \$347,900. We expect the closings of these sales to occur in phases over the next twelve months. Because we and SNH are both managed by Reit management & Research LLC, or RMR, the sales prices for the properties to be sold were established by reference to an independent appraisal and the terms of the transactions were negotiated by special committees of each company's board of trustees comprised solely of independent trustees. The transactions are subject to various conditions and contingencies typical of large commercial real estate transactions, including among other matters, waiver of any rights of first refusal held by tenants, the consent of mortgagees to the sales of the buildings which are encumbered by mortgages and financing contingencies relating to certain properties which have an aggregate purchase price of approximately \$245,000. Accordingly, the purchase prices which we may receive may change, these sales may be accelerated or delayed or these sales may not occur.

**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, 2007.

**OVERVIEW**

We primarily own office 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 March 31, 2008, 91.6% of our total square feet was leased, compared to 92.8% leased as of March 31, 2007. These results primarily reflect the 1.7 percentage point decrease in occupancy at properties we owned continuously since January 1, 2007. Occupancy data for 2008 and 2007 is as follows (square feet in thousands):

|                    | <b>All Properties (1)<br/>As of the Three Months<br/>Ended March 31,</b> |             | <b>Comparable Properties (2)<br/>As of the Three Months<br/>Ended March 31,</b> |             |
|--------------------|--|-------------|---|-------------|
|                    | <b>2008</b>  | <b>2007</b> | <b>2008</b>   | <b>2007</b> |
| Total properties   | 537  | 507         | 503   | 503         |
| Total square feet  | 65,315   | 60,227      | 59,664  | 59,664      |
| Percent leased (3) | 91.6%  | 92.8%       | 91.1%   | 92.8%       |

(1) Excludes properties sold or under contract for sale as of March 31, 2008.

(2) Based on properties owned continuously since January 1, 2007, and excludes properties under contract for sale as of March 31, 2008.

(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 March 31, 2008, we signed new leases for 273,000 square feet and lease renewals for 553,000 square feet, at weighted average rental rates that were 2% above rents previously charged for the same space. Average lease terms for leases signed during the three months ended March 31, 2008 were 5.6 years. Commitments for tenant improvement and leasing costs for leases signed during the three months ended March 31, 2008 totaled \$9.4 million, or \$11.40 per square foot (approximately \$2.04/sq. ft. per year of the lease term).

During the past twelve months, leasing market conditions in some of our markets have begun to show signs of weakness. The pace of new leasing activity and the leasing of currently vacant space within our portfolio has slowed and construction of new office properties in certain markets has increased, causing our occupancy to decline. Required landlord funded tenant build outs and leasing commissions payable to tenant brokers for new leases and lease renewals have generally remained unchanged over the past twelve months, but are starting to increase in certain markets in 2008. These build out costs and leasing commissions are generally amortized as a reduction of our income during the terms of the



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affected leases. We believe that modest decreases in occupancy and effective rents may further reduce 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 12.7% of our leased square feet and 15.8% of our rents are included in leases scheduled to expire through December 31, 2009. 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 March 31, 2008, are as follows (square feet and dollars in thousands):

| Year  | Square Feet Expiring (1) | % of Square Feet Expiring | Cumulative % of Square Feet Expiring | Annualized Rental Income Expiring (2) | % of Annualized Rental Income Expiring | Cumulative % of Annualized Rental Income Expiring |
|---|--------------------------|---------------------------|--------------------------------------|---------------------------------------|--|---|
| 2008  | 3,750                    | 6.3%                      | 6.3%                                 | \$ 69,539                             | 7.9%                                   | 7.9%  |
| 2009  | 3,809                    | 6.4%                      | 12.7%                                | 69,328                                | 7.9%                                   | 15.8%   |
| 2010  | 6,471                    | 10.8%                     | 23.5%                                | 101,447                               | 11.5%                                  | 27.3%   |
| 2011  | 5,599                    | 9.4%                      | 32.9%                                | 97,868                                | 11.1%                                  | 38.4%   |
| 2012  | 5,418                    | 9.0%                      | 41.9%                                | 107,925                               | 12.3%                                  | 50.7%   |
| 2013  | 4,133                    | 6.9%                      | 48.8%                                | 66,866                                | 7.6%                                   | 58.3%   |
| 2014  | 2,915                    | 4.9%                      | 53.7%                                | 51,437                                | 5.8%                                   | 64.1%   |
| 2015  | 3,507                    | 5.9%                      | 59.6%                                | 63,062                                | 7.2%                                   | 71.3%   |
| 2016  | 2,965                    | 4.9%                      | 64.5%                                | 48,285                                | 5.5%                                   | 76.8%   |
| 2017  | 1,846                    | 3.1%                      | 67.6%                                | 37,147                                | 4.2%                                   | 81.0%   |
| 2018 and thereafter                               | 19,430                   | 32.4%                     | 100.0%                               | 167,099                               | 19.0%                                  | 100.0%  |
|   | 59,843                   | 100.0%                    |                                      | \$ 880,003                            | 100.0%                                 |   |
| Weighted average remaining lease term (in years): | 8.7                      |                           |                                      | 6.3                                   |  |   |

- (1) Square feet is pursuant to signed leases as of March 31, 2008, 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 March 31, 2008, plus expense reimbursements; includes some triple net lease rents and excludes lease value amortization.

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 March 31, 2008, 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               | 4,820           | 8.1%                       | 12.5%         | 2008 to 2020 |
| 2. GlaxoSmithKline plc            | 608             | 1.0%                       | 1.7%          | 2013         |
| 3. PNC Financial Services Group   | 460             | 0.8%                       | 1.3%          | 2011, 2021   |
| 4. Jones Day (law firm)           | 407             | 0.7%                       | 1.3%          | 2012, 2019   |
| 5. Flextronics International Ltd. | 894             | 1.5%                       | 1.2%          | 2014         |
| 6. The Scripps Research Institute | 164             | 0.3%                       | 1.0%          | 2019         |
| 7. JDA Software Group, Inc.       | 283             | 0.5%                       | 1.0%          | 2012         |
| Total                             | 7,636           | 12.9%                      | 20.0%         |              |

- (1) Square feet is pursuant to signed leases as of March 31, 2008, 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 March 31, 2008, plus estimated expense reimbursements; includes some triple net lease rents and excludes lease value amortization.



*Investment Activities*

During the three months ended March 31, 2008, we acquired two office properties with 878,000 square feet for a gross purchase price totaling \$123.7 million. At the time of acquisition, these properties were 91% leased and projected to yield approximately 9.0% of the aggregate gross purchase price, based on estimated annual net operating income, or NOI, which we define as property rental income less property operating expenses on the date of closing.

*Financing Activities*

In January 2008, we prepaid, at par, \$28.6 million of 8.50% mortgage debt due 2028, using cash on hand and borrowings under our revolving credit facility.

**RESULTS OF OPERATIONS***Three Months Ended March 31, 2008, Compared to Three Months Ended March 31, 2007*

|   | 2008       | 2007       | Three Months Ended March 31,<br>\$<br>Change<br>(in thousands, except per share data) | %<br>Change |
|---|------------|------------|---|-------------|
| Rental income   | \$ 215,164 | \$ 204,964 | \$ 10,200   | 5.0%        |
| Expenses:   |            |            |   |             |
| Operating expenses  | 84,963     | 79,977     | 4,986   | 6.2%        |
| Depreciation and amortization   | 48,363     | 43,505     | 4,858   | 11.2%       |
| General and administrative  | 9,376      | 8,578      | 798   | 9.3%        |
| Total expenses  | 142,702    | 132,060    | 10,642  | 8.1%        |
| Operating income  | 72,462     | 72,904     | (442)   | (0.6)%      |
| Interest income   | 332        | 459        | (127)   | (27.7)%     |
| Interest expense  | (45,224)   | (40,271)   | (4,953)   | (12.3)%     |
| Income from continuing operations before income tax expense                           | 27,570     | 33,092     | (5,522)   | (16.7)%     |
| Income tax expense  | (164)      |            | (164)   | (100.0)%    |
| Income from continuing operations   | 27,406     | 33,092     | (5,686)   | (17.2)%     |
| Income from discontinued operations   |            | 56         | (56)  | (100.0)%    |
| Net income  | 27,406     | 33,148     | (5,742)   | (17.3)%     |
| Preferred distributions   | (12,667)   | (15,401)   | 2,734   | 17.8%       |
| Net income available for common shareholders  | \$ 14,739  | \$ 17,747  | \$ (3,008)  | (16.9)%     |
| Weighted average common shares outstanding basic                                      | 225,444    | 210,609    | 14,835  | 7.0%        |
| Weighted average common shares outstanding diluted                                    | 254,637    | 239,802    | 14,835  | 6.2%        |
| Earnings per common share:  |            |            |   |             |
| Income from continuing operations available for common shareholders basic and diluted | \$ 0.07    | \$ 0.08    | \$ (0.01)   | (12.5)%     |
| Income from discontinued operations basic and diluted                                 | \$         | \$         | \$  |             |
| Net income available for common shareholders basic and diluted                        | \$ 0.07    | \$ 0.08    | \$ (0.01)   | (12.5)%     |

*Rental income.* Rental income increased for the three months ended March 31, 2008, compared to the same period in 2007, primarily due to increases in rental income from our Oahu, HI and our Other Markets segments, offset by a decrease in rental income from our Metro Boston, MA segment, as described in the segment information footnote to our consolidated financial statements. Rental income for our Oahu, HI market increased \$1.5 million, or 10%, primarily due to an increase in weighted average rental rates for new leases and lease renewals signed during 2007. Rental income for our Other Markets segment increased \$7.9 million, or 8%, primarily because of the acquisition of 30 properties since December 2006. Rental income from our Metro Boston, MA market decreased \$1.0 million, or 7%, primarily due to the decrease in occupancy in 2008, partially offset by rental income from property acquisitions since December 2006. Rental income includes non-cash straight line rent adjustments totaling \$2.0 million in 2008 and \$4.7 million in 2007 and amortization of acquired real estate leases and obligations totaling (\$2.5) million in 2008 and (\$2.4) million in 2007. Rental income also includes lease termination fees totaling \$1.0 million in 2008 and \$325,000 in 2007.

*Total expenses.* The increase in total expenses primarily reflects our acquisition of properties since December 2006. In addition, the increase in depreciation and amortization expense reflects building and tenant improvement costs incurred throughout our portfolio since December 2006.

*Interest expense.* The increase in interest expense in 2008 reflects an increase in average total debt outstanding which was used primarily to finance acquisitions in 2008 and 2007.

*Income from continuing operations.* The decrease in income from continuing operations is due primarily to the increase in depreciation and amortization expense and a decrease in occupancy, partially offset by acquisitions in 2008 and 2007.

*Net income and net income available for common shareholders.* The decrease in net income and net income available for common shareholders is due primarily to the increase in depreciation and amortization expense and a decrease in occupancy, partially offset by acquisitions in 2008 and 2007. Net income available for common shareholders is net income reduced by preferred distributions. The decrease in preferred distributions reflects the partial redemption of our 8 <sup>3</sup>/<sub>4</sub>% series B preferred shares in November 2007.

## **LIQUIDITY AND CAPITAL RESOURCES**

### ***Our Operating Liquidity and Resources***

Our principal sources of funds for current expenses and distributions to shareholders are rents from our properties. This flow of funds has historically been sufficient for us to pay our operating expenses, debt service and distributions. We believe that our operating cash flow will be sufficient to meet our operating expenses, debt service and distribution payments for the foreseeable future. Our future cash flows from operating activities will depend primarily upon the following factors:

- our ability to maintain or improve occupancies and effective rental rates at our properties;
- our ability to restrain operating cost increases at our properties; and
- our ability to purchase new properties which produce positive cash flows from operations.

We believe that present leasing market conditions in some areas where our properties are located may result in modest decreases in effective rents. Recent rises in fuel prices may cause our future operating costs to increase; however, the impact of these increases is expected to be partially offset by pass-through of operating cost increases to our tenants pursuant to lease terms. We generally do not purchase turnaround properties or properties which do not generate positive cash flows. Our future purchases of properties which generate positive cash flows can not be accurately projected because such purchases depend upon available opportunities which come to our attention.

Cash flows provided by (used for) operating, investing and financing activities were \$62.0 million, (\$127.2) million and \$77.3 million, respectively, for the three months ended March 31, 2008, and \$37.0 million, (\$84.7) million and \$53.0 million, respectively, for the three months ended March 31, 2007. Changes in all three categories between 2008 and 2007 are primarily related to property acquisitions in 2008 and 2007, and repayments and issuances of debt obligations.

### ***Our Investment and Financing Liquidity and Resources***

In order to fund acquisitions and to accommodate cash needs that may result from timing differences between our receipt of rents and our desire or need to make distributions or pay operating or capital expenses, we maintain an unsecured revolving credit facility with a group of institutional lenders. At March 31, 2008, there was \$308 million outstanding and \$442 million available under our revolving credit facility, and we had cash and cash equivalents of \$32.1 million. We expect to use cash balances, borrowings under our credit facility, proceeds from the sale of properties and net proceeds of offerings of equity or debt securities to fund future property acquisitions.





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Our outstanding debt maturities and weighted average interest rates as of March 31, 2008, were as follows (dollars in thousands):

| Year                | Scheduled Principal Payments During Period |                              |                           | Total (1)    | Weighted Average Interest Rate |
|---------------------|--|------------------------------|---------------------------|--------------|--------------------------------|
|                     | Secured Fixed Rate Debt                    | Unsecured Floating Rate Debt | Unsecured Fixed Rate Debt |              |                                |
| 2008                | \$ 8,175                                   | \$                           | \$                        | \$ 8,175     | 6.8%                           |
| 2009                | 7,455                                      |                              |                           | 7,455        | 6.8%                           |
| 2010                | 7,841                                      | 308,000                      | 50,000                    | 365,841      | 4.7%                           |
| 2011                | 229,400                                    | 200,000                      |                           | 429,400      | 6.1%                           |
| 2012                | 30,566                                     |                              | 200,000                   | 230,566      | 7.0%                           |
| 2013                | 7,243                                      |                              | 200,000                   | 207,243      | 6.5%                           |
| 2014                | 15,027                                     |                              | 250,000                   | 265,027      | 5.7%                           |
| 2015                | 3,200                                      |                              | 450,000                   | 453,200      | 6.0%                           |
| 2016                | 12,490                                     |                              | 400,000                   | 412,490      | 6.3%                           |
| 2017                | 3,002                                      |                              | 250,000                   | 253,002      | 6.3%                           |
| 2018 and thereafter | 39,378                                     |                              | 250,000                   | 289,378      | 6.7%                           |
|                     | \$ 363,777                                 | \$ 508,000                   | \$ 2,050,000              | \$ 2,921,777 | 6.1%                           |

(1) Total debt as of March 31, 2008, net of unamortized premiums and discounts, equals \$2,911,699.

When significant amounts are outstanding under our revolving credit facility or the maturity dates of our revolving credit facility and term debts approach, we explore alternatives for the repayment of amounts due. Such alternatives usually include incurring additional term debt and issuing new equity securities. We have an effective shelf registration statement that allows us to issue public securities on an expedited basis, but it does not assure that there will be buyers for such securities. Although there can be no assurance that we will consummate any debt or equity offerings or other financings, we believe we will have access to various types of financing, including debt or equity offerings, to finance future acquisitions and capital expenditures and to pay our debt and other obligations.

The completion and the costs of our future debt transactions will depend primarily upon market conditions and our credit ratings. We have no control over market conditions. Our credit ratings depend upon evaluations by credit rating agencies of our business practices and plans and, in particular, whether we appear to have the ability to maintain our earnings, to space our debt maturities and to balance our use of debt and equity capital so that our financial performance and leverage ratios afford us flexibility to withstand any reasonably anticipatable adverse changes. We intend to conduct our business activities in a manner which will continue to afford us reasonable access to capital for investment and financing activities.

During 2008, we purchased two office properties for \$123.7 million, plus closing costs and funded improvements to our owned properties totaling \$10.5 million. We funded our 2008 acquisitions and improvements to our owned properties with cash on hand and by borrowing under our revolving credit facility.

As of March 31, 2008, we had an outstanding agreement to purchase an additional office property containing approximately 374,000 square feet of space for \$53.1 million, plus closing costs. The acquisition of this property is subject to various closing conditions customary in real estate transactions and no assurances can be given as to when or if we will purchase this property.



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On May 5, 2008, we entered into a series of Purchase and Sale Agreements, or the Purchase Agreements with Senior Housing Properties Trust, or SNH, for the sale by us to SNH, or certain of its subsidiaries, of 48 medical office, clinic and biotech laboratory buildings for an aggregate purchase price of \$565 million. On March 31, 2008, our investment in these properties totaled approximately \$397.8 million at cost, and our depreciated book value totaled approximately \$347.9 million. We expect the closings of these sales to occur in phases over the next twelve months. The transactions are subject to various conditions and contingencies typical of large commercial real estate transactions, including among other matters, waiver of any rights of first refusal held by tenants, the consent of mortgagees to the sales of the buildings which are encumbered by mortgages and financing contingencies relating to certain properties which have an aggregate purchase price of approximately \$245 million. Accordingly, the purchase prices which we may receive may change, these sales may be accelerated or delayed or these sales may not occur.

During the three months ended March 31, 2008 and 2007, cash expenditures made and capitalized for tenant improvements, leasing costs, building improvements and development and redevelopment activities were as follows (amounts in thousands):

|   | Three Months Ended<br>March 31, |       |      |        |
|---|---------------------------------|-------|------|--------|
|   | 2008                            |       | 2007 |        |
| Tenant improvements                                 | \$                              | 5,178 | \$   | 12,629 |
| Leasing costs                                       |                                 | 3,859 |      | 4,253  |
| Building improvements (1)                           |                                 | 1,789 |      | 1,592  |
| Development, redevelopment and other activities (2) |                                 | 3,491 |      | 7,302  |

- 
- (1) Building improvements generally include recurring expenditures that we believe are necessary to maintain the value of our properties.  
(2) Development, redevelopment and other activities generally include non-recurring expenditures or expenditures that we believe increase the value of our existing properties.

Commitments made for expenditures in connection with leasing space during the three months ended March 31, 2008, are as follows (amounts in thousands, except as noted):

|   | New<br>Leases |       | Renewals |       | Total |       |
|---|---------------|-------|----------|-------|-------|-------|
| Square feet leased during the period                        |               | 273   |          | 553   |       | 826   |
| Total commitments for tenant improvements and leasing costs | \$            | 6,325 | \$       | 3,091 | \$    | 9,416 |
| Leasing costs per square foot (whole dollars)               | \$            | 23.17 | \$       | 5.59  | \$    | 11.40 |
| Average lease term (years)                                  |               | 6.0   |          | 5.4   |       | 5.6   |
| Leasing costs per square foot per year (whole dollars)      | \$            | 3.86  | \$       | 1.04  | \$    | 2.04  |

In January 2008, we prepaid at par, \$28.6 million of 8.50% mortgage debt due in 2028, using cash on hand and borrowings under our revolving credit facility.

We have no commercial paper, swaps, hedges, joint ventures or off balance sheet arrangements as of March 31, 2008.



***Debt Covenants***

Our principal debt obligations at March 31, 2008, were our unsecured revolving credit facility and our \$2.25 billion of publicly issued unsecured term debt. Our publicly issued debt is governed by an indenture. Our public debt indenture and related supplements and our revolving credit facility agreement contain a number of financial ratio covenants which generally restrict our ability to incur debts, including debts secured by mortgages on our properties, in excess of calculated amounts, require us to maintain a minimum net worth, restrict our ability to make distributions under certain circumstances and require us to maintain other financial ratios. At March 31, 2008, we believe we were in compliance with all of our covenants under our indenture and related supplements and our revolving credit facility agreement.

In addition to our unsecured debt obligations, we have \$363.8 million, excluding unamortized premiums and discounts, of mortgage notes outstanding at March 31, 2008.

None of our indenture and related supplements, our revolving credit facility or our mortgage notes contain provisions for acceleration or require us to provide collateral security which could be triggered by our debt ratings. However, our senior debt rating is used to determine the interest rate and the fees payable under our revolving credit facility.

Our public debt indenture and related supplements contain cross default provisions to any other debts of \$20 million or more. Similarly, a default on our public debt indenture would be a default under our revolving credit facility.

***Related Person Transactions***

On May 5, 2008, we entered into the Purchase Agreements with SNH for the sale by us to SNH, or certain of its subsidiaries, of 48 medical office, clinic and biotech laboratory buildings for an aggregate purchase price of \$565 million. We expect the closings of these sales to occur in phases over the next twelve months. SNH was formerly our 100% owned subsidiary. It was spun off to our shareholders in 1999 and, at the time of this spin off, we and SNH entered into a Transaction Agreement which, among other things, prohibited SNH from purchasing medical office, clinic and biotech laboratory buildings. Concurrently with the execution and delivery of the Purchase Agreements, we and SNH entered into an amendment to the Transaction Agreement, or the First Amendment Agreement, to permit SNH, rather than us, to invest in medical office, clinic and biomedical, pharmaceutical and laboratory buildings, whether of single purpose or mixed use. The First Amendment Agreement is subject, in the case of mixed use buildings, to our retaining the right to invest in any mixed use building for which the rentable square footage is less than 50% medical office, clinic and biomedical, pharmaceutical and laboratory use. Barry M. Portnoy and Adam D. Portnoy, our Managing Trustees, are the owners of RMR. RMR is also SNH's manager. In addition, another of our trustees, Frederick N. Zeytoonjian, is also a trustee of SNH. The sales prices for the properties to be sold were established by reference to an independent appraisal and the terms of the transactions were negotiated by special committees of each company's board of trustees comprised solely of independent trustees. The transactions are subject to various conditions and contingencies typical of large commercial real estate transactions, including among other matters, waiver of any rights of first refusal held by tenants, the consent of mortgagees to the sales of the buildings which are encumbered by mortgages and financing contingencies relating to certain properties which have an aggregate purchase price of approximately \$245 million. Accordingly, the purchase prices which we may receive may change, these sales may be accelerated or delayed or these sales may not occur.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to risks associated with market changes in interest rates. Our strategy to manage exposure to changes in interest rates is unchanged since December 31, 2007. Other than as described below, we do not foresee any significant changes in our exposure to fluctuations in interest rates or in how we manage this exposure in the near future.

Our unsecured revolving credit facility and \$200 million of our senior notes bear interest at floating rates and mature in August 2010 and March 2011, respectively. As of March 31, 2008, we had \$308 million outstanding and \$442 million available for drawing under our revolving credit facility. Repayments under our revolving credit facility may be made at any time without penalty. Repayments under our floating rate senior notes may be made on periodic interest payment dates. We borrow in U.S. dollars and borrowings under our revolving credit facility and our floating rate senior notes require interest at LIBOR plus premiums. Accordingly, we are vulnerable to changes in U.S. dollar based short term rates, specifically LIBOR. Our

exposure to fluctuations in floating interest rates will increase or decrease in the future with increases or decreases in the outstanding amount of our floating rate debt.

**Item 4. Controls and Procedures**

As of the end of the period covered by this report, our management carried out an evaluation, under the supervision and with the participation of our Managing Trustees, President and Chief Operating Officer and Treasurer and Chief Financial Officer of the effectiveness of our disclosure controls and procedures pursuant to the Securities Exchange Act of 1934, as amended, or the Exchange Act, Rules 13a-15 and 15d-15. Based upon that evaluation, our Managing Trustees, President and Chief Operating Officer and Treasurer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

There have been no changes in our internal control over financial reporting during the quarter ended March 31, 2008, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Part II. Other Information**

**Item 5. Other Information**

On May 5, 2008, we entered into the Purchase Agreements with SNH for the sale by us to SNH, or certain of its subsidiaries, of 48 medical office, clinic and biotech laboratory buildings for an aggregate purchase price of \$565 million. Under the individual Purchase Agreements, SNH and its subsidiaries have agreed to pay aggregate purchase prices of approximately \$554 million in cash and to assume three mortgages on two properties which total approximately \$11 million. The transactions under the individual Purchase Agreements are scheduled to close in phases over the next twelve months, and the timings of the closings may be accelerated in certain circumstances. The transactions are subject to various closing conditions and contingencies typical of large commercial real estate transactions, including among other matters, waiver of any rights of first refusal held by tenants, the consent of mortgagees to the sales of the buildings which are encumbered by mortgages and financing contingencies relating to certain properties which have an aggregate purchase price of approximately \$245 million. As a result, some or all of these properties may not be sold.

SNH was formerly our 100% owned subsidiary. It was spun off to our shareholders in 1999 and, at the time of this spin off, we and SNH entered into a Transaction Agreement which, among other things, prohibited SNH from purchasing medical office, clinic and biotech laboratory buildings. Concurrently with the execution and delivery of the Purchase Agreements, we and SNH entered into an amendment to the Transaction Agreement, or the First Amendment Agreement, to permit SNH, rather than us, to invest in medical office, clinic and biomedical, pharmaceutical and laboratory buildings, whether of single purpose or mixed use. The First Amendment Agreement is subject, in the case of mixed use buildings, to our retaining the right to invest in any mixed use building for which the rentable square footage is less than 50% medical office, clinic and biomedical, pharmaceutical and laboratory use.

Concurrently with the execution and delivery of the Purchase Agreements and the First Amendment Agreement, we and SNH also entered into a Right of First Refusal Agreement pursuant to which we granted to SNH a right of first refusal to purchase up to 45 additional identified properties (approximately 4.6 million square feet) that are currently leased by us principally to tenants in medical related businesses in the event that we determine to sell such properties or in the event of our change of control or of our subsidiary which owns such properties.

We and SNH are managed by RMR, which is beneficially owned by Messrs. Barry M. Portnoy and Adam D. Portnoy. In addition, Messrs. Barry M. Portnoy, Frederick N. Zeytoonjian and Adam D. Portnoy, three of our current trustees, also serve as trustees of SNH and SNH owns 1,000,000 of our common shares. The sale prices for the properties to be sold were established by reference to an independent appraisal and the terms of the transactions were negotiated by special committees of each company's board of trustees comprised solely of independent trustees.

The descriptions of the Purchase Agreements, the First Amendment Agreement and the Right of First Refusal Agreement are qualified in their entirety by reference to the Purchase Agreements, the First Amendment Agreement and the Right of First Refusal Agreement, which are filed as Exhibits 10.1 to 10.23, to this Quarterly Report on Form 10-Q and incorporated herein by reference.



**WARNING CONCERNING FORWARD LOOKING STATEMENTS**

**THIS QUARTERLY REPORT ON FORM 10-Q CONTAINS STATEMENTS WHICH CONSTITUTE FORWARD LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 AND OTHER FEDERAL SECURITIES LAWS. WHENEVER WE USE WORDS SUCH AS BELIEVE , EXPECT , ANTICIPATE , INTEND , PLAN , ESTIMATE OR SIMILAR EXPRESSIONS, WE ARE MAKING FORWARD LOOKING STATEMENTS. THESE FORWARD LOOKING STATEMENTS ARE BASED UPON OUR PRESENT INTENT, BELIEFS OR EXPECTATIONS, BUT FORWARD LOOKING STATEMENTS ARE NOT GUARANTEED TO OCCUR AND MAY NOT OCCUR. ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE CONTAINED IN OR IMPLIED BY OUR FORWARD LOOKING STATEMENTS AS A RESULT OF VARIOUS FACTORS.**

**IMPORTANT FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE IN OUR FORWARD LOOKING STATEMENTS INCLUDE, WITHOUT LIMITATION:**

- **CHANGES IN THE ECONOMY AND THE CAPITAL MARKETS,**
  
- **COMPETITION WITHIN THE REAL ESTATE INDUSTRY OR THOSE INDUSTRIES IN WHICH OUR TENANTS OPERATE,**
  
- **CHANGES IN FEDERAL, STATE AND LOCAL LEGISLATION, AND**
  
- **IF THE AVAILABILITY OF DEBT CAPITAL REMAINS RESTRICTED OR BECOMES MORE RESTRICTED, WE MAY BE UNABLE TO REFINANCE OR REPAY OUR DEBT OBLIGATIONS WHEN THEY BECOME DUE OR ON TERMS WHICH ARE AS FAVORABLE AS WE NOW HAVE.**

**FOR EXAMPLE:**

- **THIS QUARTERLY REPORT STATES THAT WE HAVE ENTERED AGREEMENTS TO SELL 48 MEDICAL OFFICE, CLINIC AND BIOTECH LABORATORY BUILDINGS FOR APPROXIMATELY \$565 MILLION, AND THAT THESE SALES ARE EXPECTED TO OCCUR IN PHASES OVER THE NEXT TWELVE MONTHS. THE TRANSACTIONS ARE SUBJECT TO VARIOUS CONDITIONS AND CONTINGENCIES TYPICAL OF LARGE COMMERCIAL REAL ESTATE TRANSACTIONS, INCLUDING, AMONG OTHER MATTERS, WAIVER OF ANY RIGHTS OF FIRST REFUSAL HELD BY TENANTS, THE CONSENT OF MORTGAGEES TO THE SALES OF THE BUILDINGS WHICH ARE ENCUMBERED BY MORTGAGES AND FINANCING CONTINGENCIES RELATING TO CERTAIN PROPERTIES WHICH HAVE AN AGGREGATE PURCHASE PRICE OF APPROXIMATELY \$245**

**MILLION. IF THESE CONDITIONS ARE NOT SATISFIED, SOME OR ALL OF THESE SALES MAY NOT BE COMPLETED, THE PURCHASE PRICES WE RECEIVE MAY DECLINE AND THESE SALES MAY BE ACCELERATED OR DELAYED,**

- **SOME OF OUR TENANTS MAY NOT RENEW EXPIRING LEASES, AND WE MAY BE UNABLE TO LOCATE NEW TENANTS TO MAINTAIN THE HISTORICAL OCCUPANCY RATES OF OUR PROPERTIES,**
  
- **RENTS THAT WE CAN CHARGE AT OUR PROPERTIES MAY DECLINE,**
  
- **OUR TENANTS MAY EXPERIENCE LOSSES AND BECOME UNABLE TO PAY OUR RENTS,**
  
- **CONTINGENCIES IN OUR COMMITTED ACQUISITIONS MAY CAUSE THESE TRANSACTIONS NOT TO OCCUR OR TO BE DELAYED,**
  
- **WE MAY BE UNABLE TO IDENTIFY PROPERTIES WHICH WE WANT TO BUY OR TO NEGOTIATE ACCEPTABLE PURCHASE PRICES,**
  
- **WE MAY BE UNABLE TO MAINTAIN OUR CURRENT RATE OF DISTRIBUTIONS AND FUTURE DISTRIBUTIONS MAY BE SUSPENDED OR PAID AT A LESSER RATE THAN THE DISTRIBUTIONS WE NOW PAY, AND**

**OTHER RISKS MAY ADVERSELY IMPACT US, AS DESCRIBED MORE FULLY IN OUR ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2007, UNDER ITEM 1A. RISK FACTORS .**

**YOU SHOULD NOT PLACE UNDUE RELIANCE UPON ANY FORWARD LOOKING STATEMENTS.**

**EXCEPT AS REQUIRED BY LAW, WE UNDERTAKE NO OBLIGATION TO UPDATE OR REVISE ANY FORWARD LOOKING STATEMENTS AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE.**

**STATEMENT CONCERNING LIMITED LIABILITY**

**THE AMENDED AND RESTATED DECLARATION OF TRUST ESTABLISHING HRPT PROPERTIES TRUST, DATED JULY 1, 1994, A COPY OF WHICH, TOGETHER WITH ALL AMENDMENTS AND SUPPLEMENTS THERETO, AS DULY FILED IN THE OFFICE OF THE STATE DEPARTMENT OF ASSESSMENTS AND TAXATION OF MARYLAND, PROVIDES THAT THE NAME HRPT PROPERTIES TRUST REFERS TO THE TRUSTEES UNDER THE DECLARATION OF TRUST, AS SO AMENDED AND SUPPLEMENTED, COLLECTIVELY AS TRUSTEES, BUT NOT INDIVIDUALLY OR PERSONALLY, AND THAT NO TRUSTEE, OFFICER, SHAREHOLDER, EMPLOYEE OR AGENT OF HRPT PROPERTIES TRUST SHALL BE HELD TO ANY PERSONAL LIABILITY, JOINTLY OR SEVERALLY, FOR ANY OBLIGATION OF, OR CLAIM AGAINST, HRPT PROPERTIES TRUST. ALL PERSONS DEALING WITH HRPT PROPERTIES TRUST IN ANY WAY SHALL LOOK ONLY TO THE ASSETS OF HRPT PROPERTIES TRUST FOR THE PAYMENT OF ANY SUM OR THE PERFORMANCE OF ANY OBLIGATION.**

**Item 6. Exhibits**

3.1 Composite copy of the Amended and Restated Bylaws of the Company, as amended to date. (incorporated by reference to the Company's Current Report on Form 8-K, dated March 31, 2008)

10.1 Purchase and Sale Agreement, dated as of May 5, 2008, among HRPT Properties Trust, HUB Properties Trust and MOB Realty Trust, as Sellers, and Senior Housing Properties Trust, as Purchaser (with respect to 21 properties located in Massachusetts, Pennsylvania, and New York). *(filed herewith)*

10.2 Purchase and Sale Agreement, dated as of May 5, 2008, between HUB Properties Trust, as Seller, and Senior Housing Properties Trust, as Purchaser (with respect to Torrey Pines, 3030-50, Science Park Road, San Diego, California). *(filed herewith)*

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10.3 Purchase and Sale Agreement, dated as of May 5, 2008, between HUB Properties Trust, as Seller, and Senior Housing Properties Trust, as Purchaser (with respect to Amelia Building, 855 Kempsville Road, Norfolk, Virginia). *(filed herewith)*

10.4 Purchase and Sale Agreement, dated as of May 5, 2008, between HUB Properties Trust, as Seller, and Senior Housing Properties Trust, as Purchaser (with respect to Halifax Building, 6161 Kempsville Circle, Norfolk, Virginia). *(filed herewith)*

10.5 Purchase and Sale Agreement, dated as of May 5, 2008, between HUB Properties Trust, as Seller, and Senior Housing Properties Trust, as Purchaser (with respect to Fair Oaks, 4001 Fair Ridge Drive, Fairfax, Virginia). *(filed herewith)*

10.6 Purchase and Sale Agreement, dated as of May 5, 2008, between HUB Properties Trust, as Seller, and Senior Housing Properties Trust, as Purchaser (with respect to 2141 K Street, NW, Washington, DC). *(filed herewith)*

10.7 Purchase and Sale Agreement, dated as of May 5, 2008, between HUB Properties Trust, as Seller, and Senior Housing Properties Trust, as Purchaser (with respect to 6818 Austin Center Blvd., Austin, Texas). *(filed herewith)*

10.8 Purchase and Sale Agreement, dated as of May 5, 2008, between HUB Properties Trust, as Seller, and Senior Housing Properties Trust, as Purchaser (with respect to 1145 19<sup>th</sup> Street, NW, Washington, DC). *(filed herewith)*

10.9 Purchase and Sale Agreement, dated as of May 5, 2008, between HUB Properties Trust, as Seller, and Senior Housing Properties Trust, as Purchaser (with respect to Oklahoma Clinics, 8315 So. Walker Ave., 701 NE 10<sup>th</sup> Street, 200 N. Bryant, 600 National Ave., Oklahoma City, Oklahoma). *(filed herewith)*

10.10 Purchase and Sale Agreement, dated as of May 5, 2008, between HRPT Properties Trust, as Seller, and Senior Housing Properties Trust, as Purchaser (with respect to HIP of White Plains, 15 North Broadway, White Plains, New York). *(filed herewith)*

10.11 Purchase and Sale Agreement, dated as of May 5, 2008, between HUB Properties Trust, as Seller, and Senior Housing Properties Trust, as Purchaser (with respect to 4770 Regent Boulevard, Irving, Texas). *(filed herewith)*

10.12 Purchase and Sale Agreement, dated as of May 5, 2008, between HUB RI Properties Trust, as Seller, and Senior Housing Properties Trust, as Purchaser (with respect to 701 George Washington Highway, Lincoln, Rhode Island). *(filed herewith)*

10.13 Purchase and Sale Agreement, dated as of May 5, 2008, between 4 Maguire Road Realty Trust, as Seller, and Senior Housing Properties Trust, as Purchaser (with respect to 4 Maguire Road, Lexington, Massachusetts). *(filed herewith)*

10.14 Purchase and Sale Agreement, dated as of May 5, 2008, between HUB Properties Trust, as Seller, and Senior Housing Properties Trust, as Purchaser (with respect to 4000 Old Court Road, Pikesville, Maryland). *(filed herewith)*

10.15 Purchase and Sale Agreement, dated as of May 5, 2008, between HUB Properties Trust, as Seller, and Senior Housing Properties Trust, as Purchaser (with respect to 1825, 1911 and 1925 N. Mills Avenue, Orlando, Florida). *(filed herewith)*

10.16 Purchase and Sale Agreement, dated as of May 5, 2008, between HUB Properties Trust, as Seller, and Senior Housing Properties Trust, as Purchaser (with respect to Bailey Square, 1111 W. 34th Street, Austin, Texas). *(filed herewith)*

10.17 Purchase and Sale Agreement, dated as of May 5, 2008, between HUB Properties Trust, as Seller, and Senior Housing Properties Trust, as Purchaser (with respect to Brittonfield II and III, Lot 5E-2 and Lot 5E-1, 5008 Brittonfield Parkway, East Syracuse, New York). *(filed herewith)*

10.18 Purchase and Sale Agreement, dated as of May 5, 2008, between HUB Properties Trust, as Seller, and Senior Housing Properties Trust, as Purchaser (with respect to Centre Commons, 5750 Centre Ave., Pittsburgh, Pennsylvania). *(filed herewith)*

10.19 Purchase and Sale Agreement, dated as of May 5, 2008, between HUB Properties Trust, as Seller, and Senior Housing Properties Trust, as Purchaser (with respect to 710 North Euclid, Anaheim, California). *(filed herewith)*

10.20 Purchase and Sale Agreement, dated as of May 5, 2008, between HUB Properties Trust, as Seller, and Senior Housing Properties Trust, as Purchaser (with respect to 525 Virginia Drive, Fort Washington, Pennsylvania). *(filed herewith)*

10.21 Purchase and Sale Agreement, dated as of May 5, 2008, between HUB Northeast Medical Arts Center

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LLC, as Seller, and Senior Housing Properties Trust, as Purchaser (with respect to Northeast Medical Arts Center, 2801 North Decatur Road, Decatur, Georgia). *(filed herewith)*

10.22 Right of First Refusal Agreement dated as of May 5, 2008 between HRPT Properties Trust, Blue Dog Properties Trust, Cedars LA LLC, HRP NOM L.P., HRP NOM 2 L.P., HRPT Medical Buildings Realty Trust, HUB Properties Trust, Lakewood Property Trust, LTMAC Properties LLC, HUB Mid-West LLC, and Rosedale Properties Limited Liability Company, as Grantors, and Senior Housing Properties Trust. *(filed herewith)*

10.23 First Amendment To Transaction Agreement, dated as of May 5, 2008, between Senior Housing Properties Trust and HRPT Properties Trust. *(filed herewith)*

12.1 Computation of Ratio of Earnings to Fixed Charges. *(filed herewith)*

12.2 Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Distributions. *(filed herewith)*

31.1 Rule 13a-14(a) Certification. *(filed herewith)*

31.2 Rule 13a-14(a) Certification. *(filed herewith)*

31.3 Rule 13a-14(a) Certification. *(filed herewith)*

31.4 Rule 13a-14(a) Certification. *(filed herewith)*

32.1 Section 1350 Certification. *(furnished herewith)*

SIGNATURES

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

HRPT PROPERTIES TRUST

By: /s/ John A. Mannix  
John A. Mannix  
President and Chief Operating Officer  
Dated: May 9, 2008

By: /s/ John C. Popeo  
John C. Popeo  
Treasurer and Chief Financial Officer  
(principal financial and accounting officer)  
Dated: May 9, 2008