

HRPT PROPERTIES TRUST
Form 10-Q
November 07, 2007

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 September 30, 2007

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 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

Number of registrant's common shares of beneficial interest, \$0.01 par value per share, outstanding as of November 7, 2007: 225,430,637

HRPT PROPERTIES TRUST

FORM 10-Q

SEPTEMBER 30, 2007

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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)

| | September 30, 2007 (unaudited) | December 31, 2006 |
|---|--------------------------------------|----------------------|
| <u>ASSETS</u> | | |
| Real estate properties: | | |
| Land | \$ 1,175,940 | \$ 1,143,109 |
| Buildings and improvements | 4,873,816 | 4,619,164 |
| | 6,049,756 | 5,762,273 |
| Accumulated depreciation | (770,839) | (668,460) |
| | 5,278,917 | 5,093,813 |
| Acquired real estate leases | 156,743 | 167,879 |
| Cash and cash equivalents | 25,639 | 17,783 |
| Restricted cash | 17,410 | 21,635 |
| Rents receivable, net of allowance for doubtful accounts of \$5,810 and \$4,737, respectively | 191,591 | 172,566 |
| Other assets, net | 130,212 | 102,273 |
| Total assets | \$ 5,800,512 | \$ 5,575,949 |
| <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u> | | |
| Revolving credit facility | \$ 38,000 | \$ 40,000 |
| Senior unsecured debt, net | 2,239,424 | 1,941,173 |
| Mortgage notes payable, net | 397,435 | 416,058 |
| Accounts payable and accrued expenses | 88,122 | 93,734 |
| Dividends payable | | 44,111 |
| Acquired real estate lease obligations | 39,612 | 41,833 |
| Rent collected in advance | 20,124 | 19,592 |
| Security deposits | 16,031 | 15,972 |
| Due to affiliates | 23,228 | 12,708 |
| Total liabilities | 2,861,976 | 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 |

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| | | |
|---|--------------|--------------|
| Common shares of beneficial interest, \$0.01 par value: 300,000,000 shares authorized; 212,457,190 and 210,051,590 shares issued and outstanding, respectively | 2,125 | 2,101 |
| Additional paid in capital | 2,802,869 | 2,774,461 |
| Cumulative net income | 1,800,130 | 1,703,354 |
| Cumulative common distributions | (2,204,198) | (2,115,299) |
| Cumulative preferred distributions | (265,524) | (216,983) |
| Total shareholders' equity | 2,938,536 | 2,950,768 |
| Total liabilities and shareholders' equity | \$ 5,800,512 | \$ 5,575,949 |

See accompanying notes

CONSOLIDATED STATEMENT OF INCOME

(amounts in thousands, except per share data)

(unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|------------|
| | 2007 | 2006 | 2007 | 2006 |
| Rental income | \$ 211,217 | \$ 202,542 | \$ 626,262 | \$ 590,058 |
| Expenses: | | | | |
| Operating expenses | 82,768 | 80,219 | 243,935 | 227,981 |
| Depreciation and amortization | 46,116 | 41,064 | 135,413 | 119,109 |
| General and administrative | 8,947 | 8,513 | 26,650 | 24,926 |
| Total expenses | 137,831 | 129,796 | 405,998 | 372,016 |
| Operating income | 73,386 | 72,746 | 220,264 | 218,042 |
| Interest income | 415 | 573 | 1,442 | 2,118 |
| Interest expense (including amortization of debt discounts, premiums and deferred financing fees of \$1,085, \$1,105, \$3,207 and \$3,348, respectively) | (44,055) | (43,169) | (126,627) | (126,317) |
| 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 |
| Income from continuing operations | 29,746 | 30,150 | 94,368 | 211,607 |
| Income (loss) from discontinued operations | | 32 | | (76) |
| Gain on sale of properties | 2,408 | 1,172 | 2,408 | 1,172 |
| Net income | 32,154 | 31,354 | 96,776 | 212,703 |
| Preferred distributions | (15,402) | (9,234) | (46,204) | (29,976) |
| Excess redemption price paid over carrying value of preferred shares | | | | (6,914) |
| Net income available for common shareholders | \$ 16,752 | \$ 22,120 | \$ 50,572 | \$ 175,813 |
| Weighted average common shares outstanding basic | 212,078 | 209,992 | 211,475 | 209,941 |
| Weighted average common shares outstanding diluted | 241,271 | 209,992 | 240,668 | 209,941 |
| Earnings per common share: | | | | |
| Income from continuing operations available for common shareholders basic and diluted | \$ 0.07 | \$ 0.10 | \$ 0.23 | \$ 0.83 |
| Income (loss) from discontinued operations basic and diluted | \$ 0.01 | \$ 0.01 | \$ 0.01 | \$ 0.01 |
| Net income available for common shareholders basic and diluted | \$ 0.08 | \$ 0.11 | \$ 0.24 | \$ 0.84 |

See accompanying notes

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CONSOLIDATED STATEMENT OF CASH FLOWS

(amounts in thousands)

(unaudited)

| | Nine Months Ended September 30, | |
|--|--|-------------|
| | 2007 | 2006 |
| Cash flows from operating activities: | | |
| Net income | \$ 96,776 | \$ 212,703 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation | 108,877 | 96,452 |
| Amortization of debt discounts, premiums and deferred financing fees | 3,207 | 3,348 |
| Amortization of acquired real estate leases | 23,574 | 22,495 |
| Other amortization | 10,612 | 8,191 |
| 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) |
| Gain on sale of properties | (2,408) | (1,172) |
| Distributions of earnings from equity investments | | 3,136 |
| Change in assets and liabilities: | | |
| Decrease (increase) in restricted cash | 4,225 | (4,427) |
| Increase in rents receivable and other assets | (51,591) | (45,741) |
| Decrease in accounts payable and accrued expenses | (7,028) | (4,329) |
| Increase in rent collected in advance | 532 | 2,353 |
| Increase in security deposits | 59 | 1,475 |
| Increase in due to affiliates | 10,520 | 8,767 |
| Cash provided by operating activities | 198,066 | 185,487 |
| Cash flows from investing activities: | | |
| Real estate acquisitions and improvements | (309,196) | (364,978) |
| Distributions in excess of earnings from equity investments | | 2,251 |
| Proceeds from sale of properties | 3,748 | 6,231 |
| Proceeds from sale of equity investments | | 308,333 |
| Cash used for investing activities | (305,448) | (48,163) |
| 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 | 28,151 | |
| Proceeds from borrowings | 1,065,340 | 1,044,000 |
| Payments on borrowings | (792,986) | (945,950) |
| Deferred financing fees | (3,716) | (3,027) |
| Distributions to common shareholders | (133,010) | (132,263) |
| Distributions to preferred shareholders | (48,541) | (31,086) |
| Cash provided by (used for) financing activities | 115,238 | (123,311) |
| Increase in cash and cash equivalents | 7,856 | 14,013 |
| Cash and cash equivalents at beginning of period | 17,783 | 19,445 |
| Cash and cash equivalents at end of period | \$ 25,639 | \$ 33,458 |

See accompanying notes

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| | Nine Months Ended September 30, | |
|--|---------------------------------|-------------|
| | 2007 | 2006 |
| Supplemental cash flow information: | | |
| Interest paid (including capitalized interest paid of \$489 in 2007) | \$ 128,492 | \$ 131,809 |
| Non-cash investing activities: | | |
| Real estate acquisitions | \$ (4,545) | \$ (20,585) |
| Non-cash financing activities: | | |
| Issuance of common shares | \$ 280 | \$ 2,026 |
| Assumption of mortgage notes payable | 4,545 | 20,585 |

See accompanying notes

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 nine months ended September 30, 2007, we acquired 11 office properties, including one hotel which is adjacent to owned office properties that are scheduled for redevelopment, for \$108,164, excluding closing costs, 14 industrial properties for \$125,475, excluding closing costs, and we funded \$74,777 of improvements to our owned properties using cash on hand, borrowings under our revolving credit facility and the assumption of \$4,545 of mortgage debt. During the nine months ended September 30, 2007, we sold three land parcels for \$3,925 and recognized gains of \$2,408.

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. These notes bear interest at 6.25%, require semi-annual interest payments and mature in June 2017. In September 2007, we issued \$250,000 of unsecured senior notes in a public offering, raising net proceeds of approximately \$245,800. These notes bear interest at 6.65%, require semi-annual interest payments and mature in January 2018. Net proceeds from these offerings were used to reduce amounts outstanding under our revolving credit facility. In September 2007, we prepaid at par, \$15,853 of 7.02% mortgage debt due in 2008, 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 5.9% and 5.6% per annum, for the nine months ended September 30, 2007 and 2006, respectively. As of September 30, 2007, we had \$38,000 outstanding and \$712,000 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 nine months ended September 30, 2007, we sold 2,338 of our common shares for net proceeds of \$28,151 pursuant to a sales agreement with a securities broker dealer, which allows us to sell our common shares from time to time in a controlled equity offering program.

Note 5. Earnings per Common Share

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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 | | | | | |
|-----------------------------------|----------------------------------|---------|-----------|---------------------------------|---------|-----------|
| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
| | Income | Shares | Per Share | Income | Shares | Per Share |
| Income from continuing operations | \$ 29,746 | | | \$ 94,368 | | |
| Gain on sale of properties | 2,408 | | | 2,408 | | |
| Preferred distributions | (15,402) | | | (46,204) | | |
| Amounts used to calculate basic | | | | | | |
| EPS | \$ 16,752 | 212,078 | \$ 0.08 | \$ 50,572 | 211,475 | \$ 0.24 |

| | 2006 | | | | | |
|--|----------------------------------|---------|-----------|---------------------------------|---------|-----------|
| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
| | Income | Shares | Per Share | Income | Shares | Per Share |
| Income from continuing operations | \$ 30,150 | | | \$ 211,607 | | |
| Income (loss) from discontinued operations | 32 | | | (76) | | |
| Gain on sale of properties | 1,172 | | | 1,172 | | |
| Preferred distributions | (9,234) | | | (29,976) | | |
| Excess redemption price paid over carrying value of preferred shares | | | | (6,914) | | |
| Amounts used to calculate basic | | | | | | |
| EPS | \$ 22,120 | 209,992 | \$ 0.11 | \$ 175,813 | 209,941 | \$ 0.84 |

Note 6. Segment Information

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As of September 30, 2007, we owned 367 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 nine months ended September 30, 2007 and 2006, is as follows:

| | As of September 30, 2007 | | | As of September 30, 2006 | | |
|-----------------------------------|--------------------------|-----------------------|--------|--------------------------|-----------------------|--------|
| | Office Properties | Industrial Properties | Totals | Office Properties | Industrial Properties | Totals |
| Property square feet: | | | | | | |
| Metro Philadelphia, PA | 5,445 | | 5,445 | 5,453 | | 5,453 |
| Oahu, HI | | 17,914 | 17,914 | | 17,929 | 17,929 |
| Metro Washington, DC | 2,658 | | 2,658 | 2,645 | | 2,645 |
| Metro Boston, MA | 3,100 | | 3,100 | 2,740 | | 2,740 |
| Southern California | 1,444 | | 1,444 | 1,444 | | 1,444 |
| Metro Austin, TX | 1,491 | 1,236 | 2,727 | 1,492 | 1,316 | 2,808 |
| Other Markets | 21,230 | 9,410 | 30,640 | 20,326 | 4,725 | 25,051 |
| Totals | 35,368 | 28,560 | 63,928 | 34,100 | 23,970 | 58,070 |
| Central business district, or CBD | | | | | | |
| Suburban | 11,325 | 158 | 11,483 | 11,335 | 158 | 11,493 |
| Total | 24,043 | 28,402 | 52,445 | 22,765 | 23,812 | 46,577 |
| Total | 35,368 | 28,560 | 63,928 | 34,100 | 23,970 | 58,070 |

| | Three Months Ended September 30, 2007 | | | Three Months Ended September 30, 2006 | | |
|-------------------------|---------------------------------------|-----------------------|------------|---------------------------------------|-----------------------|------------|
| | Office Properties | Industrial Properties | Totals | Office Properties | Industrial Properties | Totals |
| Property rental income: | | | | | | |
| Metro Philadelphia, PA | \$ 31,455 | \$ | \$ 31,455 | \$ 31,784 | \$ | \$ 31,784 |
| Oahu, HI | | 16,786 | 16,786 | | 16,369 | 16,369 |
| Metro Washington, DC | 19,982 | | 19,982 | 19,972 | | 19,972 |
| Metro Boston, MA | 16,279 | | 16,279 | 15,517 | | 15,517 |
| Southern California | 12,709 | | 12,709 | 12,323 | | 12,323 |
| Metro Austin, TX | 7,527 | 3,545 | 11,072 | 7,298 | 3,454 | 10,752 |
| Other Markets | 88,428 | 14,506 | 102,934 | 86,354 | 9,471 | 95,825 |
| Totals | \$ 176,380 | \$ 34,837 | \$ 211,217 | \$ 173,248 | \$ 29,294 | \$ 202,542 |
| CBD | | | | | | |
| Suburban | \$ 71,520 | \$ 313 | \$ 71,833 | \$ 72,382 | \$ 292 | \$ 72,674 |
| Total | 104,860 | 34,524 | 139,384 | 100,866 | 29,002 | 129,868 |
| Total | \$ 176,380 | \$ 34,837 | \$ 211,217 | \$ 173,248 | \$ 29,294 | \$ 202,542 |

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| | Three Months Ended September 30, 2007 | | | Three Months Ended September 30, 2006 | | |
|--------------------------------|--|--------------------------|-------------------|--|--------------------------|-------------------|
| | Office Properties | Industrial Properties | Totals | Office Properties | Industrial Properties | Totals |
| Property net operating income: | | | | | | |
| Metro Philadelphia, PA | \$ 16,414 | \$ | \$ 16,414 | \$ 17,025 | \$ | \$ 17,025 |
| Oahu, HI | | 12,937 | 12,937 | | 13,274 | 13,274 |
| Metro Washington, DC | 12,237 | | 12,237 | 12,333 | | 12,333 |
| Metro Boston, MA | 10,673 | | 10,673 | 9,917 | | 9,917 |
| Southern California | 8,876 | | 8,876 | 8,522 | | 8,522 |
| Metro Austin, TX | 3,661 | 2,123 | 5,784 | 3,334 | 1,863 | 5,197 |
| Other Markets | 50,677 | 10,851 | 61,528 | 49,774 | 6,281 | 56,055 |
| Totals | \$ 102,538 | \$ 25,911 | \$ 128,449 | \$ 100,905 | \$ 21,418 | \$ 122,323 |
| | | | | | | |
| CBD | \$ 39,307 | \$ 213 | \$ 39,520 | \$ 40,136 | \$ 214 | \$ 40,350 |
| Suburban | 63,231 | 25,698 | 88,929 | 60,769 | 21,204 | 81,973 |
| Total | \$ 102,538 | \$ 25,911 | \$ 128,449 | \$ 100,905 | \$ 21,418 | \$ 122,323 |

| | Nine Months Ended September 30, 2007 | | | Nine Months Ended September 30, 2006 | | |
|-------------------------|---|--------------------------|-------------------|---|--------------------------|-------------------|
| | Office Properties | Industrial Properties | Totals | Office Properties | Industrial Properties | Totals |
| Property rental income: | | | | | | |
| Metro Philadelphia, PA | \$ 93,967 | \$ | \$ 93,967 | \$ 95,277 | \$ | \$ 95,277 |
| Oahu, HI | | 48,281 | 48,281 | | 45,580 | 45,580 |
| Metro Washington, DC | 59,309 | | 59,309 | 59,182 | | 59,182 |
| Metro Boston, MA | 47,768 | | 47,768 | 45,545 | | 45,545 |
| Southern California | 37,707 | | 37,707 | 36,128 | | 36,128 |
| Metro Austin, TX | 22,931 | 9,915 | 32,846 | 21,157 | 10,548 | 31,705 |
| Other Markets | 265,157 | 41,227 | 306,384 | 249,245 | 27,396 | 276,641 |
| Totals | \$ 526,839 | \$ 99,423 | \$ 626,262 | \$ 506,534 | \$ 83,524 | \$ 590,058 |
| | | | | | | |
| CBD | \$ 212,901 | \$ 896 | \$ 213,797 | \$ 214,960 | \$ 850 | \$ 215,810 |
| Suburban | 313,938 | 98,527 | 412,465 | 291,574 | 82,674 | 374,248 |
| Total | \$ 526,839 | \$ 99,423 | \$ 626,262 | \$ 506,534 | \$ 83,524 | \$ 590,058 |

| | | | | | | |
|--------------------------------|-------------------|------------------|-------------------|-------------------|------------------|-------------------|
| Property net operating income: | | | | | | |
| Metro Philadelphia, PA | \$ 48,700 | \$ | \$ 48,700 | \$ 51,096 | \$ | \$ 51,096 |
| Oahu, HI | | 38,060 | 38,060 | | 37,033 | 37,033 |
| Metro Washington, DC | 36,974 | | 36,974 | 37,068 | | 37,068 |
| Metro Boston, MA | 31,312 | | 31,312 | 29,920 | | 29,920 |
| Southern California | 27,151 | | 27,151 | 25,084 | | 25,084 |
| Metro Austin, TX | 11,283 | 5,440 | 16,723 | 10,028 | 5,779 | 15,807 |
| Other Markets | 153,317 | 30,090 | 183,407 | 147,853 | 18,216 | 166,069 |
| Totals | \$ 308,737 | \$ 73,590 | \$ 382,327 | \$ 301,049 | \$ 61,028 | \$ 362,077 |
| | | | | | | |
| CBD | \$ 117,906 | \$ 642 | \$ 118,548 | \$ 120,211 | \$ 644 | \$ 120,855 |
| Suburban | 190,831 | 72,948 | 263,779 | 180,838 | 60,384 | 241,222 |
| Total | \$ 308,737 | \$ 73,590 | \$ 382,327 | \$ 301,049 | \$ 61,028 | \$ 362,077 |

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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 nine months ended September 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 nine months ended September 30, 2007 and 2006, is as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|------------|
| | 2007 | 2006 | 2007 | 2006 |
| Rental income | \$ 211,217 | \$ 202,542 | \$ 626,262 | \$ 590,058 |
| Operating expenses | (82,768) | (80,219) | (243,935) | (227,981) |
| Property net operating income (NOI) | \$ 128,449 | \$ 122,323 | \$ 382,327 | \$ 362,077 |
| Property net operating income | \$ 128,449 | \$ 122,323 | \$ 382,327 | \$ 362,077 |
| Depreciation and amortization | (46,116) | (41,064) | (135,413) | (119,109) |
| General and administrative | (8,947) | (8,513) | (26,650) | (24,926) |
| Operating income | 73,386 | 72,746 | 220,264 | 218,042 |
| Interest income | 415 | 573 | 1,442 | 2,118 |
| Interest expense | (44,055) | (43,169) | (126,627) | (126,317) |
| 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 |
| Income from continuing operations | 29,746 | 30,150 | 94,368 | 211,607 |
| Income (loss) from discontinued operations | | 32 | | (76) |
| Gain on sale of properties | 2,408 | 1,172 | 2,408 | 1,172 |
| Net income | 32,154 | 31,354 | 96,776 | 212,703 |
| Preferred distributions | (15,402) | (9,234) | (46,204) | (29,976) |
| Excess redemption price paid over carrying value of preferred shares | | | | (6,914) |
| Net income available for common shareholders | \$ 16,752 | \$ 22,120 | \$ 50,572 | \$ 175,813 |

Note 7. Subsequent Events

In October 2007, we declared a distribution of \$0.21 per common share, or approximately \$44,700, to be paid on or about November 21, 2007, to shareholders of record on October 23, 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 November 15, 2007, to our preferred shareholders of record as of November 1, 2007.

In October 2007, we issued 12,797 common shares in a public offering, raising net proceeds of approximately \$123,000. We subsequently announced the partial redemption of 5,000 of our 12,000 outstanding 8 ³/₄% series B cumulative redeemable preferred shares at the stated liquidation preference price of \$25.00 per share plus accrued and unpaid dividends. This redemption is expected to occur on or about November 26, 2007. Also in October 2007, we sold an additional 177 of our common shares for net proceeds of \$1,736 pursuant to a sales agreement with a securities broker dealer, which allows us to sell our common shares from time to time in a controlled equity offering program. Net proceeds were used to reduce amounts outstanding on our revolving credit facility and for general business purposes, including property acquisitions.

In October 2007, we purchased six properties for \$73,750, excluding closing costs, using cash on hand and borrowings under our revolving credit facility. As of November 7, 2007, we have an executed purchase agreement for two additional properties with an aggregate of approximately 262 square feet of space for a total purchase price of \$23,150, 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 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 September 30, 2007, 92.8% of our total square feet was leased, compared to 93.4% leased as of September 30, 2006. These results primarily reflect the 1.1 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 Nine Months | | As of the Nine Months | |
| | Ended September 30, | | Ended September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Total properties | 530 | 487 | 437 | 437 |
| Total square feet | 63,928 | 58,070 | 54,832 | 54,832 |
| Percent leased (3) | 92.8% | 93.4% | 92.4% | 93.5% |

(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 September 30, 2007, we signed new leases for 248,000 square feet and lease renewals for 1,235,000 square feet, at weighted average rental rates that were 9% above rents previously charged for the same space. Average lease terms for leases signed during this period were 7.7 years. Commitments for tenant improvement and leasing costs for leases signed during this period totaled \$17.6 million, or \$11.88 per square foot (approximately \$1.54/sq. ft. per year of the lease term).

During the past twelve months, the leasing market conditions in some of our markets have stabilized. The quoted rental rates in some 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 also 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 modest improvements in rent rates and reduced tenant inducement costs have been 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 10.5% of our leased square feet and 12.0% of our rents are included in leases scheduled to expire through December 31, 2008. 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 September 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 | 1,662 | 2.8% | \$ 25,201 | 2.9% | 2.9% |
| 2008 | 4,550 | 7.7% | 78,009 | 9.1% | 12.0% |
| 2009 | 3,728 | 6.3% | 66,747 | 7.8% | 19.8% |
| 2010 | 6,381 | 10.8% | 99,767 | 11.6% | 31.4% |
| 2011 | 5,411 | 9.1% | 95,947 | 11.2% | 42.6% |
| 2012 | 5,158 | 8.7% | 101,639 | 11.8% | 54.4% |
| 2013 | 3,074 | 5.2% | 52,329 | 6.1% | 60.5% |
| 2014 | 2,881 | 4.9% | 48,844 | 5.7% | 66.2% |
| 2015 | 3,355 | 5.6% | 59,633 | 6.9% | 73.1% |
| 2016 | 2,494 | 4.2% | 42,512 | 5.0% | 78.1% |
| 2017 and thereafter | 20,616 | 34.7% | 188,005 | 21.9% | 100.0% |
| | 59,310 | 100.0% | \$ 858,633 | 100.0% | |
| Weighted average remaining lease term (in years): | 8.9 | | 6.5 | | |

(1) Square feet is pursuant to signed leases as of September 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 September 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 September 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 | 8.1% | 12.6% | 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 | 12.6% | 20.0% | |

-
- (1) Square feet is pursuant to signed leases as of September 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 September 30, 2007, plus estimated expense reimbursements; includes some triple net lease rents and excludes lease value amortization.

Investment Activities

During the nine months ended September 30, 2007, we acquired 11 office properties, including one hotel which is adjacent to owned office properties that are scheduled for redevelopment, with 806,000 square feet for \$108.2 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. These notes bear interest at 6.25%, require semi-annual interest payments and mature in June 2017. In September 2007, we issued \$250 million of unsecured senior notes in a public offering, raising net proceeds of approximately \$245.8 million. These notes bear interest at 6.65%, require semi-annual interest payments and mature in January 2018. Net proceeds from these offerings were used to reduce amounts outstanding under our revolving credit facility. In September 2007, we prepaid at par, \$15.9 million of 7.02% mortgage debt due in 2008, using cash on hand and borrowings under our revolving credit facility.

During the nine months ended September 30, 2007, we sold 2.3 million of our common shares for net proceeds of \$28.2 million pursuant to a sales agreement with a securities broker dealer, which allows us to sell our common shares from time to time in a controlled equity offering program.

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

| | 2007 | 2006 | Three Months Ended September 30, \$ Change (in thousands, except per share data) | % Change |
|---|------------|------------|---|-------------|
| Rental income | \$ 211,217 | \$ 202,542 | \$ 8,675 | 4.3% |
| Expenses: | | | | |
| Operating expenses | 82,768 | 80,219 | 2,549 | 3.2% |
| Depreciation and amortization | 46,116 | 41,064 | 5,052 | 12.3% |
| General and administrative | 8,947 | 8,513 | 434 | 5.1% |
| Total expenses | 137,831 | 129,796 | 8,035 | 6.2% |
| Operating income | 73,386 | 72,746 | 640 | 0.9% |
| Interest income | 415 | 573 | (158) | (27.6%) |
| Interest expense | (44,055) | (43,169) | (886) | (2.1%) |
| Income from continuing operations | 29,746 | 30,150 | (404) | (1.3%) |
| Income from discontinued operations | | 32 | (32) | (100.0%) |
| Gain on sale of properties | 2,408 | 1,172 | 1,236 | 105.5% |
| Net income | 32,154 | 31,354 | 800 | 2.6% |
| Preferred distributions | (15,402) | (9,234) | (6,168) | (66.8%) |
| Net income available for common shareholders | \$ 16,752 | \$ 22,120 | \$ (5,368) | (24.3%) |
| Weighted average common shares outstanding basic | 212,078 | 209,992 | 2,086 | 1.0% |
| Weighted average common shares outstanding diluted | 241,271 | 209,992 | 31,279 | 14.9% |
| Earnings per common share: | | | | |
| Income from continuing operations available for common shareholders basic and diluted | \$ 0.07 | \$ 0.10 | \$ (0.03) | (30.0%) |
| Income from discontinued operations basic and diluted | \$ 0.01 | \$ 0.01 | \$ | |
| 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 September 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 \$7.1 million, or 7.4%, primarily because of the acquisition of 39 properties since June 2006. Rental income includes non-cash straight line rent adjustments totaling \$6.2 million in 2007 and \$7.8 million in 2006 and amortization of acquired real estate leases and obligations totaling (\$2.3) million in 2007 and (\$2.4) million in 2006. Rental income also includes lease termination fees totaling \$569,000 in 2007 and \$50,000 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 June 2006. The increase in depreciation and amortization expense reflects acquisitions made since June 2006 and building and tenant improvement costs incurred throughout our portfolio during the same period.

Gain on sale of properties. Net sales proceeds and gains from the sale of three land parcels in 2007 were \$3.9 million and \$2.4 million, respectively. Net sales proceeds and gains from the sale of four office properties in 2006 were \$9.2 million and \$1.2 million, respectively.

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 June 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 29.2 million 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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Nine Months Ended September 30, 2007, Compared to Nine Months Ended September 30, 2006

| | 2007 | 2006 | Nine Months Ended September 30, \$ Change (in thousands, except per share data) | % Change |
|---|------------|------------|--|-------------|
| Rental income | \$ 626,262 | \$ 590,058 | \$ 36,204 | 6.1% |
| Expenses: | | | | |
| Operating expenses | 243,935 | 227,981 | 15,954 | 7.0% |
| Depreciation and amortization | 135,413 | 119,109 | 16,304 | 13.7% |
| General and administrative | 26,650 | 24,926 | 1,724 | 6.9% |
| Total expenses | 405,998 | 372,016 | 33,982 | 9.1% |
| Operating income | 220,264 | 218,042 | 2,222 | 1.0% |
| Interest income | 1,442 | 2,118 | (676) | (31.9%) |
| Interest expense | (126,627) | (126,317) | (310) | (0.2%) |
| Loss on early extinguishment of debt | (711) | (1,659) | 948 | 57.1% |
| Equity in earnings of equity investments | | 3,136 | (3,136) | (100.0%) |
| Gain on sale of equity investments | | 116,287 | (116,287) | (100.0%) |
| Income from continuing operations | 94,368 | 211,607 | (117,239) | (55.4%) |
| Loss from discontinued operations | | (76) | 76 | 100.0% |
| Gain on sale of properties | 2,408 | 1,172 | 1,236 | 105.5% |
| Net income | 96,776 | 212,703 | (115,927) | (54.5%) |
| Preferred distributions | (46,204) | (29,976) | (16,228) | (54.1%) |
| Excess redemption price paid over carrying value of preferred shares | | (6,914) | 6,914 | 100.0% |
| Net income available for common shareholders | \$ 50,572 | \$ 175,813 | \$ (125,241) | (71.2%) |
| Weighted average common shares outstanding basic | 211,475 | 209,941 | 1,534 | 0.7% |
| Weighted average common shares outstanding diluted | 240,668 | 209,941 | 30,727 | 14.6% |
| Earnings per common share: | | | | |
| Income from continuing operations available for common shareholders basic and diluted | \$ 0.23 | \$ 0.83 | \$ (0.60) | (72.3%) |
| Income from discontinued operations basic and diluted | \$ 0.01 | \$ 0.01 | \$ | |
| Net income available for common shareholders basic and diluted | \$ 0.24 | \$ 0.84 | \$ (0.60) | (71.4%) |

Rental income. Rental income increased for the nine months ended September 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 \$29.7 million, or 10.8%, primarily because of the acquisition of 86 properties since December 2005. Rental income includes non-cash straight line rent adjustments totaling \$14.8 million in 2007 and \$17.9 million in 2006 and amortization of acquired real estate leases and obligations totaling (\$7.7) million in 2007 and (\$7.9) million in 2006. Rental income also includes lease termination fees totaling \$925,000 in 2007 and \$550,000 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 December 2005. The increase in depreciation and amortization expense reflects acquisitions made since December 2005 and building and tenant improvement costs incurred throughout our portfolio during the same period.

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. The loss on early extinguishment of debt in 2006 relates to the write off of deferred financing fees associated with the repayment of our \$350 million term loan in March 2006.

Equity in earnings of equity investments. The decrease in equity in earnings of equity investments in 2007 reflects our sale of all 7.7 million common shares we owned in Senior Housing Properties Trust, or Senior Housing, and all 4.0 million common shares we owned in Hospitality Properties Trust, or Hospitality Properties, in March 2006.

Gain on sale of equity investments. The gain on sale of equity investments reflects the sale in March 2006 of all of the common shares we owned in Senior Housing and Hospitality Properties for aggregate net proceeds of \$308.3 million.

Income from continuing operations. The decrease in income from continuing operations is due primarily to the gain on the sale of the common shares we owned in Senior Housing and Hospitality Properties in 2006.

Gain on sale of properties. Net sales proceeds and gains from the sale of three land parcels in 2007 were \$3.9 million and \$2.4 million, respectively. Net sales proceeds and gains from the sale of four office properties in 2006 were \$9.2 million and \$1.2 million, respectively.

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 sale of Senior Housing and Hospitality Properties common shares in 2006. Net income available for common shareholders is net income reduced by preferred distributions and the excess

of the redemption price paid over the carrying value of our 9.875% series A preferred shares that we redeemed in March 2006. The increase in preferred distributions reflects the issuance of our series D preferred shares in October 2006, which are convertible into 29.2 million common shares. Proceeds from this issuance were used to reduce amounts outstanding on our revolving credit facility and general business purposes, including property acquisitions.

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 been historically 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 rent 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.

As discussed above, we believe that present leasing market conditions in some areas where our properties are located may result in modest increases 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 operating cost increases to our tenants pursuant to lease terms. We generally do not purchase turn around 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 \$198.1 million, (\$305.4) million and \$115.2 million, respectively, for the nine months ended September 30, 2007, and \$185.5 million, (\$48.2) million and (\$123.3) million, respectively, for the nine months ended September 30, 2006. Changes in all three categories between 2007 and 2006 are primarily related to property acquisitions, repayments and issuances of debt obligations, issuance and redemption of preferred shares, and our sale of all our Senior Housing and Hospitality Properties common shares in 2006.

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 September 30, 2007, there was \$38 million outstanding and \$712 million available on our revolving credit facility, and we had cash and cash equivalents of \$25.6 million. We expect to use cash balances, borrowings under our credit facility 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 September 30, 2007, 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 | | |
| 2007 | \$ 3,016 | \$ | \$ | \$ 3,016 | 7.0% |
| 2008 | 10,687 | | | 10,687 | 6.8% |
| 2009 | 7,951 | | | 7,951 | 6.9% |
| 2010 | 8,381 | 38,000 | 50,000 | 96,381 | 7.5% |
| 2011 | 229,988 | 200,000 | | 429,988 | 6.4% |
| 2012 | 31,201 | | 200,000 | 231,201 | 7.0% |
| 2013 | 7,941 | | 200,000 | 207,941 | 6.5% |
| 2014 | 15,788 | | 250,000 | 265,788 | 5.7% |
| 2015 | 4,029 | | 450,000 | 454,029 | 6.0% |
| 2016 | 13,387 | | 400,000 | 413,387 | 6.3% |
| 2017 and thereafter | 65,066 | | 500,000 | 565,066 | 6.6% |
| | \$ 397,435 | \$ 238,000 | \$ 2,050,000 | \$ 2,685,435 | 6.4% |

(1) Total debt as of September 30, 2007, net of unamortized premiums and discounts, equals \$2,674,859.

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 separate 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 the nine months ended September 30, 2007, we purchased 11 office properties, including one hotel which is adjacent to owned office properties that are scheduled for redevelopment, for \$108.2 million, plus closing costs, 14 industrial properties for \$125.5 million, plus closing costs, and funded improvements to our owned properties totaling \$74.8 million. We funded all our 2007 acquisitions and improvements to our owned properties with cash on hand, by borrowing under our revolving credit facility and assuming \$4.5 million of mortgage debt.

In October 2007, we purchased six properties for \$73.8 million, excluding closing costs, using cash on hand and borrowings under our revolving credit facility. As of November 7, 2007, we have an executed purchase agreement for two additional properties with an aggregate of approximately 262,000 square feet of space for a total purchase price of \$23.2 million, 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 these properties.

During the three and nine months ended September 30, 2007 and 2006, 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 September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------|------------------------------------|-----------|
| | 2007 | 2006 | 2007 | 2006 |
| Tenant improvements | \$ 9,651 | \$ 13,032 | \$ 38,295 | \$ 42,841 |
| Leasing costs | 6,876 | 5,339 | 18,296 | 20,081 |
| Building improvements (1) | 3,048 | 5,573 | 7,729 | 13,446 |
| Development and redevelopment activities (2) | 5,568 | 8,156 | 28,753 | 19,659 |

(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 September 30, 2007, are as follows (amounts in thousands, except as noted):

| | New Leases | Renewals | Total |
|---|---------------|-----------|-----------|
| Square feet leased during the period | 248 | 1,235 | 1,483 |
| Total commitments for tenant improvements and leasing costs | \$ 3,420 | \$ 14,204 | \$ 17,624 |
| Leasing costs per square foot (whole dollars) | \$ 13.79 | \$ 11.50 | \$ 11.88 |
| Average lease term (years) | 5.0 | 8.3 | 7.7 |
| Leasing costs per square foot per year (whole dollars) | \$ 2.76 | \$ 1.39 | \$ 1.54 |

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. These notes bear interest at 6.25%, require semi-annual interest payments and mature in June 2017. In September 2007, we issued \$250 million of unsecured senior notes in a public offering, raising net proceeds of approximately \$245.8 million. These notes bear interest at 6.65%, require semi-annual interest payments and mature in January 2018. Net proceeds from these offerings were used to reduce amounts outstanding under our revolving credit facility. In September 2007, we prepaid at par, \$15.9 million of 7.02% mortgage debt due in 2008, using cash on hand and borrowings under our revolving credit facility.

In October 2007, we issued 12.8 million common shares in a public offering, raising net proceeds of approximately \$123 million. We subsequently announced the partial redemption of 5 million of our 12 million outstanding 8 3/4% series B cumulative redeemable preferred shares at the stated liquidation preference price of \$25.00 per share plus accrued and unpaid dividends. This redemption is expected to occur on or about November 26, 2007. Also in October 2007, we sold an additional 177,000 of our common shares for net proceeds of \$1.7 million pursuant to a sales agreement with a securities broker dealer, which allows us to sell our common shares from time to time in a controlled equity offering program. Net proceeds were used to reduce amounts outstanding on our revolving credit facility and for general business purposes, including property acquisitions.

We have no commercial paper, swaps, hedges, joint ventures or off balance sheet arrangements as of September 30, 2007.

Debt Covenants

Our principal debt obligations at September 30, 2007 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 ratios. At September 30, 2007, 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 \$397.4 million, excluding unamortized premiums and discounts, of mortgage notes outstanding at September 30, 2007.

None of our indenture and related supplements, our revolving credit facility or our mortgage notes contain provisions for acceleration or that 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.

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, 2006. 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 September 30, 2007, we had \$38 million outstanding and \$712 million available for drawing under our revolving credit

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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 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 September 30, 2007, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

WARNING CONCERNING FORWARD LOOKING STATEMENTS

THIS QUARTERLY REPORT ON FORM 10-Q CONTAINS STATEMENTS AND IMPLICATIONS WHICH CONSTITUTE FORWARD LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 AND OTHER FEDERAL SECURITIES LAWS. ALSO, 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, AND

CHANGES IN FEDERAL, STATE AND LOCAL LEGISLATION.

FOR EXAMPLE:

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,

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, 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, 2006, 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.

Part II. Other Information

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

On September 18, 2007, we granted an aggregate 52,800 common shares pursuant to our Incentive Share Award Plan to our officers and certain employees of our manager, Reit Management & Research LLC, valued at \$9.90 per common share, the closing price of our common shares on the NYSE on September 18, 2007. The grants were made pursuant to the exemption from registration contained in Section 4(2) of the Securities Act of 1933, as amended.

Item 6. Exhibits

- 3.1 Composite Copy of Third Amendment and Restatement of Declaration of Trust of the Company, dated July 1, 1994, as amended to date. *(filed herewith)*
- 3.2 Articles Supplementary to Declaration of Trust dated October 16, 2007. *(Incorporated by reference to the Company's Current Report on Form 8-K dated October 16, 2007)*
- 4.1 Supplemental Indenture No. 18 related to the 6.65% Senior Notes due 2018, dated as of September 18, 2007, between HRPT Properties Trust and U.S. Bank National Association, as Trustee, including the form of 6.65% Senior Note due 2018. *(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: November 7, 2007

By: /s/ John C. Popeo
John C. Popeo
Treasurer and Chief Financial Officer
(principal financial and accounting officer)
Dated: November 7, 2007