

RMR REAL ESTATE FUND  
Form N-CSR  
August 22, 2005

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED  
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number: 811-21241

**RMR REAL ESTATE FUND**

(Exact name of registrant as specified in charter)

**400 CENTRE STREET  
NEWTON, MASSACHUSETTS 02458**

(Address of principal executive offices) (Zip code)

**(Name and Address of Agent  
for Service of Process)**

**Thomas M. O'Brien, President**  
RMR Real Estate Fund  
400 Centre Street  
Newton, Massachusetts 02458

**Copy to:**

**Robert N. Hickey, Esq.**  
Sullivan & Worcester LLP  
1666 K Street, N.W.  
Washington, D.C. 20006

**Thomas J. Reyes, Esq.**  
State Street Bank and Trust Company  
One Federal Street, 9th Floor  
Boston, Massachusetts 02110

Registrant's telephone number, including area code: **(617) 332-9530**

Date of fiscal year end: December 31

Date of reporting period: June 30, 2005

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**Item 1. Reports to Stockholders.**

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**Semi-Annual Reports**  
**June 30, 2005**



**RMR Real Estate Fund**  
**RMR Hospitality and Real Estate Fund**  
**RMR F.I.R.E. Fund**  
**RMR Preferred Dividend Fund**

About information contained in this report:

Performance data is historical and reflects historical expenses and historical changes in net asset value. Historical results are not indicative of future results.

If RMR Advisors had not waived fees or paid all of each fund's organizational costs and a portion of each Fund's offering costs, each fund's returns would have been lower.

Investment in each fund's shares is subject to material risks, including but not limited to those described in each Fund's annual report on Form N-CSR filed with the SEC for the period ended December 31, 2004, or with respect to RMR Preferred Dividend Fund, the registration statements filed with the SEC related to the initial public offering of common and preferred shares.

**NOTICE CONCERNING LIMITED LIABILITY**

THE DECLARATIONS OF TRUST OF RMR REAL ESTATE FUND, RMR HOSPITALITY AND REAL ESTATE FUND, RMR F.I.R.E. FUND AND RMR PREFERRED DIVIDEND FUND, COPIES OF WHICH, TOGETHER WITH ALL AMENDMENTS AND SUPPLEMENTS THERETO, ARE DULY FILED IN THE OFFICE OF THE SECRETARY, CORPORATIONS DIVISION OF THE COMMONWEALTH OF MASSACHUSETTS, PROVIDES THAT THE NAMES "RMR REAL ESTATE FUND", "RMR HOSPITALITY AND REAL ESTATE FUND", "RMR F.I.R.E. FUND" AND "RMR PREFERRED DIVIDEND FUND" REFERS TO THE TRUSTEES UNDER THE DECLARATIONS COLLECTIVELY AS TRUSTEES, BUT NOT INDIVIDUALLY OR PERSONALLY, AND THAT NO TRUSTEE, OFFICER, SHAREHOLDER, EMPLOYEE OR AGENT OF ANY OF THE FUNDS SHALL BE HELD TO ANY PERSONAL LIABILITY, JOINTLY OR SEVERALLY, FOR ANY OBLIGATION OF, OR CLAIM AGAINST, ANY OF THESE FUNDS. ALL PERSONS DEALING WITH ANY OF THE FUNDS IN ANY WAY, SHALL LOOK ONLY TO THE ASSETS OF THAT FUND WITH WHICH HE MAY DEAL FOR THE PAYMENT OF ANY SUM OR THE PERFORMANCE OF ANY OBLIGATION.

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**RMR Funds**

**June 30, 2005**

To our shareholders,

We are pleased to present you with our 2005 semi-annual report for four funds:

RMR Real Estate Fund (AMEX: RMR), which began operations in December 2003;

RMR Hospitality and Real Estate Fund (AMEX: RHR), which began operations in April 2004;

RMR F.I.R.E. Fund (AMEX: RFR), which began operations in November 2004; and

RMR Preferred Dividend Fund (AMEX: RDR), which began operations in May 2005.

We invite you to read through the information contained in this report and to view our website, at [www.rmrfunds.com](http://www.rmrfunds.com).

Sincerely,

Thomas M. O'Brien  
President



**RMR Real Estate Fund**

**June 30, 2005**

*To our shareholders,*

In the pages that follow, you will find data summarizing our financial results for the first six months of 2005 and our financial position as of June 30, 2005.

As a result of our investment activities for the first six months of 2005, our net asset value was \$16.75 per common share as of June 30, 2005, a 0.8% increase from \$16.61 per common share six months earlier. In addition to this increase in net asset value per common share, we made monthly distributions totaling \$0.60 per common share during the first six months of 2005.

For the first six months of 2005, our allocation in the manufactured homes sub-sector increased from 4.5% to 6.6% of total investments, our largest sub-sector increase. During the same time period, our allocation in the apartments sub-sector decreased from 18.6% to 13.2% of total investments, our largest sub-sector decrease. These changes partly reflect trading activity based upon our view of the strengths and weaknesses of these sub-sectors and the companies that operate in them and partly reflect the impact of stock market conditions. During the remainder of 2005, we will continue to monitor market conditions and position our portfolio according to our view of those conditions.

For shares that we held continuously during the first six months of 2005, our three best performing investments were Equity Office Properties Trust, Colonial Properties Trust and U-Store-It Trust, with total returns during this period of 17.3%, 16.2% and 13.0%, respectively. Our worst performing investments during the first six months of 2005 were Bedford Property Investors, Inc., Eagle Hospitality Properties Trust, Inc. and Trustreet Properties Inc. with total returns (losses) during the first six months of (15.2)%, (6.5)% and (4.2)%, respectively.

Thank you for your continued support, and be sure to view our website, at [www.rmrffunds.com](http://www.rmrffunds.com).

Sincerely,

Thomas M. O'Brien  
President

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**RMR Real Estate Fund**

**June 30, 2005**

**Relevant Market Conditions**

*Real Estate Industry Fundamentals.* We believe the investment environment for most real estate companies at June 30, 2005, and for the remainder of 2005 is generally positive. We believe that the environment for the remainder of 2005 will include revenue growth and stabilizing to improving occupancy rates. We believe that a majority of real estate investment trust's balance sheets reflect modest debt leverage and low floating rate debt.

*Real Estate Industry Technicals.* We believe demand for real estate securities over the long term will continue to increase. Demographic trends in the U.S. include growth in the over age 50 population; we believe that individuals in that age category tend to focus their investments in higher yielding stocks like real estate investments trusts, or REITs. Institutions, too, seem to be increasing their allocations to real estate securities as the market capitalization of REITs has increased. Both of these are positive factors affecting the real estate securities market.

**Fund Strategies, Techniques and Performance**

Our primary investment objective is to earn and pay a high level of current income to our common shareholders by investing in real estate companies. Our secondary investment objective is capital appreciation. There can be no assurance that we will meet our investment objectives.

During the first six months of 2005, our total return on net asset value, or NAV (including NAV changes and assuming a hypothetical reinvestment of distributions at NAV) was 4.8%. During that same period, the total return for the MSCI US REIT Total Return Index was 6.4% and the total return for the MSCI REIT Preferred Index was 2.8%. We believe these two indices are most relevant to our investments because our investments, excluding short-term investments, as of June 30, 2005, include 72.7% REIT common stocks and 26.1% REIT preferred stocks. The S&P 500 Index (an unmanaged index published as Standard and Poor's Composite Index of 500 Stocks) total return (loss) for the first six months of 2005 was (0.8)%.

**RMR Real Estate Fund**  
**Portfolio of Investments** June 30, 2005 (unaudited)

| Company                                     | Shares  | Value        |
|---|---------|--------------|
| <i>Common Stocks 103.1%</i>                 |         |              |
| <i>Real Estate Investment Trusts 101.5%</i> |         |              |
| <i>Apartments 16.8%</i>                     |         |              |
| AMLI Residential Properties Trust           | 106,700 | \$ 3,335,442 |
| Apartment Investment & Management Co.       | 149,100 | 6,101,172    |
| Associated Estates Realty Corp.             | 141,400 | 1,305,122    |
| BNP Residential Properties, Inc.            | 200,000 | 3,200,000    |
| Home Properties, Inc.                       | 121,200 | 5,214,024    |
|   |         | 19,155,760   |
| <i>Diversified 24.1%</i>                    |         |              |
| Bedford Property Investors, Inc.            | 150,000 | 3,453,000    |
| Colonial Properties Trust                   | 145,000 | 6,380,000    |
| Commercial Net Lease Realty                 | 289,600 | 5,928,112    |
| Crescent Real Estate Equities Co.           | 324,000 | 6,075,000    |
| Lexington Corporate Properties Trust        | 200,000 | 4,862,000    |
| Liberty Property Trust                      | 20,000  | 886,200      |
|   |         | 27,584,312   |
| <i>Health Care 11.0%</i>                    |         |              |
| Health Care REIT, Inc.                      | 150,000 | 5,653,500    |
| Nationwide Health Properties, Inc.          | 250,000 | 5,902,500    |
| Omega Healthcare Investors Inc.             | 83,200  | 1,069,952    |
|   |         | 12,625,952   |
| <i>Hospitality 0.5%</i>                     |         |              |
| Eagle Hospitality Properties Trust, Inc.    | 60,000  | 546,600      |
| <i>Industrial 5.8%</i>                      |         |              |
| First Industrial Realty Trust, Inc.         | 165,000 | 6,583,500    |
| <i>Manufactured Homes 3.3%</i>              |         |              |
| Sun Communities, Inc.                       | 100,900 | 3,752,471    |
| <i>Office 21.4%</i>                         |         |              |
| Arden Realty, Inc.                          | 114,600 | 4,123,308    |
| CarrAmerica Realty Corp.                    | 10,000  | 361,800      |
| Columbia Equity Trust, Inc.                 | 30,000  | 460,500      |
| Equity Office Properties Trust              | 250,000 | 8,275,000    |
| Glenborough Realty Trust, Inc.              | 285,000 | 5,868,150    |
| Highwoods Properties, Inc.                  | 85,000  | 2,529,600    |
| Maguire Properties, Inc.                    | 100,000 | 2,834,000    |
|   |         | 24,452,358   |

See notes to financial statements and notes to portfolio of investments.

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|   |         |              |
|---|---------|--------------|
| <i>Retail 11.7%</i>   |         |              |
| Glimcher Realty Trust   | 75,000  | \$ 2,081,250 |
| Heritage Property Investment Trust                              | 200,000 | 7,004,000    |
| New Plan Excel Realty Trust                                     | 156,200 | 4,243,954    |
|   |         | <hr/>        |
|   |         | 13,329,204   |
| <i>Specialty 4.8%</i>   |         |              |
| Getty Realty Corp.  | 28,600  | 792,220      |
| Trustreet Properties, Inc.                                      | 280,000 | 4,650,800    |
|   |         | <hr/>        |
|   |         | 5,443,020    |
| <i>Storage 2.1%</i>   |         |              |
| Sovran Self Storage, Inc.                                       | 50,000  | 2,273,000    |
| U-Store-It Trust  | 10,000  | 190,500      |
|   |         | <hr/>        |
|   |         | 2,463,500    |
| <i>Total Real Estate Investment Trusts (Cost \$102,922,084)</i> |         |              |
|   |         | 115,936,677  |
| <i>Other 1.6%</i>   |         |              |
| Panamsat Holding Corp. (Cost \$1,584,000)                       | 88,000  | 1,804,880    |
| <i>Total Common Stocks (Cost \$104,506,084)</i>                 |         |              |
|   |         | 117,741,557  |
| <i>Preferred Stocks 36.5%</i>                                   |         |              |
| <i>Real Estate Investment Trusts 36.5%</i>                      |         |              |
| <i>Apartments 2.1%</i>  |         |              |
| Apartment Investment & Management Co., Series G                 | 32,800  | 872,480      |
| Apartment Investment & Management Co., Series T                 | 60,000  | 1,518,000    |
|   |         | <hr/>        |
|   |         | 2,390,480    |
| <i>Diversified 1.3%</i>   |         |              |
| Colonial Properties Trust, Series E                             | 62,910  | 1,541,295    |
| <i>Health Care 7.7%</i>   |         |              |
| LTC Properties, Inc., Series F                                  | 160,000 | 4,092,000    |
| OMEGA Healthcare Investors Inc., Series D                       | 160,000 | 4,240,000    |
| Windrose Medical Properties Trust, Series A*                    | 20,000  | 495,000      |
|   |         | <hr/>        |
|   |         | 8,827,000    |
| <i>Hospitality 12.6%</i>  |         |              |
| Ashford Hospitality Trust, Series A                             | 107,900 | 2,818,888    |
| Equity Inns, Inc., Series B                                     | 34,000  | 889,100      |
| Eagle Hospitality Properties Trust, Inc., Series A              | 28,000  | 719,600      |
| FelCor Lodging Trust, Inc., Series A*                           | 83,000  | 2,027,690    |
| FelCor Lodging Trust, Inc., Series C                            | 29,200  | 716,276      |
| Innkeepers USA Trust, Series C                                  | 120,000 | 3,068,400    |
| Winston Hotels, Inc., Series B                                  | 160,000 | 4,111,200    |
|   |         | <hr/>        |
|   |         | 14,351,154   |

See notes to financial statements and notes to portfolio of investments

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|  |           |                |
|--|-----------|----------------|
| <i>Manufactured Homes</i> 6.2%                       |           |                |
| Affordable Residential Communities, Series A         | 280,000   | \$ 7,084,000   |
| <i>Office</i> 0.7%                                   |           |                |
| Kilroy Realty Corp., Series F                        | 30,000    | 762,000        |
| <i>Retail</i> 2.7%                                   |           |                |
| CBL & Associates Properties, Inc., Series B          | 20,000    | 1,065,000      |
| Glimcher Realty Trust, Series F                      | 20,000    | 535,800        |
| Glimcher Realty Trust, Series G                      | 50,000    | 1,277,500      |
| The Mills Corp., Series E                            | 7,100     | 192,409        |
|  |           | <hr/>          |
|  |           | 3,070,709      |
| <i>Specialty</i> 3.2%                                |           |                |
| New Century Financial Corp., Series A                | 20,000    | 506,000        |
| RAIT Investment Trust, Series A                      | 125,000   | 3,150,000      |
|  |           | <hr/>          |
|  |           | 3,656,000      |
| <i>Total Preferred Stocks (Cost \$40,145,246)</i>    |           | 41,682,638     |
| <i>Short-Term Investment</i> 3.3%                    |           |                |
| <i>Other Investment Companies</i> 3.3%               |           |                |
| SSgA Money Market Fund, 2.883%(a) (Cost \$3,811,737) | 3,811,737 | 3,811,737      |
| Total Investments 142.9% (Cost \$148,463,067)        |           | 163,235,932    |
| Other assets less liabilities 0.9%                   |           | 1,035,925      |
| Preferred Shares, at liquidation preference (43.8)%  |           | (50,000,000)   |
| Net Assets attributable to common shares 100%        |           | \$ 114,271,857 |

**Notes to portfolio of investments**

\*

**Convertible into common stock.**

(a)

**Rate reflects 7 day yield as of June 30, 2005.**

*See notes to financial statements and notes to portfolio of investments*

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**RMR Real Estate Fund**  
**Financial Statements** continued

## Statement of Assets and Liabilities

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**June 30, 2005 (unaudited)**

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*Assets*

|  |                |
|--|----------------|
| Investments in securities, at value (cost \$148,463,067) | \$ 163,235,932 |
| Cash   | 500,517        |
| Dividends and interest receivable                        | 1,200,458      |
| Receivable for investments sold                          | 1,004,767      |
| Other assets   | 24,084         |
|  | <hr/>          |
| Total assets   | 165,965,758    |
|  | <hr/>          |

*Liabilities*

|   |           |
|---|-----------|
| Payable for investment securities purchased | 1,511,101 |
| Advisory fees payable                       | 80,158    |
| Distributions payable - preferred shares    | 29,660    |
| Accrued expenses and other liabilities      | 72,982    |
|   | <hr/>     |
| Total liabilities                           | 1,693,901 |
|   | <hr/>     |

*Preferred shares at liquidation preference*

|  |            |
|--|------------|
| Auction preferred shares, Series T;<br>\$.001 par value per share; 2,000 shares issued and<br>outstanding at \$25,000 per share liquidation preference | 50,000,000 |
|  | <hr/>      |

*Net assets attributable to common shares*

|  |                |
|--|----------------|
|  | \$ 114,271,857 |
|  | <hr/>          |

*Composition of net assets*

|   |            |
|---|------------|
| Common shares, \$.001 par value per share;<br>unlimited number of shares authorized,<br>6,824,000 shares issued and outstanding | \$ 6,824   |
| Additional paid-in capital  | 96,710,623 |
| Distributions in excess of net investment income  | (229,676)  |
| Accumulated net realized gain on investments  | 3,011,221  |
| Net unrealized appreciation on investments  | 14,772,865 |
|   | <hr/>      |

*Net assets attributable to common shares*

|  |                |
|--|----------------|
|  | \$ 114,271,857 |
|  | <hr/>          |

*Net asset value per share attributable to common shares*  
*(based on 6,824,000 common shares outstanding)*

|  |          |
|--|----------|
|  | \$ 16.75 |
|  | <hr/>    |

*See notes to financial statements*

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**RMR Real Estate Fund**  
**Financial Statements** continued

## Statement of Operations

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**Six Months Ended June 30, 2005 (unaudited)**


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*Investment income*

|  |              |
|--|--------------|
| Dividends (Cash distributions received or due) | \$ 5,327,859 |
| Interest                                       | 29,567       |
|  | <hr/>        |
| Total investment income                        | 5,357,426    |
|  | <hr/>        |

*Expenses*

|                                      |           |
|--------------------------------------|-----------|
| Advisory                             | 658,477   |
| Audit and legal                      | 66,484    |
| Administrative                       | 65,351    |
| Preferred share remarketing          | 62,919    |
| Custodian                            | 30,594    |
| Shareholder reporting                | 21,000    |
| Compliance and internal audit        | 20,000    |
| Trustees' fees and expenses          | 10,400    |
| Other                                | 47,887    |
|                                      | <hr/>     |
| Total expenses                       | 983,112   |
| Less: expenses waived by the Advisor | (193,670) |
|                                      | <hr/>     |
| Net expenses                         | 789,442   |
|                                      | <hr/>     |

|                       |           |
|-----------------------|-----------|
| Net investment income | 4,567,984 |
|                       | <hr/>     |

*Realized and unrealized gain on investments*

|   |             |
|---|-------------|
| Net realized gain on investments                                    | 2,646,894   |
| Net change in unrealized appreciation/(depreciation) on investments | (1,501,942) |
|   | <hr/>       |
| Net realized and unrealized gain on investment transactions         | 1,144,952   |
| Distributions to preferred shareholders from net investment income  | (703,260)   |
|   | <hr/>       |

|  |              |
|--|--------------|
| Net increase in net assets attributable to common shares resulting from operations | \$ 5,009,676 |
|  | <hr/>        |

*See notes to financial statements*

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**RMR Real Estate Fund**  
**Financial Statements** continued

## Statement of Changes in Net Assets

|  | <b>Six Months<br/>Ended<br/>June 30,<br/>2005</b> | <b>Year Ended<br/>December 31,<br/>2004</b> |
|--|---|---|
| <b>(unaudited)</b>   |   |   |
| <i>Increase (decrease) in net assets resulting from operations</i>   |   |   |
| Net investment income  | \$ 4,567,984                                      | \$ 3,196,785                                |
| Net realized gain on investments   | 2,646,894   | 4,348,707                                   |
| Net change in unrealized appreciation/(depreciation) on investments  | (1,501,942)                                       | 16,866,604                                  |
| Distributions to preferred shareholders from:  |   |   |
| Net investment income  | (703,260)   | (320,690)                                   |
| Net realized gain on investments   |   | (343,770)                                   |
|  | <u>5,009,676</u>                                  | <u>23,747,636</u>                           |
| Distributions to common shareholders from:   |   |   |
| Net investment income  | (4,094,400)                                       | (3,622,828)                                 |
| Net realized gain on investments   |   | (3,883,572)                                 |
| <i>Capital shares transactions</i>   |   |   |
| Net proceeds from sale of common shares  |   | 2,144,250                                   |
| Net proceeds from sale of preferred shares   |   | 49,195,335                                  |
|  |   | <u>51,339,585</u>                           |
| Less: Liquidation preference of preferred shares issued  |   | (50,000,000)                                |
|  | <u>915,276</u>                                    | <u>17,580,821</u>                           |
| <i>Net assets attributable to common shares</i>  |   |   |
| Beginning of period  | <u>113,356,581</u>                                | <u>95,775,760</u>                           |
| End of period (net of distributions in excess of net investment income of \$229,676 and \$0, respectively) | <u>\$ 114,271,857</u>                             | <u>\$ 113,356,581</u>                       |
| <i>Common shares issued and repurchased</i>  |   |   |
| Shares outstanding, beginning of period  | <u>6,824,000</u>                                  | <u>6,674,000</u>                            |
| Shares issued  |   | 150,000                                     |
|  | <u>6,824,000</u>                                  | <u>6,824,000</u>                            |

See notes to financial statements

**Financial Highlights RMR Real Estate Fund**

Selected Data for a Common Share Outstanding Throughout the Period

|   | Six Months<br>Ended<br>June 30, 2005 | Year Ended<br>December 31,<br>2004 | For the Period<br>December 18,<br>2003 (a) to<br>December 31,<br>2003 |
|---|--------------------------------------|------------------------------------|---|
| <b>(unaudited)</b>  |                                      |                                    |   |
| <i>Per Common Share Operating Performance (b)</i>                             |                                      |                                    |   |
| Net asset value, beginning of period  | \$ 16.61                             | \$ 14.35                           | \$ 14.33(c)   |
| <i>Income from Investment Operations</i>                                      |                                      |                                    |   |
| Net investment income (d)   | 0.67(e)                              | 0.47                               | 0.10  |
| Net realized and unrealized appreciation on investments                       | 0.17(e)                              | 3.11                               | (0.05)  |
| Distributions to preferred shareholders (common stock equivalent basis) from: |                                      |                                    |   |
| Net investment income   | (0.10)(e)                            | (0.05)                             |   |
| Net realized gain on investments  | (e)                                  | (0.05)                             |   |
| Net increase in net asset value from operations                               | 0.74                                 | 3.48                               | 0.05  |
| Less: Distributions to common shareholders from:                              |                                      |                                    |   |
| Net investment income   | (0.60)(e)                            | (0.53)                             |   |
| Net realized gain on investments  | (e)                                  | (0.57)                             |   |
| Common share offering costs charged to capital                                |                                      |                                    | (0.03)  |
| Preferred share offering costs charged to capital                             |                                      | (0.12)                             |   |
| Net asset value, end of period  | \$ 16.75                             | \$ 16.61                           | \$ 14.35  |
| Market price, beginning of period   | \$ 14.74                             | \$ 15.00                           | \$ 15.00  |
| Market price, end of period   | \$ 14.29                             | \$ 14.74                           | \$ 15.00  |
| <i>Total Return (f)</i>   |                                      |                                    |   |
| Total investment return based on:   |                                      |                                    |   |
| Market price (g)  | 1.27%                                | 6.42%                              | 0.00%   |
| Net asset value (g)   | 4.80%                                | 24.73%                             | 0.14%   |
| <i>Ratios/Supplemental Data:</i>  |                                      |                                    |   |
| Preferred shares, liquidation preference (\$25,000 per share) (000s)          | \$ 50,000                            | \$ 50,000                          | \$ 95,776   |
| Net assets attributable to common shares, end of period (000s)                | \$ 114,272                           | \$ 113,357                         | \$ 95,776   |
| Ratio to average net assets attributable to common shares (h) of:             |                                      |                                    |   |
| Net investment income, before total preferred share distributions (d)         | 8.67%(e)                             | 3.22%                              | 27.45%  |
| Total preferred share distributions   | 1.34%                                | 0.67%                              | 0.00%   |
| Net investment income, net of preferred share distributions (d)               | 7.33%(e)                             | 2.55%                              | 27.45%  |
| Expenses, net of fee waivers  | 1.50%                                | 1.69%                              | 2.40%   |
| Expenses, before fee waivers  | 1.87%                                | 2.05%                              | 2.65%   |
| Portfolio turnover rate   | 9.08%                                | 35.52%                             | 17.49%  |

(a)



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Commencement of operations.

(b)

Based on average shares outstanding.

(c)

Net asset value at December 18, 2003, reflects the deduction of the average sales load and offering costs of \$0.67 per share paid by the holders of common shares from the \$15.00 offering price. We paid a sales load and offering costs of \$0.68 per share on 6,660,000 common shares sold to the public and no sales load or offering costs on 7,000 common shares sold to affiliates of RMR Advisors for \$15 per share.

(d)

Amounts are net of expenses waived by RMR Advisors.

(e)

As discussed in Note A(7) to the financial statements, these amounts are subject to change to the extent 2005 distributions by the issuers of the Fund's investments are characterized as capital gains and return of capital.

(f)

Total return for periods less than one year are not annualized.

(g)

Total return based on per share market price assumes the purchase of common shares at the market price on the first day and sales of common shares at the market price on the last day of the period indicated; dividends and distributions, if any, are assumed to be reinvested at market prices. The total return based on net asset value, or NAV, assumes the purchase of common shares at NAV on the first day and sales of common shares at NAV on the last day of the period indicated; distributions are assumed to be reinvested at NAV. Results represent past performance and do not guarantee future results. Total return would have been lower if RMR Advisors had not contractually waived a portion of its investment advisory fee.

(h)

Annualized.

*See notes to financial statements*

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**RMR Real Estate Fund**  
**Notes to Financial Statements**

**June 30, 2005** (unaudited)

**Note A**

(1) Organization

RMR Real Estate Fund, or the Fund, was organized as a Massachusetts business trust on July 2, 2002, and is registered under the Investment Company Act of 1940, as amended, as a non-diversified closed end management investment company. The Fund had no operations prior to December 18, 2003, other than matters relating to the Fund's establishment and registration of the Fund's common shares under the Securities Act of 1933.

(2) Interim Financial Statements

The accompanying June 30, 2005, financial statements have been prepared without audit. The Fund believes the disclosures made are adequate to make the information presented not misleading. In the opinion of the Fund's management, all adjustments, which include only normal recurring adjustments considered necessary for a fair presentation, have been included. The Fund's operating results for this interim period are not necessarily indicative of the results that may be expected in the future.

(3) Use of Estimates

Preparation of these financial statements in conformity with accounting principles generally accepted in the United States requires the Fund's management to make estimates and assumptions that may affect the amounts reported in the financial statements and related notes. The actual results could differ from these estimates particularly for reasons described in Note A(7), and for other reasons.

(4) Portfolio Valuation

Investment securities of the Fund are valued at the latest sales price whenever that price is readily available on the day of valuation; securities for which no sales were reported on that day, unless otherwise noted, are valued at the last available bid price on that day. Securities traded primarily on the NASDAQ Stock Market, or NASDAQ, are normally valued by the Fund at the NASDAQ Official Closing Price, or NOCP, provided by NASDAQ each business day. The NOCP is the most recently reported price as of 4:00:06 p.m., eastern time, unless that price is outside the range of the "inside" bid and asked prices (i.e., the bid and asked prices that dealers quote to each other when trading for their own accounts); in that case, NASDAQ will adjust the price to equal the inside bid or asked price, whichever is closer. Because of delays in reporting trades, the NOCP may not be based on the price of the last trade to occur before the market closes. Some fixed income securities may be valued using pricing provided by a pricing service. Any of the Fund's securities which are not readily marketable, which are not traded, which have other characteristics of illiquidity or whose quotations are unreliable are valued by the Fund at fair value as determined in good faith under the supervision of the Fund's board of trustees. Numerous factors may be considered when determining fair value of a security, including cost at date of purchase, type of security, the nature and duration of restrictions on disposition of the security and whether the issuer of the security being fair valued has other securities of the same class outstanding. Short term debt securities with less than 60 days until maturity may be valued at cost, which when combined with interest accrued, approximates market value.

(5) Securities Transactions and Investment Income

Securities transactions are recorded on a trade date basis. Dividend income is recorded on the ex-dividend date. Non-cash dividends included in dividend income, if any, are recorded at the fair market value of the

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securities received. Interest income, including accretion of original issue discount, where applicable, and accretion of discount on short term investments, is recorded on the accrual basis. Realized gains and losses from securities transactions are recorded on the basis of identified cost.

### (6) Federal Income Taxes

The Fund has qualified and intends to qualify in the future as a "regulated investment company" and to comply with the applicable provisions of subchapter M of the Internal Revenue Code of 1986, as amended, so that it will generally not be subject to federal income tax.

### (7) Distributable Earnings

The Fund earns income, net of expenses, daily on its investments. It is the policy of the Fund to pay a stable distribution amount to common shareholders on a monthly basis and distributions to Fund shareholders are declared pursuant to this policy. On June 28, 2005, the Fund declared distributions of \$0.10 per common share payable in August, September and October 2005. Distributions to Fund shareholders are recorded on the ex-dividend date.

The Fund's distributions may consist of ordinary income (net investment income and short term capital gains), long term capital gains and return of capital. The Fund estimates that the sum of the distributions declared for the 2005 year through June 30, 2005, is not greater than distributions and interest received or accrued by the Fund on its investments over expenses and cost of leverage plus net realized capital gain from sales of securities during 2005.

For financial reporting purposes as required by generally accepted accounting principles, the Fund generally reflects distributions and interest received or accrued on its investments and distributions made to shareholders as ordinary income, long term capital gains and return of capital in accordance with the characterization of these amounts required by the Internal Revenue Code of 1986, as amended. However, it is not possible to characterize distributions received from real estate investment trusts, or REITs, in which the Fund has invested a substantial portion of its assets, during interim periods because these issuers do not report their tax characterization until subsequent to year end 2005. Final characterization of the Fund's 2005 distributions to shareholders is also dependent upon the magnitude or timing of the Fund's securities transactions prior to year end. Therefore, it is likely that some portion of the Fund's 2005 investment income and distributions to shareholders will be recharacterized as long term capital gain and return of capital for financial statement and federal income tax purposes subsequent to year end and reflected accordingly in the Fund's year end financial statements.

To the extent the Fund's net realized capital gains, if any, can be offset by capital loss carry forwards, it is the policy of the Fund not to distribute such gains.

Although subject to adjustments, the cost, gross unrealized appreciation and unrealized depreciation of the Fund's investments for federal income tax purposes, as of June 30, 2005, are as follows:

|                               |    |             |
|-------------------------------|----|-------------|
| Cost                          | \$ | 148,463,067 |
| Gross unrealized appreciation | \$ | 15,883,130  |
| Gross unrealized depreciation |    | (1,110,265) |
| Net unrealized appreciation   | \$ | 14,772,865  |

(8) Concentration of Risk

Under normal market conditions, the Fund's investments are concentrated in income producing common shares, preferred shares and debt securities, including convertible preferred and debt securities, issued by real estate companies and REITs. The value of Fund shares may fluctuate more than the shares of a fund not concentrated in the real estate industry due to economic, legal, regulatory, technological or other developments affecting the United States real estate industry.

**Note B**

**Advisory and Administration Agreements and Other Transactions with Affiliates**

The Fund has an advisory agreement with RMR Advisors, Inc., or RMR Advisors, to provide the Fund with a continuous investment program, to make day to day investment decisions and to generally manage the business affairs of the Fund in accordance with its investment objectives and policies. Pursuant to this agreement, RMR Advisors is compensated at an annual rate of 0.85% of the Fund's average daily managed assets. Managed assets means the total assets of the Fund less liabilities other than any indebtedness entered into for purposes of leverage. For purposes of calculating managed assets, indebtedness entered for the purpose of leverage and the liquidation preference of preferred shares are not considered liabilities.

RMR Advisors has contractually agreed to waive a portion of its annual fee equal to 0.25% of the Fund's average daily managed assets until December 18, 2008.

On May 16, 2005, Barry M. Portnoy became the sole owner of RMR Advisors. This change in ownership is deemed to be a change in control resulting in termination of the then existing investment advisory agreement under the Investment Company Act of 1940. A new investment advisory agreement with the same terms as the previous agreement (except for dates of execution and effective dates) was approved by the shareholders on May 11, 2005.

RMR Advisors, and not the Fund, has agreed to pay the lead underwriter of the Fund's initial public offering an annual fee equal to 0.15% of the Fund's managed assets. This fee is paid quarterly in arrears during the term of RMR Advisors' advisory agreement and is paid by RMR Advisors, not the Fund. The aggregate fees paid pursuant to the contract plus reimbursement of legal expenses of the underwriters will not exceed 4.5% of the total price of the common shares in the initial public offering.

RMR Advisors also performs administrative functions for the Fund pursuant to an administration agreement with the Fund. RMR Advisors has entered into a sub-administration agreement with State Street Bank and Trust Company ("State Street") to perform substantially all Fund accounting and other administrative services. Under the administration agreement RMR Advisors is entitled to reimbursement of the cost of providing administrative services. During the six months ended June 30, 2005, the Fund reimbursed RMR Advisors for \$65,351 of sub-administrative fees charged by State Street.

The Fund pays each trustee who is not a director, officer or employee of RMR Advisors and who is not an interested person of the Fund as defined under the Investment Company Act of 1940, as amended, (a "disinterested trustee") an annual fee plus fees for board and committee meetings.

The Fund's board of trustees and separately the disinterested trustees have authorized the Fund to make reimbursement payments to RMR Advisors for costs related to the Fund's compliance and internal audit

programs. The Fund also participates in pooled insurance programs with RMR Advisors and other funds managed by RMR Advisors and makes payments of the allocated portions of related premiums.

**Note C**

**Securities Transactions**

During the six months ended June 30, 2005, there were securities purchases and sales transactions (excluding short term securities) of \$14,032,332 and \$16,745,343, respectively. Brokerage commissions on securities transactions, exclusive of transactions settled on a net basis, amounted to \$26,730 during the six months ended June 30, 2005.

**Note D**

**Preferred Shares**

The Fund's 2,000 outstanding Series M auction preferred shares have a liquidation preference of \$25,000 per share plus an amount equal to accumulated but unpaid distributions. The preferred shares are senior to the Fund's common shares and rank on parity with any other class or series of preferred shares of the Fund as to the payment of periodic distributions, including distribution of assets upon liquidation. If the Fund does not timely cure a failure to (1) maintain asset coverage for the preferred shares as required by rating agencies, or (2) maintain asset coverage, as defined in the Investment Company Act of 1940, of at least 200%, the preferred shares will be subject to redemption at an amount equal to their liquidation preference plus accumulated but unpaid distributions. The holders of the preferred shares have voting rights equal to the holders of the Fund's common shares and generally vote together with the holders of the common shares as a single class. Holders of the preferred shares, voting as a separate class, also are entitled to elect two of the Fund's trustees. The Fund pays distributions on the preferred shares at a rate set at auctions held generally every seven days. Distributions are generally payable every seven days, on the first business day following the end of a distribution period. The preferred share distribution rate was 3.05% per annum as of June 30, 2005.

**Note E**

**Submission of Proposals to a Vote of Shareholders**

The annual meeting of Fund shareholders was held on May 11, 2005. Following is a summary of the proposals submitted to shareholders for vote at the meeting:

| <b>Proposal</b>                           | <b>Votes for</b> | <b>Votes against/<br/>withheld</b> | <b>Votes abstained</b> |
|---|------------------|------------------------------------|------------------------|
| Common shares                             |                  |                                    |                        |
| Election of John L. Harrington as trustee | 6,621,501        | 83,622                             |                        |
| Approval of investment advisory agreement | 6,549,776        | 88,532                             | 66,516                 |
| Preferred shares                          |                  |                                    |                        |
| Election of John L. Harrington as trustee | 1,984            | 14                                 |                        |
| Approval of investment advisory agreement | 1,983            | 15                                 |                        |

**RMR Hospitality and Real Estate Fund**

**June 30, 2005**

*To our shareholders,*

In the pages that follow, you will find data summarizing our financial results for the first six months of 2005 and our financial position as of June 30, 2005.

As a result of our investment activities for the first six months of 2005, our net asset value was \$23.31 per common share as of June 30, 2005, a 1.2% increase from \$22.94 per common share six months earlier. In addition to this increase in net asset value per common share, we made monthly distributions totaling \$0.75 per common share during the first six months of 2005.

For the first six months of 2005, our investment allocation to the sub-sector of diversified real estate investment trusts, or REITs, increased from 12.0% to 13.6% of total investments, the largest sub-sector increase. During the same time period, our allocation to the hospitality sub-sector decreased from 31.2% to 27.0% of total investments, the largest sub-sector decrease. These changes partly reflect our view of the performance of each sub-sector and the companies in them and partly reflect the impact of stock market conditions. During the remainder of 2005, we will continue to monitor market conditions and position our portfolio according to our view of those conditions.

For shares that we held continuously during the first six months of 2005, our three best performing investments during the period were Gables Residential Trust, Equity Office Properties Trust and Colonial Properties Trust, with total returns during this period of 24.9%, 17.3% and 16.2%, respectively. Our worst performing investments during the first six months of 2005 were Bedford Property Investors, Inc., Eagle Hospitality Properties Trust, Inc. and Trustreet Properties Inc. with total returns (losses) during the first six months of (15.2)%, (6.5)% and (4.2)%, respectively.

Thank you for your continued support, and be sure to view our website, at [www.rmrfunds.com](http://www.rmrfunds.com).

Sincerely,

Thomas M. O'Brien  
President

## RMR Hospitality and Real Estate Fund

June 30, 2005

### Relevant Market Conditions

**Hospitality Industry Fundamentals.** We believe the favorable operating environment for hospitality companies that existed in 2004 has continued into 2005. In general, strong earnings reports have been released for the first two quarters from most of the major U.S. lodging companies. The first six months of 2005 for the hospitality industry were characterized by improvement in revenue per available room, or RevPAR, as a result of improved demand and limited growth in new room supply. The positive impact of revenue gains was offset somewhat in the period by increased labor, benefits and energy costs.

Barring any material unexpected economic or geopolitical events, we see positive trends continuing through the second half of 2005.

**Real Estate Industry Fundamentals.** We believe the investment environment for most real estate companies at June 30, 2005, and for the remainder of 2005 is generally positive. We believe that the environment for the remainder of 2005 will include revenue growth and stabilizing to improving occupancy rates. We believe that a majority of real estate investment trust's balance sheets reflect modest debt leverage and low floating rate debt.

**Real Estate Industry Technicals.** We believe demand for real estate securities over the long term will continue to increase. Demographic trends in the U.S. include growth in the over age 50 population; we believe that individuals in that age category tend to focus their investments in higher yielding stocks like real estate investments trusts, or REITs. Institutions, too, seem to be increasing their allocations to real estate securities as the market capitalization of REITs has increased. Both of these are positive factors affecting the real estate securities market.

### Fund Strategies, Techniques and Performance

Our primary objective is to earn and pay our shareholders a high level of current income by investing in hospitality and real estate companies. Our secondary objective is capital appreciation. There can be no assurance that we will meet our investment objectives.

During the first six months of 2005, our total return on net asset value, or NAV (including NAV changes and assuming a hypothetical reinvestment of distributions at NAV) was 5.10%. During that same period, the total return for the MSCI US REIT Total Return Index was 6.4% and the total return for the MSCI REIT Preferred Index was 2.8%. We believe these two indices are most relevant to our investments because our investments, excluding short term investments, as of June 30, 2005, include 55.9% REIT common stocks and 28.9% REIT preferred stocks. The S&P 500 Index (an unmanaged index published as Standard and Poor's Composite Index of 500 Stocks) total return (loss) for the first six months of 2005 was (0.8)%.

**RMR Hospitality and Real Estate Fund**  
**Portfolio of Investments** June 30, 2005 (unaudited)

| Company                                    | Shares  | Value      |
|--|---------|------------|
| <i>Common Stocks 67.7%</i>                 |         |            |
| <i>Real Estate Investment Trusts 67.5%</i> |         |            |
| <i>Apartments 8.0%</i>                     |         |            |
| Apartment Investment & Management Co.      | 10,000  | \$ 409,200 |
| Associated Estates Realty Corp.            | 16,600  | 153,218    |
| BNP Residential Properties, Inc.           | 16,000  | 256,000    |
| Gables Residential Trust                   | 65,000  | 2,809,950  |
| Home Properties, Inc.                      | 9,900   | 425,898    |
| Town & Country Trust                       | 20,000  | 570,200    |
|  |         | 4,624,466  |
| <i>Diversified 15.6%</i>                   |         |            |
| Bedford Property Investors, Inc.           | 45,300  | 1,042,806  |
| Colonial Properties Trust                  | 59,000  | 2,596,000  |
| Commercial Net Lease Realty                | 73,400  | 1,502,498  |
| Crescent Real Estate Equities Co.          | 95,000  | 1,781,250  |
| Lexington Corporate Properties Trust       | 87,000  | 2,114,970  |
|  |         | 9,037,524  |
| <i>Health Care 7.5%</i>                    |         |            |
| Health Care REIT, Inc.                     | 47,000  | 1,771,430  |
| Nationwide Health Properties, Inc.         | 91,000  | 2,148,510  |
| Windrose Medical Properties Trust          | 30,100  | 422,303    |
|  |         | 4,342,243  |
| <i>Hospitality 1.2%</i>                    |         |            |
| Ashford Hospitality Trust, Inc.            | 28,300  | 305,640    |
| Eagle Hospitality Properties Trust, Inc.   | 36,000  | 327,960    |
| Hersha Hospitality Trust                   | 6,000   | 57,240     |
|  |         | 690,840    |
| <i>Industrial 4.6%</i>                     |         |            |
| First Industrial Realty Trust, Inc.        | 67,000  | 2,673,300  |
| <i>Office 18.0%</i>                        |         |            |
| Brandywine Realty Trust                    | 32,000  | 980,800    |
| Equity Office Properties Trust             | 131,900 | 4,365,890  |
| Glenborough Realty Trust, Inc.             | 75,000  | 1,544,250  |
| Highwoods Properties, Inc.                 | 75,000  | 2,232,000  |
| Reckson Associates Realty Corp.            | 38,000  | 1,274,900  |
|  |         | 10,397,840 |

See notes to financial statements and notes to portfolio of investments



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|  |         |              |
|--|---------|--------------|
| <i>Retail 7.0%</i>   |         |              |
| Heritage Property Investment Trust                             | 73,900  | \$ 2,587,978 |
| New Plan Excel Realty Trust                                    | 53,000  | 1,440,010    |
|  |         | <hr/>        |
|  |         | 4,027,988    |
| <i>Specialty 5.0%</i>  |         |              |
| Getty Realty Corp.   | 30,000  | 831,000      |
| Trustreet Properties, Inc.                                     | 124,700 | 2,071,267    |
|  |         | <hr/>        |
|  |         | 2,902,267    |
| <i>Storage 0.6%</i>  |         |              |
| Sovran Self Storage, Inc.                                      | 8,100   | 368,226      |
| <i>Total Real Estate Investment Trusts (Cost \$31,568,754)</i> |         | 39,064,694   |
| <i>Other 0.2%</i>  |         |              |
| Panamsat Holding Corp. (Cost \$133,200)                        | 7,400   | 151,774      |
| <i>Total Common Stocks (Cost \$31,701,954)</i>                 |         | 39,216,468   |
| <i>Preferred Stocks 34.9%</i>                                  |         |              |
| <i>Real Estate Investment Trusts 34.9%</i>                     |         |              |
| <i>Apartments 2.8%</i>   |         |              |
| Apartment Investment & Management Co., Series R                | 38,000  | 993,700      |
| Apartment Investment & Management Co., Series U                | 24,000  | 602,400      |
|  |         | <hr/>        |
|  |         | 1,596,100    |
| <i>Diversified 1.6%</i>  |         |              |
| Colonial Properties Trust, Series E                            | 23,067  | 565,142      |
| Digital Realty Trust, Inc., Series A                           | 15,000  | 388,725      |
|  |         | <hr/>        |
|  |         | 953,867      |
| <i>Health Care 4.4%</i>  |         |              |
| Health Care REIT, Inc., Series F                               | 40,000  | 1,010,800    |
| LTC Properties, Inc., Series F                                 | 40,000  | 1,023,000    |
| Windrose Medical Properties Trust, Series A*                   | 20,000  | 495,000      |
|  |         | <hr/>        |
|  |         | 2,528,800    |
| <i>Hospitality 14.9%</i>                                       |         |              |
| Ashford Hospitality Trust, Series A                            | 46,000  | 1,201,750    |
| Boykin Lodging Co., Series A                                   | 70,000  | 1,942,500    |
| Eagle Hospitality Properties Trust, Series A                   | 28,000  | 719,600      |
| Host Marriott Corp., Series E                                  | 60,000  | 1,650,000    |
| Innkeepers USA Trust, Series C                                 | 27,000  | 690,390      |
| Winston Hotels, Inc., Series B                                 | 95,000  | 2,441,025    |
|  |         | <hr/>        |
|  |         | 8,645,265    |

See notes to financial statements and notes to portfolio of investments

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| Company  | Shares or<br>Principal<br>Amount | Value         |
|--|----------------------------------|---------------|
| <i>Preferred Stocks continued</i>                          |                                  |               |
| <i>Manufactured Homes 0.4%</i>                             |                                  |               |
| Affordable Residential Communities, Series A               | 9,600                            | \$ 242,880    |
| <i>Office 9.9%</i>   |                                  |               |
| Alexandria Real Estate Equities, Inc., Series C            | 120,000                          | 3,166,800     |
| Bedford Property Investors, Inc., Series B                 | 30,000                           | 757,650       |
| SL Green Realty Corp., Series D                            | 70,000                           | 1,795,500     |
|  |                                  | 5,719,950     |
| <i>Specialty 0.9%</i>                                      |                                  |               |
| New Century Financial Corp., Series A                      | 20,000                           | 506,000       |
| <i>Total Preferred Stocks (Cost \$19,208,140)</i>          |                                  | 20,192,862    |
| <i>Debt Securities 18.1%</i>                               |                                  |               |
| <i>Hospitality 18.1%</i>                                   |                                  |               |
| Felcor Lodging LP, 9.00%, 06/01/2011**                     | \$ 1,600,000                     | 1,748,000     |
| MeriStar Hospitality Corp., 9.125%, 01/15/2011**           | 1,000,000                        | 1,050,000     |
| MeriStar Hospitality Corp., 10.50%, 06/15/2009**           | 1,000,000                        | 1,070,000     |
| American Real Estate Partners LP, 8.125%, 06/01/2012       | 2,000,000                        | 2,060,000     |
| ITT Corp., 7.75%, 11/15/2025                               | 3,275,000                        | 3,373,250     |
| Six flags Inc., 9.75%, 04/15/2013                          | 1,260,000                        | 1,189,125     |
| <i>Total Debt Securities (Cost \$10,046,777)</i>           |                                  | 10,490,375    |
| <i>Short-Term Investment 6.3%</i>                          |                                  |               |
| <i>Other Investment Companies 6.3%</i>                     |                                  |               |
| SSgA Money Market Fund, 2.883%(a) (Cost \$3,643,043)       | 3,643,043                        | 3,643,043     |
| <i>Total Investments 127.0% (Cost \$64,599,914)</i>        |                                  | 73,542,748    |
| <i>Other assets less liabilities 2.4%</i>                  |                                  | 1,376,523     |
| <i>Preferred Shares, at liquidation preference (29.4)%</i> |                                  | (17,000,000)  |
| <i>Net Assets attributable to common shares 100%</i>       |                                  | \$ 57,919,271 |

**Notes**

**to Portfolio of Investments**

\*

**Convertible into common stock.**

\*\*

**Also a Real Estate Investment Trust.**

(a)

**Rate reflects 7 day yield as of June 30, 2005.**

*See notes to financial statements and notes to portfolio of investments*

**RMR Hospitality and Real Estate Fund**  
**Financial Statements** continued

## Statement of Assets and Liabilities

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**June 30, 2005 (unaudited)**

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*Assets*

|   |               |
|---|---------------|
| Investments in securities, at value (cost \$64,599,914) | \$ 73,542,748 |
| Cash  | 500,322       |
| Receivable for investments sold                         | 811,542       |
| Dividends and interest receivable                       | 729,426       |
| Other assets  | 11,736        |
|   | <hr/>         |
| Total assets  | 75,595,774    |
|   | <hr/>         |

*Liabilities*

|   |         |
|---|---------|
| Payable for investment securities purchased | 500,000 |
| Advisory fees payable                       | 36,637  |
| Distributions payable - preferred shares    | 19,999  |
| Accrued expenses and other liabilities      | 119,867 |
|   | <hr/>   |
| Total liabilities                           | 676,503 |
|   | <hr/>   |

*Preferred shares at liquidation preference*

|   |            |
|---|------------|
| Auction preferred shares, Series Th;<br>\$.001 par value per share; 680 shares issued and<br>outstanding at \$25,000 per share liquidation preference | 17,000,000 |
|   | <hr/>      |

*Net assets attributable to common shares*

\$ 57,919,271

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*Composition of net assets*

|   |            |
|---|------------|
| Common shares, \$.001 par value per share;<br>unlimited number of shares authorized,<br>2,485,000 shares issued and outstanding | \$ 2,485   |
| Additional paid-in capital  | 47,460,854 |
| Undistributed net investment income   | 100        |
| Accumulated net realized gain on investments  | 1,512,998  |
| Net unrealized appreciation on investments  | 8,942,834  |
|   | <hr/>      |

*Net assets attributable to common shares*

\$ 57,919,271

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*Net asset value per share attributable to common shares*  
*(based on 2,485,000 common shares outstanding)*

\$ 23.31

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*See notes to financial statements*

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**RMR Hospitality and Real Estate Fund****Financial Statements** continued

## Statement of Operations

**Six Months Ended June 30, 2005 (unaudited)***Investment income*

|  |              |
|--|--------------|
| Dividends (Cash distributions received or due) | \$ 2,022,583 |
| Interest                                       | 551,448      |
|  | <hr/>        |
| Total investment income                        | 2,574,031    |
|  | <hr/>        |

*Expenses*

|                                      |          |
|--------------------------------------|----------|
| Advisory                             | 303,603  |
| Administrative                       | 65,330   |
| Audit and legal                      | 52,500   |
| Custodian                            | 30,158   |
| Preferred share remarketing          | 21,392   |
| Compliance and internal audit        | 20,000   |
| Shareholder reporting                | 15,000   |
| Trustees' fees and expenses          | 8,628    |
| Other                                | 43,886   |
|                                      | <hr/>    |
| Total expenses                       | 560,497  |
| Less: expenses waived by the Advisor | (89,295) |
|                                      | <hr/>    |

|              |         |
|--------------|---------|
| Net expenses | 471,202 |
|              | <hr/>   |

|                       |           |
|-----------------------|-----------|
| Net investment income | 2,102,829 |
|                       | <hr/>     |

*Realized and unrealized gain on investments*

|   |         |
|---|---------|
| Net realized gain on investments                                    | 728,566 |
| Net change in unrealized appreciation/(depreciation) on investments | 185,287 |
|   | <hr/>   |

|  |           |
|--|-----------|
| Net realized and unrealized gain on investment transactions        | 913,853   |
| Distributions to preferred shareholders from net investment income | (238,979) |
|  | <hr/>     |

|  |              |
|--|--------------|
| Net increase in net assets attributable to common shares resulting from operations | \$ 2,777,703 |
|  | <hr/>        |

*See notes to financial statements*

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Statement of Changes in Net Assets

|  | Six Months<br>Ended<br>June 30,<br>2005 | For the Period<br>April 27,<br>2004(a) to<br>December 31,<br>2004 |
|--|---|---|
|  | (unaudited)                             |   |
| <i>Increase (decrease) in net assets resulting from operations</i>                           |   |   |
| Net investment income  | \$ 2,102,829                            | \$ 1,750,200  |
| Net realized gain on investments   | 728,566                                 | 1,055,756   |
| Net change in unrealized appreciation on investments   | 185,287                                 | 8,757,547   |
| Distributions to preferred shareholders from:  |   |   |
| Net investment income  | (238,979)                               | (151,512)   |
| Net realized gain on investments   |   | (23,262)  |
|  | <u>2,777,703</u>                        | <u>11,388,729</u>   |
| Net increase in net assets attributable to common shares resulting from operations           |   |   |
| Distributions to common shareholders from:   |   |   |
| Net investment income  | (1,863,750)                             | (1,615,688)   |
| Net realized gain on investments   |   | (248,062)   |
|  | <u>(1,863,750)</u>                      | <u>(1,863,750)</u>  |
| <i>Capital shares transactions</i>   |   |   |
| Net proceeds from sale of common shares  |   | 47,720,000  |
| Net proceeds from sale of preferred shares   |   | 16,660,339  |
|  |   | <u>64,380,339</u>   |
| Net increase from capital share transactions   |   | 64,380,339  |
| Less: Liquidation preference of preferred shares issued                                      |   | (17,000,000)  |
|  | <u>913,953</u>                          | <u>56,905,318</u>   |
| Total increase in net assets attributable to common shares                                   |   |   |
| <i>Net assets attributable to common shares</i>  |   |   |
| Beginning of period  | 57,005,318                              | 100,000   |
|  | <u>57,005,318</u>                       | <u>100,000</u>  |
| End of period (including undistributed net investment income of \$100 and \$0, respectively) | \$ 57,919,271                           | \$ 57,005,318   |
|  | <u>57,919,271</u>                       | <u>57,005,318</u>   |
| <i>Common shares issued and repurchased</i>  |   |   |
| Shares outstanding, beginning of period  | 2,485,000                               | 5,000   |
| Shares issued  |   | 2,480,000   |
|  | <u>2,485,000</u>                        | <u>2,485,000</u>  |
| Shares outstanding, end of period  | 2,485,000                               | 2,485,000   |
|  | <u>2,485,000</u>                        | <u>2,485,000</u>  |

(a) **Commencement of operations.**

See notes to financial statements

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Selected Data for a Common Share Outstanding Throughout the Period

|   | Six Months<br>Ended<br>June 30, 2005 | For the Period<br>April 27,<br>2004 (a) to<br>December 31,<br>2004 |
|---|--------------------------------------|--|
| (unaudited)   |                                      |  |
| <i>Per Common Share Operating Performance (b)</i>                             |                                      |  |
| Net asset value, beginning of period  | \$ 22.94                             | \$ 19.28(c)  |
| <i>Income from Investment Operations</i>                                      |                                      |  |
| Net investment income (d)   | 0.85(e)                              | 0.71   |
| Net realized and unrealized appreciation on investments                       | 0.37(e)                              | 3.95   |
| Distributions to preferred shareholders (common stock equivalent basis) from: |                                      |  |
| Net investment income   | (0.10)(e)                            | (0.06)   |
| Net realized gain on investments  | (e)                                  | (0.01)   |
| Net increase in net asset value from operations                               | 1.12                                 | 4.59   |
| Less: Distributions to common shareholders from:                              |                                      |  |
| Net investment income   | (0.75)(e)                            | (0.65)   |
| Net realized gain on investments  | (e)                                  | (0.10)   |
| Common share offering costs charged to capital                                |                                      | (0.04)   |
| Preferred share offering costs charged to capital                             |                                      | (0.14)   |
| Net asset value, end of period  | \$ 23.31                             | \$ 22.94   |
| Market price, beginning of period   | \$ 19.98                             | \$ 20.00   |
| Market price, end of period   | \$ 19.70                             | \$ 19.98   |
| <i>Total Return (f)</i>   |                                      |  |
| Total investment return based on:   |                                      |  |
| Market price (g)  | 2.58%                                | 3.93%  |
| Net asset value (g)   | 5.10%                                | 23.16%   |
| <i>Ratios/Supplemental Data:</i>  |                                      |  |
| Preferred shares, liquidation preference (\$25,000 per share) (000s)          | \$ 17,000                            | \$ 17,000  |
| Net assets attributable to common shares, end of period (000s)                | \$ 57,919                            | \$ 57,005  |
| Ratio to average net assets attributable to common shares (h) of:             |                                      |  |
| Net investment income, before total preferred share distributions (d)         | 7.71%(e)                             | 4.96%  |
| Total preferred share distributions   | 0.88%                                | 0.50%  |
| Net investment income, net of preferred share distributions (d)               | 6.83%(e)                             | 4.46%  |
| Expenses, net of fee waivers  | 1.73%                                | 1.86%  |
| Expenses, before fee waivers  | 2.05%                                | 2.18%  |
| Portfolio turnover rate   | 5.16%                                | 20.83%   |

(a) **Commencement of operations.**

(b) **Based on average shares outstanding.**

(c) **Net asset value at April 27, 2004, reflects the deduction of the average sales load and offering costs of \$0.72 per share paid by the holders of common shares from the \$20.00 offering price. We paid a sales load and offering costs of \$0.90 per share on 2,000,000 common shares sold to the public and no sales load or offering costs on 480,000 common shares sold to affiliates of RMR Advisors for \$20 per share.**

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- (d) Amounts are net of expenses waived by RMR Advisors.
- (e) As discussed in Note A(7) to the financial statements, these amounts are subject to change to the extent 2005 distributions by the issuers of the Fund's investments are characterized as capital gains and return of capital.
- (f) Total returns for periods less than one year are not annualized.
- (g) Total return based on per share market price assumes the purchase of common shares at the market price on the first day and sales of common shares at the market price on the last day of the period indicated; distributions are assumed to be reinvested at market prices. The total return based on net asset value, or NAV, assumes the purchase of common shares at NAV on the first day and sales of common shares at NAV on the last day of the period indicated; distributions are assumed to be reinvested at NAV. Results represent past performance and do not guarantee future results. Total return would have been lower if RMR Advisors had not contractually waived a portion of its investment advisory fee.
- (h) Annualized.

## **RMR Hospitality and Real Estate Fund**

### **Notes to Financial Statements**

**June 30, 2005** (unaudited)

#### **Note A**

##### (1) Organization

RMR Hospitality and Real Estate Fund, or the Fund, was organized as a Massachusetts business trust on January 27, 2004, and is registered under the Investment Company Act of 1940, as amended, as a non-diversified closed end management investment company. The Fund had no operations until April 27, 2004, other than matters relating to the Fund's establishment and registration of the Fund's common shares under the Securities Act of 1933.

##### (2) Interim Financial Statements

The accompanying June 30, 2005, financial statements have been prepared without audit. The Fund believes the disclosures made are adequate to make the information presented not misleading. In the opinion of the Fund's management, all adjustments, which include only normal recurring adjustments considered necessary for a fair presentation, have been included. The Fund's operating results for this interim period are not necessarily indicative of the results that may be expected in the future.

##### (3) Use of Estimates

Preparation of these financial statements in conformity with accounting principles generally accepted in the United States requires the Fund's management to make estimates and assumptions that may affect the amounts reported in the financial statements and related notes. The actual results could differ from these estimates particularly for reasons described in Note A(7), and for other reasons.

##### (4) Portfolio Valuation

Investment securities of the Fund are valued at the latest sales price whenever that price is readily available on the day of valuation; securities for which no sales were reported on that day, unless otherwise noted, are valued at the last available bid price on that day. Securities traded primarily on the NASDAQ Stock Market, or NASDAQ, are normally valued by the Fund at the NASDAQ Official Closing Price, or NOCP, provided by NASDAQ each business day. The NOCP is the most recently reported price as of 4:00:06 p.m., eastern time, unless that price is outside the range of the "inside" bid and asked prices (i.e., the bid and asked prices that dealers quote to each other when trading for their own accounts); in that case, NASDAQ will adjust the price to equal the inside bid or asked price, whichever is closer. Because of delays in reporting trades, the NOCP may not be based on the price of the last trade to occur before the market closes. Some fixed income securities may be valued using pricing provided by a pricing service. Any of the Fund's securities which are not readily marketable, which are not traded, which have other characteristics of illiquidity or whose quotations are unreliable are valued by the Fund at fair value as determined in good faith under the supervision of the Fund's board of trustees. Numerous factors may be considered when determining fair value of a security, including cost at date of purchase, type of security, the nature and duration of restrictions on disposition of the security and whether the issuer of the security being fair valued has other securities of the same class outstanding. Short term debt securities with less than 60 days until maturity may be valued at cost, which when combined with interest accrued, approximates market value.

##### (5) Securities Transactions and Investment Income

Securities transactions are recorded on a trade date basis. Dividend income is recorded on the ex-dividend date. Non-cash dividends included in dividend income, if any, are recorded at the fair market value of the



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securities received. Interest income, including accretion of original issue discount, where applicable, and accretion of discount on short term investments, is recorded on the accrual basis. Realized gains and losses from securities transactions are recorded on the basis of identified cost.

### (6) Federal Income Taxes

The Fund has qualified and intends to qualify in the future as a "regulated investment company" and to comply with the applicable provisions of subchapter M of the Internal Revenue Code of 1986, as amended, so that it will generally not be subject to federal income tax.

### (7) Distributable Earnings

The Fund earns income, net of expenses, daily on its investments. It is the policy of the Fund to pay a stable distribution amount to common shareholders on a monthly basis and distributions to Fund shareholders are declared pursuant to this policy. On June 28, 2005, the Fund declared distributions of \$0.125 per common share payable in August, September and October 2005. Distributions to Fund shareholders are recorded on the ex-dividend date.

The Fund's distributions may consist of ordinary income (net investment income and short term capital gains), long term capital gains and return of capital. The Fund estimates that the sum of the distributions declared for the 2005 year through June 30, 2005, is not greater than distributions and interest received or accrued by the Fund on its investments over expenses and cost of leverage plus net realized capital gain from sales of securities during 2005.

For financial reporting purposes as required by generally accepted accounting principles, the Fund generally reflects distributions and interest received or accrued on its investments and distributions made to shareholders as ordinary income, long term capital gains and return of capital in accordance with the characterization of these amounts required by the Internal Revenue Code of 1986, as amended. However, it is not possible to characterize distributions received from real estate investment trusts, or REITs, in which the Fund has invested a substantial portion of its assets, during interim periods because these issuers do not report their tax characterization until subsequent to year end 2005. Final characterization of the Fund's 2005 distributions to shareholders is also dependent upon the magnitude or timing of the Fund's securities transactions prior to year end. Therefore, it is likely that some portion of the Fund's 2005 investment income and distributions to shareholders will be recharacterized as long term capital gain and return of capital for financial statement and federal income tax purposes subsequent to year end and reflected accordingly in the Fund's year end financial statements.

To the extent the Fund's net realized capital gains, if any, can be offset by capital loss carry forwards, it is the policy of the Fund not to distribute such gains.

Although subject to adjustments, the cost, gross unrealized appreciation and unrealized depreciation of the Fund's investments for federal income tax purposes, as of June 30, 2005, are as follows:

|                               |    |            |
|-------------------------------|----|------------|
| Cost                          | \$ | 64,599,914 |
|                               |    | <hr/>      |
| Gross unrealized appreciation | \$ | 9,180,735  |
| Gross unrealized depreciation |    | (237,901)  |
|                               |    | <hr/>      |
| Net unrealized appreciation   | \$ | 8,942,834  |
|                               |    | <hr/>      |

(8) Concentration of Risk

Under normal market conditions, the Fund's investments are concentrated in income producing common shares, preferred shares and debt securities, including convertible preferred and debt securities, issued by hospitality and real estate companies and REITs. The value of Fund shares may fluctuate more than the shares of a fund not concentrated in the hospitality and real estate industries due to economic, legal, regulatory, technological or other developments affecting the United States hospitality and real estate industries.

**Note B**

**Advisory and Administration Agreements and Other Transactions with Affiliates**

The Fund has an advisory agreement with RMR Advisors, Inc., or RMR Advisors, to provide the Fund with a continuous investment program, to make day to day investment decisions and to generally manage the business affairs of the Fund in accordance with its investment objectives and policies. Pursuant to this agreement, RMR Advisors is compensated at an annual rate of 0.85% of the Fund's average daily managed assets. Managed assets means the total assets of the Fund less liabilities other than any indebtedness entered into for purposes of leverage. For purposes of calculating managed assets, indebtedness entered for the purpose of leverage and the liquidation preference of preferred shares are not considered liabilities.

RMR Advisors has contractually agreed to waive a portion of its annual fee equal to 0.25% of the Fund's average daily managed assets, until April 27, 2009.

On May 16, 2005, Barry M. Portnoy became the sole owner of RMR Advisors. This change in ownership is deemed to be a change in control resulting in termination of the then existing investment advisory agreement under the Investment Company Act of 1940. A new investment advisory agreement with the same terms as the previous agreement (except for dates of execution and effective dates) was approved by the shareholders on May 11, 2005.

RMR Advisors, and not the Fund, has agreed to pay the lead underwriters of the Fund's initial public offering an annual fee equal to 0.15% in the aggregate of the Fund's managed assets. This fee is paid quarterly in arrears during the term of RMR Advisors' advisory agreement and is paid by RMR Advisors, not the Fund. The aggregate fees paid pursuant to the contract plus reimbursement of legal expenses of the underwriters will not exceed 4.5% of the total price of the common shares sold to non-affiliates in the initial public offering.

RMR Advisors also performs administrative functions for the Fund pursuant to an administration agreement with the Fund. RMR Advisors has entered into a sub-administration agreement with State Street Bank and Trust Company ("State Street") to perform substantially all Fund accounting and other administrative services. Under the administration agreement RMR Advisors is entitled to reimbursement of the cost of providing administrative services. During the six months ended June 30, 2005, the Fund reimbursed RMR Advisors for \$65,330 of sub-administrative fees charged by State Street.

The Fund pays each trustee who is not a director, officer or employee of RMR Advisors and who is not an interested person of the Fund as defined under the Investment Company Act of 1940, as amended, (a "disinterested trustee") an annual fee plus fees for board and committee meetings.

The Fund's board of trustees and separately the disinterested trustees have authorized the Fund to make reimbursement payments to RMR Advisors for costs related to the Fund's compliance and internal audit

programs. The Fund also participates in pooled insurance programs with RMR Advisors and other funds managed by RMR Advisors and makes payments of the allocated portions of related premiums.

## **Note C**

### **Securities Transactions**

During the six months ended June 30, 2005, there were securities purchases and sales transactions (excluding short term securities) of \$3,630,338 and \$7,309,107 respectively. Brokerage commissions on securities transactions, exclusive of transactions settled on a net basis, amounted to \$3,401 during the six months ended June 30, 2005.

## **Note D**

### **Preferred Shares**

The Fund's 680 outstanding Series Th auction preferred shares have a liquidation preference of \$25,000 per share plus an amount equal to accumulated but unpaid distributions. The preferred shares are senior to the Fund's common shares and rank on parity with any other class or series of preferred shares of the Fund as to the payment of periodic distributions, including distribution of assets upon liquidation. If the Fund does not timely cure a failure to (1) maintain asset coverage for the preferred shares as required by rating agencies, or (2) maintain asset coverage, as defined in the Investment Company Act of 1940, of at least 200%, the preferred shares will be subject to redemption at an amount equal to their liquidation preference plus accumulated but unpaid distributions. The holders of the preferred shares have voting rights equal to the holders of the Fund's common shares and generally vote together with the holders of the common shares as a single class. Holders of the preferred shares, voting as a separate class, also are entitled to elect two of the Fund's trustees. The Fund pays distributions on the preferred shares at a rate set at auctions held generally every seven days. Distributions are generally payable every seven days, on the first business day following the end of a distribution period. The preferred share distribution rate was 3.10% per annum as of June 30, 2005.

In June 2005, the Fund's board authorized the issuance of additional preferred shares. Subject to market conditions, the Fund intends to offer additional preferred shares which together with the Series Th preferred shares will represent approximately 33% of the Fund's managed assets after issuance.

**Note E**

**Submission of Proposals to a Vote of Shareholders**

The annual meeting of Fund shareholders was held on May 11, 2005. Following is a summary of the proposals submitted to shareholders for vote at the meeting:

| Proposal                                  | Votes for | Votes against/<br>withheld | Votes abstained |
|---|-----------|----------------------------|-----------------|
| Common shares                             |           |                            |                 |
| Election of John L. Harrington as trustee | 2,087,045 | 16,980                     |                 |
| Approval of investment advisory agreement | 2,075,034 | 14,583                     | 14,408          |
| Preferred shares                          |           |                            |                 |
| Election of John L. Harrington as trustee | 680       |                            |                 |
| Approval of investment advisory agreement | 677       |                            | 3               |

**RMR F.I.R.E. Fund**

**June 30, 2005**

*To our shareholders,*

In the pages that follow, you will find data summarizing our financial results for the first six months of 2005 and our financial position as of June 30, 2005.

As a result of our investment activities for the first six months of 2005, our net asset value was \$23.54 per common share as of June 30, 2005, a 1.9% decrease from \$23.99 per common share six months earlier. We paid five monthly distributions totaling \$0.73 per common share during the first six months of 2005. We completed investing the proceeds from our December 2004 preferred share offering in the first six months of 2005 and paid our first monthly dividend in February 2005.

Our allocation in the hospitality sub-sector increased from 2.4% to 10.9% of total investments, the largest sub-sector increase. During the same time period, our allocation in bank securities decreased from 16.4% to 12.9% of total investments, the largest sub-sector decrease. These changes partly reflect trading activity based upon our view of business environments in these industries and the strengths and weakness of individual companies and partly reflect stock market conditions for real estate investment trusts and relatively weaker stock market conditions for banks. During the remainder of 2005, we will continue to monitor market conditions and position our portfolio according to our view of those conditions.

For shares that we held continuously during the first six months of 2005, our three best performing investments were Equity Office Properties Trust, Colonial Properties Trust and American Capital Strategies, Ltd., with total returns during the period of 17.3%, 16.2% and 13.1%, respectively. Our worst performing investments during the first six months of 2005 were Freidman, Billings, Ramsey Group, Inc., Bedford Properties Investors, Inc. and Farmers Capital Bank Corp., with total returns (losses) during the first six months of (22.8)%, (15.2)% and (14.3)%, respectively.

Thank you for your continued support, and be sure to view our website, at [www.rmrffunds.com](http://www.rmrffunds.com).

Sincerely,

Thomas M. O'Brien  
President

**RMR F.I.R.E. Fund**

**June 30, 2005**

**Relevant Market Conditions**

*Financial Services Industry Fundamentals.* Financial stocks had a difficult first six months in 2005. The treasury yield curve flattening that has so far been the net result of Federal Reserve rate increases, has reduced most bank's spread between cost of funds and asset yields (commonly referred to as net interest margin). Despite this difficulty weighing on share prices, fundamentals have held firm for most banks. Consumer and real estate loan growth continued during the period and residential mortgage growth was much stronger than expected. Despite fears of possible credit quality deterioration, we have seen very little diminishing loan quality in reported statistics, a factor which has confounded the expectations even of some companies' management teams.

The first six months of 2005 also saw a dramatic slow down of merger activity. Recently, the consolidation that we believe may favorably impact bank share prices seems to have begun again.

*Real Estate Industry Fundamentals.* We believe the investment environment for most real estate companies at June 30, 2005, and for the remainder of 2005 is generally positive. We believe that the environment for the remainder of 2005 will include revenue growth and stabilizing to improving occupancy rates. We believe that a majority of real estate investment trust's balance sheets reflect modest debt leverage and low floating rate debt.

*Real Estate Industry Technicals.* We believe demand for real estate securities over the long term will continue to increase. Demographic trends in the U.S. include growth in the over age 50 population; we believe that individuals in that age category tend to focus their investments in higher yielding stocks like real estate investments trusts, or REITs. Institutions, too, seem to be increasing their allocations to real estate securities as the market capitalization of REITs has increased. Both of these are positive factors affecting the real estate securities market.

**Fund Strategies, Techniques and Performance**

Our investment objective is to provide high total returns to our common shareholders through a combination of capital appreciation and current income. There can be no assurance that we will meet our investment objective.

During the first six months of 2005, our total return on net asset value, or NAV (including NAV changes and assuming a hypothetical reinvestment of distributions at NAV) was 1.4%. During the same period the S&P 500 Financial Sector Index total return (loss) was (2.3)%, the total return for the MSCI US REIT Total Return Index was 6.4% and the MSCI REIT Preferred Index was 2.8%. We believe these three indices are most relevant to our investments because our investments, excluding short-term investments, as of June 30, 2005, include 27.6% of financial services stocks, 31.5% REIT common stocks and 38.1% REIT preferred stocks. The S&P 500 Index (an unmanaged index published as Standard and Poor's Composite Index of 500 Stocks) total return (loss) for the first six months of 2005 was (0.8)%.

**RMR F.I.R.E. Fund**  
**Portfolio of Investments** June 30, 2005 (unaudited)

| Company  | Shares | Value      |
|--|--------|------------|
| <i>Common Stocks 90.1%</i>   |        |            |
| <i>Financial Services 38.5%</i>  |        |            |
| <i>Banks 19.7%</i>   |        |            |
| Comerica Incorporated  | 14,800 | \$ 855,440 |
| Farmers Capital Bank Corp.   | 3,035  | 105,132    |
| Fifth Third Bancorp  | 3,000  | 123,630    |
| First Commonwealth Financial Corp.   | 28,000 | 383,600    |
| First Horizon National Corp.   | 11,400 | 481,080    |
| Firstmerit Corp.   | 22,800 | 595,308    |
| F.N.B. Corp.   | 28,500 | 560,025    |
| Hudson United Bancorp  | 17,100 | 617,310    |
| JPMorgan Chase & Co.   | 7,500  | 264,900    |
| Keycorp  | 17,100 | 566,865    |
| National City Corp.  | 27,400 | 934,888    |
| Regions Financial Corp.  | 23,200 | 786,016    |
| Susquehanna Bancshares, Inc.   | 12,600 | 309,834    |
| Trustco Bank Corp NY   | 23,400 | 305,604    |
|  |        | 6,889,632  |
| <i>Thriffs 6.3%</i>  |        |            |
| Capitol Federal Financial  | 17,400 | 599,952    |
| Flagstar Bancorp, Inc.   | 25,000 | 473,250    |
| New York Community Bancorp, Inc.   | 63,200 | 1,145,184  |
| Beverly Hills Bancorp, Inc.  | 100    | 1,095      |
|  |        | 2,219,481  |
| <i>Other Financial Services 12.5%</i>  |        |            |
| American Capital Strategies, Ltd.  | 17,000 | 613,870    |
| CharterMac   | 44,200 | 970,632    |
| Capital Trust, Inc.*   | 4,900  | 163,709    |
| Fannie Mae   | 17,000 | 992,800    |
| Friedman Billings Ramsey Group, Inc.*  | 54,000 | 772,200    |
| Lazard Ltd   | 3,000  | 69,750     |
| MCG Capital Corp.*   | 46,500 | 794,220    |
|  |        | 4,377,181  |
| <i>Total Financial Services (Cost \$14,448,369)</i>                            |        | 13,486,294 |
| <i>See notes to financial statements and notes to portfolio of investments</i> |        |            |

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|   |       |        |            |
|---|-------|--------|------------|
| <i>Real Estate</i>                        | 47.5% |        |            |
| <i>Apartments</i>                         | 2.3%  |        |            |
| AMLI Residential Properties Trust*        |       | 10,800 | \$ 337,608 |
| United Dominion Realty Trust, Inc.*       |       | 19,200 | 461,760    |
|   |       |        | <hr/>      |
|   |       |        | 799,368    |
| <i>Diversified</i>                        | 13.2% |        |            |
| Colonial Properties Trust*                |       | 8,400  | 369,600    |
| Bedford Property Investors, Inc.*         |       | 24,000 | 552,480    |
| Liberty Properties Trust*                 |       | 18,000 | 797,580    |
| Lexington Corporate Properties Trust*     |       | 26,400 | 641,784    |
| Crescent Real Estate Equities Co.*        |       | 82,400 | 1,545,000  |
| Commercial Net Lease Realty*              |       | 34,200 | 700,074    |
|   |       |        | <hr/>      |
|   |       |        | 4,606,518  |
| <i>Health Care</i>                        | 4.1%  |        |            |
| Nationwide Health Properties, Inc.*       |       | 26,000 | 613,860    |
| Health Care Property Investors, Inc.*     |       | 3,000  | 81,120     |
| Health Care REIT, Inc.*                   |       | 17,900 | 674,651    |
| Windrose Medical Properties Trust*        |       | 5,000  | 70,150     |
|   |       |        | <hr/>      |
|   |       |        | 1,439,781  |
| <i>Hospitality</i>                        | 1.0%  |        |            |
| Eagle Hospitality Properties Trust, Inc.* |       | 36,500 | 332,515    |
| <i>Industrial</i>                         | 3.8%  |        |            |
| First Industrial Realty Trust, Inc.*      |       | 32,900 | 1,312,710  |
| <i>Office</i>                             | 7.8%  |        |            |
| Arden Realty, Inc.*                       |       | 9,600  | 345,408    |
| Equity Office Properties Trust*           |       | 23,050 | 762,955    |
| Glenborough Realty Trust, Inc.*           |       | 64,400 | 1,325,996  |
| Reckson Associates Realty Corp.*          |       | 8,400  | 281,820    |
|   |       |        | <hr/>      |
|   |       |        | 2,716,179  |

*See notes to financial statements and notes to portfolio of investments*



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|  |        |            |
|--|--------|------------|
| <i>Manufactured Homes</i> 2.1%                   |        |            |
| Sun Communities, Inc.*                           | 20,000 | \$ 743,800 |
| <i>Retail</i> 7.5%                               |        |            |
| Glimcher Realty Trust                            | 44,000 | 1,221,000  |
| Heritage Property Investment Trust*              | 16,800 | 588,336    |
| The Mills Corp.*                                 | 1,600  | 97,264     |
| New Plan Excel Realty Trust*                     | 26,800 | 728,156    |
|  |        | <hr/>      |
|  |        | 2,634,756  |
| <i>Specialty</i> 4.6%                            |        |            |
| Truststreet Properties, Inc.*                    | 61,000 | 1,013,210  |
| iStar Financial Inc.*                            | 14,000 | 582,260    |
|  |        | <hr/>      |
|  |        | 1,595,470  |
| <i>Storage</i> 1.1%                              |        |            |
| Sovran Self Storage, Inc. *                      | 8,200  | 372,772    |
| <i>Total Real Estate (Cost \$16,544,139)</i>     |        | 16,553,869 |
| <i>Other</i> 4.1%                                |        |            |
| Panamsat Holding Corp. (Cost \$1,274,400)        | 70,800 | 1,452,108  |
| <i>Total Common Stocks (Cost \$32,266,908)</i>   |        | 31,492,271 |
| <i>Preferred Stocks</i> 60.1%                    |        |            |
| <i>Real Estate</i> 57.3%                         |        |            |
| <i>Apartments</i> 10.5%                          |        |            |
| Apartment Investment & Management Co., Series U* | 32,500 | 815,750    |
| Apartment Investment & Management Co., Series V* | 27,700 | 703,580    |
| Apartment Investment & Management Co., Series Y* | 65,000 | 1,631,500  |
| Home Properties NY, Inc., Series F*              | 18,800 | 521,230    |
|  |        | <hr/>      |
|  |        | 3,672,060  |
| <i>Diversified</i> 6.2%                          |        |            |
| Bedford Properties Inv., Series B*               | 45,000 | 1,136,475  |
| Digital Realty Trust Inc., Series A*             | 20,000 | 518,300    |
| Cousins Properties, Inc., Series B*              | 20,000 | 509,400    |
|  |        | <hr/>      |
|  |        | 2,164,175  |

See notes to financial statements and notes to portfolio of investments

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|  |        |            |
|--|--------|------------|
| <i>Health Care</i> 2.0%  |        |            |
| Health Care REIT, Inc., Series F*  | 26,900 | \$ 679,763 |
| <i>Hospitality</i> 15.7%   |        |            |
| Eagle Hospitality Properties Trust, Series A*                                  | 14,000 | 359,800    |
| Winston Hotels, Inc., Series B*  | 10,900 | 280,076    |
| Equity Inns, Inc., Series B*   | 50,000 | 1,307,500  |
| Lasalle Hotel Properties, Series A*  | 36,000 | 961,920    |
| Entertainment Properties Trust, Series B*                                      | 40,000 | 1,014,400  |
| Felcor Lodging Trust, Inc., Series C*  | 64,000 | 1,569,920  |
|  |        | <hr/>      |
|  |        | 5,493,616  |
| <i>Manufactured Homes</i> 0.5%   |        |            |
| Affordable Residential, Series A*  | 6,900  | 174,570    |
| <i>Office</i> 2.4%   |        |            |
| Alexandria Real Estate Equities, Series C *                                    | 31,600 | 833,924    |
| <i>Retail</i> 10.3%  |        |            |
| CBL & Associates Prop., Series D*  | 10,000 | 253,300    |
| Glimcher Realty Trust, Series F*   | 26,500 | 709,935    |
| Taubman Centers, Inc., Series G*   | 15,000 | 384,750    |
| Glimcher Realty Trust, Series G*   | 41,000 | 1,047,550  |
| Ramco-Gershenson Properties Trust, Series B*                                   | 36,000 | 957,960    |
| The Mills Corp., Series E*   | 9,500  | 257,450    |
|  |        | <hr/>      |
|  |        | 3,610,945  |
| <i>Specialty</i> 9.7%  |        |            |
| RAIT Investment Trust, Series B*   | 59,000 | 1,523,380  |
| MFA Mortgage Investment, Inc., Series A*                                       | 13,800 | 358,800    |
| New Century Financial, Series A*   | 20,000 | 506,000    |
| Thornburg Mortgage, Inc., Series C*  | 40,000 | 1,007,599  |
|  |        | <hr/>      |
|  |        | 3,395,779  |
| <i>Total Real Estate (Cost \$20,008,725)</i>                                   |        | 20,024,832 |
| <i>See notes to financial statements and notes to portfolio of investments</i> |        |            |

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|  |         |               |
|--|---------|---------------|
| <i>Financial Services</i> 2.8%                             |         |               |
| Corts-UNUM Provident Financial Trust                       | 38,000  | \$ 986,860    |
| <i>Total Financial Services (Cost \$982,300)</i>           |         | 986,860       |
| <i>Total Preferred Stocks (Cost \$20,991,025)</i>          |         | 21,011,692    |
| <i>Short-Term Investments</i> 2.7%                         |         |               |
| <i>Other Investment Companies</i> 2.7%                     |         |               |
| SSgA Money Market Fund, 2.883%(a), (Cost \$941,506)        | 941,506 | 941,506       |
| <i>Total Investments</i> 152.9% (Cost \$54,199,439)        |         | 53,445,469    |
| <i>Other assets less liabilities</i> 4.3%                  |         | 1,493,512     |
| <i>Preferred Shares, at liquidation preference</i> (57.2)% |         | (20,000,000)  |
| <i>Net Assets attributable to common shares</i> 100%       |         | \$ 34,938,981 |

**Notes to Portfolio of Investments**

\*

**Real Estate Investment Trust**

(a)

**Rate reflects 7 day yield as of June 30, 2005.**

*See notes to financial statements and notes to portfolio of investments*

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Statement of Assets and Liabilities

**June 30, 2005 (unaudited)**

*Assets*

|   |               |
|---|---------------|
| Investments in securities, at value (cost \$54,199,439) | \$ 53,445,469 |
| Cash  | 896           |
| Receivable for investments sold                         | 1,043,412     |
| Dividends and interest receivable                       | 527,479       |
| Other assets  | 14,768        |
|   | <hr/>         |
| Total assets  | 55,032,024    |
|   | <hr/>         |

*Liabilities*

|  |        |
|--|--------|
| Advisory fees payable                    | 26,887 |
| Distributions payable - preferred shares | 11,664 |
| Accrued expenses and other liabilities   | 54,492 |
|  | <hr/>  |
| Total liabilities                        | 93,043 |
|  | <hr/>  |

*Preferred shares at liquidation preference*

|   |            |
|---|------------|
| Auction preferred shares, Series W; \$.001 par value per share;<br>800 shares issued and outstanding at \$25,000 per share liquidation preference | 20,000,000 |
|   | <hr/>      |

*Net assets attributable to common shares*

\$ 34,938,981

---

*Composition of net assets*

|  |            |
|--|------------|
| Common shares, \$.001 par value per share; unlimited number of<br>shares authorized, 1,484,000 shares issued and outstanding | \$ 1,484   |
| Additional paid-in capital   | 35,212,862 |
| Undistributed net investment income  | 124,163    |
| Accumulated net realized gain on investments   | 354,442    |
| Net unrealized depreciation on investments   | (753,970)  |
|  | <hr/>      |

*Net assets attributable to common shares*

\$ 34,938,981

---

*Net asset value per share attributable to common shares  
(based on 1,484,000 common shares outstanding)*

\$ 23.54

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*See notes to financial statements*

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Statement of Operations

Six Months Ended June 30, 2005 (unaudited)

*Investment income*

|  |              |
|--|--------------|
| Dividends (Cash distributions received or due) | \$ 1,735,553 |
| Interest                                       | 21,703       |
|  | <hr/>        |
| Total investment income                        | 1,757,256    |
|  | <hr/>        |

*Expenses*

|                               |         |
|-------------------------------|---------|
| Advisory                      | 225,644 |
| Administrative                | 63,628  |
| Audit and legal               | 42,150  |
| Custodian                     | 31,449  |
| Preferred share remarketing   | 25,168  |
| Compliance and internal audit | 20,000  |
| Shareholder reporting         | 10,750  |
| Trustees' fees and expenses   | 11,300  |
| Other                         | 45,986  |
|                               | <hr/>   |

|                                      |          |
|--------------------------------------|----------|
| Total expenses                       | 476,075  |
| Less: expenses waived by the Advisor | (66,366) |
|                                      | <hr/>    |

|              |         |
|--------------|---------|
| Net expenses | 409,709 |
|              | <hr/>   |

|                       |           |
|-----------------------|-----------|
| Net investment income | 1,347,547 |
|                       | <hr/>     |

*Realized and unrealized gain on investments*

|   |           |
|---|-----------|
| Net realized gain on investments                                    | 249,752   |
| Net change in unrealized appreciation/(depreciation) on investments | (895,386) |
|   | <hr/>     |

|  |           |
|--|-----------|
| Net realized and unrealized loss on investment transactions        | (645,634) |
| Distributions to preferred shareholders from net investment income | (273,376) |
|  | <hr/>     |

|  |            |
|--|------------|
| Net increase in net assets attributable to common shares resulting from operations | \$ 428,537 |
|  | <hr/>      |

*See notes to financial statements*

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Statement of Changes in Net Assets

|  | Six Months<br>Ended<br>June 30, 2005 | For the Period<br>November 22,<br>2004(a) to<br>December 31,<br>2004 |
|--|--------------------------------------|--|
| (unaudited)  |                                      |  |
| <i>Increase (decrease) in net assets resulting from operations</i>                                     |                                      |  |
| Net investment income  | \$ 1,347,547                         | \$ 152,000   |
| Net realized gain on investments   | 249,752                              | 104,690  |
| Net unrealized appreciation/(depreciation) on investments  | (895,386)                            | 141,416  |
| Distributions to preferred shareholders from net investment income                                     | (273,376)                            | (22,688)   |
|  | <u>428,537</u>                       | <u>375,418</u>   |
| Net increase in net assets attributable to common shares resulting from operations                     |                                      |  |
|  | (1,083,320)                          |  |
| <i>Capital shares transactions</i>   |                                      |  |
| Net proceeds from sale of common shares  |                                      | 35,496,000   |
| Net proceeds from sale of preferred shares   |                                      | 19,622,346   |
|  |                                      | <u>55,118,346</u>  |
| Net from capital share transactions  |                                      |  |
| Less: Liquidation preference of preferred shares issued  |                                      | (20,000,000)   |
|  |                                      | <u>35,493,764</u>  |
| Total increase (decrease) in net assets attributable to common shares                                  | (654,783)                            | 35,493,764   |
| <i>Net assets attributable to common shares</i>  |                                      |  |
| Beginning of period  | 35,593,764                           | 100,000  |
|  | <u>35,593,764</u>                    | <u>100,000</u>   |
| End of period (including undistributed net investment income of \$124,163 and \$133,312, respectively) | \$ 34,938,981                        | \$ 35,593,764  |
|  | <u>34,938,981</u>                    | <u>35,593,764</u>  |
| <i>Common shares issued and repurchased</i>  |                                      |  |
| Shares outstanding, beginning of period  | 1,484,000                            | 4,000  |
| Shares issued  |                                      | 1,480,000  |
|  | <u>1,484,000</u>                     | <u>1,484,000</u>   |
| Shares outstanding, end of period  | 1,484,000                            | 1,484,000  |
|  | <u>1,484,000</u>                     | <u>1,484,000</u>   |

(a) **Commencement of operations.**

See notes to financial statements

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Selected Data for a Common Share Outstanding Throughout the Period

|   | Six Months<br>ended June 30,<br>2005 | For the Period<br>November 22,<br>2004(a) to<br>December 31,<br>2004 |
|---|--------------------------------------|--|
| (unaudited)   |                                      |  |
| <i>Per Common Share Operating Performance (b)</i>                             |                                      |  |
| Net asset value, beginning of period  | \$ 23.99                             | \$ 24.03 (c)   |
| <i>Income from Investment Operations</i>                                      |                                      |  |
| Net investment income (d)   | 0.91 (e)                             | 0.10   |
| Net realized and unrealized appreciation (depreciation) on investments        | (0.44)(e)                            | 0.17   |
| Distributions to preferred shareholders (common stock equivalent basis) from: |                                      |  |
| Net investment income   | (0.19)(e)                            | (0.02)   |
| Net realized gain on investments  | (e)                                  |  |
| Net increase in net asset value from operations                               | 0.28                                 | 0.25   |
| Less: Distributions to common shareholders from:                              |                                      |  |
| Net investment income   | (0.73)(e)                            |  |
| Common share offering costs charged to capital                                |                                      | (0.04)   |
| Preferred share offering costs charged to capital                             |                                      | (0.25)   |
| Net asset value, end of period  | \$ 23.54                             | \$ 23.99   |
| Market price, beginning of period   | \$ 24.05                             | \$ 25.00   |
| Market price, end of period   | \$ 21.15                             | \$ 24.05   |
| <i>Total Return (f)</i>   |                                      |  |
| Total investment return based on:   |                                      |  |
| Market price (g)  | -8.89%                               | -3.80%   |
| Net asset value (g)   | 1.35%                                | -0.17%   |
| <i>Ratios/Supplemental Data:</i>  |                                      |  |
| Preferred shares, liquidation preference (\$25,000 per share) (000s)          | \$ 20,000                            | \$ 20,000  |
| Net assets attributable to common shares, end of period (000s)                | \$ 34,939                            | \$ 35,594  |
| Ratio to average net assets attributable to common shares (h) of:             |                                      |  |
| Net investment income, before total preferred share distributions (d)         | 8.10%(e)                             | 3.92%  |
| Total preferred share distributions   | 1.64%                                | 0.58%  |
| Net investment income, net of preferred share distributions (d)               | 6.46%(e)                             | 3.34%  |
| Expenses, net of fee waivers  | 2.46%                                | 3.45%  |
| Expenses, before fee waivers  | 2.86%                                | 3.73%  |
| Portfolio turnover rate   | 31.02%                               | 0.00%  |

(a) **Commencement of operations.**

(b) **Based on average shares outstanding.**

(c) **Net asset value at November 22, 2004, reflects the deduction of the average sales load and offering costs of \$0.97 per share paid by the holders of common shares from the \$25.00 offering price. We paid a sales load and offering costs of \$1.125 per share on 1,280,000 common shares sold**

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to the public and no sales load or offering costs on 200,000 common shares sold to affiliates of RMR Advisors for \$25 per share.

- (d) Amounts are net of expenses waived by RMR Advisors.
- (e) As discussed in Note A(7) to the financial statements, these amounts are subject to change to the extent 2005 distributions by the issuers of the Fund's investments are characterized as capital gains and return of capital.
- (f) Total returns for periods less than one year are not annualized.
- (g) Total return based on per share market price assumes the purchase of common shares at the market price on the first day and sales of common shares at the market price on the last day of the period indicated; dividends and distributions, if any, are assumed to be reinvested at market prices. The total return based on net asset value, or NAV, assumes the purchase of common shares at NAV on the first day and sales of common shares at NAV on the last day of the period indicated; distributions are assumed to be reinvested at NAV. Results represent past performance and do not guarantee future results. Total return would have been lower if RMR Advisors had not contractually waived a portion of its investment advisory fee.
- (h) Annualized.



**RMR F.I.R.E. Fund**  
**Notes to Financial Statements**

**June 30, 2005** (unaudited)

**Note A**

(1) Organization

RMR F.I.R.E. Fund, or the Fund, was organized as a Massachusetts business trust on August 6, 2004, and is registered under the Investment Company Act of 1940, as amended, as a non-diversified closed end management investment company. The Fund had no operations until November 22, 2004, other than matters relating to the Fund's establishment and registration of the Fund's common shares under the Securities Act of 1933.

(2) Interim Financial Statements

The accompanying June 30, 2005, financial statements have been prepared without audit. The Fund believes the disclosures made are adequate to make the information presented not misleading. In the opinion of the Fund's management, all adjustments, which include only normal recurring adjustments considered necessary for a fair presentation, have been included. The Fund's operating results for this interim period are not necessarily indicative of the results that may be expected in the future.

(3) Use of Estimates

Preparation of these financial statements in conformity with accounting principles generally accepted in the United States requires the Fund's management to make estimates and assumptions that may affect the amounts reported in the financial statements and related notes. The actual results could differ from these estimates particularly for reasons described in Note A(7), and for other reasons.

(4) Portfolio Valuation

Investment securities of the Fund are valued at the latest sales price whenever that price is readily available on the day of valuation; securities for which no sales were reported on that day, unless otherwise noted, are valued at the last available bid price on that day. Securities traded primarily on the NASDAQ Stock Market, or NASDAQ, are normally valued by the Fund at the NASDAQ Official Closing Price, or NOCP, provided by NASDAQ each business day. The NOCP is the most recently reported price as of 4:00:06 p.m., eastern time, unless that price is outside the range of the "inside" bid and asked prices (i.e., the bid and asked prices that dealers quote to each other when trading for their own accounts); in that case, NASDAQ will adjust the price to equal the inside bid or asked price, whichever is closer. Because of delays in reporting trades, the NOCP may not be based on the price of the last trade to occur before the market closes. Some fixed income securities may be valued using pricing provided by a pricing service. Any of the Fund's securities which are not readily marketable, which are not traded, which have other characteristics of illiquidity or whose quotations are unreliable are valued by the Fund at fair value as determined in good faith under the supervision of the Fund's board of trustees. Numerous factors may be considered when determining fair value of a security, including cost at date of purchase, type of security, the nature and duration of restrictions on disposition of the security and whether the issuer of the security being fair valued has other securities of the same class outstanding. Short term debt securities with less than 60 days until maturity may be valued at cost, which when combined with interest accrued, approximates market value.

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### (5) Securities Transactions and Investment Income

Securities transactions are recorded on a trade date basis. Dividend income is recorded on the ex-dividend date. Non-cash dividends included in dividend income, if any, are recorded at the fair market value of the securities received. Interest income, including accretion of original issue discount, where applicable, and accretion of discount on short term investments, is recorded on the accrual basis. Realized gains and losses from securities transactions are recorded on the basis of identified cost.

### (6) Federal Income Taxes

The Fund has qualified and intends to qualify in the future as a "regulated investment company" and to comply with the applicable provisions of subchapter M of the Internal Revenue Code of 1986, as amended, so that it will generally not be subject to federal income tax.

### (7) Distributable Earnings

The Fund earns income, net of expenses, daily on its investments. It is the policy of the Fund to pay a stable distribution amount to common shareholders on a monthly basis and distributions to Fund shareholders are declared pursuant to this policy. On June 28, 2005, the Fund declared distributions of \$0.146 per common share payable in August, September and October 2005. Distributions to Fund shareholders are recorded on the ex-dividend date.

The Fund's distributions may consist of ordinary income (net investment income and short term capital gains), long term capital gains and return of capital. The Fund estimates that the sum of the distributions declared for the 2005 year through June 30, 2005, is not greater than distributions and interest received or accrued by the Fund on its investments over expenses and cost of leverage plus net realized capital gain from sales of securities during 2005.

For financial reporting purposes as required by generally accepted accounting principles, the Fund generally reflects distributions and interest received or accrued on its investments and distributions made to shareholders as ordinary income, long term capital gains and return of capital in accordance with the characterization of these amounts required by the Internal Revenue Code of 1986, as amended. However, it is not possible to characterize distributions received from real estate investment trusts, or REITs, in which the Fund has invested a substantial portion of its assets, during interim periods because these issuers do not report their tax characterization until subsequent to year end 2005. Final characterization of the Fund's 2005 distributions to shareholders is also dependent upon the magnitude or timing of the Fund's securities transactions prior to year end. Therefore, it is likely that some portion of the Fund's 2005 investment income and distributions to shareholders will be recharacterized as long term capital gain and return of capital for financial statement and federal income tax purposes subsequent to year end and reflected accordingly in the Fund's year end financial statements.

To the extent the Fund's net realized capital gains, if any, can be offset by capital loss carry forwards, it is the policy of the Fund not to distribute such gains.

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Although subject to adjustments, the cost, gross unrealized appreciation and unrealized depreciation of the Fund's investments for federal income tax purposes, as of June 30, 2005, are as follows:

|                               |               |
|-------------------------------|---------------|
| Cost                          | \$ 54,199,439 |
| Gross unrealized appreciation | \$ 802,361    |
| Gross unrealized depreciation | (1,556,331)   |
| Net unrealized depreciation   | \$ (753,970)  |

### (8) Concentration of Risk

Under normal market conditions, the Fund's investments are concentrated in common and preferred shares issued by F.I.R.E. companies. "F.I.R.E." is a commonly used acronym for the combined financial services, insurance and real estate industries. The value of Fund shares may fluctuate more than the shares of a fund not concentrated in the F.I.R.E. industries due to economic, legal, regulatory, technological or other developments affecting the United States F.I.R.E. industries.

## Note B

### Advisory and Administration Agreements and Other Transactions with Affiliates

The Fund has an advisory agreement with RMR Advisors, Inc., or RMR Advisors, to provide the Fund with a continuous investment program, to make day to day investment decisions and to generally manage the business affairs of the Fund in accordance with its investment objectives and policies. Pursuant to this agreement, RMR Advisors is compensated at an annual rate of 0.85% of the Fund's average daily managed assets. Managed assets means the total assets of the Fund less liabilities other than any indebtedness entered for purposes of leverage. For purposes of calculating managed assets, the liquidation preference of preferred shares are not considered liabilities.

RMR Advisors has contractually agreed to waive a portion of its annual fee equal to 0.25% of the Fund's average daily managed assets, until November 22, 2009.

On May 16, 2005, Barry M. Portnoy became the sole owner of RMR Advisors. This change in ownership is deemed to be a change in control resulting in termination of the then existing investment advisory agreement under the Investment Company Act of 1940. A new investment advisory agreement with the same terms as the previous agreement (except for dates of execution and effective dates) was approved by shareholders on May 11, 2005.

RMR Advisors, and not the Fund, has agreed to pay the lead underwriters of the Fund's initial public offering an annual fee equal to 0.15% in the aggregate of the Fund's managed assets. This fee is paid quarterly in arrears during the term of RMR Advisors' advisory agreement and is paid by RMR Advisors, not the Fund. The aggregate fees paid during the term of the contract plus reimbursement of legal expenses of the underwriters will not exceed 4.5% of the total price of the common shares sold to non-affiliates in the initial public offering.

RMR Advisors also performs administrative functions for the Fund pursuant to an administration agreement with the Fund. RMR Advisors has entered into a sub-administration agreement with State Street Bank and Trust Company ("State Street") to perform substantially all Fund accounting and other administrative

services. Under the administration agreement RMR Advisors is entitled to reimbursement of the cost of providing administrative services. During the six months ended June 30, 2005, the Fund reimbursed RMR Advisors for \$63,628 of sub-administrative fees charged by State Street.

The Fund pays each trustee who is not a director, officer or employee of RMR Advisors and who is not an interested person of the Fund as defined under the Investment Company Act of 1940, as amended, (a "disinterested trustee") an annual fee plus fees for board and committee meetings.

The Fund's board of trustees and separately the disinterested trustees have authorized the Fund to make reimbursement payments to RMR Advisors for costs related to the Fund's compliance and internal audit programs. The Fund also participates in pooled insurance programs with RMR Advisors and other funds managed by RMR Advisors and makes payments of the allocated portions of related premiums.

## **Note C**

### **Securities Transactions**

During the six months ended June 30, 2005, there were securities purchases and sales transactions (excluding short term securities) of \$24,287,405 and \$15,808,877, respectively. Brokerage commissions on securities transactions, exclusive of transactions settled on a net basis, amounted to \$21,985 during the six months ended June 30, 2005.

## **Note D**

### **Preferred Shares**

The Fund's 800 outstanding Series W auction preferred shares have a liquidation preference of \$25,000 per share plus an amount equal to accumulated but unpaid distributions. The preferred shares are senior to the Fund's common shares and rank on parity with any other class or series of preferred shares of the Fund as to the payment of periodic distributions, including distribution of assets upon liquidation. If the Fund does not timely cure a failure to (1) maintain asset coverage for the preferred shares as required by rating agencies, or (2) maintain asset coverage, as defined in the Investment Company Act of 1940, of at least 200%, the preferred shares will be subject to redemption at an amount equal to their liquidation preference plus accumulated but unpaid distributions. The holders of the preferred shares have voting rights equal to the holders of the Fund's common shares and generally vote together with the holders of the common shares as a single class. Holders of the preferred shares, voting as a separate class, also are entitled to elect two of the Fund's trustees. The Fund pays distributions on the preferred shares at a rate set at auctions held generally every seven days. Distributions are generally payable every seven days, on the first business day following the end of a distribution period. The preferred share distribution rate was 3.05% per annum as of June 30, 2005.

**Note E****Submission of Proposals to a Vote of Shareholders**

The annual meeting of Fund shareholders was held on May 11, 2005. Following is a summary of the proposals submitted to shareholders for vote at the meeting:

| <b>Proposal</b>                           | <b>Votes for</b> | <b>Votes against/<br/>withheld</b> | <b>Votes abstained</b> |
|---|------------------|------------------------------------|------------------------|
| Common shares                             |                  |                                    |                        |
| Election of John L. Harrington as trustee | 1,444,548        | 12,133                             |                        |
| Approval of investment advisory agreement | 1,432,125        | 6,459                              | 18,097                 |
| Preferred shares                          |                  |                                    |                        |
| Election of John L. Harrington as trustee | 798              | 2                                  |                        |
| Approval of investment advisory agreement | 789              | 1                                  | 10                     |

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**RMR Preferred Dividend Fund**

**June 30, 2005**

*To our shareholders,*

In the pages that follow, you will find data summarizing our financial results for the period from May 25, 2005, the date we commenced operations, through June 30, 2005, and our financial position as of June 30, 2005.

As a result of our investment activities for this initial period, our net asset value increased to \$19.25 per common share as of June 30, 2005, a 0.8% increase from \$19.09 per common share on May 25, 2005. In July 2005, we declared our first monthly distributions to common shareholders of \$0.15 per common share to be paid in each of August and September 2005.

During this period we believe we have taken the initial steps in building what we believe will be a sound investment portfolio. Subsequent to June 30, 2005, we issued auction rate preferred shares, as described in the accompanying financial statements, and have begun to invest the net proceeds of that issuance.

Thank you for your continued support, and be sure to view our website, at [www.rmrffunds.com](http://www.rmrffunds.com).

Sincerely,

Thomas M. O'Brien  
President

## **RMR Preferred Dividend Fund**

**June 30, 2005**

### **Relevant Market Conditions**

**Real Estate Industry Fundamentals.** We believe the investment environment for most real estate companies at June 30, 2005, and for the remainder of 2005 is generally positive. We believe that the environment for the remainder of 2005 will include revenue growth and stabilizing to improving occupancy rates. We believe that a majority of real estate investment trust's balance sheets reflect modest debt leverage and low floating rate debt.

**Real Estate Industry Technicals.** We believe demand for real estate securities over the long term will continue to increase. Demographic trends in the U.S. include growth in the over age 50 population; we believe that individuals in that age category tend to focus their investments in higher yielding preferred and common stocks like real estate investments trusts, or REITs. Institutions, too, seem to be increasing their allocations to real estate securities as the market capitalization of REITs has increased. Both of these are positive factors affecting the real estate securities market.

### **Fund Strategies, Techniques and Performance**

Our primary investment objective is to provide our common shareholders high current income. Our secondary investment objective is capital appreciation. There can be no assurance that we will meet our investment objectives.

During the period from May 25, 2005 through June 30, 2005, our total return on net asset value, or NAV was 0.8%. During that same period, the total return for the MSCI REIT Preferred Index was 1.0%. We believe this index is most relevant to our investments because our investments as of June 30, 2005, excluding short-term investments, include 76.4% REIT preferred stocks. The S&P 500 Index (an unmanaged index published as Standard and Poor's Composite Index of 500 Stocks) total return for the same period was 0.3%.

**RMR Preferred Dividend Fund**  
**Portfolio of Investments June 30, 2005** (unaudited)

| Company  | Principal<br>Amount | Value        |
|--|---------------------|--------------|
| <hr/>  |                     |              |
| <i>Preferred Stocks</i> 57.2%                                  |                     |              |
| <i>Real Estate Investment Trusts</i> 54.1%                     |                     |              |
| <i>Apartments</i> 4.0%   |                     |              |
| Apartment Investment & Management Co., Series R                | \$ 68,000           | \$ 1,778,200 |
| <i>Diversified</i> 3.9%  |                     |              |
| Crescent Real Estate Equities Co., Series B                    | 63,700              | 1,703,338    |
| <i>Hospitality</i> 15.5%                                       |                     |              |
| Boykin Lodging Co., Series A                                   | 20,000              | 555,000      |
| Eagle Hospitality Properties Trust, Series A                   | 95,000              | 2,441,500    |
| Entertainment Properties Trust, Series A                       | 40,000              | 1,080,400    |
| Felcor Lodging Trust, Series C                                 | 85,000              | 2,085,050    |
| Host Marriott Corp., Series E                                  | 15,000              | 412,500      |
| Sunstone Hotel Investors, Inc., Series A                       | 12,500              | 321,875      |
|  |                     | <hr/>        |
|  |                     | 6,896,325    |
| <i>Retail</i> 12.3%  |                     |              |
| CBL & Associates Properties, Inc. Series B                     | 4,600               | 244,950      |
| Mills Corp., Series C  | 87,500              | 2,359,438    |
| Mills Corp., Series E  | 10,000              | 271,000      |
| Pennsylvania Real Estate Investment Trust, Series A            | 44,000              | 2,596,000    |
|  |                     | <hr/>        |
|  |                     | 5,471,388    |
| <i>Specialty</i> 18.4%   |                     |              |
| Accredited Mortgage Loan REIT Trust, Series A                  | 1,500               | 39,630       |
| American Home Mortgage Investment Corp., Series A              | 92,000              | 2,588,880    |
| Impac Mortgage Holdings, Inc., Series C                        | 42,400              | 1,075,264    |
| MFA Mortgage Investments, Inc., Series A                       | 40,000              | 1,040,000    |
| New Century Financial Corp., Series A                          | 100,000             | 2,530,000    |
| Newcastle Investment Corp., Series B                           | 30,000              | 807,000      |
| Thornburg Mortgage Inc., Series C                              | 2,500               | 62,975       |
|  |                     | <hr/>        |
|  |                     | 8,143,749    |
| <i>Total Real Estate Investment Trusts (Cost \$23,808,976)</i> |                     | 23,993,000   |
| <i>Other</i> 3.1%  |                     |              |
| Ford Motor Co., 6/15/43 Series                                 | 9,400               | 198,340      |
| General Motors Corp., 5/15/48 Series                           | 26,100              | 525,393      |
| Westcoast Hospitality Corp., Series A                          | 24,000              | 638,400      |
| <i>Total Other (Cost \$1,359,045)</i>                          |                     | 1,362,133    |
| <i>Total Preferred Stocks (Cost \$25,168,021)</i>              |                     | 25,355,133   |
| <i>See notes to financial statements</i>                       |                     |              |
| <hr/>  |                     |              |



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|   |              |              |
|---|--------------|--------------|
| <i>Debt Securities 13.6%</i>                              |              |              |
| Six Flags Inc., 9.75%,<br>04/15/2013                      | \$ 2,740,000 | \$ 2,585,875 |
| Ford Motor Co.,<br>7.75%, 6/15/2043                       | 1,200,000    | 1,796,049    |
| General Motors Corp.,<br>8.375%, 7/15/2033                | 1,300,000    | 1,670,000    |
| <i>Total Debt Securities (Cost</i>                        |              | 6,051,924    |
| <i>\$5,972,384)</i>                                       |              |              |
| <i>Short-Term Investments 29.4%</i>                       |              |              |
| <i>Commercial Paper 29.4%</i>                             |              |              |
| American Express<br>Credit Corporation,<br>2.6%, 7/1/2005 | 2,000,000    | 2,000,000    |
| American General<br>Finance Corp., 2.6%,<br>7/1/2005      | 2,000,000    | 2,000,000    |
| General Electric<br>Capital Corp., 2.6%,<br>7/1/2005      | 2,000,000    | 2,000,000    |
| HSBC Finance Corp.,<br>2.6%, 7/1/2005                     | 2,000,000    | 2,000,000    |
| Prudential Funding<br>Corp., 2.6%, 7/1/2005               | 2,000,000    | 2,000,000    |
| State Street Boston<br>Corp., 2.6%, 7/1/2005              | 1,039,000    | 1,039,000    |
| UBS Finance Co.,<br>2.6%, 06/27/2005                      | 2,000,000    | 2,000,000    |
| <i>Total Commercial Paper (Cost</i>                       |              | 13,039,000   |
| <i>\$13,039,000)</i>                                      |              |              |
| Total Investments 100.2% (Cost                            |              | 44,446,057   |
| <i>\$44,179,405)</i>                                      |              |              |
| Other assets less liabilities<br>(0.2)%                   |              | (74,504)     |
| Net assets attributable to<br>common shares 100%          | \$           | 44,371,553   |
| <i>See notes to financial statements</i>                  |              |              |

**RMR Preferred Dividend Fund**  
**Financial Statements**

Statement of Assets and Liabilities

**June 30, 2005 (unaudited)**

*Assets*

|   |               |
|---|---------------|
| Investments in securities, at value (cost \$44,179,405) | \$ 44,446,057 |
| Cash  | 530,220       |
| Dividends and interest receivable                       | 213,194       |
|   | <hr/>         |
| Total assets  | 45,189,471    |
|   | <hr/>         |

*Liabilities*

|   |         |
|---|---------|
| Payable for investment securities purchased | 770,825 |
| Advisory fees payable                       | 10,870  |
| Accrued expenses and other liabilities      | 36,223  |
|   | <hr/>   |
| Total liabilities                           | 817,918 |
|   | <hr/>   |

|   |               |
|---|---------------|
| <i>Net assets attributable to common shares</i> | \$ 44,371,553 |
|   | <hr/>         |

*Composition of net assets*

|   |            |
|---|------------|
| Common shares, \$.001 par value per share; unlimited number of shares authorized, 2,305,000 shares issued and outstanding | \$ 2,305   |
| Additional paid-in capital  | 43,994,445 |
| Undistributed net investment income   | 108,151    |
| Net unrealized appreciation on investments  | 266,652    |
|   | <hr/>      |

|   |               |
|---|---------------|
| <i>Net assets attributable to common shares</i> | \$ 44,371,553 |
|   | <hr/>         |

|   |          |
|---|----------|
| <i>Net asset value per share attributable to common shares<br/>(based on 2,305,000 common shares outstanding)</i> | \$ 19.25 |
|   | <hr/>    |

*See notes to financial statements*

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Statement of Operations

For the Period May 25, 2005(a) to June 30, 2005 (unaudited)

|  |            |
|--|------------|
| <i>Investment income</i>   |            |
| Dividends (Cash distributions received or due)                                     | \$ 90,066  |
| Interest   | 83,207     |
|  | <hr/>      |
| Total investment income  | 173,273    |
|  | <hr/>      |
| <i>Expenses</i>  |            |
| Advisory   | 36,946     |
| Administrative   | 13,500     |
| Shareholder reporting  | 10,000     |
| Audit and legal  | 8,000      |
| Custodian  | 6,546      |
| Compliance and internal audit  | 3,500      |
| Trustees' fees and expenses  | 1,950      |
| Other  | 8,586      |
|  | <hr/>      |
| Total expenses   | 89,028     |
| Less: expenses waived by the Advisor   | (23,906)   |
|  | <hr/>      |
| Net expenses   | 65,122     |
|  | <hr/>      |
| Net investment income  | 108,151    |
| Net change in unrealized appreciation/(depreciation) on investments                | 266,652    |
|  | <hr/>      |
| Net increase in net assets attributable to common shares resulting from operations | \$ 374,803 |
|  | <hr/>      |

(a) **Commencement of operations.**

See notes to financial statements

**RMR Preferred Dividend Fund**  
**Financial Statements** continued

Statement of Changes in Net Assets

**For the Period May 25, 2005(a) to June 30, 2005 (unaudited)**

|  |               |
|--|---------------|
| <i>Increase in net assets resulting from operations</i>                            |               |
| Net investment income  | \$ 108,151    |
| Net unrealized appreciation/(depreciation) on investments                          | 266,652       |
|  | <hr/>         |
| Net increase in net assets attributable to common shares resulting from operations | 374,803       |
| <i>Capital shares transactions</i>   |               |
| Net proceeds from sale of common shares  | 43,896,750    |
|  | <hr/>         |
| Total increase in net assets attributable to common shares                         | 44,271,553    |
| <i>Net assets attributable to common shares</i>                                    |               |
| Beginning of period  | 100,000       |
|  | <hr/>         |
| End of period (including undistributed net investment income of \$108,151)         | \$ 44,371,553 |
|  | <hr/>         |
| <i>Common shares</i>   |               |
| Shares outstanding, beginning of period  | 5,000         |
| Shares issued  | 2,300,000     |
|  | <hr/>         |
| Shares outstanding, end of period  | 2,305,000     |
|  | <hr/>         |

(a) **Commencement of operations.**

*See notes to financial statements*

**Financial Highlights RMR Preferred Dividend Fund**

Selected Data for a Common Share Outstanding Throughout the Period

|   | <b>For the Period<br/>May 25, 2005 (a)<br/>to<br/>June 30, 2005</b> |
|---|---|
|   | <b>(unaudited)</b>  |
| <i>Per Common Share Operating Performance (b)</i>                 |   |
| Net asset value, beginning of period                              | \$ 19.09(c)   |
| <i>Income from Investment Operations</i>                          |   |
| Net investment income (d)   | 0.05(e)   |
| Net realized and unrealized appreciation on investments           | 0.11(e)   |
| Net increase in net asset value from operations                   | 0.16  |
| Net asset value, end of period                                    | \$ 19.25  |
| Market price, beginning of period                                 | \$ 20.00  |
| Market price, end of period                                       | \$ 19.80  |
| <i>Total Return (f)</i>   |   |
| Total investment return based on:                                 |   |
| Market price (g)  | -1.00%  |
| Net asset value (g)   | 0.84%   |
| <i>Ratios/Supplemental Data:</i>                                  |   |
| Net assets attributable to common shares, end of period (000s)    | \$ 44,372   |
| Ratio to average net assets attributable to common shares (h) of: |   |
| Net investment income (d)   | 2.49%   |
| Expenses, net of fee waivers                                      | 1.50%   |
| Expenses, before fee waivers                                      | 2.05%   |
| Portfolio turnover rate   | 0.00%   |

- (a) **Commencement of operations.**
- (b) **Based on average shares outstanding.**
- (c) **Net asset value at May 25, 2005, reflects the deduction of the average sales load and offering costs of \$0.91 per share paid by the holders of common shares from the \$20.00 offering price. We paid a sales load and offering costs of \$0.94 per share on 2,237,500 common shares sold to the public and no sales load or offering costs on 67,500 common shares sold to affiliates of RMR Advisors for \$20 per share.**
- (d) **Amounts are net of expenses waived by RMR Advisors.**
- (e) **As discussed in Note A(7) to the financial statements, these amounts are subject to change to the extent 2005 distributions by the issuers of the Fund's investments are characterized as capital gains.**
- (f) **Total returns for periods less than one year are not annualized.**
- (g) **Total return based on per share market price assumes the purchase of common shares at the market price on the first day and sales of common shares at the market price on the last day of the period indicated. The total return based on net asset value, or NAV, assumes the purchase of common shares at NAV on the first day and sales of common shares at NAV on the last day of the period indicated. Results represent past performance and do not guarantee future results. Total return would have been lower if RMR Advisors had not contractually**

waived a portion of its investment advisory fee.

(h)

Annualized.

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**RMR Preferred Dividend Fund**  
**Notes to Financial Statements**

**June 30, 2005** (unaudited)

**Note A**

(1) Organization

RMR Preferred Dividend Fund, or the Fund, was organized as a Massachusetts business trust on November 8, 2004, and is registered under the Investment Company Act of 1940, as amended, as a non-diversified closed end management investment company. The Fund had no operations until May 25, 2005, other than matters relating to the Fund's establishment, registration of the Fund's common shares under the Securities Act of 1933, and the sale of 5,000 common shares for \$100,000 to RMR Advisors, Inc., or RMR Advisors. On May 25, 2005, the Fund sold 2,300,000 common shares in an initial public offering including 62,500 common shares sold to affiliates of RMR Advisors. Proceeds to the Fund were \$43,896,750 after deducting underwriting commissions and \$89,500 of offering expenses. There were no underwriting commissions or offering expenses paid on common shares sold to the affiliates of RMR Advisors. On July 11, 2005, the Fund sold 275,000 common shares pursuant to an over allotment agreement with the underwriters for net proceeds of \$5,241,500 after deducting underwriting commissions and \$11,000 of offering expenses.

(2) Interim Financial Statements

The accompanying June 30, 2005, financial statements have been prepared without audit. The Fund believes the disclosures made are adequate to make the information presented not misleading. In the opinion of the Fund's management, all adjustments, which include only normal recurring adjustments considered necessary for a fair presentation, have been included. The Fund's operating results for this interim period are not necessarily indicative of the results that may be expected in the future.

(3) Use of Estimates

Preparation of these financial statements in conformity with accounting principles generally accepted in the United States requires the Fund's management to make estimates and assumptions that may affect the amounts reported in the financial statements and related notes. The actual results could differ from these estimates particularly for reasons described in Note A(7), and for other reasons.

(4) Portfolio Valuation

Investment securities of the Fund are valued at the latest sales price whenever that price is readily available on the day of valuation; securities for which no sales were reported on that day, unless otherwise noted, are valued at the last available bid price on that day. Securities traded primarily on the NASDAQ Stock Market, or NASDAQ, are normally valued by the Fund at the NASDAQ Official Closing Price, or NOCP, provided by NASDAQ each business day. The NOCP is the most recently reported price as of 4:00:06 p.m., eastern time, unless that price is outside the range of the "inside" bid and asked prices (i.e., the bid and asked prices that dealers quote to each other when trading for their own accounts); in that case, NASDAQ will adjust the price to equal the inside bid or asked price, whichever is closer. Because of delays in reporting trades, the NOCP may not be based on the price of the last trade to occur before the market closes. Some fixed income securities may be valued using pricing provided by a pricing service. Any of the Fund's securities which are not readily marketable, which are not traded, which have other characteristics of illiquidity or whose quotations are unreliable are valued by the Fund at fair value as determined in good faith under the supervision of the Fund's board of trustees. Numerous factors may be considered when determining fair value of a security, including cost at date of purchase, type of security, the nature and duration of restrictions on disposition of the security and whether the issuer of the security being fair valued has other securities of the same class outstanding.

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Short term debt securities with less than 60 days until maturity may be valued at cost, which when combined with interest accrued, approximates market value.

### (5) Securities Transactions and Investment Income

Securities transactions are recorded on a trade date basis. Dividend income is recorded on the ex-dividend date. Non-cash dividends included in dividend income, if any, are recorded at the fair market value of the securities received. Interest income, including accretion of original issue discount, where applicable, and accretion of discount on short term investments, is recorded on the accrual basis. Realized gains and losses from securities transactions are recorded on the basis of identified cost.

### (6) Federal Income Taxes

The Fund has qualified and intends to qualify in the future as a "regulated investment company" and to comply with the applicable provisions of subchapter M of the Internal Revenue Code of 1986, as amended, so that it will generally not be subject to federal income tax.

### (7) Distributable Earnings

The Fund earns income, net of expenses, daily on its investments. It is the policy of the Fund to pay a stable distribution amount to common shareholders on a monthly basis and distributions to Fund shareholders are expected to be declared pursuant to this policy. Subsequent to June 30, 2005, the Fund declared distributions of \$0.15 per common share payable in August and September 2005. Distributions to Fund shareholders are recorded on the ex-dividend date.

The Fund's distributions may consist of ordinary income (net investment income and short term capital gains), long term capital gains and return of capital.

For financial reporting purposes as required by generally accepted accounting principles, the Fund generally reflects distributions and interest received or accrued on its investments and distributions made to shareholders as ordinary income and long term capital gains in accordance with the characterization of these amounts required by the Internal Revenue Code of 1986, as amended. However, it is not possible to characterize distributions received from real estate investment trusts, or REITs, in which the Fund has invested a substantial portion of its assets, during interim periods because these issuers do not report their tax characterization until subsequent to year end. Final characterization of the Fund's 2005 distributions to shareholders is also dependent upon the magnitude or timing of the Fund's securities transactions prior to year end 2005.

To the extent the Fund's net realized capital gains, if any, can be offset by capital loss carry forwards, it is the policy of the Fund not to distribute such gains.

Although subject to adjustments, the cost, gross unrealized appreciation and unrealized depreciation of the Fund's investments for federal income tax purposes, as of June 30, 2005, are as follows:

|                               |    |            |
|-------------------------------|----|------------|
| Cost                          | \$ | 44,179,405 |
|                               |    | <hr/>      |
| Gross unrealized appreciation | \$ | 322,039    |
| Gross unrealized depreciation |    | (55,387)   |
|                               |    | <hr/>      |
| Net unrealized appreciation   | \$ | 266,652    |
|                               |    | <hr/>      |



(8) Organization Expenses and Common Offering Costs

RMR Advisors paid all the organizational expenses and all of the offering costs (other than the sales load) of the Fund's initial public offering of common shares which exceeded \$0.04 per share on shares sold to the public. The total amount of expenses and costs incurred by RMR Advisors is estimated at \$420,000. The Fund incurred offering costs of \$89,500 in connection with the common shares sold in the initial public offering which were charged as a reduction of paid in capital and \$11,000 in connection with the common shares sold pursuant to the over allotment option.

(9) Concentration of Risk

Under normal market conditions, the Fund's investments are concentrated in preferred securities issued by real estate investment trusts. The value of Fund shares may fluctuate more than the shares of a fund not concentrated in the real estate industry due to economic, legal, regulatory, technological or other developments affecting the United States real estate industry.

**Note B**

**Advisory and Administration Agreements and Other Transactions with Affiliates**

The Fund has an advisory agreement with RMR Advisors to provide the Fund with a continuous investment program, to make day to day investment decisions and to generally manage the business affairs of the Fund in accordance with its investment objectives and policies. Pursuant to this agreement, RMR Advisors is compensated at an annual rate of 0.85% of the Fund's average daily managed assets. Managed assets means the total assets of the Fund less liabilities other than any indebtedness entered into for purposes of leverage. For purposes of calculating managed assets, indebtedness entered for the purpose of leverage and the liquidation preference of preferred shares are not considered liabilities.

RMR Advisors has contractually agreed to waive a portion of its annual fee equal to 0.55% of the Fund's average daily managed assets, until May 24, 2010.

RMR Advisors also performs administrative functions for the Fund pursuant to an administration agreement with the Fund. RMR Advisors has entered into a sub-administration agreement with State Street Bank and Trust Company ("State Street") to perform substantially all Fund accounting and other administrative services. Under the administration agreement RMR Advisors is entitled to reimbursement of the cost of providing administrative services. As of June 30, 2005, the Fund has a liability to RMR Advisors of \$13,500 for sub-administrative fees charged by State Street during the period ending June 30, 2005.

The Fund pays each trustee who is not a director, officer or employee of RMR Advisors and who is not an interested person of the Fund as defined under the Investment Company Act of 1940, as amended, (a "disinterested trustee") an annual fee plus fees for board and committee meetings.

The Fund's board of trustees and separately the disinterested trustees have authorized the Fund to make reimbursement payments to RMR Advisors for costs related to the Fund's compliance and internal audit programs. The Fund also participates in pooled insurance programs with the Advisor and other funds managed by the Advisor and makes payments of the allocated portions of related premiums.

## **Note C**

### **Securities Transactions**

During the period ended June 30, 2005, there were securities purchases and sales transactions (excluding short term securities) of \$31,139,359 and \$0, respectively. Brokerage commissions on securities transactions, exclusive of transactions settled on a net basis, amounted to \$0 during the period ended June 30, 2005.

## **Note D**

### **Use of Leverage**

On July 18, 2005, the Fund issued 900 auction preferred shares, Series M, for \$22,500,000, or net proceeds of \$22,132,500 after deducting underwriting commissions and offering expenses of \$367,500. The preferred shares have a liquidation preference of \$25,000 per share plus an amount equal to accumulated plus unpaid distributions. The preferred shares are senior to the Fund's common shares and rank on parity with any other class or series of preferred shares of the Fund as to the payment of periodic distributions, including distributions of assets on liquidation. If the Fund does not timely cure a failure to (1) maintain asset coverage for the preferred shares as required by rating agencies, or (2) maintain asset coverage, as defined in the Investment Company Act of 1940, of at least 200%, the preferred shares will be subject to redemption at an amount equal to their liquidation preference plus accumulated but unpaid distributions. The holders of the preferred shares have voting rights equal to the holders of the Fund's common shares and generally vote together with the holders of the common shares as a single class. Holders of the preferred shares, voting as a separate class, also are entitled to elect two of the Fund's trustees. The Fund pays distributions on the preferred shares at a rate set at auctions held generally every seven days. Distributions are generally payable every seven days, on the first business day following the end of a distribution period. The initial preferred share distribution rate was 3.10% per annum as of July 18, 2005.

**RMR Real Estate Fund**  
**RMR Hospitality and Real Estate Fund**  
**RMR F.I.R.E. Fund**  
**RMR Preferred Dividend Fund**

June 30, 2005

For the purposes of the following, RMR Real Estate Fund, RMR Hospitality and Real Estate Fund, RMR F.I.R.E. Fund and RMR Preferred Dividend Fund are each referred to as a "Fund" or collectively as the "Funds".

**Consideration of Advisory Agreements**

RMR Advisors serves as the investment advisor to each of RMR Real Estate Fund, RMR Hospitality and Real Estate Fund, RMR F.I.R.E. Fund and RMR Preferred Dividend Fund. On May 16, 2005, a change of ownership of RMR Advisors occurred.

*RMR Real Estate Fund, RMR Hospitality and Real Estate Fund and RMR F.I.R.E. Fund*

The change of ownership was deemed to be a change in control of RMR Advisors that resulted in the assignment, and therefore termination, of the then current advisory agreements. On May 16, 2005, each Fund entered into a new advisory agreement with RMR Advisors, each such agreement having been approved: (1) on February 14, 2005, by the boards of each Fund, and separately by the disinterested trustees of each Fund, subject to the change in ownership of RMR Advisors occurring; and (2) on May 11, 2005, by the shareholders of each Fund.

In making their determination to approve each new agreement, each board, including the disinterested trustees, considered all of the factors described below.

Each board considered the benefits to shareholders of retaining RMR Advisors. The boards' considerations included, among others: the nature, scope and quality of services that RMR Advisors has provided under each Fund's then current advisory agreement and would provide under the new agreements; that the advisory and other fees paid and the contractual fee waivers would not change as a result of entering the new agreements; the quality and depth of personnel of RMR Advisors' organization before and after the change in ownership; the capacity and future commitment of RMR Advisors to perform its duties under each new agreement; the financial condition and profitability of RMR Advisors; the experience and expertise of RMR Advisors as an investment adviser; the performance of each Fund as compared to similar funds; the level of fees paid to RMR Advisors and the total expense ratio of each Fund as compared to similar funds; and the potential for economies of scale. Each board also considered RMR Advisors' representation that it would provide advisory and other services to each Fund of a scope and quality at least equivalent to the scope and quality provided to each Fund under the then current advisory agreements with RMR Advisors and that, other than the change of ownership, no structural, managerial or operational changes are expected to affect any of the Funds. Each board also considered that the terms of the new agreements would be substantially the same as the terms of the current agreements, except for dates of execution and effectiveness.

Each board considered the level and depth of knowledge of RMR Advisors. In evaluating the quality of services provided by RMR Advisors, each board took into account its familiarity with RMR Advisors' management through board meetings, conversations and reports. Each board also took into account RMR Advisors' compliance policies and procedures.

Each board compared the advisory fees and total expense ratio of its respective Fund with various comparative Fund data. Each board considered the Fund's recent performance results and noted that the board reviews on a

quarterly basis information about the Fund's performance results, portfolio composition and investment strategies. Each board further noted that RMR Advisors has waived a portion of its management fee in order to reduce the Fund's operating expenses. Each board also took into consideration the financial condition and profitability of RMR Advisors and any indirect benefits derived by RMR Advisors from RMR Advisors' relationship with the Funds.

In considering the approval of the new agreements, each board, including the disinterested trustees, did not identify any single factor as controlling. Based on each board's evaluation of all factors that it deemed to be relevant, each board, including the disinterested trustees of each board, concluded that: RMR Advisors has demonstrated that it possesses the capability and resources to perform the duties required of it under the new agreement for that Fund; RMR Advisors maintains an appropriate compliance program; performance of the Fund is reasonable in relation to the performance of funds with similar investment objectives; and the proposed advisory fee rates are fair and reasonable, given the scope and quality of the services provided and to be provided by RMR Advisors. Each board noted in particular that the change in ownership of RMR Advisors did not present any material change in the type and quality of service it would provide to each Fund.

*RMR Preferred Dividend Fund*

At a meeting held on February 14, 2005, the board of trustees, including a majority of the disinterested trustees, approved two advisory agreements between RMR Advisors and the Fund in order to comply with the statutory requirements relating to the anticipated change in ownership of RMR Advisors. The first advisory agreement was effective from February 14, 2005 until May 16, 2005. The second advisory agreement was effective on May 16, 2005, the date of change of ownership of RMR Advisors. The two advisory agreements were substantially the same, except for dates of execution and effectiveness. In making their determination to approve the advisory agreements, the board, including the disinterested trustees, considered all of the factors described below.

In considering the approval of these two advisory agreements, the board reviewed various materials and considered: (1) the level of fees of the Fund as compared to competitive funds of a comparable size; (2) the estimated expense ratio of the Fund as compared to competitive funds of a comparable size, the fact that the estimated expense ratio of the Fund is reasonable compared to other funds and the fact that RMR Advisors has agreed to waive a portion of its fee during the first five years of the Fund's existence; (3) the nature, extent and quality of the services provided by RMR Advisors, including the experience of RMR Advisors and its affiliates in managing public companies; (4) the performance of similar funds managed by RMR Advisors; (5) anticipated benefits derived by RMR Advisors from its relationship with the Fund; (6) the costs of providing services to the Fund; (7) the financial condition and anticipated profitability of the Fund to RMR Advisors; (8) the benefits, in particular the research and related services, within the meaning of Section 28(e) of the Securities Exchange Act of 1934 which could be derived by RMR Advisors as a result of allocation of its brokerage transactions and the fact that RMR Advisors does not expect to seek or participate in these so-called "soft-dollar" arrangements; and (9) any potential for economies of scale. The board of trustees also considered that RMR Advisors agreed to pay all of the Fund's organizational costs and all of the Fund's offering costs for the initial offering of the Fund's common shares, other than sales load, that exceeded an amount equal to \$0.04 per common share issued to non-affiliates.

The board also considered that the terms of both agreements would be substantially the same, except for dates of execution and effectiveness. The board considered RMR Advisors' representation that it would provide advisory and other services to the Fund of a scope and quality at least equivalent under both advisory agreements with RMR Advisors and that, other than the change of ownership, no structural, managerial or operational changes are expected to affect the Fund.

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The board considered the level and depth of knowledge of RMR Advisors. In evaluating the quality of services provided by RMR Advisors, the board of trustees took into account its familiarity with RMR Advisors' management through board meetings, conversations and reports of the other funds managed by RMR Advisors.

The board of trustees considered the historical performance of the other funds managed by RMR Advisors and noted that it would review on a quarterly basis information about the Fund's performance results, portfolio composition and investment strategies. The board of trustees also took into account RMR Advisors' compliance policies and procedures.

The board compared the advisory fees and estimated total expense ratio of the Fund with various comparative fund data. The board further noted that RMR Advisors would waive a portion of its management fee for the first five years in order to reduce the Fund's operating expenses. The board also took into consideration the financial condition and profitability of RMR Advisors and any indirect benefits to be derived by RMR Advisors from its relationship with the Fund. The board of trustees concluded, based upon a review of the financial statements provided by RMR Advisors, that the level of profitability to RMR Advisors from its relationship with the Fund was reasonable.

In considering the approval of the advisory agreements, the board, including the disinterested trustees, did not identify any single factor as controlling. Based on the board's evaluation of all factors that it deemed to be relevant, the board of trustees, including the disinterested trustees, concluded that: RMR Advisors has demonstrated that it possesses the capability and resources to perform the duties required of it under the advisory agreements; RMR Advisors maintains an appropriate compliance program; and the proposed advisory fee rates are fair and reasonable, given the scope and quality of the services to be rendered by RMR Advisors. The board noted that the change in ownership of RMR Advisors did not present any material change in the type and quality of service it would provide to the Fund.

### **Privacy Policy**

Each of the Funds are committed to maintain shareholder privacy and to safeguard shareholder nonpublic personal information.

The Funds do not receive any nonpublic personal information relating to shareholders who purchase Fund shares through an intermediary that acts as the record owner of the shares. If a shareholder is the record owner of any Fund's shares, that Fund may receive nonpublic personal information on shareholder account documents or otherwise and also have access to specific information regarding shareholder Fund share transactions, either directly or through the Fund's transfer agent.

The Funds do not disclose any nonpublic personal information about shareholders or any former shareholders to anyone, except as permitted by law or as is necessary to service shareholder accounts. The Funds restrict access to nonpublic personal information about shareholders to employees of the Funds and RMR Advisors with a legitimate business need for the information.

### **Proxy Voting Policies and Procedures**

A description of the policies and procedures that are used by the investment advisor of the Funds to vote proxies relating to each Fund's portfolio securities is available: (1) without charge, upon request, by calling us at 1-866-790-8165; and (2) as an exhibit to each Fund's annual report, (except RMR Preferred Dividend Fund which started operations on May 25, 2005), on Form N-CSR, which is available on the website of the U.S. Securities and Exchange Commission (the "Commission") at <http://www.sec.gov>. Information regarding how the investment advisor has voted the proxies received by each Fund, except RMR Preferred Dividend Fund which started operations on May 25, 2005, during the 12 month period ended June 30, 2004, is

available (1) without charge, on request, by calling us at 1-866-790-3165, or (2) by visiting the Commission's website at <http://www.sec.gov> and accessing each Fund's Form N-PX information regarding how the investment advisor has voted the proxies of each Fund during the 12-month period ended June 30, 2005, will become available when the Funds file their report on Form N-PX which is due by August 31, 2005.

**Procedures for the Submission of Confidential and Anonymous Concerns or Complaints about Accounting, Internal Accounting Controls or Auditing Matters**

The Funds are committed to compliance with all applicable securities laws and regulations, accounting standards, accounting controls and audit practices and have established procedures for handling concerns or complaints about accounting, internal accounting controls or auditing matters. Any shareholder or other interested party who desires to communicate with our independent trustees or any other trustees, individually or as a group, may do so by filling out a report at the "Contact Us" section of our website ([www.rmrfunds.com](http://www.rmrfunds.com)), by calling our toll-free confidential message system at 866-511-5038, or by writing to the party for whom the communication is intended, care of our director of internal audit, RMR Funds, 400 Centre Street, Newton, MA 02458. Our director of internal audit will then deliver any communication to the appropriate party or parties.

**Portfolio Holdings Reports**

Each Fund files its complete schedule of portfolio holdings with the Commission for the first and third quarters of each fiscal year on Form N-Q, which are available on the Commission's website at <http://www.sec.gov>. The Funds' Forms N-Q may also be reviewed and copied at the Commission's public reference room in Washington, D.C. Information on the operation of the public reference room may be obtained by calling the Commission at 1-800-SEC-0330. Each Fund provides additional data at its website at [www.rmrfunds.com](http://www.rmrfunds.com).

**WARNING REGARDING FORWARD LOOKING STATEMENTS**

THESE SEMI-ANNUAL REPORTS INCLUDE FORWARD LOOKING STATEMENTS WITHIN THE MEANING OF THE FEDERAL SECURITIES LAWS. THESE FORWARD LOOKING STATEMENTS ARE BASED UPON THE BELIEFS AND EXPECTATIONS OF EACH OF RMR REAL ESTATE FUND, RMR HOSPITALITY AND REAL ESTATE FUND, RMR F.I.R.E. FUND AND RMR PREFERRED DIVIDEND FUND (EACH A "FUND" OR COLLECTIVELY "THE FUNDS"), THEIR TRUSTEES, THEIR OFFICERS, OR THEIR INVESTMENT ADVISOR, BUT THEY ARE NOT GUARANTEED TO OCCUR. FOR EXAMPLE, MR. O'BRIEN'S LETTERS STATE THE BELIEF THAT INVESTMENT ENVIRONMENT FOR REAL ESTATE COMPANIES FOR REMAINDER OF 2005 IS POSITIVE AND COULD SUGGEST THAT THE MARKET PRICES OF REAL ESTATE SECURITIES IN WHICH THE FUNDS INVEST AS WELL AS THE MARKET PRICE OF THE FUNDS' SHARES COULD INCREASE. IN FACT, THE INVESTMENT ENVIRONMENT FOR REAL ESTATE COMPANIES FOR THE REMAINDER OF 2005 MAY NOT REMAIN POSITIVE AND THE MARKET PRICES OF REAL ESTATE SECURITIES AND OF THE FUNDS' SHARES MAY NOT INCREASE BUT MAY DECLINE. SIMILARLY, MR. O'BRIEN'S REFERENCES TO THE FINANCIAL SERVICES SECTOR CONSOLIDATING AND THE REAL ESTATE SECTOR CONTINUING TO IMPROVE MIGHT NOT HAPPEN. THESE UNEXPECTED RESULTS MAY OCCUR FOR MANY DIFFERENT REASONS, WHICH, SUCH AS A GENERAL DECLINE IN ECONOMIC ACTIVITY, ARE BEYOND THE FUNDS' CONTROL OCCUR; AND INVESTORS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE UPON FORWARD LOOKING STATEMENTS.

**[WWW.RMRFUNDS.COM](http://WWW.RMRFUNDS.COM)**





**Item 2. Code of Ethics.**

*The information is not required for the semi-annual report on Form N-CSR.*

**Item 3. Audit Committee Financial Expert.**

*The information is not required for the semi-annual report on Form N-CSR.*

**Item 4. Principal Accountant Fees and Services.**

*The information is not required for the semi-annual report on Form N-CSR.*

**Item 5. Disclosure of Audit Committees for Listed Companies.**

*The information is not required for the semi-annual report on Form N-CSR.*

**Item 6. Schedule of Investments**

The information required under Item 6 is included as part of the report to shareholders filed under Item 1 of this Form N-CSR.

**Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.**

*The information is not required for the semi-annual report on Form N-CSR.*

**Item 8. Portfolio Managers of Closed-End Investment Companies.**

*The information is not required for this semi-annual report on Form N-CSR.*

**Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.**

During the six months ended June 30, 2005, there were no purchases made by or on behalf of the registrant or any "affiliated purchaser" as defined in Rule 10b-18(a)(3) under the Exchange Act (17 CFR 240.10b-18(a)(3)), of shares of the registrant's equity securities that are registered by the registrant pursuant to Section 12 of the Exchange Act.

**Item 10. Submission of Matters to a Vote of Security Holders.**

There have been no material changes to the procedures by which shareholders may recommend nominees to the registrant's board of trustees.

**Item 11. Controls and Procedures.**

- (a) The registrant's principal executive officer and principal financial officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940), as amended (the "1940 Act") are effective, as of a date within 90 days of the filing date of this report, based on their evaluation of these controls and procedures.
- (b)

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There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the registrant's second fiscal quarter of the period covered by this report that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

### **Item 12. Exhibits.**

- (a) (2) Certifications of principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the 1940 Act are attached hereto.
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(b)

Certifications of principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(b) under the 1940 Act and Section 906 of the Sarbanes-Oxley Act of 2002 are attached hereto.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RMR REAL ESTATE FUND

By: /s/ THOMAS M. O'BRIEN

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Thomas M. O'Brien  
President  
Date: August 22, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ THOMAS M. O'BRIEN

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Thomas M. O'Brien  
President  
Date: August 22, 2005

By: /s/ MARK L. KLEIFGES

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Mark L. Kleifges  
Treasurer  
Date: August 22, 2005

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