

RMR REAL ESTATE FUND  
Form N-CSR  
February 22, 2008

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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)**

**Adam D. Portnoy, President**  
RMR Real Estate Fund  
400 Centre Street  
Newton, Massachusetts 02458

**Copy to:**

**Robert N. Hickey, Esq.**  
Sullivan & Worcester LLP  
1666 K Street, NW  
Washington, DC 20006

**Elizabeth A. Watson, Esq.**  
State Street Bank and Trust Company  
2 Avenue de Lafayette  
Boston, Massachusetts 02111

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

Date of fiscal year end: December 31

Date of reporting period: December 31, 2007

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**Item 1. Reports to Shareholders.**

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**ANNUAL REPORTS**  
**DECEMBER 31, 2007**



**RMR Real Estate Fund**

**RMR Hospitality and Real Estate Fund**

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

**RMR Preferred Dividend Fund**

**RMR Asia Pacific Real Estate Fund**

**RMR Asia Real Estate Fund**

**RMR Dividend Capture 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 REDUCED.

PLEASE CONSIDER THE INVESTMENT OBJECTIVES, STRATEGIES, RISKS, CHARGES AND EXPENSES BEFORE INVESTING IN ANY OF THE FUNDS. AN INVESTMENT IN EACH FUND'S SHARES IS SUBJECT TO MATERIAL RISKS, INCLUDING BUT NOT LIMITED TO THOSE DESCRIBED IN EACH FUND'S PROSPECTUS, THE REGISTRATION STATEMENTS AND OTHER DOCUMENTS FILED WITH THE SEC. EACH FUND'S DECLARATION OF TRUST CONTAINS PROVISIONS WHICH LIMIT OWNERSHIP OF FUND SHARES BY ANY PERSON OR GROUP OF PERSONS ACTING TOGETHER AND LIMIT ANY PERSONS ABILITY TO CONTROL A FUND OR TO CONVERT A FUND TO AN OPEN END FUND. FOR MORE INFORMATION ABOUT ANY OF OUR FUNDS PLEASE VISIT [WWW.RMRFUNDS.COM](http://WWW.RMRFUNDS.COM) OR CALL OUR INVESTOR RELATIONS GROUP AT (866)-790-3165.

**NOTICE CONCERNING LIMITED LIABILITY**

THE AGREEMENTS AND DECLARATIONS OF TRUST OF RMR REAL ESTATE FUND, RMR HOSPITALITY AND REAL ESTATE FUND, RMR F.I.R.E. FUND, RMR PREFERRED DIVIDEND FUND, RMR ASIA PACIFIC REAL ESTATE FUND, RMR ASIA REAL ESTATE FUND AND RMR DIVIDEND CAPTURE 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, PROVIDE THAT THE NAMES "RMR REAL ESTATE FUND", "RMR HOSPITALITY AND REAL ESTATE FUND", "RMR F.I.R.E. FUND", "RMR PREFERRED DIVIDEND FUND", "RMR ASIA PACIFIC REAL ESTATE FUND", "RMR ASIA REAL ESTATE FUND" AND "RMR DIVIDEND CAPTURE FUND" REFER TO THE TRUSTEES UNDER THE AGREEMENTS AND 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 OR SHE MAY DEAL FOR THE PAYMENT OF ANY SUM OR THE PERFORMANCE OF ANY OBLIGATION.

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**RMR Funds**  
**December 31, 2007**

February 20, 2008

*To our shareholders,*

We are pleased to present you with our 2007 annual report for our seven closed end funds:

RMR Real Estate Fund (AMEX: RMR), which began operations in December 2003, beginning on page 2;

RMR Hospitality and Real Estate Fund (AMEX: RHR), which began operations in April 2004, beginning on page 20;

RMR F.I.R.E. Fund (AMEX: RFR), which began operations in November 2004, beginning on page 39;

RMR Preferred Dividend Fund (AMEX: RDR), which began operations in May 2005, beginning on page 57;

RMR Asia Pacific Real Estate Fund (AMEX: RAP), which began operations in May 2006, beginning on page 73;

RMR Asia Real Estate Fund (AMEX: RAF), which began operations in May 2007, beginning on page 89; and

RMR Dividend Capture Fund (AMEX: RCR), which began operations in December 2007, beginning on page 105.

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,

Adam D. Portnoy  
President



**RMR Real Estate Fund**  
**December 31, 2007**

*To our shareholders,*

In the pages that follow, you will find data summarizing our financial results for the year ended December 31, 2007, and our financial position as of December 31, 2007.

**Relevant Market Conditions**

**Real Estate Industry Fundamentals.** During 2007, commercial real estate vacancy rates generally remained stable and rents increased. Nevertheless, earnings growth from commercial real estate companies began to slow in 2007 compared to prior years because of a general slowdown in the economy. The combination of an economic slowdown, investors concerns relating to weakness in the housing market and credit tightening by lenders led to a sharp decline in valuations for all publicly traded commercial real estate companies in the second half of 2007. Almost all real estate investment trusts, or REITs, experienced a sharp drop in value in the second half of 2007 because of investors concerns regarding any company involved in the real estate business. Furthermore, some REITs that had exposure to subprime mortgages filed for bankruptcy and the value of their securities became essentially worthless after they stopped paying dividends.

In 2008, we expect commercial real estate fundamentals to weaken because of slower economic growth and lower consumer and business confidence. However, higher construction costs and tighter credit markets may limit new supply of commercial real estate and help offset some of the anticipated slowdown in commercial real estate fundamentals. Before the end of 2008, we expect that valuations of REITs that invest directly in commercial real estate may improve in reaction to the sharp decline in their stock prices at the end of 2007 and in early 2008.

**Real Estate Industry Technicals.** After seven years of positive returns, REITs, as measured by the MSCI U.S. REIT Total Return Index (RMS) finished 2007 down 16.7%, marking one of the sector's worst performances ever. Last year was also one of the most volatile years for REITs. During the year, the RMS posted eight of the biggest one day moves since its inception in 1995. Between March and the end of 2007, investors withdrew more than \$9 billion from dedicated REIT funds.

**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, including REITs. Our secondary investment objective is capital appreciation. There can be no assurances that we will meet our investment objectives.

During the year ended 2007, our total return on net asset value, or NAV (including NAV changes and assuming a hypothetical reinvestment of distributions at NAV), was negative 26.28%. During that same period, the total return for the MSCI U.S. REIT Total Return Index (an unmanaged index of REIT common stocks) was negative 16.7% and the total return for the Merrill Lynch REIT Preferred Index (an unmanaged



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index of REIT preferred stocks) was negative 13.0%. We believe these two indices are relevant to us because our investments, excluding short term investments, as of December 31, 2007, included 64% REIT common stocks and 20% REIT preferred stocks. The S&P 500 Index (an unmanaged index published as Standard and Poor's Composite Index of 500 common stocks) total return for the year ended December 31, 2007 was 5.5%.

Our investment allocation to hotel and diversified REITs contributed positively to the Fund's performance in 2007. We benefited from our holdings in hotel REITs because of the high level of M&A activity that took place within this sector during the first half of 2007. The gains from M&A activity during the first half of the year also helped to offset losses experienced by the Fund when the general REIT market declined sharply in the second half of the year. Although we reduced our exposure to mortgage REITs during the year, our holdings in these companies also hurt our performance in 2007. At year end, mortgage REITs accounted for 0.1% of total assets.

**Recent Developments.** As I am writing this letter, continued turmoil in the credit markets is becoming a concern for our Fund. In particular, the market for auction rate securities seems to be experiencing a liquidity crisis. Although we believe our Fund's \$50 million of auction rate preferred securities are well protected by asset coverage, the spill over effect from other auction rate securities may make it more difficult for our Fund to remarket these securities. If this occurs, the dividend rates we pay on our preferred securities may increase or we may be forced to substitute our outstanding preferred shares with less attractive forms of leverage. Any increase in the cost of leverage or decrease in the amount of leverage could adversely impact our performance and ability to maintain the current dividend rate paid to common shareholders in the future.

Thank you for your continued support. For more information, please view our website at [www.rmrfunds.com](http://www.rmrfunds.com).

Sincerely,

Adam D. Portnoy  
President

February 20, 2008

**Portfolio holdings by sub-sector as a percentage of investments (as of December 31, 2007)\***

|                            |       |
|----------------------------|-------|
| REITs                      |       |
| Health care                | 18%   |
| Hospitality                | 17%   |
| Diversified                | 15%   |
| Others, less than 10% each | 34%   |
|                            | <hr/> |
| Total REITs                | 84%   |
| Other                      | 15%   |
| Short term investments     | 1%    |
|                            | <hr/> |
| Total investments          | 100%  |
|                            | <hr/> |

\*

These percentages represent the Fund's portfolio holdings by sub-sector as a percentage of total portfolio holdings and do not match with the percentages included in the Portfolio of Investments schedule which represent the Fund's portfolio holdings by sub-sector as a percentage of the Fund's net assets.

**RMR Real Estate Fund**  
**Portfolio of Investments**

December 31, 2007

| Company                                 | Shares  | Value      |
|---|---------|------------|
| <hr/>                                   |         |            |
| Common Stocks 110.6%                    |         |            |
| Real Estate Investment Trusts 101.6%    |         |            |
| <i>Apartments 11.5%</i>                 |         |            |
| Apartment Investment & Management Co.   | 14,000  | \$ 486,220 |
| Associated Estates Realty Corp.         | 105,400 | 994,976    |
| AvalonBay Communities, Inc.             | 14,000  | 1,317,960  |
| BRE Properties, Inc.                    | 10,000  | 405,300    |
| Equity Residential                      | 49,000  | 1,787,030  |
| Essex Property Trust, Inc.              | 6,000   | 584,940    |
| Home Properties, Inc.                   | 88,800  | 3,982,680  |
| Mid-America Apartment Communities, Inc. | 5,000   | 213,750    |
| Post Properties, Inc.                   | 5,000   | 175,600    |
|   |         | <hr/>      |
|   |         | 9,948,456  |
| <i>Diversified 22.0%</i>                |         |            |
| CapLease, Inc.                          | 56,000  | 471,520    |
| Colonial Properties Trust               | 10,000  | 226,300    |
| Duke Realty Corp.                       | 70,000  | 1,825,600  |
| DuPont Fabros Technology, Inc.          | 7,500   | 147,000    |
| Franklin Street Properties Corp.        | 3,000   | 44,400     |
| Lexington Corporate Properties Trust    | 383,800 | 5,580,452  |
| Liberty Property Trust                  | 29,000  | 835,490    |
| Mission West Properties, Inc.           | 5,000   | 47,550     |
| National Retail Properties, Inc.        | 352,700 | 8,246,126  |
| Vornado Realty Trust                    | 19,000  | 1,671,050  |
| Washington Real Estate Investment Trust | 300     | 9,423      |
|   |         | <hr/>      |
|   |         | 19,104,911 |
| <i>Health Care 23.5%</i>                |         |            |
| Cogdell Spencer, Inc.                   | 16,500  | 262,845    |
| HCP, Inc.                               | 39,080  | 1,359,202  |
| Health Care REIT, Inc.                  | 162,600 | 7,266,594  |
| LTC Properties, Inc.                    | 20,000  | 501,000    |
| Medical Properties Trust, Inc.          | 94,520  | 963,159    |
| Nationwide Health Properties, Inc.      | 257,600 | 8,080,912  |
| OMEGA Healthcare Investors, Inc.        | 96,000  | 1,540,800  |
| Universal Health Realty Income Trust    | 13,000  | 460,720    |
|   |         | <hr/>      |
|   |         | 20,435,232 |
| <i>Hospitality 6.7%</i>                 |         |            |
| Ashford Hospitality Trust, Inc.         | 185,500 | 1,333,745  |
| Entertainment Properties Trust          | 22,000  | 1,034,000  |
| FelCor Lodging Trust, Inc.              | 17,000  | 265,030    |
| Hersha Hospitality Trust                | 129,300 | 1,228,350  |
| LaSalle Hotel Properties                | 17,200  | 548,680    |
| Sunstone Hotel Investors, Inc.          | 25,000  | 457,250    |
| Supertel Hospitality, Inc.              | 161,000 | 988,540    |
|   |         | <hr/>      |
|   |         | 5,855,595  |

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



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*Industrial 11.6%*

|                                     |         |    |           |
|-------------------------------------|---------|----|-----------|
| AMB Property Corp.                  | 4,000   | \$ | 230,240   |
| DCT Industrial Trust, Inc.          | 64,500  |    | 600,495   |
| EastGroup Properties, Inc.          | 14,000  |    | 585,900   |
| First Industrial Realty Trust, Inc. | 211,240 |    | 7,308,904 |
| ProLogis                            | 21,000  |    | 1,330,980 |

10,056,519

*Manufactured Homes 1.8%*

|                       |        |  |           |
|-----------------------|--------|--|-----------|
| Sun Communities, Inc. | 75,900 |  | 1,599,213 |
|-----------------------|--------|--|-----------|

*Mortgage 0.1%*

|                          |        |  |        |
|--------------------------|--------|--|--------|
| Alesco Financial, Inc.   | 19,000 |  | 62,320 |
| Anthracite Capital, Inc. | 2,000  |  | 14,480 |

76,800

*Office 12.7%*

|                                   |         |  |           |
|-----------------------------------|---------|--|-----------|
| American Financial Realty Trust   | 309,100 |  | 2,478,982 |
| Brandywine Realty Trust           | 102,400 |  | 1,836,032 |
| Corporate Office Properties Trust | 15,500  |  | 488,250   |
| Douglas Emmett, Inc.              | 12,500  |  | 282,625   |
| Highwoods Properties, Inc.        | 55,000  |  | 1,615,900 |
| Mack-Cali Realty Corp.            | 26,500  |  | 901,000   |
| Maguire Properties, Inc.          | 48,000  |  | 1,414,560 |
| Parkway Properties, Inc.          | 55,000  |  | 2,033,900 |

11,051,249

*Retail 7.4%*

|   |         |  |           |
|---|---------|--|-----------|
| Cedar Shopping Centers, Inc.              | 75,000  |  | 767,250   |
| Equity One, Inc.                          | 10,000  |  | 230,300   |
| Feldman Mall Properties, Inc.             | 3,000   |  | 11,070    |
| Glimcher Realty Trust                     | 109,400 |  | 1,563,326 |
| Kimco Realty Corp.                        | 5,000   |  | 182,000   |
| Pennsylvania Real Estate Investment Trust | 12,000  |  | 356,160   |
| Ramco-Gershenson Properties Trust         | 9,000   |  | 192,330   |
| Realty Income Corp.                       | 54,600  |  | 1,475,292 |
| Simon Property Group, Inc.                | 15,000  |  | 1,302,900 |
| Tanger Factory Outlet Centers, Inc.       | 5,000   |  | 188,550   |
| Urstadt Biddle Properties, Inc.           | 8,900   |  | 137,950   |

6,407,128

*Specialty 1.0%*

|                    |        |  |         |
|--------------------|--------|--|---------|
| Getty Realty Corp. | 32,600 |  | 869,768 |
|--------------------|--------|--|---------|

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

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|  |         |            |
|--|---------|------------|
| <i>Storage 3.3%</i>  |         |            |
| Public Storage, Inc.   | 3,000   | \$ 220,230 |
| Sovran Self Storage, Inc.                                      | 50,000  | 2,005,000  |
| U-Store-It Trust   | 65,000  | 595,400    |
|  |         | 2,820,630  |
| <i>Total Real Estate Investment Trusts (Cost \$92,150,007)</i> |         | 88,225,501 |
| <br><i>Other 9.0%</i>  |         |            |
| Abingdon Investment, Ltd. (a) (b)                              | 550,000 | 4,378,000  |
| American Capital Strategies, Ltd.                              | 23,500  | 774,560    |
| Brookfield Properties Corp.                                    | 10,000  | 192,500    |
| Iowa Telecommunication Services, Inc.                          | 50,500  | 821,130    |
| MCG Capital Corp.  | 41,000  | 475,190    |
| Seaspan Corp.  | 48,200  | 1,180,418  |
| <i>Total Other (Cost \$9,017,018)</i>                          |         | 7,821,798  |
| <i>Total Common Stocks (Cost \$101,167,025)</i>                |         | 96,047,299 |
| <i>Preferred Stocks 40.2%</i>                                  |         |            |
| <i>Real Estate Investment Trusts 33.0%</i>                     |         |            |
| <i>Apartments 0.9%</i>   |         |            |
| Apartment Investment & Management Co., Series G                | 32,800  | 800,320    |
| <i>Diversified 1.6%</i>  |         |            |
| Colonial Properties Trust, Series D                            | 60,000  | 1,436,400  |
| <i>Health Care 5.3%</i>  |         |            |
| Health Care REIT, Inc., Series G                               | 20,000  | 640,600    |
| OMEGA Healthcare Investors Inc., Series D                      | 160,000 | 3,963,200  |
|  |         | 4,603,800  |
| <i>Hospitality 20.5%</i>                                       |         |            |
| Ashford Hospitality Trust, Series A                            | 107,900 | 2,023,125  |
| Ashford Hospitality Trust, Series D                            | 100,000 | 1,900,000  |
| Eagle Hospitality Properties Trust, Inc., Series A (b)         | 28,000  | 350,000    |
| Entertainment Properties Trust, Series D                       | 111,800 | 2,090,660  |
| FelCor Lodging Trust, Inc., Series A (c)                       | 83,000  | 1,711,460  |
| FelCor Lodging Trust, Inc., Series C                           | 39,600  | 734,580    |
| Hersha Hospitality Trust, Series A                             | 92,000  | 1,968,800  |
| LaSalle Hotel Properties, Series D                             | 100,000 | 1,830,000  |
| Strategic Hotels & Resorts, Inc., Series A                     | 75,000  | 1,408,500  |
| Strategic Hotels & Resorts, Inc., Series B                     | 64,500  | 1,241,625  |
| Sunstone Hotel Investors, Inc., Series A                       | 129,100 | 2,521,323  |
|  |         | 17,780,073 |

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

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|   |         |               |
|---|---------|---------------|
| <i>Industrial</i> 0.5%  |         |               |
| First Industrial Realty Trust, Series J   | 20,000  | \$ 405,000    |
| <i>Office</i> 1.3%  |         |               |
| Corporate Office Properties Trust, Series H                                     | 2,000   | 41,000        |
| Corporate Office Properties Trust, Series J                                     | 22,000  | 449,900       |
| Kilroy Realty Corp., Series E   | 500     | 11,250        |
| Kilroy Realty Corp., Series F   | 30,000  | 660,000       |
|   |         | <hr/>         |
|   |         | 1,162,150     |
| <i>Retail</i> 2.9%  |         |               |
| Cedar Shopping Centers, Inc., Series A  | 88,600  | 2,082,100     |
| Glimcher Realty Trust, Series F   | 20,000  | 411,000       |
|   |         | <hr/>         |
|   |         | 2,493,100     |
| <i>Total Real Estate Investment Trusts (Cost \$33,520,602)</i>                  |         | 28,680,843    |
| <i>Other</i> 7.2%   |         |               |
| Hilltop Holdings, Inc., Series A  | 280,000 | 6,209,000     |
| <i>Total Other (Cost \$6,016,675)</i>   |         | 6,209,000     |
| <i>Total Preferred Stocks (Cost \$39,537,277)</i>                               |         | 34,889,843    |
| <i>Other Investment Companies</i> 9.0%  |         |               |
| Alpine Total Dynamic Dividend Fund  | 126,200 | 2,139,090     |
| Cohen & Steers Premium Income Realty Fund, Inc.                                 | 31,950  | 469,984       |
| Cohen & Steers REIT and Preferred Income Fund, Inc.                             | 38,426  | 726,252       |
| Cornerstone Strategic Value Fund, Inc.  | 2,500   | 12,600        |
| Eaton Vance Enhanced Equity Income Fund II                                      | 30,100  | 534,275       |
| LMP Real Estate Income Fund, Inc.   | 80,160  | 1,163,923     |
| Neuberger Berman Real Estate Securities Income Fund, Inc.                       | 72,250  | 831,597       |
| Neuberger Berman Realty Income Fund, Inc.                                       | 55,700  | 881,174       |
| The Zweig Total Return Fund, Inc.   | 220,568 | 999,173       |
| <i>Total Other Investment Companies (Cost \$9,631,583)</i>                      |         | 7,758,068     |
| <i>Short-Term Investments</i> 1.1%  |         |               |
| <i>Other Investment Companies</i> 1.1%  |         |               |
| Dreyfus Cash Management, Institutional Shares, 4.85% (d) (Cost \$997,913)       | 997,913 | 997,913       |
| <i>Total Investments</i> 160.9% (Cost \$151,333,798)                            |         | 139,693,123   |
| <i>Other assets less liabilities</i> (3.3)%                                     |         | (2,853,790)   |
| <i>Preferred Shares, at liquidation preference</i> (57.6)%                      |         | (50,000,000)  |
| <i>Net Assets applicable to common shareholders</i> 100%                        |         | \$ 86,839,333 |
| <i>See notes to financial statements and notes to portfolio of investments.</i> |         |               |

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Notes to Portfolio of Investments

- (a) 144A securities. Securities restricted for resale to Qualified Institutional Buyers (5.0% of net assets). These securities are considered to be liquid.
- (b) As of December 31, 2007, the Fund held securities fair valued in accordance with policies adopted by the Board of Trustees, aggregating \$4,728,000 and 3.38% of market value.
- (c) Convertible into common stock.
- (d) Rate reflects 7 day yield as of December 31, 2007.

*See notes to financial statements.*



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

## Statement of Assets and Liabilities

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**December 31, 2007**


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*Assets*

|  |                |
|--|----------------|
| Investments in securities, at value (cost \$151,333,798) | \$ 139,693,123 |
| Cash   | 524            |
| Dividends and interest receivable                        | 2,311,017      |
|  | <hr/>          |
| Total assets   | 142,004,664    |
|  | <hr/>          |

*Liabilities*

|  |           |
|--|-----------|
| Distributions payable - common shares    | 4,776,800 |
| Distributions payable - preferred shares | 105,000   |
| Advisory fee payable                     | 73,776    |
| Accrued expenses and other liabilities   | 209,755   |
|  | <hr/>     |
| Total liabilities                        | 5,165,331 |
|  | <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*


---

\$ 86,839,333

---

*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  | 96,475,287   |
| Distributions in excess of net investment income  | (9,373)      |
| Accumulated net realized gain on investment transactions  | 2,007,270    |
| Net unrealized depreciation on investments  | (11,640,675) |
|   | <hr/>        |

*Net assets attributable to common shares*


---

\$ 86,839,333

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


---

\$ 12.73

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*See notes to financial statements.*


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

## Statement of Operations

**For the Year Ended December 31, 2007***Investment Income*

|  |              |
|--|--------------|
| Dividends (Cash distributions, net of capital gain (\$4,010,171) and return of capital (\$1,467,181) distributions, received or due, net of foreign taxes withheld of \$420) | \$ 8,954,018 |
| Interest   | 307,972      |
|  | <hr/>        |
| Total investment income  | 9,261,990    |
|  | <hr/>        |

*Expenses*

|                                     |           |
|-------------------------------------|-----------|
| Advisory                            | 1,457,623 |
| Audit and legal                     | 186,544   |
| Preferred share remarketing         | 127,964   |
| Administrative                      | 109,271   |
| Custodian                           | 87,376    |
| Shareholder reporting               | 67,396    |
| Excise Tax                          | 35,510    |
| Compliance and internal audit       | 29,725    |
| Trustees' fees and expenses         | 21,606    |
| Other                               | 86,550    |
|                                     | <hr/>     |
| Total expenses                      | 2,209,565 |
| Less: expense waived by the Advisor | (428,713) |
|                                     | <hr/>     |

|              |           |
|--------------|-----------|
| Net expenses | 1,780,852 |
|              | <hr/>     |

|                       |           |
|-----------------------|-----------|
| Net investment income | 7,481,138 |
|                       | <hr/>     |

*Realized and unrealized gain(loss) on investments*

|   |              |
|---|--------------|
| Net realized gain on investments                                    | 3,140,623    |
| Net increase from payments by affiliates                            | 2,070        |
| Net change in unrealized appreciation/(depreciation) on investments | (41,493,993) |
|   | <hr/>        |
| Net realized and unrealized loss on investments                     | (38,351,300) |
|   | <hr/>        |

|   |             |
|---|-------------|
| Distributions to preferred shareholders from net investment income            | (1,161,670) |
| Distributions to preferred shareholders from net realized gain on investments | (1,482,830) |
|   | <hr/>       |

|  |                 |
|--|-----------------|
| Net decrease in net assets attributable to common shares resulting from operations | \$ (33,514,662) |
|  | <hr/>           |

*See notes to financial statements.*

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

## Statements of Changes in Net Assets

|   | Year Ended<br>December 31,<br>2007 | Year Ended<br>December 31,<br>2006 |
|---|------------------------------------|------------------------------------|
| <i>Increase (decrease) in net assets resulting from operations</i>  |                                    |                                    |
| Net investment income   | \$ 7,481,138                       | \$ 6,724,184                       |
| Net increase from payments by affiliates  | 2,070                              |                                    |
| Net realized gain on investments  | 3,140,623                          | 11,075,804                         |
| Net change in unrealized appreciation/(depreciation) on investments                                       | (41,493,993)                       | 20,905,533                         |
| Distributions to preferred shareholders from:   |                                    |                                    |
| Net investment income   | (1,161,670)                        | (1,552,028)                        |
| Net realized gain on investments  | (1,482,830)                        | (813,812)                          |
|   | <u>                    </u>        | <u>                    </u>        |
| Net increase (decrease) in net assets attributable to common shares resulting from operations             | (33,514,662)                       | 36,339,681                         |
|   | <u>                    </u>        | <u>                    </u>        |
| Distributions to common shareholders from:  |                                    |                                    |
| Net investment income   | (6,354,978)                        | (5,371,982)                        |
| Net realized gains on investments   | (8,111,902)                        | (2,816,818)                        |
|   | <u>                    </u>        | <u>                    </u>        |
| Total increase (decrease) in net assets attributable to common shares                                     | (47,981,542)                       | 28,150,881                         |
| <i>Net assets attributable to common shares</i>   |                                    |                                    |
| Beginning of year   | 134,820,875                        | 106,669,994                        |
|   | <u>                    </u>        | <u>                    </u>        |
| End of year (includes distributions in excess of net investment income of (\$9,373) and \$0 respectively) | \$ 86,839,333                      | \$ 134,820,875                     |
|   | <u>                    </u>        | <u>                    </u>        |
| <i>Common shares issued and repurchased</i>   |                                    |                                    |
| Shares outstanding, beginning of year   | 6,824,000                          | 6,824,000                          |
| Shares issued   |                                    |                                    |
|   | <u>                    </u>        | <u>                    </u>        |
| Shares outstanding, end of year   | 6,824,000                          | 6,824,000                          |
|   | <u>                    </u>        | <u>                    </u>        |

*See notes to financial statements.*

**RMR Real Estate Fund**  
**Financial Highlights**

Selected Data For A Common Share Outstanding Throughout Each Period

|   | Year Ended<br>December 31,<br>2007 | Year Ended<br>December 31,<br>2006 | Year Ended<br>December 31,<br>2005 | Year Ended<br>December 31,<br>2004 | For the<br>Period<br>December 18,<br>2003(a) to<br>December 31,<br>2003 |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|---|
| <i>Per Common Share Operating Performance (b)</i>                             |                                    |                                    |                                    |                                    |   |
| Net asset value, beginning of period  | \$ 19.76                           | \$ 15.63                           | \$ 16.61                           | \$ 14.35                           | \$ 14.33(c)   |
| <i>Income from Investment Operations</i>                                      |                                    |                                    |                                    |                                    |   |
| Net investment income (d)(e)  | 1.10                               | .99                                | .64                                | .47                                | .10   |
| Net realized and unrealized appreciation/(depreciation) on investments (e)    | (5.62)                             | 4.69                               | (.08)                              | 3.11                               | (.05)   |
| Distributions to preferred shareholders (common stock equivalent basis) from: |                                    |                                    |                                    |                                    |   |
| Net investment income (e)   | (.17)                              | (.23)                              | (.10)                              | (.05)                              |   |
| Net realized gain on investments (e)  | (.22)                              | (.12)                              | (.14)                              | (.05)                              |   |
| Net increase (decrease) in net asset value from operations                    | (4.91)                             | 5.33                               | .32                                | 3.48                               | .05   |
| Less: Distributions to common shareholders from:                              |                                    |                                    |                                    |                                    |   |
| Net investment income (e)   | (.93)                              | (.79)                              | (.54)                              | (.53)                              |   |
| Net realized gain on investments (e)  | (1.19)                             | (.41)                              | (.76)                              | (.57)                              |   |
| Common share offering costs charged to capital                                |                                    |                                    |                                    |                                    | (.03)   |
| Preferred share offering costs charged to capital                             |                                    |                                    |                                    | (.12)                              |   |
| Net asset value, end of period  | \$ 12.73                           | \$ 19.76                           | \$ 15.63                           | \$ 16.61                           | \$ 14.35  |
| Market price, beginning of period   | \$ 17.48                           | \$ 13.15                           | \$ 14.74                           | \$ 15.00                           | \$ 15.00  |
| Market price, end of period   | \$ 11.03                           | \$ 17.48                           | \$ 13.15                           | \$ 14.74                           | \$ 15.00  |
| <i>Total Return (f)(g)</i>  |                                    |                                    |                                    |                                    |   |
| Total investment return based on:   |                                    |                                    |                                    |                                    |   |
| Market price (h)  | (26.19)%                           | 43.77%                             | (1.96)%                            | 6.42%                              | 0.00%   |
| Net asset value (h)   | (26.28)%                           | 35.27%                             | 2.10%                              | 24.73%                             | 0.14%   |
| <i>Ratios/Supplemental Data:</i>  |                                    |                                    |                                    |                                    |   |
| Ratio to average net assets attributable to common shares of:                 |                                    |                                    |                                    |                                    |   |
| Net investment income, before total preferred share distributions (d)(e)      | 6.16%                              | 5.60%                              | 4.02%                              | 3.22%                              | 27.45%(i)   |
| Total preferred share distributions   | 2.18%                              | 1.97%                              | 1.47%                              | 0.67%                              | 0.00%(i)  |
| Net investment income, net of preferred share distributions (d)(e)            | 3.98%                              | 3.63%                              | 2.55%                              | 2.55%                              | 27.45%(i)   |
| Expenses, net of fee waivers  | 1.47%                              | 1.50%                              | 1.50%                              | 1.69%                              | 2.40%(i)  |
| Expenses, before fee waivers  | 1.82%                              | 1.86%                              | 1.87%                              | 2.05%                              | 2.65%(i)  |
| Portfolio Turnover Rate   | 51.01%                             | 36.20%                             | 22.15%                             | 35.52%                             | 17.49%  |

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|  |    |        |    |         |    |         |    |         |    |        |
|--|----|--------|----|---------|----|---------|----|---------|----|--------|
| Net assets attributable to common shares, end of period (000s)       | \$ | 86,839 | \$ | 134,821 | \$ | 106,670 | \$ | 113,357 | \$ | 95,776 |
| Preferred shares, liquidation preference (\$25,000 per share) (000s) | \$ | 50,000 | \$ | 50,000  | \$ | 50,000  | \$ | 50,000  | \$ |        |
| Asset coverage per preferred share (j)                               | \$ | 68,420 | \$ | 92,411  | \$ | 78,335  | \$ | 81,679  | \$ |        |

- (a) 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 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 the RMR Advisors for \$15.00 per share.
- (d) Amounts are net of expenses waived by RMR Advisors.
- (e) As discussed in Note A (6) to the financial statements, a portion of the distributions we received on our investments are not included in investment income for financial reporting purposes.
- (f) The impact of net increase from payments by affiliates is less than \$0.005/share.
- (g) Total returns for periods of less than one year are not annualized.
- (h) 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 on the ex-dividend date. The total return based 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 on the ex-dividend date. 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.
- (i) Annualized.
- (j) Asset coverage per share equals net assets attributable to common shares plus the liquidation preference of the preferred shares divided by the total number of preferred shares outstanding at the end of the period.

*See notes to financial statements.*

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

**December 31, 2007**

**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, or the 1940 Act, as a 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) 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.

(3) Portfolio Valuation

Investment securities of the Fund are valued at the latest sales price whenever that price is readily available on that day; 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 4:00:02 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. 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 or which have other characteristics of illiquidity 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 type 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.

(4) 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 an identified cost basis.

(5) 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. However, the Fund may be subject to a 4% excise tax to the extent the Fund does not distribute substantially all taxable earnings.

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Some foreign governments may subject the Fund's investment income and securities sales to withholding or other taxes. For the year ended December 31, 2007, \$420 of foreign taxes have been withheld from distributions to the Fund and recorded as a reduction of dividend income.

### (6) 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 December 12, 2007, the Fund declared distributions of \$0.10 per common share payable in January, February and March 2008 and a special distribution of \$0.60 per common share payable in January 2008. The Fund paid the January regular distribution and special distribution on January 31, 2008. Distributions to 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. 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. Distributions to preferred shareholders are determined as described in Note D.

The Fund has substantial investments in real estate investment trusts, or REITs, which are generally not subject to federal income taxes. Distributions that the Fund receives from REITs can be classified as ordinary income, capital gain income or return of capital by the REITs that make these distributions to the Fund. The Fund has excluded from its investment income the portions of the distributions received from REITs classified by those REITs as capital gain income and return of capital. The Fund has included in its "net realized gain on investments" that portion of the distributions received from REITs that is classified by those REITs as capital gain income. Similarly, the Fund has credited its "net change in unrealized appreciation on investments" with that portion of the distributions received from REITs that is classified by those REITs as return of capital. The classification of distributions received from the Fund's investments were as follows:

|                                     | <b>Year ended<br/>December 31,<br/>2007</b> | <b>Year ended<br/>December 31,<br/>2006</b> |
|-------------------------------------|---|---|
| Ordinary income                     | \$ 8,954,018                                | \$ 8,163,300                                |
| Capital gain income                 | 4,010,171                                   | 1,891,893                                   |
| Return of capital                   | 1,467,181                                   | 2,131,782                                   |
| <b>Total distributions received</b> | <b>\$ 14,431,370</b>                        | <b>\$ 12,186,975</b>                        |

The Fund distinguishes between distributions to shareholders on a tax basis and a financial reporting basis. Only distributions in excess of accumulated tax basis earnings and profits are reported in the financial statements as a tax return of capital. Differences in the recognition or classification of income between the financial statements and tax earnings and profits which result in temporary over distributions for financial statement purposes are classified as distributions in excess of net investment income or accumulated net realized gains in the components of net assets on the Statement of Assets and Liabilities.

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The tax character of distributions made by the Fund during the years ended December 31, 2007 and December 31, 2006, were as follows:

|                             | <b>Year ended<br/>December 31,<br/>2007</b> | <b>Year ended<br/>December 31,<br/>2006</b> |
|-----------------------------|---|---|
| Ordinary income             | \$ 7,531,305                                | \$ 7,985,219                                |
| Net long term capital gains | 9,580,075                                   | 2,569,421                                   |
|                             | <b>\$ 17,111,380</b>                        | <b>\$ 10,554,640</b>                        |

As of December 31, 2007, the components of distributable earnings on a federal income tax basis were as follows:

|  |    |              |
|--|----|--------------|
| Undistributed ordinary income              | \$ |              |
| Undistributed net long-term capital gains  |    | 2,031,733    |
| Net unrealized appreciation/(depreciation) |    | (11,676,581) |

The differences between the financial reporting basis and tax basis of undistributed net long term capital gains and net unrealized appreciation/depreciation are due to wash sales of portfolio investments.

The cost, gross unrealized appreciation and unrealized depreciation of the Fund's investments for federal income tax purposes as of December 31, 2007, are as follows:

|  |    |              |
|--|----|--------------|
| Cost                                       | \$ | 151,369,704  |
|  |    |              |
| Gross unrealized appreciation              | \$ | 9,166,984    |
| Gross unrealized depreciation              |    | (20,843,565) |
|  |    |              |
| Net unrealized appreciation/(depreciation) | \$ | (11,676,581) |

### (7) Concentration of Risk

Under normal market conditions, the Fund's investments will be 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.

### (8) Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board, or FASB, issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109", or FIN 48. FIN 48 was effective for the fiscal years beginning after December 15, 2006. The Securities and Exchange Commission delayed the application of FIN 48 to open and closed end funds to not later than June 29, 2007. FIN 48 prescribes how the Fund should recognize, measure and present in the Fund's financial statements uncertain tax provisions that have been taken or expected to be taken in a tax return. Pursuant to FIN 48 the Fund can recognize a tax benefit only if it is "more likely than not" that a particular tax position will be sustained upon examination or audit. To the extent the "more likely than not" standard has been satisfied the benefits



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associated with a tax position is measured as the largest amount that is greater than 50% likely of being realized upon settlement. As required, the Fund has adopted FIN 48 effective June 29, 2007, and concluded that the effect is not material to its financial statements. As of and during the year ended December 31, 2007, the Fund did not have a liability for any unrecognized tax benefits. Each of the tax years in the three year period ended December 31, 2007, remains subject to examination by the Internal Revenue Service.

In September 2006, FASB issued Statement of Accounting Standards No. 157, "Fair Value Measurements", or SFAS 157, which is effective for fiscal years beginning after November 15, 2007. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands required disclosures about fair value measurements. Management has evaluated the application of the Statement to the Fund, and believes the impact will be limited to expanded financial statement disclosures.

### **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 the 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, the liquidation preference of preferred shares is not considered a liability.

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 from December 18, 2003 until December 18, 2008. The Fund incurred net advisory fees of \$1,028,910 during the year ended December 31, 2007. The amount of fees waived by the Advisor was \$428,713 for the year ended December 31, 2007.

RMR Advisors, and not the Fund, has contractually 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 in that offering 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 subadministration agreement with State Street Bank and Trust Company, or 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. The Fund reimbursed RMR Advisors for \$109,271 of subadministrative fees charged by State Street for the year ended December 31, 2007.

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 1940 Act is considered to be a "disinterested trustee". Disinterested trustees are each paid by the Fund an annual fee plus fees for board and committee meetings. The Fund incurred \$21,606 of trustee fees and expenses during the year ended December 31, 2007.

The Fund's board of trustees and separately the disinterested trustees authorized the Fund to make reimbursement payments to RMR Advisors for costs related to the Fund's compliance and internal audit programs. The Fund incurred \$29,725 of compliance and internal audit expense during the year ended December 31, 2007. The Fund also participates in pooled insurance programs with RMR Advisors and other funds managed by RMR Advisors and makes payments of allocated portions of related premiums. The Fund incurred \$17,892 of insurance expense during the year ended December 31, 2007.

During the year ended December 31, 2007, RMR Advisors reimbursed the Fund in the amount of \$2,070 for trading losses incurred by the Fund due to a trading error.

## **Note C**

### **Securities Transactions**

During the year ended December 31, 2007, there were purchases and sales transactions (excluding short term securities) of \$88,159,820 and \$84,315,531 respectively. Brokerage commissions on securities transactions amounted to \$117,849 during the year ended December 31, 2007.

## **Note D**

### **Preferred Shares**

The Fund's 2,000 outstanding Series T 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 1940 Act, of at least 200%, the preferred shares will be subject to redemption in 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 5.40% per annum as of December 31, 2007.

**Report of Independent Registered Public Accounting Firm**

*To the Board of Trustees and  
Shareholders of RMR Real Estate Fund:*

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments, of RMR Real Estate Fund (the "Fund") as of December 31, 2007, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the periods indicated therein. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2007, by correspondence with the custodian. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of RMR Real Estate Fund at December 31, 2007, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the periods indicated therein, in conformity with U.S. generally accepted accounting principles.

Boston, Massachusetts  
February 21, 2008

**RMR Hospitality and Real Estate Fund**

December 31, 2007

*To our shareholders,*

In the pages that follow, you will find data summarizing our financial results for the year ended December 31, 2007, and our financial position as of December 31, 2007.

**Relevant Market Conditions**

***Hospitality Industry Fundamentals.*** In the first half of 2007, the hotel sector witnessed an unprecedented level of M&A activity. Five public hotel real estate investment trusts, or REITs, and one major hotel operating company, Hilton Hotels and Resorts, were taken private. This M&A activity stopped in the second half of 2007 because of credit tightening by lenders.

Operating fundamentals for hotels were solid in 2007. Industry-wide revenue per available room, or RevPar, growth was healthy at 5.7% with hotel occupancies were unchanged compared to 2006 at about 65% according to Smith Travel Research. Luxury hotels in urban markets outperformed all other segments because of an undersupply of hotels in a few major markets and strong demand from foreign travelers in major cities.

In 2008, RevPar growth expectations for the industry are in the range of 5 - 7%. However, at least one hotel company recently lowered its 2008 projections because of the slowdown in the economy in the second half of 2007. We expect other hotel companies may also lower expectations, but to assert that positive RevPar growth may be achievable in 2008. For example, at the beginning of 2008, hotel companies generally indicated that advance bookings were solid for the coming year and there has been no notable reduction in room rates. In addition, there is currently limited new hotel supply because of high construction costs, with supply growth forecasted at only 2% for the next few years.

***Real Estate Industry Fundamentals.*** During 2007, commercial real estate vacancy rates generally remained stable and rents increased modestly. Nevertheless, earnings growth from commercial real estate companies began to slow in 2007 compared to prior years because of a general slowdown in the economy. The combination of an economic slowdown, investors concerns relating to weakness in the housing market and credit tightening by lenders led to a sharp decline in valuations for all publicly traded commercial real estate companies in the second half of 2007. Almost all REITs experienced a sharp drop in value in the second half of 2007 because of investors concerns regarding any company involved in the real estate business. Furthermore, some REITs that had exposure to subprime mortgages filed for bankruptcy and the value of their securities became essentially worthless after they stopped paying dividends.

In 2008, we expect commercial real estate fundamentals may weaken because of slower economic growth and lower consumer and business confidence. However, higher construction costs and tighter credit markets may limit new supply of commercial real estate and help offset some of the anticipated slowdown in commercial real estate fundamentals. Before the end of 2008, we expect that valuations of REITs that invest directly in commercial real estate may improve in reaction to the sharp decline in their stock prices at the end of 2007 and in early 2008.

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**Real Estate Industry Technicals.** After seven years of positive returns, REITs, as measured by the MSCI U.S. REIT Index (RMS) finished 2007 down 16.7%, marking one of the sector's worst performances ever. Last year was also one of the most volatile years for REITs. During the year, the RMS posted eight of the biggest one day moves since its inception in 1995. Between March and the end of 2007, investors withdrew more than \$9 billion from dedicated REIT funds.

### Fund Strategies, Techniques and Performance

Our primary objective is to earn and pay to our common 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 achieve our investment objectives.

During 2007, our total return on net asset value, or NAV (including NAV changes and assuming a hypothetical reinvestment of distributions at NAV), was negative 28.15%. During that same period, the total return for the MSCI U.S. REIT Total Return Index (an unmanaged index of REIT common stocks) was negative 16.7% and the total return for the Merrill Lynch REIT Preferred Index (an unmanaged index of REIT preferred stocks) was negative 13.0%. We believe these two indices are relevant to us because our investments, excluding short term investments, as of December 31, 2007, included 54% REIT common stocks and 29% REIT preferred stocks. The S&P 500 Index (an unmanaged index published as Standard and Poor's Composite Index of 500 common stocks) total return for the year ended December 31, 2007 was 5.5%.

Our investment allocation to hotel and diversified REITs contributed positively to the Fund's performance in 2007. We benefited from our holdings in hotel REITs because of the high level of M&A activity that took place within this sector during the first half of 2007. The gains from M&A activity during the first half of the year also helped to offset losses experienced by the Fund when the general REIT market declined sharply in the second half of the year. Although we reduced our exposure to mortgage REITs during the year, our holdings in these companies also hurt our performance in 2007. At year end, mortgage REITs accounted for 0.2% of total assets. The Fund's performance during the year was also impacted by the cost of its ongoing litigation, which is expected to continue in 2008.

**Recent Developments.** As I am writing this letter, continued turmoil in the credit markets is becoming a concern for our Fund. In particular, the market for auction rate securities seems to be experiencing a liquidity crisis. Although we believe our Fund's \$28 million of auction rate preferred securities are well protected by asset coverage, the spill over effect from other auction rate securities may make it more difficult for our Fund to remarket these securities. If this occurs, the dividend rates we pay on our preferred securities may increase or we may be forced to substitute our outstanding preferred shares with less attractive forms of leverage. Any increase in the cost of leverage or decrease in the amount of leverage could adversely impact our performance and ability to maintain the current dividend rate paid to common shareholders in the future.

Thank you for your continued support. For more information, please view our website at [www.rmrfunds.com](http://www.rmrfunds.com).

Sincerely,

Adam D. Portnoy  
President

February 20, 2008

**RMR Hospitality and Real Estate Fund**

December 31, 2007

**Portfolio holdings by sub-sector as a percentage of investments  
(as of December 31, 2007)\***

|                            |       |
|----------------------------|-------|
| Hospitality real estate    | 33%   |
| Health care real estate    | 15%   |
| Office real estate         | 12%   |
| Diversified real estate    | 11%   |
| Others, less than 10% each | 28%   |
| Short term investments     | 1%    |
|                            | <hr/> |
| Total investments          | 100%  |
|                            | <hr/> |
| REITs                      | 89%   |
| Other                      | 10%   |
| Short term investments     | 1%    |
|                            | <hr/> |
| Total investments          | 100%  |
|                            | <hr/> |

\*

These percentages represent the Fund's portfolio holdings by sub-sector as a percentage of total portfolio holdings and do not match with the percentages included in the Portfolio of Investments schedule which represent the Fund's portfolio holdings by sub-sector as a percentage of the Fund's net assets.

**RMR Hospitality and Real Estate Fund**  
**Portfolio of Investments** December 31, 2007

| Company                                    | Shares  | Value      |
|--|---------|------------|
| <b>Common Stocks 97.5%</b>                 |         |            |
| <i>Real Estate Investment Trusts 89.4%</i> |         |            |
| <i>Apartments 3.9%</i>                     |         |            |
| Apartment Investment & Management Co.      | 10,000  | \$ 347,300 |
| Associated Estates Realty Corp.            | 5,600   | 52,864     |
| BRE Properties, Inc.                       | 6,000   | 243,180    |
| Equity Residential                         | 8,000   | 291,760    |
| Essex Property Trust, Inc.                 | 2,000   | 194,980    |
| Home Properties, Inc.                      | 10,500  | 470,925    |
|  |         | 1,601,009  |
| <i>Diversified 17.1%</i>                   |         |            |
| CapLease, Inc.                             | 41,404  | 348,622    |
| Colonial Properties Trust                  | 55,900  | 1,265,017  |
| Cousins Properties, Inc.                   | 10,000  | 221,000    |
| Franklin Street Properties Corp.           | 3,000   | 44,400     |
| iStar Financial, Inc.                      | 6,000   | 156,300    |
| Lexington Corporate Properties Trust       | 128,800 | 1,872,752  |
| Liberty Property Trust                     | 20,000  | 576,200    |
| Mission West Properties, Inc.              | 3,000   | 28,530     |
| National Retail Properties, Inc.           | 105,850 | 2,474,773  |
| Washington Real Estate Investment Trust    | 300     | 9,423      |
|  |         | 6,997,017  |
| <i>Health Care 18.7%</i>                   |         |            |
| HCP, Inc.                                  | 16,770  | 583,261    |
| Health Care REIT, Inc.                     | 75,740  | 3,384,820  |
| LTC Properties, Inc.                       | 10,000  | 250,500    |
| Medical Properties Trust, Inc.             | 36,020  | 367,044    |
| Nationwide Health Properties, Inc.         | 86,000  | 2,697,820  |
| OMEGA Healthcare Investors, Inc.           | 7,700   | 123,585    |
| Universal Health Realty Income Trust       | 7,600   | 269,344    |
|  |         | 7,676,374  |
| <i>Hospitality 14.5%</i>                   |         |            |
| Ashford Hospitality Trust, Inc.            | 140,000 | 1,006,600  |
| Entertainment Properties Trust             | 18,800  | 883,600    |
| FelCor Lodging Trust, Inc.                 | 20,000  | 311,800    |
| Hersha Hospitality Trust                   | 38,100  | 361,950    |
| Host Hotels & Resorts, Inc.                | 44,000  | 749,760    |
| LaSalle Hotel Properties                   | 11,200  | 357,280    |
| Strategic Hotels & Resorts, Inc.           | 12,000  | 200,760    |
| Sunstone Hotel Investors, Inc.             | 23,000  | 420,670    |
| Supertel Hospitality, Inc.                 | 267,130 | 1,640,178  |
|  |         | 5,932,598  |

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

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|  |         |            |
|--|---------|------------|
| <i>Industrial 11.6%</i>  |         |            |
| AMB Property Corp.   | 1,000   | \$ 57,560  |
| DCT Industrial Trust, Inc.                                     | 16,600  | 154,546    |
| EastGroup Properties, Inc.                                     | 6,000   | 251,100    |
| First Industrial Realty Trust, Inc.                            | 104,160 | 3,603,936  |
| ProLogis   | 11,000  | 697,180    |
|  |         | <hr/>      |
|  |         | 4,764,322  |
| <i>Manufactured Homes 0.4%</i>                                 |         |            |
| Sun Communities, Inc.  | 7,100   | 149,597    |
| <i>Mortgage 0.3%</i>   |         |            |
| JER Investors Trust, Inc.                                      | 10,000  | 107,700    |
| <i>Office 11.8%</i>  |         |            |
| American Financial Realty Trust                                | 121,500 | 974,430    |
| Brandywine Realty Trust  | 49,400  | 885,742    |
| Corporate Office Properties Trust                              | 11,500  | 362,250    |
| Douglas Emmett, Inc.   | 8,300   | 187,663    |
| Highwoods Properties, Inc.                                     | 45,000  | 1,322,100  |
| Mack-Cali Realty Corp.   | 8,000   | 272,000    |
| Parkway Properties, Inc.                                       | 22,200  | 820,956    |
|  |         | <hr/>      |
|  |         | 4,825,141  |
| <i>Retail 6.9%</i>   |         |            |
| Cedar Shopping Centers, Inc.                                   | 22,000  | 225,060    |
| Developers Diversified Realty Corp.                            | 2,000   | 76,580     |
| Equity One, Inc.   | 3,000   | 69,090     |
| Glimcher Realty Trust  | 27,400  | 391,546    |
| Pennsylvania Real Estate Investment Trust                      | 20,000  | 593,600    |
| Ramco-Gershenson Properties Trust                              | 12,000  | 256,440    |
| Realty Income Corp.  | 27,200  | 734,944    |
| Simon Property Group, Inc.                                     | 3,000   | 260,580    |
| Tanger Factory Outlet Centers, Inc.                            | 5,000   | 188,550    |
| Urstadt Biddle Properties, Inc.                                | 2,900   | 44,950     |
|  |         | <hr/>      |
|  |         | 2,841,340  |
| <i>Specialty 2.2%</i>  |         |            |
| Getty Realty Corp.   | 34,000  | 907,120    |
| <i>Storage 2.0%</i>  |         |            |
| Extra Space Storage, Inc.                                      | 15,000  | 214,350    |
| Sovran Self Storage, Inc.                                      | 8,100   | 324,810    |
| U-Store-It Trust   | 29,100  | 266,556    |
|  |         | <hr/>      |
|  |         | 805,716    |
| <i>Total Real Estate Investment Trusts (Cost \$38,312,883)</i> |         | 36,607,934 |

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



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|   |         |              |
|---|---------|--------------|
| <i>Other 8.1%</i>                                     |         |              |
| Abingdon Investment, Ltd. (a)(b)                      | 200,000 | \$ 1,592,000 |
| American Capital Strategies, Ltd.                     | 3,500   | 115,360      |
| Brookfield Properties Corp.                           | 5,000   | 96,250       |
| Iowa Telecommunication Services, Inc.                 | 20,800  | 338,208      |
| MCG Capital Corp.                                     | 11,000  | 127,490      |
| Seaspan Corp.   | 33,400  | 817,966      |
| Wyndham Worldwide Corp. (c)                           | 11,000  | 259,160      |
| <i>Total Other (Cost \$3,748,315)</i>                 |         | 3,346,434    |
| <i>Total Common Stocks (Cost \$42,061,198)</i>        |         | 39,954,368   |
| <i>Preferred Stocks 47.8%</i>                         |         |              |
| <i>Real Estate Investment Trusts 47.3%</i>            |         |              |
| <i>Apartments 1.2%</i>                                |         |              |
| Apartment Investment & Management Co., Series U       | 24,000  | 502,080      |
| <i>Diversified 1.7%</i>                               |         |              |
| Digital Realty Trust, Inc., Series A                  | 15,000  | 337,650      |
| LBA Realty LLC, Series B                              | 30,000  | 367,500      |
|   |         | 705,150      |
| <i>Health Care 5.9%</i>                               |         |              |
| Health Care REIT, Inc., Series F                      | 40,000  | 884,400      |
| Health Care REIT, Inc., Series G                      | 20,000  | 640,600      |
| LTC Properties, Inc., Series F                        | 40,000  | 884,400      |
|   |         | 2,409,400    |
| <i>Hospitality 28.9%</i>                              |         |              |
| Ashford Hospitality Trust, Series A                   | 46,000  | 862,500      |
| Ashford Hospitality Trust, Series D                   | 70,000  | 1,330,000    |
| Eagle Hospitality Properties Trust, Inc., Series A(b) | 28,000  | 350,000      |
| FelCor Lodging Trust, Inc., Series C                  | 60,000  | 1,113,000    |
| Hersha Hospitality Trust, Series A                    | 52,000  | 1,112,800    |
| Host Marriott Corp., Series E                         | 100,000 | 2,510,000    |
| Innkeepers USA Trust, Series C                        | 27,000  | 324,000      |
| LaSalle Hotel Properties, Series D                    | 50,000  | 915,000      |
| LaSalle Hotel Properties, Series E                    | 62,200  | 1,188,020    |
| LaSalle Hotel Properties, Series G                    | 10,000  | 172,600      |
| Strategic Hotels & Resorts, Inc., Series A            | 10,000  | 187,800      |
| Strategic Hotels & Resorts, Inc., Series C            | 40,000  | 780,000      |
| Sunstone Hotel Investors, Inc., Series A              | 50,000  | 976,500      |
|   |         | 11,822,220   |

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

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|   |           |              |
|---|-----------|--------------|
| <i>Office 7.8%</i>  |           |              |
| Alexandria Real Estate Equities, Inc., Series C                                 | 60,000    | \$ 1,575,000 |
| SL Green Realty Corp., Series D   | 70,000    | 1,599,500    |
|   |           | <hr/>        |
|   |           | 3,174,500    |
| <i>Retail 1.8%</i>  |           |              |
| Cedar Shopping Centers, Inc., Series A  | 32,000    | 752,000      |
| <i>Total Real Estate Investment Trusts (Cost \$23,165,142)</i>                  |           | 19,365,350   |
| <i>Other 0.5%</i>   |           |              |
| Hilltop Holdings, Inc., Series A  | 9,600     | 212,880      |
| <i>Total Other (Cost \$201,581)</i>   |           | 212,880      |
| <i>Total Preferred Stocks (Cost \$23,366,723)</i>                               |           | 19,578,230   |
| <i>Debt Securities 12.0%</i>  |           |              |
| <i>Hospitality 12.0%</i>  |           |              |
| American Real Estate Partners LP, 8.125%, 06/01/2012 \$                         | 2,000,000 | 1,937,500    |
| FelCor Lodging LP, 8.50%, 06/01/2011 (d)  | 1,600,000 | 1,668,000    |
| Six Flags, Inc., 9.75%, 04/15/2013  | 1,760,000 | 1,320,000    |
| <i>Total Debt Securities (Cost \$5,266,794)</i>                                 |           | 4,925,500    |
| <i>Other Investment Companies 8.1%</i>  |           |              |
| Alpine Total Dynamic Dividend Fund  | 36,600    | 620,370      |
| Cohen & Steers Premium Income Realty Fund, Inc.                                 | 16,962    | 249,511      |
| Cohen & Steers REIT and Preferred Income Fund, Inc.                             | 14,500    | 274,050      |
| Eaton Vance Enhanced Equity Income Fund II                                      | 22,700    | 402,925      |
| LMP Real Estate Income Fund, Inc.   | 39,379    | 571,783      |
| Neuberger Berman Real Estate Securities Income Fund, Inc.                       | 35,250    | 405,728      |
| Neuberger Berman Realty Income Fund, Inc.                                       | 22,500    | 355,950      |
| The Zweig Total Return Fund, Inc.   | 94,700    | 428,991      |
| <i>Total Other Investment Companies (Cost \$4,090,809)</i>                      |           | 3,309,308    |
| <i>See notes to financial statements and notes to portfolio of investments.</i> |           |              |

| Company   | Shares or<br>Principal Amount | Value        |
|---|-------------------------------|--------------|
| Short-Term Investments 1.3%   |                               |              |
| <i>Other Investment Companies</i> 1.3%                                    |                               |              |
| Dreyfus Cash Management, Institutional Shares, 4.85% (e) (Cost \$526,666) | 526,666 \$                    | 526,666      |
| Total Investments 166.7% (Cost \$75,312,190)                              |                               | 68,294,072   |
| Other assets less liabilities 1.6%  |                               | 663,322      |
| Preferred Shares, at liquidation preference (68.3)%                       |                               | (28,000,000) |
| Net Assets applicable to common shareholders 100%                         | \$                            | 40,957,394   |
| Notes to Portfolio of Investments   |                               |              |

- (a) 144A securities. Securities restricted for resale to Qualified Institutional Buyers (3.9% of net assets). These securities are considered to be liquid.
- (b) As of December 31, 2007, the Fund held securities fair valued in accordance with policies adopted by the Board of Trustees, aggregating \$1,942,000 and 2.84% of market value.
- (c) A hospitality company.
- (d) Also a Real Estate Investment Trust.
- (e) Rate reflects 7 day yield as of December 31, 2007.

*See notes to financial statements.*

## RMR Hospitality and Real Estate Fund Financial Statements

### Statement of Assets and Liabilities

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December 31, 2007

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#### Assets

|   |               |
|---|---------------|
| Investments in securities, at value (cost \$75,312,190) | \$ 68,294,072 |
| Cash  | 984           |
| Dividends and interest receivable                       | 1,242,386     |
|   | <hr/>         |
| Total assets  | 69,537,442    |
|   | <hr/>         |

#### Liabilities

|  |         |
|--|---------|
| Distributions payable - common shares    | 310,625 |
| Legal expenses payable                   | 99,047  |
| Advisory fee payable                     | 36,227  |
| Distributions payable - preferred shares | 28,851  |
| Accrued expenses and other liabilities   | 116,279 |
|  | <hr/>   |
| Total liabilities                        | 591,029 |
|  | <hr/>   |

#### Preferred shares, at liquidation preference

|   |            |
|---|------------|
| Auction preferred shares, Series Th;<br>\$.001 par value per share; 1,120 shares issued and<br>outstanding at \$25,000 per share liquidation preference | 28,000,000 |
|   | <hr/>      |

#### Net assets attributable to common shares

\$ 40,946,413

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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  | 46,967,809  |
| Accumulated net realized gain on investment transactions  | 994,237     |
| Net unrealized depreciation on investments  | (7,018,118) |
|   | <hr/>       |

#### Net assets attributable to common shares

\$ 40,946,413

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

\$ 16.48

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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

**For the Year Ended December 31, 2007***Investment Income*

|  |              |
|--|--------------|
| Dividends (Cash distributions, net of capital gain (\$2,163,301) and return of capital (\$632,360) distributions, received or due, net of foreign taxes withheld of \$210) | \$ 4,084,034 |
| Interest   | 589,470      |
|  | <hr/>        |
| Total investment income  | 4,673,504    |
|  | <hr/>        |

*Expenses*

|                                     |           |
|-------------------------------------|-----------|
| Legal                               | 2,067,995 |
| Advisory                            | 727,355   |
| Administrative                      | 108,000   |
| Preferred share remarketing         | 70,568    |
| Audit                               | 61,620    |
| Custodian                           | 55,198    |
| Trustees' fees and expenses         | 49,431    |
| Shareholder reporting               | 40,013    |
| Compliance and internal audit       | 29,725    |
| Excise Tax                          | 26,000    |
| Other                               | 84,284    |
|                                     | <hr/>     |
| Total expenses                      | 3,320,189 |
| Less: expense waived by the Advisor | (213,928) |
|                                     | <hr/>     |
| Net expenses                        | 3,106,261 |
|                                     | <hr/>     |
| Net investment income               | 1,567,243 |
|                                     | <hr/>     |

*Realized and unrealized gain (loss) on investments*

|  |               |
|--|---------------|
| Net realized gain on investments   | 1,434,411     |
| Net increase from payments by affiliates   | 1,036         |
| Net change in unrealized appreciation/(depreciation) on investments                | (18,455,574)  |
|  | <hr/>         |
| Net realized and unrealized loss on investments                                    | (17,020,127)  |
|  | <hr/>         |
| Distributions to preferred shareholders from net investment income                 | (318,275)     |
| Distributions to preferred shareholders from net realized gain on investments      | (1,138,397)   |
|  | <hr/>         |
| Net decrease in net assets attributable to common shares resulting from operations | \$ 16,909,556 |
|  | <hr/>         |

*See notes to financial statements.*

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

## Statements of Changes in Net Assets

|   | Year Ended<br>December 31,<br>2007 | Year Ended<br>December 31, 2006 |
|---|------------------------------------|---------------------------------|
| <i>Increase (decrease) in net assets resulting from operations</i>                            |                                    |                                 |
| Net investment income   | \$ 1,567,243                       | \$ 2,673,464                    |
| Net realized gain on investments  | 1,434,411                          | 6,418,390                       |
| Net increase from payments by affiliates  | 1,036                              |                                 |
| Net change in unrealized appreciation/(depreciation) on investments                           | (18,455,574)                       | 5,902,770                       |
| Distributions to preferred shareholders from:   |                                    |                                 |
| Net investment income   | (318,275)                          | (748,592)                       |
| Net realized gain on investments  | (1,138,397)                        | (579,000)                       |
|   | <u>909,556</u>                     | <u>13,667,032</u>               |
| Net increase (decrease) in net assets attributable to common shares resulting from operations |                                    |                                 |
| Distributions to common shareholders from:  |                                    |                                 |
| Net investment income   | (1,274,968)                        | (2,101,833)                     |
| Net realized gains on investments   | (5,186,032)                        | (1,625,667)                     |
|   | <u>(23,359,575)</u>                | <u>9,939,532</u>                |
| Total increase (decrease) in net assets attributable to net assets                            |                                    |                                 |
| <i>Net assets attributable to common shares</i>   |                                    |                                 |
| Beginning of year   | 64,316,969                         | 54,377,437                      |
|   | <u>64,316,969</u>                  | <u>54,377,437</u>               |
| End of year   | \$ 40,946,413                      | \$ 64,316,969                   |
|   | <u>40,946,413</u>                  | <u>64,316,969</u>               |
| <i>Common shares issued and repurchased</i>   |                                    |                                 |
| Shares outstanding, beginning of year   | 2,485,000                          | 2,485,000                       |
| Shares issued   |                                    |                                 |
|   | <u>2,485,000</u>                   | <u>2,485,000</u>                |
| Shares outstanding, end of year   | 2,485,000                          | 2,485,000                       |
|   | <u>2,485,000</u>                   | <u>2,485,000</u>                |

*See notes to financial statements.*

## RMR Hospitality and Real Estate Fund

## Financial Highlights

Selected Data For A Common Share Outstanding Throughout Each Period

|   | Year Ended<br>December 31,<br>2007 | Year Ended<br>December 31,<br>2006 | Year Ended<br>December 31,<br>2005 | For the<br>Period<br>April 27,<br>2004(a) to<br>December 31,<br>2004 |
|---|------------------------------------|------------------------------------|------------------------------------|--|
| <i>Per Common Share Operating Performance (b)</i>                             |                                    |                                    |                                    |  |
| Net asset value, beginning of period  | \$ 25.88                           | \$ 21.88                           | \$ 22.94                           | \$ 19.28(c)  |
| <i>Income from Investment Operations</i>                                      |                                    |                                    |                                    |  |
| Net investment income (d)(e)  | 0.63                               | 1.08                               | 1.13                               | .71  |
| Net realized and unrealized appreciation/(depreciation) on investments (e)    | 6.84                               | 4.95                               | (.19)                              | 3.95   |
| Distributions to preferred shareholders (common stock equivalent basis) from: |                                    |                                    |                                    |  |
| Net investment income (e)   | (.13)                              | (.30)                              | (.16)                              | (.06)  |
| Net realized gain on investments (e)  | (.46)                              | (.23)                              | (.11)                              | (.01)  |
| Net increase (decrease) in net asset value from operations                    | (6.80)                             | 5.50                               | .67                                | 4.59   |
| Less: Distributions to common shareholders from:                              |                                    |                                    |                                    |  |
| Net investment income (e)   | 0.51                               | (.85)                              | (.96)                              | (.65)  |
| Net realized gain on investments (e)  | (2.09)                             | (.65)                              | (.65)                              | (.10)  |
| Common share offering costs charged to capital                                |                                    |                                    |                                    | (.04)  |
| Preferred share offering costs charged to capital                             |                                    |                                    | (.12)                              | (.14)  |
| Net asset value, end of period  | \$ 16.48                           | \$ 25.88                           | \$ 21.88                           | \$ 22.94   |
| Market price, beginning of period   | \$ 22.95                           | \$ 18.21                           | \$ 19.98                           | \$ 20.00   |
| Market price, end of period   | \$ 14.38                           | \$ 22.95                           | \$ 18.21                           | \$ 19.98   |
| <i>Total Return (f)(g)</i>  |                                    |                                    |                                    |  |
| Total investment return based on:   |                                    |                                    |                                    |  |
| Market price (h)  | (28.11)%                           | 35.54%                             | (0.73)%                            | 3.93%  |
| Net asset value (h)   | (28.15)%                           | 25.89%                             | 2.54%                              | 23.16%   |
| <i>Ratios/Supplemental Data:</i>  |                                    |                                    |                                    |  |
| Ratio to average net assets attributable to common shares of:                 |                                    |                                    |                                    |  |
| Net investment income, before total preferred share distributions (d)(e)      | 2.72%                              | 4.50%                              | 5.04%                              | 4.96%(i)   |
| Total preferred share distributions   | 2.53%                              | 2.23%                              | 1.20%                              | 0.50%(i)   |
| Net investment income, net of preferred share distributions (d)(e)            | 0.19%                              | 2.27%                              | 3.84%                              | 4.46%(i)   |
| Expenses, net of fee waivers  | 5.40%                              | 3.13%                              | 1.80%                              | 1.86%(i)   |
| Expenses, before fee waivers  | 5.77%                              | 3.49%                              | 2.14%                              | 2.18%(i)   |
| Portfolio Turnover Rate   | 41.36%                             | 45.70%                             | 23.95%                             | 20.83%   |
| Net assets attributable to common shares, end of period (000s)                | \$ 40,946                          | \$ 64,317                          | \$ 54,377                          | \$ 57,005  |
| Preferred shares, liquidation preference (\$25,000 per share) (000s)          | \$ 28,000                          | \$ 28,000                          | \$ 28,000                          | \$ 17,000  |

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|  |    |        |    |        |    |        |    |         |
|--|----|--------|----|--------|----|--------|----|---------|
| Asset coverage per preferred share (j) | \$ | 61,569 | \$ | 82,426 | \$ | 73,551 | \$ | 108,830 |
|--|----|--------|----|--------|----|--------|----|---------|

- (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 cost 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.
- (d) Amounts are net of expenses waived by RMR Advisors.
- (e) As discussed in Note A (6) to the financial statements, a portion of the distributions we received on our investments are not included in investment income for financial reporting purposes.
- (f) The impact of the net increase in payments by affiliates is less than \$0.005/share.
- (g) Total returns for periods of less than one year are not annualized.
- (h) 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 on the ex-dividend date. The total return based 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 on the ex-dividend date. 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.
- (i) Annualized.
- (j) Asset coverage per share equals net assets attributable to common shares plus the liquidation preference of the preferred shares divided by the total number of preferred shares outstanding at the end of the period.

*See notes to financial statements.*

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

**December 31, 2007**

**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, or the 1940 Act, as a 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) 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.

(3) Portfolio Valuation

Investment securities of the Fund are valued at the latest sales price whenever that price is readily available on that day; 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 4:00:02 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. 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 or which have other characteristics of illiquidity 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 type 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.

(4) 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 an identified cost basis.

(5) 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. However, the Fund may be subject to a 4% excise tax to the extent the Fund does not distribute substantially all taxable earnings.

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Some foreign governments may subject the Fund's investment income and securities sales to withholding or other taxes. For the year ended December 31, 2007, \$210 of foreign taxes have been withheld from distributions to the Fund and recorded as a reduction of dividend income.

### (6) 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 December 12, 2007, the Fund declared distributions of \$0.125 per common share payable in January, February and March 2008. The Fund paid the January distribution on January 31, 2008. Distributions to 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. 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. Distributions to preferred shareholders are determined as described in Note D.

The Fund has substantial investments in real estate investment trusts, or REITs, which are generally not subject to federal income taxes. Distributions that the Fund receives from REITs can be classified as ordinary income, capital gain income or return of capital by the REITs that make these distributions to the Fund. The Fund has excluded from its investment income the portions of the distributions received from REITs classified by those REITs as capital gain income and return of capital. The Fund has included in its "net realized gain on investments" that portion of the distributions received from REITs that is classified by those REITs as capital gain income. Similarly, the Fund has credited its "net change in unrealized appreciation on investments" with that portion of the distributions received from REITs that is classified by those REITs as return of capital. The classification of distributions received from the Fund's investments were as follows:

|                                     | <b>Year Ended<br/>December 31,<br/>2007</b> | <b>Year ended<br/>December 31,<br/>2006</b> |
|-------------------------------------|---|---|
| Ordinary income                     | \$ 4,084,034                                | \$ 3,754,791                                |
| Capital gain income                 | 2,163,301                                   | 1,114,453                                   |
| Return of capital                   | 632,360                                     | 807,737                                     |
| <b>Total distributions received</b> | <b>\$ 6,879,695</b>                         | <b>\$ 5,676,981</b>                         |

The Fund distinguishes between distributions to shareholders on a tax basis and a financial reporting basis. Only distributions in excess of accumulated tax basis earnings and profits are reported in the financial statements as a tax return of capital. Differences in the recognition or classification of income between the financial statements and tax earnings and profits which result in temporary over distributions for financial statement purposes are classified as distributions in excess of net investment income or accumulated net realized gains in the components of net assets on the Statement of Assets and Liabilities.

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The tax character of distributions made by the Fund during the years ended December 31, 2007 and December 31, 2006, were as follows:

|                             | <b>Year ended<br/>December 31,<br/>2007</b> | <b>Year ended<br/>December 31,<br/>2006</b> |
|-----------------------------|---|---|
| Ordinary income             | \$ 1,698,625                                | \$ 3,356,410                                |
| Net long term capital gains | 6,219,047                                   | 1,698,682                                   |
|                             | \$ 7,917,672                                | \$ 5,055,092                                |

As of December 31, 2007, the components of distributable earnings on a federal income tax basis were as follows:

|  |    |             |
|--|----|-------------|
| Undistributed ordinary income              | \$ |             |
| Undistributed net long-term capital gains  |    | 1,003,638   |
| Net unrealized appreciation/(depreciation) |    | (7,028,072) |

The differences between the financial reporting basis and tax basis of undistributed net long term capital gains and net unrealized appreciation/depreciation are due to wash sales of portfolio investments.

The cost of investments for federal income tax purposes, gross unrealized appreciation and unrealized depreciation as of December 31, 2007, are as follows:

|  |                |
|--|----------------|
| Cost                                       | \$ 75,322,144  |
|  | \$ 4,548,969   |
| Gross unrealized appreciation              | (11,577,041)   |
| Gross unrealized depreciation              | \$ (7,028,072) |
| Net unrealized appreciation/(depreciation) | \$ (7,028,072) |

### (7) 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.

### (8) Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board, or FASB, issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109", or FIN 48. FIN 48 was effective for the fiscal years beginning after December 15, 2006. The Securities and Exchange Commission delayed the application of FIN 48 to open and closed end funds to not later than June 29, 2007. FIN 48 prescribes how the Fund should recognize, measure and present in the Fund's financial statements uncertain tax provisions that have been taken or expected to be taken in a tax return. Pursuant to FIN 48 the Fund can recognize a tax benefit only if it is "more likely than not" that a particular tax position will be sustained upon examination or audit. To the extent the "more likely than not" standard has been satisfied the benefits

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associated with a tax position is measured as the largest amount that is greater than 50% likely of being realized upon settlement. As required, the Fund has adopted FIN 48 effective June 29, 2007, and concluded that the effect is not material to its financial statements. Each of the tax years in the three year period ended December 31, 2007, remains subject to examination by the Internal Revenue Service.

In September 2006, FASB issued Statement of Accounting Standards No. 157, "Fair Value Measurements", or SFAS 157, which is effective for fiscal years beginning after November 15, 2007. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands required disclosures about fair value measurements. Management has evaluated the application of the Statement to the Fund, and believes the impact will be limited to expanded financial statement disclosures.

### **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 the 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, the liquidation preference of preferred shares is not considered a liability.

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 from April 27, 2004 until April 27, 2009. The Fund incurred net advisory fees of \$513,427 during the year ended December 31, 2007. The amount of fees waived by the Advisor was \$213,928 for the year ended December 31, 2007.

RMR Advisors, and not the Fund, has contractually 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 in that offering 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 subadministration agreement with State Street Bank and Trust Company, or 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. The Fund reimbursed RMR Advisors for \$108,000 of subadministrative fees charged by State Street for the year ended December 31, 2007.

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 1940 Act is considered to be a "disinterested trustee". Disinterested trustees are each paid by the Fund an annual fee plus fees for board and committee meetings. The Fund incurred \$49,431 of trustee fees and expenses during the year ended December 31, 2007.

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

Fund incurred \$29,725 of compliance and internal audit expense during the year ended December 31, 2007. The Fund also participates in pooled insurance programs with RMR Advisors and other funds managed by RMR Advisors and makes payments of allocated portions of related premiums. The Fund incurred \$15,409 of insurance expense during the year ended December 31, 2007.

During the year ended December 31, 2007, RMR Advisors reimbursed the Fund in the amount of \$1,036 for trading losses incurred by the Fund due to a trading error.

## **Note C**

### **Securities Transactions**

During the year ended December 31, 2007, there were purchases and sales transactions (excluding short term securities) of \$34,545,060 and \$38,735,180 respectively. Brokerage commissions on securities transactions amounted to \$48,251 during the year ended December 31, 2007.

## **Note D**

### **Preferred Shares**

The Fund's 1,120 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 1940 Act, of at least 200%, the preferred shares will be subject to redemption in 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 5.30% per annum as of December 31, 2007.

## **Note E**

### **Litigation and Legal Fees**

The Fund is involved in litigation with Bulldog Investors General Partnership, a hedge fund controlled by Mr. Phillip Goldstein and various affiliated entities and persons (collectively Bulldog). The purpose of this litigation is to enforce provisions of the Fund's organizational documents which limit ownership of the Fund and that appear to have been intentionally violated by Bulldog and to recover damages from Bulldog arising from its unfair business practices. This litigation was begun by the Fund in November 2006 after extended correspondence with Bulldog. Bulldog commenced a proxy contest to elect Mr. Goldstein and another Bulldog affiliate at the Fund's 2007 annual meeting and to promote various shareholder proposals; Bulldog's nominees were not elected and its proposals were not adopted at the 2007 annual meeting in March 2007. In May 2007, Bulldog's motion to dismiss the pending litigation was denied by the Massachusetts Superior

Court. In September 2007, Bulldog's motion to remove the litigation to the federal courts was denied. In June 2007, the Fund amended its litigation against Bulldog to seek recovery of its expenses incurred in connection with Bulldog's activities. Bulldog has recently filed another motion to dismiss which the Fund is opposing. In July 2007, Bulldog made a demand upon the Fund's board of trustees pursuant to the Massachusetts Universal Demand Statute which appeared to be a prelude to a possible derivative action against the Fund or its trustees. The Fund's independent trustees investigated Bulldog's allegations and found them to be without merit. During the year ended December 31, 2007, the Fund incurred approximately \$1,958,751 of expense in connection with the Bulldog litigation and related matters.

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**Report of Independent Registered Public Accounting Firm**

*To the Board of Trustees and Shareholders  
of RMR Hospitality and Real Estate Fund:*

We have audited the accompanying statement of assets and liabilities of RMR Hospitality and Real Estate Fund (the "Fund"), including the portfolio of investments, as of December 31, 2007, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the periods indicated therein. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2007, by correspondence with the custodian. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the RMR Hospitality and Real Estate Fund at December 31, 2007, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the periods indicated therein, in conformity with U.S. generally accepted accounting principles.

Boston, Massachusetts  
February 21, 2008

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

December 31, 2007

*To our shareholders,*

In the pages that follow, you will find data summarizing our financial results for the year ended December 31, 2007, and our financial position as of December 31, 2007.

**Relevant Market Conditions**

***Financial Services Industry Fundamentals.*** At the beginning of 2007, the world financial markets were awash with liquidity. The first indications of problems in the financial markets occurred in early 2007 when the subprime mortgage crisis began to emerge. By mid-year, the problems in the subprime mortgage markets had spread and led to a widespread liquidity and credit crisis that was felt across the global financial markets. By late 2007, banks started reporting large write-offs related to investments in subprime mortgages, structured investment vehicles and derivatives tied to a falling housing market. This led further to reductions in dividends on securities issued by many financial services companies.

As the crisis continued to unfold in late 2007, the U.S. Federal Reserve Bank along with other countries' central banks injected liquidity into financial markets. By year-end, the Fed had cut interest rates three times for a total of one percentage point. We believe the aggressive rate cuts by the Fed may prevent the U.S. economy from falling into a recession in 2008. However, the financial services sector will have a hard time, in our view, avoiding an earnings recession in 2008.

***Real Estate Industry Fundamentals.*** During 2007, commercial real estate vacancy rates generally remained stable and rents increased modestly. Nevertheless, earnings growth from commercial real estate companies began to slow in 2007 compared to prior years because of a general slowdown in the economy. The combination of an economic slowdown, investors concerns relating to weakness in the housing market and credit tightening by lenders led to a sharp decline in valuations for all publicly traded commercial real estate companies in the second half of 2007. Almost all real estate investment trusts, or REITs, experienced a sharp drop in value in the second half of 2007 because of investors concerns regarding any company involved in the real estate business. Furthermore, some REITs that had exposure to subprime mortgages filed for bankruptcy and the value of their securities became essentially worthless after they stopped paying dividends.

In 2008, we expect commercial real estate fundamentals may weaken because of slower economic growth and lower consumer and business confidence. However, higher construction costs and tighter credit markets may limit new supply of commercial real estate and help offset some of the anticipated slowdown in commercial real estate fundamentals. Before the end of 2008, we expect that valuations of REITs that invest directly in commercial real estate may improve in reaction to the sharp decline in their stock prices at the end of 2007 and in early 2008.



**Real Estate Industry Technicals.** After seven years of positive returns, REITs, as measured by the MSCI U.S. REIT Index (RMS) finished 2007 down 16.7%, marking one of the sector's worst performances ever. Last year was also one of the most volatile years for REITs. During the year, the RMS posted eight of the biggest one day moves since its inception in 1995. Between March and the end of 2007, investors withdrew more than \$9 billion from dedicated REIT funds.

### **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 achieve our investment objective.

During 2007, our total return on net asset value, or NAV (including NAV changes and assuming a hypothetical reinvestment of distributions at NAV), was negative 39.4%. During the same period the S&P 500 Financial Sector Index (an unmanaged index of financial services common stocks) total return negative 18.0%, the total return for the MSCI U.S. REIT Total Return Index (an unmanaged index of REIT common stocks) was negative 16.7% and negative 13.0%. We believe these three indices are relevant to us because our investments, excluding short term investments, as of December 31, 2007, included 18% financial services stocks, 38% REIT common stocks and 35% REIT preferred stocks. The S&P 500 Index (an unmanaged index published as Standard and Poor's Composite Index of 500 common stocks) total return for 2007 was 5.5%.

In 2007, the Fund experienced a significant decline in NAV and income earned from its investments. The Fund's negative performance was primarily because of its concentrations in bank stocks and mortgage REITs, both of which significantly declined in value. Unless market conditions improve significantly, in the coming year the Fund may be forced to reduce its dividend payment rate to adjust for its decline in earnings. Under these circumstances, the Fund may also consider other actions to reduce its expenses and enhance value for shareholders.

**Recent Developments.** As I am writing this letter, continued turmoil in the credit markets is becoming a concern for our Fund. In particular, the market for auction rate securities seems to be experiencing a liquidity crisis. Although we believe our Fund's \$16 million of auction rate preferred securities are well protected by asset coverage, the spill over effect from other auction rate securities may make it more difficult for our Fund to remarket these securities. If this occurs, the dividend rates we pay on our preferred securities may increase or we may be forced to substitute our outstanding preferred shares with less attractive forms of leverage. Any increase in the cost of leverage or decrease in the amount of leverage could adversely impact our performance and may lead to a reduction in the dividend rate paid to common shareholders in the future.

Thank you for your continued support. For more information, please view our website at [www.rmrfunds.com](http://www.rmrfunds.com).

Sincerely,

Adam D. Portnoy  
President

February 20, 2008

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

December 31, 2007

**Portfolio holdings by sub-sector as a percentage of investments  
(as of December 31, 2007) \***

|                           |       |
|---------------------------|-------|
| Banks & Thrifts           | 12%   |
| Other Financial Services  | 6%    |
| Hospitality REITs         | 13%   |
| Healthcare REITs          | 12%   |
| Diversified REITs         | 11%   |
| Other REITs less than 10% | 36%   |
| Other                     | 9%    |
| Short term investments    | 1%    |
|                           | <hr/> |
| Total investments         | 100%  |
|                           | <hr/> |
| Real Estate               | 73%   |
| Financial Services        | 18%   |
| Other                     | 8%    |
| Short term investments    | 1%    |
|                           | <hr/> |
| Total investments         | 100%  |
|                           | <hr/> |

\*

These percentages represent the Fund's portfolio holdings by sub-sector as a percentage of total portfolio holdings and do not match with the percentages included in the Portfolio of Investments schedule which represent the Fund's portfolio holdings by sub-sector as a percentage of the Fund's total net assets.

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| Company  | Shares | Value      |
|--|--------|------------|
| <hr/>  |        |            |
| Common Stocks 104.1%                               |        |            |
| Financial Services 28.3%                           |        |            |
| <i>Banks 12.5%</i>                                 |        |            |
| Bank of America Corp.                              | 10,000 | \$ 412,600 |
| Cullen/Frost Bankers, Inc.                         | 3,000  | 151,980    |
| Fifth Third Bancorp                                | 3,000  | 75,390     |
| First Commonwealth Financial Corp.                 | 28,000 | 298,200    |
| First Horizon National Corp.                       | 11,400 | 206,910    |
| Firstmerit Corp.                                   | 12,800 | 256,128    |
| FNB Corp.  | 28,500 | 418,950    |
| KeyCorp  | 7,000  | 164,150    |
| National City Corp.                                | 12,400 | 204,104    |
| Regions Financial Corp.                            | 4,000  | 94,600     |
| Trustco Bank Corp. NY                              | 23,400 | 232,128    |
| U.S. Bancorp                                       | 1,000  | 31,740     |
|  |        | <hr/>      |
|  |        | 2,546,880  |
| <i>Thrifts 8.7%</i>                                |        |            |
| Beverly Hills Bancorp, Inc.                        | 58     | 296        |
| Capitol Federal Financial                          | 9,605  | 297,755    |
| Flagstar Bancorp, Inc.                             | 25,000 | 174,250    |
| IndyMac Bancorp, Inc.                              | 5,500  | 32,725     |
| New York Community Bancorp, Inc.                   | 72,200 | 1,269,276  |
|  |        | <hr/>      |
|  |        | 1,774,302  |
| <i>Other Financial Services 7.1%</i>               |        |            |
| American Capital Strategies, Ltd.                  | 2,000  | 65,920     |
| Centerline Holding Co.                             | 44,200 | 336,804    |
| Fannie Mae   | 13,000 | 519,740    |
| Friedman Billings Ramsey Group, Inc. *             | 54,000 | 169,560    |
| MCG Capital Corp.                                  | 32,000 | 370,880    |
|  |        | <hr/>      |
|  |        | 1,462,904  |
| <i>Total Financial Services (Cost \$9,820,427)</i> |        | 5,784,086  |
| Real Estate 68.9%                                  |        |            |
| <i>Apartments 5.1%</i>                             |        |            |
| AvalonBay Communities, Inc. *                      | 3,000  | 282,420    |
| BRE Properties, Inc. *                             | 4,000  | 162,120    |
| Home Properties, Inc. *                            | 300    | 13,455     |
| Mid-America Apartment Communities, Inc. *          | 9,600  | 410,400    |
| UDR, Inc. *  | 9,000  | 178,650    |
|  |        | <hr/>      |
|  |        | 1,047,045  |

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

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*Diversified 13.7%*

|  |        |    |         |
|--|--------|----|---------|
| CapLease, Inc. *                       | 15,000 | \$ | 126,300 |
| Colonial Properties Trust *            | 15,780 |    | 357,102 |
| Cousins Properties, Inc. *             | 6,900  |    | 152,490 |
| DuPont Fabros Technology, Inc. *       | 2,500  |    | 49,000  |
| Franklin Street Properties Corp. *     | 3,000  |    | 44,400  |
| iStar Financial, Inc. *                | 16,000 |    | 416,800 |
| Lexington Corporate Properties Trust * | 56,400 |    | 820,056 |
| Meruelo Maddux Properties, Inc. (a)    | 3,100  |    | 12,400  |
| National Retail Properties, Inc. *     | 35,350 |    | 826,483 |

---

2,805,031

*Health Care 16.5%*

|                                      |        |  |         |
|--------------------------------------|--------|--|---------|
| Care Investment Trust, Inc. *        | 8,550  |  | 91,827  |
| HCP, Inc. *                          | 16,850 |  | 586,043 |
| Health Care REIT, Inc. *             | 20,904 |  | 934,200 |
| Healthcare Realty Trust, Inc. *      | 18,500 |  | 469,715 |
| LTC Properties, Inc. *               | 5,000  |  | 125,250 |
| Medical Properties Trust, Inc. *     | 24,365 |  | 248,279 |
| Nationwide Health Properties, Inc. * | 26,400 |  | 828,168 |
| OMEGA Healthcare Investors, Inc. *   | 5,000  |  | 80,250  |

---

3,363,732

*Hospitality 3.9%*

|                                   |        |  |         |
|-----------------------------------|--------|--|---------|
| Ashford Hospitality Trust, Inc. * | 51,000 |  | 366,690 |
| Host Hotels & Resorts, Inc. *     | 10,000 |  | 170,400 |
| LaSalle Hotel Properties *        | 5,400  |  | 172,260 |
| Sunstone Hotel Investors, Inc. *  | 5,000  |  | 91,450  |

---

800,800

*Industrial 7.1%*

|                                       |        |  |           |
|---------------------------------------|--------|--|-----------|
| DCT Industrial Trust, Inc. *          | 5,200  |  | 48,412    |
| First Industrial Realty Trust, Inc. * | 40,200 |  | 1,390,920 |

---

1,439,332

*Manufactured Homes 2.8%*

|                         |        |  |         |
|-------------------------|--------|--|---------|
| Sun Communities, Inc. * | 27,000 |  | 568,890 |
|-------------------------|--------|--|---------|

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

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|   |         |            |
|---|---------|------------|
| <i>Mortgage 5.0%</i>  |         |            |
| Alesco Financial, Inc. *  | 142,400 | \$ 467,072 |
| Anthracite Capital, Inc. *  | 15,000  | 108,600    |
| JER Investors Trust, Inc. *   | 10,000  | 107,700    |
| Newcastle Investment Corp. *  | 26,500  | 343,440    |
|   |         | 1,026,812  |
| <i>Office 9.3%</i>  |         |            |
| American Financial Realty Trust *   | 119,000 | 954,380    |
| Boston Properties, Inc. *   | 2,000   | 183,620    |
| Brookfield Properties Corp.   | 5,000   | 96,250     |
| Parkway Properties, Inc. *  | 300     | 11,094     |
| SL Green Realty Corp. *   | 7,000   | 654,220    |
|   |         | 1,899,564  |
| <i>Retail 3.9%</i>  |         |            |
| CBL & Associates Properties, Inc. *   | 3,000   | 71,730     |
| Developers Diversified Realty Corp. *   | 3,000   | 114,870    |
| Equity One, Inc. *  | 3,000   | 69,090     |
| Feldman Mall Properties, Inc. *   | 5,000   | 18,450     |
| Glimcher Realty Trust *   | 19,300  | 275,797    |
| Realty Income Corp. *   | 200     | 5,404      |
| Simon Property Group, Inc. *  | 2,000   | 173,720    |
| Tanger Factory Outlet Centers, Inc. *   | 2,000   | 75,420     |
|   |         | 804,481    |
| <i>Specialty 1.2%</i>   |         |            |
| Getty Realty Corp. *  | 4,000   | 106,720    |
| Resource Capital Corp. *  | 15,588  | 145,124    |
|   |         | 251,844    |
| <i>Storage 0.4%</i>   |         |            |
| U-Store-It Trust *  | 8,900   | 81,524     |
| <i>Total Real Estate (Cost \$18,078,547)</i>                                    |         | 14,089,055 |
| <i>Other 6.9%</i>   |         |            |
| Abingdon Investment, Ltd. (b)(c)  | 100,000 | 796,000    |
| Iowa Telecommunication Services, Inc.   | 37,500  | 609,750    |
| <i>Total Other (Cost \$1,631,150)</i>   |         | 1,405,750  |
| <i>Total Common Stocks (Cost \$29,530,124)</i>                                  |         | 21,278,891 |
| <i>See notes to financial statements and notes to portfolio of investments.</i> |         |            |

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Preferred Stocks 69.6%

Real Estate 65.1%

*Apartments* 12.5%

|   |        |    |           |
|---|--------|----|-----------|
| Apartment Investment & Management Co., Series U * | 32,500 | \$ | 679,900   |
| Apartment Investment & Management Co., Series V * | 27,700 |    | 568,681   |
| Apartment Investment & Management Co., Series Y * | 65,000 |    | 1,301,950 |

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2,550,531

*Diversified* 6.9%

|  |        |  |         |
|--|--------|--|---------|
| Cousins Properties, Inc., Series B *   | 20,000 |  | 411,800 |
| Digital Realty Trust, Inc., Series A * | 20,000 |  | 450,200 |
| LBA Realty LLC, Series B *             | 45,000 |  | 551,250 |

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1,413,250

*Health Care* 5.2%

|   |        |  |         |
|---|--------|--|---------|
| Health Care REIT, Inc., Series F *          | 26,900 |  | 594,759 |
| OMEGA Healthcare Investors Inc., Series D * | 19,000 |  | 470,630 |

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1,065,389

*Hospitality* 20.3%

|  |        |  |           |
|--|--------|--|-----------|
| Ashford Hospitality Trust, Series D *                    | 32,000 |  | 608,000   |
| Eagle Hospitality Properties Trust, Inc., Series A * (c) | 14,000 |  | 175,000   |
| Entertainment Properties Trust, Series B *               | 40,000 |  | 832,000   |
| Equity Inns, Inc., Series B * (c)                        | 50,000 |  | 650,000   |
| FelCor Lodging Trust, Inc., Series C *                   | 64,000 |  | 1,187,200 |
| Host Marriott Corp., Series E *                          | 10,000 |  | 251,000   |
| Strategic Hotels & Resorts, Inc., Series A *             | 10,000 |  | 187,800   |
| Strategic Hotels & Resorts, Inc., Series B *             | 13,700 |  | 263,725   |

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4,154,725

*Manufactured Homes* 0.7%

|                                  |       |  |         |
|----------------------------------|-------|--|---------|
| Hilltop Holdings, Inc., Series A | 6,900 |  | 153,007 |
|----------------------------------|-------|--|---------|

*Mortgage* 6.2%

|  |        |  |         |
|--|--------|--|---------|
| Anthracite Capital, Inc., Series D *       | 6,000  |  | 94,800  |
| Gramercy Capital Corp., Series A *         | 20,000 |  | 394,000 |
| HomeBanc Corp., Series A *                 | 10,000 |  | 700     |
| MFA Mortgage Investments, Inc., Series A * | 13,800 |  | 333,546 |
| RAIT Investment Trust, Series B *          | 20,300 |  | 261,870 |
| Thornburg Mortgage, Inc., Series C *       | 10,000 |  | 172,500 |

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1,257,416

*Office* 4.1%

|   |        |  |         |
|---|--------|--|---------|
| Alexandria Real Estate Equities, Inc., Series C * | 31,600 |  | 829,500 |
|---|--------|--|---------|

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

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|   |         |               |
|---|---------|---------------|
| <i>Retail 9.2%</i>  |         |               |
| CBL & Associates Properties, Inc., Series D *                             | 10,000  | \$ 196,000    |
| Glimcher Realty Trust, Series F *   | 26,500  | 544,575       |
| Glimcher Realty Trust, Series G *   | 41,000  | 783,100       |
| Taubman Centers, Inc., Series G *   | 15,000  | 354,750       |
|   |         | 1,878,425     |
| <i>Total Real Estate (Cost \$17,659,670)</i>                              |         | 13,302,243    |
| <i>Financial Services 4.5%</i>  |         |               |
| Corts-UNUM Provident Financial Trust                                      | 38,000  | 926,820       |
| <i>Total Financial Services (Cost \$982,300)</i>                          |         | 926,820       |
| <i>Total Preferred Stocks (Cost \$18,641,970)</i>                         |         | 14,229,063    |
| <i>Other Investment Companies 10.9%</i>                                   |         |               |
| Alpine Total Dynamic Dividend Fund  | 29,960  | 507,822       |
| Cohen & Steers Premium Income Realty Fund, Inc.                           | 13,350  | 196,379       |
| Cohen & Steers REIT and Preferred Income Fund, Inc.                       | 8,000   | 151,200       |
| Cornerstone Strategic Value Fund, Inc.                                    | 32,528  | 163,941       |
| Eaton Vance Enhanced Equity Income Fund II                                | 13,100  | 232,525       |
| LMP Real Estate Income Fund, Inc.   | 12,411  | 180,208       |
| Neuberger Berman Real Estate Securities Income Fund, Inc.                 | 16,200  | 186,462       |
| Neuberger Berman Realty Income Fund, Inc.                                 | 20,800  | 329,056       |
| The Zweig Total Return Fund, Inc.   | 60,850  | 275,650       |
| <i>Total Other Investment Companies (Cost \$2,878,564)</i>                |         | 2,223,243     |
| <i>Short-Term Investments 2.1%</i>  |         |               |
| <i>Other Investment Companies 2.1%</i>                                    |         |               |
| Dreyfus Cash Management, Institutional Shares, 4.85% (D) (Cost \$426,273) | 426,273 | 426,273       |
| <i>Total Investments 186.7% (Cost \$51,476,931)</i>                       |         | 38,157,470    |
| <i>Other assets less liabilities 1.4%</i>                                 |         | 279,941       |
| <i>Preferred Shares, at liquidation preference (88.1)%</i>                |         | (18,000,000)  |
| <i>Net Assets applicable to common shareholders 100%</i>                  |         | \$ 20,437,411 |

Notes to Portfolio of Investments

\*

Real Estate Investment Trust, or REIT

- (a) As of December 31, 2007, this security had not paid a distribution.
- (b) 144A securities. Securities restricted for resale to Qualified Institutional Buyers (3.9% of net assets). These securities are considered to be liquid.
- (c) As of December 31, 2007, the Fund held securities fair valued in accordance with policies adopted by the Board of Trustees, aggregating \$1,621,000 and 4.2% of market value.
- (d) Rate reflects 7 day yield as of December 31, 2007.

*See notes to financial statements.*

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

## Statement of Assets and Liabilities

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**December 31, 2007**


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*Assets*

|   |               |
|---|---------------|
| Investments in securities, at value (cost \$51,476,931) | \$ 38,157,470 |
| Cash  | 3,836         |
| Dividends and interest receivable                       | 699,105       |
|   | <hr/>         |
| Total assets  | 38,860,411    |
|   | <hr/>         |

*Liabilities*

|  |         |
|--|---------|
| Distributions payable - common shares    | 216,664 |
| Advisory fee payable                     | 21,396  |
| Distributions payable - preferred shares | 18,900  |
| Accrued expenses and other liabilities   | 166,040 |
|  | <hr/>   |
| Total liabilities                        | 423,000 |
|  | <hr/>   |

*Preferred shares, at liquidation preference*

|  |            |
|--|------------|
| Auction preferred shares, Series W;<br>\$.001 par value per share; 720 shares issued and<br>outstanding at \$25,000 per share liquidation preference | 18,000,000 |
|  | <hr/>      |

*Net assets attributable to common shares*

|  |               |
|--|---------------|
|  | \$ 20,437,411 |
|  | <hr/>         |

*Composition of net assets*

|   |              |
|---|--------------|
| Common shares, \$.001 par value per share;<br>unlimited number of shares authorized,<br>1,484,000 shares issued and outstanding | \$ 1,484     |
| Additional paid-in capital  | 35,173,277   |
| Undistributed net investment income   | 269,841      |
| Accumulated net realized loss on investment transactions  | (1,687,730)  |
| Net unrealized depreciation on investments  | (13,319,461) |
|   | <hr/>        |

*Net assets attributable to common shares*

|  |               |
|--|---------------|
|  | \$ 20,437,411 |
|  | <hr/>         |

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

|  |          |
|--|----------|
|  | \$ 13.77 |
|  | <hr/>    |

*See notes to financial statements.*


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**RMR F.I.R.E. Fund****Financial Statements** continued

## Statement of Operations

**For the Year Ended December 31, 2007***Investment Income*

|  |              |
|--|--------------|
| Dividends (Cash distributions, net of capital gain (\$831,001) and return of capital (\$342,929) distributions, received or due, net of foreign taxes withheld of \$210) | \$ 3,051,614 |
| Interest   | 113,111      |
|  | <hr/>        |
| Total investment income  | 3,164,725    |
|  | <hr/>        |

*Expenses*

|                                     |           |
|-------------------------------------|-----------|
| Advisory                            | 436,342   |
| Audit and legal                     | 156,577   |
| Administrative                      | 108,000   |
| Custodian                           | 79,681    |
| Preferred share remarketing         | 50,407    |
| Compliance and internal audit       | 29,284    |
| Trustees' fees and expenses         | 21,431    |
| Shareholder reporting               | 15,842    |
| Other                               | 70,801    |
|                                     | <hr/>     |
| Total expenses                      | 968,365   |
| Less: expense waived by the Advisor | (128,336) |
|                                     | <hr/>     |
| Net expenses                        | 840,029   |
|                                     | <hr/>     |

|                       |           |
|-----------------------|-----------|
| Net investment income | 2,324,696 |
|                       | <hr/>     |

*Realized and unrealized loss on investments*

|  |                 |
|--|-----------------|
| Net realized loss on investments   | (1,594,800)     |
| Net increase from payments by affiliates   | 1,036           |
| Net change in unrealized appreciation/(depreciation) on investments                | (13,570,100)    |
|  | <hr/>           |
| Net realized and unrealized loss on investments                                    | (15,163,864)    |
|  | <hr/>           |
| Distributions to preferred shareholders from net investment income                 | (585,177)       |
| Distributions to preferred shareholders from net realized gain on investments      | (449,891)       |
|  | <hr/>           |
| Net decrease in net assets attributable to common shares resulting from operations | \$ (13,874,236) |
|  | <hr/>           |

*See notes to financial statements.*

**RMR F.I.R.E. Fund****Financial Statements** continued

## Statements of Changes in Net Assets

|  | Year Ended<br>December 31,<br>2007 | Year Ended<br>December 31,<br>2006 |
|--|------------------------------------|------------------------------------|
| <i>Increase (decrease) in net assets resulting from operations</i>                             |                                    |                                    |
| Net investment income  | \$ 2,324,696                       | \$ 2,537,768                       |
| Net increase from payments by affiliates   | 1,036                              |                                    |
| Net realized gain (loss) on investments  | (1,594,800)                        | 2,091,017                          |
| Net change in unrealized appreciation/(depreciation) on investments                            | (13,570,100)                       | 3,090,835                          |
| Distributions to preferred shareholders from:  |                                    |                                    |
| Net investment income  | (585,177)                          | (690,977)                          |
| Net realized gain on investments   | (449,891)                          | (261,999)                          |
|  | <u>(1,035,068)</u>                 | <u>(952,976)</u>                   |
| Net increase (decrease) in net assets attributable to common shares resulting from operations  | (13,874,236)                       | 6,766,644                          |
|  | <u>(13,874,236)</u>                | <u>6,766,644</u>                   |
| Distributions to common shareholders from:   |                                    |                                    |
| Net investment income  | (1,469,630)                        | (1,885,168)                        |
| Net realized gains on investments  | (1,130,338)                        | (714,800)                          |
| <i>Capital shares transactions</i>   |                                    |                                    |
| Cost of preferred shares repurchased   | (2,000,000)                        |                                    |
|  | <u>(2,000,000)</u>                 | <u>(2,000,000)</u>                 |
| Net decrease from capital transactions   | (2,000,000)                        |                                    |
| Liquidation preference of preferred shares repurchased   | 2,000,000                          |                                    |
|  | <u>(2,000,000)</u>                 | <u>(2,000,000)</u>                 |
| Total increase (decrease) in net assets attributable to common shares                          | (16,474,204)                       | 4,166,676                          |
| <i>Net assets attributable to common shares</i>  |                                    |                                    |
| Beginning of year  | 36,911,615                         | 32,744,939                         |
|  | <u>36,911,615</u>                  | <u>32,744,939</u>                  |
| End of year (including undistributed net investment income of \$269,841 and \$0, respectively) | \$ 20,437,411                      | \$ 36,911,615                      |
|  | <u>\$ 20,437,411</u>               | <u>\$ 36,911,615</u>               |
| <i>Common shares issued and repurchased</i>  |                                    |                                    |
| Shares outstanding, beginning of year  | 1,484,000                          | 1,484,000                          |
| Shares issued  |                                    |                                    |
|  | <u>1,484,000</u>                   | <u>1,484,000</u>                   |
| Shares outstanding, end of year  | 1,484,000                          | 1,484,000                          |
|  | <u>1,484,000</u>                   | <u>1,484,000</u>                   |

See notes to financial statements.

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Selected Data For A Common Share Outstanding Throughout Each Period

|   | Year Ended<br>December 31,<br>2007 | Year Ended<br>December 31,<br>2006 | Year Ended<br>December 31,<br>2005 | For the Period<br>November 22,<br>2004 (a) to<br>December 31,<br>2004 |
|---|------------------------------------|------------------------------------|------------------------------------|---|
| <i>Per Common Share Operating Performance (b)</i>                             |                                    |                                    |                                    |   |
| Net asset value, beginning of period  | \$ 24.87                           | \$ 22.07                           | \$ 23.99                           | \$ 24.03(c)   |
| <i>Income from Investment Operations</i>                                      |                                    |                                    |                                    |   |
| Net investment income (d)(e)  | 1.57                               | 1.71                               | 1.28                               | .10   |
| Net realized and unrealized appreciation/(depreciation) on investments(e)     | (10.23)                            | 3.49                               | (1.01)                             | .17   |
| Distributions to preferred shareholders (common stock equivalent basis) from: |                                    |                                    |                                    |   |
| Net investment income (e)   | (.39)                              | (.47)                              | (.28)                              | (.02)   |
| Net realized gain on investments (e)  | (.30)                              | (.18)                              | (.15)                              |   |
| Net increase (decrease) in net asset value from operations                    | (9.35)                             | 4.55                               | (.16)                              | .25   |
| Less: Distributions to common shareholders from:                              |                                    |                                    |                                    |   |
| Net investment income (e)   | (.99)                              | (1.27)                             | (1.09)                             |   |
| Net realized gain on investments (e)  | (.76)                              | (.48)                              | (.67)                              |   |
| Common share offering costs charged to capital                                |                                    |                                    |                                    | (.04)   |
| Preferred share offering costs charged to capital                             |                                    |                                    |                                    | (.25)   |
| Net asset value, end of period  | \$ 13.77                           | \$ 24.87                           | \$ 22.07                           | \$ 23.99  |
| Market price, beginning of period   | \$ 22.20                           | \$ 18.99                           | \$ 24.05                           | \$ 25.00  |
| Market price, end of period   | \$ 12.80                           | \$ 22.20                           | \$ 18.99                           | \$ 24.05  |
| <i>Total Return (f)(g)</i>  |                                    |                                    |                                    |   |
| <i>Total investment return based on:</i>                                      |                                    |                                    |                                    |   |
| Market price (h)  | (36.29)%                           | 27.44%                             | (14.00)%                           | (3.80)%   |
| Net asset value (h)   | (39.40)%                           | 21.54%                             | (0.64)%                            | (0.17)%   |
| <i>Ratios/Supplemental Data:</i>  |                                    |                                    |                                    |   |
| Ratio to average net assets attributable to common shares of:                 |                                    |                                    |                                    |   |
| Net investment income, before total preferred share distributions (d)(e)      | 7.41%                              | 7.42%                              | 5.64%                              | 3.92%(i)  |
| Total preferred share distributions   | 3.30%                              | 2.78%                              | 1.88%                              | 0.58%(i)  |
| Net investment income, net of preferred share distributions(d) (e)            | 4.11%                              | 4.64%                              | 3.76%                              | 3.34%(i)  |
| Expenses, net of fee waivers  | 2.68%                              | 2.39%                              | 2.63%                              | 3.45%(i)  |
| Expenses, before fee waivers  | 3.09%                              | 2.78%                              | 3.03%                              | 3.73%(i)  |
| Portfolio Turnover Rate   | 63.84%                             | 59.48%                             | 64.96%                             | 0.00%   |
| Net assets attributable to common shares, end of period (000s)                | \$ 20,437                          | \$ 36,912                          | \$ 32,745                          | \$ 35,594   |
| Preferred shares, liquidation preference (\$25,000 per share) (000s)          | \$ 18,000                          | \$ 20,000                          | \$ 20,000                          | \$ 20,000   |
| Asset coverage per preferred share(j)   | \$ 53,385                          | \$ 71,140                          | \$ 65,931                          | \$ 69,493   |

(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 share from the \$25.00 offering price. We paid a sales load and offering cost of \$1.125 per share on 1,280,000 common shares sold 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.

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- (d) Amounts are net of expenses waived by RMR Advisors.
- (e) As discussed in Note A (6) to the financial statements, a portion of the distributions we received on our investments are not included in investment income for financial reporting purposes.
- (f) The impact of the net increase in payments by affiliates is less than \$0.005/share.
- (g) Total returns for periods of less than one year are not annualized.
- (h) 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 on the ex-dividend date. The total return based 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 on the ex-dividend date. 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.
- (i) Annualized.
- (j) Asset coverage per share equals net assets attributable to common shares plus the liquidation preference of the preferred shares divided by the total number of preferred shares outstanding at the end of the period.

*See notes to financial statements.*

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

**December 31, 2007**

**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, the 1940 Act, as a 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) 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.

(3) Portfolio Valuation

Investment securities of the Fund are valued at the latest sales price whenever that price is readily available on that day; 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 4:00:02 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. 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 or which have other characteristics of illiquidity 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 type 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.

(4) 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 identified cost basis.

(5) 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. However, the Fund may be subject to a 4% excise tax to the extent the Fund does not distribute substantially all taxable earnings.

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Some foreign governments may subject the Fund's investment income and securities sales to withholding or other taxes. For the year ended December 31, 2007, \$210 of foreign taxes have been withheld from distributions to the Fund and recorded as a reduction of dividend income.

### (6) 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 December 12, 2007, the Fund declared distributions of \$0.146 per common share payable in January, February and March 2008. The Fund paid its January distribution on January 31, 2008. Distributions to 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. 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. Distributions to preferred shareholders are determined as described in Note D.

The Fund has substantial investments in real estate investment trusts, or REITs, which are generally not subject to federal income taxes. Distributions that the Fund receives from REITs can be classified as ordinary income, capital gain income or return of capital by the REITs that make these distributions to the Fund. The Fund has excluded from its investment income the portions of the distributions received from REITs classified by those REITs as capital gain income and return of capital. The Fund has included in its "net realized gain on investments" that portion of the distributions received from REITs that is classified by those REITs as capital gain income. Similarly, the Fund has credited its "net change in unrealized appreciation on investments" with that portion of the distributions received from REITs that is classified by those REITs as return of capital. The classification of distributions received from the Fund's investments were as follows:

|                                     | <b>Year ended<br/>December 31,<br/>2007</b> | <b>Year ended<br/>December 31,<br/>2006</b> |
|-------------------------------------|---|---|
| Ordinary income                     | \$ 3,051,614                                | \$ 3,287,880                                |
| Capital gain income                 | 831,001                                     | 662,485                                     |
| Return of capital                   | 342,929                                     | 419,306                                     |
| <b>Total distributions received</b> | <b>\$ 4,225,544</b>                         | <b>\$ 4,369,671</b>                         |

The Fund distinguishes between distributions to shareholders on a tax basis and a financial reporting basis. Only distributions in excess of accumulated tax basis earnings and profits are reported in the financial statements as a tax return of capital. Differences in the recognition or classification of income between the financial statements and tax earnings and profits which result in temporary over distributions for financial statement purposes are classified as distributions in excess of net investment income or accumulated net realized gains in the components of net assets on the Statement of Assets and Liabilities.

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The tax character of distributions made by the Fund during the years ended December 31, 2007 and December 31, 2006, were as follows:

|                             | <b>Year ended<br/>December 31,<br/>2007</b> | <b>Year ended<br/>December 31,<br/>2006</b> |
|-----------------------------|---|---|
| Ordinary income             | \$ 2,291,228                                | \$ 3,122,947                                |
| Net long term capital gains | 1,343,808                                   | 429,997                                     |
|                             | \$ 3,635,036                                | \$ 3,552,944                                |

As of December 31, 2007, the components of distributable earnings on a federal income tax basis were as follows:

|  |              |
|--|--------------|
| Undistributed ordinary income              | \$ 269,889   |
| Accumulated capital and other losses       | (1,629,794)  |
| Net unrealized appreciation/(depreciation) | (13,378,434) |

On December 31, 2007, the Fund had a net capital loss carry forward for federal income tax purposes of \$1,159,105 all of which expires in the year 2015.

Under current tax law, certain capital and net foreign currency losses realized after October 31 within the taxable year may be deferred and treated as occurring on the first day of the following tax year. For the tax year ended December 31, 2007, the Fund elected to defer net capital losses of \$470,689 arising between November 1, 2007 and December 31, 2007.

The differences between the financial reporting basis and tax basis of undistributed ordinary income, undistributed net long term capital gains and net unrealized appreciation/depreciation are due to wash sales of portfolio investments.

The cost of investments for federal income tax purposes, gross unrealized appreciation and unrealized depreciation as of December 31, 2007, are as follows:

|  |                 |
|--|-----------------|
| Cost                                       | \$ 51,535,904   |
| Gross unrealized appreciation              | \$ 600,764      |
| Gross unrealized depreciation              | (13,979,198)    |
| Net unrealized appreciation/(depreciation) | \$ (13,378,434) |

### (7) Concentration of Risk

Under normal market conditions, the Fund's investments will be concentrated in income producing common shares and preferred shares issued by F.I.R.E. companies. F.I.R.E. is a commonly used acronym for financial services, insurance and real estate companies. 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.

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### (8) Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board, or FASB, issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109", or FIN 48. FIN 48 was effective for the fiscal years beginning after December 15, 2006. The Securities and Exchange Commission delayed the application of FIN 48 to open and closed end funds to not later than June 29, 2007. FIN 48 prescribes how the Fund should recognize, measure and present in the Fund's financial statements uncertain tax provisions that have been taken or expected to be taken in a tax return. Pursuant to FIN 48 the Fund can recognize a tax benefit only if it is "more likely than not" that a particular tax position will be sustained upon examination or audit. To the extent the "more likely than not" standard has been satisfied the benefits associated with a tax position is measured as the largest amount that is greater than 50% likely of being realized upon settlement. As required, the Fund has adopted FIN 48 effective June 29, 2007, and concluded that the effect is not material to its financial statements. Each of the tax years in the three year period ended December 31, 2007, remains subject to examination by the Internal Revenue Service.

In September 2006, FASB issued Statement of Accounting Standards No. 157, "Fair Value Measurements", or SFAS 157, which is effective for fiscal years beginning after November 15, 2007. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands required disclosures about fair value measurements. Management has evaluated the application of the Statement to the Fund, and believes the impact will be limited to expanded financial statement disclosures.

### **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 the 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, the liquidation preference of preferred shares is not considered a liability.

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 from November 22, 2004 until November 22, 2009. The Fund incurred net advisory fees of \$308,006 during the year ended December 31, 2007. The amount of fees waived by the Advisor was \$128,336 for the year ended December 31, 2007.

RMR Advisors, and not the Fund, has contractually 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 in that offering 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 subadministration agreement with State Street Bank and Trust Company, or 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. The Fund reimbursed RMR Advisors for \$108,000 of subadministrative fees charged by State Street for the year ended December 31, 2007.

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 1940 Act is considered to be a "disinterested trustee". Disinterested trustees are each paid by the Fund an annual fee plus fees for board and committee meetings. The Fund incurred \$21,431 of trustee fees and expenses during the year ended December 31, 2007.

The Fund's board of trustees and separately the disinterested trustees authorized the Fund to make reimbursement payments to RMR Advisors for costs related to the Fund's compliance and internal audit programs. The Fund incurred \$29,284 of compliance and internal audit expense during the year ended December 31, 2007. The Fund also participates in pooled insurance programs with RMR Advisors and other funds managed by RMR Advisors and makes payments of allocated portions of related premiums. The Fund incurred \$17,892 of insurance expense during the year ended December 31, 2007.

During the year ended December 31, 2007, RMR Advisors reimbursed the Fund in the amount of \$1,036 for trading losses incurred by the Fund due to a trading error.

## **Note C**

### **Securities Transactions**

During the year ended December 31, 2007, there were purchases and sales transactions (excluding short term securities) of \$31,280,077 and \$33,012,094 respectively. Brokerage commissions on securities transactions amounted to \$49,373 during the year ended December 31, 2007.

## **Note D**

### **Preferred Shares**

In December 2004, the Fund issued 800 Series W auction preferred shares with a liquidation preference of \$25,000 per share plus an amount equal to accumulated but unpaid distributions. On December 27, 2007, the Fund redeemed 80 preferred shares with a liquidation preference of \$2,000,000. 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 1940 Act, of at least 200%, the preferred shares will be subject to redemption in 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 5.40% per annum as of December 31, 2007. On January 17, 2008, the Fund redeemed an additional 80 preferred shares with a liquidation preference of \$2,000,000.

**Report of Independent Registered Public Accounting Firm**

*To the Board of Trustees and Shareholders  
of RMR F.I.R.E. Fund:*

We have audited the accompanying statement of assets and liabilities of RMR F.I.R.E. Fund (the "Fund"), including the portfolio of investments, as of December 31, 2007, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the periods indicated therein. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2007, by correspondence with the custodian. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the RMR F.I.R.E. Fund at December 31, 2007, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the periods indicated therein, in conformity with U.S. generally accepted accounting principles.

Boston, Massachusetts  
February 21, 2008

## RMR Preferred Dividend Fund

December 31, 2007

*To our shareholders,*

In the pages that follow, you will find data summarizing our financial results for the year ended December 31, 2007, and our financial position as of December 31, 2007.

### Relevant Market Conditions

**Preferred Securities Market Overview.** During 2007, the U.S. preferred securities market suffered one of the worst annual returns in years. Preferred securities issued by real estate investment trusts, or REITs, were especially negatively affected by the subprime mortgage crisis which began in early 2007. Several mortgage REITs with exposure to subprime mortgages filed for bankruptcy and the value of their preferred securities became essentially worthless after they stopped paying preferred dividends. Several commercial REITs also saw the price of their preferred securities decline in 2007.

The issuance of new preferred securities by non-REITs was strong throughout the year but intensified in the fourth quarter as financial institutions priced large deals in an effort to increase their equity capital. This issuance of highly rated and high dividend paying securities effectively depressed the value of outstanding REIT preferred securities; and the issuance of new preferred securities by REITs declined significantly by mid-year because the terms had become very expensive for the issuers.

**Real Estate Industry Fundamentals.** During 2007, commercial real estate vacancy rates generally remained stable and rents increased modestly. Nevertheless, earnings growth from commercial real estate companies began to slow in 2007 compared to prior years because of a general slowdown in the economy. The combination of an economic slowdown, investors concerns relating to weakness in the housing market and credit tightening by lenders led to a sharp decline in valuations for all publicly traded commercial real estate companies in the second half of 2007. Almost all REITs experienced a sharp drop in value in the second half of 2007 because of investors concerns regarding any company involved in the real estate business.

In 2008, we expect commercial real estate fundamentals may weaken because of slower economic growth and lower consumer and business confidence. However, higher construction costs and tighter credit markets may limit new supply of commercial real estate and help offset some of the anticipated slowdown in commercial real estate fundamentals. Before the end of 2008, we expect that valuations of REITs that invest directly in commercial real estate may improve in reaction to the sharp decline in their stock prices at the end of 2007 and in early 2008.

**Real Estate Industry Technicals.** After seven years of positive returns, REITs, as measured by the MSCI U.S. REIT Index (RMS) finished 2007 down 16.7%, marking one of the sector's worst performances ever. Last year was also one of the most volatile years for REITs. During the year, the RMS posted eight of the biggest one day moves since its inception in 1995. Between March and the end of 2007, investors withdrew more than \$9 billion from dedicated REIT funds.

**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 achieve our investment objectives.

During 2007 our total return on net asset value, or NAV (including NAV changes and assuming a hypothetical reinvestment of distributions at NAV), was negative 35.94%. During that same period, the total return for the Merrill Lynch REIT Preferred Index (an unmanaged index of REIT preferred stocks) was negative 13.0%. We believe this index is relevant to us because our investments as of December 31, 2007, excluding short term investments, included 70% 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 2007 was 5.5%.

In 2007, the Fund experienced a significant decline in NAV and income earned from its investments. The Fund's negative performance was primarily because of its concentrations in preferred securities issued by mortgage REITs, which significantly declined in value. Unless market conditions improve significantly, in the coming year the Fund may be forced to reduce its dividend payment rate to adjust for the decline in earnings. Under these circumstances, the Fund may also consider other actions to reduce expenses and enhance value for shareholders.

**Recent Developments**

As I am writing this letter, continued turmoil in the credit markets is becoming a concern for our Fund. In particular, the market for auction rate securities seems to be experiencing a liquidity crisis. Although we believe our Fund's \$22.5 million of auction rate preferred securities are well protected by asset coverage, the spill over effect from other auction rate securities may make it more difficult for our Fund to remarket these securities. If this occurs, the dividend rates we pay on our preferred securities may increase or we may be forced to substitute our outstanding preferred shares with less attractive forms of leverage. Any increase in the cost of leverage or decrease in the amount of leverage could adversely impact our performance and may lead to a reduction in the dividend rate paid to common shareholders in the future.

Thank you for your continued support. For more information, please view our website at [www.rmrfunds.com](http://www.rmrfunds.com).

Sincerely,

Adam D. Portnoy  
President  
February 20, 2008

**RMR Preferred Dividend Fund**

December 31, 2007

**Portfolio holdings by sub-sector as a percentage of investments  
(as of December 31, 2007)\***

|                         |       |
|-------------------------|-------|
| Hospitality real estate | 27%   |
| Office real estate      | 12%   |
| Other, less than 10%    | 60%   |
| Short term investments  | 1%    |
|                         | <hr/> |
| Total investments       | 100%  |
|                         | <hr/> |
| REITs                   | 72%   |
| Other                   | 27%   |
| Short term investments  | 1%    |
|                         | <hr/> |
| Total investments       | 100%  |
|                         | <hr/> |

\*

These percentages represent the Fund's portfolio holdings by sub-sector as a percentage of total portfolio holdings and do not match with the percentages included in the Portfolio of Investments schedule which represent the Fund's portfolio holdings by sub-sector as a percentage of the Fund's net assets.

**RMR Preferred Dividend Fund****Portfolio of Investments** December 31, 2007

| Company  | Shares  | Value        |
|--|---------|--------------|
| <hr/>  |         |              |
| Preferred Stocks 144.1%                                |         |              |
| Real Estate Investment Trusts 125.0%                   |         |              |
| <i>Apartments 12.6%</i>                                |         |              |
| Apartment Investment & Management Co., Series G        | 56,400  | \$ 1,376,160 |
| Apartment Investment & Management Co., Series T        | 10,000  | 208,400      |
| Associated Estates Realty Corp., Series B              | 39,800  | 940,275      |
| Mid-America Apartment Communities, Inc., Series H      | 41,400  | 996,498      |
|  |         | <hr/>        |
|  |         | 3,521,333    |
| <i>Diversified 12.9%</i>                               |         |              |
| Colonial Properties Trust, Series D                    | 10,000  | 239,400      |
| Cousins Properties, Inc., Series B                     | 17,000  | 350,030      |
| Digital Realty Trust, Inc., Series A                   | 56,200  | 1,265,062    |
| LBA Realty LLC, Series B                               | 25,000  | 306,250      |
| Lexington Realty Trust, Series B                       | 69,000  | 1,438,650    |
|  |         | <hr/>        |
|  |         | 3,599,392    |
| <i>Health Care 4.2%</i>                                |         |              |
| LTC Properties, Inc., Series F                         | 4,000   | 88,440       |
| OMEGA Healthcare Investors Inc., Series D              | 43,200  | 1,070,064    |
|  |         | <hr/>        |
|  |         | 1,158,504    |
| <i>Hospitality 49.1%</i>                               |         |              |
| Ashford Hospitality Trust, Series A                    | 58,000  | 1,087,500    |
| Ashford Hospitality Trust, Series D                    | 7,200   | 136,800      |
| Eagle Hospitality Properties Trust, Inc., Series A (a) | 95,000  | 1,187,500    |
| Entertainment Properties Trust, Series B (a)           | 9,100   | 189,280      |
| Entertainment Properties Trust, Series D               | 30,000  | 561,000      |
| Equity Inns, Inc., Series B (a)                        | 83,800  | 1,089,400    |
| Equity Inns, Inc., Series C (a)                        | 18,900  | 245,700      |
| FelCor Lodging Trust, Inc., Series C                   | 167,400 | 3,105,270    |
| Hersha Hospitality Trust, Series A                     | 99,500  | 2,129,300    |
| Host Marriott Corp., Series E                          | 15,000  | 376,500      |
| LaSalle Hotel Properties, Series E                     | 70,000  | 1,337,000    |
| Strategic Hotels & Resorts, Inc., Series A             | 13,000  | 244,140      |
| Strategic Hotels & Resorts, Inc., Series B             | 39,100  | 752,675      |
| Strategic Hotels & Resorts, Inc., Series C             | 27,200  | 530,400      |
| Sunstone Hotel Investors, Inc., Series A               | 36,500  | 712,845      |
|  |         | <hr/>        |
|  |         | 13,685,310   |
| <i>Mortgage 13.7%</i>                                  |         |              |
| Accredited Mortgage Loan REIT Trust, Series A          | 1,500   | 15,525       |
| American Home Mortgage Investment Corp., Series A      | 74,300  | 5,944        |
| Anthracite Capital, Inc., Series C                     | 3,000   | 56,370       |
| Anthracite Capital, Inc., Series D                     | 51,000  | 805,800      |
| Gramercy Capital Corp., Series A                       | 20,000  | 394,000      |
| MFA Mortgage Investments, Inc., Series A               | 40,000  | 966,800      |
| Newcastle Investment Corp., Series B                   | 28,000  | 501,200      |
| NorthStar Realty Finance Corp., Series A               | 20,000  | 331,000      |
| NorthStar Realty Finance Corp., Series B               | 36,000  | 572,760      |
| RAIT Financial Trust, Series C                         | 12,700  | 180,340      |

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|   |        |           |
|---|--------|-----------|
|   |        | 3,829,739 |
| <i>Office 21.5%</i>                             |        |           |
| Alexandria Real Estate Equities, Inc., Series C | 60,000 | 1,575,000 |
| BioMed Realty Trust, Inc., Series A             | 35,000 | 715,750   |
| Corporate Office Properties Trust, Series G     | 5,900  | 128,325   |
| DRA CRT Acquisition Corp., Series A             | 40,060 | 723,083   |
| Kilroy Realty Corp., Series E                   | 600    | 13,500    |
| Kilroy Realty Corp., Series F                   | 44,100 | 970,200   |
| Parkway Properties, Inc., Series D              | 41,000 | 953,250   |
| SL Green Realty Corp., Series D                 | 40,000 | 914,000   |
|   |        | 5,993,108 |

*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>Real Estate Investment Trusts continued</i>                                  |                                  |            |
| <i>Retail 11.0%</i>   |                                  |            |
| Cedar Shopping Centers, Inc., Series A  | 42,000                           | \$ 987,000 |
| Glimcher Realty Trust, Series F   | 30,000                           | 616,500    |
| Glimcher Realty Trust, Series G   | 15,000                           | 286,500    |
| Kimco Realty Corp., Series G  | 5,000                            | 114,300    |
| Taubman Centers, Inc., Series G   | 45,000                           | 1,064,250  |
|   |                                  | <hr/>      |
|   |                                  | 3,068,550  |
| <i>Total Real Estate Investment Trusts (Cost \$45,498,524)</i>                  |                                  | 34,855,936 |
| <i>Other 19.1%</i>  |                                  |            |
| Ford Motor Co., 6/15/43 Series  | 9,400                            | 152,844    |
| General Motors Corp., 5/15/48 Series  | 26,100                           | 417,600    |
| Great Atlantic & Pacific Tea Co., 8/01/39 Series                                | 87,800                           | 2,232,754  |
| Hilltop Holdings, Inc., Series A  | 97,200                           | 2,155,410  |
| Red Lion Hotels Corp., 2/19/44 Series   | 15,925                           | 378,378    |
| <i>Total Other (Cost \$5,749,754)</i>   |                                  | 5,336,986  |
| <i>Total Preferred Stocks (Cost \$51,248,278)</i>                               |                                  | 40,192,922 |
| <i>Common Stocks 10.6%</i>  |                                  |            |
| <i>Real Estate Investment Trusts 3.6%</i>                                       |                                  |            |
| <i>Diversified 0.8%</i>   |                                  |            |
| Colonial Properties Trust   | 9,800                            | 221,774    |
| <i>Health Care 0.8%</i>   |                                  |            |
| Care Investment Trust, Inc.   | 10,600                           | 113,844    |
| Medical Properties Trust, Inc.  | 11,275                           | 114,892    |
|   |                                  | <hr/>      |
|   |                                  | 228,736    |
| <i>Mortgage 1.6%</i>  |                                  |            |
| Alesco Financial, Inc.  | 142,500                          | 467,400    |
| <i>Retail 0.1%</i>  |                                  |            |
| Feldman Mall Properties, Inc.   | 5,000                            | 18,450     |
| <i>Storage 0.3%</i>   |                                  |            |
| U-Store-It Trust  | 8,900                            | 81,524     |
| <i>Total Real Estate Investment Trusts (Cost \$2,186,862)</i>                   |                                  | 1,017,884  |
| <i>Other 7.0%</i>   |                                  |            |
| Abingdon Investment, Ltd. (a)(b)  | 150,000                          | 1,194,000  |
| American Capital Strategies, Ltd.   | 10,700                           | 352,672    |
| Iowa Telecommunication Services, Inc.   | 24,500                           | 398,370    |
| <i>Total Other (Cost \$2,470,362)</i>   |                                  | 1,945,042  |
| <i>Total Common Stocks (Cost \$4,657,224)</i>                                   |                                  | 2,962,926  |
| <i>Debt Securities 20.3%</i>  |                                  |            |
| Ford Motor Co., 7.75%, 06/15/2043   | \$ 2,210,000                     | 1,547,000  |
| Ford Motor Co., 8.90%, 01/15/2032   | 557,000                          | 431,675    |
| General Motors Corp., 8.375%, 07/15/2033  | 2,000,000                        | 1,610,000  |
| Six Flags, Inc., 9.75%, 04/15/2013 2,740,000                                    |                                  | 2,055,000  |
| <i>Total Debt Securities (Cost \$6,538,318)</i>                                 |                                  | 5,643,675  |
| <i>See notes to financial statements and notes to portfolio of investments.</i> |                                  |            |



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|   |         |               |
|---|---------|---------------|
| <i>Other Investment Companies 4.3%</i>                                    |         |               |
| Alpine Total Dynamic Dividend Fund  | 32,295  | \$ 547,400    |
| Cornerstone Strategic Value Fund, Inc.                                    | 31,200  | 157,248       |
| Eaton Vance Enhanced Equity Income Fund II                                | 800     | 14,200        |
| LMP Real Estate Income Fund, Inc.   | 4,260   | 61,855        |
| Neuberger Berman Real Estate Securities Income Fund, Inc.                 | 15,000  | 172,650       |
| Neuberger Berman Realty Income Fund, Inc.                                 | 10,800  | 170,856       |
| The Zweig Total Return Fund, Inc.   | 17,750  | 80,408        |
| <i>Total Other Investment Companies (Cost \$1,573,821)</i>                |         | 1,204,617     |
| <i>Short-Term Investments 0.9%</i>  |         |               |
| <i>Other Investment Companies 0.9%</i>                                    |         |               |
| Dreyfus Cash Management, Institutional Shares, 4.85% (c) (Cost \$243,976) | 243,976 | 243,976       |
| <i>Total Investments 180.2% (Cost \$64,261,617)</i>                       |         | 50,248,116    |
| Other assets less liabilities 0.5%  |         | 137,656       |
| Preferred Shares, at liquidation preference (80.7)%                       |         | (22,500,000)  |
| Net Assets 100%   |         | \$ 27,885,772 |
| Notes to Portfolio of Investments   |         |               |

- (a) As of December 31, 2007, the Fund held securities fair valued in accordance with policies adopted by the Board of Trustees, aggregating \$3,905,880 and 7.77% of market value.
- (b) 144A securities. Securities restricted for resale to Qualified Institutional Buyers (4.3% of net assets). These securities are considered to be liquid.
- (c) Rate reflects 7 day yield as of December 31, 2007.

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

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

Statement of Assets and Liabilities

**December 31, 2007**

*Assets*

|   |               |
|---|---------------|
| Investments in securities, at value (cost \$64,261,617) | \$ 50,248,116 |
| Cash  | 3,772         |
| Dividends and interest receivable                       | 738,592       |
| Other assets  | 129           |
|   | <hr/>         |
| Total assets  | 50,990,609    |
|   | <hr/>         |

*Liabilities*

|  |         |
|--|---------|
| Distributions payable - common shares    | 396,453 |
| Distributions payable - preferred shares | 43,875  |
| Advisory fee payable                     | 13,282  |
| Accrued expenses and other liabilities   | 151,227 |
|  | <hr/>   |
| Total liabilities                        | 604,837 |
|  | <hr/>   |

*Preferred shares, at liquidation preference*

|  |            |
|--|------------|
| Auction preferred shares, Series M;<br>\$.001 par value per share; 900 shares issued and<br>outstanding at \$25,000 per share liquidation preference | 22,500,000 |
|  | <hr/>      |

*Net assets attributable to common shares*

\$ 27,885,772

---

*Composition of net assets*

|   |              |
|---|--------------|
| Common shares, \$.001 par value per share;<br>unlimited number of shares authorized,<br>2,646,538 shares issued and outstanding | \$ 2,647     |
| Additional paid-in capital  | 48,763,200   |
| Distributions in excess of net investment income  | (440,328)    |
| Accumulated net realized loss on investment transactions  | (6,426,246)  |
| Net unrealized depreciation on investments  | (14,013,501) |
|   | <hr/>        |

*Net assets attributable to common shares*

\$ 27,885,772

---

*Net asset value per share attributable to common shares*  
*(based on 2,646,538 common shares outstanding)*

\$ 10.54

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*See notes to financial statements.*

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

## Statement of Operations

**For the Year Ended December 31, 2007***Investment Income*

|  |              |
|--|--------------|
| Dividends (Cash distributions, net of capital gain (\$819,039) and return of capital (\$325,218) distributions, received or due) | \$ 4,267,199 |
| Interest   | 758,575      |
|  | <hr/>        |
| Total investment income  | 5,025,774    |
|  | <hr/>        |

*Expenses*

|                                     |           |
|-------------------------------------|-----------|
| Advisory                            | 539,056   |
| Audit and legal                     | 195,459   |
| Administrative                      | 108,007   |
| Preferred share remarketing         | 56,709    |
| Custodian                           | 55,347    |
| Shareholder reporting               | 31,359    |
| Compliance and internal audit       | 30,947    |
| Trustees' fees and expenses         | 21,431    |
| Other                               | 79,987    |
|                                     | <hr/>     |
| Total expenses                      | 1,118,302 |
| Less: expense waived by the Advisor | (348,801) |
|                                     | <hr/>     |
| Net expenses                        | 769,501   |
|                                     | <hr/>     |
| Net investment income               | 4,256,273 |
|                                     | <hr/>     |

*Realized and unrealized loss on investments*

|  |                 |
|--|-----------------|
| Net realized loss on investments   | (6,417,769)     |
| Net change in unrealized appreciation/(depreciation) on investments                | (13,284,067)    |
|  | <hr/>           |
| Net realized and unrealized loss on investments                                    | (19,701,836)    |
|  | <hr/>           |
| Distributions to preferred shareholders from net investment income                 | (1,178,280)     |
| Distributions to preferred shareholders from net realized gain on investments      | (11,673)        |
|  | <hr/>           |
| Net decrease in net assets attributable to common shares resulting from operations | \$ (16,635,516) |
|  | <hr/>           |

*See notes to financial statements.*

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

## Statements of Changes in Net Assets

|   | Year Ended<br>December 31,<br>2007 | Year Ended<br>December 31,<br>2006 |
|---|------------------------------------|------------------------------------|
| <i>Increase (decrease) in net assets resulting from operations</i>  |                                    |                                    |
| Net investment income   | \$ 4,256,273                       | \$ 4,931,552                       |
| Net realized gain (loss) on investments   | (6,417,769)                        | 832,486                            |
| Net change in unrealized appreciation/(depreciation) on investments   | (13,284,067)                       | 2,897,321                          |
| Distributions to preferred shareholders from:   |                                    |                                    |
| Net investment income   | (1,178,280)                        | (902,855)                          |
| Net realized gain on investments  | (11,673)                           | (147,481)                          |
|   | <u>                    </u>        | <u>                    </u>        |
| Net increase (decrease) in net assets attributable to common shares resulting from operations                 | (16,635,516)                       | 7,611,023                          |
|   | <u>                    </u>        | <u>                    </u>        |
| Distributions to common shareholders from:  |                                    |                                    |
| Net investment income   | (3,518,321)                        | (4,028,697)                        |
| Net realized gain on investments  | (46,460)                           | (658,083)                          |
| Return of capital   | (1,170,113)                        |                                    |
| <i>Capital shares transactions</i>  |                                    |                                    |
| Net proceeds from reinvestment of distributions   | 516,595                            | 435,418                            |
|   | <u>                    </u>        | <u>                    </u>        |
| Net increase from capital transactions  | 516,595                            | 435,418                            |
|   | <u>                    </u>        | <u>                    </u>        |
| Total increase (decrease) in net assets attributable to common shares   | (20,853,815)                       | 3,359,661                          |
| <i>Net assets attributable to common shares</i>   |                                    |                                    |
| Beginning of year   | 48,739,587                         | 45,379,926                         |
|   | <u>                    </u>        | <u>                    </u>        |
| End of year (including distributions in excess of net investment income of \$(440,328) and \$0, respectively) | \$ 27,885,772                      | \$ 48,739,587                      |
|   | <u>                    </u>        | <u>                    </u>        |
| <i>Common shares issued and repurchased</i>   |                                    |                                    |
| Shares outstanding, beginning of year   | 2,613,188                          | 2,589,311                          |
| Shares issued   |                                    |                                    |
| Shares issued (reinvestment of distributions)   | 33,350                             | 23,877                             |
|   | <u>                    </u>        | <u>                    </u>        |
| Shares outstanding, end of year   | 2,646,538                          | 2,613,188                          |
|   | <u>                    </u>        | <u>                    </u>        |

*See notes to financial statements.*

## RMR Preferred Dividend Fund

### Financial Highlights

Selected Data For A Common Share Outstanding Throughout Each Period

|   | Year Ended<br>December 31,<br>2007 | Year Ended<br>December 31,<br>2006 | For the Period<br>May 25,<br>2005(a) to<br>December 31,<br>2005 |
|---|------------------------------------|------------------------------------|---|
| <i>Per Common Share Operating Performance</i>                                 |                                    |                                    |   |
| Net asset value, beginning of period  | \$ 18.65                           | \$ 17.53                           | \$ 19.09 (b)  |
| <i>Income from Investment Operations</i>                                      |                                    |                                    |   |
| Net investment income (c)(d)(e)   | 1.62                               | 1.90                               | .93   |
| Net realized and unrealized appreciation/(depreciation) on investments (e)    | (7.48)                             | 1.43                               | (1.22)  |
| Distributions to preferred shareholders (common stock equivalent basis) from: |                                    |                                    |   |
| Net investment income (e)   | (.45)                              | (.35)                              | (.14)   |
| Net realized gain on investments (e)  | (f)                                | (.06)                              | (.02)   |
| Net increase (decrease) in net asset value from operations                    | (6.31)                             | 2.92                               | (.45)   |
| Less: Distributions to common shareholders from:                              |                                    |                                    |   |
| Net investment income (e)   | (1.33)                             | (1.55)                             | (.77)   |
| Net realized gain on investments (e)  | (.02)                              | (.25)                              | (.13)   |
| Return of capital   | (0.45)                             |                                    |   |
| Common share offering costs charged to capital                                |                                    |                                    | (.04)   |
| Preferred share offering costs charged to capital                             |                                    |                                    | (.17)   |
| Net asset value, end of period  | \$ 10.54                           | \$ 18.65                           | \$ 17.53  |
| Market price, beginning of period   | \$ 20.75                           | \$ 16.35                           | \$ 20.00  |
| Market price, end of period   | \$ 11.80                           | \$ 20.75                           | \$ 16.35  |
| <i>Total Return (g)</i>   |                                    |                                    |   |
| Total investment return based on:   |                                    |                                    |   |
| Market price (h)  | (35.90)%                           | 39.90%                             | 14.10%  |
| Net asset value (h)   | (35.94)%                           | 17.48%                             | 3.50%   |
| <i>Ratios/Supplemental Data:</i>  |                                    |                                    |   |
| Ratio to average net assets attributable to common shares of:                 |                                    |                                    |   |
| Net investment income, before total preferred share distributions (d)(e)      | 10.40%                             | 10.47%                             | 8.22% (i)   |
| Total preferred share distributions   | 2.91%                              | 2.23%                              | 1.40% (i)   |
| Net investment income, net of preferred share distributions (d)(e)            | 7.49%                              | 8.24%                              | 6.82% (i)   |
| Expenses, net of fee waivers  | 1.88%                              | 1.45%                              | 1.54% (i)   |
| Expenses, before fee waivers  | 2.73%                              | 2.26%                              | 2.29% (i)   |
| Portfolio Turnover Rate   | 47.76%                             | 23.60%                             | 5.60%   |
| Net assets attributable to common shares, end of period (000s)                | \$ 27,886                          | \$ 48,740                          | \$ 45,380   |
| Preferred shares, liquidation preference (\$25,000 per share) (000s)          | \$ 22,500                          | \$ 22,500                          | \$ 22,500   |

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|  |    |        |    |        |    |        |
|--|----|--------|----|--------|----|--------|
| Asset coverage per preferred share (j) | \$ | 55,984 | \$ | 79,156 | \$ | 75,422 |
|--|----|--------|----|--------|----|--------|

- (a) Commencement of operations.
- (b) 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 cost 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.
- (c) Based on average shares outstanding.
- (d) Amounts are net of expenses waived by RMR Advisors.
- (e) As discussed in Note A (6) to the financial statements, a portion of the distributions we received on our investments are not included in investment income for financial reporting purposes.
- (f) Amount is less than \$.005/share.
- (g) Total returns for periods of less than one year are not annualized.
- (h) 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 on the ex-dividend date. The total return based 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 on the ex-dividend date. 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.
- (i) Annualized.
- (j) Asset coverage per share equals net assets attributable to common shares plus the liquidation preference of the preferred shares divided by the total number of preferred shares outstanding at the end of the period.

*See notes to financial statements.*

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

**December 31, 2007**

**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, or the 1940 Act 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 and registration of the Fund's common shares under the Securities Act of 1933.

(2) 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.

(3) Portfolio Valuation

Investment securities of the Fund are valued at the latest sales price whenever that price is readily available on that day; 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 4:00:02 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. 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 or which have other characteristics of illiquidity 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 type 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.

(4) 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 an identified cost basis.

(5) Federal 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. However, the Fund may be subject to a 4% excise tax to the extent the Fund does not distribute substantially all taxable earnings.

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### (6) 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 December 12, 2007, the Fund declared distributions of \$0.15 per common share payable in January, February and March 2008. The Fund paid its January distribution on January 31, 2008. Distributions to 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. 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. Distributions to preferred shareholders are determined as described in Note D.

The Fund has substantial investments in real estate investment trusts, or REITs, which are generally not subject to federal income taxes. Distributions that the Fund receives from REITs can be classified as ordinary income, capital gain income or return of capital by the REITs that make these distributions to the Fund. The Fund has excluded from its investment income the portions of the distributions received from REITs classified by those REITs as capital gain income and return of capital. The Fund has included in its "net realized gain on investments" that portion of the distributions received from REITs that is classified by those REITs as capital gain income. Similarly, the Fund has credited its "net change in unrealized appreciation on investments" with that portion of the distributions received from REITs that is classified by those REITs as return of capital. The classification of distributions received from the Fund's investments were as follows:

|                              | <b>Year Ended<br/>December 31,<br/>2007</b> | <b>Year ended<br/>December 31,<br/>2006</b> |
|------------------------------|---|---|
| Ordinary income              | \$ 4,267,199                                | \$ 4,838,453                                |
| Capital gain income          | 819,039                                     | 807,195                                     |
| Return of capital            | 325,218                                     | 70,154                                      |
| Total distributions received | \$ 5,411,456                                | \$ 5,715,802                                |

The Fund distinguishes between distributions to shareholders on a tax basis and a financial reporting basis. Only distributions in excess of accumulated tax basis earnings and profits are reported in the financial statements as a tax return of capital. Differences in the recognition or classification of income between the financial statements and tax earnings and profits which result in temporary over distributions for financial statement purposes are classified as distributions in excess of net investment income or accumulated net realized gains in the components of net assets on the Statement of Assets and Liabilities.



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The tax character of distributions made by the Fund during the years ended December 31, 2007 and December 31, 2006, were as follows:

|                             | <b>Year Ended<br/>December 31,<br/>2007</b> | <b>Year ended<br/>December 31,<br/>2006</b> |
|-----------------------------|---|---|
| Ordinary income             | \$ 4,696,601                                | \$ 5,034,390                                |
| Net long term capital gains | 58,133                                      | 702,726                                     |
| Return of capital           | 1,170,113                                   |   |
|                             | \$ 5,924,847                                | \$ 5,737,116                                |

As of December 31, 2007, the components of distributable earnings on a federal income tax basis were as follows:

|  |    |              |
|--|----|--------------|
| Undistributed ordinary income              | \$ |              |
| Accumulated capital and other losses       |    | (6,426,246)  |
| Net unrealized appreciation/(depreciation) |    | (14,013,501) |

On December 31, 2007, the Fund had a net capital loss carry forward for federal income tax purposes of \$6,426,246 all of which expires in the year 2015.

The differences between the financial reporting basis and tax basis of undistributed ordinary income, undistributed net long term capital gains and net unrealized appreciation are due to wash sales of portfolio investments.

The cost, gross unrealized appreciation and unrealized depreciation of the Fund's investments for federal income tax purposes as of December 31, 2007, are as follows:

|  |                 |
|--|-----------------|
| Cost                                       | \$ 64,261,617   |
|  |                 |
| Gross unrealized appreciation              | 118,057         |
| Gross unrealized depreciation              | (14,131,558)    |
|  |                 |
| Net unrealized appreciation/(depreciation) | \$ (14,013,501) |

### (7) Concentration of Risk

Under normal market conditions, the Fund's investments will be 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.

### (8) Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board, or FASB, issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109", or FIN 48. FIN 48 was effective for the fiscal years beginning after December 15, 2006. The Securities and Exchange Commission delayed the application of FIN 48 to open and closed end funds to not later than June 29, 2007. FIN 48 prescribes how the Fund should recognize, measure and present in the Fund's financial statements uncertain

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tax provisions that have been taken or expected to be taken in a tax return. Pursuant to FIN 48 the Fund can recognize a tax benefit only if it is "more likely than not" that a particular tax position will be sustained upon examination or audit. To the extent the "more likely than not" standard has been satisfied the benefits associated with a tax position is measured as the largest amount that is greater than 50% likely of being realized upon settlement. As required, the Fund has adopted FIN 48 effective June 29, 2007, and concluded that the effect is not material to its financial statements. Each of the tax years in the three year period ended December 31, 2007, remains subject to examination by the Internal Revenue Service.

In September 2006, FASB issued Statement of Accounting Standards No. 157, "Fair Value Measurements", or SFAS 157, which is effective for fiscal years beginning after November 15, 2007. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands required disclosures about fair value measurements. Management has evaluated the application of the Statement to the Fund and believes the impact will be limited to expanded financial statement disclosures.

### (9) Common Shares

The Fund issued 33,350 and 23,877 common shares during the years ended December 31, 2007 and December 31, 2006, respectively, for a total consideration of \$516,595 and \$435,418 respectively, pursuant to its dividend reinvestment plan.

## 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 the 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, the liquidation preference of preferred shares is not considered a liability.

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 from May 25, 2005 until May 24, 2010. The Fund incurred net advisory fees of \$190,255 during the year ended December 31, 2007. The amount of fees waived by the Advisor was \$348,801 for the year ended December 31, 2007.

RMR Advisors also performs administrative functions for the Fund pursuant to an administration agreement with the Fund. RMR Advisors has entered into a subadministration agreement with State Street Bank and Trust Company, or 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. The Fund reimbursed RMR Advisors for \$108,007 of subadministrative fees charged by State Street for the year ended December 31, 2007.

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 1940 Act is considered to be a "disinterested trustee". Disinterested trustees are each paid by the Fund an annual fee plus fees for board and committee meetings. The Fund incurred \$21,431 of trustee fees and expenses during the year ended December 31, 2007.

The Fund's board of trustees and separately the disinterested trustees authorized the Fund to make reimbursement payments to RMR Advisors for costs related to the Fund's compliance and internal audit programs. The Fund incurred \$30,947 of compliance and internal audit expense during the year ended December 31, 2007. The Fund also participates in pooled insurance programs with RMR Advisors and other funds managed by RMR Advisors and makes payments of allocated portions of related premiums. The Fund incurred \$15,044 of insurance expense during the year ended December 31, 2007.

## **Note C**

### **Securities Transactions**

During the year ended December 31, 2007, there were purchases and sales transactions (excluding short term securities) of \$30,691,587 and \$29,508,154 respectively. Brokerage commissions on securities transactions amounted to \$117,849 during the year ended December 31, 2007.

## **Note D**

### **Preferred Shares**

The Fund's 900 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 1940 Act, of at least 200%, the preferred shares will be subject to redemption in 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 5.40% per annum as of December 31, 2007.

**Report of Independent Registered Public Accounting Firm**

*To the Board of Trustees and Shareholders  
of RMR Preferred Dividend Fund:*

We have audited the accompanying statement of assets and liabilities of RMR Preferred Dividend Fund (the "Fund"), including the portfolio of investments, as of December 31, 2007, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the periods indicated therein. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2007, by correspondence with the custodian. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the RMR Preferred Dividend Fund at December 31, 2007, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the periods indicated therein, in conformity with U.S. generally accepted accounting principles.

Boston, Massachusetts  
February 21, 2008

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**RMR Asia Pacific Real Estate Fund**

December 31, 2007

*To our shareholders,*

In the pages that follow, you will find data summarizing our financial results for the year ended December 31, 2007, and our financial position as of December 31, 2007.

**Relevant Market Conditions**

**Real Estate Industry Fundamentals.** In 2008, we expect commercial real estate fundamentals in the Asia Pacific region to remain healthy due to strong leasing demand. Office market vacancy rates are expected to remain low in Hong Kong, Singapore and Tokyo. Strong national income growth in all countries, except for Japan, should lead to growing retail sales and rising rents for retail property. The industrial real estate sector is expected to do well because logistics networks are developing in emerging countries. Residential real estate prices are expected to increase because of rising incomes and the urbanization process underway in China and India.

Economic growth in the coming year is expected to remain strong. The International Monetary Fund expects 8.6% GDP growth for developing Asia and 1.5% for Japan. Real estate companies in the region are generally conservatively financed. However, the credit tightening by lenders across the globe may slow the rate of growth for some real estate companies in 2008.

**Real Estate Industry Technicals.** We expect continued strong demand for real estate investments in the Asia Pacific region in the coming year. High personal savings rates and attractive real estate yields are expected to result in increasing stock values for real estate companies in the region, especially real estate companies that pay a regular dividend, such as real estate investment trusts, or REITs. With the exception of Australia, property yields in the region typically are 2-3% higher than long term government bond yields. The number of REITs in the region continues to grow, and several countries are currently considering initiating REIT legislation, including the Philippines, India and China.

**Fund Strategies, Techniques and Performance**

Our primary investment objective is capital appreciation. There can be no assurance that we will achieve our investment objective.

Although the Fund's primary investment objective is capital appreciation (rather than pay high income), it made two one time distributions to shareholders in 2007. In September and December, the Fund paid shareholders \$1.52 per share and \$4.45 per share, respectively. This combined \$5.97 per share of distributions in 2007 represents a 30% return on investment based on the Fund's IPO price of \$20.00 per share in May 2006.

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During 2007, our total return on net asset value, or NAV, was 11.8%. During that same period, the total return for the EPRA NAREIT Asia Index (an unmanaged index of Asia Pacific real estate common stocks) was 11.6%. We believe this index is relevant to us because all our investments as of December 31, 2007, excluding short term investments, were in securities of real estate companies in countries covered by this index. The S&P 500 Index (an unmanaged index published as Standard and Poor's Composite Index of 500 common stocks) total return for the same period was 5.5%.

Thank you for your continued support. For more information, please view our website at [www.rmrfunds.com](http://www.rmrfunds.com).

Sincerely,

Adam D. Portnoy  
President

February 20, 2008

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**Portfolio holdings by sub-sector as a percentage of investments  
(as of December 31, 2007)\***

|                        |       |
|------------------------|-------|
| Diversified            | 63%   |
| Office                 | 13%   |
| Hospitality            | 10%   |
| Others, less than 10%  | 13%   |
| Short term investments | 1%    |
|                        | <hr/> |
| Total investments      | 100%  |
|                        | <hr/> |
| Real Estate            | 99%   |
| Short term investments | 1%    |
|                        | <hr/> |
| Total investments      | 100%  |
|                        | <hr/> |

**Portfolio holdings by country (as of December 31, 2007)\***

|                        |       |
|------------------------|-------|
| Hong Kong              | 37%   |
| Japan                  | 30%   |
| Australia              | 14%   |
| Others, less than 10%  | 18%   |
| Short term investments | 1%    |
|                        | <hr/> |
| Total                  | 100%  |
|                        | <hr/> |

\*

These percentages represent the Fund's portfolio holdings by sub-sector as a percentage of total portfolio holdings and do not match with the percentages included in the Portfolio of Investments schedule which represent the Fund's portfolio holdings by sub-sector as a percentage of the Fund's net assets.

**RMR Asia Pacific Real Estate Fund****Portfolio of Investments** December 31, 2007

| Company                                     | Shares  | Value      |
|---|---------|------------|
| Common Stocks 115.7%                        |         |            |
| Australia 17.0%                             |         |            |
| Apartments 0.7%                             |         |            |
| Peet, Ltd.                                  | 76,110  | \$ 267,314 |
| Diversified 11.3%                           |         |            |
| Abacus Property Group                       | 490,000 | 750,777    |
| Charter Hall Group                          | 400,000 | 874,538    |
| GPT Group *                                 | 137,000 | 485,983    |
| Trinity Group                               | 550,000 | 1,110,733  |
| Valad Property Group                        | 728,725 | 825,416    |
|   |         | <hr/>      |
|   |         | 4,047,447  |
| Office 4.8%                                 |         |            |
| Commonwealth Property Office Fund *         | 150,000 | 203,488    |
| Cromwell Group                              | 953,898 | 912,952    |
| Macquarie Goodman Group                     | 137,000 | 588,232    |
|   |         | <hr/>      |
|   |         | 1,704,672  |
| Retail 0.2%                                 |         |            |
| Centro Properties Group                     | 70,000  | 62,078     |
| Total Australia (Cost \$7,006,089)          |         | 6,081,511  |
| Hong Kong 44.7%                             |         |            |
| Diversified 19.9%                           |         |            |
| Agile Property Holdings, Ltd.               | 440,000 | 802,421    |
| China New Town Development Co. Ltd (a)      | 277,500 | 113,741    |
| China Overseas Land & Investment Ltd        | 105,000 | 217,342    |
| China Resources Land, Ltd.                  | 336,000 | 742,894    |
| Guangzhou R&F Properties Co., Ltd., Class H | 135,200 | 482,027    |
| Henderson Land Development Co., Ltd.        | 86,717  | 817,970    |
| Hongkong Land Holdings, Ltd.                | 178,838 | 883,460    |
| Hysan Development Co., Ltd.                 | 180,000 | 514,787    |
| Kerry Properties, Ltd.                      | 45,500  | 367,623    |
| New World China Land, Ltd.                  | 590,000 | 534,960    |
| Shenzhen Investment, Ltd.                   | 657,692 | 470,660    |
| Shun TAK Holdings, Ltd.                     | 340,000 | 534,588    |
| SPG Land Holdings Ltd (a)                   | 360,000 | 322,723    |
| The Wharf (Holdings) Ltd.                   | 57,000  | 298,984    |
|   |         | <hr/>      |
|   |         | 7,104,180  |

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



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|   |           |            |
|---|-----------|------------|
| <i>Hospitality 11.9%</i>  |           |            |
| Regal Real Estate Investment Trust *  | 2,399,400 | \$ 661,593 |
| Sun Hung Kai Properties, Ltd.   | 169,000   | 3,584,862  |
|   |           | <hr/>      |
|   |           | 4,246,455  |
| <i>Office 3.9%</i>  |           |            |
| Champion Real Estate Investment Trust *   | 2,378,532 | 1,394,040  |
| <i>Retail 9.0%</i>  |           |            |
| Hang Lung Properties, Ltd.  | 690,900   | 3,207,554  |
| <i>Total Hong Kong (Cost \$11,394,422)</i>                                      |           | 15,952,229 |
| <i>Japan 37.2%</i>  |           |            |
| <i>Apartments 1.1%</i>  |           |            |
| Nippon Residential Investment Corp. *   | 85        | 383,476    |
| <i>Diversified 28.9%</i>  |           |            |
| Aeon Mall Co., Ltd.   | 49,593    | 1,309,577  |
| Mitsubishi Estate Co., Ltd.   | 194,000   | 4,680,034  |
| Mitsui Fudosan Co., Ltd.  | 101,359   | 2,204,739  |
| Shoei Co., Ltd.   | 39,000    | 528,192    |
| Sumitomo Realty & Development Co., Ltd.   | 65,120    | 1,611,751  |
|   |           | <hr/>      |
|   |           | 10,334,293 |
| <i>Office 7.2%</i>  |           |            |
| Japan Excellent, Inc. *   | 25        | 200,958    |
| Nippon Building Fund, Inc. *  | 74        | 1,039,968  |
| NTT Urban Development Corp.   | 816       | 1,322,078  |
|   |           | <hr/>      |
|   |           | 2,563,004  |
| <i>Total Japan (Cost \$12,815,832)</i>  |           | 13,280,773 |
| <i>Malaysia 3.0%</i>  |           |            |
| <i>Diversified 3.0%</i>   |           |            |
| KLCC Property Holdings Berhad   | 515,000   | 545,056    |
| SP Setia Berhad   | 349,500   | 526,311    |
|   |           | <hr/>      |
|   |           | 1,071,367  |
| <i>Total Malaysia (Cost \$1,006,755)</i>  |           | 1,071,367  |
| <i>See notes to financial statements and notes to portfolio of investments.</i> |           |            |

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|   |           |               |
|---|-----------|---------------|
| <i>Philippines</i> 2.3%   |           |               |
| <i>Diversified</i> 2.3%   |           |               |
| Filinvest Land, Inc.  | 5,800,000 | \$ 191,109    |
| Megaworld Corp.   | 6,972,507 | 633,480       |
|   |           | <hr/>         |
|   |           | 824,589       |
| <i>Total Philippines (Cost \$573,697)</i>   |           | 824,589       |
| <i>Singapore</i> 11.5%  |           |               |
| <i>Diversified</i> 10.9%  |           |               |
| Allco Commercial Real Estate Investment Trust *                                     | 750,000   | 466,324       |
| Allgreen Properties, Ltd.   | 300,000   | 310,535       |
| Ascendas India Trust *  | 254,000   | 225,864       |
| Capitaland, Ltd.  | 360,000   | 1,568,099     |
| CDL Hospitality Trusts *  | 453,836   | 740,918       |
| Keppel Land, Ltd.   | 117,000   | 591,726       |
|   |           | <hr/>         |
|   |           | 3,903,466     |
| <i>Retail</i> 0.6%  |           |               |
| CapitaRetail China Trust *  | 128,366   | 191,731       |
| <i>Total Singapore (Cost \$4,210,557)</i>   |           | 4,095,197     |
| <i>Total Common Stocks (Cost \$37,007,352)</i>                                      |           | 41,305,666    |
| <i>Warrants</i> 5.0%  |           |               |
| <i>India</i> 5.0%   |           |               |
| Ansai Properties & Infrastructure, Ltd., Macquarie Bank, Ltd., expiring 1/17/12 (a) | 44,000    | 474,320       |
| Unitech, Ltd., Macquarie Bank, Ltd., expiring 6/24/08 (a)                           | 106,000   | 1,315,460     |
| <i>Total India (Cost \$1,046,871)</i>   |           | 1,789,780     |
| <i>Total Warrants (Cost \$1,046,871)</i>  |           | 1,789,780     |
| <i>Rights</i> 0.0%  |           |               |
| <i>Hong Kong</i> 0.0%   |           |               |
| The Wharf (Holdings) Ltd., expiring 1/08/08 (a) (Cost \$0)                          | 7,125     | 9,777         |
| <i>Short-Term Investments</i> 1.1%  |           |               |
| <i>Other Investment Companies</i> 1.1%  |           |               |
| Dreyfus Cash Management, Institutional Shares, 4.85% (b) (Cost \$383,872)           | 383,872   | 383,872       |
| <i>Total Investments</i> 121.8% (Cost \$38,438,095)                                 |           | 43,489,095    |
| <i>Other assets less liabilities</i> (21.8)%  |           | (7,779,169)   |
| <i>Net Assets</i> 100%  |           | \$ 35,709,926 |
| Notes to Portfolio of Investments   |           |               |

\*

Company is organized as a real estate investment trust as defined by the laws of its country of domicile.

- (a) As of December 31, 2007, this security had not paid a distribution.
- (b) Rate reflects 7 day yield as of December 31, 2007.

See notes to financial statements.

**RMR Asia Pacific Real Estate Fund**  
**Financial Statements**

Statement of Assets and Liabilities

**December 31, 2007**

|  |               |
|--|---------------|
| <i>Assets</i>  |               |
| Investments in securities, at value (cost \$38,438,095)  | \$ 43,489,095 |
| Cash   | 295           |
| Foreign currency, at value (cost 5,325)  | 5,325         |
| Dividends and interest receivable  | 144,598       |
|  | <hr/>         |
| Total assets   | 43,639,313    |
|  | <hr/>         |
| <i>Liabilities</i>   |               |
| Distributions payable  | 7,809,750     |
| Advisory fee payable   | 27,354        |
| Accrued expenses and other liabilities   | 92,283        |
|  | <hr/>         |
| Total liabilities  | 7,929,387     |
|  | <hr/>         |
| <i>Net assets</i>  | \$ 35,709,926 |
|  | <hr/>         |
| <i>Composition of net assets</i>   |               |
| \$.001 par value per share; unlimited number of shares authorized, 1,755,000 shares issued and outstanding | \$ 1,755      |
| Additional paid-in capital   | 33,409,785    |
| Distributions in excess of net investment income   | (2,746,073)   |
| Accumulated net realized loss on investments and foreign currency transactions                             | (8,153)       |
| Net unrealized appreciation on investments and foreign currency transactions                               | 5,052,612     |
|  | <hr/>         |
| <i>Net assets</i>  | \$ 35,709,926 |
|  | <hr/>         |
| <i>Net asset value per share (based on 1,755,000 common shares outstanding)</i>                            | \$ 20.35      |
|  | <hr/>         |

*See notes to financial statements.*

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Statement of Operations

**For the Year Ended December 31, 2007**

*Investment Income*

|  |            |
|--|------------|
| Dividends (Cash distributions received or due, net of foreign taxes withheld of \$127,583) | \$ 993,447 |
| Interest   | 22,279     |
|  | <hr/>      |
| Total investment income  | 1,015,726  |
|  | <hr/>      |

*Expenses*

|                                     |           |
|-------------------------------------|-----------|
| Advisory                            | 457,355   |
| Audit and legal                     | 119,304   |
| Administrative                      | 107,769   |
| Custodian                           | 82,123    |
| Compliance and internal audit       | 30,040    |
| Excise tax                          | 28,052    |
| Trustees' fees and expenses         | 22,355    |
| Shareholder reporting               | 21,770    |
| Other                               | 57,547    |
|                                     | <hr/>     |
| Total expenses                      | 926,315   |
| Less: expense waived by the Advisor | (114,339) |
|                                     | <hr/>     |

Net expenses 811,976

Net investment income 203,750

*Realized and unrealized gain (loss) on investment and foreign currency transactions*

|   |             |
|---|-------------|
| Net realized gain on investments (net of foreign capital gain taxes of \$10,336)                      | 6,448,736   |
| Net realized loss on foreign currency transactions  | (11,404)    |
| Net change in unrealized appreciation/(depreciation) on investments and foreign currency transactions | (1,965,895) |
|   | <hr/>       |

Net increase in net assets resulting from operations \$ 4,675,187

*See notes to financial statements.*

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Statements of Changes in Net Assets

|   | Year Ended<br>December 31,<br>2007 | For the Period<br>May 25,<br>2006(a) to<br>December 31,<br>2006 |
|---|------------------------------------|---|
| <i>Increase in net assets resulting from operations</i>   |                                    |   |
| Net investment income   | \$ 203,750                         | \$ 353,151  |
| Net realized gain on investment and foreign currency transactions   | 6,437,332                          | 647,831   |
| Net change in unrealized appreciation/(depreciation) on investments and foreign currency transactions                                 | (1,965,895)                        | 7,018,507   |
|   | <u>4,675,187</u>                   | <u>8,019,489</u>  |
| Net increase in net assets resulting from operations  |                                    |   |
| Distributions to common shareholders from:  |                                    |   |
| Net investment income   | (6,911,460)                        |   |
| Net realized gain on investments  | (3,565,890)                        |   |
| <i>Capital shares transactions</i>  |                                    |   |
| Net proceeds from sale of common shares   |                                    | 33,392,600  |
|   |                                    | <u>33,392,600</u>   |
| Net increase from capital transactions  |                                    |   |
|   |                                    | <u>33,392,600</u>   |
| Total increase (decrease) in net assets   | (5,802,163)                        | 41,412,089  |
| <i>Net assets</i>   |                                    |   |
| Beginning of year   | 41,512,089                         | 100,000   |
|   | <u>41,512,089</u>                  | <u>100,000</u>  |
| End of year (including undistributed (distributions in excess of) net investment income of \$(2,746,073) and \$857,421, respectively) | \$ 35,709,926                      | \$ 41,512,089   |
|   | <u>\$ 35,709,926</u>               | <u>\$ 41,512,089</u>  |
| <i>Common shares issued and repurchased</i>   |                                    |   |
| Shares outstanding, beginning of year   | 1,755,000                          | 5,000   |
| Shares issued   |                                    | 1,750,000   |
|   | <u>1,755,000</u>                   | <u>1,755,000</u>  |
| Shares outstanding, end of year   | 1,755,000                          | 1,755,000   |
|   | <u>1,755,000</u>                   | <u>1,755,000</u>  |

(a) Commencement of operations.  
See notes to financial statements.

## RMR Asia Pacific Real Estate Fund

### Financial Highlights

Selected Data For A Common Share Outstanding Throughout Each Period

|  | Year Ended<br>December 31,<br>2007 | For the Period<br>May 25,<br>2006(a) to<br>December 31,<br>2006 |
|--|------------------------------------|---|
| <i>Per Common Share Operating Performance (b)</i>                      |                                    |   |
| Net asset value, beginning of period                                   | \$ 23.65                           | \$ 19.08(c)   |
| <i>Income from Investment Operations</i>                               |                                    |   |
| Net investment income (d)  | .12                                | .21   |
| Net realized and unrealized appreciation/(depreciation) on investments | 2.55                               | 4.40  |
| Net increase in net asset value from operations                        | 2.67                               | 4.61  |
| Less: Distributions to common shareholders from:                       |                                    |   |
| Net investment income  | (3.94)                             |   |
| Net realized gain on investments                                       | (2.03)                             |   |
| Common share offering costs charged to capital                         |                                    | (.04)   |
| Net asset value, end of period   | \$ 20.35                           | \$ 23.65  |
| Market price, beginning of period                                      | \$ 23.41                           | \$ 20.00  |
| Market price, end of period  | \$ 16.95                           | \$ 23.41  |
| <i>Total Return (e)</i>  |                                    |   |
| Total investment return based on:                                      |                                    |   |
| Market price (f)   | (2.99)%                            | 17.05%  |
| Net asset value (f)  | 11.80%                             | 23.95%  |
| <i>Ratios/Supplemental Data:</i>                                       |                                    |   |
| Ratio to average net assets attributable to common shares of:          |                                    |   |
| Net investment income (d)  | 0.45%                              | 1.64%(g)  |
| Expenses, net of fee waivers   | 1.78%                              | 2.25%(g)  |
| Expenses, before fee waivers   | 2.03%                              | 2.50%(g)  |
| Portfolio Turnover Rate  | 68.69%                             | 27.61%  |
| Net assets attributable to common shares, end of period (000s)         | \$ 35,710                          | \$ 41,512   |

(a) Commencement of operations.

(b) Based on average shares outstanding.

(c) Net asset value at May 25, 2006, reflects the deduction of the average sales load and offering costs of \$0.92 per share paid by the holders of common shares from the \$20.00 offering price. We paid a sales load and offering cost of \$0.94 per share on 1,710,000 shares sold to the public and no sales load or offering costs on 40,000 common shares sold to affiliates of the RMR Advisors for \$20 per share.

(d) Amounts are net of expenses waived by RMR Advisors.

(e)

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Total returns for periods of less than one year are not annualized.

(f)

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 on the ex-dividend date. The total return based 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 on the ex-dividend date. 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.

(g)

Annualized.

*See notes to financial statements.*

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

**December 31, 2007**

**Note A**

(1) Organization

RMR Asia Pacific Real Estate Fund, or the Fund, was organized as a Massachusetts business trust on February 14, 2006, and is registered under the Investment Company Act of 1940, as amended, of the 1940 Act, as a non-diversified closed-end management investment company. The Fund had no operations prior to May 25, 2006, other than matters relating to the Fund's establishment and 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, 2006, the Fund sold 1,750,000 common shares in an initial public offering including 40,000 shares sold to affiliates of RMR Advisors. Proceeds to the Fund were \$33,392,600 after deducting underwriting commission and \$68,400 of offering expenses. There was no underwriting commission or offering expenses paid on shares sold to the affiliates of RMR Advisors.

(2) 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.

(3) Portfolio Valuation

Investment securities of the Fund are valued at the latest sales price reflected on the consolidated tape of the exchange that reflects the principal market for such securities whenever that price is readily available on that day; securities for which no sales were reported on that day, unless otherwise noted, are valued at the last available bid price on that day. Any of the Fund's securities which are not readily marketable, which are not traded or which have other characteristics of illiquidity 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 type 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.

Some foreign markets close before the close of customary trading sessions on the American Stock Exchange or AMEX (normally 4:00 p.m. eastern time). Occasionally, events occur after the principal foreign exchange on which the foreign securities trade has closed but before the AMEX closes and the Fund determines net asset value, or NAV, that could affect the value of the securities the Fund owns or cause their prices to be unreliable. If these events are expected to materially affect the Fund's NAV, the prices of such securities will be adjusted to reflect their estimated fair value as of the close of the AMEX, as determined in good faith under procedures established by the Fund's board of trustees.

(4) 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.



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### (5) 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. However, the Fund may be subject to a 4% excise tax to the extent the Fund does not distribute substantially all taxable earnings.

Some Asia Pacific governments may subject the Fund's investment income and securities sales to withholding or other taxes. For the year ended December 31, 2007, \$127,583 of foreign taxes have been withheld from distributions to the Fund and has been recorded as a reduction of dividend income and \$10,336 of foreign taxes have been withheld from the proceeds of sale of securities and recorded as a reduction of net realized gains on investments

### (6) Distributable Earnings

The Fund earns income, net of expenses, daily on its investments. It is the policy of the Fund to make distributions of its income at least annually in amounts at least equal to the amount necessary to maintain its status as a registered investment company. On December 12, 2007, the Fund declared a special distribution of \$4.45 per common share that was paid on January 31, 2008. Distributions to 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. 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.

The Fund distinguishes between distributions to shareholders on a tax basis and a financial reporting basis. Only distributions in excess of accumulated tax basis earnings and profits are reported in the financial statements as a tax return of capital. Differences in the recognition or classification of income between the financial statements and tax earnings and profits which result in temporary over distributions for financial statement purposes are classified as distributions in excess of net investment income or accumulated net realized gains in the components of net assets on the Statement of Assets and Liabilities.

The tax character of distributions made by the Fund during the year ended December 31, 2007, is as follows:

|                             | <b>Year Ended<br/>December 31,<br/>2007</b> |
|-----------------------------|---|
| Ordinary income             | \$ 9,007,262                                |
| Net long term capital gains | 1,470,088                                   |
|                             | <b>\$ 10,477,350</b>                        |

As of December 31, 2007, the components of distributable earnings on a federal income tax basis were as follows:

|  |    |             |
|--|----|-------------|
| Undistributed ordinary income              | \$ |             |
| Accumulated capital and other losses       |    | (1,626,006) |
| Net unrealized appreciation/(depreciation) |    | 4,105,216   |

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Under current tax law, certain capital or net foreign currency losses and net passive foreign investment company mark to market losses realized after October 31 within the taxable year may be deferred and treated as occurring on the first day of the following tax year. For the tax year ended December 31, 2007, the Fund elected to defer net passive foreign investment company losses of \$1,626,006 arising between November 1, 2007 and December 31, 2007.

The differences between the financial reporting basis and tax basis of accumulated capital and other losses and unrealized appreciation/depreciation are due to mark to market and adjustments to the Fund's investments in passive foreign investment companies and wash sales of portfolio investments.

The cost, gross unrealized appreciation and unrealized depreciation of the Fund's investments for federal income tax purposes as of December 31, 2007, are as follows:

|  |               |
|--|---------------|
| Cost                                       | \$ 39,385,491 |
| Gross unrealized appreciation              | 6,211,825     |
| Gross unrealized depreciation              | (2,108,221)   |
| Net unrealized appreciation/(depreciation) | \$ 4,103,604  |

### (7) Concentration of Risk

Under normal market conditions, the Fund's investments will be concentrated in common shares, preferred shares and debt securities, including convertible preferred and debt securities, issued by Asia Pacific 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 or in the Asia Pacific region due to economic, legal, regulatory, technological or other developments affecting the Asia Pacific real estate industry and securities market.

### (8) Foreign Securities Risk

As compared to U.S. securities, foreign securities may be issued by companies which provide less financial and other information, and which are subject to less developed and difficult to access legal systems, less stringent accounting, auditing and financial reporting standards or different governmental regulations. As compared to U.S. securities markets, foreign securities markets may have different settlement procedures, may have higher transaction costs, may be conducted in a less regulated manner, are generally smaller and may be less liquid and more volatile than securities markets in the U.S. The value of foreign securities may also decline or be unstable because of political, social or economic events or instability outside of the U.S.

### (9) Foreign Currency Transactions

The accounting records of the Fund are maintained in U.S. dollars. Portfolio securities and other assets and liabilities denominated in a foreign currency are translated daily into U.S. dollars at the prevailing rates of exchange. Purchases and sales of securities, income receipts and expense payments are translated into U.S. dollars at the prevailing exchange rates on the respective transaction dates.

The Fund does not isolate the portion of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in the market prices of investments. Such fluctuations are included in net realized and unrealized gain (loss) on investments. Net realized gain (loss) on foreign currency transactions represents net foreign currency gain (loss) from forward currency contracts, disposition of foreign currencies, currency gain (loss) realized between the trade and settlement dates on securities

transactions, and the difference between the amount of dividends, interest and foreign withholding taxes recorded on the Fund's accounting records and the U.S. dollar equivalent amounts actually received or paid. Net unrealized foreign currency appreciation/(depreciation) arises from changes in the value of assets and liabilities, other than investments in securities, as a result of changes in exchange rates.

(10) Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board, or FASB, issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109", or FIN 48. FIN 48 was effective for the fiscal years beginning after December 15, 2006. The Securities and Exchange Commission delayed the application of FIN 48 to open and closed end funds to not later than June 29, 2007. FIN 48 prescribes how the Fund should recognize, measure and present in the Fund's financial statements uncertain tax provisions that have been taken or expected to be taken in a tax return. Pursuant to FIN 48 the Fund can recognize a tax benefit only if it is "more likely than not" that a particular tax position will be sustained upon examination or audit. To the extent the "more likely than not" standard has been satisfied the benefits associated with a tax position is measured as the largest amount that is greater than 50% likely of being realized upon settlement. As required, the Fund has adopted FIN 48 effective June 29, 2007, and concluded that the effect is not material to its financial statements. Each of the tax years in the three year period ended December 31, 2007, remains subject to examination by the Internal Revenue Service.

In September 2006, FASB issued Statement of Accounting Standards No. 157, "Fair Value Measurements", or SFAS 157, which is effective for fiscal years beginning after November 15, 2007. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands required disclosures about fair value measurements. Management has evaluated the application of the Statement to the Fund and believes the impact will be limited to expanded financial statement disclosures.

## **Note B**

### **Advisory, Subadvisory 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, oversee the subadvisor and generally manage the business affairs of the Fund in accordance with its investment objectives and policies. Pursuant to the agreement, RMR Advisors is compensated at an annual rate of 1% of the Fund's average daily net assets.

RMR Advisors has contractually agreed to waive a portion of its annual fee equal to 0.25% of the Fund's average daily net assets from May 25, 2006 until May 25, 2011. The Fund incurred net advisory fees of \$343,016 during the year ended December 31, 2007. The amount of fees waived by the Advisor was \$114,339 for the year ended December 31, 2007.

RMR Advisors has entered into a subadvisory agreement with MacarthurCook Investment Managers Ltd., or MacarthurCook, 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 the agreement, RMR Advisors, and not the Fund, will pay the subadvisor a monthly fee equal to an annual rate of 0.375% of the Fund's average daily net assets. MacarthurCook has agreed to waive a portion of the fee payable by RMR Advisors such that until May 25, 2011, the fee payable will be equal to 0.25% of the Fund's average daily net assets.

RMR Advisors also performs administrative functions for the Fund pursuant to an administration agreement with the Fund. RMR Advisors has entered into a subadministration agreement with State Street Bank and Trust Company, or 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. The Fund reimbursed RMR Advisors for \$107,769 of subadministrative fees charged by State Street for the year ended December 31, 2007.

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 1940 Act is considered to be a "disinterested trustee". Disinterested trustees are each paid by the Fund an annual fee plus fees for board and committee meetings. The Fund incurred \$22,355 of trustee fees and expenses during the year ended December 31, 2007.

The Fund's board of trustees and separately the disinterested trustees authorized the Fund to make reimbursement payments to RMR Advisors for costs related to the Fund's compliance and internal audit programs. The Fund incurred \$30,040 of compliance and internal audit expense during the year ended December 31, 2007. The Fund also participates in pooled insurance programs with RMR Advisors and other funds managed by RMR Advisors and makes payments of allocated portions of related premiums. The Fund incurred \$22,261 of insurance expense during the year ended December 31, 2007.

## **Note C**

### **Securities Transactions**

During the year ended December 31, 2007, there were purchases and sales transactions (excluding short term securities) of \$31,329,360 and \$34,005,674 respectively. Brokerage commissions on securities transactions amounted to \$139,872 during the year ended December 31, 2007.

**Report of Independent Registered Public Accounting Firm**

*To the Board of Trustees and Shareholders  
of RMR Asia Pacific Real Estate Fund:*

We have audited the accompanying statement of assets and liabilities of RMR Asia Pacific Real Estate Fund (the "Fund"), including the portfolio of investments, as of December 31, 2007, and the related statement of operations for the year then ended and the statements of changes in net assets and the financial highlights for each of the periods indicated therein. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2007, by correspondence with the custodian. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of RMR Asia Pacific Real Estate Fund at December 31, 2007, the results of its operations for the year then ended and the changes in its net assets and the financial highlights for each of the periods indicated therein, in conformity with U.S. generally accepted accounting principles.

Boston, Massachusetts  
February 21, 2008

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**RMR Asia Real Estate Fund**

**December 31, 2007**

*To our shareholders,*

In the pages that follow, you will find data summarizing our financial results for the period from May 25, 2007, the date we commenced operations, through December 31, 2007, and our financial position as of December 31, 2007.

Although the Fund has been in operation for only a short time, we have taken the steps to build what we believe will be a sound long term investment portfolio.

**Relevant Market Conditions**

***Real Estate Industry Fundamentals.*** In 2008, we expect commercial real estate fundamentals in the Asian region to remain healthy due to strong leasing demand. Office market vacancy rates are expected to remain low in Hong Kong, Singapore and Tokyo. Strong national income growth in all countries, except for Japan, should lead to growing retail sales and rising rents for retail property. The industrial real estate sector is expected to do well because logistics networks are developing in emerging countries. Residential real estate prices are expected to increase because of rising incomes and the urbanization process underway in China and India.

Economic growth in the coming year is expected to remain strong throughout Asia. The International Monetary Fund expects 8.6% GDP growth for developing Asia and 1.5% for Japan. Real estate companies in the region are generally conservatively financed. However, credit tightening by lenders across the globe may slow the rate of growth for some real estate companies in the region in 2008.

***Real Estate Industry Technicals.*** We expect continued strong demand for real estate investments in the Asia region in the coming year. High personal savings rates and attractive real estate yields are expected to lead to increasing stock values for real estate companies in the region, especially real estate companies that pay a regular dividend, such as real estate investment trusts, or REITs. Property yields in the region typically are 2-3% higher than long term government bond yields. The number of REITs in the region continues to grow, and several countries are considering initiating REIT legislation, including the Philippines, India and China.

**Fund Strategies, Techniques and Performance**

Our primary investment objective is capital appreciation. There can be no assurance that we will achieve our investment objective.

Although the Fund's primary investment objective is capital appreciation (rather than pay high income) and the Fund has operated for less than one year, it made a one time distribution of \$0.35 per share to shareholders in December 2007. This distribution represents an annualized return on investment of about 3% based on the Fund's IPO price of \$20.00 per share in May 2007.

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During the period from May 25, 2007 through December 31, 2007, our total return on net asset value, or NAV, was negative 3.24%. During that same period, the total return for the EPRA NAREIT Asia Index (an unmanaged index of Asia Pacific real estate common stocks) was negative 1.3%. We believe this index is relevant to us because all our investments as of December 31, 2007, excluding short term investments, were in securities of real estate companies in countries covered by this index. The S&P 500 Index (an unmanaged index published as Standard and Poor's Composite Index of 500 common stocks) total return for the same period was negative 3.30%.

Thank you for your continued support. For more information, please view our website at [www.rmrfunds.com](http://www.rmrfunds.com).

Sincerely,

Adam D. Portnoy  
President

February 20, 2008

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**Portfolio holdings by sub-sector as a percentage of investments  
(as of December 31, 2007)\***

|                        |       |
|------------------------|-------|
| Diversified            | 69%   |
| Hospitality            | 11%   |
| Other, less than 10%   | 19%   |
| Short term investments | 1%    |
|                        | <hr/> |
| Total investments      | 100%  |
|                        | <hr/> |
| Real Estate            | 99%   |
| Short term investments | 1%    |
|                        | <hr/> |
| Total investments      | 100%  |
|                        | <hr/> |

**Portfolio holdings by country (as of December 31, 2007)\***

|                        |       |
|------------------------|-------|
| Hong Kong              | 45%   |
| Japan                  | 34%   |
| Singapore              | 11%   |
| Other, less than 10%   | 9%    |
| Short term investments | 1%    |
|                        | <hr/> |
| Total                  | 100%  |
|                        | <hr/> |

\*

These percentages represent the Fund's portfolio holdings by sub-sector as a percentage of total portfolio holdings and do not match with the percentages included in the Portfolio of Investments schedule which represent the Fund's portfolio holdings by sub-sector as a percentage of the Fund's net assets.



**RMR Asia Real Estate Fund****Portfolio of Investments** December 31, 2007

| Company                                     | Shares    | Value        |
|---|-----------|--------------|
| <b>Common Stocks 97.3%</b>                  |           |              |
| <i>Hong Kong 46.2%</i>                      |           |              |
| <i>Diversified 27.6%</i>                    |           |              |
| Agile Property Holdings, Ltd.               | 935,000   | \$ 1,705,145 |
| China New Town Development Co. Ltd (a)      | 550,000   | 225,433      |
| China Overseas Land & Investment Ltd        | 160,000   | 331,187      |
| China Resources Land, Ltd.                  | 1,015,000 | 2,244,158    |
| Great Eagle Holdings, Ltd.                  | 200,000   | 747,685      |
| Guangzhou R&F Properties Co., Ltd., Class H | 280,000   | 998,282      |
| Henderson Land Development Co., Ltd.        | 333,000   | 3,141,066    |
| Hongkong Land Holdings, Ltd.                | 985,000   | 4,865,900    |
| Hysan Development Co., Ltd.                 | 1,122,000 | 3,208,839    |
| Kerry Properties, Ltd.                      | 90,000    | 727,166      |
| New World China Land, Ltd.                  | 1,092,000 | 990,130      |
| Shenzhen Investment, Ltd.                   | 2,000,000 | 1,431,246    |
| Shimao Property Holdings, Ltd.              | 330,000   | 841,358      |
| Shun TAK Holdings, Ltd.                     | 585,000   | 919,807      |
| SPG Land Holdings Ltd (a)                   | 800,000   | 717,162      |
| The Wharf (Holdings) Ltd.                   | 120,000   | 629,441      |
|   |           | <hr/>        |
|   |           | 23,724,005   |
| <i>Hospitality 11.5%</i>                    |           |              |
| Regal Real Estate Investment Trust *        | 2,500,000 | 689,333      |
| Sun Hung Kai Properties, Ltd.               | 433,000   | 9,184,882    |
|   |           | <hr/>        |
|   |           | 9,874,215    |
| <i>Office 0.3%</i>                          |           |              |
| Champion Real Estate Investment Trust *     | 490,000   | 287,185      |
| <i>Retail 6.8%</i>                          |           |              |
| Hang Lung Properties, Ltd.                  | 1,174,000 | 5,450,381    |
| The Link REIT *                             | 190,000   | 412,291      |
|   |           | <hr/>        |
|   |           | 5,862,672    |
| <i>Total Hong Kong (Cost \$32,345,857)</i>  |           | 39,748,077   |
| <i>Japan 34.3%</i>                          |           |              |
| <i>Apartments 1.6%</i>                      |           |              |
| New City Residence Investment Corp. *       | 110       | 451,954      |
| Nippon Residential Investment Corp. *       | 210       | 947,411      |
|   |           | <hr/>        |
|   |           | 1,399,365    |

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

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|   |            |              |
|---|------------|--------------|
| <i>Diversified 26.5%</i>  |            |              |
| Aeon Mall Co., Ltd.   | 61,000     | \$ 1,610,795 |
| Mitsubishi Estate Co., Ltd.   | 506,000    | 12,206,687   |
| Mitsui Fudosan Co., Ltd.  | 220,000    | 4,785,391    |
| Shoei Co., Ltd.   | 76,960     | 1,042,300    |
| Sumitomo Realty & Development Co., Ltd.   | 125,000    | 3,093,810    |
|   |            | <hr/>        |
|   |            | 22,738,983   |
| <i>Office 6.2%</i>  |            |              |
| Japan Excellent, Inc. *   | 50         | 401,916      |
| Japan Real Estate Investment Corp. *  | 35         | 438,616      |
| Nippon Building Fund, Inc. *  | 210        | 2,951,260    |
| NTT Urban Development Corp.   | 950        | 1,539,184    |
|   |            | <hr/>        |
|   |            | 5,330,976    |
| <i>Total Japan (Cost \$39,293,371)</i>  |            | 29,469,324   |
| <i>Malaysia 3.3%</i>  |            |              |
| <i>Diversified 3.3%</i>   |            |              |
| KLCC Property Holdings Berhad   | 1,349,000  | 1,427,729    |
| SP Setia Berhad   | 924,000    | 1,391,448    |
|   |            | <hr/>        |
|   |            | 2,819,177    |
| <i>Total Malaysia (Cost \$3,139,244)</i>  |            | 2,819,177    |
| <i>Philippines 2.7%</i>   |            |              |
| <i>Diversified 2.7%</i>   |            |              |
| Filinvest Land, Inc.  | 20,500,000 | 675,469      |
| Megaworld Corp.   | 17,963,000 | 1,632,011    |
|   |            | <hr/>        |
|   |            | 2,307,480    |
| <i>Total Philippines (Cost \$2,518,367)</i>                                     |            | 2,307,480    |
| <i>Singapore 10.8%</i>  |            |              |
| <i>Diversified 10.8%</i>  |            |              |
| Allgreen Properties, Ltd.   | 1,965,000  | 2,034,006    |
| Ascendas India Trust  | 464,000    | 412,602      |
| Capitaland, Ltd.  | 360,000    | 1,568,099    |
| CDL Hospitality Trusts *  | 1,319,000  | 2,153,357    |
| City Developments, Ltd.   | 158,000    | 1,558,651    |
| Keppel Land, Ltd.   | 220,000    | 1,112,647    |
| Singapore Land, Ltd.  | 87,000     | 483,518      |
|   |            | <hr/>        |
|   |            | 9,322,880    |
| <i>Total Singapore (Cost \$10,251,230)</i>                                      |            | 9,322,880    |
| <i>See notes to financial statements and notes to portfolio of investments.</i> |            |              |

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|   |         |    |             |
|---|---------|----|-------------|
| <i>Total Common Stocks (Cost \$87,548,069)</i>                                      |         | \$ | 83,666,938  |
| <i>Warrants 3.8%</i>  |         |    |             |
| <i>India 3.8%</i>   |         |    |             |
| Ansal Properties & Infrastructure, Ltd., Macquarie Bank, Ltd., expiring 1/17/12 (a) | 93,000  |    | 1,002,540   |
| Unitech, Ltd., Macquarie Bank, Ltd., expiring 6/24/08 (a)                           | 180,000 |    | 2,233,800   |
| <i>Total India (Cost \$1,821,137)</i>   |         |    | 3,236,340   |
| <i>Total Warrants (Cost \$1,821,137)</i>  |         |    | 3,236,340   |
| <i>Rights 0.0%</i>  |         |    |             |
| <i>Hong Kong 0.0%</i>   |         |    |             |
| The Wharf (Holdings) Ltd., expiring 1/08/08 (a) (Cost \$0)                          | 15,000  |    | 20,584      |
| <i>Short-Term Investments 0.9%</i>  |         |    |             |
| <i>Other Investment Companies 0.9%</i>  |         |    |             |
| Dreyfus Cash Management, Institutional Shares, 4.85% (b) (Cost \$794,217)           | 794,217 |    | 794,217     |
| <i>Total Investments 102.0% (Cost \$90,163,423)</i>                                 |         |    | 87,718,079  |
| <i>Other assets less liabilities (2.0%)</i>   |         |    | (1,706,630) |
| <i>Net Assets 100%</i>  |         | \$ | 86,011,449  |
| Notes to Portfolio of Investments   |         |    |             |

\*

Company is organized as a real estate investment trust as defined by the laws of its country of domicile.

- (a) As of December 31, 2007, this security had not paid a distribution.
- (b) Rate reflects 7 day yield as of December 31, 2007.

*See notes to financial statements.*

**RMR Asia Real Estate Fund**  
**Financial Statements**

## Statement of Assets and Liabilities

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**December 31, 2007**


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*Assets*

|   |               |
|---|---------------|
| Investments in securities, at value (cost \$90,163,423) | \$ 87,718,079 |
| Cash  | 675           |
| Foreign currency, at value (cost \$14,079)              | 14,079        |
| Dividends and interest receivable                       | 109,343       |
|   | <hr/>         |
| Total assets  | 87,842,176    |
|   | <hr/>         |

*Liabilities*

|  |           |
|--|-----------|
| Distributions payable                  | 1,664,250 |
| Advisory fee payable                   | 56,061    |
| Accrued expenses and other liabilities | 110,416   |
|  | <hr/>     |
| Total liabilities                      | 1,830,727 |
|  | <hr/>     |

*Net assets*

|  |               |
|--|---------------|
|  | \$ 86,011,449 |
|  | <hr/>         |

*Composition of net assets*

|  |             |
|--|-------------|
| \$.001 par value per share; unlimited number of shares authorized, 4,755,000 shares issued and outstanding | \$ 4,755    |
| Additional paid-in capital   | 90,630,245  |
| Distributions in excess of net investment income   | (1,347,247) |
| Accumulated net realized loss on investment and foreign currency transactions                              | (831,685)   |
| Net unrealized depreciation on investments and foreign currency transactions                               | (2,444,619) |
|  | <hr/>       |

*Net assets*

|  |               |
|--|---------------|
|  | \$ 86,011,449 |
|  | <hr/>         |

*Net asset value per share (based on 4,755,000 common shares outstanding)*

|  |          |
|--|----------|
|  | \$ 18.09 |
|  | <hr/>    |

*See notes to financial statements.*

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## Statement of Operations

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**For the Period May 25, 2007(a) to December 31, 2007**


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*Investment Income*

|   |            |
|---|------------|
| Dividends (cash distributions received or due, net of foreign taxes withheld of \$42,380) | \$ 769,997 |
| Interest  | 122,310    |
|   | <hr/>      |
| Total investment income   | 892,307    |
|   | <hr/>      |

*Expenses*

|                                     |           |
|-------------------------------------|-----------|
| Advisory                            | 516,710   |
| Audit and legal                     | 82,740    |
| Custodian                           | 81,903    |
| Administrative                      | 63,793    |
| Shareholder reporting               | 32,235    |
| Compliance and internal audit       | 17,781    |
| Trustees' fees and expenses         | 16,129    |
| Other                               | 43,637    |
|                                     | <hr/>     |
| Total expenses                      | 854,928   |
| Less: expense waived by the Advisor | (129,177) |
|                                     | <hr/>     |
| Net expenses                        | 725,751   |
|                                     | <hr/>     |
| Net investment income               | 166,556   |
|                                     | <hr/>     |

*Realized and unrealized gain (loss) on investment and foreign currency transactions*

|   |                |
|---|----------------|
| Net realized loss on investments  | (705,999)      |
| Net realized gain on foreign currency transactions  | 24,761         |
| Net change in unrealized appreciation/(depreciation) on investments and foreign currency transactions | (2,444,619)    |
|   | <hr/>          |
| Net decrease in net assets resulting from operations  | \$ (2,959,301) |
|   | <hr/>          |

(a) Commencement of operations.

*See notes to financial statements.*

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Statement of Changes in Net Assets

|   | <b>For the Period<br/>May 25,<br/>2007(a) to<br/>December 31, 2007</b> |
|---|--|
| <i>Increase (decrease) in net assets resulting from operations</i>                                    |  |
| Net investment income   | \$ 166,556   |
| Net realized loss on investment and foreign currency transactions                                     | (681,238)  |
| Net change in unrealized appreciation/(depreciation) on investments and foreign currency transactions | (2,444,619)  |
|   | <hr/>  |
| Net decrease in net assets resulting from operations  | (2,959,301)  |
|   | <hr/>  |
| <i>Distributions to common shareholders from:</i>   |  |
| Net investment income   | (1,664,250)  |
| <i>Capital shares transactions</i>  |  |
| Net proceeds from sale of common shares   | 90,535,000   |
|   | <hr/>  |
| Net increase from capital transactions  | 90,535,000   |
|   | <hr/>  |
| Total increase in net assets  | 85,911,449   |
| <i>Net assets</i>   |  |
| Beginning of year   | 100,000  |
|   | <hr/>  |
| End of year (including distributions in excess of net investment income of \$(1,347,247))             | \$ 86,011,449  |
|   | <hr/>  |
| <i>Common shares issued and repurchased</i>   |  |
| Shares outstanding, beginning of year   | 5,000  |
| Shares issued   | 4,750,000  |
|   | <hr/>  |
| Shares outstanding, end of year   | 4,755,000  |
|   | <hr/>  |

(a) Commencement of operations.  
See notes to financial statements.

## RMR Asia Real Estate Fund Financial Highlights

Selected Data For A Common Share Outstanding Throughout Each Period

|  | <b>For the Period<br/>May 25,<br/>2007(a) to<br/>December 31,<br/>2007</b> |
|--|--|
| <i>Per Common Share Operating Performance (b)</i>                      |  |
| Net asset value, beginning of period                                   | \$ 19.06(c)  |
| <i>Income from Investment Operations</i>                               |  |
| Net investment income (d)  | .04  |
| Net realized and unrealized appreciation/(depreciation) on investments | (.62)  |
| Net decrease in net asset value from operations                        | (.58)  |
| Less: Distributions to common shareholders from:                       |  |
| Net investment income  | (.35)  |
| Common share offering costs charged to capital                         | (.04)  |
| Net asset value, end of period   | \$ 18.09   |
| Market price, beginning of period                                      | \$ 20.00   |
| Market price, end of period  | \$ 15.07   |
| <i>Total Return (e)</i>  |  |
| Total investment return based on:                                      |  |
| Market price (f)   | (22.91)%   |
| Net asset value (f)  | (3.24)%  |
| <i>Ratios/Supplemental Data:</i>                                       |  |
| Ratio to average net assets attributable to common shares of: (g)      |  |
| Net investment income (d)  | 0.32%  |
| Expenses, net of fee waivers   | 1.40%  |
| Expenses, before fee waivers   | 1.65%  |
| Portfolio Turnover Rate  | 16.99%   |
| Net assets attributable to common shares, end of period (000s)         | \$ 86,011  |

(a) Commencement of operations.

(b) Based on average shares outstanding.

(c) Net asset value at May 25, 2007, reflects the deduction of the average sales load and offering costs of \$0.94 per share paid by the holders of common shares from the \$20.00 offering price. We paid a sales load of \$0.90 per share on 4,750,000 common shares sold to the public.

(d) Amounts are net of expenses waived by RMR Advisors.

(e) Total returns for periods of less than one year are not annualized.

(f) 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 on the ex-dividend date. The total return based 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 on the ex-dividend date. Results represent past

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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.

(g)

Annualized.

*See notes to financial statements.*

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

**December 31, 2007**

**Note A**

(1) Organization

RMR Asia Real Estate Fund, or the Fund, was organized as a Massachusetts business trust on January 18, 2007, and is registered under the Investment Company Act of 1940, as amended, or the 1940 Act, as a non-diversified closed-end management investment company. The Fund had no operations prior to May 25, 2007, 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, 2007, the Fund sold 4,750,000 common shares in an initial public offering. Proceeds to the Fund were \$90,535,000 after deducting underwriting commissions and \$190,000 of offering expenses.

(2) 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.

(3) Portfolio Valuation

Investment securities of the Fund are valued at the latest sales price reflected on the consolidated tape of the exchange that reflects the principal market for such securities whenever that price is readily available on that day; securities for which no sales were reported on that day, unless otherwise noted, are valued at the last available bid price on that day. Any of the Fund's securities which are not readily marketable, which are not traded or which have other characteristics of illiquidity 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 type 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.

Some foreign markets close before the close of customary trading sessions on the American Stock Exchange or AMEX (normally 4:00 p.m. eastern time). Occasionally, events occur after the principal foreign exchange on which the foreign securities trade has closed but before the AMEX closes and the Fund determines net asset value, or NAV, that could affect the value of the securities the Fund owns or cause their prices to be unreliable. If these events are expected to materially affect the Fund's NAV, the prices of such securities will be adjusted to reflect their estimated fair value as of the close of the AMEX, as determined in good faith under procedures established by the Fund's board of trustees.

(4) 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.

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### (5) 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. However, the Fund may be subject to a 4% excise tax to the extent the Fund does not distribute substantially all taxable earnings.

Some Asian governments may subject the Fund's investment income and securities sales to withholding or other taxes. For the period ended December 31, 2007, \$42,380 of foreign taxes has been withheld from distributions to the Fund and has been recorded as a reduction of dividend income.

### (6) Distributable Earnings

The Fund earns income, net of expenses, daily on its investments. It is the policy of the Fund to make distributions of its income at least annually in amounts at least equal to the amount necessary to maintain its status as a registered investment company. On December 12, 2007, the Fund declared a special distribution of \$0.35 per common share that was paid on January 31, 2008. Distributions to 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. 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.

The Fund distinguishes between distributions to shareholders on a tax basis and a financial reporting basis. Only distributions in excess of accumulated tax basis earnings and profits are reported in the financial statements as a tax return of capital. Differences in the recognition or classification of income between the financial statements and tax earnings and profits which result in temporary over distributions for financial statement purposes are classified as distributions in excess of net investment income or accumulated net realized gains in the components of net assets on the Statement of Assets and Liabilities.

The tax character of distributions made by the Fund during the period ended December 31, 2007 was as follows:

|                 | <b>Period ended<br/>December 31,<br/>2007</b> |
|-----------------|---|
| Ordinary income | \$ 1,664,250                                  |

As of December 31, 2007, the components of distributable earnings on a federal income tax basis were as follows:

|                                      |    |             |
|--------------------------------------|----|-------------|
| Undistributed ordinary income        | \$ |             |
| Accumulated capital and other losses |    | (1,705,277) |
| Net unrealized depreciation          |    | (2,864,049) |

The differences between the financial reporting basis and tax basis of undistributed ordinary income and unrealized depreciation is due to the mark to market and adjustments to the Fund's investments in passive foreign investment companies.

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As of December 31, 2007, the Fund had a net capital loss carry forward for federal income tax purposes of \$831,685 all of which expires in the year 2015.

Under current tax law, certain capital net foreign currency losses and net passive foreign investment company mark to market losses realized after October 31 within the taxable year may be deferred and treated as occurring on the first day of the following tax year. For the tax period ended December 31, 2007, the Fund elected to defer net passive foreign investment company losses of \$873,592 arising between November 1, 2007 and December 31, 2007.

The cost, gross unrealized appreciation and unrealized depreciation of the Fund's investments for federal income tax purposes as of December 31, 2007, are as follows:

|  |    |              |
|--|----|--------------|
| Cost                                       | \$ | 90,582,853   |
|  |    | <hr/>        |
| Gross unrealized appreciation              | \$ | 9,490,802    |
| Gross unrealized depreciation              |    | (12,355,576) |
|  |    | <hr/>        |
| Net unrealized appreciation/(depreciation) | \$ | (2,864,774)  |
|  |    | <hr/>        |

### (7) Concentration of Risk

Under normal market conditions, the Fund's investments will be concentrated in common shares, preferred shares and debt securities, including convertible preferred and debt securities, issued by Asian 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 or in the Asian region due to economic, legal, regulatory, technological or other developments affecting the Asian real estate industry and securities market.

### (8) Foreign Securities Risk

As compared to U.S. securities, foreign securities may be issued by companies which provide less financial and other information, and which are subject to less developed and difficult to access legal systems, less stringent accounting, auditing and financial reporting standards or different governmental regulations. As compared to U.S. securities markets, foreign securities markets may have different settlement procedures, may have higher transaction costs, may be conducted in a less regulated manner, are generally smaller and may be less liquid and more volatile than securities markets in the U.S. The value of foreign securities may also decline or be unstable because of political, social or economic events or instability outside of the U.S.

### (9) Foreign Currency Transactions

The accounting records of the Fund are maintained in U.S. dollars. Portfolio securities and other assets and liabilities denominated in a foreign currency are translated daily into U.S. dollars at the prevailing rates of exchange. Purchases and sales of securities, income receipts and expense payments are translated into U.S. dollars at the prevailing exchange rates on the respective transaction dates.

The Fund does not isolate the portion of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in the market prices of investments. Such fluctuations are included in net realized and unrealized gain (loss) on investments. Net realized gain (loss) on foreign currency transactions represents net foreign currency gain (loss) from forward currency contracts, disposition of foreign currencies, currency gain (loss) realized between the trade and settlement dates on securities

transactions, and the difference between the amount of dividends, interest and foreign withholding taxes recorded on the Fund's accounting records and the U.S. dollar equivalent amounts actually received or paid. Net unrealized foreign currency appreciation/(depreciation) arises from changes in the value of assets and liabilities, other than investments in securities, as a result of changes in exchange rates.

(10) Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board, or FASB, issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109", or FIN 48. FIN 48 was effective for the fiscal years beginning after December 15, 2006. The Securities and Exchange Commission delayed the application of FIN 48 to open and closed end funds to not later than June 29, 2007. FIN 48 prescribes how the Fund should recognize, measure and present in the Fund's financial statements uncertain tax provisions that have been taken or expected to be taken in a tax return. Pursuant to FIN 48 the Fund can recognize a tax benefit only if it is "more likely than not" that a particular tax position will be sustained upon examination or audit. To the extent the "more likely than not" standard has been satisfied the benefits associated with a tax position is measured as the largest amount that is greater than 50% likely of being realized upon settlement. As required, the Fund has adopted FIN 48 effective June 29, 2007, and concluded that the effect is not material to its financial statements.

In September 2006, FASB issued Statement of Accounting Standards No. 157, "Fair Value Measurements", or SFAS 157, which is effective for fiscal years beginning after November 15, 2007. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands required disclosures about fair value measurements. Management has evaluated the application of the Statement to the Fund, and believes the impact will be limited to expanded financial statement disclosures.

## **Note B**

### **Advisory, Subadvisory 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, oversee the subadvisor and generally manage the business affairs of the Fund in accordance with its investment objectives and policies. Pursuant to the agreement, RMR Advisors is compensated at an annual rate of 1% of the Fund's average daily net assets.

RMR Advisors has contractually agreed to waive a portion of its annual fee equal to 0.25% of the Fund's average daily net assets until May 25, 2012. The Fund incurred net advisory fees of \$387,533 during the period ended December 31, 2007. The amount of fees waived by the Advisor was \$129,177 for the year ended December 31, 2007.

RMR Advisors has entered into a subadvisory agreement with MacarthurCook Investment Managers Ltd., or MacarthurCook, 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 the agreement, RMR Advisors, and not the Fund, will pay the subadvisor a monthly fee equal to an annual rate of 0.375% of the Fund's average daily net assets. MacarthurCook has agreed to waive a portion of the fee payable by RMR Advisors such that until May 25, 2012, the fee payable will be equal to 0.25% of the Fund's average daily net assets.

RMR Advisors, and not the Fund, paid, from its own assets, (i) an incentive fee to RBC Capital Markets Corporation, or RBC, for acting as bookrunning manager in connection with the offering in an amount equal to \$234,081 and (ii) an additional fee to Wachovia Capital Markets, LLC, or Wachovia, for advice relating to the structure, design and organization of the Fund as well as services related to the sale and distribution of the Fund's common shares in an amount equal to \$379,400. These fees were paid to RBC and Wachovia at the same time as the delivery of the common shares to the underwriters in the Fund's initial public offering.

RMR Advisors, and not the Fund, paid, from its own assets, Foreside Fund Services, LLC, or Foreside, a fee for its distribution assistance in an amount equal to \$344,081. Foreside provided distribution assistance by rendering wholesale marketing and marketing consulting services to RMR Advisors and the underwriters in connection with the Fund's 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 subadministration agreement with State Street Bank and Trust Company, or 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. The Fund reimbursed RMR Advisors for \$63,793 of subadministrative fees charged by State Street for the period ended December 31, 2007.

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 1940 Act is considered to be a "disinterested trustee". Disinterested trustees are each paid by the Fund an annual fee plus fees for board and committee meetings. The Fund incurred \$16,129 of trustee fees and expenses during the period ended December 31, 2007.

The Fund's board of trustees and separately the disinterested trustees authorized the Fund to make reimbursement payments to RMR Advisors for costs related to the Fund's compliance and internal audit programs. The Fund incurred \$17,781 of compliance and internal audit expense during the period ended December 31, 2007. The Fund also participates in pooled insurance programs with RMR Advisors and other funds managed by RMR Advisors and makes payments of allocated portions of related premiums. The Fund incurred \$12,320 of insurance expense during the period ended December 31, 2007.

## **Note C**

### **Securities Transactions**

During the period ended December 31, 2007, there were purchases and sales transactions (excluding short term securities) of \$104,899,878 and \$14,824,674 respectively. Brokerage commissions on securities transactions amounted to \$117,849 during the period ended December 31, 2007.

**Report of Independent Registered Public Accounting Firm**

*To the Board of Trustees and Shareholders of RMR Asia Real Estate Fund:*

We have audited the accompanying statement of assets and liabilities of RMR Asia Real Estate Fund (the "Fund"), including the portfolio of investments, as of December 31, 2007, and the related statements of operations, changes in net assets and the financial highlights for the period from May 25, 2007 (commencement of operations) to December 31, 2007. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2007, by correspondence with the custodian. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the RMR Asia Real Estate Fund at December 31, 2007, the results of its operations, changes in its net assets and the financial highlights for the period from May 25, 2007 (commencement of operations) to December 31, 2007, in conformity with U.S. generally accepted accounting principles.

Boston, Massachusetts  
February 21, 2008

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## **RMR Dividend Capture Fund**

**December 31, 2007**

*To our shareholders,*

In the pages that follow, you will find data summarizing our financial results for the period from December 18, 2007, the date we commenced operations, through December 31, 2007, and our financial position as of December 31, 2007.

We welcome our new investors to the RMR Dividend Capture Fund. We are delighted to have you as shareholders. We are also very excited about this new Fund. We believe now is a good time to take advantage of the dislocation in the marketplace to buy real estate investment trusts, or REITs, and closed end funds at very attractive prices.

REITs are currently trading close to a 20% discount to estimated net asset value, or NAV, compared to historically trading at a 4% premium to estimated NAV. Closed end funds are also trading at deep discounts to NAV (in the range of 6-8%) compared to historically trading at a 3% discount. The Fund's focus will be to take advantage of these low valuations to deliver an attractive dividend yield and to realize the opportunity for capital appreciation as REITs and closed end funds eventually return to historical average trading levels.

We successfully launched the RMR Dividend Capture Fund on December 18, 2007 and by year-end we had 50% of the money raised in the IPO invested. The rest of the proceeds were invested in early January 2008.

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

Our primary investment objective is to earn and pay to our common shareholders a high current dividend income by investing in REITs and closed end funds. Our secondary objective is capital appreciation. There can be no assurance that we will achieve our investment objectives.

During the period December 18, 2007, through December 31, 2007, our total return on NAV (including NAV changes and assuming a hypothetical reinvestment of distributions at NAV), was negative 2.2%. During that same period, the total return for the MSCI US REIT Total Return Index (an unmanaged index of REIT common stocks) was 1.8%. We believe this index is relevant to us because our investments, excluding short term investments, as of December 31, 2007, included 69% REIT common stocks. The S&P 500 Index (an unmanaged index published as Standard and Poor's Composite Index of 500 common stocks) total return for the year ended December 31, 2007 was 1.0%.

### ***Recent Developments***

As I am writing this letter, turmoil in the credit markets is becoming a concern for our Fund. Our business plan anticipates using leverage by using auction rate preferred securities to generate increased dividends for our common shareholders. At present, auction rate preferred securities are currently experiencing a liquidity crisis. We have issued \$10 million of auction rate preferred securities which we believe are well protected by asset coverage. However, the spill over impact from auction rate securities issued by others may make it more

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expensive for us to remarket our auction rate securities or cause us to substitute our preferred share with a less attractive form of leverage. If we are required to pay increased dividends or use less desirable leverage, the level of dividends which we previously anticipated paying common shareholders may decline.

Thank you for your continued support. For more information, please view our website at [www.rmrfunds.com](http://www.rmrfunds.com).

Sincerely,

Adam D. Portnoy  
President  
February 20, 2008

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**Portfolio holdings by sub-sector as a percentage of investments (as of December 31, 2007)\***

|                            |       |
|----------------------------|-------|
| Investment companies       | 24%   |
| Hospitality real estate    | 19%   |
| Office real estate         | 13%   |
| Others, less than 10% each | 21%   |
| Short term investments     | 23%   |
|                            | <hr/> |
| Total investments          | 100%  |
|                            | <hr/> |
| REITs                      | 53%   |
| Investment companies       | 24%   |
| Short term investments     | 23%   |
|                            | <hr/> |
| Total investments          | 100%  |
|                            | <hr/> |

\*

These percentages represent the Fund's portfolio holdings by sub-sector as a percentage of total portfolio holdings and do not match with the percentages included in the Portfolio of Investments schedule which represent the Fund's portfolio holdings by sub-sector as a percentage of the Fund's net assets.

**RMR Dividend Capture Fund****Portfolio of Investments** December 31, 2007

| Company  | Shares  | Value      |
|--|---------|------------|
| <hr/>  |         |            |
| <i>Common Stocks 60.0%</i>                                     |         |            |
| <i>Real Estate Investment Trusts 60.0%</i>                     |         |            |
| <i>Apartments 2.5%</i>   |         |            |
| Apartment Investment & Management Co.                          | 16,600  | \$ 576,518 |
| <i>Diversified 8.1%</i>  |         |            |
| CapLease, Inc.   | 123,725 | 1,041,764  |
| Lexington Corporate Properties Trust                           | 10,883  | 158,239    |
| Liberty Property Trust   | 24,600  | 708,726    |
|  |         | <hr/>      |
|  |         | 1,908,729  |
| <i>Hospitality 22.0%</i>                                       |         |            |
| Ashford Hospitality Trust, Inc.                                | 128,430 | 923,412    |
| Entertainment Properties Trust                                 | 15,200  | 714,400    |
| FelCor Lodging Trust, Inc.                                     | 45,945  | 716,282    |
| Hersha Hospitality Trust                                       | 75,370  | 716,015    |
| Host Hotels & Resorts, Inc.                                    | 41,500  | 707,160    |
| LaSalle Hotel Properties                                       | 20,500  | 653,950    |
| Sunstone Hotel Investors, Inc.                                 | 39,640  | 725,016    |
|  |         | <hr/>      |
|  |         | 5,156,235  |
| <i>Industrial 7.3%</i>   |         |            |
| DCT Industrial Trust, Inc.                                     | 80,080  | 745,545    |
| First Industrial Realty Trust, Inc.                            | 27,730  | 959,458    |
|  |         | <hr/>      |
|  |         | 1,705,003  |
| <i>Office 15.0%</i>  |         |            |
| American Financial Realty Trust                                | 102,900 | 825,258    |
| Boston Properties, Inc.  | 11,312  | 1,038,554  |
| Brandywine Realty Trust  | 41,430  | 742,840    |
| Mack-Cali Realty Corp.   | 26,375  | 896,750    |
|  |         | <hr/>      |
|  |         | 3,503,402  |
| <i>Retail 3.1%</i>   |         |            |
| CBL & Associates Properties, Inc.                              | 30,481  | 728,801    |
| <i>Storage 2.0%</i>  |         |            |
| U-Store-It Trust   | 51,800  | 474,488    |
| <i>Total Real Estate Investment Trusts (Cost \$14,774,408)</i> |         | 14,053,176 |
| <i>Total Common Stocks (Cost \$14,774,408)</i>                 |         | 14,053,176 |
| <i>See notes to financial statements.</i>                      |         |            |

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| Company   | Shares    | Value         |
|---|-----------|---------------|
| <i>Other Investment Companies 27.1%</i>                                     |           |               |
| Blackrock Enhanced Dividend Achievers Trust                                 | 25,700    | \$ 291,695    |
| Blackrock Preferred and Equity Advantage Trust                              | 15,800    | 270,496       |
| Cohen & Steers Advantage Income Realty Fund, Inc.                           | 33,000    | 483,450       |
| Cohen & Steers Premium Income Realty Fund, Inc.                             | 47,376    | 696,901       |
| Cohen & Steers REIT and Preferred Income Fund, Inc.                         | 39,000    | 737,100       |
| DWS Dreman Value Income Edge Fund, Inc.                                     | 54,700    | 754,313       |
| DWS RREEF Real Estate Fund II, Inc.   | 60,100    | 775,290       |
| Eaton Vance Enhanced Equity Income Fund                                     | 21,950    | 398,832       |
| ING Global Equity Dividend & Premium Opportunity Fund                       | 4,800     | 79,392        |
| LMP Real Estate Income Fund, Inc.   | 23,349    | 339,027       |
| Nicholas-Applegate Convertible & Income Fund II                             | 33,300    | 409,257       |
| Nuveen Real Estate Income Fund  | 14,500    | 231,565       |
| Pioneer Floating Rate Trust   | 31,100    | 492,313       |
| The Zweig Total Return Fund, Inc.   | 84,877    | 384,493       |
| <i>Total Other Investment Companies (Cost \$6,480,937)</i>                  |           | 6,344,124     |
| <i>Short-Term Investments 26.4%</i>   |           |               |
| <i>Other Investment Companies 26.4%</i>                                     |           |               |
| Dreyfus Cash Management, Institutional Shares, 4.85% (a) (Cost \$6,199,000) | 6,199,000 | 6,199,000     |
| Total Investments 113.5% (Cost \$27,454,345)                                |           | 26,596,300    |
| Other assets less liabilities (13.5)%                                       |           | (3,154,052)   |
| Net Assets 100%   |           | \$ 23,442,248 |
| Notes to Portfolio of Investments   |           |               |
| (a) Rate reflects 7 day yield as of December 31, 2007.                      |           |               |
| <i>See notes to financial statements.</i>                                   |           |               |

**RMR Dividend Capture Fund**  
**Financial Statements**

## Statement of Assets and Liabilities

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**December 31, 2007**


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*Assets*

|   |               |
|---|---------------|
| Investments in securities, at value (cost \$27,454,345) | \$ 26,596,300 |
| Cash  | 1,301,667     |
| Dividends and interest receivable                       | 424,252       |
| Receivable for securities sold                          | 740           |
|   | <hr/>         |
| Total assets  | 28,322,959    |
|   | <hr/>         |

*Liabilities*

|   |           |
|---|-----------|
| Payable for investment securities purchased | 4,752,542 |
| Advisory fee payable                        | 7,853     |
| Accrued expenses and other liabilities      | 120,316   |
|   | <hr/>     |
| Total liabilities                           | 4,880,711 |
|   | <hr/>     |

*Net assets*

|  |               |
|--|---------------|
|  | \$ 23,442,248 |
|  | <hr/>         |

*Composition of net assets*

|  |            |
|--|------------|
| \$.001 par value per share;                              |            |
| unlimited number of shares authorized,                   |            |
| 1,255,000 shares issued and outstanding                  | \$ 1,255   |
| Additional paid-in capital                               | 23,960,745 |
| Undistributed net investment income                      | 251,148    |
| Accumulated net realized gain on investment transactions | 87,145     |
| Net unrealized depreciation on investments               | (858,045)  |
|  | <hr/>      |

*Net assets*

|  |               |
|--|---------------|
|  | \$ 23,442,248 |
|  | <hr/>         |

*Net asset value per share**(based on 1,255,000 common shares outstanding)*

|  |          |
|--|----------|
|  | \$ 18.68 |
|  | <hr/>    |

*See notes to financial statements.*

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**RMR Dividend Capture Fund**  
**Financial Statements** continued

## Statement of Operations

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**For the Period December 18, 2007(a) to December 31, 2007**

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*Investment Income*

|  |            |
|--|------------|
| Dividends (Cash distributions, net of capital gain (\$87,143) and return of capital (\$15,792) distributions, received or due) | \$ 293,389 |
| Interest   | 27,928     |
|  | <hr/>      |
| Total investment income  | 321,317    |
|  | <hr/>      |

*Expenses*

|                             |        |
|-----------------------------|--------|
| Audit and legal             | 41,400 |
| Excise Tax                  | 10,000 |
| Advisory                    | 7,853  |
| Administrative              | 7,500  |
| Shareholder reporting       | 5,000  |
| Custodian                   | 3,667  |
| Trustees' fees and expenses | 1,750  |
| Other                       | 2,999  |
|                             | <hr/>  |

|                |        |
|----------------|--------|
| Total expenses | 80,169 |
|                | <hr/>  |

|                       |         |
|-----------------------|---------|
| Net investment income | 241,148 |
|                       | <hr/>   |

*Realized and unrealized gain (loss) on investments*

|   |           |
|---|-----------|
| Net realized gain on investments                                    | 87,145    |
| Net change in unrealized appreciation/(depreciation) on investments | (858,045) |
|   | <hr/>     |

|   |           |
|---|-----------|
| Net realized and unrealized loss on investments | (770,900) |
|   | <hr/>     |

|  |              |
|--|--------------|
| Net decrease in net assets resulting from operations | \$ (529,752) |
|  | <hr/>        |

*(a) Commencement of operations.**See notes to financial statements.*

**RMR Dividend Capture Fund**  
**Financial Statements** continued

## Statement of Changes in Net Assets

|  | <b>For the Period<br/>December 18,<br/>2007(a) to<br/>December 31,<br/>2007</b> |
|--|---|
| <hr/>  |   |
| <i>Increase (decrease) in net assets resulting from operations</i>         |   |
| Net investment income  | \$ 241,148  |
| Net realized gain on investments   | 87,145  |
| Net change in unrealized appreciation/(depreciation) on investments        | (858,045)   |
|  | <hr/>   |
| Net decrease in net assets resulting from operations                       | (529,752)   |
|  | <hr/>   |
| <i>Capital shares transactions</i>   |   |
| Net proceeds from sale of common shares                                    | 23,872,000  |
|  | <hr/>   |
| Net increase from capital transactions                                     | 23,872,000  |
|  | <hr/>   |
| Total increase in net assets   | 23,342,248  |
| <i>Net assets</i>  |   |
| Beginning of period  | 100,000   |
|  | <hr/>   |
| End of period (including undistributed net investment income of \$251,148) | \$ 23,442,248   |
|  | <hr/>   |
| <i>Common shares</i>   |   |
| Shares outstanding, beginning of period                                    | 5,000   |
| Shares issued  | 1,250,000   |
|  | <hr/>   |
| Shares outstanding, end of period  | 1,255,000   |
|  | <hr/>   |

(a) Commencement of operations.  
See notes to financial statements.

## RMR Dividend Capture Fund

### Financial Highlights

Selected Data For A Common Share Outstanding Throughout Each Period

|  | <b>For the Period<br/>December 18,<br/>2007(a) to<br/>December 31,<br/>2007</b> |
|--|---|
| <i>Per Common Share Operating Performance</i>                          |   |
| Net asset value, beginning of period                                   | 19.14(b)  |
| <i>Income from Investment Operations</i>                               |   |
| Net investment income (c)  | .19   |
| Net realized and unrealized appreciation/(depreciation) on investments | (.61)   |
| Net decrease in net asset value from operations                        | (.42)   |
| Common share offering costs charged to capital                         | (.04)   |
| Net asset value, end of period   | \$ 18.68  |
| Market price, beginning of period                                      | \$ 20.00  |
| Market price, end of period  | \$ 20.00  |
| <i>Total Return (d)</i>  |   |
| Total investment return based on:                                      |   |
| Market price (e)   | 0.00%   |
| Net asset value (e)  | (2.20)%   |
| <i>Ratios/Supplemental Data:</i>                                       |   |
| Ratio to average net assets attributable to common shares (f) of:      |   |
| Net investment income  | 30.71%  |
| Expenses   | 10.21%  |
| Portfolio Turnover Rate  | 0.00%   |
| Net assets attributable to common shares, end of period (000s)         | \$ 23,442   |

(a) Commencement of operations.

(b) Net asset value at December 12, 2007, reflects the deduction of the average sales load and offering costs of \$0.90 per share paid by the holders of common shares from the \$20.00 offering price. We paid a sales load of \$0.94 per share on 1,200,000 shares sold to the public and no sales load or offering costs on 50,000 common shares sold to affiliates of the RMR Advisors for \$20.00 per share.

(c) As discussed in Note A (6) to the financial statements, these amounts are subject to change to the extent 2007 distributions by the issuers of the Fund's investments are characterized as capital gains and return of capital.

(d) Total returns for periods of less than one year are not annualized.

(e) 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 on the ex-dividend date. The total return based 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 on the ex-dividend date. Results represent past performance and do not guarantee future results

(f) Annualized.

*See notes to financial statements.*

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

**December 31, 2007**

**Note A**

(1) Organization

RMR Dividend Capture Fund, or the Fund, was organized as a Massachusetts business trust on June 14, 2007, 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, 2007, 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 December 18, 2007, the Fund sold 1,250,000 common shares in an initial public offering including 50,000 shares sold to affiliates of RMR Advisors. Proceeds to the Fund were \$23,872,000 after deducting underwriting commissions and \$48,000 of offering expenses. There was no underwriting commission or offering expenses paid on shares sold to the affiliates of RMR Advisors.

(2) 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.

(3) Portfolio Valuation

Investment securities of the Fund are valued at the latest sales price whenever that price is readily available on that day; 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 4:00:02 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. 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 or which have other characteristics of illiquidity 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 type 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.

(4) 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 identified cost basis.

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### (5) Federal 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. However, the Fund may be subject to a 4% excise tax to the extent the Fund does not distribute substantially all taxable earnings.

### (6) Distributable Earnings

The Fund earns income, net of expenses, daily on its investments. The Fund intends to pay a stable distribution amount to common shareholders on a monthly basis and distributions to Fund shareholders will be declared pursuant to this policy. Distributions to 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. 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.

The Fund has substantial investments in real estate investment trusts, or REITs, which are generally not subject to federal income taxes. Distributions that the Fund receives from REITs can be classified as ordinary income, capital gain income or return of capital by the REITs that make these distributions to the Fund. The Fund has excluded from its investment income the portions of the distributions received from REITs classified by those REITs as capital gain income and return of capital. The Fund has included in its "net realized gain on investments" that portion of the distributions received from REITs that is classified by those REITs as capital gain income. Similarly, the Fund has credited its "net change in unrealized appreciation on investments" with that portion of the distributions received from REITs that is classified by those REITs as return of capital. The classification of distributions received from the Fund's investments were as follows:

|                              | <b>Period Ended<br/>December 31,<br/>2007</b> |
|------------------------------|---|
| Ordinary income              | \$ 239,389                                    |
| Capital gain income          | 87,143  |
| Return of capital            | 15,792  |
| Total distributions received | <u>\$ 342,324</u>                             |

As of December 31, 2007, the components of distributable earnings on a federal income tax basis were as follows:

|  |            |
|--|------------|
| Undistributed ordinary income              | \$ 251,150 |
| Undistributed net long-term capital gains  | 87,143     |
| Net unrealized appreciation/(depreciation) | (858,045)  |

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The cost of investments for federal income tax purposes, gross unrealized appreciation and unrealized depreciation as of December 31, 2007, are as follows:

|                               |               |
|-------------------------------|---------------|
| Cost                          | \$ 27,454,345 |
| Gross unrealized appreciation | \$ 24,405     |
| Gross unrealized depreciation | (882,450)     |
| Net unrealized depreciation   | \$ (858,045)  |

### (7) Concentration of Risk

Under normal market conditions, the Fund's investments will be 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.

### (8) Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board, or FASB, issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109", or FIN 48. FIN 48 was effective for the fiscal years beginning after December 15, 2006. The Securities and Exchange Commission delayed the application of FIN 48 to open and closed end funds to not later than June 29, 2007. FIN 48 prescribes how the Fund should recognize, measure and present in the Fund's financial statements uncertain tax provisions that have been taken or expected to be taken in a tax return. Pursuant to FIN 48 the Fund can recognize a tax benefit only if it is "more likely than not" that a particular tax position will be sustained upon examination or audit. To the extent the "more likely than not" standard has been satisfied the benefits associated with a tax position is measured as the largest amount that is greater than 50% likely of being realized upon settlement. As required, the Fund has adopted FIN 48 effective June 29, 2007, and concluded that the effect is not material to its financial statements.

In September 2006, FASB issued Statement of Accounting Standards No. 157, "Fair Value Measurements", or SFAS 157, which is effective for fiscal years beginning after November 15, 2007. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands required disclosures about fair value measurements. Management has evaluated the application of the Statement to the Fund, and believes the impact will be limited to expanded financial statement disclosures.

## 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 the agreement, RMR Advisors is compensated at an annual rate of 1% 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, the liquidation preference of preferred shares are not considered liabilities.

RMR Advisors, and not the Fund, paid, from its own assets, an incentive fee to RBC Capital Markets Corporation, or RBC, for acting as bookrunning manager in connection with the offering in an amount equal to \$240,000. This fee was paid to RBC at the same time as the delivery of the common shares to the underwriters in the Fund's initial public offering.

RMR Advisors, and not the Fund, paid, from its own assets, Foreside Fund Services, LLC, or Foreside, a fee for its distribution assistance in an amount equal to \$176,000. Foreside provided distribution assistance by rendering wholesale marketing and marketing consulting services to RMR Advisors and the underwriters in connection with the Fund's 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 subadministration agreement with State Street Bank and Trust Company, or 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. The Fund reimbursed RMR Advisors for \$7,500 of subadministrative fees charged by State Street for the period ended December 31, 2007.

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, is considered to be a "disinterested trustee". Disinterested trustees are each paid by the Fund an annual fee plus fees for board and committee meetings. The Fund incurred \$1,750 of trustee fees and expenses during the period ended December 31, 2007.

The Fund's board of trustees and separately the disinterested trustees authorized the Fund to make reimbursement payments to RMR Advisors for costs related to the Fund's compliance and internal audit programs. The Fund incurred \$0 of compliance and internal audit expense during the period ended December 31, 2007. The Fund also participates in pooled insurance programs with RMR Advisors and other funds managed by RMR Advisors and makes payments of allocated portions of related premiums. The Fund incurred \$500 of insurance expense during the period ended December 31, 2007.

## **Note C**

### **Securities Transactions**

During the period ended December 31, 2007, there were purchases and sales transactions (excluding short term securities) of \$21,271,875 and \$740, respectively. Brokerage commissions on securities transactions amounted to \$42,129 during the period ended December 31, 2007.

## **Note D**

### **Subsequent Event (Preferred Shares)**

The Fund issued 400 Series F preferred shares with liquidation preference of \$25,000 per share on February 6, 2008. 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 1940 Act, of at least 200%, the preferred shares will be subject to redemption in 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 set at 4.00% per annum and payable on February 19, 2008.

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**Report of Independent Registered Public Accounting Firm**

*To the Board of Trustees and Shareholders  
of RMR Dividend Capture Fund:*

We have audited the accompanying statement of assets and liabilities of RMR Dividend Capture Fund (the "Fund"), including the portfolio of investments, as of December 31, 2007, and the related statements of operations, changes in net assets and the financial highlights for the period from December 18, 2007 (commencement of operations) to December 31, 2007. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2007, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the RMR Dividend Capture Fund at December 31, 2007, the results of its operations, changes in its net assets and the financial highlights for the period from December 18, 2007 (commencement of operations) to December 31, 2007, in conformity with U.S. generally accepted accounting principles.

Boston, Massachusetts  
February 21, 2008

**RMR Real Estate Fund**  
**RMR Hospitality and Real Estate Fund**  
**RMR F.I.R.E. Fund**  
**RMR Preferred Dividend Fund**  
**RMR Asia Pacific Real Estate Fund**  
**RMR Asia Real Estate Fund**  
**RMR Dividend Capture Fund**  
**December 31, 2007 (unaudited)**

For the purposes of the following, RMR Real Estate Fund (RMR), RMR Hospitality and Real Estate Fund (RHR), RMR F.I.R.E. Fund (RFR), RMR Preferred Dividend Fund (RDR), RMR Asia Pacific Real Estate Fund (RAP) and RMR Dividend Capture Fund (RCR) are each referred to as a "Trust" or collectively as the "Trusts".

**Consideration of the Investment Advisory Agreements for RMR, RHR, RFR, RDR and RAP**

RMR Advisors serves as the investment advisor to each of RMR, RHR, RFR, RDR and RAP and MacarthurCook Investment Managers Limited ("MacarthurCook") serves as the sub-advisor to RAP. On October 11, 2007, the boards of trustees (each a "board and collectively the "boards") of each Trust renewed these investment advisory agreements and investment sub-advisory agreement for a period of one year to expire on December 12, 2008.

**Investment Advisory Agreements.** In making their determination to renew each investment advisory agreement, each board, including the disinterested trustees, considered all of the factors described below.

Each board considered the benefits of retaining RMR Advisors as investment advisor. Each board's considerations included, among others: the nature, scope and quality of services that RMR Advisors has provided and is expected to provide; the advisory and other fees to be paid; the fact that RMR Advisors has agreed to waive a portion of its fees during the first five years of each of the Trust's existence in order to reduce the Trust's operating expenses; the quality and depth of personnel of RMR Advisors' organization; the capacity and future commitment of RMR Advisors to perform its duties; the financial condition and profitability of RMR Advisors; the experience and expertise of RMR Advisors as an investment advisor; the performance of each Trust as compared to similar funds; the level of fees paid to RMR Advisors as compared to similar funds; the potential for economies of scale; and any indirect benefits derived by RMR Advisors from its relationship with the Trusts.

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. RMR Advisors' role in coordinating and supervising the other service providers for the Trusts was also considered. The board also discussed RMR Advisors' effectiveness in monitoring the performance of MacarthurCook with respect to RAP.

Each board compared the advisory fees and the total expense ratio of each Trust with various comparative fund data. In addition to considering each Trust's recent performance, each board noted it reviews on a quarterly basis, information about each Trust's performance result, portfolio composition and investment strategies.

Each board considered the potential economies of scale that may be realized by the Trusts if the assets of the fund complex grow, noting that shareholders potentially might benefit from lower operating expenses as a result of certain of the Trusts' fixed expenses being spread over an increasing amount of assets.

In considering the profitability of RMR Advisors, the board noted that RMR Advisors has waived a portion of its advisory fee since each Trust's inception in order to reduce such Trust's operating expenses. The board considered, among other data, the profitability of RMR Advisors' relationship with each Trust in terms of the total amount of annual advisory fees it received with respect to the Trust and whether RMR Advisors had the financial wherewithal to continue to provide a high level of services to the Trusts.

In considering the renewal of the investment advisory agreement, each board, including the disinterested trustees, did not identify any single factor as controlling. Based on each board's evaluation of all the 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 investment advisory agreement for each Trust; RMR Advisors maintains an appropriate compliance program; performance of each Trust is reasonable in relation to the performance of funds with similar investment objectives; and the advisory fee rate for each Trust is fair and reasonable given the scope and quality of the services to be provided by RMR Advisors.

**Investment Sub-Advisory Agreement.** In making its determination to approve the RAP investment sub-advisory agreement, the board, including the disinterested trustees, considered all of the factors described below.

The board considered the benefits to RAP shareholders of retaining MacarthurCook as investment sub-advisor. The board's considerations included, among others: the nature, scope and quality of services that MacarthurCook has provided and is expected to provide; the sub-advisory fees to be paid by RMR Advisors to MacarthurCook; the fact that MacarthurCook has agreed to waive a portion of its fee during the first five years of RAP's existence; the quality and depth of personnel of MacarthurCook's organization; the capacity and future commitment of MacarthurCook to perform its duties; and the experience and expertise of MacarthurCook as an investment sub-advisor.

The board considered the level and depth of knowledge of MacarthurCook, noting that MacarthurCook specialized in the area of real estate investment management. In evaluating the quality of services provided by MacarthurCook, the board took into account its familiarity with MacarthurCook's management through board meetings, conversations and reports. The board also took into account MacarthurCook's compliance policies and procedures.

The board compared the advisory expense which includes the sub-advisory fees and the total expense ratio of RAP with various comparative fund data. In addition to considering RAP's recent performance, the RAP board noted it receives on a quarterly basis, information about RAP's performance result, portfolio composition and investment strategies.

The board noted that sub-advisory fees under the investment sub-advisory agreement were paid by RMR Advisors and not by RAP and were the product of arm's-length negotiations between RMR Advisors and MacarthurCook. For these reasons, the profitability to MacarthurCook from its relationship with RAP was not a material factor in the board's deliberations. For similar reasons, the board did not consider the potential economies of scale in MacarthurCook's management of RAP to be a material factor in its consideration.

In considering the renewal of the investment sub-advisory agreement, the RAP board, including the disinterested trustees, did not identify any single factor as controlling. Based on the board's evaluation of all the factors that it deemed to be relevant, the board, including the disinterested trustees of the board, concluded that: MacarthurCook has demonstrated that it possesses the capability and resources to perform the



duties required of it under the investment sub-advisory agreement; MacarthurCook maintains an appropriate compliance program; performance of RAP is reasonable in comparison to the performance of funds with similar investment objectives; and the sub-advisory fee rate is fair and reasonable given the scope and quality of the services to be rendered by MacarthurCook.

#### **Consideration of the Investment Advisory Agreement for RCR**

RMR Advisors serves as the investment advisor to RCR. On July 12, 2007, the RCR board of trustees (the "board") entered into an investment advisory agreement for a period of two years to expire on July 11, 2009.

**Investment Advisory Agreement.** In making its determination to approve the RCR investment advisory agreement, the board, including the disinterested trustees, considered all of the factors described below.

The board's considerations included, among others: the nature, scope and quality of services that RMR Advisors was expected to provide to RCR; the advisory and other fees to be paid; the quality and depth of personnel of RMR Advisors' organization; the capacity and future commitment of RMR Advisors to perform its duties; the financial condition and anticipated profitability of RMR Advisors; the experience and expertise of RMR Advisors as an investment advisor; the level of fees to be paid to RMR Advisors as compared to similar funds; the potential for economies of scale; and any indirect benefits expected to be derived by RMR Advisors' relationship with RCR.

The board considered the level and depth of knowledge of RMR Advisors. In evaluating the quality of services to be provided by RMR Advisors, the board took into account its familiarity with RMR Advisors' management through board meetings, conversations and reports of other funds managed by RMR Advisors. The board also considered the historical performance of the other funds managed by RMR Advisors. The board also took into account RMR Advisors' compliance policies and procedures.

The board compared the proposed advisory fees and the estimated total expense ratio of RCR with various comparative fund data. The board considered RCR's investment objective. The board also considered the RCR's model portfolio composition and investment strategy. RMR Advisors' role in coordinating and supervising the service providers for other funds was also considered.

The board considered the potential economies of scale that may be realized if the assets of the fund complex grow, noting that shareholders potentially might benefit from lower operating expenses as a result of certain of the Fund complex's expenses being spread over an increasing amount of assets.

The board reviewed the anticipated profitability of RMR Advisors' relationship with RCR in terms of the total amount of advisory fees it would receive with respect to RCR and whether RMR Advisors had the financial wherewithal to provide a high level of services to RCR.

In considering the approval of the investment advisory agreement, the board, including the disinterested trustees, did not identify any single factor as controlling. Based on the board's evaluation of all the factors that it deemed to be relevant, the board, including the disinterested trustees of the board, concluded that: RMR Advisors has demonstrated that it possesses the capability and resources to perform the duties required of it under the investment advisory agreement for the Fund; RMR Advisors maintains an appropriate compliance program; and the proposed advisory fee rate is fair and reasonable given the scope and quality of the services to be rendered by RMR Advisors.

#### **Privacy Notice**

Each Fund advised by RMR Advisors, Inc. recognizes and respects the privacy concerns of its shareholders. The Funds do not sell your name or other information about you to anyone. The Funds collect nonpublic personal information about you in the course of doing business with shareholders and investors. "Nonpublic

personal information" is personally identifiable financial information about you. For example, it includes information regarding your social security number, account balance, bank account information and purchase and redemption history.

**The Funds collect this information from the following sources:**

Information we receive from you on applications or other forms;

Information about your transactions with us and our service providers, or others; and

Information we receive from consumer reporting agencies (including credit bureaus).

**What the Funds disclose and to whom the Funds disclose information.**

The Funds only disclose nonpublic personal information the Funds collect about shareholders as permitted by law. For example, the Funds may disclose nonpublic personal information about shareholders to nonaffiliated third parties such as:

To government entities, in response to subpoenas or to comply with laws or regulations.

When you, the shareholder, direct the Funds to do so or consent to the disclosure.

To companies that perform necessary services for the Funds, such as data processing companies that the Funds use to process your transactions or maintain your account.

To protect against fraud, or to collect unpaid debts.

In connection with disputes or litigation between the Funds and the concerned shareholders.

**Information about former shareholders.**

If you decide to close your account(s) or become an inactive customer, we will adhere to the privacy policies and practices described in this notice.

**How the Funds safeguard information.**

The Funds conduct their business through directors, officers and third parties that provide services pursuant to agreements with the Funds (for example, the service providers described above). The Funds do not have any employees. The Funds restrict access to your personal and account information to those persons who need to know that information in order to provide services to you. The Funds or their service providers maintain physical, electronic and procedural safeguards that comply with federal standards to guard your nonpublic personal information.

**Customers of other financial institutions.**

In the event that you hold shares of the Funds through a financial intermediary, including, but not limited to, a broker-dealer, bank or trust company, the privacy policy of your financial intermediary will govern how your non-public personal information will be shared with non-affiliated third parties by that entity.

**Proxy Voting Policies and Procedures**

A description of the policies and procedures that are used to vote proxies relating to each Fund's portfolio securities is available: (1) without charge, upon request, by calling us at (866)790-8165; and (2) as an exhibit to each Fund's annual report on Form N-CSR, which is available on

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the website of the U.S. Securities and Exchange Commission (the "Commission") at <http://www.sec.gov>. Information regarding how proxies received

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by each Fund during the most recent 12 month period ended June 30, 2007, have been voted is available (1) without charge, on request, by calling us at (866)790-3165, or (2) by visiting the Commission's website at <http://www.sec.gov> and accessing each Fund's Form N-PX.

### 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).

### Certifications

Each Fund's principal executive officer and principal financial officer certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 and filed with the Fund's N-CSR are available on the Commission's website at <http://www.sec.gov>.

### Required Disclosure of Certain Federal Income Tax Information (unaudited)

For federal income tax purposes, the following information is furnished with respect to the distributions paid by the Funds during the year ended December 31, 2007.

|                                      | <b>Dividend Received<br/>Deduction (1)</b> | <b>Long Term<br/>Capital<br/>Gains Distribution</b> | <b>Qualified Income<br/>Distribution</b> |
|--------------------------------------|--|---|--|
| RMR Real Estate Fund                 | 38.20%                                     | \$ 9,580,075  | \$ 2,157,215                             |
| RMR Hospitality and Real Estate Fund | 67.34%                                     | \$ 6,219,047  | \$ 1,396,717                             |
| RMR F.I.R.E. Fund                    | 56.45%                                     | \$ 1,343,806  | \$ 1,153,711                             |
| RMR Preferred Dividend Fund          | 48.18%                                     | \$ 58,133   | \$ 1,388,997                             |
| RMR Asia Pacific Real Estate Fund    | N/A  | \$ 1,470,088  | \$ 152,164                               |
| RMR Asia Real Estate Fund            | N/A  | N/A   | \$ 56,653                                |
| RMR Dividend Capture Fund            | N/A  | N/A   | \$ 1,350                                 |

|                                   | <b>Foreign Tax<br/>Credit</b> | <b>Foreign Source<br/>Income</b> |
|-----------------------------------|-------------------------------|----------------------------------|
|                                   | <hr/>                         | <hr/>                            |
| RMR Asia Pacific Real Estate Fund | \$ 112,170                    | \$ 1,121,030                     |
| RMR Asia Real Estate Fund         | \$ 17,336                     | \$ 812,377                       |

(1) Applies both to common and preferred shares.

Shareholders of the Funds have been or will be advised on Internal Revenue Service Form 1099 DIV as to the federal tax status of the distributions received from each Fund during calendar year 2007. Shareholders are advised to consult with their own tax advisors as to the federal, state and local tax status of the distributions received from the Funds.

### **Annual Meeting**

An annual meeting of shareholders for all the Funds will be held at 9:30 AM on Thursday April 7, 2008, at 400 Centre Street, Newton, Massachusetts. A proxy statement has been mailed to the shareholders of record as of February 1, 2007, each of whom is invited to attend.

**RMR Real Estate Fund**

**RMR Hospitality and Real Estate Fund**

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

**RMR Preferred Dividend Fund**

**RMR Asia Pacific Real Estate Fund**

**RMR Asia Real Estate Fund**

**RMR Dividend Capture Fund**

**Dividend Reinvestment Plan (unaudited)**

The board of trustees of each of RMR Real Estate Fund, RMR Hospitality and Real Estate Fund, RMR F.I.R.E. Fund, RMR Preferred Dividend Fund, RMR Asia Pacific Real Estate Fund, RMR Asia Real Estate Fund and RMR Dividend Capture Fund, each a Massachusetts business trust (each a "Fund" and collectively "the Funds"), have adopted a Dividend Reinvestment and Cash Purchase Plan (each, a "Plan"), sometimes referred to as an opt-out plan. You will have all your cash distributions invested in common shares automatically unless you elect to receive cash. As part of each Plan, you will have the opportunity to purchase additional common shares by submitting a cash payment for the purchase of such shares (the "Cash Purchase Option"). Your cash payment, if any, for the additional shares may not exceed \$10,000 per quarter, per Plan and must be for a minimum of \$100 per quarter. Wells Fargo Bank N.A. is the plan agent and paying agent for each plan. The plan agent will receive your distributions and additional cash payments under the Cash Purchase Option and either purchase common shares in the open market for your account or directly from the applicable Fund. If you elect not to participate in a Plan, you will receive all cash distributions in cash paid by check mailed to you (or, generally, if your shares are held in street name, to your broker) by the paying agent.

The number of common shares of each Fund you will receive if you do not opt out of a Plan will be determined as follows:

- (1) If, on a distribution payment date for a Fund, the market price per common share plus estimated per share brokerage commissions applicable to an open market purchase of common shares is below the net asset value per common share on that payment date, the plan agent will receive the distribution in cash and, together with your additional cash payments, if any, will purchase common shares of that Fund in the open market, on the AMEX or elsewhere, for your account prior to the next ex-dividend date (or 60 days after the distribution payment date, which ever is sooner, in the case of RMR Asia Pacific Real Estate Fund, RMR Asia Real estate Fund and RMR Dividend Capture Fund). It is possible that the market price for a Fund's common shares may increase before the plan agent has completed its purchases. Therefore, the average purchase price per share paid by the plan agent may exceed the market price at the time of valuation, resulting in the purchase of fewer shares than if the distribution had been paid to you in common shares newly issued by a Fund. In the event it appears that the plan agent will not be able to complete the open market purchases prior to the next ex-dividend date (or 60 days after the distribution payment date, which ever is sooner, in the case of RMR Asia Pacific Real Estate Fund, RMR Asia Real estate Fund and RMR Dividend Capture Fund), each Fund will determine whether to issue the remaining shares at the greater of (i) net asset value per common share at the time of purchase or (ii) 100% of the per common share market price at the time of purchase. Interest will not be paid on any uninvested amounts.
- (2) If, on the distribution payment date for a Fund, the market price per common share plus estimated per share brokerage commissions applicable to an open market purchase of common shares is at or above the net asset value per common share on that payment date, the appropriate Fund will issue new shares for

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your account, at a price equal to the greater of (i) net asset value per common share on that payment date or (ii) 95% of the per common share market price on that payment date.

(3)

The plan agent maintains all shareholder accounts in each Plan (including all shares purchased under the Cash Purchase Option) and provides written confirmation of all transactions in the accounts, including information you may need for tax records. Common shares in your account will be held by the Plan agent in non-certificated form. Any proxy you receive will include all common shares you have received or purchased under a Plan.

You may withdraw from any Plan at any time by giving written notice to the plan agent. If you withdraw or a Plan is terminated, the plan agent will transfer the shares in your account to you (which may include a cash payment for any fraction of a share in your account). If you wish, the plan agent will sell your shares and send you the proceeds, minus brokerage commissions to be paid by you.

The Plan agent is not authorized to make any purchases of shares for your account if doing so will result in your owning shares in excess of 9.8% of the total shares outstanding in each Fund. Dividends or cash purchase option payments which may result in such prohibited transactions will be paid to you in cash.

The plan agent's administrative fees will be paid by the Funds. There will be no brokerage commission charged with respect to common shares issued directly by any Fund. Each participant will pay a pro rata share of brokerage commissions incurred by the plan agent when it makes open market purchases of a Fund's shares pursuant to a Plan including the Cash Purchase Option.

Any Fund may amend or terminate its Plan or the Cash Purchase Option if its board of trustees determines the change is appropriate. However, no additional charges will be imposed upon participants by amendment to a Plan except after prior notice to participants.

Participation in a Plan will not relieve you of any federal, state or local income tax that may be payable (or required to be withheld) as a result of distributions you receive which are credited to your account under a Plan rather than paid in cash. Automatic reinvestment of distributions in a Fund's common shares will not relieve you of tax obligations arising from your receipt of that Fund's distributions even though you do not receive any cash.

All correspondence\* about any Plan should be directed to Wells Fargo Shareowner Services, P.O. Box 64856, St. Paul, MN 55164-0856 or by telephone at 1-866-877-6331 and by overnight mail to Wells Fargo Bank N.A., 161 North Concord Exchange, South St. Paul, MN 55075.

\*

Shareholders who hold shares of a Fund in "street name", that is, through a broker, financial advisor or other intermediary should not contract the Administrator with Plan correspondence, opt-out cash purchase option or other requests. If you own your shares in street name, you must instead contact your broker, financial advisor or intermediary.

**RMR Real Estate Fund**  
**RMR Hospitality and Real Estate Fund**  
**RMR F.I.R.E. Fund**  
**RMR Preferred Dividend Fund**  
**RMR Asia Pacific Real Estate Fund**  
**RMR Asia Real Estate Fund**  
**RMR Dividend Capture Fund**  
(unaudited)

| Name,<br>address*<br>(Age)    | Position(s)<br>held with each<br>fund and current<br>term and length of<br>time served<br>(approx. number of<br>years served) | Principal occupation(s)<br>during past five years<br>and other public company directorships<br>held by trustee**   | Number of<br>portfolios in<br>fund<br>complex<br>overseen by<br>trustee |
|-------------------------------|---|--|---|
| <b>Interested Trustees***</b> |   |  |   |
| Gerard M. Martin<br>(73)      | Class II trustee<br>to serve until 2009.<br>RMR (6); RHR (4);<br>RFR (4); RDR (2);<br>RAP (2); RAF (1) and<br>RCR (1).        | Director of Reit Management & Research LLC 1986 to<br>present; director and Vice President of RMR Advisors<br>2002 to present; managing director of Five Star Quality<br>Care, Inc. 2001 to present; managing trustee of Senior<br>Housing Properties Trust 1999 to 2007; managing trustee<br>of Hospitality Properties Trust 1995 to 2007; managing<br>trustee of HRPT Properties Trust 1986 to 2006; trustee of<br>RMR Funds Series Trust inception to present.  | 8   |
| Barry M. Portnoy<br>(62)      | Class III trustee<br>to serve until 2010.<br>RMR (6); RHR (4);<br>RFR (4); RDR (2);<br>RAP (2); RAF (1) and<br>RCR (1).       | Chairman of Reit Management & Research LLC 1986 to<br>present; Director and Vice President of RMR Advisors<br>2002 to present; portfolio manager of RMR, RHR, RFR,<br>RDR, RCR and RMR Real Estate Securities Fund<br>inception to present; managing director of Five Star<br>Quality Care, Inc. 2001 to present; managing trustee of<br>Senior Housing Properties Trust 1999 to present;<br>managing trustee of Hospitality Properties Trust 1995 to<br>present; managing trustee of HRPT Properties Trust 1986<br>to present; managing director of TravelCenters of<br>America LLC 2007 to present; trustee of RMR Funds<br>Series Trust inception to present.   | 8   |
| <b>Disinterested Trustees</b> |   |  |   |
| John L. Harrington<br>(71)    | Class I trustee<br>to serve until 2008.<br>RMR (6); RHR (4);<br>RFR (4); RDR (2);<br>RAP (2); RAF (1) and<br>RCR (1).         | Chairman of the Board and trustee of the Yawkey<br>Foundation (a charitable trust) 2002 to 2003 and 2007 to<br>present; President, Executive Director and trustee of the<br>Yawkey Foundation 1982 to 2006; trustee of the JRY<br>Trust 1982 to present; Principal of Bingham McCutchen<br>Sports Consulting LLC 2007 to present; Chief Executive<br>Officer and General Partner of the Boston Red Sox<br>Baseball Club 1973 to 2001; President of Boston Trust<br>Management Corp. 1981 to 2006; trustee of Hospitality<br>Properties Trust 1995 to present; trustee of Senior<br>Housing Properties Trust 1999 to present; director of Five<br>Star Quality Care, Inc. 2001 to 2003; trustee of RMR<br>Funds Series Trust October 2007 to present. | 8   |



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|                                |   |   |   |
|--------------------------------|---|---|---|
| Frank J. Bailey<br>(52)        | Class II trustee<br>to serve until 2009.<br>RMR (6); RHR (4);<br>RFR (4); RDR (2);<br>RAP (2); RAF (1) and<br>RCR (1).  | Partner in the Boston law firm of Sherin and Lodgen LLP<br>1988 to present; trustee of Hospitality Properties Trust<br>2003 to present; trustee of Senior Housing Properties<br>Trust 2002 to present; director of Appleseed Foundation,<br>Washington, D.C. 1997 to present; trustee of RMR Funds<br>Series Trust October 2007 to present.   | 8 |
| Arthur G. Koumantzelis<br>(77) | Class III trustee<br>to serve until 2010.<br>RMR (6); RHR (4);<br>RFR (4); RDR (2);<br>RAP (2); RAF (1) and<br>RCR (1). | President and Chief Executive Officer of AGK<br>Associates LLC 2007 to present; President and Chief<br>Executive Officer of Gainesborough Investments LLC<br>1998 to 2007; trustee of Hospitality Properties Trust 1995<br>to 2007; director of Five Star Quality Care, Inc. 2001 to<br>present; director of TravelCenters of America LLC 2007<br>to present; trustee of Senior Housing Properties Trust<br>1999 to 2003; trustee of RMR Funds Series Trust October<br>2007 to present. | 8 |

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| Name,<br>address*<br>(Age)                            | Position(s) held with each fund,<br>term of office and length of time<br>served (approx. number of<br>years served) | Principal occupation(s) during past five years**   |
|---|---|--|
| <b>Executive Officers</b><br>Adam D. Portnoy+<br>(37) | President: RMR (1); RHR (1); RFR (1);<br>RDR (1); RAP (1); RAF (1); and RCR (1).                                    | President and Chief Executive Officer of Reit<br>Management & Research LLC 2006 to present; Vice<br>President of Reit Management & Research LLC 2003 to<br>2006; President of RMR Advisors 2007 to present; Vice<br>President of RMR Advisors 2003 to 2007; President of<br>RMR Funds Series Trust inception to present; portfolio<br>manager of RMR, RHR, RFR, RDR, RCR and RMR Real<br>Estate Securities Fund 2007 to present; Vice President of<br>RMR 2004 to 2007; Vice President of RHR, RFR, RDR,<br>RAP and RAF inception to 2007; managing trustee of<br>HRPT Properties Trust 2006 to present; Executive Vice<br>President of HRPT Properties Trust 2003 to 2006;<br>managing trustee of Hospitality Properties Trust 2007 to<br>present; managing trustee of Senior Housing Properties<br>Trust 2007 to present; Senior Investment Officer,<br>International Finance Corporation, a member of the World<br>Bank Group 2001 to 2003. |
| Mark L. Kleifges<br>(47)                              | Treasurer and Chief Financial Officer:<br>RMR (4); RHR (4); RFR (4); RDR (3);<br>RAP (2); RAF (1); and RCR (1).     | Senior Vice President of Reit Management &<br>Research LLC 2006 to present; Vice President of Reit<br>Management & Research LLC 2002 to 2006; Treasurer of<br>RMR Advisors 2004 to present; Vice President of RMR<br>Advisors 2003 to 2004; Treasurer and Chief Financial<br>Officer, Hospitality Properties Trust 2002 to present;<br>Treasurer of RMR Funds Series Trust inception to present.   |
| Jennifer B. Clark<br>(46)                             | Secretary and Chief Legal Officer: RMR<br>(6); RHR (4); RFR (4); RDR (3); RAP (2);<br>RAF (1); and RCR (1).         | Senior Vice President and General Counsel of Reit<br>Management & Research LLC 2006 to present; Vice<br>President of Reit Management & Research LLC 1999 to<br>2006; Secretary of RMR Advisors 2002 to present; Senior<br>Vice President of HRPT Properties Trust 1999 to present;<br>Assistant Secretary of Hospitality Properties Trust 1996 to<br>present; Assistant Secretary of Senior Housing Properties<br>Trust 1998 to present; Assistant Secretary of Five Star<br>Quality Care, Inc. 2001 to present; Secretary of<br>TravelCenters of America LLC 2007 to present; Secretary<br>of RMR Funds Series Trust inception to present.  |

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|                            |   |  |
|----------------------------|---|--|
| Fernando Diaz<br>(40)      | Vice President: RMR (1); RHR (1); RFR (1); RDR (1); RAP (1); RAF (1); and RCR (1).  | Vice President of RMR Advisors 2007 to present; portfolio manager of RMR, RHR, RFR, RDR, RCR and RMR Real Estate Securities Fund 2007 to present; Vice President of RMR Funds Series Trust inception to present; senior REIT analyst and assistant portfolio manager, GID Securities, LLC 2006 to 2007; senior REIT analyst and assistant portfolio manager, SSgA/The Tuckerman Group 2001 to 2006.  |
| John C. Popeo<br>(47)      | Vice President: RMR (5); RHR (4); RFR (4); RDR (3); RAP (2); RAF (1); and RCR (1).  | Senior Vice President of Reit Management & Research LLC 2006 to present; Treasurer of Reit Management & Research LLC 1997 to present; Vice President of Reit Management & Research LLC 1999 to 2006; Vice President of RMR Advisors 2004 to present; Treasurer of RMR Advisors 2002 to 2004; Treasurer and Chief Financial Officer of HRPT Properties Trust 1997 to present; Vice President of RMR Funds Series Trust inception to present.  |
| Karen Jacoppo-Wood<br>(41) | Vice President: RMR (1); RHR (1); RFR (1); RDR (1); RAP (1); RAF (1); and RCR (1).  | Vice President of RMR Advisors 2007 to present; Vice President of RMR Funds Series Trust inception to present; Vice President and Managing Counsel, State Street Bank and Trust Company 2006 to 2007; Counsel, Pioneer Investment Management, Inc. 2004 to 2006; Vice President and Counsel, State Street Bank and Trust Company 2002 to 2004.   |
| William J. Sheehan<br>(63) | Chief Compliance Officer and Director of Internal Audit: RMR (4); RHR (4); RFR (4); RDR (3); RAP (2); RAF (1); and RCR (1). | Director of Internal Audit of the funds and Chief Compliance Officer of the funds and of RMR Advisors 2004 to present; Director of Internal Audit of HRPT Properties Trust, Hospitality Properties Trust, Senior Housing Properties Trust and Five Star Quality Care, Inc. 2003 to present; Director of Internal Audit of TravelCenters of America LLC 2007 to present; trustee of Hospitality Properties Trust 1995 to 2003; Executive Vice President, Ian Schragger Hotels LLC 1999 to 2003. |

### Executive Officers

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\*  
The business address of each listed person is 400 Centre Street, Newton, Massachusetts 02458.

\*\*  
RMR, RHR, RFR, RDR and RAP are collectively referred to as RMR Funds.

\*\*\*  
Interested trustees indicate a trustee who is an "interested person" of the Fund within the meaning of the Investment Company Act of 1940, as amended.

+  
Adam D. Portnoy is the son of Barry M. Portnoy, a trustee of the funds.

Each Fund's Statement of Additional Information includes additional information about the trustees and is available without charge upon request by calling us at 1-866-790-8165 or 1-617-332-9530.

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**WWW.RMRFUNDS.COM**

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### Item 2. Code of Ethics.

- (a) As of the period ended December 31, 2007, the registrant had adopted a code of ethics, as defined in Item 2(b) of Form N-CSR, that applies to the registrant's principal executive officer and principal financial officer.
- (c) The registrant has not made any amendment to its code of ethics during the covered period.
- (d) The registrant has not granted any waivers from any provisions of the code of ethics during the period covered by this report.
- (e) The registrant's code of ethics has been posted on its Internet website at <http://www.rmrffunds.com>. A copy of the code of ethics may also be obtained free of charge by writing to Investor Relations, RMR Funds, 400 Centre Street, Newton, MA 02458.

### Item 3. Audit Committee Financial Expert.

- (a)(1) The registrant's board of trustees has determined that the registrant has at least one member serving on the registrant's audit committee (the "Audit Committee") that possesses the attributes identified in Item 3 of Form N-CSR to qualify as an "audit committee financial expert."
- (a)(2) The name of the Audit Committee financial expert is Arthur G. Koumantzelis. Mr. Koumantzelis has been deemed to be "independent" as that term is defined in Item 3(a)(2) of Form N-CSR.

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

- (a) **Audit Fees:** The aggregate fees billed by the registrant's independent accountant for audit services were \$36,000 for the fiscal year ended December 31, 2007 and \$35,000 for the fiscal year ended December 31, 2006.
  - (b) **Audit Related Fees:** The aggregate fees billed by the registrant's independent accountant for audit-related services were \$12,000 for the fiscal year ended December 31, 2007, and \$12,000 for the fiscal year ended December 31, 2006. The nature of the services was issuance of agreed upon procedures reports to rating agencies.
  - (c) **Tax Fees:** The aggregate fees billed by the registrant's independent accountant for tax compliance services were \$8,800 for the fiscal year ended December 31, 2007, and \$8,400 for the fiscal year ended December 31, 2006. The nature of the services was the review of the registrant's federal and state tax returns.
  - (d) **All Other Fees:** There were no other fees billed by the registrant's independent accountant for the fiscal years ended December 31, 2007, and December 31, 2006.
  - (e)(1) **Audit Committee Pre-Approval Policies and Procedures:** The registrant's Audit Committee is required to pre-approve all audit and non-audit services provided by the independent accountant to the registrant and certain affiliated persons of the registrant. In considering a requested approval, the Audit Committee will consider whether the proposed services are consistent with the rules of the Securities and Exchange Commission ("SEC") on the independent accountant's independence. The Audit Committee will also consider whether the independent accountant is best positioned to provide the most effective and efficient service, considering its familiarity with the registrant's business, people, culture, accounting systems, risk profile and other factors, and whether the service might enhance the registrant's ability to manage or control risk or improve audit quality. All factors will be considered as a whole, and no one factor will necessarily be determinative. The Audit Committee may delegate approval authority to its chair or one or more of its members who are not "interested persons" as defined by Section 2(a)(19) of the Investment Company Act of 1940, as amended (the "1940 Act"). The member or members to whom such authority is delegated will report, for informational purposes only, any approvals to the Audit Committee at its next regularly scheduled quarterly meeting. This policy does not delegate the Audit Committee's responsibilities to approve services performed by the independent accountant to the registrant's officers or RMR Advisors, Inc., the registrant's investment advisor (the "Advisor").
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The Audit Committee may, with respect to a category of services, generally approve services, subject to any general limitations and restrictions it may determine, and subject further to specific approval by a delegated member or members of the Audit Committee.

- (e)(2) Percentages of Services: None.
- (f) Not applicable.
- (g) There were no non-audit fees billed by the independent accountant for services rendered to the registrant or the Advisor, for the fiscal years ended December 31, 2007 and December 31, 2006 except for tax compliance services rendered to the registrant.
- (h) Not applicable.

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

- (a) The registrant has a separately-designated Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The members of the registrant's Audit Committee are Frank J. Bailey, John L. Harrington and Arthur G. Koumantzelis.
- (b) Not applicable.

### **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.**

Attached to this Form N-CSR as Exhibit 12(c) is a copy of the proxy voting policies and procedures for the registrant.

### **Item 8. Portfolio Managers of Closed End Management Investment Companies.**

The registrant's portfolio managers are:

*Adam D. Portnoy.* Mr. Portnoy is the President of the registrant and each of the other RMR Funds since May 2007. Mr. Portnoy is also a portfolio manager of the registrant, RMR Hospitality and Real Estate Fund or RHR, RMR F.I.R.E. Fund or RFR and RMR Preferred Dividend Fund or RDR, since May 2007 and RMR Dividend Capture Fund or RCR, since inception. Mr. Portnoy was the Vice President of RMR from 2004 to May 2007, RMR, RFR, RDR, RAP and RAF from inception to May 2007. Mr. Portnoy is also a President, Director and an owner of the Advisor. Mr. Portnoy was the Vice President of the Advisor from 2003 to May 2007. Mr. Portnoy is also a Managing Trustee of three public companies: HRPT Properties Trust (since 2006); Hospitality Properties Trust (January 2007 to present); and Senior Housing Properties Trust (May 2007 to present). Mr. Portnoy is the son of the registrant's trustee and portfolio manager Barry M. Portnoy.

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*Fernando Diaz.* Mr. Diaz is Vice President of the registrant and each of the other RMR Funds since May 2007. Mr. Diaz is also a portfolio manager of the registrant, RHR, RFR and RDR, since May 2007 and RCR since inception. Mr. Diaz is also the Vice President of the Advisor from May 2007. Mr. Diaz was an assistant portfolio manager and senior REIT analyst for GID Securities, LLC from 2006 to May, 2007 and SsGA/Tuckerman Group from 2001 to 2006.

*Barry M. Portnoy.* Mr. Portnoy is a Trustee of the registrant and each of the other RMR Funds since their respective inception dates. Mr. Portnoy is also a Vice President, Director and an owner of the Advisor, and has been since its inception date. Mr. Portnoy is also a portfolio manager of the registrant, RHR, RFR, RDR and RCR, positions he has held since their respective inception dates. Mr. Portnoy is also a Managing Trustee of three public companies and has been since their respective inception dates: HRPT Properties Trust (inception in 1986); Hospitality Properties Trust (inception in 1996); and Senior Housing Properties Trust (inception in 1999). Mr. Portnoy is also a Managing Director of two public companies and has been since their respective inception dates: Five Star Quality Care, Inc. (inception in 2001); and TravelCenters of America LLC (inception in 2007).

The portfolio managers generally function as a team. Generally, Mr. Barry Portnoy provides strategic guidance to the team, while Messrs. Adam Portnoy and Fernando Diaz are in charge of substantially all of the day to day operations, research and trading functions.

The registrant's portfolio managers together manage RHR, RFR, RDR and RCR, registered investment companies that have an aggregate of \$181 million of managed assets as of December 31, 2007. Each RMR Fund pays an advisory fee to the Advisor solely on the basis of assets under management. As of December 31, 2007, none of the portfolio managers manage other pooled investment vehicles or other accounts.

**CONFLICTS OF INTEREST:** Actual or potential conflicts of interest may arise when a portfolio manager has management responsibilities with respect to more than one fund. For example, a portfolio manager may identify a limited investment opportunity that may be appropriate for the Fund as well as for the other funds he manages. A conflict of interest also might arise where a portfolio manager has a larger personal investment in one fund than in another. A portfolio manager may purchase a particular security for one or more funds while selling the security for one or more other funds; this could have a detrimental effect on the price or volume of the securities purchased or sold by a fund. A portfolio manager might devote unequal time and attention to the funds he manages. The Advisor believes that the risk of a material conflict of interest developing is limited because (i) the funds are generally managed in a similar fashion, (ii) the Advisor has adopted policies requiring the equitable allocation of trade orders for a particular security among participating funds, and (iii) the advisory fee and portfolio managers' compensation are not affected by the amount of time required to manage each fund. As a result, the Advisor does not believe that any of these potential sources of conflicts of interest will affect the portfolio managers' professional judgment in managing the funds.

**COMPENSATION:** Mr. Barry Portnoy is a 55% owner of the Advisor and Mr. Adam Portnoy is a 45% owner of the Advisor and, through December 31, 2007, have not received a salary or other compensation from the Advisor except to the extent of their distributions from the Advisor and their interest in the Advisor's profits, if any.

The other portfolio manager, Mr. Diaz, is paid based upon the discretion of the board of directors of the Advisor. The Advisor's board of directors consists of Messrs. Barry M. Portnoy, Gerard M. Martin and Adam D. Portnoy. Compensation of Mr. Diaz includes base salary, annual cash bonus and he has the opportunity to participate in other employee benefit plans available to all of the employees of the Advisor. The level of compensation is not based upon a formula with reference to fund performance or the value of fund assets; however these factors, among others, may be considered by individual directors of the Advisor. Other factors which may be considered in setting the compensation of the portfolio manager is his historical levels of

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compensation and levels of compensation paid for similar services or to persons with similar responsibilities in the market generally and in the geographic area where the Advisor is located. Mr. Diaz devotes a substantial majority of his business time to providing services as a portfolio manager or officer of our Advisor and funds managed by our Advisor. Mr. Barry M. Portnoy and Adam D. Portnoy also receive compensation from their services to affiliates of our Advisor.

**OWNERSHIP OF SECURITIES:** The following table sets forth, for each portfolio manager, the aggregate dollar range of the registrant's equity securities beneficially owned as of December 31, 2007.

| Name of Portfolio Manager | Dollar Range of<br>Equity Securities in<br>the Fund as of<br>December 31, 2007. |
|---------------------------|---|
| Fernando Diaz             | None  |
| Adam D. Portnoy           | Over \$100,000*   |
| Barry M. Portnoy          | Over \$100,000*   |

\*

Certain other shares of the registrant are held independently by virtue of Messrs Barry Portnoy's and Adam Portnoy's ownership of the Advisor.

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

During the fiscal year ended December 31, 2007, 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 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) 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 second fiscal quarter of the period covered by the 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.
- (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.
- (c) Copy of the proxy voting policies and procedures.



**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/ ADAM D. PORTNOY

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Adam D. Portnoy

President

Date: February 22, 2008

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/ ADAM D. PORTNOY

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Adam D. Portnoy

President

Date: February 22, 2008

By:

/s/ MARK L. KLEIFGES

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Mark L. Kleifges

Treasurer

Date: February 22, 2008

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QuickLinks

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