

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

- ☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2012
- or
- ☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 000-50805

Hines Real Estate Investment Trust, Inc.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation or organization)

20-0138854

(I.R.S. Employer Identification No.)

2800 Post Oak Boulevard

Suite 5000

Houston, Texas

(Address of principal executive offices)

77056-6118

(Zip code)

(888) 220-6121

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated Filer ☐

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

Smaller Reporting Company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of August 7, 2012, 232.1 million shares of the registrant's common stock were outstanding.

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PART I - FINANCIAL INFORMATION
Item 1. Condensed Consolidated Financial Statements.

HINES REAL ESTATE INVESTMENT TRUST, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 30, 2012	December 31, 2011
	(in thousands, except per share amounts)	
ASSETS:		
Investment property, net	\$ 1,884,332	\$ 1,950,126
Investments in unconsolidated entities	333,779	348,986
Cash and cash equivalents	109,824	130,445
Restricted cash	110,149	110,915
Distributions receivable	5,774	5,604
Tenant and other receivables	70,121	68,090
Intangible lease assets, net	142,668	160,093
Deferred leasing costs, net	159,863	129,291
Deferred financing costs, net	4,551	5,286
Other assets	5,092	3,176
TOTAL ASSETS	\$ 2,826,153	\$ 2,912,012
LIABILITIES:		
Accounts payable and accrued expenses	\$ 90,826	\$ 72,643
Due to affiliates	8,953	5,823
Intangible lease liabilities, net	43,919	49,279
Other liabilities	14,607	15,259
Interest rate swap contracts	108,517	109,891
Participation interest liability	86,201	76,968
Distributions payable	28,976	30,215
Notes payable	1,337,409	1,338,224
Total liabilities	1,719,408	1,698,302
Commitments and contingencies (Note 12)	-	-
EQUITY:		
Preferred shares, \$.001 par value; 500,000 preferred shares authorized, none issued or outstanding as of June 30, 2012 and December 31, 2011	-	-
Common shares, \$.001 par value; 1,500,000 common shares authorized, 229,494 and 227,180 common shares issued and outstanding as of June 30, 2012 and December 31, 2011, respectively	230	228
Additional paid-in capital	1,474,608	1,515,111
Accumulated deficit	(366,071)	(301,710)
Accumulated other comprehensive income (loss)	(2,022)	81
Total shareholders' equity	1,106,745	1,213,710
Noncontrolling interests	-	-
Total equity	1,106,745	1,213,710
TOTAL LIABILITIES AND EQUITY	\$ 2,826,153	\$ 2,912,012

See notes to the condensed consolidated financial statements.

HINES REAL ESTATE INVESTMENT TRUST, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
For the Three and Six Months Ended June 30, 2012 and 2011
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands, except per share amounts)			
Revenues:				
Rental revenue	\$ 61,951	\$ 65,783	\$ 125,126	\$ 129,276
Other revenue	5,811	5,857	11,099	11,271
Total revenues	67,762	71,640	136,225	140,547
Expenses:				
Property operating expenses	19,827	19,277	39,278	38,647
Real property taxes	8,215	7,506	16,817	16,438
Property management fees	1,704	1,651	3,181	3,204
Depreciation and amortization	20,419	24,142	40,921	47,548
Asset management fees	7,821	(4,312)	15,564	3,331
General and administrative	2,125	1,865	3,608	3,478
Impairment losses	46,058	-	46,058	-
Total expenses	106,169	50,129	165,427	112,646
Income (loss) from continuing operations before other income (expenses), provision for income taxes and equity in earnings (losses) of unconsolidated entities, net	(38,407)	21,511	(29,202)	27,901
Other income (expenses):				
Gain (loss) on derivative instruments, net	(2,394)	(8,996)	1,374	(3,800)
Interest expense	(19,436)	(20,394)	(38,881)	(40,285)
Interest income	179	88	351	143
Income (loss) from continuing operations before provision for income taxes and equity in earnings (losses) of unconsolidated entities, net	(60,058)	(7,791)	(66,358)	(16,041)
Provision for income taxes	(190)	(136)	(343)	(218)
Equity in earnings (losses) of unconsolidated entities, net	1,041	(19,299)	(106)	(21,126)
Income (loss) from continuing operations	(59,207)	(27,226)	(66,807)	(37,385)
Income (loss) from discontinued operations, net of taxes	544	107,908	2,724	108,784
Net income (loss)	(58,663)	80,682	(64,083)	71,399
Less: Net income attributable to noncontrolling interests	(139)	(1,217)	(278)	(2,368)
Net income (loss) attributable to common shareholders	\$ (58,802)	\$ 79,465	\$ (64,361)	\$ 69,031
Basic and diluted income (loss) per common share	\$ (0.26)	\$ 0.35	\$ (0.28)	\$ 0.31
Distributions declared per common share	\$ 0.13	\$ 0.12	\$ 0.25	\$ 0.25
Weighted average number of common shares outstanding	229,494	224,764	228,950	224,292
Net comprehensive income (loss):				
Net income (loss)	\$ (58,663)	\$ 80,682	\$ (64,083)	\$ 71,399
Other comprehensive income (loss):				
Foreign currency translation adjustment	(3,230)	(7,718)	(2,103)	(5,655)
Net comprehensive income (loss)	(61,893)	72,964	(66,186)	65,744
Net comprehensive income attributable to noncontrolling interests	(139)	(1,217)	(278)	(2,368)
Net comprehensive income (loss) attributable to common shareholders	\$ (62,032)	\$ 71,747	\$ (66,464)	\$ 63,376

See notes to the condensed consolidated financial statements.

HINES REAL ESTATE INVESTMENT TRUST, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
For the Six Months Ended June 30, 2012 and 2011
(UNAUDITED)
(In thousands)

Hines Real Estate Investment Trust, Inc.								
	Common Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity	Noncontrolling Interests	
BALANCE, January 1, 2012	227,180	\$ 228	\$ 1,515,111	\$ (301,710)	\$ 81	\$ 1,213,710	\$ -	
Issuance of common shares	3,085	3	24,002	-	-	24,005	-	
Redemption of common shares	(771)	(1)	(6,737)	-	-	(6,738)	-	
Distributions declared	-	-	(57,538)	-	-	(57,538)	(278)	
Other offering costs, net	-	-	(230)	-	-	(230)	-	
Net income (loss)	-	-	-	(64,361)	-	(64,361)	278	
Foreign currency translation adjustment	-	-	-	-	(2,103)	(2,103)	-	
BALANCE, June 30, 2012	<u>229,494</u>	<u>\$ 230</u>	<u>\$ 1,474,608</u>	<u>\$ (366,071)</u>	<u>\$ (2,022)</u>	<u>\$ 1,106,745</u>	<u>\$ -</u>	
	Common Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity	Noncontrolling Interests	
BALANCE, January 1, 2011	222,795	\$ 223	\$ 1,590,488	\$ (340,610)	\$ 12,043	\$ 1,262,144	\$ -	
Issuance of common shares	2,626	3	25,151	-	-	25,154	-	
Redemption of common shares	(657)	(1)	(5,936)	-	-	(5,937)	-	
Distributions declared	-	-	(56,057)	-	-	(56,057)	(2,368)	
Other offering costs, net	-	-	(34)	-	-	(34)	-	
Net income (loss)	-	-	-	69,031	-	69,031	2,368	
Foreign currency translation adjustment	-	-	-	-	3,236	3,236	-	
Reclassification of foreign currency translation adjustment to earnings	-	-	-	-	(8,891)	(8,891)	-	
BALANCE, June 30, 2011	<u>224,764</u>	<u>\$ 225</u>	<u>\$ 1,553,612</u>	<u>\$ (271,579)</u>	<u>\$ 6,388</u>	<u>\$ 1,288,646</u>	<u>\$ -</u>	

See notes to the condensed consolidated financial statements.

HINES REAL ESTATE INVESTMENT TRUST, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2012 and 2011
(UNAUDITED)

	Six Months Ended June 30,	
	2012	2011
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (64,083)	\$ 71,399
Adjustments to reconcile net income (loss) to cash from operating activities:		
Depreciation and amortization	46,121	53,900
Gain on sale of investment property	(2,566)	(107,241)
Impairment losses	46,058	-
Equity in (earnings) losses of unconsolidated entities	106	21,126
Distributions received from unconsolidated entities	1,271	1,655
(Gain) loss on derivative instruments, net	(1,374)	3,800
Net change in operating accounts	(16,595)	(50,373)
Net cash from operating activities	<u>8,938</u>	<u>(5,734)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Distributions received from unconsolidated entities in excess of equity in earnings	11,620	4,709
Investments in property	(2,994)	(2,782)
Proceeds from sale of land and improvements, net	1,976	128,709
Change in cash collateral on notes payable	-	106,248
Change in restricted cash	766	(106,283)
Net cash from investing activities	<u>11,368</u>	<u>130,601</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in other liabilities	229	340
Redemption of common shares	(5,999)	(6,016)
Payments of offering costs	(138)	(32)
Distributions paid to shareholders and noncontrolling interests	(33,836)	(33,237)
Proceeds from notes payable	-	43,000
Payments on notes payable	(1,155)	(44,073)
Additions to deferred financing costs	-	(2,291)
Net cash from financing activities	<u>(40,899)</u>	<u>(42,309)</u>
Effect of exchange rate changes on cash	<u>(28)</u>	<u>(76)</u>
Net change in cash and cash equivalents	<u>(20,621)</u>	<u>82,482</u>
Cash and cash equivalents, beginning of period	<u>130,445</u>	<u>64,592</u>
Cash and cash equivalents, end of period	<u>\$ 109,824</u>	<u>\$ 147,074</u>

See notes to the condensed consolidated financial statements.

HINES REAL ESTATE INVESTMENT TRUST, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Six Months Ended June 30, 2012 and 2011
(UNAUDITED)

1. Organization

The accompanying interim unaudited condensed consolidated financial information has been prepared according to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted according to such rules and regulations. For further information, refer to the financial statements and footnotes for the year ended December 31, 2011 included in Hines Real Estate Investment Trust, Inc.'s Annual Report on Form 10-K. In the opinion of management, all adjustments and eliminations, consisting only of normal recurring adjustments, necessary to present fairly and in conformity with GAAP the financial position of Hines Real Estate Investment Trust, Inc. as of June 30, 2012 and the results of operations for the three and six months ended June 30, 2012 and 2011 and cash flows for the six months ended June 30, 2012 and 2011 have been included. The results of operations for such interim periods are not necessarily indicative of the results for the full year.

Hines Real Estate Investment Trust, Inc., a Maryland corporation ("Hines REIT" and, together with its consolidated subsidiaries, the "Company"), was formed on August 5, 2003 under the General Corporation Law of the state of Maryland for the purpose of engaging in the business of investing in and owning interests in real estate. Beginning with its taxable year ended December 31, 2004, the Company operated and intends to continue to operate in a manner to qualify as a real estate investment trust ("REIT") for federal income tax purposes. The Company is structured as an umbrella partnership REIT under which substantially all of the Company's current and future business is and will be conducted through its majority-owned subsidiary, Hines REIT Properties, L.P. (the "Operating Partnership"). Hines REIT is the sole general partner of the Operating Partnership. Subject to certain restrictions and limitations, the business of the Company is managed by Hines Advisors Limited Partnership (the "Advisor"), an affiliate of Hines Interests Limited Partnership ("Hines"), pursuant to the advisory agreement between the Company and the Advisor.

Public Offering

Hines REIT commenced its initial public offering in June 2004 and has raised \$2.5 billion through three public offerings, the last of which expired in December 2010. The Company commenced a \$150.0 million offering of shares of its common stock under its dividend reinvestment plan on July 1, 2010, which closed on June 30, 2012, immediately prior to the commencement of the Company's new \$300.0 million offering of shares of its common stock under its dividend reinvestment plan on July 1, 2012. The Company refers to both offerings of shares under its dividend reinvestment plan collectively as the "DRP Offering." From inception of the DRP Offering through June 30, 2012, Hines REIT received gross offering proceeds of \$102.8 million from the sale of 11.9 million shares through the DRP Offering. Based on market conditions and other considerations, the Company does not currently expect to commence any future offerings other than those related to shares issued under its dividend reinvestment plan. On July 1, 2012, Hines REIT received gross offering proceeds of \$11.8 million from the sale of 1.5 million shares through its dividend reinvestment plan.

Hines REIT contributes all net proceeds from its public offerings to the Operating Partnership in exchange for partnership units in the Operating Partnership. As of June 30, 2012 and December 31, 2011, Hines REIT owned a 95.1% and 95.4%, respectively, general partner interest in the Operating Partnership. Hines 2005 VS I LP, an affiliate of Hines, owned a 0.5% interest in the Operating Partnership as of both June 30, 2012 and December 31, 2011. In addition, another affiliate of Hines, HALP Associates Limited Partnership ("HALP") owned a 4.4% and 4.1% limited partnership interest in the Operating Partnership as of June 30, 2012 and December 31, 2011, respectively, which is a profits interest (the "Participation Interest"). See Note 9 — Related Party Transactions for additional information regarding the Participation Interest.

Investment Property

As of June 30, 2012, the Company owned direct and indirect investments in 57 properties. These properties consisted of 43 U.S. office properties, one industrial property in Dallas, Texas, one industrial property in Brazil and a portfolio of 12 grocery-anchored shopping centers located in five states primarily in the southeastern United States (the "Grocery-Anchored Portfolio").

The Company makes investments directly through entities wholly-owned by the Operating Partnership, or indirectly through other entities, such as through its investment in Hines US Core Office Fund LP (the "Core Fund") in which it owned a 27.1% non-managing general partner interest as of June 30, 2012. The Company also owns a 70% interest in the Grocery-Anchored Portfolio indirectly through a joint venture with Weingarten Realty Investors and a 50% interest in Distribution Park Rio, an industrial property in Rio de Janeiro, Brazil, indirectly through a joint venture with a Hines affiliate. The Company accounts for each of these investments using the equity method of accounting. See Note 5 — Investments in Unconsolidated Entities for additional information regarding the Company's investments in unconsolidated entities.

2. Summary of Significant Accounting Policies

Described below are certain of the Company's significant accounting policies. The disclosures regarding several of the policies have been condensed or omitted in accordance with interim reporting regulations specified by Form 10-Q. Please see the Company's Annual Report on Form 10-K for the year ended December 31, 2011 for a complete listing of all of its significant accounting policies.

Use of Estimates

The Company's condensed consolidated financial statements have been prepared in accordance with GAAP. The preparation of the condensed consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities and contingencies as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The Company evaluates its assumptions and estimates on an ongoing basis. The Company bases its estimates on historical experience and on various other assumptions that the Company believes to be reasonable under the circumstances. Additionally, application of the Company's accounting policies involves exercising judgments regarding assumptions as to future uncertainties. Actual results may differ from these estimates under different assumptions or conditions.

Basis of Presentation

The condensed consolidated financial statements of the Company included in this quarterly report include the accounts of Hines REIT, the Operating Partnership and the Operating Partnership's wholly-owned subsidiaries as well as the related amounts of noncontrolling interest. All intercompany balances and transactions have been eliminated upon consolidation.

The Company's investments in partially-owned real estate joint ventures and partnerships are reviewed for impairment periodically. The Company will record an impairment charge if it determines that a decline in the value of an investment below its fair value is other than temporary. The Company's analysis will be dependent on a number of factors, including the performance of each investment, current market conditions, and its intent and ability to hold the investment to full recovery. Based on the Company's analysis of the facts and circumstances at each reporting period, no impairment was recorded related to its investments in the Core Fund, the Grocery-Anchored Portfolio, or Distribution Park Rio for the three and six months ended June 30, 2012 and 2011. However, if market conditions deteriorate in the future and result in lower valuations or reduced cash flows of the Company's investments, impairment charges may be recorded in future periods.

International Operations

In addition to its properties in the United States, the Company has owned investments in Canada and Brazil. The Company's foreign subsidiaries translated their financial statements into U.S. dollars for reporting purposes. Assets and liabilities were translated at the exchange rate in effect as of the balance sheet date. Income statement amounts were translated using the average exchange rate for the period and significant nonrecurring transactions using the rate on the transaction date. Gains and losses resulting from translation were included in accumulated other comprehensive income as a separate component of shareholders' equity. Accumulated other comprehensive income as of June 30, 2012 is related to the Company's indirect investment in a property in Rio de Janeiro, Brazil and the remaining non-operating net assets of the property in Canada that the Company owned directly until the Company sold the property in June 2011. During the six months ended June 30, 2011, the Company reclassified \$8.9 million from accumulated other comprehensive income to gain on sale of properties as a result of the disposal of its directly-owned property in Canada in June 2011.

Impairment of Investment Property

Real estate assets are reviewed for impairment each reporting period if events or changes in circumstances indicate that the carrying amount of the individual property may not be recoverable. In such an event, a comparison will be made of the current and projected cash flows of each property on an undiscounted basis to the carrying amount of such property. If undiscounted cash flows are less than the carrying amount, such carrying amount would be adjusted, if necessary, to estimated fair values to reflect impairment in the value of the asset. See Note 13 — Fair Value Disclosures for additional information regarding our policy for determining fair values of our investment property.

At June 30, 2012, the Company determined that two of its directly-owned investment properties located in Melville, New York and Seattle, Washington were impaired, since the projected undiscounted cash flows for these properties were less than their carrying values. As a result, an impairment loss was recorded related to those certain properties of \$46.1 million for the three and six months ended June 30, 2012. See Note 13 — Fair Value Disclosures for additional information.

An impairment loss was recorded related to one of the Company's indirectly-owned properties located in the suburban area of Sacramento, California totaling \$3.6 million for the three and six months ended June 30, 2012. Additionally, impairment losses were recorded related to five of our indirectly-owned properties located in the suburban area of Sacramento, California, totaling \$101.1 million during the three and six months ended June 30, 2011. See Note 5 — Investments in Unconsolidated Entities for additional information. If market conditions deteriorate or if management's plans for certain properties change, additional impairment charges could be required in the future.

Restricted Cash

As of June 30, 2012 and December 31, 2011, the Company had restricted cash of \$110.1 million and \$110.9 million, respectively. In May 2011, the Company replaced the HSH Nordbank Collateral deposit with a letter of credit from the Bank of Montreal. As collateral for the letter of credit, the Company posted a cash deposit of \$107.0 million with the Bank of Montreal, which is classified as restricted cash in the condensed consolidated balance sheet. HSH Nordbank has the right to have the properties serving as collateral under the HSH Nordbank credit facility appraised every two years. Subject to this requirement, in April 2012, HSH Nordbank notified the Company of its intent to appraise these properties and the appraisals are currently ongoing and under review. Should the aggregate outstanding principal amounts under this facility exceed 55% of the lender's appraised values, the Company will be required to make a partial payment or provide additional collateral to eliminate such excess. Should the need arise, the Company expects to fund such amounts with cash on hand or borrowings under its revolving credit facility.

The remaining balance in restricted cash for each period is related to escrow accounts required by certain of the Company's mortgage agreements.

Tenant and Other Receivables

Receivable balances outstanding consist primarily of base rents, tenant reimbursements and receivables attributable to straight-line rent. An allowance for the uncollectible portion of tenant and other receivables is determined based upon an analysis of the tenant's payment history, the financial condition of the tenant, business conditions in the industry in which the tenant operates and economic conditions in the area in which the property is located. Tenant and other receivables are shown at cost in the condensed consolidated balance sheets, net of allowance for doubtful accounts of \$4.8 million and \$7.0 million at June 30, 2012 and December 31, 2011, respectively.

Deferred Leasing Costs

Deferred leasing costs primarily consist of direct leasing costs such as third-party leasing commissions and tenant inducements. Deferred leasing costs are capitalized and amortized over the life of the related lease. Tenant inducement amortization is recorded as a reduction to rental revenue and the amortization of other direct leasing costs is recorded as a component of amortization expense.

Tenant inducement amortization was \$3.8 million and \$3.3 million for the three months ended June 30, 2012 and 2011, respectively. In addition, the Company recorded \$1.6 million and \$1.4 million as amortization expense related to other direct leasing costs for the three months ended June 30, 2012 and 2011, respectively.

Tenant inducement amortization was \$7.2 million and \$6.1 million for the six months ended June 30, 2012 and 2011, respectively, and was recorded as an offset to rental revenue. In addition, the Company recorded \$3.1 million and \$3.0 million as amortization expense related to other direct leasing costs for the six months ended June 30, 2012 and 2011, respectively.

Other Assets

Other assets included the following (in thousands):

	June 30, 2012	December 31, 2011
Prepaid insurance	\$ 2,167	\$ 881
Prepaid/deferred taxes	2,203 ⁽¹⁾	1,496
Other	722	799
Total	<u>\$ 5,092</u>	<u>\$ 3,176</u>

(1) At June 30, 2012 prepaid/deferred taxes consist primarily of prepaid property taxes.

Revenue Recognition

Rental payments are generally paid by the tenants prior to the beginning of each month. As of June 30, 2012 and December 31, 2011, respectively, the Company recorded liabilities of \$8.6 million and \$10.4 million related to prepaid rental payments which were included in other liabilities in the accompanying condensed consolidated balance sheets. The Company recognizes rental revenue on a straight-line basis over the life of the lease including rent holidays, if any. Straight-line rent receivable was \$54.2 million and \$51.2 million as of June 30, 2012 and December 31, 2011, respectively. Straight-line rent receivable consisted of the difference between the tenants' rents calculated on a straight-line basis from the date of acquisition or lease commencement over the remaining terms of the related leases and the tenants' actual rents due under the lease agreements and is included in tenant and other receivables in the accompanying condensed consolidated balance sheets. Revenues associated with operating expense recoveries are recognized in the period in which the expenses are incurred based upon the tenant lease provisions. Revenues relating to lease termination fees are generally recognized at the time that a tenant's right to occupy the space is terminated and when the Company has satisfied all obligations under the agreement.

Other revenues consist primarily of parking revenue and tenant reimbursements. Parking revenue represents amounts generated from contractual and transient parking and is recognized in accordance with contractual terms or as services are rendered. Other revenues relating to tenant reimbursements are recognized in the period that the expense is incurred.

Redemption of Common Stock

Financial instruments that represent a mandatory obligation of the Company to repurchase shares are required to be classified as liabilities and reported at settlement value. Management believes that shares tendered for redemption by the holder under the Company's share redemption program do not represent a mandatory obligation until such redemptions are approved. At such time, the Company will reclassify such obligations from equity to an accrued liability based upon their respective settlement values. The Company has recorded liabilities of \$3.3 million and \$2.5 million in accounts payable and accrued expenses in the accompanying condensed consolidated balance sheets as of June 30, 2012 and December 31, 2011, respectively, related to shares tendered for redemption and approved by the board of directors, but which were not redeemed until the subsequent month. Such amounts have been included in redemption of common shares in the accompanying condensed consolidated statements of equity. Effective December 31, 2009, the Company suspended its share redemption program except for redemption requests made in connection with the death or disability of a shareholder.

Per Share Data

Net income/loss per common share is calculated by dividing the net income/loss attributable to common shareholders for each period by the weighted average number of common shares outstanding during such period. Net income/loss per common share on a basic and diluted basis is the same because the Company has no potentially dilutive common shares outstanding.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued guidance on fair value measurements. This guidance results in a consistent definition of fair value and common requirements for measurement of and expanded disclosure about fair value between GAAP and International Financial Reporting Standards. The adoption of this guidance was effective prospectively for interim and annual periods beginning after December 15, 2011. We did not have any changes to our existing classification and measurement of fair value upon adoption on January 1, 2012. Refer to Note 13 — Fair Value Disclosures for additional disclosures resulting from the adoption of this standard.

In June 2011, FASB issued guidance on the presentation of comprehensive income. This guidance eliminated the prior option to report other comprehensive income and its components in the statement of changes in equity. The adoption of this guidance is effective for interim and annual periods beginning after December 15, 2011. Further, in December 2011, the board deferred the effective date pertaining only to the presentation of reclassification adjustments out of accumulated other comprehensive income. The adoption of this guidance did not have a material effect on the Company's financial statements.

In December 2011, FASB issued guidance on disclosures about offsetting assets and liabilities. This guidance results in enhanced disclosures by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with either ASC 210-20-45 or ASC 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either ASC 210-20-45 or ASC 815-10-45. The adoption of this guidance is effective for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods. The adoption of this guidance is not expected to have a material effect on the Company's financial statements.

In December 2011, FASB issued guidance to resolve the diversity in practice about whether the derecognition criteria for real estate sales applies to a parent that ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary's nonrecourse debt. This guidance is effective beginning July 1, 2012 and is not expected to have a material effect on the Company's financial statements.

3. Real Estate Investments

Investment property consisted of the following (in thousands):

	June 30, 2012	December 31, 2011
Buildings and improvements	\$ 1,728,271	\$ 1,769,940
Less: accumulated depreciation	(213,488)	(202,654)
Buildings and improvements, net	1,514,783	1,567,286
Land	369,549	382,840
Investment property, net	<u>\$ 1,884,332</u>	<u>\$ 1,950,126</u>

During the second quarter of 2012, the Company recorded impairment losses of \$46.1 million for the three and six months ended June 30, 2012, to reduce the book values of certain investment properties to their fair value. See Note 13 — Fair Value Disclosures for additional information.

Lease Intangibles

As of June 30, 2012, the cost basis and accumulated amortization related to lease intangibles was as follows (in thousands):

	Lease Intangibles		
	In-Place Leases	Out-of-Market Lease Assets	Out-of-Market Lease Liabilities
Cost	\$ 286,241	\$ 47,799	\$ 103,733
Less: accumulated amortization	(167,213)	(24,159)	(59,814)
Net	<u>\$ 119,028</u>	<u>\$ 23,640</u>	<u>\$ 43,919</u>

As of December 31, 2011, the cost basis and accumulated amortization related to lease intangibles was as follows (in thousands):

	Lease Intangibles		
	In-Place Leases	Out-of-Market Lease Assets	Out-of-Market Lease Liabilities
Cost	\$ 311,202	\$ 52,824	\$ 104,443
Less: accumulated amortization	(177,054)	(26,879)	(55,164)
Net	<u>\$ 134,148</u>	<u>\$ 25,945</u>	<u>\$ 49,279</u>

Amortization expense of in-place leases was \$7.4 million and \$11.9 million for the three months ended June 30, 2012 and 2011, respectively, and amortization of out-of-market leases, net, was an increase to rental revenue of \$1.5 million and \$2.5 million, respectively. Amortization expense of in-place leases was \$15.1 million and \$23.5 million for the six months ended June 30, 2012 and 2011, respectively, and amortization of out-of-market leases, net, was an increase to rental revenue of \$3.1 million and \$5.3 million, respectively.

Expected future amortization of in-place leases and out-of-market leases, net, including out-of-market ground leases for the period from July 1 through December 31, 2012 and for each of the years ended December 31, 2013 through 2016 is as follows (in thousands):

	In-Place Leases	Out-of-Market Leases, Net
July 1 through December 31, 2012	\$ 12,905	\$ (2,803)
2013	21,616	(5,745)
2014	17,901	(4,809)
2015	16,149	(3,938)
2016	13,431	(2,854)

Leases

In connection with its directly-owned properties, the Company has entered into non-cancelable lease agreements with tenants for space. As of June 30, 2012, the approximate fixed future minimum rentals for the period from July 1 through December 31, 2012 and for each of the years ended December 31, 2013 through 2016 and thereafter are as follows (in thousands):

	Fixed Future Minimum Rentals
July 1 through December 31, 2012	\$ 100,518
2013	180,035
2014	161,809
2015	153,717
2016	142,348
Thereafter	508,619
Total	\$ 1,247,046

During the six months ended June 30, 2012 and 2011, the Company did not earn more than 10% of its revenue from any individual tenant.

4. Discontinued Operations

On June 1, 2011, the Company sold Atrium on Bay, a mixed-use office and retail complex located in the Downtown North submarket of the central business district of Toronto, Canada, which the Company acquired in February 2007. The sales price for Atrium on Bay was 344.8 million CAD (\$353 million USD, based on the exchange rate in effect on the date of sale). The results of operations of Atrium on Bay and the gain realized on the disposition of this property are as follows:

	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
	(In thousands, except per share amounts)			
Revenues:				
Rental revenue	\$ 12	\$ 6,996	\$ 377	\$ 17,298
Other revenue	-	1,025	-	2,365
Total revenues	12	8,021	377	19,663
Expenses:				
Property operating expenses	150	2,313	200	5,332
Real property taxes	-	1,650	-	4,225
Property management fees	-	194	-	475
Depreciation and amortization	-	1,497	-	3,770
Total expenses	150	5,654	200	13,802
Income (loss) from discontinued operations before interest income (expense), taxes and gain on sale	(138)	2,367	177	5,861
Interest expense	-	(1,791)	-	(4,426)
Interest income	3	16	19	33
Benefit (provision) for income taxes	(11)	75	(38)	75
Income (loss) from discontinued operations before gain on sale	(146)	667	158	1,543
Gain on sale of properties	690 ⁽¹⁾	107,241	2,566 ⁽¹⁾	107,241
Income (loss) from discontinued operations	\$ 544	\$ 107,908	\$ 2,724	\$ 108,784

- (1) The additional gain on sale of properties recorded in 2012 is primarily related to the settlement of reserves that were established during the closing of the sale of Atrium on Bay.

The tables below show income (loss) and income (loss) per share attributable to common shareholders allocated between continuing operations and discontinued operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands, except per share amounts)			
Income (loss) from continuing operations attributable to common shareholders	\$ (59,319)	\$ (23,984)	\$ (66,957)	\$ (35,260)
Income (loss) from discontinued operations attributable to common shareholders	517	103,449	2,596	104,291
Net income (loss) attributable to common shareholders	<u>\$ (58,802)</u>	<u>\$ 79,465</u>	<u>\$ (64,361)</u>	<u>\$ 69,031</u>

Basic and diluted income (loss) per share attributable to common shareholders

Income (loss) from continuing operations	\$ (0.26)	\$ (0.11)	\$ (0.29)	\$ (0.16)
Income (loss) from discontinued operations	\$ -	\$ 0.46	\$ 0.01	\$ 0.46

5. Investments in Unconsolidated Entities

As discussed in Note 1 — Organization, the Company owns indirect investments in 36 properties through its interests in the Core Fund, Distribution Park Rio and the Grocery-Anchored Portfolio.

The table below presents the activity of the Company's unconsolidated entities as of and for the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Beginning balance	\$ 342,065	\$ 369,456	\$ 348,986	\$ 373,798
Distributions declared	(6,452)	(3,357)	(13,062)	(6,616)
Equity in earnings (losses)	1,041	(19,299)	(106)	(21,126)
Effect of exchange rate	(2,875)	1,415	(2,039)	2,159
Ending balance	<u>\$ 333,779</u>	<u>\$ 348,215</u>	<u>\$ 333,779</u>	<u>\$ 348,215</u>

Combined condensed financial information of these investments is summarized as follows (in thousands):

Combined Condensed Consolidated Balance Sheets

	<u>June 30, 2012</u>	<u>December 31, 2011</u>
	(In thousands)	
ASSETS		
Cash	\$ 215,745	\$ 216,922
Investment property, net	3,041,879	3,193,481
Other assets	908,968	847,504
Total Assets	<u>\$ 4,166,592</u>	<u>\$ 4,257,907</u>
LIABILITIES AND EQUITY		
Debt	\$ 2,183,010	\$ 2,353,780
Other liabilities	462,741	305,494
Redeemable noncontrolling interests	404,052	411,768
Equity	1,116,789	1,186,865
Total Liabilities and Equity	<u>\$ 4,166,592</u>	<u>\$ 4,257,907</u>

Combined Condensed Consolidated Statements of Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Total revenues	\$ 113,943	\$ 102,651	\$ 215,647	\$ 205,643
Total expenses	108,166	210,882	211,319	323,507
Income (loss) from continuing operations	5,777	(108,231)	4,328	(117,864)
Income (loss) from discontinued operations	(1,175)	2,165	(3,044)	4,065
Net income (loss)	4,602	(106,066)	1,284	(113,799)
Less (income) loss allocated to noncontrolling interests	(1,032)	33,784	(1,966)	34,561
Net income (loss) attributable to parent	\$ 3,570	\$ (72,282)	\$ (682)	\$ (79,238)

The following discusses items of significance for the periods presented for our equity method investments:

On August 9, 2012, the Core Fund sold One Shell Plaza and Two Shell Plaza (collectively, “Shell Plaza”) two office properties located in downtown Houston, Texas which it acquired in May 2004 for a contract purchase price of \$351.8 million. The contract sales price was \$550.0 million. Shell Plaza was deemed held for sale as of June 30, 2012 and was reclassified into assets held for sale and income from discontinued operations for all periods presented.

During the second quarter of 2012, the Core Fund recorded an impairment loss of \$3.6 million related to one of its properties located in suburban Sacramento, California. This resulted in a decrease in the Company’s equity in earnings (losses) of the Core Fund for the three and six months ended June 30, 2012 of \$0.6 million. Additionally, due to deterioration in the financial condition at the property, the Core Fund has elected to not make debt service payments on the secured, nonrecourse mortgage loan at the property. This has resulted in a default, and potentially, a foreclosure on the property by the lender. If foreclosure occurs, the Core Fund will relinquish all rights and title to the property and will be relieved of the entire value of the mortgage loan.

On April 5, 2012, a subsidiary of the Core Fund executed a discounted pay-off agreement with the lender concerning the debt secured by One Renaissance Square, an office building located in Phoenix, Arizona, to release the Core Fund from all outstanding debt and obligations, including the outstanding principal balance of \$103.6 million, at a discounted amount of \$89.3 million. As a result of the debt extinguishment, the Core Fund recognized a gain on debt extinguishment of \$12.6 million. This resulted in an increase in the Company’s equity in earnings (losses) of the Core Fund for the three and six months ended June 30, 2012 of \$2.8 million.

On August 26, 2011 the Core Fund sold Three First National Plaza, an office building located in Chicago, Illinois, which it acquired in March 2005 for a contract purchase price of \$245.3 million. The contract sales price was \$344.0 million. As a result of this sale, the Core Fund reclassified the results of operations for this property into discontinued operations for the three and six months ended June 30, 2011 above.

During the second quarter of 2011, the Core Fund recorded an impairment loss of \$101.1 million related to five of its properties located in suburban Sacramento, California. This resulted in a decrease in the Company’s equity in earnings (losses) of the Core Fund for the three and six months ended June 30, 2011 of \$18.0 million.

Grocery-Anchored Portfolio

The Company has concluded its investment in the Grocery-Anchored Portfolio qualifies as a variable interest entity (“VIE”). The Grocery-Anchored Portfolio is financed with a \$100.0 million secured note, which is solely guaranteed by the Company’s joint venture partner (the “JV Partner”). The JV Partner is the manager of the investment properties, which provides it with the power to direct the activities of the VIE that most significantly impact the VIE’s financial performance. Based upon the loan guarantees and the JV Partner’s ability to direct the activities that significantly impact the economic performance of the VIE, the Company has determined that it is not the primary beneficiary of this VIE. The Company’s maximum loss exposure is expected to change in future periods as a result of income earned, distributions received and contributions made. Other than the initial capital contribution provided by the Company at the inception of the joint venture, the Company has not provided any additional subordinated financial support.

The table below includes the Company's maximum loss exposure related to this investment as of June 30, 2012 and December 31, 2011, which is equal to the carrying value of its investment in the joint venture included in the balance sheet line item "Investments in unconsolidated entities" for each period. Amounts are in thousands:

Period	Investment in Grocery- Anchored Portfolio ⁽¹⁾	Maximum Risk of Loss
June 30, 2012	\$ 56,806	\$ 56,806
December 31, 2011	\$ 59,904	\$ 59,904

(1) Represents the carrying amount of the investment in the Grocery-Anchored Portfolio, which includes the net effect of contributions made, distributions received and the Company's share of equity in losses.

6. Debt Financing

The following table includes all of the Company's outstanding notes payable balances as of June 30, 2012 and December 31, 2011 (in thousands, except interest rates):

Description	Maturity Date	Interest Rate	Principal Outstanding at June 30, 2012	Principal Outstanding at December 31, 2011
SECURED MORTGAGE DEBT				
The Prudential Insurance Company of America — One Wilshire	11/1/2012	5.98%	\$ 159,500	\$ 159,500
New York State Teachers' Retirement System — 2555 Grand	5/1/2013	5.38%	86,000	86,000
New York State Teachers' Retirement System — Williams Tower	6/1/2013	5.50%	165,000	165,000
Artesia Mortgage Capital Corporation — Arapahoe Business Park I	6/11/2015	5.33%	9,488	9,556
Artesia Mortgage Capital Corporation — Arapahoe Business Park II	11/11/2015	5.53%	9,989	10,066
Metropolitan Life Insurance Company — 1515 S. Street	9/1/2016	4.25%	40,219	40,691
IXIS Real Estate Capital Inc. — Raytheon/ DIRECTV Buildings	12/5/2016	5.68%	50,784	51,222
Artesia Mortgage Capital Corporation — 345 Inverness Drive	12/11/2016	5.85%	15,023	15,123
Wells Fargo Bank, N.A. — Airport Corporate Center	9/1/2021	5.14%	79,000	79,000
HSH POOLED MORTGAGE FACILITY⁽¹⁾				
HSH Nordbank — Citymark, 321 North Clark, 1900 and 2000 Alameda	8/1/2016	5.86% ⁽²⁾	185,000	185,000
HSH Nordbank — 3400 Data Drive, 2100 Powell	1/12/2017	5.25% ⁽³⁾	98,000	98,000
HSH Nordbank — Daytona and Laguna Buildings	5/2/2017	5.36% ⁽⁴⁾	119,000	119,000
HSH Nordbank — 3 Huntington Quadrangle	7/19/2017	5.98% ⁽⁵⁾	48,000	48,000
HSH Nordbank — Seattle Design Center/5th and Bell	8/14/2017	6.03% ⁽⁶⁾	70,000	70,000
MET LIFE SECURED MORTGAGE FACILITY				
Met Life — JPMorgan Chase Tower/ Minneapolis Office/Flex Portfolio	1/1/2013	5.70%	205,000	205,000
OTHER NOTES PAYABLE				
KeyBank Revolving Credit Facility	2/3/2013	Variable	—	—
TOTAL PRINCIPAL OUTSTANDING			1,340,003	1,341,158
Unamortized Discount ⁽⁷⁾			(2,594)	(2,934)
NOTES PAYABLE			<u>\$ 1,337,409</u>	<u>\$ 1,338,224</u>

(1) See Note 2 – Significant Accounting Policies – Restricted Cash for information concerning HSH Nordbank's right to appraise the properties that serve as collateral under the HSH Pooled Mortgage Facility.

(2) This loan has a floating interest rate based on LIBOR plus 0.4%. The Company entered into an interest rate swap agreement which effectively fixed the interest rate of this borrowing 5.86% (including the 0.4% margin). See Note 7 – Derivative Instruments for additional information regarding the Company's derivatives.

- (3) This loan has a floating interest rate based on LIBOR plus 0.4%. The Company entered into an interest rate swap agreement which effectively fixed the interest rate of this borrowing 5.25% (including the 0.4% margin). See Note 7 – Derivative Instruments for additional information regarding the Company’s derivatives.
- (4) This loan has a floating interest rate based on LIBOR plus 0.4%. The Company entered into an interest rate swap agreement which effectively fixed the interest rate of this borrowing 5.36% (including the 0.4% margin). See Note 7 – Derivative Instruments for additional information regarding the Company’s derivatives.
- (5) This loan has a floating interest rate based on LIBOR plus 0.4%. The Company entered into an interest rate swap agreement which effectively fixed the interest rate of this borrowing 5.98% (including the 0.4% margin). See Note 7 – Derivative Instruments for additional information regarding the Company’s derivatives.
- (6) This loan has a floating interest rate based on LIBOR plus 0.45%. The Company entered into an interest rate swap agreement which effectively fixed the interest rate of this borrowing 6.03% (including the 0.45% margin). See Note 7 – Derivative Instruments for additional information regarding the Company’s derivatives.
- (7) The Company assumed notes payable in connection with various acquisitions, which were recorded at their estimated fair value as of the date of acquisition. The difference between the fair value at acquisition and the principal outstanding is amortized over the term of the related note.

The following table summarizes required principal payments on the Company’s outstanding notes payable for the period from July 1, 2012 through December 31, 2012, for each of the years ended December 31, 2013 through December 31, 2016 and for the period thereafter (in thousands):

	Principal Payments due by Period					
	July 1, 2012 – December 31, 2012	2013	2014	2015	2016	Thereafter
Notes Payable	\$ 160,684	\$ 458,755	\$ 3,757	\$ 22,291	\$ 284,433	\$ 410,083

The Company is not aware of any instances of noncompliance with financial covenants as of June 30, 2012.

7. Derivative Instruments

The Company has several interest rate swap transactions with HSH Nordbank AG, New York Branch (“HSH Nordbank”). These swap transactions were entered into as economic hedges against the variability of future interest rates on the Company’s variable interest rate borrowings with HSH Nordbank. The Company has not designated any of its derivative instruments as hedging instruments for accounting purposes. The interest rate swaps have been recorded at their estimated fair value in the accompanying condensed consolidated balance sheets and changes in the fair value were recorded in gain (loss) on derivative instruments, net in the Company’s condensed consolidated statements of operations. See Note 13 – Fair Value Disclosures for additional information regarding fair value measurements.

The tables below provide additional information regarding each of the Company’s outstanding interest rate swaps (all amounts are in thousands except for interest rates):

Effective Date	Expiration Date	Notional Amount	Interest Rate Received	Interest Rate Paid
August 1, 2006	August 1, 2016	\$ 185,000	LIBOR	5.4575%
January 12, 2007	January 12, 2017	\$ 98,000	LIBOR	4.8505%
May 1, 2007	May 1, 2017	\$ 119,000	LIBOR	4.9550%
July 17, 2007	July 17, 2017	\$ 48,000	LIBOR	5.5800%
July 24, 2007	July 24, 2017	\$ 70,000	LIBOR	5.5800%

	Liability Derivatives Fair Value	
	June 30, 2012	December 31, 2011
Derivatives not designated as hedging instruments for accounting purposes:		
Interest rate swap contracts	\$ 108,517	\$ 109,891
Total derivatives	<u>\$ 108,517</u>	<u>\$ 109,891</u>

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Gain (loss) on interest rate swap, net ⁽¹⁾	\$ (2,394)	\$ (8,996)	\$ 1,374	\$ (3,800)
Total	<u>\$ (2,394)</u>	<u>\$ (8,996)</u>	<u>\$ 1,374</u>	<u>\$ (3,800)</u>

(1) Amounts represent the gain (loss) on interest rate swaps. Changes in fair value are recorded in gain (loss) on derivative instruments, net in the condensed consolidated statements of operations.

8. Distributions

With the authorization of its board of directors, the Company continued to declare distributions in the amount of \$0.00138082 per share, per day through September 30, 2012, which represents an annual distribution rate of 6.5%, based on the Company's estimated share value of \$7.78, determined on May 24, 2011 (assuming the current distribution rate is maintained for a twelve-month period).

With respect to the \$0.00138082 per share, per day distributions declared for July 2011 through September 2012, \$0.00041425 of the per share, per day distributions were or will be designated by the Company as special distributions which represent a return of a portion of the shareholders' invested capital and, as such, reduce their remaining investment in the Company. The special distributions were or will be funded with a portion of the proceeds from sales of investment property. The above designation of a portion of the distributions as special distributions does not impact the tax treatment of the distributions to the Company's shareholders. The remaining 70% of distributions for such period was or will be paid from funds generated by the Company's operations.

The table below outlines the Company's total distributions declared to shareholders and noncontrolling interests for each of the quarters during 2012 and 2011, including the breakout between the distributions paid in cash and those reinvested pursuant to the Company's dividend reinvestment plan (all amounts are in thousands).

Distributions for the Three Months Ended	Shareholders			Noncontrolling Interests
	Cash Distributions	Distributions Reinvested	Total Declared	Total Declared
2012				
June 30, 2012	\$ 17,054	\$ 11,783	\$ 28,837 ⁽¹⁾	\$ 139
March 31, 2012	16,813	11,888	28,701 ⁽¹⁾	139
Total	<u>\$ 33,867</u>	<u>\$ 23,671</u>	<u>\$ 57,538</u>	<u>\$ 278</u>
2011				
December 31, 2011	\$ 16,743	\$ 12,117	\$ 28,860 ⁽¹⁾	\$ 1,355
September 30, 2011	16,505	12,201	28,706 ⁽¹⁾	1,291
June 30, 2011	15,995	12,248	28,243	1,217
March 31, 2011	15,491	12,324	27,815	1,151
Total	<u>\$ 64,734</u>	<u>\$ 48,890</u>	<u>\$ 113,624</u>	<u>\$ 5,014</u>

(1) As stated above, a portion of these distributions were designated by us as special distributions and funded using proceeds from sales of investment property, which represents a return of a portion of the shareholder's invested capital. For the quarters ended June 30, 2012, March 31, 2012, December 31, 2011 and September 30, 2011, respectively, \$8.7 million, \$8.6 million, \$8.7 million and \$8.6 million of the total distributions declared to our shareholders were paid using such sales proceeds.

9. Related Party Transactions

The table below outlines fees incurred and expense reimbursements payable to Hines and the Advisor for the three and six months ended June 30, 2012 and 2011 and outstanding as of June 30, 2012 and December 31, 2011 (all amounts are in thousands).

Type and Recipient	Incurred		Incurred		Unpaid as of	
	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011	June 30, 2012	December 31, 2011
Participation Interest in the Operating Partnership – HALP Associates Limited Partnership ⁽¹⁾	\$ 5,286	\$ (8,065)	\$ 10,497	\$ (4,181)	\$ 86,201	\$ 76,968
Due to Affiliates						
Issuer Costs - the Advisor	200	34	230	34	110	19
Asset Management Fee – the Advisor	2,535	3,753	5,067	7,511	5,067	2,519
Debt Financing Fee – the Advisor	-	-	-	-	-	410
Other - the Advisor ⁽²⁾	884	904	1,639	1,705	453	700
Property Management Fee – Hines	1,704	1,830	3,181	3,664	99	(29)
Leasing Fee – Hines	2,553	318	2,851	1,663	2,680	1,525
Tenant Construction Management Fees – Hines	-	18	-	27	12	13
Expense Reimbursements – Hines (with respect to management and operation of the Company's properties)	3,935	4,245	8,121	8,673	532	666
Due to Affiliates					\$ 8,953	\$ 5,823

- (1) The Company recorded a liability related to the Participation Interest based on its estimated settlement value in the accompanying condensed consolidated balance sheets. This liability is remeasured at fair value based on the related redemption price in place as of each balance sheet plus any unpaid distributions. Adjustments required to remeasure this liability to fair value are included in the asset management fees in the accompanying condensed consolidated statement of operations. As described previously, on May 24, 2011, the board of directors established an estimated value per share and per share redemption price of \$7.78, which was reduced from the prior redemption price of \$9.15. Accordingly, the fair value of the Participation Interest liability as of June 30, 2011 was reduced by \$12.2 million. As a result, for the three and six months ended June 30, 2011, the Company recorded an expense reduction of \$8.1 million and \$4.2 million, respectively, related to the Participation Interest.
- (2) Includes amounts the Advisor paid on behalf of the Company, such as general and administrative expenses. These amounts are generally reimbursed to the Advisor during the month following the period in which they are incurred.

10. Changes in Assets and Liabilities

The effect of the changes in asset and liability accounts on cash flows from operating activities for the six months ended June 30, 2012 and 2011 is as follows (in thousands):

	2012	2011
Change in other assets	\$ (1,495)	\$ (2,139)
Change in tenant and other receivables	(1,780)	(6,168)
Change in deferred leasing costs	(40,850)	(20,833)
Change in accounts payable and accrued expenses	17,364	(16,651)
Change in participation interest liability	8,018	(4,180)
Change in other liabilities	(907)	241
Change in due to affiliates	3,055	(643)
Changes in assets and liabilities	\$ (16,595)	\$ (50,373)

11. Supplemental Cash Flow Disclosures

Supplemental cash flow disclosures for the six months ended June 30, 2012 and 2011 are as follows (in thousands):

	2012	2011
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 37,834	\$ 42,237
Cash paid for income taxes	\$ 501	\$ 1,211
Supplemental Schedule of Non-Cash Activities		
Distributions declared and unpaid	\$ 28,976	\$ 29,460
Distributions reinvested	\$ 24,005	\$ 25,154
Loan transferred upon disposition of investment property	\$ -	\$ 199,278

12. Commitments and Contingencies

On July 1, 2010, Deloitte LLP (“Deloitte”) signed a lease renewal for its space in JPMorgan Chase Tower, an office property located in Dallas, Texas. In connection with this renewal, the Company committed to fund \$18.1 million of construction costs related to Deloitte’s expansion and refurbishment of its space, to be paid in future periods. As of June 30, 2012, \$4.6 million of this commitment remained unfunded and is recorded in accounts payable and accrued expenses in the accompanying condensed consolidated balance sheet.

On May 23, 2012, DirecTV signed a lease renewal for its space in the Raytheon/DirecTV office properties located in El Segundo, California. In connection with this renewal, the Company committed to fund \$14.8 million of tenant improvements and leasing commissions related to its space, to be paid in future periods. As of June 30, 2012, \$12.8 million of this commitment remained unfunded and is recorded in accounts payable and accrued expenses in the accompanying condensed consolidated balance sheets.

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. While the resolution of these matters cannot be predicted with certainty, management believes the final outcome of such matters will not have a material adverse effect on the Company’s condensed consolidated financial statements.

HSH Nordbank has the right to have the properties serving as collateral under this facility appraised every two years. Subject to this requirement, in April 2012, HSH Nordbank notified the Company of its intent to appraise these properties and the appraisals are currently ongoing and under review. See Note 2 — Significant Accounting Policies — Restricted Cash for additional information.

13. Fair Value Disclosures

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities the Company has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets and inputs other than quoted prices observable for the asset or liability, such as interest rates and yield curves observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In instances in which the inputs used to measure fair value may fall into different levels of the fair value hierarchy, the level in the fair value hierarchy within which the fair value measurement in its entirety has been determined is based on the lowest level input significant to the fair value measurement in its entirety. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Derivative Instruments

The Company records liabilities related to the fair values of its interest rate swap contracts. The valuation of these instruments is determined based on assumptions that management believes market participants would use in pricing, using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair values of our interest rate contracts have been determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

Although the Company has determined the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company and its counterparty, HSH Nordbank. In adjusting the fair values of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds and guarantees. However, as of June 30, 2012, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuations of its derivatives. As a result, the Company has determined its derivative valuations are classified in Level 2 of the fair value hierarchy.

The following fair value hierarchy table sets forth the Company's interest rate swaps which are measured at fair value on a recurring basis, which equals book value, by level within the fair value hierarchy as of June 30, 2012 and December 31, 2011 (in thousands). The Company's derivative financial instruments are recorded in interest rate swap contracts in the accompanying condensed consolidated balance sheets. The Company has not designated any of its derivative instruments as hedging instruments for accounting purposes.

Description	Fair Value	Basis of Fair Value Measurements		
		Quoted Prices In Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2012	\$ (108,517)	\$ -	\$ (108,517)	\$ -
December 31, 2011	\$ (109,891)	\$ -	\$ (109,891)	\$ -

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Other Financial Instruments

As of June 30, 2012, management estimated that the fair value of notes payable, which had a carrying value of \$1.3 billion, was \$1.3 billion. As of December 31, 2011, management estimated that the fair value of notes payable, which had a carrying value of \$1.3 billion, was \$1.3 billion. The discount rates used approximate current lending rates for loans or groups of loans with similar maturities and credit quality, assumes the debt is outstanding through maturity and considers the debt's collateral (if applicable). Management has utilized market information as available or present value techniques to estimate the amounts required to be disclosed. The Company has determined the majority of the inputs used to value its notes payable fall within Level 2 of the fair value hierarchy, the credit quality adjustments associated with its fair value of notes payable utilize Level 3 inputs. However, as of June 30, 2012, the Company has assessed the significance of the impact of the credit quality adjustments on the overall valuations of its fair market value of notes payable and has determined that they are not significant. As a result, the Company has determined these financial instruments utilize Level 2 inputs. Since such amounts are estimates that are based on limited available market information for similar transactions, there can be no assurance that the disclosed values could be realized.

Other financial instruments not measured at fair value on a recurring basis include cash and cash equivalents, restricted cash, distributions receivable, tenant and other receivables, accounts payable and accrued expenses, other liabilities, due to affiliates and distributions payable. The carrying value of these items reasonably approximates their fair value based on their highly-liquid nature and/or short-term maturities. Due to the short-term nature of these instruments, Level 1 and Level 2 inputs are utilized to estimate the fair value of these financial instruments.

Impairment of Investment Property

Investment properties are reviewed for impairment at each reporting period if events or changes in circumstances indicate that the carrying amount may not be recoverable. At June 30, 2012, the Company determined that two investment properties were impaired due to a shortened expected hold period, which reduced the projected undiscounted cash flows for these two assets. This resulted in the net book value of the assets exceeding the projected undiscounted cash flows. As a result, these assets were written down to fair value. The determination of fair value was based upon significant unobservable inputs, and therefore, these fair value measurements are classified as Level 3 measurements in the fair value hierarchy.

The following table summarizes activity for the Company's assets measured at fair value, on a non-recurring basis, as of June 30, 2012 and for the three and six months ended June 30, 2012 (in thousands). There were no events during the three and six months ended June 30, 2011 which indicated that fair value adjustments of our long-lived assets were necessary.

Description	As of June 30, 2012				Period ending June 30, 2012	
	Basis of Fair Value Measurements				Impairment Losses	
	Fair Value of Assets	Quoted Price In Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Three Months Ended	Six Months Ended
Investment property	\$78,801	\$ —	\$ —	\$78,801	\$ 46,058	\$ 46,058

The Company's estimated fair value of the investment properties was based on a comparison of recent market activity and discounted cash flow models, which includes estimates of property specific inflows and outflows over a specific holding period. Significant unobservable quantitative inputs used in determining the fair value of each investment include: discount rates of 8% and 13%, a capitalization rate of 8.5%, stabilized occupancy rates of 90% and 93% and current market rental rates of \$12.00 to \$13.00 per square foot and \$21.50 per square foot. These inputs are based on the location, type and nature of each property, current and anticipated market conditions and management's knowledge and expertise in real estate.

14. Reportable Segments

The Company's investments in real estate are geographically diversified and management evaluates the operating performance of each at an individual property level. The Company has determined it has four reportable segments: 1) office properties, 2) a domestic industrial property, 3) domestic retail properties and 4) an international industrial property. The office properties segment consists of 20 office properties that the Company owns directly as well as 23 office properties that are owned indirectly through the Company's investment in the Core Fund. The domestic industrial property segment consists of one directly-owned industrial property located in Dallas, Texas. The domestic retail segment consists of 12 grocery-anchored shopping centers that are owned indirectly through the Company's investment in a joint venture with Weingarten Realty Investors. The international industrial property segment consists of one industrial property located in Rio de Janeiro, Brazil, that is owned indirectly through the Company's investment in a joint venture with a Hines affiliate.

The Company's indirect investments are accounted for using the equity method of accounting. As such, the activities of these investments are reflected in investments in unconsolidated entities in the condensed consolidated balance sheets and equity in earnings (losses) of unconsolidated entities, net in the condensed consolidated statements of operations.

The tables below provide additional information related to each of the Company's segments (in thousands) and a reconciliation to the Company's net income or loss, as applicable. "Corporate-Level Accounts" includes amounts incurred by the corporate-level entities which are not allocated to any of the reportable segments.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Total revenue				
Office properties	\$ 67,023	\$ 70,489	\$ 134,729	\$ 138,261
Domestic industrial property	739	1,151	1,496	2,286
Total revenue	<u>\$ 67,762</u>	<u>\$ 71,640</u>	<u>\$ 136,225</u>	<u>\$ 140,547</u>
Net property revenues in excess of expenses⁽¹⁾				
Office properties ⁽¹⁾	\$ 37,510	\$ 42,320	\$ 75,996	\$ 80,489
Domestic industrial property ⁽¹⁾	506	886	953	1,769
Total segment net property revenues in excess of expenses	<u>\$ 38,016</u>	<u>\$ 43,206</u>	<u>\$ 76,949</u>	<u>\$ 82,258</u>
Equity in earnings (losses) of unconsolidated entities				
Equity in earnings (losses) of domestic office properties	\$ 426	\$ (19,977)	\$ (1,427)	\$ (22,392)
Equity in earnings (losses) of domestic retail properties	(5)	(11)	(10)	(10)
Equity in earnings (losses) of international industrial property	620	689	1,331	1,276
Total equity in earnings (losses) of unconsolidated entities	<u>\$ 1,041</u>	<u>\$ (19,299)</u>	<u>\$ (106)</u>	<u>\$ (21,126)</u>

	June 30, 2012	December 31, 2011
Total assets		
Office properties	\$ 2,250,398	\$ 2,303,433
Domestic industrial property	39,313	39,605
Investment in unconsolidated entities -		
Office properties	250,861	260,990
Domestic retail properties	56,806	59,904
International industrial property	26,112	28,092
Corporate-level accounts ⁽²⁾	202,663	219,988
Total assets	\$ 2,826,153	\$ 2,912,012

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Reconciliation to net income (loss)				
Total segment net property revenues in excess of expenses	\$ 38,016	\$ 43,206	\$ 76,949	\$ 82,258
Depreciation and amortization	(20,419)	(24,142)	(40,921)	(47,548)
Asset management fees	(7,821)	4,312	(15,564)	(3,331)
General and administrative	(2,125)	(1,865)	(3,608)	(3,478)
Impairment losses	(46,058)	-	(46,058)	-
Gain (loss) on derivative instruments, net	(2,394)	(8,996)	1,374	(3,800)
Interest expense	(19,436)	(20,394)	(38,881)	(40,285)
Interest income	179	88	351	143
Provision for income taxes	(190)	(136)	(343)	(218)
Equity in earnings (losses) of unconsolidated entities, net	1,041	(19,299)	(106)	(21,126)
Income from discontinued operations, net of tax	544	107,908	2,724	108,784
Net income (loss)	\$ (58,663)	\$ 80,682	\$ (64,083)	\$ 71,399

(1) Revenues less property operating expenses, real property taxes and property management fees.

(2) This amount primarily consists of the Company's \$107.0 million cash collateral deposit related to the letter of credit with the Bank of Montreal (see Note 2 - Summary of Significant Accounting Policies - Restricted Cash for additional information) and cash and cash equivalents at the corporate level, which includes proceeds from the sale of Atrium on Bay.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q. The following discussion should also be read in conjunction with our audited consolidated financial statements and the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the year ended December 31, 2011.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements include statements concerning future financial performance and distributions, future debt and financing levels, acquisitions and investment objectives, payments to Hines Advisors Limited Partnership (the "Advisor"), and its affiliates and other plans and objectives of management for future operations or economic performance, or assumptions or forecasts related thereto as well as all other statements that are not historical statements. These statements are only predictions. We caution that forward-looking statements are not guarantees. Actual events or our investments and results of operations could differ materially from those expressed or implied in forward-looking statements. Forward-looking statements are typically identified by the use of terms such as "may," "should," "expect," "could," "intend," "plan," "anticipate," "estimate," "believe," "continue," "predict," "potential" or the negative of such terms and other comparable terminology.

The forward-looking statements included in this Quarterly Report on Form 10-Q are based on our current expectations, plans, estimates, assumptions and beliefs that involve numerous risks and uncertainties. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions, the availability of future financing and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Any of the assumptions underlying forward-looking statements could prove to be inaccurate. To the extent that our assumptions differ from actual results, our ability to meet such forward-looking statements, including our ability to generate positive cash flow from operations, pay distributions to our shareholders and maintain the value of the real estate properties in which we hold an interest, may be significantly hindered.

The following are some of the risks and uncertainties, which could cause actual results to differ materially from those presented in certain forward-looking statements:

- The potential need to fund tenant improvements, lease-up costs or other capital expenditures, as well as increases in property operating expenses and costs of compliance with environmental matters or discovery of previously undetected environmentally hazardous or other undetected adverse conditions at our properties;
- Risks associated with debt;
- Competition for tenants, including competition with affiliates of Hines Interests Limited Partnership ("Hines");
- Risks associated with adverse changes in general economic or local market conditions, including terrorist attacks and other acts of violence, which may affect the markets in which we and our tenants operate;
- Catastrophic events, such as hurricanes, earthquakes, tornadoes and terrorist attacks; and our ability to secure adequate insurance at reasonable and appropriate rates;
- Risks associated with the currency exchange rate related to our international investment;
- Risks associated with our international investment, including the burden of complying with a wide variety of foreign laws and the uncertainty of such laws, the tax treatment of transaction structures, political and economic instability, foreign currency fluctuations, and inflation and governmental measures to curb inflation may adversely affect our operations and our ability to make distributions;
- The failure of any bank in which we deposit our funds could reduce the amount of cash we have available to pay distributions and make additional investments;
- Changes in governmental, tax, real estate and zoning laws and regulations and the related costs of compliance and increases in our administrative operating expenses, including expenses associated with operating as a public company;

- Risks relating to our investment in Hines US Core Office Fund LP (the “Core Fund”), such as its reliance on Hines for its operations and investments, and our potential liability for Core Fund obligations;
- The lack of liquidity associated with our assets;
- Our reliance on our Advisor, Hines and affiliates of Hines for our day-to-day operations and our Advisor’s ability to attract and retain high-quality personnel who can provide service at a level acceptable to us;
- Risks associated with conflicts of interests that result from our relationship with our Advisor and Hines, as well as conflicts of interests certain of our officers and directors face relating to the positions they hold with other entities; and
- Our ability to continue to qualify as a real estate investment trust (“REIT”) for federal income tax purposes.

These risks are more fully discussed in, and all forward-looking statements should be read in light of, all of the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2011.

You are cautioned not to place undue reliance on any forward-looking statements included in this Form 10-Q. All forward-looking statements are made as of the date of this Form 10-Q and the risk that actual results will differ materially from the expectations expressed in this Form 10-Q may increase with the passage of time. In light of the significant uncertainties inherent in the forward-looking statements included in this Form 10-Q, the inclusion of such forward-looking statements should not be regarded as a representation by us or any other person that the objectives and plans set forth in this Form 10-Q will be achieved. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by reference to these risks and uncertainties. Each forward-looking statement speaks only as of the date of the particular statement, and we do not undertake to update any forward-looking statement.

Executive Summary

Hines Real Estate Investment Trust, Inc. (“Hines REIT” and, together with its consolidated subsidiaries, “we”, “us” or the “Company”) and its subsidiary, Hines REIT Properties, L.P. (the “Operating Partnership”) were formed in August 2003 for the purpose of investing in and owning interests in real estate. We have invested in real estate to satisfy our primary investment objectives including preserving invested capital, paying regular cash distributions and achieving modest capital appreciation of our assets over the long term. We have made investments directly through entities wholly owned by the Operating Partnership or indirectly through other entities such as through our investment in the Core Fund. As of June 30, 2012, we had direct and indirect interests in 57 properties. These properties consist of 43 office properties located throughout the United States, one industrial property in Dallas, Texas, one industrial property in Brazil and a portfolio of 12 grocery-anchored shopping centers located primarily in five states in the Southeastern United States (the “Grocery-Anchored Portfolio”).

The following table provides summary information regarding the properties in which we owned interests as of June 30, 2012. All assets which are 100% owned by us are referred to as “directly-owned properties.” All other properties are owned indirectly through investments in the Core Fund, the Grocery-Anchored Portfolio and Distribution Park Rio.

Property	City	Date Acquired	Leasable Square Feet	Percent Leased	Effective Ownership ⁽¹⁾
Directly-owned Properties					
321 North Clark	Chicago, Illinois	04/2006	889,744	79%	100%
Citymark	Dallas, Texas	08/2005	218,926	93%	100%
4050/4055 Corporate Drive	Dallas, Texas	05/2008	643,429	85%	100%
JPMorgan Chase Tower	Dallas, Texas	11/2007	1,253,343	80%	100%
345 Inverness Drive	Denver, Colorado	12/2008	175,287	88%	100%
Arapahoe Business Park	Denver, Colorado	12/2008	309,450	85%	100%
Raytheon/DIRECTV Buildings	El Segundo, California	03/2008	550,579	100%	100%
2100 Powell	Emeryville, California	12/2006	345,892	100%	100%
Williams Tower	Houston, Texas	05/2008	1,479,764	95%	100%
2555 Grand	Kansas City, Missouri	02/2008	595,607	100%	100%
One Wilshire	Los Angeles, California	08/2007	661,553	94%	100%
3 Huntington Quadrangle	Melville, New York	07/2007	407,912	61%	100%
Airport Corporate Center	Miami, Florida	01/2006	1,018,428	77%	100%
Minneapolis Office/Flex Portfolio	Minneapolis, Minnesota	09/2007	769,453	74%	100%
3400 Data Drive	Rancho Cordova, California	11/2006	149,703	100%	100%
Daytona Buildings	Redmond, Washington	12/2006	251,313	100%	100%
Laguna Buildings	Redmond, Washington	01/2007	460,661	85%	100%
1515 S Street	Sacramento, California	11/2005	349,740	99%	100%
1900 and 2000 Alameda	San Mateo, California	06/2005	254,145	91%	100%
Seattle Design Center	Seattle, Washington	06/2007	390,684	70%	100%
5th and Bell	Seattle, Washington	06/2007	197,135	99%	100%
Total for Directly-Owned Properties			11,372,748	86%	
Indirectly-owned Properties					
Core Fund Properties					
One Atlantic Center	Atlanta, Georgia	07/2006	1,100,312	92%	22%
The Carillon Building	Charlotte, North Carolina	07/2007	473,485	76%	22%
Charlotte Plaza	Charlotte, North Carolina	06/2007	625,026	77%	22%
One North Wacker	Chicago, Illinois	03/2008	1,373,754	96%	11%
333 West Wacker	Chicago, Illinois	04/2006	857,558	74%	18%
One Shell Plaza	Houston, Texas	05/2004	1,230,395	99%	11%
Two Shell Plaza	Houston, Texas	05/2004	565,573	95%	11%
425 Lexington Avenue	New York, New York	08/2003	700,034	100%	11%
499 Park Avenue	New York, New York	08/2003	296,005	91%	11%
Renaissance Square	Phoenix, Arizona	12/2007	965,508	76%	22%
Riverfront Plaza	Richmond, Virginia	11/2006	951,616	98%	22%
Johnson Ranch Corporate Centre	Roseville, California	05/2007	179,990	30%	18%
Roseville Corporate Center	Roseville, California	05/2007	111,418	65%	18%
Summit at Douglas Ridge	Roseville, California	05/2007	185,128	76%	18%
Olympus Corporate Centre	Roseville, California	05/2007	193,178	54%	18%
Douglas Corporate Center	Roseville, California	05/2007	214,606	87%	18%
Wells Fargo Center	Sacramento, California	05/2007	502,365	93%	18%
525 B Street	San Diego, California	08/2005	449,180	78%	22%
The KPMG Building	San Francisco, California	09/2004	379,328	97%	22%
101 Second Street	San Francisco, California	09/2004	388,370	97%	22%
720 Olive Way	Seattle, Washington	01/2006	300,710	86%	18%
1200 19th Street	Washington, D.C.	08/2003	337,369	86%	11%
Warner Center	Woodland Hills, California	10/2006	808,274	91%	18%
Total for Core Fund Properties			13,189,182	88%	

Property	City	Date Acquired	Leasable Square Feet	Percent Leased	Effective Ownership ⁽¹⁾
Grocery-Anchored Portfolio					
Cherokee Plaza	Atlanta, Georgia	11/2008	104,060	100%	70%
Bellaire Boulevard Center	Bellaire, Texas	11/2008	35,081	100%	70%
Thompson Bridge Commons	Gainesville, Georgia	03/2009	92,587	93%	70%
Champions Village	Houston, Texas	11/2008	384,581	94%	70%
King's Crossing	Kingwood, Texas	11/2008	126,397	99%	70%
Sandy Plains Exchange	Marietta, Georgia	02/2009	72,784	93%	70%
Commons at Dexter Lakes	Memphis, Tennessee	11/2008	228,796	87%	70%
Mendenhall Commons	Memphis, Tennessee	11/2008	88,108	100%	70%
University Palms Shopping Center	Oviedo, Florida	11/2008	99,172	93%	70%
Shoppes at Parkland	Parkland, Florida	03/2009	145,720	95%	70%
Oak Park Village	San Antonio, Texas	11/2008	64,287	100%	70%
Heritage Station	Wake Forest, North Carolina	01/2009	68,641	98%	70%
Total for Grocery-Anchored Portfolio			1,510,214	95%	
Other					
Distribution Park Rio	Rio de Janeiro, Brazil	07/2007	690,579	100%	50%
Total for All Properties			26,762,723	88% ⁽²⁾	

(1) This percentage shows the effective ownership of the Operating Partnership in the properties listed. On June 30, 2012, Hines REIT owned a 95.1% interest in the Operating Partnership as its sole general partner. Affiliates of Hines owned the remaining 4.9% interest in the Operating Partnership. In addition, the Company owned an approximate 27.1% non-managing general partner interest in the Core Fund as of June 30, 2012. The Core Fund does not own 100% of these properties; its ownership interest in its properties ranges from 40.6% to 82.8%.

(2) This amount represents the percentage leased assuming the Company owns a 100% interest in each of these properties. The percentage leased based on the Company's effective ownership interest in each property is 87%.

In order to provide capital for these investments, we raised over \$2.5 billion through public offerings of our common stock since we commenced our initial public offering in June 2004. In consideration of market conditions and other factors, our board of directors determined to cease sales of our shares to new investors pursuant to the third public offering as of January 1, 2010. However, we have continued to sell shares under our dividend reinvestment plan. Based on market conditions and other considerations, we do not currently expect to commence any future offerings other than those related to shares issued under our dividend reinvestment plan.

As with most commercial real estate, our portfolio of assets has not been immune to the effects of a recession. In fact, during the second quarter of 2012 we recorded impairment charges on two of our directly-owned assets. However, due to the quality and diversification of our portfolio, we continue to believe that our portfolio is relatively well-positioned to recover from the negative impact as a result of the recent down cycle. In spite of the challenges presented by the uncertain economy and markets, our portfolio was 87% leased as of June 30, 2012 and December 31, 2011. Our management closely monitors the portfolio's lease expirations, which for the period from July 1, 2012 through December 31, 2012, and for each of the years ended December 31, 2013 through December 31, 2016, are expected to approximate, 4%, 10%, 5%, 9% and 7%, respectively, of leasable square feet. We believe this level of expirations is manageable, and we will remain focused on filling tenant vacancies with high-quality tenants in each of the markets in which we operate. Although we continue to be leased to a diverse tenant base over a variety of industries, our portfolio is approximately 17% leased to over 100 companies in the legal industry, approximately 12% leased to over 190 companies in the financial and insurance industries, approximately 12% leased to over 40 companies in the manufacturing industry and approximately 11% leased to over 90 companies in the information technology industry.

As we have disclosed previously, we were required to revalue our common shares 18 months after the close of our primary offering. Hines REIT was closed to new investors as of January 1, 2010. Accordingly, after considering many factors, effective May 24, 2011, our board of directors established an estimated value per share of \$7.78. The primary driver of the decrease in our estimated share value was the economic environment's impact on the commercial real estate markets during the global recession. We anticipate revaluing our shares again prior to December 31, 2012.

The estimated value per share was calculated as of a moment in time, and, although the value of our shares will fluctuate over time as a result of, among other things, developments related to individual assets and changes in the real estate and capital markets, we do not undertake to update the estimated value per share on a regular basis. Our board of directors has not determined, and was not required to determine, a new estimated value per share since May 24, 2011. As noted below, a portion of distributions to our stockholders have been or will be funded with a portion of the proceeds from sales of our investment property. Accordingly, the estimated value per share may not accurately reflect the value of our assets.

We pay distributions to our shareholders on a quarterly basis. Beginning July 1, 2010, the annual distribution rate was decreased from \$0.00165699 to \$0.00138082 per share, per day, which represented a change in the annualized distribution rate from 6% to 5% (based on our prior primary offering share price of \$10.08 per share). With the authorization of our board of directors, we have continued to declare distributions in the amount of \$0.00138082 per share, per day through September 30, 2012, which represents an annual distribution rate of 6.5%, based on our estimated share value of \$7.78, effective on May 24, 2011 (assuming the current distribution rate is maintained for a twelve-month period).

Distributions declared for July 2011 through September 2012 will be paid from two sources. Approximately 70% have been or will be paid from funds generated by our operations and approximately 30% have been or will be special distributions from the proceeds on sales of certain properties. These special distributions represent a return of our shareholders' invested capital.

Critical Accounting Policies

Each of our critical accounting policies involves the use of estimates that require management to make assumptions that are subjective in nature. Management relies on its experience, collects historical and current market data, and analyzes these assumptions in order to arrive at what it believes to be reasonable estimates. In addition, application of these accounting policies involves the exercise of judgments regarding assumptions as to future uncertainties. Actual results could materially differ from these estimates. A disclosure of our critical accounting policies is included in our Annual Report on Form 10-K for the year ended December 31, 2011 in "Management's Discussion and Analysis of Financial Condition and Results of Operations." There have been no significant changes to our policies during 2012.

Financial Condition, Liquidity and Capital Resources

General

Our principal cash requirements are for property-level operating expenses, capital improvements and leasing costs, debt service, corporate-level general and administrative expenses, distributions and redemptions. We have four primary sources of capital for meeting our cash requirements:

- proceeds from our dividend reinvestment plan;
- debt financings, including secured or unsecured facilities;
- proceeds from the sale of our properties; and
- cash flow generated by our real estate investments and operations.

We are focused on maintaining a strong cash position and managing our capital needs. Historically, our operating cash needs were primarily met through cash flow generated by our properties and distributions from unconsolidated entities. However, due to the effects of the economic recession on commercial real estate fundamentals and the corresponding reduction in our net operating income in recent years, an increasing portion of our operating cash needs was met through the sale of our investment properties.

During the year ended December 31, 2011, we received proceeds of \$128.7 million from the sale of Atrium on Bay, a mixed-use office and retail complex located in the Downtown North submarket of the central business district of Toronto, Canada. Further, for the six months ended June 30, 2012, we received an additional \$2.0 million in proceeds related to the sale of Atrium on Bay on the settlement of reserves that were established during the closing of the sale. Additionally, we are continually evaluating each of our investments to determine the appropriate time to sell assets in order to achieve attractive returns and provide additional liquidity to the Company.

The Core Fund has also sold interests in some of its investment properties in order to realize gains and provide it with additional liquidity. On August 9, 2012, the Core Fund received net proceeds of \$266.8 million from the sale of One Shell Plaza and Two Shell Plaza (collectively, "Shell Plaza"), two office buildings located in downtown Houston, Texas.

During the year ended December 31, 2011, the Core Fund received net proceeds of \$198.5 million from the sale of Three First National Plaza, an office building located in the business and financial district of Chicago, Illinois and \$189.9 million from the sale of a 49% noncontrolling interest in One North Wacker, an office building located in the West Loop submarket of the central business district in Chicago, Illinois. This transaction was accounted for as an equity transaction, as the Core Fund retained control of the subsidiary.

Mortgage Financing

We have managed our portfolio to date in an effort to minimize our exposure to volatility in the debt capital markets. We have done this by using moderate levels of long-term fixed-rate debt and minimizing our exposure to short-term variable-rate debt which is more likely to be impacted by market volatility. Our portfolio was 55% leveraged as of June 30, 2012, with all of our debt in the form of fixed-rate mortgage loans (some of which are effectively fixed through the use of interest rate swaps). By comparison, our portfolio was also 55% leveraged as of December 31, 2011. This leverage percentage is calculated using the estimated aggregate value of our real estate investments (including our pro rata share of real estate assets and related debt owned through our investments in other entities such as the Core Fund), cash and cash equivalents and restricted cash on hand as of that date.

We have a \$159.5 million mortgage loan expiring in November 2012 and three mortgage loans expiring in 2013 with outstanding principal balances totaling \$456.0 million. Additionally, our revolving credit facility with Keybank is set to expire in 2013. We expect to renew our revolving credit facility or replace it with a similar facility. Also, we expect to refinance these mortgages, but if we are unable to refinance or are required to make principal payments upon refinancing, we expect to use cash flows from operating activities, proceeds from the sale of other real estate investments (to the extent available) or proceeds from our revolving line of credit. To the extent we are required to use these sources, we will have less cash available to fund distributions.

In addition to our expiring mortgage loans, we could be required to post additional collateral or provide certain leasing or capital guarantees under our secured credit facility with HSH Nordbank in future periods. In April 2012, we were notified that HSH exercised its right to appraise the properties serving as collateral under this credit facility and the appraisals are currently ongoing and under review. Should the aggregate outstanding principal amounts under this facility exceed 55% of the lender's appraised values, we will be required to make a partial payment or provide additional collateral to eliminate such excess. Should the need arise, we expect to fund such amounts with cash on hand or borrowings under our revolving credit facility with KeyBank. As described in Note 2 – Summary of Significant Accounting Policies – Restricted Cash, we currently have a \$107.0 million letter of credit from the Bank of Montreal related to past appraisals of these properties.

Cash Flows from Operating Activities

Our direct investments in real estate assets generate cash flow in the form of rental revenues, which are reduced by interest payments, direct leasing costs and property-level operating expenses. Property-level operating expenses consist primarily of salaries and wages of property management personnel, utilities, cleaning, insurance, security and building maintenance costs, property management and leasing fees, and property taxes. Additionally, we incur corporate-level debt service, general and administrative expenses and asset management fees. Net cash provided by operating activities was \$8.9 million for the six months ended June 30, 2012 compared to net cash used in operating activities of \$5.7 million for the six months ended June 30, 2011. The change in cash flows from operating activities between 2012 and 2011 is primarily due to decreased deferred leasing costs paid out in the current period.

Cash Flows from Investing Activities

Net cash from investing activities was \$11.4 million and \$130.6 million for the six months ended June 30, 2012 and 2011, respectively.

During the six months ended June 30, 2012 and 2011, we received distributions from the Core Fund totaling \$8.4 million and \$1.6 million, respectively, which was included in cash flows from investing activities as it exceeded our equity in earnings of the joint venture. Beginning with the first quarter of 2009, the Core Fund decreased its distribution to us to pay down debt and improve its liquidity position, however, with strategic asset sales and mortgage refinancing the Core Fund has improved its liquidity position which enabled the Core Fund to increase its quarterly distribution to us beginning in the first quarter of 2012 based on our 27.1% ownership percentage in the Core Fund at June 30, 2012.

During the six months ended June 30, 2012 and 2011, we had cash outflows related to investments in property of \$3.0 million and \$2.8 million, respectively, primarily as a result of capital expenditures at our properties.

On June 1, 2011, we sold Atrium on Bay, a mixed-use office and retail complex located in the Downtown North submarket of the central business district of Toronto, Canada and received net proceeds of \$128.7 million related to the sale. We acquired Atrium on Bay in February 2007 for 250.0 million CAD (\$215.5 million USD, based on the exchange rate in effect on the date of acquisition).

The contract sales price for Atrium on Bay was 344.8 million CAD (\$353 million USD, based on the exchange rate in effect on the date of sale), exclusive of transaction costs. For the six months ended June 30, 2012, we received additional net proceeds of \$2.0 million related to the settlement of reserves established at closing.

In May 2011, we replaced the HSH Nordbank Collateral deposit with a letter of credit from the Bank of Montreal. As collateral for the letter of credit, we posted a cash deposit of \$107.0 million with the Bank of Montreal, which is classified as restricted cash in the condensed consolidated balance sheet. The increase in restricted cash since that time is related to interest earned and escrow accounts required by certain of our mortgage agreements.

Cash Flows from Financing Activities

Distributions

In order to meet the requirements for being treated as a REIT under the Internal Revenue Code of 1986 and to pay regular cash distributions to our shareholders, which is one of our investment objectives, we have declared and expect to continue to declare distributions to shareholders (as authorized by our board of directors) as of daily record dates and aggregate and pay such distributions quarterly. We intend to continue this distribution policy for so long as our board of directors decides this policy is in our best interests. Beginning July 1, 2010, the annual distribution rate was decreased from \$0.00165699 to \$0.00138082 per share, per day, which represented a change in the annualized distribution rate from 6% to 5% (based on our prior primary offering share price of \$10.08 per share). With the authorization of our board of directors, we have continued to declare distributions in the amount of \$0.00138082 per share, per day through September 30, 2012, which represents an annual distribution rate of 6.5%, based on our estimated share value of \$7.78 (assuming the current distribution rate is maintained for a twelve-month period).

With respect to the \$0.00138082 per share, per day distributions declared for July 2011 through September 2012, \$0.00041425 of the per share, per day distributions were or will be designated by us as special distributions which represent a return of a portion of the shareholders' invested capital and, as such, reduce their remaining investment in the Company. The special distributions were or will be funded with a portion of the proceeds from sales of investment property. The above designations of a portion of the distributions as special distributions does not impact the tax treatment of the distributions to our shareholders. The remaining 70% of the distributions for such period was or will be paid from funds generated by our operations. See "Executive Summary" above for a discussion of the possible impact of the special distributions on the estimated value per share that was determined by our board of directors in May 2011.

In addition, for the period from July 1, 2011 through December 31, 2012, our Advisor has agreed to waive a portion of its monthly cash asset management fee such that the fee will be reduced from 0.0625% to 0.0417% (0.75% to 0.50% on an annual basis) of the net equity capital we have invested in real estate investments as of the end of each month. As a result of the waiver of these fees, cash flow from operations that would have been paid to the Advisor will be available to pay distributions to shareholders. This fee waiver is not a deferral and accordingly, these fees will not be paid to the Advisor in cash at any time in the future. For the period July 1, 2011 through June 30, 2012, this waiver totaled \$5.0 million.

The table below outlines our total distributions declared to shareholders and noncontrolling interests for each of the quarters during 2012 and 2011, including the breakout between the distributions paid in cash and those reinvested pursuant to our dividend reinvestment plan (all amounts are in thousands).

Distributions for the Three Months Ended	Shareholders			Noncontrolling Interests
	Cash Distributions	Distributions Reinvested	Total Declared	Total Declared
2012				
June 30, 2012	\$ 17,054	\$ 11,783	\$ 28,837 ⁽¹⁾	\$ 139
March 31, 2012	16,813	11,888	28,701 ⁽¹⁾	139
Total	\$ 33,867	\$ 23,671	\$ 57,538	\$ 278
2011				
December 31, 2011	\$ 16,743	\$ 12,117	\$ 28,860 ⁽¹⁾	\$ 1,355
September 30, 2011	16,505	12,201	28,706 ⁽¹⁾	1,291
June 30, 2011	15,995	12,248	28,243	1,217
March 31, 2011	15,491	12,324	27,815	1,151
Total	\$ 64,734	\$ 48,890	\$ 113,624	\$ 5,014

- (1) As stated above, a portion of these distributions were designated by us as special distributions and funded using proceeds from sales of investment property, which represents a return of a portion of the shareholder's invested capital. For the quarters ended June 30, 2012, March 31, 2012, December 31, 2011 and September 30, 2011, respectively, \$8.7 million, \$8.6 million, \$8.7 million and \$8.6 million of the total distributions declared to our shareholders were paid using such sales proceeds.

For the six months ended June 30, 2012 we funded our cash distributions with cash flows from operating activities, distributions received from our unconsolidated investments and proceeds from the sales of our real estate investments from prior periods. For the six months ended June 30, 2011 we funded our cash distributions with distributions received from our unconsolidated investments and proceeds from the sales of our real estate investments.

Redemptions

During the six months ended June 30, 2012 and 2011, we funded redemptions of \$6.0 million and \$6.0 million, respectively, pursuant to the terms of our share redemption program.

Debt Financings

We use debt financing from time to time for property improvements, tenant improvements, leasing commissions and other working capital needs. Most of our debt is in the form of secured mortgage loans, which we entered into at the time each real estate asset was acquired. As of June 30, 2012 and December 31, 2011 our portfolio was approximately 55% leveraged. This leverage percentage is calculated using the estimated aggregate value of our real estate investments (including our pro rata share of real estate assets through our investments in other entities such as the Core Fund), cash and cash equivalents and restricted cash on hand as of that date. Additionally, as of June 30, 2012 and December 31, 2011, our debt financing had a weighted average interest rate of 5.64% (including the effect of interest rate swaps).

We entered into a \$45.0 million revolving line of credit with KeyBank on February 3, 2011. This facility (as amended) has a maturity date of February 3, 2013. For the six months ended June 30, 2012, we did not have any activity under our revolving credit facility. For the six months ended June 30, 2011, we received debt proceeds of \$43.0 million and made payments of \$43.0 million related to borrowings under our revolving credit facility. We generally use proceeds from our revolving credit facility to fund general working capital needs.

Results of Operations

RESULTS OF OUR DIRECTLY-OWNED PROPERTIES

We owned 21 properties directly that were 86% leased as of June 30, 2012 compared to 21 properties that were 88% leased as of June 30, 2011. The table below includes revenues and expenses of our directly-owned properties for the three and six months ended June 30, 2012 and 2011. See "Discontinued Operations" below for additional information regarding our property dispositions. All amounts in thousands, except for percentages:

	Three Months Ended June 30,		Change	
	2012	2011	\$	%
Property revenues	\$ 67,762	\$ 71,640	\$ (3,878)	(5.4)%
Less: Property expenses ⁽¹⁾	29,746	28,434	1,312	4.6 %
Total property revenues in excess of expenses	\$ 38,016	\$ 43,206	\$ (5,190)	(12.0)%
Other				
Depreciation and amortization	\$ 20,419	\$ 24,142	\$ (3,723)	(15.4)%
Impairment loss	\$ 46,058	\$ -	\$ 46,058	-%
Interest expense	\$ 19,436	\$ 20,394	\$ (958)	(4.7)%
Interest income	\$ 179	\$ 88	\$ 91	103.4 %
Income tax expense	\$ 190	\$ 136	\$ 54	39.7 %

	Six Months Ended June 30,		Change	
	2012	2011	\$	%
Property revenues	\$ 136,225	\$ 140,547	\$ (4,322)	(3.1)%
Less: Property expenses ⁽¹⁾	59,276	58,289	987	1.7 %
Total property revenues in excess of expenses	\$ 76,949	\$ 82,258	\$ (5,309)	(6.5)%
Other				
Depreciation and amortization	\$ 40,921	\$ 47,548	\$ (6,627)	(13.9)%
Impairment loss	\$ 46,058	\$ -	\$ 46,058	-%
Interest expense	\$ 38,881	\$ 40,285	\$ (1,404)	(3.5)%
Interest income	\$ 351	\$ 143	\$ 208	145.5 %
Income tax expense	\$ 343	\$ 218	\$ 125	57.3 %

(1) Property expenses include property operating expenses, real property taxes and property management fees.

Property revenues decreased for the three and six months ended June 30, 2012 as compared to the same periods in 2011 due to lease termination payments of \$3.7 million that were received in the second quarter of 2011. Additionally, the decrease is further due to the adverse effects of the economic recession on commercial real estate fundamentals. For example, decreases in tenant demand and leasing velocity have led to declining rental rates and increased tenant incentives on lease renewals. Additionally, we have also experienced increases in tenant defaults.

Property expenses increased for the three and six months ended June 30, 2012 as compared to the same periods in 2011 primarily due to property tax refunds that reduced property tax expense in the second quarter in 2011. The remaining increase in expense for the three and six months ended June 30, 2012 as compared to the same periods in 2011 is due to inflationary increases in property operating expenses.

Depreciation and amortization decreased during the three and six months ended June 30, 2012 as compared to the same periods in 2011 due to fully amortized in-place lease intangibles.

During the second quarter of 2012, we determined that two of our directly-owned investment properties located in Melville, New York and Seattle, Washington, respectively, were impaired, as a result of the net book value being less than the projected cash flows of these properties. Accordingly, we recorded an impairment charge of \$46.1 million to write these assets down to fair value. There was no impairment loss for our directly-owned properties recorded for the three and six months ended June 30, 2011.

Additionally, we are continually evaluating each of our investments to determine the ideal time to sell assets in order to achieve attractive total returns and provide additional liquidity to the Company. As a result of future potential disposals and other factors, our results of operations for the period ended June 30, 2012 could differ from our results of operations in future periods.

Discontinued Operations

On June 1, 2011, we sold Atrium on Bay, a mixed-use office and retail complex located in the Downtown North submarket of the central business district of Toronto, Canada, which we acquired in February 2007. The contract sales price for Atrium on Bay was 344.8 million CAD (\$353 million USD, based on the exchange rate in effect on the date of sale). We acquired Atrium on Bay in February 2007 for 250.0 million CAD (\$215.5 million USD, based on the exchange rate in effect on the date of acquisition).

The results of operations of Atrium on Bay and the gain realized on the disposition of this property are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Revenues:				
Rental revenue	\$ 12	\$ 6,996	\$ 377	\$ 17,298
Other revenue	-	1,025	-	2,365
Total revenues	12	8,021	377	19,663
Expenses:				
Property operating expenses	150	2,313	200	5,332
Real property taxes	-	1,650	-	4,225
Property management fees	-	194	-	475
Depreciation and amortization	-	1,497	-	3,770
Total expenses	150	5,654	200	13,802
Income from discontinued operations before interest income (expense), taxes and gain on sale	(138)	2,367	177	5,861
Interest expense	-	(1,791)	-	(4,426)
Interest income	3	16	19	33
Benefit (provision) for income taxes	(11)	75	(38)	75
Income (loss) from discontinued operations before gain on sale	(146)	667	158	1,543
Gain on sale of properties	690 ⁽¹⁾	107,241	2,566 ⁽¹⁾	107,241
Income (loss) from discontinued operations	\$ 544	\$ 107,908	\$ 2,724	\$ 108,784

- (1) The additional gain on sale of properties recorded in 2012 is primarily related to the settlement of reserves that were established during the closing of the sale of Atrium on Bay.

RESULTS FOR OUR INDIRECTLY-OWNED PROPERTIES

Our Interest in the Core Fund

As of June 30, 2012, we owned a 27.1% non-managing general partner interest in the Core Fund, which held interests in 23 properties that were 88% leased. As of June 30, 2011, we owned a 26.8% non-managing general partner interest in the Core Fund, which held interests in 24 properties that were 90% leased.

Our equity in earnings related to our investment in the Core Fund for the three months ended June 30, 2012 was \$0.4 million compared to equity in losses of \$20.0 million for the three months ended June 30, 2011. Our equity in losses related to our investment in the Core Fund for the six months ended June 30, 2012 was \$1.4 million compared to equity in losses of \$22.4 million for the six months ended June 30, 2011.

The change in our equity in earnings (losses) for the three and six months ended June 30, 2012 primarily resulted from our portion (\$0.6 million) of an impairment charge recorded at one of the Core Fund's properties located in suburban Sacramento, California compared our portion (\$18.0 million) of an impairment charge recorded at five of the Core Fund's properties located in suburban Sacramento, California for the three and six months ended June 30, 2012.

Additionally, due to deterioration in the financial condition at the property located in suburban Sacramento, California, the Core Fund has elected to not make debt service payments on the secured, nonrecourse mortgage loan at the property. This has resulted in a default, and potentially, a foreclosure on the property by the lender. If foreclosure occurs, the Core Fund will relinquish all rights and title to the property and will be relieved of the entire value of the mortgage loan.

CORPORATE LEVEL ACTIVITIES

Other Corporate-level Activities

The tables below provide detail relating to our asset management fees and general and administrative expenses. All amounts in thousands, except percentages:

	Three Months Ended June 30,		Change	
	2012	2011	\$	%
Asset management fees	\$ 7,821	\$ (4,312)	\$ 12,133	(281.4)%
General and administrative expenses	\$ 2,125	\$ 1,865	\$ 260	13.9 %

	Six Months Ended June 30,		Change	
	2012	2011	\$	%
Asset management fees	\$ 15,564	\$ 3,331	\$ 12,233	367.2 %
General and administrative expenses	\$ 3,608	\$ 3,478	\$ 130	3.7 %

We pay monthly asset management fees to our Advisor based on the amount of net equity capital invested in real estate investments. In addition, we record a liability related to the Participation Interest component of these fees, which is based on the estimated settlement value in the accompanying condensed consolidated balance sheets and remeasured at fair value at each balance sheet date plus any unpaid distributions. The fair value of the Operating Partnership interest underlying the Participation Interest liability is determined based on the redemption price in place under the Company's share redemption program as of each balance sheet date which was \$7.78 per share at June 30, 2012 and December 31, 2011. Adjustments required to remeasure this liability at fair value are included in asset management fees in the accompanying condensed consolidated statements of operations.

As described previously, on May 24, 2011, our board of directors established an estimated value per share and per share redemption price of \$7.78, which was reduced from the prior redemption price of \$9.15. Accordingly, the fair value of the Participation Interest liability as of June 30, 2011 was reduced by \$12.2 million, resulting in a reduction of the asset management fee expense for the three and six months ended June 30, 2011. There was not a comparable fair value adjustment for the three and six months ended June 30, 2012.

General and administrative expenses include legal and accounting fees, insurance costs, costs and expenses associated with our board of directors and other administrative expenses.

Funds from Operations and Modified Funds from Operations

Funds from Operations ("FFO") is a non-GAAP financial performance measure defined by the National Association of Real Estate Investment Trusts ("NAREIT") widely recognized by investors and analysts as one measure of operating performance of a real estate company. FFO excludes items such as real estate depreciation and amortization and impairment of depreciable real estate. Depreciation and amortization, as applied in accordance with GAAP, implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, it is management's view, and we believe the view of many industry investors and analysts, that the presentation of operating results for real estate companies by using the historical cost accounting alone is insufficient. We believe it is appropriate to exclude gains and losses from the sale of real estate and impairment charges of depreciable real estate assets from FFO even though the impairment charge may represent a permanent decline in value due to decreased operating performance of the applicable property, because we believe the exclusion of these items provides management and investors with a helpful additional measure of the historical performance of our real estate portfolio, as it allows for comparisons, year to year, that reflect the impact on operations from trends in items such as occupancy rates, rental rates, operating costs, general and administrative expenses and interest costs.

In addition to FFO, management uses modified funds from operations ("MFFO") as defined by the Investment Program Association ("IPA") as a non-GAAP supplemental financial performance measure to evaluate our operating performance. MFFO includes funds generated by the operations of our real estate investments and funds used in our corporate-level operations. MFFO is based on FFO, but includes certain additional adjustments which we believe are appropriate. Some of these adjustments relate to changes in the accounting and reporting rules under GAAP that have been put into effect since the establishment of NAREIT's definition of FFO. These changes have prompted a significant increase in the magnitude of non-cash and non-operating items included in FFO, as defined. Such items include amortization of out-of-market lease intangible assets and liabilities and certain tenant incentives, the effects of straight-line rent revenue recognition, fair value adjustments to derivative instruments that do not qualify for hedge accounting treatment and certain other items as described in the footnotes below. Management uses MFFO to evaluate the financial performance of our investment portfolio. In addition, management uses MFFO to evaluate and establish our distribution policy and the sustainability thereof. Further, we believe MFFO is one of several measures that may be useful to investors in evaluating the potential performance of our portfolio.

As such, we believe FFO and MFFO, in addition to net income (loss) and cash flows from operating activities as defined by GAAP, are meaningful supplemental performance measures and are useful to investors in understanding how our management evaluates our ongoing performance. However, FFO and MFFO should not be considered as alternatives to net income (loss) or to cash flows from operating activities and are not intended to be used as liquidity measures indicative of cash flow available to fund our cash needs. Additionally, please see the limitations listed below associated with the use of MFFO as compared to net income (loss):

- MFFO excludes gains (losses) related to changes in estimated values of our interest rate swaps. Although we expect to hold these instruments to maturity, if we were to settle these instruments currently, it would have an impact on our operations.
- MFFO excludes impairment charges related to long-lived assets that have been written down to current market valuations. Although these losses are included in the calculation of net income (loss), we have excluded them from MFFO because we believe doing so more appropriately presents the operating performance of our real estate investments on a comparative basis.
- MFFO excludes acquisition fees payable to our Advisor. Although these amounts reduce net income, we fund such costs with proceeds from our current public offerings and acquisition-related indebtedness and do not consider these fees in the evaluation of our operating performance and determining MFFO.

The table below summarizes FFO and MFFO for the six months ended June 30, 2012 and 2011 and a reconciliation of such non-GAAP financial performance measures to our net income (loss) for the periods then ended (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income (loss)	\$ (58,663)	\$ 80,682	\$ (64,083)	\$ 71,399
Depreciation and amortization ⁽¹⁾	20,419	25,639	40,921	51,318
Gain on sale of investment property ⁽²⁾	(690)	(107,241)	(2,566)	(107,241)
Impairment on real estate investments ⁽³⁾	46,058	-	46,058	-
Adjustments to equity in earnings from unconsolidated entities, net ⁽⁴⁾	9,139	45,124	17,305	54,406
Adjustments for noncontrolling interests ⁽⁵⁾	465	(1,826)	665	(2,845)
Funds from operations	16,728	42,378	38,300	67,037
(Gain) loss on derivative instruments ⁽⁶⁾	2,394	8,996	(1,374)	3,800
Other components of revenues and expenses ⁽⁷⁾	982	(513)	1,460	(2,687)
Adjustments to equity in earnings (losses) from unconsolidated entities, net ⁽⁴⁾	(4,014)	(18,172)	(4,217)	(18,433)
Adjustments for noncontrolling interests ⁽⁴⁾	31	400	195	703
Modified Funds From Operations	\$ 16,121	\$ 33,089	\$ 34,364	50,420
Basic and Diluted Income (Loss) Per Common Share	\$ (0.26)	\$ 0.35	\$ (0.28)	\$ 0.31
Funds From Operations Per Common Share	\$ 0.07	\$ 0.19	\$ 0.17	\$ 0.19
Modified Funds From Operations Per Common Share	\$ 0.07	\$ 0.15	\$ 0.15	\$ 0.15
Weighted Average Shares Outstanding	229,494	224,764	228,950	224,292

- 1) Represents the depreciation and amortization of various real estate assets. Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, we believe that such depreciation and amortization may be of limited relevance in evaluating current operating performance and, as such, these items are excluded from our determination of FFO. This amount includes zero and \$1.5 million of depreciation and amortization related to discontinued operations for the three months ended June 30, 2012 and 2011, respectively. This amount includes zero and \$3.8 million of depreciation and amortization related to discontinued operations for the six months ended June 30, 2012 and 2011, respectively.
- 2) Represents the gain on disposition of certain real estate investments. Although this gain is included in the calculation of net income (loss), we have excluded it from FFO because we believe doing so more appropriately presents the operating performance of our real estate investments on a comparative basis.

- 3) Represents impairment charges recorded in the second quarter of 2012 in accordance with GAAP. Although such charges are included in the calculation of net income (loss), we have excluded them from FFO because we believe doing so more appropriately presents the operating performance of our real estate investments on a comparative basis. See “Results of Operations — Results of Directly-Owned Properties” for additional information regarding our impairment charges.
- 4) Includes adjustments to equity in earnings (losses) of unconsolidated entities, net, similar to those described in Notes 1, 2, and 7 for our unconsolidated entities, which are necessary to convert our share of income (loss) from unconsolidated entities to FFO and MFFO.
- 5) Includes income attributable to noncontrolling interests and all adjustments to eliminate the noncontrolling interests’ share of the adjustments to convert our net income (loss) to FFO and MFFO.
- 6) Represents components of net income (loss) related to the estimated changes in the values of our interest rate swap derivatives. We have excluded these changes in value from our evaluation of our operating performance and MFFO because we expect to hold the underlying instruments to their maturity and accordingly the interim gains or losses will remain unrealized.
- 7) Includes the following components of revenues and expenses that we do not consider in evaluating our operating performance and determining MFFO (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Straight-line rent adjustment (a)	\$ (1,506)	\$ (1,540)	\$ (3,054)	\$ (3,890)
Amortization of lease incentives (b)	3,804	3,275	7,176	6,089
Amortization of out-of-market leases (b)	(1,526)	(2,461)	(3,081)	(5,310)
Other	210	213	419	424
	<u>\$ 982</u>	<u>\$ (513)</u>	<u>\$ 1,460</u>	<u>\$ (2,687)</u>

- a) Represents the adjustments to rental revenue as required by GAAP to recognize minimum lease payments on a straight-line basis over the respective lease terms. We have excluded these adjustments from our evaluation of the operating performance of the Company and in determining MFFO because we believe that the rent that is billable during the current period is a more relevant measure of the Company’s operating performance for such period.
- b) Represents the amortization of lease incentives and out-of-market leases. As stated in Note 1 above, historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, we believe that such amortization may be of limited relevance in evaluating current operating performance and, as such, these items are excluded from our determination of MFFO.

Set forth below is additional information relating to certain items excluded from the analysis above which may be helpful in assessing our operating results:

Pursuant to the terms of the Grocery Anchored Portfolio joint venture agreement, for the three months ended June 30, 2012 and 2011, we received distributions of \$0.6 million and \$0.7 million in excess of our pro-rata share of the joint venture’s MFFO, respectively. For the six months ended June 30, 2012 and 2011, we received distributions of \$1.4 million and \$1.4 million in excess of our pro-rata share of the joint venture’s MFFO, respectively.

On June 1, 2011, we sold Atrium on Bay, a mixed-use office and retail complex located in the Downtown North submarket of the central business district of Toronto, Canada. We acquired Atrium on Bay in February 2007 for 250.0 million CAD (\$215.5 million USD, based on the exchange rate in effect on the date of acquisition). The contract sales price for Atrium on Bay was 344.8 million CAD (\$353 million USD, based on the exchange rate in effect on the date of sale), exclusive of transaction costs. The net proceeds received from this sale were \$128.7 million after transaction costs, assumption of related mortgage debt by the purchaser and local taxes.

Amortization of deferred financing costs was \$0.4 million and \$0.9 million for the three months ended June 30, 2012 and 2011, respectively, and was deducted in determining MFFO. Amortization of deferred financing costs was \$0.7 million and \$1.6 million for the six months ended June 30, 2012 and 2011, respectively, and was deducted in determining MFFO.

A portion of our asset management fees are paid in equity through the Participation Interest. For the three and six ended June 30, 2012, we recorded expense of \$5.3 million and \$10.5 million, respectively, due to increases in the Participation Interest and its related distributions. As described previously, we recorded a gain of \$12.2 million resulting from the remeasurement of the Participation Interest liability in June 2011. As a result, for the three and six months ended June 30, 2011, we recorded income of \$8.1 million and \$4.2 million, respectively, related to the Participation Interest.

Related-Party Transactions and Agreements

We have entered into agreements with the Advisor and Hines or its affiliates, whereby we pay certain fees and reimbursements to these entities, including property management fees, leasing fees, construction management fees, debt financing fees, re-development construction management fees, reimbursement of organizational and offering expenses, and reimbursement of certain operating costs, as described elsewhere in this Quarterly Report on Form 10-Q and previously in our Annual Report on Form 10-K for the year ended December 31, 2011.

Off-Balance Sheet Arrangements

As of June 30, 2012 and December 31, 2011, we had no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates and equity prices. Interest rate risk is the primary risk in pursuing our business plan.

As of June 30, 2012, we had \$520.0 million of debt outstanding under our HSH Credit Facility, which is a variable-rate pooled mortgage facility. However, as a result of the interest rate swap agreements entered into with HSH Nordbank, these borrowings effectively bear interest at fixed rates ranging from 5.25% to 6.03%. Please see “Debt Financings” for more information concerning our outstanding debt.

We currently have a 50% indirect interest in Distribution Park Rio, an industrial property located in Rio de Janeiro, Brazil. As a result, we are subject to risk from the effects of exchange rate movements between the Brazilian Reais and the U.S. dollar, which may affect future costs and cash flows. We are currently a net receiver of Reais (we receive more cash than we pay out), and therefore our foreign operations benefit from a weaker U.S. dollar and are adversely affected by a stronger U.S. dollar relative to the Reais. Based upon our equity ownership in Distribution Park Rio as of June 30, 2012, holding everything else constant, a 10% immediate, unfavorable change in the exchange rate between the Brazilian Reais and the U.S. dollar would decrease the net book value of our investment in Distribution Park Rio by \$2.6 million.

Item 4. Controls and Procedures.

In accordance with Exchange Act Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2012, to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

No change occurred in our internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the quarter ended June 30, 2012 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II – OTHER INFORMATION

Item 1. *Legal Proceedings.*

From time to time in the ordinary course of business, the Company or its subsidiaries may become subject to legal proceedings, claims or disputes. As of August 14, 2012, neither the Company nor any of its subsidiaries was a party to any material pending legal proceedings.

Item 1A. *Risk Factors.*

We are subject to a number of risks and uncertainties, which are discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011.

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

During the three months ended June 30, 2012, we did not sell or issue any equity securities that were not registered under the Securities Act.

All eligible requests for redemptions received by the Company were redeemed using proceeds from our dividend reinvestment plan. The following table lists shares we redeemed under our share redemption program during the period covered by this report.

Period	Total Number of Shares Redeemed	Average Price Paid per Share	Total Number of Shares Redeemed as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Redeemed Under the Plans or Programs ⁽²⁾
April 1, 2012 to June 30, 2012 ⁽¹⁾	443,624	\$ 7.78	443,624	1,528,022
Total	443,624		443,624	

(1) All shares were redeemed on April 2, 2012.

(2) Our share redemption program is currently limited to requests made in connection with the death or disability of a stockholder. If we determine to redeem shares, we redeem shares on a quarterly basis and such redemptions will be limited to the lesser of the amount required to redeem 10% of the shares outstanding as of the same date in the prior calendar year or the amount of proceeds received from our dividend reinvestment plan in the prior quarter. This amount represents the number of shares available for redemption on July 1, 2012. For more information regarding our share redemption program, please see Item 5 of our Annual Report on Form 10-K for the year ended December 31, 2011.

Item 3. *Defaults Upon Senior Securities.*

Not applicable.

Item 4. *Mine Safety Disclosures.*

Not applicable.

Item 5. *Other Information.*

Not applicable.

Item 6. *Exhibits.*

The exhibits required by this item are set forth on the Exhibit Index attached hereto.

SIGNATURES

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

HINES REAL ESTATE INVESTMENT TRUST, INC.

August 14, 2012

By: /s/ CHARLES N. HAZEN
Charles N. Hazen
President and Chief Executive Officer

August 14, 2012

By: /s/ RYAN T. SIMS
Ryan T. Sims
Chief Financial Officer and Secretary

EXHIBIT INDEX

Exhibit No.	Description
3.1	— Second Amended and Restated Articles of Incorporation of Hines Real Estate Investment Trust, Inc. (filed as Exhibit 3.1 to the registrant's Current Report on Form 8-K on July 13, 2007 and incorporated by reference herein).
3.2	— Second Amended and Restated Bylaws of Hines Real Estate Investment Trust, Inc. (filed as Exhibit 3.1 to the registrant's Current Report on Form 8-K on August 3, 2006 and incorporated by reference herein).
31.1*	— Certification.
31.2*	— Certification.
32.1*	— Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C., Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Pursuant to SEC Release 34-47551 this Exhibit is furnished to the SEC and shall not be deemed to be "filed."
101**	The following materials from Hines Real Estate Investment Trust, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, filed on August 14, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations and Comprehensive Income (Loss), (iii) Condensed Consolidated Statements of Equity, (iv) Condensed Consolidated Statements of Cash Flows, and (v) Notes to the Condensed Consolidated Financial Statements.

* Filed herewith

** In accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Exchange Act of 1934, and otherwise is not subject to liability under these sections and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

**CERTIFICATION
PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Charles N. Hazen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hines Real Estate Investment Trust, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 14, 2012

By: /s/ CHARLES N. HAZEN

Charles N. Hazen

President and Chief Executive Officer

**CERTIFICATION
PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Ryan T. Sims, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hines Real Estate Investment Trust, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 14, 2012

By: /s/ RYAN T. SIMS

Ryan T. Sims

Chief Financial Officer and Secretary

**WRITTEN STATEMENT OF CHIEF EXECUTIVE OFFICER AND
CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE
SARBANES — OXLEY ACT OF 2002**

The undersigned, the Chief Executive Officer and the Chief Financial Officer of Hines Real Estate Investment Trust, Inc. ("the Company"), each hereby certifies that to his/her knowledge, on the date hereof:

(a) the Form 10-Q of the Company for the quarterly period ended June 30, 2012, filed on the date hereof with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2012

By: /s/ CHARLES N. HAZEN
Charles N. Hazen
President and Chief Executive Officer

Date: August 14, 2012

By: /s/ RYAN T. SIMS
Ryan T. Sims
Chief Financial Officer and Secretary
