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

Form 10-Q

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

FOR THE QUARTER ENDED MARCH 31, 2004

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 1-10643

Hallwood Realty Partners, L.P.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

75-2313955
(I.R.S. Employer
Identification Number)

3710 Rawlins
Suite 1500
Dallas, Texas
(Address of principal executive offices)

75219-4298
(Zip Code)

Registrant's telephone number, including area code: **(214) 528-5588**

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 twelve (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 ninety (90) days: Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act): Yes No

The registrant is a limited partnership and issues units representing ownership of limited partner interests.

Number of units outstanding at April 30, 2004: 1,593,948

HALLWOOD REALTY PARTNERS, L.P.

FORM 10-Q

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HALLWOOD REALTY PARTNERS, L.P.
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands except unit amounts)
(unaudited)

	<u>March 31,</u> <u>2004</u>	<u>December 31,</u> <u>2003</u>
<u>ASSETS</u>		
Real estate:		
Land	\$ 59,015	\$ 59,015
Buildings and improvements	307,506	307,011
Tenant improvements	27,228	27,125
Construction in progress	<u>5,619</u>	<u>5,755</u>
	399,368	398,906
Accumulated depreciation and amortization	<u>(191,036)</u>	<u>(189,024)</u>
Real estate, net	208,332	209,882
Cash and cash equivalents	40,579	41,080
Accounts receivable	4,906	5,140
Receivable from affiliates, net	1,636	1,432
Escrow deposits held by lenders	11,807	11,477
Prepaid expenses and other assets	1,826	2,117
Lease commissions, net	10,880	11,037
Effective rent receivable	6,840	6,564
Loan costs, net	<u>2,349</u>	<u>2,508</u>
Total assets	\$ <u>289,155</u>	\$ <u>291,237</u>
<u>LIABILITIES AND PARTNERS' CAPITAL</u>		
Liabilities:		
Mortgages payable	\$ 208,352	\$ 209,554
Accounts payable and accrued expenses	8,511	10,577
Prepaid rent and security deposits	<u>2,688</u>	<u>2,872</u>
Total liabilities	<u>219,551</u>	<u>223,003</u>
Commitments and contingencies		
Partners' capital:		
Limited partners - 1,593,948 units outstanding	68,336	66,910
General partner	690	676
Accumulated other comprehensive income	<u>578</u>	<u>648</u>
Total partners' capital	<u>69,604</u>	<u>68,234</u>
Total liabilities and partners' capital	\$ <u>289,155</u>	\$ <u>291,237</u>

See notes to condensed consolidated financial statements.

HALLWOOD REALTY PARTNERS, L.P.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands except per unit amounts)
(unaudited)

	Three Months Ended	
	March 31,	
	<u>2004</u>	<u>2003</u>
REVENUES:		
Property operations	\$ 17,536	\$ 16,857
Parking, construction and tenant services	<u>1,371</u>	<u>949</u>
Total revenues	<u>18,907</u>	<u>17,806</u>
EXPENSES:		
Property operations	7,199	7,069
Parking, construction and tenant services	855	461
Interest	3,927	3,744
Depreciation and amortization	3,756	3,733
General and administrative	1,409	1,132
Litigation costs	<u>477</u>	<u>377</u>
Total expenses	<u>17,623</u>	<u>16,516</u>
INCOME BEFORE INTEREST INCOME	1,284	1,290
Interest income	<u>156</u>	<u>110</u>
NET INCOME	\$ <u>1,440</u>	\$ <u>1,400</u>
ALLOCATION OF NET INCOME:		
Limited partners	\$ 1,426	\$ 1,386
General partner	<u>14</u>	<u>14</u>
Total	\$ <u>1,440</u>	\$ <u>1,400</u>
NET INCOME PER UNIT AND POTENTIAL UNIT:		
Basic	\$ <u>0.89</u>	\$ <u>0.87</u>
Assuming dilution	\$ <u>0.86</u>	\$ <u>0.84</u>
WEIGHTED AVERAGE UNITS USED IN COMPUTING NET INCOME PER UNIT AND POTENTIAL UNIT:		
Basic	<u>1,594</u>	<u>1,592</u>
Assuming dilution	<u>1,653</u>	<u>1,648</u>

See notes to condensed consolidated financial statements.

HALLWOOD REALTY PARTNERS, L.P.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(unaudited)

	Three Months Ended	
	March 31,	
	2004	2003
Net income	\$ 1,440	\$ 1,400
Amortization of deferred gain from sale of interest rate swap	<u>(70)</u>	<u>(70)</u>
Comprehensive income	\$ <u>1,370</u>	\$ <u>1,330</u>

See notes to condensed consolidated financial statements.

HALLWOOD REALTY PARTNERS, L.P.
CONDENSED CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL
For the Three Months Ended March 31, 2004
(in thousands except unit amounts)
(unaudited)

	<u>General Partner</u>	<u>Limited Partners</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>	<u>Limited Partnership Units Outstanding</u>
PARTNERS' CAPITAL, JANUARY 1, 2004	\$ 676	\$ 66,910	\$ 648	\$ 68,234	1,593,948
Amortization of deferred gain from sale of interest rate swap	-	-	(70)	(70)	-
Net income	<u>14</u>	<u>1,426</u>	<u>-</u>	<u>1,440</u>	<u>-</u>
PARTNERS' CAPITAL, MARCH 31, 2004	<u>\$ 690</u>	<u>\$ 68,336</u>	<u>\$ 578</u>	<u>\$ 69,604</u>	<u>1,593,948</u>

See notes to condensed consolidated financial statements.

HALLWOOD REALTY PARTNERS, L.P.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended	
	March 31,	
	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES:		
Net income	\$ 1,440	\$ 1,400
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,756	3,733
Effective rent adjustments	(275)	(105)
Changes in assets and liabilities:		
Accounts receivable	30	180
Lease commission payments	(503)	(490)
Escrow deposits, prepaid expenses, and other assets	121	310
Accounts payable and other liabilities	(2,320)	(1,094)
Net cash provided by operating activities	<u>2,249</u>	<u>3,934</u>
INVESTING ACTIVITIES:		
Property and tenant improvements	(1,546)	(3,642)
Net cash used in investing activities	<u>(1,546)</u>	<u>(3,642)</u>
FINANCING ACTIVITIES:		
Mortgage principal scheduled payments	(1,202)	(1,135)
Loan fees	(2)	(10)
Issuance of units upon exercise of options	-	48
Net cash used in financing activities	<u>(1,204)</u>	<u>(1,097)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(501)	(805)
BEGINNING CASH AND CASH EQUIVALENTS	<u>41,080</u>	<u>32,363</u>
ENDING CASH AND CASH EQUIVALENTS	\$ <u>40,579</u>	\$ <u>31,558</u>

See notes to condensed consolidated financial statements.

HALLWOOD REALTY PARTNERS, L.P.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2004 and 2003
(unaudited)

1 Organization and Accounting Policies

Hallwood Realty Partners, L.P. (“HRP” or the “Partnership”), a publicly traded Delaware limited partnership, operates in the commercial real estate industry. HRP’s activities include the acquisition, ownership and operation of its commercial real estate assets. Units representing limited partnership interests are traded on the American Stock Exchange under the symbol “HRY”. As of March 31, 2004 there were 1,593,948 units outstanding.

Hallwood Realty, LLC (“Realty” or the “General Partner”), a Delaware limited liability company and indirectly wholly-owned subsidiary of The Hallwood Group Incorporated (“Hallwood”), is HRP’s general partner and is responsible for asset management of HRP and its real estate properties, including decision-making responsibility for financing, refinancing, acquiring and disposing of properties. In addition, Realty provides general operating and administrative services to HRP. Hallwood Commercial Real Estate, LLC (“HCRE”), another indirectly wholly-owned subsidiary of Hallwood, provides property management, leasing and construction supervision services for HRP’s real estate properties.

The accompanying unaudited condensed consolidated financial statements of HRP have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnote disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. These financial statements should be read in conjunction with the audited consolidated financial statements and related disclosures thereto included in HRP’s Form 10-K for the year ended December 31, 2003.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues, and expenses as of and for the reporting periods. Actual results may differ from these estimates. Operating results for the three months ended March 31, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

2 Computation of Net Income Per Unit

Net income per unit is computed by dividing results attributable to the limited partners’ interests by the weighted average number of units outstanding. Net income per unit assuming dilution is computed by dividing results attributable to the limited partners’ interests by the weighted average number of units and potential units outstanding. Options to acquire units were issued during 1995 and are considered to be potential units. The number of potential units is computed using the treasury stock method, which assumes that the increase in the number of units is reduced by the number of units which could have been repurchased by HRP with the proceeds from the exercise of these options. The following table illustrates the amounts used to calculate the weighted average number of units outstanding (in thousands):

	Three Months Ended March 31,	
	<u>2004</u>	<u>2003</u>
Weighted average units outstanding - basic	1,594	1,592
Potential weighted average units issued from options	65	67
Potential repurchase of units from unit option proceeds	<u>(6)</u>	<u>(11)</u>
Potential weighted average units outstanding - assuming dilution	<u>1,653</u>	<u>1,648</u>

HALLWOOD REALTY PARTNERS, L.P.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2004 and 2003
(unaudited)

3 Statements of Cash Flows

Supplemental disclosure of cash flow information -

Cash interest payments were \$4,157,000 and \$4,010,000 in the three months ended March 31, 2004 and 2003, respectively.

4 Transactions With Related Parties

HRP compensates Realty and HCRE for services provided to it and its real estate properties and HRP reimburses Realty and HCRE, at cost, for certain costs and expenses. In particular, since HRP does not directly employ any individuals, the compensation and other costs related to approximately 90 employees rendering services on behalf of HRP and its properties are reimbursed to Realty and HCRE by HRP. The following table sets forth such compensation and reimbursements paid by HRP (in thousands):

	Entity Paid or Reimbursed	Three Months Ended March 31,	
		<u>2004</u>	<u>2003</u>
		Asset management fee	Realty
Reimbursement of costs (a)	Realty	967	828
Property management fee	HCRE	512	508
Lease commissions	HCRE	207	385
Construction fees	HCRE	338	184
Reimbursement of costs (b)	HCRE	987	945

- (a) These costs are recorded as general and administrative expenses and represent reimbursement to Realty for administrative level employee and director compensation, officer and director liability insurance, and allocated overhead costs. HRP pays its account balance with Realty on a monthly basis.
- (b) These costs are recorded as property operating expenses and represent reimbursement to HCRE for property-level employee compensation and related expenses.

As of March 31, 2004, Hallwood owes HRP \$1,858,000 of unpaid litigation judgment and accrued interest related to the final outcome in the lawsuit styled Gotham Partners, L.P. v. Hallwood Realty Partners, L.P. The principal portion, or \$1,781,000, of the unpaid balance bears simple interest at the statutory rate of 7% and is reflected on HRP's balance sheet as a component of "Receivable from Affiliates, net".

The management contracts with HCRE, which were scheduled to expire June 30, 2004, were amended in April, 2004. These contracts will now expire on the later of the closing date of the proposed merger with HRPT Properties Trust ("HRPT") or six months from the termination of the planned merger. For more information regarding the proposed merger, see Note 7 to the condensed consolidated financial statements.

HALLWOOD REALTY PARTNERS, L.P.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2004 and 2003
(unaudited)

5 Partners' Capital

Unit Options -

In 1995, HRP issued options totaling 86,000 units to certain executives of Realty and HCRE with an exercise price of \$11.875 per unit. The options were vested over a three year period ending in 1997 and they expire on February 27, 2005. As of March 31, 2004, a total of 21,200 options had been exercised (17,200 in 2000 and 4,000 in 2003), none have been canceled, and 64,800 options remained exercisable. No options have been granted since 1995. As the only options of HRP fully vested in 1997, there is no difference between the historical income and pro forma income for the periods presented herein had the expense provisions of SFAS No. 123 "Accounting for Stock-Based Compensation" been adopted.

High River Tender Offer -

On May 1, 2003, High River Limited Partnership, an affiliate of Carl C. Icahn, announced its unsolicited tender offer for any and all of the outstanding limited partnership units of HRP at \$100 per unit. In May 2003, the board of directors of Realty evaluated the offer and advised unitholders to reject the offer as inadequate. On July 29, 2003, and in a subsequent letter addressed to the board of directors of Realty, Mr. Icahn announced a purported proposal to purchase HRP in a merger transaction for an aggregate purchase price of \$222 million, subject to existing debt. On August 1, 2003, at the direction of its board of directors, Realty sent a letter to Mr. Icahn stating that HRP had engaged Morgan Stanley & Co. Incorporated to initiate discussions with parties interested in participating in a transaction with HRP and stating that if Mr. Icahn were interested in participating in that process, he should contact Morgan Stanley. On August 19, 2003, High River announced an increase in the purchase price in its tender offer to \$120 per unit, subject to a variety of conditions, including High River achieving ownership of 66-2/3 % of the outstanding units. Thereafter, the board of directors of Realty evaluated the revised offer and advised unitholders to reject the offer as inadequate. Prior to the tender offer, High River owned 235,000 units and as of April 21, 2004, 63,397 units had been tendered in the High River tender offer, which has been extended numerous times and currently expires May 28, 2004.

Potential Merger with HRPT Properties Trust -

On April 16, 2004, the Partnership announced that it and certain of its affiliates have entered into an Agreement and Plan of Merger with HRPT, pursuant to which the Partnership will merge with a subsidiary of HRPT. As a result of the merger, the Partnership will become a wholly-owned subsidiary of HRPT and will no longer be a publicly traded limited partnership. For more information, see Note 7 to the condensed consolidated financial statements.

HALLWOOD REALTY PARTNERS, L.P.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2004 and 2003
(unaudited)

6 Litigation

High River Limited Partnership v. Hallwood Realty Partners, L.P. -

On April 23, 2003, an action styled High River Limited Partnership v. Hallwood Realty, LLC, et al. (C.A. No. 20276) was filed in the Court of Chancery of the State of Delaware against the General Partner, its directors and HRP as nominal defendant by High River Limited Partnership, which is indirectly wholly owned by Carl C. Icahn (the "High River Litigation"). The action, as filed initially, challenged the unit purchase rights agreement dated November 30, 1990, between HRP and Equiserve Trust Company, N.A., as rights agent, as amended (the "Rights Plan"). High River claimed in the suit that defendants have wrongfully utilized the Rights Plan to prevent High River and other third parties from purchasing 15 percent or more of the units of the Partnership, while at the same time exempting the General Partner and its affiliates and subsidiaries from the provisions of the Rights Plan. High River asserts that if defendants make additional purchases of units, they could render removal of the General Partner pursuant to the two-thirds removal provision of the partnership agreement impossible, thereby impeding or preventing the High River tender offer. High River also claims that defendants wrongfully refused to redeem the rights and thereby frustrated High River's tender offer. The complaint, as amended, seeks as relief an order redeeming the rights, preventing defendants from treating the General Partner as exempt from or otherwise not subject to the definition of Acquiring Person under the Rights Agreement, or, alternatively, preventing defendants from treating High River as an Acquiring Person under the Rights Agreement or applying the Rights Agreement to the High River tender offer.

On April 28, 2003, a putative class action lawsuit styled I.G. Holdings, Inc., et al. v. Hallwood Realty LLC, et al. (C.A. No. 20283) was filed in the Court of Chancery of the State of Delaware against the General Partner, its directors and HRP as nominal defendant by three purported unitholders of HRP. The action asserts that in allegedly refusing to consider the High River tender offer, the defendants are not acting in good faith and are deriving an improper personal benefit in impeding a potential removal of the General Partner or a sale of control of HRP, in breach of their fiduciary duties under the partnership agreement. The action further asserts that HRP's Schedule 14D-9 issued in response to the High River tender offer fails to disclose material information relating to the General Partner's recommendation regarding the offer. The complaint seeks as relief an order requiring the General Partner to consider the High River tender offer, an order preventing the General Partner or its affiliates from acquiring units or otherwise improperly entrenching the General Partner or impeding a transaction that would maximize value for the public unitholders, an order directing the defendants to use the Rights Plan fairly and disclose all material information in connection with the tender offer and the General Partner's recommendations and conclusions with respect thereto, and damages. This matter was coordinated with the High River action (discussed above) for discovery and trial purposes.

On October 7-8, 2003, a trial in the two coordinated actions discussed above was held in the Delaware Court of Chancery. Subsequent to the trial, the Delaware Court of Chancery held several status conferences relating to these matters. On February 10, 2004, plaintiffs in C.A. No. 20283 moved to amend their complaint to add claims challenging the potential allocation of consideration between Hallwood and its affiliates on one hand, and the public unitholders on the other, that would result upon the sale or merger of HRP, by alleging that Hallwood and its principal shareholder have breached their fiduciary duties by demanding more than 1% of the merger consideration. On February 11, 2004, the Court granted class plaintiffs' motion to amend their complaint to add these claims.

Other -

HRP is from time to time involved in various other legal proceedings and claims which arise in the ordinary course of business. These matters are generally covered by insurance. Management believes that the resolution of these matters will not have a material adverse effect on HRP's financial position, cash flows or operations.

HALLWOOD REALTY PARTNERS, L.P.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2004 and 2003
(unaudited)

7 Subsequent Event - Merger Agreement

On April 16, 2004, the Partnership announced that it and certain of its affiliates have entered into an Agreement and Plan of Merger with HRPT, pursuant to which the Partnership will merge with a subsidiary of HRPT. As a result of the merger, the Partnership will become a wholly-owned subsidiary of HRPT and will no longer be a publicly traded limited partnership.

The merger agreement provides that each holder of limited partnership units of the Partnership will receive an amount in cash equal to approximately \$137.91 per unit, subject to adjustment in certain circumstances. In addition, the price per unit to be paid in the merger, if it is completed, may be subject to withholding taxes and amounts relating to the High River and I.G. Holdings litigation discussed in Note 6 to the condensed consolidated financial statements. Completion of the merger is subject to certain conditions, including approval by the unitholders and there is no assurance that the merger will be completed.

In connection with the merger, Hallwood and its real estate subsidiaries entered into a purchase agreement, which provides that HRPT will purchase the general partner interest in the Partnership, the 330,432 units indirectly owned by Hallwood, and the interests in each of the other entities through which Hallwood holds interests in the Partnership, for an aggregate purchase price of approximately \$66,800,000, subject to adjustment corresponding to any adjustments in the price being paid for the units in the merger. In addition, Hallwood and the Partnership have agreed that the agreements for the management of the Partnership's properties by Hallwood will be terminated. In the purchase agreement, Hallwood has also agreed to vote all of the units it owns in favor of the merger.

The total cash price HRPT is paying under the merger agreement and the purchase agreement will be approximately \$250,000,000, subject to the adjustment referred to above. In addition, HRPT will assume or prepay all of the Partnership's outstanding debt.

In connection with the merger agreement, the Partnership amended its Unit Purchase Rights Agreement to provide, among other things, that the rights will not be triggered by the merger agreement or the purchase agreement.

The Partnership plans to mail a definitive proxy statement to its unitholders in the second quarter of 2004, which will contain important information about the Partnership, HRPT, the merger and related matters. The Partnership anticipates that a special meeting of unitholders will be held in the third quarter of 2004 to approve the merger agreement and the merger.

HALLWOOD REALTY PARTNERS, L.P.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

HRP operates in the commercial real estate industry. HRP's activities include the acquisition, ownership and operation of its commercial real estate assets.

As of March 31, 2004, HRP owned 14 real estate assets, located in six states and containing 5,209,000 net rentable square feet. HRP seeks to maximize the value of its real estate by making capital and tenant improvements, by executing marketing programs to attract and retain tenants, and by controlling or reducing, where possible, operating expenses.

HRP fully consolidates into its financial statements majority owned entities. For each of the three years in the period ended December 31, 2003, all entities and Properties were fully owned. All significant intercompany balances and transactions have been eliminated in consolidation.

HRP has, in three situations, created a Special Purpose Entity ("SPE"). These SPEs were formed at the request of lenders for the express purpose of strengthening the collateral for the loans by isolating (for Federal bankruptcy law purposes) the assets and liabilities of the SPEs. In all cases and since their various formation dates, the assets, liabilities and results of operations of these wholly-owned entities have been fully consolidated into the financial statements of HRP.

This Form 10-Q should be read in conjunction with the audited consolidated financial statements and related disclosures thereto included in HRP's Form 10-K for the year ended December 31, 2003. There have been no changes to critical accounting policies identified and set forth in HRP's Form 10-K for the year ended December 31, 2003.

POTENTIAL MERGER WITH HRPT PROPERTIES TRUST

On April 16, 2004, the Partnership, the General Partner and HRPT entered into an Agreement and Plan of Merger. The merger agreement provides that each holder of limited partnership units of the Partnership will receive an amount in cash equal to approximately \$137.91 per unit, subject to adjustment in certain circumstances. In addition, the price per unit to be paid in the merger, if it is completed, may be subject to withholding taxes and amounts relating to the High River and I.G. Holdings litigation discussed in Note 6 to the condensed consolidated financial statements. Completion of the merger is subject to certain conditions, including approval by the unitholders and there is no assurance that the merger will be completed. The Partnership plans to mail a definitive proxy statement to its unitholders in the second quarter of 2004, which will contain important information about the Partnership, HRPT, the merger and related matters. The Partnership anticipates that a special meeting of unitholders will be held in the third quarter of 2004 to approve the merger agreement and the merger.

In connection with the merger, the Partnership will incur significant transaction costs and expenses, including legal, accounting and investment advisor fees, as well as expenses relating to the remedy of any title or survey defects that may arise. These fees and costs will be incurred even if the merger is not completed, of which there can be no assurance. In addition, if the merger agreement is terminated, the Partnership could be required to pay HRPT a termination fee of either \$2,000,000 or \$10,000,000, depending upon the reason for the termination. The added expense to the Partnership and the payment of a termination fee, if such a fee is required, could adversely affect the Partnership's results of operations.

HALLWOOD REALTY PARTNERS, L.P.

RESULTS OF OPERATIONS

First Quarter of 2004 Compared to the First Quarter of 2003 -

Revenue from property operations for the first quarter of 2004 increased \$679,000, or 4.0%, compared to the 2003 first quarter. The following table illustrates the components of the change, in thousands:

Rental income, net	\$ 170
Other property income	<u>509</u>
Net increase	\$ <u>679</u>

Overall between periods, average rental rates increased 0.9% while average occupancy decreased from 86.0% to 84.6%. As of March 31, 2004, HRP had leases executed and in place for 86.3% of the portfolio's net rentable square feet. The change in other property income is primarily the result of an increase in tenant expense recoveries.

Revenue from parking, construction and tenant services for the first quarter of 2004 increased \$422,000, or 44.5%, primarily as a result of more construction service projects completed in the 2004 period compared to the 2003 period. By their nature, the demand for and size of construction service projects can vary significantly from time to time.

Property operating expenses for the first quarter of 2004 increased \$130,000, or 1.8%, compared to the same period in 2003, of which none of the variances of the components were individually significant.

Parking, construction and tenant services expense for the first quarter of 2004 increased \$394,000, or 85.5%, primarily as a result of more construction service projects completed in the 2004 period compared to the 2003 period. By their nature, the demand for and size of construction service projects can vary significantly from time to time.

Interest expense for the first quarter of 2004 increased \$183,000, or 4.9%, compared to the same period in 2003, primarily due to an increase in mortgage interest of \$160,000 as a result of a higher average mortgage debt balance between periods. All other interest costs, which includes loan cost amortization, interest rate cap adjustments and other interest, increased \$23,000.

Depreciation and amortization expense was consistent between periods and increased \$23,000, or 0.6%.

General and administrative expenses for the first quarter of 2004 increased \$277,000, or 24.5%, compared to the same period in 2003, primarily due to higher legal fees of \$168,000, but the quarter also included increases in personnel costs, director fees and travel costs.

Litigation costs were \$477,000 and \$377,000 for the first quarter of 2004 and 2003, respectively, and are related to the lawsuit described in Note 6 to the condensed consolidated financial statements, a lawsuit which was finalized and concluded in December 2003, and the tender offer described in Note 5 to the condensed consolidated financial statements. For information about the prior year lawsuit, see Note 10 in HRP's Form 10-K for the year ended December 31, 2003.

Interest income increased by \$46,000, or 41.8%, as a result of increased earnings on overnight cash investments, due to a higher average cash balance for the first three months of 2004, as compared to the comparable 2003 period.

LIQUIDITY AND CAPITAL RESOURCES

Cash Sources, Cash Uses and Commitments -

HRP's cash position decreased \$501,000 during the first three months of 2004 to \$40,579,000 as of March 31, 2004. The source of cash during the period was \$2,249,000 of cash provided by operating activities. The uses of cash were \$1,546,000 for property and tenant improvements, \$1,202,000 for scheduled mortgage principal payments, and \$2,000 for loan fees.

HALLWOOD REALTY PARTNERS, L.P.

LIQUIDITY AND CAPITAL RESOURCES (continued)

For the foreseeable future, HRP anticipates that mortgage principal payments, tenant and capital improvements, lease commissions and litigation costs will be funded by net cash from operations. We believe that there will be sufficient cash from operations to meet these needs because HRP had leases in place as of December 31, 2003 to provide \$57,370,000 of minimum rental payments during 2004. For 2003, HRP had leases in place to provide \$54,963,000 of minimum rental payments (based on leases in place as of December 31, 2002), however the actual rental payments recorded for 2003 were \$60,320,000. Actual rental payment results for 2003 were greater than the minimum rental payment amount, primarily due to our ability to attract and retain tenants. For the three months ended March 31, 2004 and 2003, HRP's actual rental payments were \$15,187,000 and \$15,190,000, respectively. Our ability to fund operations in the future will depend upon continued success in maintaining current occupancy levels by retaining current tenants and attracting new tenants, as well as sustaining or increasing rental rates.

The primary sources of capital to fund any future acquisitions or developments will be proceeds from the sale, financing or refinancing of one or more of our properties. For 2004, HRP estimated and budgeted tenant and capital improvements of \$9,007,000 and lease commissions of \$2,111,000. For the first three months of 2004, HRP incurred \$1,546,000 of tenant and capital improvements and \$503,000 of lease commissions of these estimates. Each quarter Realty reviews HRP's capacity to make cash distributions. HRP has not made any cash distributions since February 1992.

Mortgage Loans -

Substantially all of the buildings in HRP's real estate properties were encumbered and pledged as collateral by non-recourse mortgage loans aggregating \$208,352,000 as of March 31, 2004. These mortgage loans have interest rates varying from 2.40% to 8.70% (with an effective average interest rate of 7.33%) and mature between 2005 and 2020. Other than Allfirst Building's mortgage (\$25,000,000), all mortgages have fixed interest rates. Most of the mortgage loans require monthly principal payments with balloon payments due at maturity. Based upon loan amortizations in effect, HRP is required to pay approximately \$3,108,000 of principal payments during the remainder of 2004.

Since August 2000, HRP has had available a \$2,000,000 revolving line of credit, which matures on July 29, 2004. The line of credit has a variable interest rate of either prime plus 0.50% or LIBOR plus 3.0% and requires monthly interest payments, but no principal amortization. HRP has not borrowed against this facility.

Transactions with Related Parties -

For information about transactions with related parties, see Note 4 to the condensed consolidated financial statements.

Inflation -

Inflation did not have a significant impact on HRP during 2003 or for the three months ended March 31, 2004. Additionally, inflation is not anticipated to have a material impact on HRP for the rest of 2004.

Forward-Looking Statements -

In the interest of providing investors with certain information regarding HRP's future plans and operations, certain statements set forth in this Form 10-Q relate to management's future plans, objectives and expectations. Such statements are forward-looking statements. Although any forward-looking statements contained in this Form 10-Q or otherwise expressed by or on behalf of HRP are, to the knowledge and in the judgment of the officers and directors of the General Partner, expected to prove true and come to pass, management is not able to predict the future with absolute certainty. Although HRP believes that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements will prove to be accurate.

Forward-looking statements involve known and unknown risks and uncertainties, which may cause HRP's actual performance and financial results in future periods to differ materially from any projection, estimate or forecasted result. These risks and uncertainties include the risks identified in Item 1 - Business - "Risks, Competition and Other Factors" contained in HRP's Form 10-K for the year ended December 31, 2003.

HALLWOOD REALTY PARTNERS, L.P.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

On July 27, 2000, HRP sold its interest rate swap agreement for \$1,597,000. HRP had entered into the interest rate swap agreement in 1998 to reduce its exposure to changes in interest rates for the loan secured by the Allfirst Building. This interest rate swap agreement effectively fixed the loan's cash interest rate at 6.78%, as opposed to the mortgage loan interest rate of LIBOR plus 1.30% (or 7.94% at the time of the swap agreement sale). The proceeds from the sale were designated for general working capital purposes. For financial reporting purposes, the proceeds are being amortized over the life of the loan as a reduction to interest expense. During 2001, as the result of the adoption of SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities", HRP reclassified the remaining unamortized gain from liabilities to accumulated other comprehensive income. The proceeds will continue to be amortized over the life of the Allfirst Building's mortgage payable as a reduction to interest expense. As of March 31, 2004 and December 31, 2003, the unamortized balance, included on the balance sheet as "Accumulated other comprehensive income", was \$578,000 and \$648,000, respectively.

Also on July 27, 2000 and in connection with the sale of the swap agreement, HRP purchased an interest rate cap for the Allfirst Building's mortgage loan for \$288,000, which limits HRP's exposure to changing interest rates to a maximum of 10%. This interest rate cap, which has a notional amount of \$25,000,000, has terms consistent with the Allfirst Building's mortgage loan. Allfirst Building's cash interest rate was 2.40% and 2.42% as of March 31, 2004 and December 31, 2003, respectively. The interest rate cap is a derivative and designated as a cash flow hedge. Hedge effectiveness is measured based on using the intrinsic value of the interest rate cap. All changes in the fair value of the cap are recorded directly to earnings. With the January 1, 2001 adoption of SFAS No. 133, HRP recorded the cumulative effect of the adoption as a reduction to income of \$192,000, or the amount of the difference between the carrying value as of January 1, 2001 of \$267,000 and the then estimated fair value of \$75,000, all of which represented change in time value. Thereafter, on a quarterly basis, HRP has recorded changes in the estimated fair value of the cap in interest expense. As of March 31, 2004 and December 31, 2003, the estimated fair value of the interest rate cap was \$6,000 and \$18,000, respectively.

Other than Allfirst Building's mortgage (\$25,000,000), all mortgages have fixed interest rates. Accordingly, changes in LIBOR or the prime rate do not significantly impact the amount of interest paid by HRP. Assuming a 100 basis point, or 1%, change in LIBOR, interest paid by HRP would increase or decrease by \$250,000 on an annual basis.

Item 4. CONTROLS AND PROCEDURES

- (a) Evaluation of disclosure controls and procedures. It is the conclusion of the registrant's principal executive officer and principal financial officer that the registrant's disclosure controls (as defined in Exchange Act rules 13a-14 and 15d-14), based on their evaluation of these controls and procedures as of the end of the period covered by this report, are effective.
- (b) Changes in internal controls. There were no significant changes in the registrant's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

HALLWOOD REALTY PARTNERS, L.P.

PART II - OTHER INFORMATION

Item

1 Legal Proceedings

Reference is made to Note 6 to the condensed consolidated financial statements contained in this Form 10-Q.

2 Changes in Securities, Use of Proceeds, and Issuer Purchases of Equity Securities

None.

3 Defaults upon Senior Securities

None.

4 Submission of Matters to a Vote of Security Holders

None.

5 Other Information

Reference is made to Notes 5 and 6 to the condensed consolidated financial statements contained in this Form 10-Q.

6 Exhibits and Reports on Form 8-K

(a) Exhibits

- 10.7 Amended and Restated Executive Incentive and Retention Program
- 31.1 Certification of the Chief Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002
- 31.2 Certification of the Chief Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002
- 32.1 Certifications of the Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

A report on Form 8-K was furnished on March 10, 2004 containing a press release, dated March 9, 2004, setting forth HRP's results of operations for the year ended December 31, 2003.

A report on Form 8-K was furnished on April 19, 2004 containing a press release, dated April 16, 2004, announcing a merger agreement between HRP and HRPT Properties Trust (see Note 7 to the condensed consolidated financial statements).

Such press releases are not incorporated by reference herein or deemed "filed" within the meaning of Section 18 of the Securities Act of 1933, as amended.

HALLWOOD REALTY PARTNERS, L.P.

SIGNATURE

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.

HALLWOOD REALTY PARTNERS, L.P.

(Registrant)

By: HALLWOOD REALTY, LLC
General Partner

Date: May 4, 2004

By: /s/ JEFFREY D. GENT
Jeffrey D. Gent
Vice President - Finance
(Principal Financial and Accounting Officer)

**HALLWOOD REALTY PARTNERS, L.P.
AMENDED AND RESTATED EXECUTIVE
INCENTIVE AND RETENTION PROGRAM**

General. After discussions with management and consideration of advice from its independent advisors, Hallwood Realty Partners, L.P. has adopted the following Amended and Restated Hallwood Realty Partners Executive Incentive and Retention Program (the "Plan"). The Plan is designed to encourage management to continue employment through the completion of any transaction involving Hallwood Realty Partners, L.P. (the "Partnership").

Eligibility. The persons eligible to participate in this program would be:

<u>Name</u>	<u>Title With Hallwood Realty, LLC or Hallwood Commercial Real Estate, LLC</u>
Bill Guzzetti	President
John Tuthill	Executive Vice President
Udo Walther	Senior Vice President
Jeff Gent	Vice President, Chief Financial Officer
Richard Stilovich	Regional Director
Terry Barrett	Controller
Michael Moore	Architectural/Engineering Manager
Richard Kelley	Financial Reporting Manager
John Aplin	Tax Manager

Aggregate Amount of Payments. Each of the persons named above shall be eligible to receive a cash bonus equal to the individual's annual salary from HWG, LLC for 2004 plus the amount of bonuses and commissions the individual received from those entities with respect to 2002.

Method of Determination and Payment.

- If an eligible person is not employed by the person acquiring the Partnership (or by that person's affiliates, collectively, the "Purchaser") at the time a transaction is completed, on substantially the same terms as his or her current employment with HWG, LLC, that person shall receive upon closing of the transaction one hundred percent (100%) of the amounts due to that person under this program.
- If an eligible person is employed by the Purchaser at the time a transaction is completed, on substantially the same terms as his or her current employment with HWG, LLC, that person shall receive upon closing of the transaction fifty percent (50%) of the amounts due to that person under this program and fifty percent (50%) shall be held by Hallwood Realty, LLC to ensure management continuity until the earliest to occur of (i) the expiration of 12 months from the completion of the transaction or (ii) the date the eligible person's employment with the Purchaser is actually or constructively terminated without cause. For purposes of this program, "constructive termination" means that the person's employment is terminated, the person's responsibilities are detrimentally changed, the person is required to relocate or the person's salary or benefits are reduced in circumstances

- If an eligible person is employed by the Purchaser at the time a transaction is completed on substantially the same terms as his or her current employment with HWG, LLC, but that person's employment by the Purchaser is actually or constructively terminated without cause prior to the end of the 12 month period following completion of the transaction, that person shall receive the balance of the amounts due under this program at the time of termination.
- If an eligible person is employed by the Purchaser at the time a transaction is completed on substantially the same terms as his or her current employment with HWG, LLC, and that person's employment by Purchaser is terminated with cause or is voluntarily terminated by that person, that person shall receive the balance of the amounts due under this program on the date that is 12 months after the completion of the transaction.
- Payment will be made under this program only if a transaction is completed by August 30, 2004.
- Payments may not exceed the IRC Section 280(g) statutory limits.

Other Benefits. In addition to the indicated payments, on the closing date of the transaction the Partnership will pay to each individual a lump sum amount equal to 18 times the total monthly premiums paid by the employer and the employee for the calendar month preceding the closing date of the transaction for all health and insurance coverage that was provided at the time of employment. Management estimates the cost of the health insurance and related benefits to be approximately \$10,000 per year per individual. The actual cost would vary depending on the individual circumstance (e.g., level of benefits obtained, the age of the individual, whether the individual is married, etc.).

Hallwood Realty Partners, L.P.

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Anthony J. Gumbiner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hallwood Realty Partners, L.P.;
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 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)) 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) (paragraph omitted pursuant to S.E.C. Release Nos. 33-8238 and 34-47986);
 - (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 case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer 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 or 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.

Date: May 4, 2004

/s/ Anthony J. Gumbiner
Anthony J. Gumbiner
Chief Executive Officer

Hallwood Realty Partners, L.P.

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jeffrey D. Gent, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hallwood Realty Partners, L.P.;
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 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)) 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) (paragraph omitted pursuant to S.E.C. Release Nos. 33-8238 and 34-47986);
 - (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 case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer 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 or 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.

Date: May 4, 2004

/s/ Jeffrey D. Gent

Jeffrey D. Gent

Vice President - Finance

(Principal Financial and Accounting Officer)

Hallwood Realty Partners, L.P.

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the filing of the quarterly report on Form 10-Q for the quarter ended March 31, 2004 (the "Report") by Hallwood Realty Partners, L.P. ("Registrant"), each of the undersigned hereby certifies that to their knowledge:

1. The Report fully complies with the requirements of Section 13(a) of 15(d) of the Securities Exchange Act of 1934, as amended, and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Anthony J. Gumbiner
Anthony J. Gumbiner
Chief Executive Officer

/s/ Jeffrey D. Gent
Jeffrey D. Gent
Vice President - Finance
(Principal Financial and Accounting Officer)

Date: May 4, 2004

A signed original of this written statement required by Section 906 has been provided to the Partnership and will be retained by the Partnership and furnished to the Securities and Exchange Commission or its staff upon request.