
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 SEPTEMBER 30, 2003

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 November 7, 2003: 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>September 30,</u> <u>2003</u>	<u>December 31,</u> <u>2002</u>
<u>ASSETS</u>		
Real estate:		
Land	\$ 59,015	\$ 59,015
Buildings and improvements	306,952	310,154
Tenant improvements	26,502	23,504
Construction in progress	<u>3,623</u>	<u>836</u>
	396,092	393,509
Accumulated depreciation and amortization	<u>(186,949)</u>	<u>(183,671)</u>
Real estate, net	209,143	209,838
Cash and cash equivalents	46,582	32,363
Accounts receivable	3,079	2,315
Receivable from affiliates, net	1,422	-
Escrow deposits held by lenders	9,986	8,918
Effective rent receivable	5,897	4,729
Lease commissions, net	11,205	11,390
Loan costs, net	2,566	2,677
Prepaid expenses and other assets	<u>1,358</u>	<u>2,190</u>
Total assets	\$ <u>291,238</u>	\$ <u>274,420</u>
 <u>LIABILITIES AND PARTNERS' CAPITAL</u>		
Liabilities:		
Mortgages payable	\$ 210,451	\$ 197,552
Accounts payable and accrued expenses	8,956	5,743
Prepaid rent, security deposits and other	2,559	3,533
Payable to affiliates	-	512
Deferred litigation proceeds	<u>10,201</u>	<u>6,405</u>
Total liabilities	<u>232,167</u>	<u>213,745</u>
Commitments and contingencies		
Partners' capital:		
Limited partners - 1,593,948 and 1,589,948 units outstanding, respectively	57,769	59,152
General partner	584	597
Accumulated other comprehensive income	<u>718</u>	<u>926</u>
Total partners' capital	<u>59,071</u>	<u>60,675</u>
Total liabilities and partners' capital	\$ <u>291,238</u>	\$ <u>274,420</u>

See notes to condensed consolidated financial statements.

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

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
REVENUES:				
Property operations	\$ 17,366	\$ 16,788	\$ 51,081	\$ 50,379
Parking, construction and tenant services	<u>1,489</u>	<u>993</u>	<u>3,316</u>	<u>4,622</u>
Total revenues	<u>18,855</u>	<u>17,781</u>	<u>54,397</u>	<u>55,001</u>
EXPENSES:				
Property operations	7,152	7,036	20,990	20,330
Parking, construction and tenant services	957	504	1,852	2,967
Interest	3,930	3,827	11,461	11,244
Depreciation and amortization	3,951	3,604	11,475	11,133
General and administrative	1,432	1,047	3,729	3,065
Litigation costs	<u>1,173</u>	<u>106</u>	<u>6,669</u>	<u>471</u>
Total expenses	<u>18,595</u>	<u>16,124</u>	<u>56,176</u>	<u>49,210</u>
INCOME (LOSS) BEFORE INTEREST INCOME	260	1,657	(1,779)	5,791
Interest income	<u>134</u>	<u>186</u>	<u>335</u>	<u>468</u>
NET INCOME (LOSS)	\$ <u>394</u>	\$ <u>1,843</u>	\$ <u>(1,444)</u>	\$ <u>6,259</u>
ALLOCATION OF NET INCOME (LOSS):				
Limited partners	\$ 390	\$ 1,824	\$ (1,430)	\$ 6,196
General partner	<u>4</u>	<u>19</u>	<u>(14)</u>	<u>63</u>
Total	<u>\$ 394</u>	<u>\$ 1,843</u>	<u>\$ (1,444)</u>	<u>\$ 6,259</u>
NET INCOME (LOSS) PER UNIT				
AND POTENTIAL UNIT:				
Basic	\$ <u>0.24</u>	\$ <u>1.15</u>	\$ <u>(0.90)</u>	\$ <u>3.90</u>
Assuming dilution	\$ <u>0.24</u>	\$ <u>1.11</u>	\$ <u>(0.90)</u>	\$ <u>3.76</u>
WEIGHTED AVERAGE UNITS USED IN				
COMPUTING NET INCOME (LOSS) PER UNIT				
AND POTENTIAL UNIT:				
Basic	<u>1,594</u>	<u>1,590</u>	<u>1,593</u>	<u>1,590</u>
Assuming dilution	<u>1,652</u>	<u>1,647</u>	<u>1,593</u>	<u>1,647</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		Nine Months Ended	
	September 30,		September 30,	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Net income (loss)	\$ 394	\$ 1,843	\$ (1,444)	\$ 6,259
Amortization of deferred gain from sale of interest rate swap	<u>(69)</u>	<u>(69)</u>	<u>(208)</u>	<u>(208)</u>
Comprehensive income (loss)	\$ <u>325</u>	\$ <u>1,774</u>	\$ <u>(1,652)</u>	\$ <u>6,051</u>

See notes to condensed consolidated financial statements.

HALLWOOD REALTY PARTNERS, L.P.
CONDENSED CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL
For the Nine Months Ended September 30, 2003
(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, 2003	\$ 597	\$ 59,152	\$ 926	\$ 60,675	1,589,948
Issuance of units upon exercise of options	1	47	-	48	4,000
Amortization of deferred gain from sale of interest rate swap	-	-	(208)	(208)	-
Net loss	<u>(14)</u>	<u>(1,430)</u>	<u>-</u>	<u>(1,444)</u>	<u>-</u>
PARTNERS' CAPITAL, SEPTEMBER 30, 2003	\$ <u>584</u>	\$ <u>57,769</u>	\$ <u>718</u>	\$ <u>59,071</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)

	Nine Months Ended	
	September 30,	
	<u>2003</u>	<u>2002</u>
OPERATING ACTIVITIES:		
Net income (loss)	\$ (1,444)	\$ 6,259
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	11,475	11,133
Effective rent adjustments	(1,145)	(249)
Changes in assets and liabilities:		
Accounts receivable	(2,560)	523
Lease commission payments	(2,279)	(1,588)
Prepaid expenses, escrow deposits and other assets	191	1,660
Accounts payable and other liabilities	4,077	(1,298)
Net cash provided by operating activities	<u>8,315</u>	<u>16,440</u>
INVESTING ACTIVITIES:		
Property and tenant improvements	(8,704)	(4,374)
Property development cost	-	(1,964)
Net cash used in investing activities	<u>(8,704)</u>	<u>(6,338)</u>
FINANCING ACTIVITIES:		
Mortgage principal payments	(3,101)	(2,845)
Mortgage principal proceeds	16,000	-
Loan fees	(339)	(10)
Exercise of unit options	48	-
Deferred litigation proceeds, net	2,000	-
Net cash provided by (used in) financing activities	<u>14,608</u>	<u>(2,855)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	14,219	7,247
BEGINNING CASH AND CASH EQUIVALENTS	<u>32,363</u>	<u>24,913</u>
ENDING CASH AND CASH EQUIVALENTS	\$ <u>46,582</u>	\$ <u>32,160</u>

See notes to condensed consolidated financial statements.

HALLWOOD REALTY PARTNERS, L.P.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended September 30, 2003 and 2002
(unaudited)

1 Organization And Accounting Policies

Hallwood Realty Partners, L.P. (“HRP”), 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 September 30, 2003 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, 2002.

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 and/or nine months ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003.

2 Statements of Cash Flows

Supplemental disclosure of cash flow information -

Cash interest payments were \$11,378,000 and \$11,345,000 (net of capitalized interest of \$256,000) in the nine months ended September 30, 2003 and 2002, respectively.

HALLWOOD REALTY PARTNERS, L.P.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended September 30, 2003 and 2002
(unaudited)

3 Computation of Net Income (Loss) Per Unit

Basic earnings per unit is computed by dividing results attributable to the limited partners' interests by the weighted average number of units outstanding. Earnings 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 options are considered antidilutive in the nine months ended September 30, 2003 and therefore are not taken into consideration in the computation of earnings per unit assuming dilution for that period. The following table illustrates the amounts used to calculate the weighted average number of units outstanding (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Weighted average units outstanding - basic	1,594	1,590	1,593	1,590
Potential weighted average units issued from options	65	69	66	69
Potential repurchase of units from unit option proceeds	<u>(7)</u>	<u>(12)</u>	<u>(8)</u>	<u>(12)</u>
Potential weighted average units outstanding - assuming dilution	<u>1,652</u>	<u>1,647</u>	<u>1,651</u>	<u>1,647</u>

4 Transactions With Related Parties

Realty and HCRE are compensated for services provided to HRP and its real estate properties and are reimbursed, 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 by HRP to Realty and HCRE. HRP pays or settles its account balances with Realty and HCRE on a monthly basis. The following table sets forth such compensation and reimbursements paid by HRP (in thousands):

	Entity Paid or Reimbursed	Three Months Ended September 30,		Nine Months Ended September 30,	
		<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Asset management fee	Realty	\$ 153	\$ 155	\$ 456	\$ 464
Reimbursement of costs (a)	Realty	800	758	2,434	2,251
Property management fee	HCRE	502	504	1,500	1,515
Lease commissions	HCRE	373	714	1,063	1,405
Construction fees	HCRE	143	68	440	453
Reimbursement of costs (b)	HCRE	955	896	2,817	2,797

- (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.
- (b) These costs are recorded as property operating expenses and represent reimbursement to HCRE for property-level employee compensation and related expenses.

As of September 30, 2003, \$1,796,000 of judgment and interest due from Hallwood was unpaid and reflected on HRP's balance sheet in receivable from affiliates, net (see Note 7 for more information).

HALLWOOD REALTY PARTNERS, L.P.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended September 30, 2003 and 2002
(unaudited)

5 Mortgages Payable

In July 2003, HRP obtained a \$16,000,000 loan secured by the newly-completed five-story office building within Executive Park in Atlanta, Georgia. The ten year loan calls for interest-only payments for the first two years, followed by principal and interest payments during the remaining term, amortized over 28 years. The interest rate is 5.76% and the maturity date is August 10, 2013. The loan proceeds were for general working capital purposes and replenished the cash previously expended for building construction and tenant improvements. A seven-year lease for the entire building, with an option for five additional years, was executed in September 2002 and commenced after the completion of tenant improvements in May 2003.

6 Partners' Capital

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 vested over a three year period ending in 1997 and they expire on February 27, 2005. In February 2003, options for 4,000 units were exercised by the estate of a deceased HCRE executive. As of September 30, 2003, a total of 21,200 options had been exercised, 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 operations and pro forma operations for the periods presented herein had the expense provisions of Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" been adopted.

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 October 17, 2003, 60,986 units had been tendered to High River. The offer has been extended several times and currently expires November 18, 2003.

At the board's direction, Morgan Stanley is actively engaged in a process of identifying alternatives that may be in the best interests of the unitholders, focusing primarily on discussions with prospective parties interested in participating in a transaction with HRP at prices and on terms which the board believes would be in the best interest of all partners of HRP, including an extraordinary transaction, such as a merger, reorganization or liquidation, involving HRP or any of its subsidiaries or a purchase, sale or transfer of a material amount of assets by HRP or any of its subsidiaries. Although HRP is working with Morgan Stanley and these interested parties, there can be no assurance that a transaction with respect to HRP will result from those discussions. HRP has adopted an Executive Incentive and Retention Program under which, after completion of a transaction involving HRP, certain officers and management employees of the General Partner and HCRE will be eligible to receive a bonus equal to their current annual salary and bonuses and commissions paid with respect to 2002. The plan is designed to encourage management to continue employment through the completion of any transaction involving HRP. Since payments will only be payable upon a change in control, no accrual for them has been made in these financial statements.

Additionally, subject to availability at prices deemed favorable and in accordance with applicable laws and regulations, HRP may acquire units from time to time in open market transactions, privately negotiated transactions or otherwise. There can be no assurance that HRP will engage in any such acquisitions or the prices at which such acquisitions may occur.

HALLWOOD REALTY PARTNERS, L.P.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended September 30, 2003 and 2002
(unaudited)

7 Litigation

On June 20, 1997, an action was filed against HRP, the General Partner, its directors, and Hallwood by Gotham Partners, L.P. in the Court of Chancery of the State of Delaware, styled Gotham Partners, L.P. v. Hallwood Realty Partners, L.P., et al. (C.A. No. 15754). As filed, the action alleged claims of breach of fiduciary duties, breach of HRP's partnership agreement, and fraud in connection with certain transactions involving HRP's units in the mid 1990's. Hallwood was alleged to have aided and abetted the alleged breaches. On June 21, 2000, after completing fact discovery, all parties moved for summary judgment on several issues. In September and October 2000, the Delaware court issued three separate written opinions resolving the summary judgment motions. In the opinions, the court ruled that trial would be required as to all issues, except that (i) Gotham was found to have standing to pursue its derivative claims; (ii) defendants were entitled to judgment dismissing the fraud claim; (iii) the General Partner was entitled to judgment dismissing the breach of fiduciary duty claims brought against it; and (iv) the General Partner's outside directors were entitled to judgment dismissing all claims brought against them.

A five-day trial was held in January 2001. On July 18, 2001, the Delaware Court of Chancery rendered its opinion. In its decision, the court determined that an option plan and a sale of units to Hallwood in connection with a reverse split of units implemented by HRP in 1995 were in compliance with HRP's partnership agreement. The court also found that the sale of units to Hallwood in connection with a 1995 odd-lot offer by HRP did not comply with certain procedures required by the HRP partnership agreement. The court ruled that the defendants other than HRP pay a judgment to HRP in the amount of \$3,417,423, plus pre-judgment interest from August 1995. The judgment amount represents what the court determined was an underpayment by Hallwood. In August 2001, plaintiff and certain defendants appealed the Court of Chancery's judgment to the Delaware Supreme Court. In October 2001, HRP received the \$3,417,423 judgment together with \$2,987,576 of interest. HRP recorded the judgment and interest as "Deferred Litigation Proceeds" on its balance sheet, until the case's final outcome is determined. On August 29, 2002, the Supreme Court affirmed the judgment of the trial court that the remaining defendants other than HRP are jointly and severally liable to HRP. The Supreme Court reversed the trial court's determination of damages, and remanded the case to the trial court to fashion appropriate relief.

On July 8, 2003, the Delaware Court of Chancery issued its decision after remand. In the decision, the Court of Chancery determined that defendants were required to pay to HRP the difference between the price paid for 293,539 units of HRP purchased by Hallwood in 1995 of \$14.20 per unit and the value of those units, including a control premium for those units, as determined by the court in its decision, of \$36.02 per unit, plus pre-judgment interest. The court also denied plaintiff's requests for rescission, rescissory damages or other forms of relief. In its earlier decision before remand, the trial court had determined that the value of the units was \$25.84 per unit and, as mentioned above, Hallwood paid the judgment amount plus interest in October 2001. Under the trial court's decision on remand, Hallwood was required to pay an additional amount of approximately \$2,988,000, plus pre-judgment interest of approximately \$3,762,000. On July 25, 2003, the trial court entered its final order and judgment on remand which provided, among other things, that HRP pay plaintiff \$3,000,000 in attorneys' fees, cost and expenses, which was funded by HRP to plaintiff in August 2003. On July 28, 2003, the plaintiff appealed the final order and judgment on remand to the Delaware Supreme Court. In August 2003, Hallwood paid \$5,000,000 of the judgment. As of September 30, 2003, \$1,796,000, including interest, remained unpaid and is reflected on HRP's balance sheet as receivable from affiliates, net. The balance due bears simple interest at the statutory rate of 7% until paid.

On April 23, 2003, an action was filed 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, in the Court of Chancery of the State of Delaware, styled High River Limited Partnership v. Hallwood Realty, LLC, et al. (C.A. No. 20276). 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

HALLWOOD REALTY PARTNERS, L.P.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended September 30, 2003 and 2002
(unaudited)

7 **Litigation (continued)**

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 was filed against the General Partner, its directors and HRP as nominal defendant by three purported unitholders of HRP in the Court of Chancery of the State of Delaware, styled I.G. Holdings, Inc., et al. v. Hallwood Realty LLC, et al. (C.A. No. 20283). 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. Subsequently, the court scheduled a status conference for December 3, 2003 at which the court would determine what further proceedings, if any, were appropriate in the actions.

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.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, LIQUIDITY AND CAPITAL RESOURCES

Results of Operations

Third Quarter of 2003 Compared to the Third Quarter of 2002

Revenue from property operations for the third quarter of 2003 increased \$578,000, or 3.4%, compared to the 2002 third quarter. The following table illustrates the components of the change, in thousands:

Rental income, net	\$ 282
Other property income	<u>296</u>
Net increase	\$ <u>578</u>

Net rental income increased primarily due to the addition of the newly-constructed five-story office building within Executive Park in Atlanta, Georgia (see "Liquidity and Capital Resources - Property Development and Loan Proceeds"). Net rental income was also affected by a slight decline in average occupancy between periods from 86.6% to 86.4%. As of September 30, 2003, HRP had leases executed and in place for 87.7% of the portfolio's net rentable square feet. The change in other property income includes lease termination fees in the 2003 period.

Revenue from parking, construction and tenant services for the third quarter of 2003 increased \$496,000, or 49.9%, primarily as a result of more construction service projects completed in the 2003 period compared to the 2002 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 third quarter of 2003 increased \$116,000, or 1.6%, compared to the same period in 2002, of which none of the costs are individually significant.

Parking, construction and tenant services expense for the third quarter of 2003 increased \$453,000, or 89.9%, primarily as a result of more construction service projects completed in the 2003 period compared to the 2002 period. By their nature, the demand for and size of construction service projects can vary significantly from time to time.

Interest expense for the third quarter of 2003 increased \$103,000, or 2.7%, compared to the same period in 2002, primarily due to mortgage interest from a \$16,000,000 loan obtained in July 2003 (see "Liquidity and Capital Resources - Property Development and Loan Proceeds"), partially offset by reduced interest as a result of normally scheduled debt reduction and reduced interest for HRP's only variable rate mortgage.

Depreciation and amortization expense increased \$347,000, or 9.6%, primarily due to building depreciation and tenant improvement amortization for the newly-completed building at Executive Park.

General and administrative expenses for the third quarter of 2003 increased \$385,000, or 36.8%, compared to the same period in 2002, due to increases in certain professional fees, director and officer liability insurance, and overhead costs.

Litigation costs were \$1,173,000 and \$106,000 for the third quarter of 2003 and 2002, respectively, and are related to the lawsuits described in Note 7 and the tender offer described in Note 6 to the condensed consolidated financial statements.

Interest income decreased by \$52,000, or 28.0%, as a result of decreased earnings on overnight cash investments, due to significantly lower interest rates available between the periods.

HALLWOOD REALTY PARTNERS, L.P.

Results of Operations (continued)

First Nine Months of 2003 Compared to the First Nine Months of 2002

Revenue from property operations for the first nine months of 2003 increased \$702,000, or 1.4%, compared to the first nine months of 2002. The following table illustrates the components of the change, in thousands:

Rental income, net	\$ 246
Other property income	<u>456</u>
Net increase	<u>\$ 702</u>

Net rental income increased primarily due to the addition of the newly-constructed five-story office building within Executive Park in Atlanta, Georgia (see "Liquidity and Capital Resources - Property Development and Loan Proceeds"). Net rental income was also affected by a slight increase in overall rental rates of 1.5% and a decline in average occupancy between periods from 87.6% to 86.3%. As of September 30, 2003, HRP had leases executed and in place for 87.7% of the portfolio's net rentable square feet. The change in other property income includes increased tenant expense recoveries.

Revenue from parking, construction and tenant services for the first nine months of 2003 decreased \$1,306,000, or 28.3%, primarily as a result of fewer construction service projects completed in the 2003 period compared to the 2002 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 nine months of 2003 increased \$660,000, or 3.2%, compared to the same period in 2002. Utilities increased \$239,000, primarily due to higher heating costs due to a colder winter in the 2003 period, compared to the 2002 period. Real estate taxes increased \$141,000, primarily due to higher tax rates, and partially due to higher valuations for properties located in Michigan. Property liability and damage insurance increased \$136,000 due to overall higher premiums. Combined, all other operating costs increased \$144,000, or about 0.7%, between the periods.

Parking, construction and tenant services expense for the first nine months of 2003 decreased \$1,115,000, or 37.6%, primarily as a result of fewer construction service projects completed in the 2003 period compared to the 2002 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 nine months of 2003 increased \$217,000, or 1.9%, compared to the same period in 2002, primarily due to capitalization of \$256,000 of construction interest in the 2002 period. The change in interest expense also includes a decrease in mortgage interest of \$153,000 and an increase in other interest costs of \$114,000. The change in the mortgage interest component is due to reduced interest as a result of normally scheduled debt reduction and reduced interest for HRP's only variable rate mortgage, partially offset by interest for a \$16,000,000 loan obtained in July 2003 (see "Liquidity and Capital Resources - Property Development and Loan Proceeds").

Depreciation and amortization expense increased \$342,000, or 3.1%, primarily due to building depreciation and tenant improvement amortization for the newly-completed building at Executive Park.

General and administrative expenses for the first nine months of 2003 increased \$664,000, or 21.7%, compared to the same period in 2002, due to increases in certain professional fees, director and officer liability insurance, and overhead costs.

Litigation costs were \$6,669,000 and \$471,000 for the first nine months of 2003 and 2002, respectively, and are related to the lawsuits described in Note 7 and the tender offer described in Note 6 to the condensed consolidated financial statements. The 2003 amount includes a \$3,000,000 financial advisory fee to Morgan Stanley in conjunction with HRP's response to the High River tender offer.

Interest income decreased by \$133,000, or 28.4%, as a result of decreased earnings on overnight cash investments, due to significantly lower interest rates available between the periods.

HALLWOOD REALTY PARTNERS, L.P.

Liquidity and Capital Resources

General Information -

HRP operates in the commercial real estate industry. HRP's activities include the acquisition, ownership and operation of its commercial real estate assets. While it is the General Partner's intention to operate HRP's existing real estate investments and to acquire and operate additional real estate investments, Realty also continually evaluates each of HRP's real estate investments in light of current economic trends, operations, and other factors to determine if any should be considered for disposition.

As of September 30, 2003, HRP owned 14 real estate assets, located in six states and containing 5,206,000 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.

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, 2002. 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, 2002.

Cash Sources, Cash Uses and Commitments -

HRP's cash position increased \$14,219,000 during the first nine months of 2003 to \$46,582,000 as of September 30, 2003. The sources of cash during the period were \$8,315,000 of cash provided by operating activities, \$16,000,000 of mortgage principal proceeds, \$2,000,000 of net litigation judgment and interest proceeds (see Note 7 to the condensed consolidated financial statements), and \$48,000 from the exercise and issuance of unit options. The uses of cash were \$8,704,000 for property and tenant improvements, \$3,101,000 for scheduled mortgage principal payments, and \$339,000 for loan fees.

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, 2002 to provide \$54,963,000 of minimum rental payments during 2003. For the prior year of 2002, HRP had leases in place to provide \$55,261,000 of minimum rental payments (based on leases in place as of December 31, 2001), however the actual rental payments recorded for 2002 were \$61,481,000. Actual rental payment results for 2002 were greater than the minimum rental payment amount, primarily due to our ability to attract and retain tenants. For the nine months ended September 30, 2003 and 2002, HRP's actual rental payments were \$45,519,000 and \$46,169,000, 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 2003, HRP estimated and budgeted tenant and capital improvements of \$15,631,000 and lease commissions of \$2,851,000. For the first nine months of 2003, HRP incurred \$8,704,000 of tenant and capital improvements and \$2,279,000 of lease commissions of these estimates. Currently, HRP estimates that it will incur between \$4,000,000 and \$5,000,000 of tenant and capital improvements and lease commissions in the fourth quarter of 2003. Each quarter Realty reviews HRP's capacity to make cash distributions. HRP has not made any cash distributions since February 1992.

Litigation & Judgment -

On July 18, 2001, the Delaware Court of Chancery rendered its opinion for the action styled Gotham Partners, L.P. v. Hallwood Realty Partners, L.P., et al. (C.A. No. 15754). (For more information about this litigation, see Note 7 to the condensed consolidated financial statements.) The court ruled that the defendants other than HRP pay a judgment to HRP in the amount of \$3,417,423, plus pre-judgment interest from August 1995. The judgment amount represents what the court determined was an underpayment by Hallwood. In August 2001, plaintiff and certain defendants appealed the Court of Chancery's judgment to the Delaware Supreme Court. In October 2001, HRP received the \$3,417,423 judgment together with \$2,987,576 of interest. HRP recorded the judgment and interest as "Deferred Litigation Proceeds" on its balance sheet, until the case's final outcome is determined. On August 29, 2002, the Supreme Court affirmed the judgment of the trial court that the remaining defendants

HALLWOOD REALTY PARTNERS, L.P.

Liquidity and Capital Resources (continued)

Litigation & Judgment (continued) -

other than HRP are jointly and severally liable to HRP. The Supreme Court reversed the trial court's determination of damages, and remanded the case to the trial court to fashion appropriate relief.

On July 8, 2003, the Delaware Court of Chancery issued its decision after remand. In the decision, the Court of Chancery determined that defendants were required to pay to HRP the difference between the price paid for 293,539 units of HRP purchased by Hallwood in 1995 of \$14.20 per unit and the value of those units, including a control premium for those units, as determined by the court in its decision, of \$36.02 per unit, plus pre-judgment interest. The court also denied plaintiff's requests for rescission, rescissory damages or other forms of relief. In its earlier decision before remand, the trial court had determined that the value of the units was \$25.84 per unit and, as mentioned above, Hallwood paid the judgment amount plus interest in October 2001. Under the trial court's decision on remand, Hallwood was required to pay an additional amount of approximately \$2,988,000, plus pre-judgment interest of approximately \$3,762,000. On July 25, 2003, the trial court entered its final order and judgment on remand which provided, among other things, that HRP pay plaintiff \$3,000,000 in attorneys' fees, cost and expenses, which was funded by HRP to plaintiff in August 2003. On July 28, 2003, the plaintiff appealed the final order and judgment on remand to the Delaware Supreme Court. In August 2003, Hallwood paid \$5,000,000 of the judgment. As of September 30, 2003, \$1,796,000, including interest, remained unpaid and is reflected on HRP's balance sheet as receivable from affiliates, net. The balance due bears simple interest at the statutory rate of 7% until paid.

On April 23, 2003, an action was filed 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, in the Court of Chancery of the State of Delaware, styled High River Limited Partnership v. Hallwood Realty, LLC, et al. (C.A. No. 20276). 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 was filed against the General Partner, its directors and HRP as nominal defendant by three purported unitholders of HRP in the Court of Chancery of the State of Delaware, styled I.G. Holdings, Inc., et al. v. Hallwood Realty LLC, et al. (C.A. No. 20283). 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. Subsequently, the court scheduled a status conference for December 3, 2003 at which the court would determine what further proceedings, if any, were appropriate in the actions.

HALLWOOD REALTY PARTNERS, L.P.

Liquidity and Capital Resources (continued)

Property Development and Loan Proceeds -

In February 2001, HRP began constructing a five-story office building within Executive Park in Atlanta, Georgia, containing 128,000 net rentable square feet on a site formerly occupied by an 18,000 square foot building. The building and its parking garage, excluding tenant finish-out, was completed in April 2002. A seven-year lease for the entire building, with an option for five additional years, was executed with the General Services Administration in September 2002 and commenced after the completion of tenant improvements in May 2003. Ultimately, HRP incurred and capitalized \$16,032,000 of building construction costs, which included its parking garage, but excluded the existing land costs. The lease commissions incurred were \$774,000, while the tenant improvements were \$3,159,000.

All these costs were paid from cash funds on hand; however, in July 2003, HRP obtained a \$16,000,000 loan secured by the office building. The ten year loan calls for interest-only payments for the first two years, followed by principal and interest payments during the remaining term, amortized over 28 years. The interest rate is 5.76% and the maturity date is August 10, 2013. The loan proceeds were for general working capital purposes and replenished the cash previously expended for building construction and tenant improvements.

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 \$210,451,000 as of September 30, 2003. These mortgage loans have interest rates varying from 2.42% to 8.70% (with an effective average interest rate of 7.35%) 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 \$897,000 of principal payments during the remainder of 2003.

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 2002 or for the nine months ended September 30, 2003. Additionally, inflation is not anticipated to have a material impact on HRP for the rest of 2003.

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, 2002.

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 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 Allfirst Building's mortgage payable as a reduction to interest expense. As of September 30, 2003 and December 31, 2002, the unamortized balance, included on the balance sheet as "Accumulated other comprehensive income", was \$718,000 and \$926,000, respectively.

Also on July 27, 2000 and in connection with the sale of the swap agreement, HRP purchased an interest rate cap for 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 Allfirst Building's mortgage loan. Allfirst Building's cash interest rate was 2.42% and 2.68% as of September 30, 2003 and December 31, 2002, 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 September 30, 2003 and December 31, 2002, the estimated fair value of the interest rate cap was \$22,000 and \$55,000, 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 7 to the condensed consolidated financial statements contained in this Form 10-Q.

2 Changes in Securities and Use of Proceeds

On March 28, 2003, HRP and EquiServe Trust Company, N.A. amended the Unit Purchase Agreement (the "Rights Agreement"), which describes the terms and conditions of the limited partner unit purchase rights (the "Rights") that were distributed in 1990. The Rights currently trade automatically with HRP's units representing limited partner interests, are not evidenced by separate certificates and are not exercisable until the occurrence of events specified in the Rights Agreement. The Rights Agreement was amended to extend the expiration date of the Rights Agreement to March 31, 2008, to reflect the automatic adjustment that occurred to the initial exercise price from \$50 to \$250 as a result of the 1-for-5 reverse unit split effected by HRP in 1995 and otherwise to update the Rights Agreement.

In connection with the announcement of an intent to conduct a tender offer discussed in Item 5 of this Form 10-Q, on April 29, 2003, the board of directors of the General Partner deferred the Distribution Date of the Rights (as each is defined in the Rights Agreement) until the close of business on the tenth day after the date of the filing of a tender offer statement on Schedule TO with the Securities and Exchange Commission. Such a filing was made on May 1, 2003, and the board of directors of the General Partner subsequently deferred the Distribution Date until a later date the General Partner may determine. The action of the General Partner does not foreclose its ability to, or indicate any intention not to, determine another Distribution Date, in its sole discretion, and does not alter or affect the provisions of the Rights Agreement with respect to any Distribution Date that may occur upon an Unit Acquisition Date (as defined in the Rights Agreement) or the provisions of the Rights Agreement with respect to any tender or exchange offer other than the tender offer announced on May 1, 2003.

3 Defaults upon Senior Securities None.

4 Submission of Matters to a Vote of Security Holders None.

5 Other Information

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

6 Exhibits and Reports on Form 8-K

(a) Exhibits

- 10.6 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 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 August 5, 2003 containing a press release, dated August 4, 2003, setting forth its second quarter 2003 results (such press release is 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: November 11, 2003

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

Hallwood Realty Partners, L.P.
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 as the 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.

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

Name	Title with Hallwood Realty, LLC or Hallwood Commercial Real Estate, LLC
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
Shauna Pietrzak	Human Resources 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 Hallwood Realty, LLC and Hallwood Commercial Real Estate, LLC for 2003 plus the amount of bonuses and commissions the individual received from those entities with respect to 2002.

Method of Determination and Payment.

- Fifty percent (50%) of the payments shall be made under this program at the same time that unitholders are entitled to receive payment as a result of the transaction and fifty percent (50%) be held in escrow for a period of twelve (12) months to ensure management continuity.
- If within twelve (12) months of a transaction, a participant is terminated by the successor company without cause (e.g., staff reduction), or if the participant is “constructively terminated” because of a detrimental change in responsibilities, a required relocation or a reduction in salary or benefits, the remaining award will be paid in full at the time of termination.
 - Other exceptions to this policy will be made for retirement, long-term disability, or death, in which case the award will also be paid in full at the time of termination.
- Payment will be made under this program only if a transaction is completed by May 31, 2004.
- Payments may not exceed the IRC Section 280(g) statutory limits.

Other Benefits. In addition to the indicated payments, for a period of 18 months, HRP will at its cost continue to provide the individual with 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: November 11, 2003

/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: November 11, 2003

/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 September 30, 2003 (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: November 11, 2003

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.