PARTICIPANTS

Corporate Participants

Scott H. Carter – EVP, General Counsel & Assistant Secretary
John G. Demeritt – Chief Financial Officer & Executive Vice President
George J. Carter – Chairman, President & Chief Executive Officer, Franklin Street Properties Corp.

Other Participants

David L. AuBuchon – Analyst, Robert W. Baird & Co. Equity Capital Markets
Jeffrey Lau – Analyst, Sidoti & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Franklin Street Properties Corp. First Quarter 2012 Results Call and webcast. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions]

Please note this event is being recorded. I would now like to turn the conference over to Mr. Scott Carter, General Counsel. Mr. Carter, please go ahead.

Scott H. Carter, EVP, General Counsel & Assistant Secretary

Good morning, everyone and thank you, for joining this Q1, 2012 earnings call. With me this morning are George Carter, our CEO, and John Demeritt, our CFO. Before I turn the call over to John Demeritt, I must read the following statement.

Please note that various remarks that we may make about future expectations, plans and prospects with the company may constitute forward-looking statements for purposes of the Safe Harbor provisions under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those indicated by these forward-looking statements as a result of various important factors, including those discussed in the risk factor section of our annual report on Form 10-K for the year ended December 31, 2011, which is on file with the SEC.

In addition, these forward-looking statements represent the company's expectations only as of today, May 2, 2012. While the company may elect to update these forward-looking statements, it specifically disclaims any obligation to do so. Any forward-looking statements should not be relied upon as representing the company's estimates or views as of any date subsequent to today.

At times during this call, we may refer to funds from operations or FFO. A reconciliation of FFO to GAAP net income is contained in yesterday's press release, which is available in the Investor Relations section of our website at www.franklinstreetproperties.com.

Now, I'll turn the call over to John. John?

John G. Demeritt, Chief Financial Officer & Executive Vice President

Thank you, Scott. Welcome to our earnings call. We're going to be talking with you about our first quarter results and I'll start with a very short overview. Afterwards George Carter, our CEO will further discuss the quarter on FSP. I'll be brief and will be referring to our earnings release, the supplemental package and 10-Q that were filed last night.

As of March 31, we had cash of $29.3 million and $106 million in availability on our line, giving us about $135.3 million in liquidity in total. At March 31, we had unsecured debt on our balance sheet of $494 million, and our total market cap was about $1.3 billion. We only have unsecured debt in our balance sheet. So our debt to total market cap ratio was 36% as of March 31. The leverage ratio continues to provide an attractive loan-to-value for our lenders and affords our shareholders a significant and more conservative equity investment in our real estate.

FFO for the first quarter of 2012 was up about $3.3 million or $0.04 per share per share compared to our first quarter of last year. The FFO growth was primarily from the benefits of five acquisitions we made since March of 2011 that we had for the full quarter of 2012. And interest income from a significant loan we made to a property in Minneapolis that recently signed a long-term lease with Target Corporation.

We also had the benefit of new leases signed over the last year over leases that expired, which raised our occupancy to 89% at March 31, 2012. So that's a brief overview of the performance, the earnings release, supplemental and 10-Q go into further detail about our results. And we can take more questions at the end if you want to discuss these further.

Those conclude our financial highlights and at this point our CEO, George Carter will tell you more about FSP results and where we are. Thanks for listening. George?

George J. Carter, Chairman, President & Chief Executive Officer, Franklin Street Properties Corp.

Thank you, John. Welcome to Franklin Street Properties' first quarter of 2012 earnings call. As usual on my prepared remarks, I will follow my written remarks in our earnings release last night and then we will open it up for questions.

For the first quarter of 2012, FSP's profits as represented by funds from operations or FFO totaled approximately $19.6 million or $0.24 per share, an increase of approximately $1.1 million or $0.02 per share compared to the fourth quarter of 2011. I normally in my written remarks I do sequential look at earnings versus year-over-year. And sequentially, our FFO is actually up about $3 million or $0.04 a share over the last two quarters.

We have never given earnings guidance and aren't going to now, but I would say that the first quarter of 2012 is the first quarter without our investment banking business involved. And when we look forward over the coming years, the removal of that transactional component of our earnings stream does make forecasting a little bit easier. And so, we're going to continue to work on that in the coming quarters.

We do see continued potential increases in FFO in the coming years, primarily through increased occupancy, which we believe we can attain in our portfolio. Some new opportunistic real estate investments and recycling of capital from a number of our real estate assets that we believe will have the potential to be sold in the coming years accretively and reinvested accretively.

For those of you that have followed FSP over the last few years, you know that we had a lot of lease roll – big lease roll for three years in 2008, 2009, and 2010. And that lease roll is over and as we look ahead over the next three years, we see a very modest lease roll. And even in a very slow growth environment, which we believe is probably the most likely case, although not for sure, we can have potential to grow FFO meaningfully over the next three years.

I will give one caveat to all growth projections and all projections of any type and that is the caveat as usual of some sort of double-dip in the economy, another financial crisis, et cetera. Certainly with everything going on in the world and in the United States economy, that caveat can never be taken off the table at least not at this time.

Besides our positive view of our FFO growth potential over the next three years, I'd also like to mention our leasing cost, specifically tenant improvements. We also are looking forward over the next three years again, because of our relatively low lease roll. We believe that tenant improvement costs are likely to decline as a percentage of FFO in the coming years. And I don't mean just on a relative basis, but also on an absolute basis.

The big lease up that we accomplished through the worst part of the financial crisis and recession in 2008, 2009 and 2010 is over. However, it is interesting when you look at particularly tenant improvements, TIs, there is in many cases quite a lag effect between the time you sign a lease and actually pay the TI. And then you pay the leasing commission upon signature of the lease, usually right up front. But the TIs many times, particularly on renewals of existing tenants, may not get paid for a year or two or more later.

For example, our tenant improvements in the first quarter of 2012, about 84% of those are actual costs from prior year's leasing. About 63% of the TIs in the first quarter of 2012 is actually from the re-lease of Innsbrook, in Richmond, Virginia. That's where we had the LandAmerica bankruptcy that basically put that whole property vacant. About 63% as I said, the TIs are actually from that one deal and that deal was done in 2010. So we think by the end of 2012, we'll have worked through a lot of – even the lag effect from the leasing cost associated with 2008, 2009 and 2010.

And again, I'll give the caveat on TIs that I gave on FFO and that is that we don't go into some sort of double dip recession or another financial crisis. The bottom line is, when we look out over the next three years, given some sort of stability in the economy, again even very slow growth. We see the potential for the FFO line to rise and the TI line to drop and I think that's a real positive scenario for FSP.

Our directly owned real estate portfolio of 36 properties, totaling about 7 million square feet, was as John mentioned, approximately 89% leased as of March 31, and that is up from 88.7% leased as of December 31, 2011. Most of our rental leasing markets where our properties are located did remain stable during the first quarter, with some of our market showing moderate improvement in occupancy and rental rate levels; particularly the markets that our natural resource oriented or energy oriented Houston, Denver are two prime examples.

And as I have said, our property portfolio has relatively modest lease expirations over the next three years. And we have as our objective to move overall occupancy levels to the 90 plus percent range during 2012, and we think that is very achievable.

There was one additional real estate investment that we completed in the first quarter of 2012 for a total capital contribution of approximately $30 million. The investment was made as an additional funding amount to our original $76.2 million two-year bridge loan on a central business district office/retail property in Minneapolis, Minnesota. The total loan provided to this property by FSP now totals $106.2 million, and is secured by a first mortgage loan of property.

The property is owned by FSP 50 South Tenth Street Corp. is single-asset-REIT affiliate of FSP. The property is a 12-story Class A multi-tenant office/retail property, built in 2001, containing approximately 499,000 rentable square feet of which approximately 90% of that space is office. The additional funding amount was used primarily to help secure a lease with Target Corporation for effectively 100% of the property's office space for the next 18 years that is through March 2030.

As of March 31, 2012, the end of the quarter, the property was approximately 99% leased, and is located between and connected by a sky bridge which is in Minneapolis is very important, directly to the Target Corporation and U.S. Bancorp's corporate headquarters buildings in downtown Minneapolis.

The property also has really as physically part of it all though separately deeded, Target's flagship retail store and is really a beautiful piece of real estate. FSP has four office properties in the greater Minneapolis area, either owned directly or through affiliates, totaling approximately 1.4 million square feet.

Now that the 50 South Tenth Street property is stabilized by a long term lease with a credit tenant, FSP 50 South Tenth Street Corp. is exploring the opportunities available for a possible sale of the property and/or third party permanent financing which, among other things, if consummated could repay FSP's existing bridge loan. Additional real estate investments during 2012 are a major objective of FSP and we are currently pursuing very closely several different opportunities and again would anticipate additional investments in 2012.

There were no property sales in the first quarter of 2012, although we are continuously reviewing and evaluating our directly-owned portfolio of 36 properties for potentially advantageous disposition opportunities. And we do have our eye on several of our properties as potential disposition opportunities. And again as part of our FFO growth plan, we think the movement of capital that has recycled from those dispositions into more accretive advantageous properties is going to be a part of that growth story.

In addition, certain properties that are owned by some of our single-asset REIT affiliates, in which FSP may have a financial interest, could become possible candidates for sale as they stabilize their occupancies and the markets in which they are located become more attractive to potential acquirers.

FSP Phoenix Tower Corp., a single-asset REIT affiliate of FSP, owns a 34-story multi-tenant, Class A office building containing approximately 629,000 square feet and that property is located in Houston, Texas, of course it'll be named Phoenix Tower located in Houston. But that property is now currently being offered for sale and FSP has both an equity and first mortgage debt investment in FSP Phoenix Tower Corp. totaling approximately $19.5 million.

We are very much looking forward to the balance of 2012 and beyond and are looking forward to continued FFO growth. With that, that concludes my prepared remarks. I'd be happy to open it up for questions.

QUESTION AND ANSWER SECTION

Operator: We will now being the question-and-answer session [Operator Instructions] And our first question is from Dave AuBuchon of Baird.

<Q – David AuBuchon – Robert W. Baird & Co. Equity Capital Markets>: Good morning. George, you mentioned that you felt like the portfolio can see 90% plus occupancy, I believe by the end of this year, can you provide maybe a little bit more context about what the leasing prospects look like in your markets and what sort of activity you have right now?

<A – George Carter – Franklin Street Properties Corp.>: May be generally Dave, sort of what I said, I mean, they're stable or improving in our markets. The one – if you look at our list of properties, one big hole I can point to that I think we're very optimistic about is Greenwood Plaza in Denver. That property has a lot of activity on it right now and is one of the few large spaces available in the marketplace.

That if we achieve our objectives on that property alone, we would be moving up into those categories. And then just generally speaking, we are seeing occupancies tick up with small leases on a number of our properties, and again, it's a little back and forth on some. But I think other than Greenwood Plaza it's just a broad-based positive leasing environment.

You know, the caveat, last summer we ended at sort of summer swoon in the economy and the one caveat to all of this is, I'm looking at this statistics, I know everybody else is and they are mixed, but generally starting to slow a little bit. And the whole employment growth thing is a little bit concerning. Having said that, the activity that we have right now broadly across the properties Dave, and more specifically at Greenwood Plaza in Denver, lead us to believe we can get over 90% of share.

<Q – David AuBuchon – Robert W. Baird & Co. Equity Capital Markets>: Now, Greenwood, that's not the new development is it that you had in the market?

<A – George Carter – Franklin Street Properties Corp.>: No, no. That's not.

<Q – David AuBuchon – Robert W. Baird & Co. Equity Capital Markets>: Okay. And then generally in – when you look at your lease expirations scheduled for the balance of this year, are there any one particular lease or geography that maybe dominates that lease forwards, is it again sort of spread out across the portfolio?

<A – George Carter – Franklin Street Properties Corp.>: No, it's pretty spread. It's pretty spread and that is the case for the next three years.

<Q – David AuBuchon – Robert W. Baird & Co. Equity Capital Markets>: I don't want to parse your words too much George, but when you said, when potential refinances South Tenth Street could repay your bridge loan, is that – should we just assume that would happen in that event?

<A – George Carter – Franklin Street Properties Corp.>: Never assume anything. No the lease that we signed with Target really has attracted very broad based interest from a lot of lenders. We have at 50 South Tenth Street Corp., we have started a broad search for both lenders and reviewing the potential sales market in Minneapolis for the property. We have a number of lenders that are very, very interested in that property and are pursuing several of them vigorously right now and very positive dollar amounts, terms, et cetera. So again I wouldn't assume anything, but we're optimistic that, that bridge loan gets taken out.

<Q – David AuBuchon – Robert W. Baird & Co. Equity Capital Markets>: Right, right, okay.

<A – George Carter – Franklin Street Properties Corp.>: Pretty shortly.

<Q – David AuBuchon – Robert W. Baird & Co. Equity Capital Markets>: And then I guess, just relative to that asset and then Phoenix Tower as a candidate for acquisition into the REIT, can you just talk about – and the both be stabilized, obviously South Tenth Street more so than Phoenix Tower, but both stabilized, what sort of check marks are you looking for when you look at an acquisition to place into the REIT versus you'd just rather look somewhere else?

<A – George Carter – Franklin Street Properties Corp.>: Well, Phoenix Tower – FSP Phoenix Tower Corp. has made the decision to sell that property in the open market. CB Richard Ellis is handling the sale of that property. Franklin Street Properties Corp., other than its investment in the property, will not be involved at all. It will be sold for cash we assumed to a third party in a vigorous auction process, which is going on right now.

On 50 South Tenth Street Corp., again we are just in the process of reviewing all of the potential options there. So we haven't even gone any further down that road than what I've talked about. One thing on 50 South Tenth Street Corp. that is clear is that now that we have the property stabilized with a credit tenant, the interest rate on a loan in terms of that loan are just much – going to be much more advantageous to shareholders in that deal than the risk that was taken on the interim loan. So I think first thing's first on 50 South Tenth Street is to get a – we had an original piece of debt, effectively acquisition debt, on that property and – at $76.2 million and to get the $106.2 million replaced with better terms is really the first objective.

<Q – David AuBuchon – Robert W. Baird & Co. Equity Capital Markets>: Okay, and then – regarding Phoenix Tower, can you maybe explain why you wouldn't be interested. Is it just size of the asset or cap rates too low or...?

<A – George Carter – Franklin Street Properties Corp.>: The market in Houston for this particular property is pretty good right now. And we really think that's – and again you're talking about 50 South Tenth Street making this way. We really think that the auction process in the third party market can get us the best possible price, and Franklin Street Properties Corp. if you – you sort of have to go one way or the another.

If you think about trying to acquire one of the single-asset REITs through a merger or something as we had in the past, that is sort of the one process which you keep sure if you head in that direction. If you – the fairness opinions and all sorts of things involved in that process. The other process, which is truly a third party auction process where you really do a vigorous auction, Franklin Street Properties Corp. doesn't want to be involved in that process, because that process will potentially taint the auction process, you wanted as pure as you can get it.

Sort of the one way or the other and again, we had a lot of experience in this over 20 years of doing this. The specific answer to your question right now is Houston is pretty warm, prices for properties are pretty high, cap rates are pretty low. The auction process, 50 South Tenth – Phoenix Tower Corp. thought would be the best process to achieve the best price.

<Q – David AuBuchon – Robert W. Baird & Co. Equity Capital Markets>: Got it. And then maybe more global comment, but Houston in particular have cap rates for office assets that are well leased have they dipped into the 6s% at this point?

<A – George Carter – Franklin Street Properties Corp.>: They have.

<Q – David AuBuchon – Robert W. Baird & Co. Equity Capital Markets>: Okay. Just a couple of more questions. In the event there is a refinance at South Tenth Street this year or I guess any year. Any one-time fees or revenues sort of associated with that event to FSP?

<A – John Demeritt – Franklin Street Properties Corp.>: This is John, Dave. It would be a – there's a 50 basis point exit fee pick up on repayment. And we're also been amortizing in the one point we got upfront and that's amortized over the life of loan, but obviously be accelerated to the date it was paid off.

<Q – David AuBuchon – Robert W. Baird & Co. Equity Capital Markets>: Okay, all right. And then last question is what was the same-store growth in the quarter?

<A – John Demeritt – Franklin Street Properties Corp.>: I actually don't have a comment about, a number for you on that one. I will see if I can get back to you later on it, Dave.

<Q – David AuBuchon – Robert W. Baird & Co. Equity Capital Markets>: Yeah. That number would be pretty helpful to include into the supplemental. Okay. That's it, thank you, guys.

<A – George Carter – Franklin Street Properties Corp.>: Thanks, Dave.

<A – John Demeritt – Franklin Street Properties Corp.>: Thanks, Dave.

Operator: The next question comes from Jeff Lau of Sidoti and Company

<Q – Jeffrey Lau – Sidoti & Co. LLC>: Hey, George and John, good morning.

<A – John Demeritt – Franklin Street Properties Corp.>: Hi, Jeff.

<A – George Carter – Franklin Street Properties Corp.>: Hi, Jeff, how are you?

<Q – Jeffrey Lau – Sidoti & Co. LLC>: Very good. For some reason out there, I couldn't access the supplemental. Can you talk a little bit more about rents and how they I guess progressed since last year or sequentially?

<A – John Demeritt – Franklin Street Properties Corp.>: You mean in terms of rental rates?

<Q – Jeffrey Lau – Sidoti & Co. LLC>: Yeah, rental rates.

<A – John Demeritt – Franklin Street Properties Corp.>: Rates themselves.

<Q – Jeffrey Lau – Sidoti & Co. LLC>: Yeah.

<A – John Demeritt – Franklin Street Properties Corp.>: I think they were kind of mixed – in some cases they – we extended leases and renewed them at rates that we're at – as good or higher than what we had and another rates they were down depending on the market. So I don't have a good general rent rate.

<A – George Carter – Franklin Street Properties Corp.>: That sort of same-store sales...

<A – John Demeritt – Franklin Street Properties Corp.>: Yeah.

<A – John Demeritt – Franklin Street Properties Corp.>: ...that is going, but I think Jeff that overall – again, property-by-property can be very different. It depends on the original leases signed and the sub-market that or the market that the property is in. But generally speaking, we are through our biggest lease roll down. We don't have much lease roll down going on anymore. Now it's a question of occupancy. Now again broadly speaking, again, not on every property and not in every market, but broadly speaking, rents have gotten reset and the portfolio – probably on average 15%. But again on some markets more and some markets much less. But the continued downtrend of rent levels is pretty much lower in most of our markets. So again, that's part of the view of moving FFO at this point.

<Q – Jeffrey Lau – Sidoti & Co. LLC>: Okay and going back to what you said earlier about, without doing the transactional revenue anymore and it's easier to kind of predict your – I guess your revenue. Did you mean that you would eventually provide guidance or are you going to continue more than likely not to do that?

<A – George Carter – Franklin Street Properties Corp.>: I think we've always thought about it. It's something that we wouldn't mind doing if we thought we could be accurate at it. It doesn't make any sense if you can't be accurate. It was still fairly small. A few properties can make a big difference in our FFO in any quarter. We are again an investment company that specializes in real estate. So we do a variety of different types of investments, including investing on our single-asset REITs, mortgage investments et cetera.

And so, we still have a transactional component to our profit stream. As the portfolio grows over the next few years, which we anticipated to do and more and more revenue comes from pure rental income, I think guidance is something that we could provide in the future. It's just not in the immediate future.

<Q – Jeffrey Lau – Sidoti & Co. LLC>: Okay. And then I guess more granularly, the SG&A that kind of fell, is that mainly due to, I guess not doing the single-asset REITs or was there another factor to that?

<A – John Demeritt – Franklin Street Properties Corp.>: Well, SG&A was allocated in prior years between the investment bank and the real estate segment. And you really need to look at SG&A in our discontinued operations, but now where we call out the amount of SG&A.

<Q – Jeffrey Lau – Sidoti & Co. LLC>: Yes.

<A – John Demeritt – Franklin Street Properties Corp.>: ...that was put in disc-ops and I think if you take that number and add it to our Q1, 2011 SG&A and compare it, it compares favorably to Q1of this year. Some of that has to do with acquisition fees from some assets we bought in Q1 of last year that are in SG&A, and some of that is some savings with some of the salaries and benefits of the people who are no longer here.

<Q – Jeffrey Lau – Sidoti & Co. LLC>: Okay. And lastly I guess, are there any other properties that you can talk about that are being looked at to be sold or is that anything you can elaborate on?

<A – George Carter – Franklin Street Properties Corp.>: We wouldn't want to do that specifically right now, Jeff, because that is a whole competitive thing. But we do – we had several properties during 2011 that we are looking at and didn't in the final analysis sell because the markets just weren't strong enough. Now, we did sell in 2011 a couple of properties, the big one being the Falls Church property. Some of those properties that we were looking to sell last year we are carrying over and watching those markets carefully. But we wouldn't want to talk about them before they're actually out in the market and being sold.

<Q – Jeffrey Lau – Sidoti & Co. LLC>: Sure. And I hate to ask, but I guess I don't know why I couldn't access that supplemental. Is there any way someone could e-mail that to me?

<A – John Demeritt – Franklin Street Properties Corp.>: Yeah, no problem. I will send it off to you Jeff.

<Q – Jeffrey Lau – Sidoti & Co. LLC>: All right. Appreciate it. Thank you.

<A – John Demeritt – Franklin Street Properties Corp.>: Thanks.

Operator: This concludes our question-and-answer session. I would now like to turn the conference back over to George Carter for any closing remarks. Oh, I apologize. We do have a follow-up now from Dave AuBuchon, would you like to take that?

<A – George Carter – Franklin Street Properties Corp.>: Sure.

Operator: Sorry about that.

<Q – David AuBuchon – Robert W. Baird & Co. Equity Capital Markets>: Hey, good morning, guys, I have one more question, sorry. A number of the office REITs so far this quarter have reported some pretty favorable comps on the operating expense line, I think primarily related to pretty warm winter across the U.S. Did you guys – how much of an impact did you see in the quarter from that or have you drilled down that far in the numbers?

<A – John Demeritt – Franklin Street Properties Corp.>: We haven't drilled down that deeply in terms of climate change, but we did see some favorable tax abatements and that sort of thing in the rental operating expense line from some of the work we've done there; some of the rental operating expenses were generally lower. A lot of what we have in the first quarter are true-ups of CAM for year-end that relate to reimbursed expenses. So it's a little bit of a mismatch of numbers.

<Q – David AuBuchon – Robert W. Baird & Co. Equity Capital Markets>: Okay. All right, thanks.

Operator: And that is our final question.

John G. Demeritt, Chief Financial Officer & Executive Vice President

I had one other comment before we pass it over to George. George Carter, Jeff Carter, and I will be at NAREIT in New York and we would be very interested in anybody wanting to schedule appointments with us. It's going to be the week of June 11 and I just wanted to say that. Thanks.

George J. Carter, Chairman, President & Chief Executive Officer, Franklin Street Properties Corp.

I'll reiterate that. I hope to see a lot of you in New York at REIT Week, the week of June 11. Thank you very much for tuning into the call. Talk to you next quarter.

Operator: The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.