FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**
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FILER

FRANKLIN SELECT REALTY TRUST

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Type: **10-Q** | Act: **34** | File No.: **001-12708** | Film No.: **96662845**
SIC: **6798** Real estate investment trusts

Mailing Address
P O BOX 7777
SAN MATEO CA 94403-7777

Business Address
1800 GATEWAY DR - STE 200
SAN MATEO CA 94404
4153122000

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended SEPTEMBER 30, 1996

OR

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

For the transition period from ________________ to ______________________________

Commission file number 1-12708

FRANKLIN SELECT REALTY TRUST

(Exact name of registrant as specified in its charter)

CALIFORNIA	94-3095938
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

P. O. BOX 7777, SAN MATEO, CALIFORNIA	94403-7777
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (415) 312-2000

N/A

Former name, former address and former fiscal year, if changed since last report

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

Common Stock Shares Outstanding as of September 30, 1996, Series A: 13,328,001
Common Stock Shares Outstanding as of September 30, 1996, Series B: 745,584

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FRANKLIN SELECT REALTY TRUST
BALANCE SHEETS
SEPTEMBER 30, 1996 AND DECEMBER 31, 1995
(Unaudited)

<TABLE>
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(Shares and dollars in thousands, except per share amounts)	1996	Restated 1995
ASSETS:		
Rental property:		
<S>	<C>	<C>

Land	$ 30,949	$30,949
Buildings and improvements	83,464	83,121
	114,413	114,070
Less: accumulated depreciation	16,716	14,416
	97,697	99,654
Cash and cash equivalents	7,139	6,186
Mortgage-backed securities, available for sale	6,194	7,135
Deferred rent receivable	1,928	1,970
Other assets	1,532	1,512
Total assets	$114,490	$116,457
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Notes and bonds payable	$6,611	$7,145
Tenants' deposits and other liabilities	953	741
Advance rents	37	64
Distributions payable	1,466	1,521
Total liabilities	9,067	9,471
Dissenting shareholders' interest:	8,400	-
Stockholders' equity:		
Common stock, Series A, without par value. Stated value $10 per share; 110,000 shares authorized; 13,328 and 14,145 shares issued and outstanding in 1996 and 1995	103,161	111,569
Common stock, Series B, without par value. Stated value $10 per share; 2,500 shares authorized; 746 shares issued and outstanding in 1996 and 1995	6,294	6,294
Unrealized loss on mortgage-backed securities	(227)	(164)
Accumulated distributions in excess of net income	(12,205)	(10,713)
Total stockholders' equity	97,023	106,986
Total liabilities, dissenting shareholders' interest and stockholders' equity	$114,490	$116,457

The accompanying notes are an integral part of these financial statements.

FRANKLIN SELECT REALTY TRUST

STATEMENTS OF OPERATIONS
(Unaudited)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
		RESTATED		RESTATED
(Amounts in thousands, except per share amounts)	SEPTEMBER 30 1996	SEPTEMBER 30 1995	SEPTEMBER 30 1996	SEPTEMBER 30 1995
REVENUE:				
<S>	<C>	<C>	<C>	<C>
Rent	$3,412	$3,408	$10,144	$10,087
Interest	164	181	508	508
Dividends	21	6	32	13
Other	-	2	-	10

Total revenue	3,597	3,597	10,684	10,618
EXPENSES:				
Interest	153	187	467	509
Depreciation and amortization	836	833	2,491	2,507
Operating	1,006	1,127	2,690	2,811
Related party	304	260	864	772
Consolidation expense	(26)	173	680	173
General and administrative	137	124	474	356
Total expenses	2,410	2,704	7,666	7,128
NET INCOME	$1,187	$893	$3,018	$3,490
Net income per share, based on the weighted average shares outstanding of Series A common stock of 14,145for the nine month periods ended September 30, 1996 and 1995; and for the three month periods ended September 30, 1996 and 1995.	$ .08	$ .06	$ .21	$ .25
Distributions per share, based on the weighted average shares outstanding of Series A common stock of 13,710 and 14,145 for the nine month periods ended September 30, 1996 and 1995; and 13,328 and 14,145 for the three month periods ended September 30, 1996 and 1995, respectively	$.11	$ .11	$ .33	$ .33

The accompanying notes are an integral part of these financial statements.

FRANKLIN SELECT REALTY TRUST

STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 1996
(Unaudited)

	Common Stock						
	Series A		Series B				
(Amounts in thousands)	Shares	Amount	Shares	Amount	Unrealized Loss on Mortgage-backed Securities	Accumulated Distributions in Excess of Net Income	Total
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Balance, beginning of period	14,145	$111,569	746	$6,294	$ (164)	$(10,713)	$106,986
Dissenting shareholders' interest	(817)	(8,408)	-	-	-	-	(8,408)
Unrealized loss on mortgage-backed securities	-	-	-	-	(63)	-	(63)
Net income	-	-	-	-	-	3,018	3,018
Distributions declared	-	-	-	-	-	(4,510)	(4,510)

Balance,

end of period	13,328	$103,161	746	$6,294	$(227)	$(12,205)	$97,023

The accompanying notes are an integral part of these financial statements.

FRANKLIN SELECT REALTY TRUST

STATEMENT OF CASH FLOWS
FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 1996 AND 1995
(Unaudited)

(Dollars in thousands)	1996	1995
Cash flows from operating activities:		
Net income	$3,018	$3,490
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,491	2,507
(Increase) decrease in deferred rent receivable	42	(69)
Increase in other assets	(211)	(102)
Increase in tenants' deposits and other liabilities	212	321
Decrease in advance rents	(27)	(29)
Loss on disposition of rental property	-	100
	2,507	2,728
Net cash provided by operating activities	5,525	6,218
Cash flow from investing activities:		
Improvements to rental property	(343)	(213)
Disposition of mortgage-backed securities	878	532
Net cash provided by investing activities	535	319
Cash flow from financing activities:		
Distributions paid	(4,565)	(4,746)
Dissenting shareholders' interest paid	(8)	-
Payoff of note payable	(480)	-
Principal payment on notes and bonds payable	(54)	(52)
Redemption of Series A common stock	-	(3)
Net cash used in financing activities	(5,107)	(4,801)
Net increase in cash and cash equivalents	953	1,736
Cash and cash equivalents, beginning of period	6,186	4,200
Cash and cash equivalents, end of period	$7,139	$5,936

</TABLE>

The accompanying notes are an integral part of these financial statements.

FRANKLIN SELECT REALTY TRUST

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1996

NOTE 1 - ORGANIZATION

Franklin Select Realty Trust (the "Company") is a California corporation formed on January 5, 1989 for the purpose of investing in income-producing real property. The Company is a real estate investment trust ("REIT") having elected to qualify as a REIT under the applicable provisions of the Internal Revenue Code since 1989. Under the Internal Revenue Code and applicable state income tax law, a qualified REIT is not subject to income tax if at least 95% of its taxable income is currently distributed to its stockholders and other REIT tests are met. The Company has distributed at least 95% of its taxable income and intends to distribute substantially all of its taxable income in the future. Accordingly, no provision is made for income taxes in these financial statements.

On May 7, 1996, Franklin Real Estate Income Fund ("FREIF") and Franklin Advantage Real Estate Income Fund ("Advantage") merged into the Company. In connection with the merger of the three companies (the "Merger"), the Company issued approximately 7,945,000 shares of Series A common stock and 559,718 shares of Series B common stock in exchange for 3,363,877 and 3,013,713 shares of Series A common stock and 319,308 and 124,240 shares of Series B common stock of FREIF and Advantage, respectively, in each case excluding dissenting shares.

Shareholders representing approximately 635,638 shares of FREIF Series A common stock and 1,077,667 shares of Company Series A common stock elected to exercise dissenter's rights pursuant to Chapter 13 of the California General Corporation Law. The Company, as the surviving corporation after the merger, is required to pay the fair market value for such dissenting shares. The Company has offered the dissenting shareholders approximately $8.4 million for their shares. The "dissenting shares" were subsequently repurchased by the company as described under Note 6 - Subsequent Events.

As of September 30, 1996, the Company's real estate portfolio consisted of fee interests in the Shores Office Complex, a three-building office complex located in Redwood City, California; the Data General Building located in Manhattan Beach, California; the Mira Loma Shopping Center, a shopping center located in Reno, Nevada; three separate research and development buildings in the Northport Business Park, located in Fremont, California; the Glen Cove Shopping Center located in Vallejo, California; the Fairway Center, a two story office building located in Brea, California; and the Carmel Mountain Gateway Plaza, a retail center located in San Diego, California.

NOTE 2 - BASIS OF PRESENTATION

The accompanying unaudited financial statements have been presented as a reorganization of entities under common control due to the common management of the Company, FREIF and Advantage by the Advisor and are reflected in the financial statements at their historical bases. Prior periods have been restated to give effect to the merger.

The accompanying unaudited financial statements contain all adjustments (consisting of normal recurring accruals) which are necessary, in the opinion of management, for a fair presentation. The statements, which do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements, should be read in conjunction with the Company's, FREIF's and Advantage's financial statements for the year ended December 31, 1995.

NOTE 3 - RELATED PARTY TRANSACTIONS

The Company has an agreement with Franklin Properties, Inc. (The "Advisor") to administer the day-to-day operations of the Company. Under the terms of the amended agreement, which is renewable annually, the Advisor will receive quarterly an annualized fee equal to .5% of the Company's gross real estate assets, defined generally as the book value of the assets before depreciation. The fee will be reduced to .4% for gross real estate assets exceeding $200 million.

At September 30, 1996, cash equivalents included $2,822,000 invested in Franklin Money Fund, an investment company managed by an affiliate of the Advisor. Distributions earned from the Franklin Money Fund totaled $32,000 for the nine month period ended September 30, 1996.

The agreements between the Company and the Advisor, or affiliates, provide for certain types of compensation and payments including but not limited to the following for those services rendered for the nine month period ended September 30, 1996:

Advisory fee expense, charged to related party expense	$374,000
Reimbursement for data processing, accounting and certain other expenses, charged to related party expense	$47,000
Property management fee, charged to related party expense	$443,000

Leasing commission, capitalized and amortized over the term of the related lease	$86,000
Construction supervision fee, capitalized and amortized over the life of the related investment or the term of the related lease	$1,000

NOTE 4 - COMMON STOCK

In 1994, the Company issued to the Advisor an exchange right to exchange the Series B common stock held by the Advisor for Series A common stock. In connection with the Merger, the Company issued an additional exchange right to the Advisor in respect to the shares of Series B common stock held by Advisor in FREIF and Advantage which were exchanged in the merger for Series B shares of the Company. The exchange rights are exercisable only when the Series A common stock achieves certain trading prices for 20 consecutive trading days. The number of shares of Series B common stock that will exchange for Series A common stock, and the related trading prices are as follows: 149,088 Series B shares will be exchanged for 149,088 Series A shares at $8.42, 185,866 Series B shares will be exchanged for 185,866 Series A shares at $10.35, and 410,630 Series B shares will be exchanged for 287,441 Series A shares at $11.33. The rates of exchange and trading prices will be subject to change under certain circumstances as provided in the Exchange Right Agreement.

No distributions may be paid on the Series B shares prior to exercise of the exchange rights. After exercise of the exchange right, the Advisor, like any other shareholder, will receive distributions on its Series A shares.

Series A and Series B common stock have the same voting rights. Distributions on Series A common stock are declared at the discretion of the Board of Directors.

For purposes of calculating net income per share, the weighted average shares outstanding of Series A common stock has been calculated assuming the shares attributable to remaining dissenting shareholders (equivalent to approximately 1.9 million shares of the Company's common stock) were outstanding for the periods reported.

NOTE 5 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

For the nine month period ended September 30, 1996 interest paid amounted to $467,000.

NOTE 6 - SUBSEQUENT EVENTS

On October 31, 1996, the Company acquired two research and development buildings ("the Properties") under a newly formed limited partnership, FSRT, L.P.("FSRT"), in which the Company is the sole general partner. Upon formation of FSRT, the Company contributed the Data General Building to the partnership and the limited partners contributed the Properties. The Properties were acquired for approximately $25.5 million with the assumption of $16.2 million of existing non-recourse financing on the Properties and the issuance of 1,625,000 limited partnership units representing an approximately 30% interest in FSRT. The limited partnership units are convertible into Series A shares of the Company's common stock on a one-for-one basis after one year. The Company expects to refinance the debt during the fourth quarter with new non-recourse fixed-rate debt. In connection with the acquisition and refinancing, the Company estimates that total transaction costs will be approximately $1.3 million including prepayment penalties on the existing loans.

REPURCHASE OF DISSENTING SHARES
On November 1, 1996, the Company purchased all of the remaining "dissenting shares" of Class A common stock arising from the Merger for an aggregate price of $8.4 million. After giving effect to the transaction, the total number of shares of Series A common stock of the Company outstanding is approximately 12.25 million. Cash for the purchase price was provided by the sale of a portion of the Company's mortgage-backed securities. The Company incurred a loss on the sale of the securities of approximately $80,000.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

INTRODUCTION

Management's discussion and analysis of financial condition and results of operations should be read in conjunction with the Financial Statements and Notes thereto.

As described under Note 1 to the accompanying financial statements, on May 7, 1996, Franklin Real Estate Income Fund and Franklin Advantage Real Estate Income Fund merged into the Company. The financial statements of the Company have been presented as a reorganization of entities under common control and therefore, the financial statements, discussions of operations and liquidity and capital are reflected at their historical bases.

RESULTS OF OPERATIONS

COMPARISON OF THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 1996 AND 1995

Net income for the nine month period ended September 30, 1996 decreased $472,000, or 14%, compared to 1995 primarily due to an increase in non-recurring consolidation expenses of $507,000 in 1996.

Total revenue for the nine month period ended September 30, 1996 increased $66,000, or 1%, compared to the same period in 1995. The increase is primarily attributable to an increase in rental revenue at the Northport Businesss Park due to an increase in the average rental rate. The average portfolio occupancy rate at September 30, 1996 was 97.5% compared to 97.0% in the prior year.

Total expenses for the nine month period ended September 30, 1996, increased $538,000, or 8% from $7,128,000 in 1995 to $7,666,000 in 1996. The increase in total expenses primarily resulted from non-recurring expenses of the merger.

Related party expense for the nine month period ended September 30, 1996 increased $92,000 primarily as a result of an increase in advisory fees of $111,000.

General and administrative expense for the nine month period ended September 30, 1996, increased $118,000 primarily due to increases in non-recurring legal fees of $51,000, and merger related expenses of $54,000.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal source of capital for the acquisition and major renovation of properties has been the proceeds from the initial public offering of its stock. The Company's cash flow has been its principal source of capital for minor property improvements, leasing costs and the payment of quarterly distributions. At September 30, 1996, the cash reserves and marketable securities of the Company totaled approximately $13.3 million. The Company's investment in mortgage-backed securities consists of GNMA, FNMA and FMLMC adjustable rate pass-through certificates in which payments of principal and interest are guaranteed by the respective agencies. However, changes in market interest rates cause the security's market value to fluctuate, which could result in a realized gain or loss to the Company if the securities are sold before maturity.

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

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

Management continues to evaluate other properties for acquisition by the Company. The source of capital for future acquisitions is expected to be provided by the issuance of additional limited partnership units in FSRT, and from debt financing. In the short-term and in the long term, management believes that the Company's current sources of capital will continue to be adequate to meet both its operating requirements and the payment of dividends.

Net cash provided by operating activities for the nine month period ended September 30, 1996 was $5,525,000, or $693,000 less than the same period in 1995. The decrease in cash flow provided by operating activities is primarily attributable to the decrease in net income as described under "Results of Operations".

Net cash provided by investing activities for the nine month period ended September 30, 1996, increased $216,000 when compared to the same period in 1995. The increase was due to an increase in principal payments received from mortgage-backed securities which was partially offset by an increase in improvements to rental property.

Net cash used in financing activities increased $306,000 reflecting the payoff of the Fairway Center note payable in the amount of $480,000 in March, 1996, which was partially offset by a decrease in cash distributions related to dissenting shares.

On October 31, 1996, the Company acquired two research and development buildings ("the Properties") under a newly formed limited partnership, FSRT, L.P.("FSRT"), in which the Company is the sole general partner. Upon formation of FSRT, the Company contributed the Data General Building to the partnership and the limited partners contributed the Properties. The Properties were acquired for approximately $25.5 million with the assumption of $16.2 million of existing non-recourse financing on the Properties and the issuance of 1,625,000 limited partnership units representing an approximately 30% interest in FSRT. The limited partnership units are convertible into Series A shares of the Company's common stock on a one-for-one basis after one year. The Company expects to refinance the debt during the fourth quarter with new non-recourse fixed-rate debt. In connection with the acquisition and refinancing, the Company estimates that total transaction costs will be approximately $1.3 million including prepayment penalties on the existing loans.

On November 1, 1996, the Company purchased all of the remaining "dissenting shares" of Class A common stock arising from the Merger for an aggregate price of $8.4 million. After giving effect to the transaction, the total number of shares of Series A common stock of the Company outstanding is approximately 12.25 million. Cash for the purchase price was provided by the sale of a portion of the Company's mortgage-backed securities.

Funds from Operations for the nine month period ended September 30, 1996 decreased $488,000, or 8%, to $5,509,000 compared to the same period in 1995. The decrease is primarily due to an increase in merger expenses incurred in 1996. The Company believes that Funds from Operations is helpful in understanding a property portfolio in that such calculation reflects income from operating activities and the properties' ability to support general operating expenses and interest expense before the impact of certain activities, such as gains and losses from property sales and changes in the accounts receivable and accounts payable. However, it does not measure whether income is sufficient to fund all of the Company's cash needs including principal amortization, capital improvements and distributions to shareholders. Funds from Operations should not be considered an alternative to net income or any other GAAP measurement of performance or as an alternative to cash flows from operating,

investing, or financing activities as a measure of liquidity. As defined by the National Association of Real Estate Investment Trusts, Funds from Operations is net income (computed in accordance with GAAP), excluding gains or losses from debt restructuring and sales of property, plus depreciation and amortization, and after adjustment for unconsolidated joint ventures. The Company reports Funds from Operations in accordance with the NAREIT definition. For the periods presented, Funds from Operations represents net income plus depreciation and amortization. The measure of Funds from Operations as reported by the Company may not be comparable to similarly titled measures of other companies that follow different definitions.

IMPACT OF INFLATION

The Company's management believes that inflation may have a positive effect on the Company's property portfolio, but this effect generally will not be fully realized until such properties are sold or exchanged. The Company's policy of negotiating leases which incorporate operating expense "pass-through" provisions is intended to protect the Company against increased operating costs resulting from inflation.

DISTRIBUTIONS

Distributions are declared quarterly at the discretion of the Board of Directors. The Company's present distribution policy is to at least annually evaluate the current distribution rate in light of anticipated tenant turnover over the next two or three years, the estimated level of associated improvements and leasing commissions, planned capital expenditures, any debt service requirements and the Company's other working capital requirements. After balancing these considerations, and considering the Company's earnings and cash flow, the level of its liquid reserves and other relevant factors, the Company seeks to establish a distribution rate which:

i) provides a stable distribution which is sustainable despite short term fluctuations in property cash flows;
ii) maximizes the amount of cash flow paid out as distributions consistent with the above listed objective; and
iii) complies with the Internal Revenue Code requirement that a REIT annually pay out as distributions not less than 95% of its taxable income.

During the nine-month period ended September 30, 1996, the Company declared distributions totaling $4,510,000.

FRANKLIN SELECT REALTY TRUST

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Not applicable

(b) Reports on Form 8-K

No reports on Form 8-K were filed by the Registrant during the quarter ended September 30, 1996.

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.

FRANKLIN SELECT REALTY TRUST

By: /S/ DAVID P. GOSS
David P. Goss
Chief Executive Officer

Date: NOVEMBER 13, 1996

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