

GREAT LAKES REIT
Form 10-Q
August 13, 2003

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 quarterly period ended June 30, 2003

OR

**Transition Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**

Great Lakes REIT

(Exact name of Registrant as specified in its Charter)

Maryland
(State or other jurisdiction
of incorporation or organization)

36-4238056
(IRS employer identification no.)

823 Commerce Drive, Suite 300, Oak Brook, IL 60523
(Address of principal executive offices) (Zip Code)

(630) 368 - 2900
(Registrant's telephone number, including area code)

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

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

Number of shares of the registrant's common shares of beneficial interest, \$.01 par value per share, outstanding as of August 1, 2003: 16,078,411

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Great Lakes REIT
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June 30, 2003

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Great Lakes REIT
Consolidated Balance Sheets
(unaudited)
(In Thousands, except per share data)

Assets
Properties:
Land

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Buildings and improvements

Less accumulated depreciation

Assets held for sale, net

Cash and cash equivalents

Real estate tax escrows

Rents receivable

Deferred financing and leasing costs, net of accumulated amortization

Goodwill

Other assets

Total assets

Liabilities and shareholders' equity

Bank loan payable

Mortgage loans payable

Bonds payable

Accounts payable and accrued liabilities

Accrued real estate taxes

Dividends payable

Prepaid rent

Security deposits

Total liabilities

Minority interests

Commitments and contingencies

Shareholders' equity:

Preferred shares of beneficial interest (\$0.01 par value, 10,000 shares authorized; 1,500 9 3/4% Series A Cumulative Redeemable shares, with a \$25.00 per share Liquidation Preference, issued and outstanding)

Common shares of beneficial interest (\$0.01 par value, 60,000 shares authorized; 16,078 and 16,550 shares issued and outstanding in 2003 and 2002, respectively)

Paid-in-capital

Retained earnings (deficit)

Employee share purchase loans

Deferred compensation

Accumulated other comprehensive income (loss)

Total shareholders' equity

Total liabilities and shareholders' equity

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

Great Lakes REIT
Consolidated Statements of Income and Comprehensive Income
(unaudited)
(In Thousands, except per share data)

Revenues:

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Rental
Reimbursements
Parking
Telecommunications
Tenant service
Interest
Other

Total revenues

Expenses:
Real estate taxes
Other property operating
General and administrative
Employee share loan termination
Interest
Depreciation and amortization

Total expenses

Income before allocation to minority interests
Minority interests

Income from continuing operations
Discontinued operations, net (including gain on sale of properties of \$1,037 in 2002)

Net income
Income allocated to preferred shareholders

Net income applicable to common shares

Earnings per common share from continuing operations- basic.

Earnings per common share-basic

Weighted average common shares outstanding-basic

Diluted earnings per common share from continuing operations

Diluted earnings per common share

Weighted average common shares outstanding-diluted

Dividends declared per common share

Comprehensive income:
Net income
Change in fair value of interest rate swap agreements

Total comprehensive income

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

Great Lakes REIT
Consolidated Statements of Income and Comprehensive Income
(unaudited)
(In Thousands, except per share data)

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Revenues:

Rental
Reimbursements
Parking
Telecommunications
Tenant service
Interest
Other

Total revenues

Expenses:

Real estate taxes
Other property operating
General and administrative
Employee share loan termination
Interest
Depreciation and amortization

Total expenses

Income before allocation to minority interests

Minority interests

Income from continuing operations

Discontinued operations, net (including gain on sale of properties of \$1,037 in 2002)

Net income

Income allocated to preferred shareholders

Net income applicable to common shares

Earnings per common share from continuing operations- basic.

Earnings per common share-basic

Weighted average common shares outstanding-basic

Diluted earnings per common share from continuing operations

Diluted earnings per common share

Weighted average common shares outstanding-diluted

Dividends declared per common share

Comprehensive income:

Net income

Change in fair value of interest rate swap agreements

Total comprehensive income

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

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Great Lakes REIT
 Consolidated Statements of Changes in Shareholders' Equity
 For the six months ended June 30, 2003
 (unaudited)
 (Dollars in Thousands)

Preferred Shares	
Balance at beginning of period	\$ 37,500

Balance at end of period	37,500

Common Shares	
Balance at beginning of period	165
Exercise of share options	1
Shares repurchased in connection with employee share loan termination	(5)

Balance at end of period	161

Paid-in capital	
Balance at beginning of period	208,319
Exercise of share options	10
Shares repurchased in connection with employee share loan termination	(6,958)

Balance at end of period	201,371

Retained earnings (deficit)	
Balance at beginning of period	(19,765)
Net income	6,369
Distributions/dividends	(15,091)

Balance at end of period	(28,487)

Employee share purchase loans	
Balance at beginning of period	(16,154)
Repayment of loans	3,913
Loans retired in connection with employee share loan termination	7,302

Balance at end of period	(4,939)

Deferred compensation	
Balance at beginning of period	(2,035)
Amortization of deferred compensation	145

Balance at end of period	(1,890)

Accumulated other comprehensive income (loss)	
Balance at beginning of period	(1,208)
Change in fair value of interest rate swap agreements	180

Balance at end of period	(1,028)

Total shareholders' equity	\$ 202,688
	=====

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

Great Lakes REIT
 Consolidated Statements of Cash Flows
 (unaudited)
 (Dollars in Thousands)

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CASH FLOWS FROM OPERATING ACTIVITIES

Net income

Adjustments to reconcile net income to cash flows from operating activities

Depreciation and amortization

Gain on sale of properties

Non-cash portion of employee share loan termination

Other non-cash items

Net changes in assets and liabilities:

Rents receivable

Real estate tax escrows and other assets

Accounts payable, accrued expenses and other liabilities

Accrued real estate taxes

Payment of deferred leasing costs

Net cash provided by operating activities

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of properties

Additions to buildings and improvements

Other investing activities, net

Net cash provided by (used in) investing activities

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from exercise of share options

Proceeds from repayment of employee share loans

Proceeds from bank and mortgage loans payable

Distributions / dividends paid

Distributions to minority interests

Payment of bank and mortgage loans and bonds

Other

Net cash provided by (used in) financing activities

Net increase (decrease) in cash and cash equivalents

Cash and cash equivalents, beginning of year

Cash and cash equivalents, end of year

Supplemental disclosure of cash flow:

Interest paid

Non-cash financing transaction:

Employee share loan termination

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

Great Lakes REIT
Notes to Consolidated Financial Statements
(Unaudited)
Dollars in thousands, except per share data

1. Basis of Presentation

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Great Lakes REIT, a Maryland real estate investment trust (the Company), was formed in 1992 to invest in income-producing real property. The principal business of the Company is the ownership, management, leasing, renovation and acquisition of suburban office properties, primarily located in the Midwest region of the United States. At June 30, 2003, the Company owned and operated 46 properties, primarily located in suburban areas of Chicago, Milwaukee, Detroit, Columbus, Minneapolis, Denver and Cincinnati. The Company leases office space to over 650 tenants that are engaged in a variety of businesses.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries and controlled partnership. Intercompany accounts and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States. These statements should be read in conjunction with the Company's most recent year-end audited financial statements, which are contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2002 (the 2002 10-K). In the opinion of management, the financial statements herein contain all adjustments (which are normal and recurring) necessary for a fair statement of financial results for the interim periods. For further information, refer to the consolidated financial statements and notes thereto included in the 2002 10-K.

2. Derivatives and Hedging Activities

The Company recognizes all derivatives on its balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivatives are either offset against the change in fair value of the assets, liabilities or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings.

Approximately \$66,200 of the Company's long-term debt bears interest at a variable rate based on LIBOR (\$49,295 at LIBOR plus 1.35%, \$11,155 at LIBOR plus 1.45% and \$5,750 at LIBOR plus 1.6%). In 2001, the Company entered into two separate interest rate swap agreements with notional amounts of \$25,000 each. One agreement effectively fixes the interest rate on \$25,000 of variable rate debt at a maximum of 4.27% until December 2003. The second swap agreement effectively fixes the interest rate on \$25,000 of variable rate debt at a maximum of 4.88% per annum until December 2004. The Company is exposed to credit loss in the event of non-performance by counterparties under the agreement, but the Company does not expect non-performance by any of these counterparties. The amount of such exposure is generally limited to the amount of any payments due but not yet received from the counterparty.

At June 30, 2003, the fair value of the swap agreements was a liability of \$1,028 and is reflected as accumulated other comprehensive income (loss) in the consolidated balance sheet as of June 30, 2003. The change in fair value of the interest rate swap agreements has been reflected entirely in other comprehensive income in 2003 and 2002, as they are fully effective cash flow hedges.

3. Segment Information

The Company had three reportable segments at June 30, 2003, distinguished by property type. The property types are office, office/service center and medical office. Office buildings are generally single-story or multi-story buildings used by tenants for office activities. The buildings generally have common area lobbies and other amenities including food service areas, atriums and limited underground parking facilities. Office/service center buildings generally are one-story buildings with no common areas. Tenant spaces generally have less than 100% office use with the non-office space used for showroom, technical or light storage purposes. Medical office properties are generally connected to or located near hospitals, and most tenants in those properties are health-care providers.

Interest expense incurred by the Company is a combination of property specific long-term debt and long-term debt that is secured by properties across the Company's reportable segments. Interest expense incurred on property-specific debt is allocated to that property's segment. Interest expense incurred on long-term debt that is secured by properties across the Company's reportable segments is allocated to the reportable segments based on the square footage of properties in that segment that are associated with the long-term debt.

The Company evaluates performance and allocates resources based on net operating income, which the Company defines as property revenues (rental, reimbursement, parking, telecommunications, tenant service and other income) less property operating expenses and real estate taxes.

The following is a summary report of segment information for the three and six months ended June 30, 2003 and 2002:

	Three months ended June 30,	Six months
	2003	2002

Revenues:

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Office	\$23,070	\$23,973	\$46,0
Medical office	2,574	-	5,2
Office service center	818	981	1,7
Deferred rental income	319	194	5
Interest	150	329	4

Total	\$26,931	\$25,477	\$53,9
	=====		
Net operating income:			
Office	\$12,409	\$13,765	\$24,8
Medical office	1,189	-	2,6
Office service center	254	434	6

Total	\$13,852	\$14,199	\$28,0
	=====		
Depreciation and amortization:			
Office	\$4,547	\$4,252	\$9,0
Medical office	382	-	7
Office service center	248	315	5
Other	184	160	3

Total	\$5,361	4,727	\$10,6
	=====		
Interest expense:			
Office	\$3,669	\$3,655	\$7,4
Medical office	542	-	1,0
Office service center	210	112	4

Total	\$4,421	\$3,767	\$8,9
	=====		
Income before allocation to minority interests:			
Net operating income	\$13,852	\$14,199	\$28,0
Interest expense	(4,421)	(3,767)	(8,93
Depreciation	(5,361)	(4,727)	(10,67
Deferred rental revenues	319	194	5
Interest income	150	329	4
General and administrative expenses	(1,400)	(1,462)	(2,72
Employee share loan termination	(511)	-	(51

Income before allocation to minority interests:	\$2,628	\$4,766	\$6,2
	=====		
Additions to properties:			
Office	\$4,883	\$3,662	\$7,5
Medical office	214	-	3
Office service center	280	231	3

Total	\$5,337	\$3,893	\$8,2
	=====		

Following is a summary of segment assets at June 30, 2003 and December 31, 2002:

	June 30,	December 31,
	-----	-----
	2003	2002
Assets		
Office	\$449,988	\$452,333
Medical office	59,581	61,814

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Office service center	19,561	19,483
Properties held for sale	1,900	-
Other	13,158	15,351
	-----	-----
Total	\$544,188	\$548,981
	=====	=====

4. Long-Term Debt

On January 16, 2003, the Company entered into a 10-year mortgage loan in an amount of \$40,000 secured by the medical office properties. This loan accrues interest at 5.43% per annum payable monthly along with monthly principal payments based on a 30-year amortization schedule.

On March 24, 2003, the Company entered into a \$29,200 secured credit facility. The facility bears interest at LIBOR plus 1.45% payable monthly, has a term of three years and is secured by the Company's properties located in Dublin and Columbus, Ohio. Borrowings at June 30, 2003 totaled \$11,155.

5. Goodwill

Goodwill is subject to periodic impairment tests. The Company has performed the required impairment tests of goodwill as of June 30, 2003, and has determined that goodwill is not impaired as of that date.

6. Impairment of Assets

The Company recognizes impairment losses for its properties when indicators of impairment are present and a property's expected undiscounted cash flows are not sufficient to recover the property's carrying amount.

7. Earnings per Share

The unvested restricted common share grants (166,664 shares at June 30, 2003) are excluded from the common shares used to compute basic earnings per share. The unvested restricted common shares are included in the shares used to compute fully diluted earnings per share using the treasury stock method whereby the unamortized deferred compensation related to these shares is assumed to be the exercise value of these shares.

The Company has 40,199 operating partnership units held by non-affiliates of the Company outstanding at June 30, 2003, which are convertible to common shares on a one-for-one basis at the option of the holder.

8. Discontinued Operations

The components of discontinued operations for the three and six months ended June 30, 2003 and 2002 are outlined below and include the results of operations through the date of each respective sale for the three and six months ended June 30, 2003 (or all operations of properties held for sale) and all operations for the three and six months ended June 30, 2002 for the following:

- the properties sold in 2002
- the property held for sale at June 30, 2003.

	Three months ended June 30,	
	2003	2003
	-----	-----
Revenues	\$ 161	\$ 1,350
Expenses:		
Real estate taxes and property operating expenses	35	661
Interest	-	-
Depreciation and amortization	22	397
	-----	-----
Total expenses	57	1,058
	-----	-----
Income from discontinued operations	104	292

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Gain on sale of properties	-	1,037
Discontinued operations, net	\$ 104	\$ 1,329
	Six months ended June 30,	
	2003	2003
Revenues	\$ 266	\$ 2,665
Expenses:		
Real estate taxes and property operating expenses	70	1,257
Interest	-	-
Depreciation and amortization	38	658
Total expenses	108	1,915
Income from discontinued operations	158	750
Gain on sale of properties	-	1,037
Discontinued operations, net	\$ 158	\$ 1,787

At December 31, 2002, the Company reported \$8,928 of properties held for sale. This amount has been reclassified as land, buildings and improvements and accumulated depreciation as of June 30, 2003 as the Company did not consummate its planned disposition of these assets. As of June 30, 2003, the Company does not plan to dispose of these assets.

9. Pro Forma Operating Results for Expensing Fair Value of Share Options Granted

For purposes of pro forma disclosures, the estimated fair value of the outstanding options to purchase common shares of the Company was amortized to expense over the options vesting period. The Company's unaudited pro forma information follows:

	Three months ended June 30,	
	2003	2002
Net income as reported	\$ 1,811	\$ 5,166
Less employee share option compensation at fair value	23	45
Pro forma net income	\$ 1,788	\$ 5,121
Pro forma basic earnings per common share	\$ 0.11	\$ 0.31
Pro forma diluted earnings per common share	\$ 0.11	\$ 0.31
	Six months ended June 30,	
	2003	2002
Net income as reported	\$ 4,541	\$ 9,434
Less employee share option compensation at fair value	65	90
Pro forma net income	\$ 4,476	\$ 9,344
Pro forma basic earnings per common share	\$ 0.28	\$ 0.57
Pro forma diluted earnings per common share	\$ 0.28	\$ 0.57

10. Alternatives to Increase Shareholder Value

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The Company's Board of Trustees has engaged a real estate advisor and an investment banker to assist it in analyzing alternatives to improve shareholder value. These alternatives may include a sale of some or all of the Company's properties, or a business combination or other similar transaction. Such activities are ongoing, and there can be no assurance that any such transaction will occur.

11. Employee Share Loans

In connection with the Company's activities related to alternatives to improve shareholder value, the Board of Trustees adopted a policy prohibiting employees from engaging in any trading of Company securities while the process is ongoing. Twenty-eight employees of the Company, including members of senior management who are affected by the provisions of the 2002 Sarbanes-Oxley Act, are required to repay certain maturing loans. These loans were made before 2001 under the Company's employee loan program, which was established in 1996 in connection with the Company's option plan. In order to permit an orderly retirement of a portion of the outstanding loans during the trading blackout period in compliance with the Sarbanes-Oxley Act, the Company's Board of Trustees approved a voluntary share repurchase plan for all employees with outstanding loans.

The plan provided for loan retirement in consideration for the shares securing the loans. Fifteen employees elected to participate in the repurchase program and the Company has repurchased an aggregate of 474,608 shares from those officers and employees that were securing an aggregate of \$7,302 in outstanding loans. The price used in connection with the repurchase program was \$14.67 per common share, which was the average of the closing prices of the common shares on the New York Stock Exchange for the five-day period ending April 10, 2003. As part of the Board-approved repurchase program, the Company has forgiven loan balances totaling \$498. Such loan forgiveness (\$498), or \$0.03 per common share, has been reflected as employee share loan termination expense in the three and six months ended June 30, 2003.

As of June 30, 2003, \$1,228 of employee loans will mature during the remainder of 2003. Thereafter, during 2004, 2005 and 2006, \$1,224, \$2,382 and \$105 of employee loans mature, respectively. The Company's Board of Trustees does not anticipate offering a similar repurchase program in the future. The officers and employees that continue to have loans under the employee loan program will be obligated to repay those loans at maturity in order to comply with the policies of the Company and the Sarbanes-Oxley Act.

On April 17, 2003, the Board of Trustees granted an aggregate of 257,699 options to purchase common shares to those employees who elected to participate in the repurchase program. Of the options granted, 224,659 have an exercise price of \$14.50 per share, the closing price of the common shares on April 17, 2003, and 33,040 have an exercise price of \$16.55 per share. The Company follows Accounting Principles Board Opinion No. 25 (APB 25) in accounting for option grants. Under APB 25, no compensation expense is recognized upon the grant of share purchase options at fair market value.

12. Subsequent Event

On July 8, 2003, the Company sold its properties located at 165 and 175 Hansen Court, Wood Dale, Illinois, for a contract price of \$3,900. The gain on sale of properties for this transaction of approximately \$1,600 will be recognized in the third quarter of 2003.

ITEM 2. Management's Discussion and Analysis of Results of Operations and Financial Condition (Dollars in thousands)

The following is a discussion and analysis of the consolidated financial condition and results of operations for the Company for the three and six months ended and as of June 30, 2003. The following should be read in conjunction with the consolidated financial statements and related notes appearing elsewhere herein and the consolidated financial statements and related notes contained in the 2002 10-K.

Trends

The Company's Board of Trustees has engaged a real estate advisor and an investment banker to assist it in analyzing alternatives to improve shareholder value. These alternatives may include a sale of some or all of the Company's properties, or a business combination or other similar transaction. Such activities are ongoing, and there can be no assurance that any such transaction will occur.

In 2002 and the first half of 2003, occupancy rates in the current markets in which the Company operates declined due to increases in supply and decreases in demand for office space. The market trend of occupancy declines has impacted the Company's portfolio performance and, as a result, the overall portfolio occupancy of the Company's properties declined to 80% at June 30, 2003 as compared to 83% at the end of 2002. During 2002, the Company averaged approximately 30,000 square feet of new leasing activity per month. The Company believes that the trend of vacancy increases is slowing. However, the Company anticipates that the difficult leasing environment that currently exists in its markets will persist throughout 2003 as improvement in demand for office space usually lags the beginning of an economic recovery. At June 30, 2003, Great Lakes REIT had 497,000 square feet of leases, or 8% of the portfolio, expiring in second half of 2003. The Company currently expects to retain or renew 240,000 to 260,000 square feet of the remaining 497,000 square feet of leases rolling over during the second half of 2003. The Company anticipates it will average 30,000 square feet per month of new leasing activity in the second half of 2003, basically the same level as was experienced in the difficult environment of 2002. Based on the tenant retention and new leasing activity expectations noted above, the

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Company expects that average portfolio occupancy during 2003 will be in the range of 79% to 80%. Occupancy at January 1, 2004 is expected to be in the range of 77% to 79% assuming no significant tenant defaults occur during the year. Based on these occupancy expectations, the Company expects that revenues and results of operations will decline in 2003 as compared to 2002.

As of March 1, 2003, several tenants were in default under their leases for failure to make rent payments. Several other tenants that are not currently in default are experiencing financial difficulties which may lead to lease defaults. These tenant defaults may adversely impact the Company's revenue in 2003.

Legion Insurance Company, which leases 58,000 square feet of space at Milwaukee Center and represented 1.53% of the Company's aggregate portfolio annualized base rent as of December 31, 2002, was placed in rehabilitation by the Pennsylvania Department of Insurance on April 1, 2002. After completing its review, the Pennsylvania Department of Insurance has recommended to the Commonwealth Court that Legion Insurance Company be liquidated. The Commonwealth Court approved the recommendation of the Pennsylvania Department of Insurance on July 28, 2003. Based on currently available information, the Company believes it is more likely than not that Legion will fulfill all terms of its lease in 2003. Legion Insurance Company is current on its rental payments to date. The Legion lease specifies a termination date of February 28, 2006.

Three months ended June 30, 2003 compared to 2002

During 2002, the Company acquired 11 properties. The operating results of these properties were included in the Company's financial statements from the dates of acquisition. In analyzing the 2003 operating results of the Company, the changes in rental and reimbursement income, real estate taxes and other property operating expenses from 2002 were principally due to: (i) the addition of a full year's operating results in 2003 of the properties acquired in 2002 and (ii) increases or decreases on properties owned in both 2003 and 2002. Other property operating expenses include contract services, repairs, maintenance, utilities, personnel, insurance and other costs directly associated with the leasing, management and operation of the properties. A summary of these changes as they impact rental income, reimbursement income, real estate taxes and other property operating expenses for 2003 follows:

	Rental Income	Reimbursement Income
Increase due to inclusion of full year of properties acquired in 2002	\$ 3,088	\$ 568
Increase (decrease) in 2003 compared to 2002	(1,921)	(244)
Total	\$ 1,167	\$ 324

Tenant service income increased by \$10, or 15%, in the quarter ended June 30, 2003 compared to 2002 primarily due to the sale of tenant services to the tenants in the medical office properties.

Interest income decreased by \$179, or 54%, during the quarter ended June 30, 2003, as compared to 2002 primarily because certain interest-bearing employee share loans were repaid or terminated during the 12 months ended June 30, 2003.

Interest expense increased by \$654, or 17%, during the quarter ended June 30, 2003 as compared to 2002 due to higher amounts of long-term debt outstanding during 2003.

Depreciation and amortization expenses increased by \$634, or 13%, during the quarter ended June 30, 2003 compared to 2002 because the Company had a gross book value of depreciable assets of \$529,877 at June 30, 2003 compared to \$446,875 at June 30, 2002.

Six months ended June 30, 2003 compared to 2002

During 2002, the Company acquired 11 properties. The operating results of these properties were included in the Company's financial statements from the dates of acquisition. In analyzing the 2003 operating results of the Company, the changes in rental and reimbursement income, real estate taxes and other property operating expenses from 2002 were principally due to: (i) the addition of a full year's operating results in 2003 of the properties acquired in 2002 and (ii) increases or decreases on properties owned in both 2003 and 2002. Other property operating expenses include contract services, repairs, maintenance, utilities, personnel, insurance and other costs directly associated with the leasing, management and operation of the properties. A summary of these changes as they impact rental income, reimbursement income, real estate taxes and other property operating expenses for 2003 follows:

	Rental Income	Reimbursement Income
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Increase due to inclusion of full year of properties acquired in 2002	\$	6,425	\$	1,234
Increase (decrease) in 2003 compared to 2002		(3,010)		(806)
<hr style="border-top: 1px dashed black;"/>				
Total	\$	3,415	\$	428
<hr style="border-top: 3px double black;"/>				

Tenant service income increased by \$26, or 20%, in the six months ended June 30, 2003 compared to 2002 primarily due to the sale of tenant services to the tenants in the medical office properties.

Interest income decreased by \$266, or 40%, during the six months ended June 30, 2003, compared to 2002 primarily because certain interest-bearing employee share loans were repaid or terminated during the 12 months ended June 30, 2003.

General and administrative expenses increased by \$157, or 6%, during the six months ended June 30, 2003 compared to 2002 due to increases in insurance costs (\$112), and increased compensation costs (\$47).

Interest expense increased by \$1,403, or 19%, during the six months ended June 30, 2003 compared to 2002 due to higher amounts of long-term debt outstanding during 2003.

Depreciation and amortization expenses increased by \$1,363, or 15%, during the six months ended June 30, 2003 compared to 2002 because the Company had a gross book value of depreciable assets of \$529,877 at June 30, 2003 compared to \$446,875 at June 30, 2002.

Segment Operations

The Company has three reportable segments, distinguished by property type. The property types are office, office service center and medical office properties. Office buildings are generally single-story or multi-story buildings used by tenants for office activities. The buildings generally have common area lobbies and other amenities including food service areas, atriums and limited underground parking facilities. Office service center buildings generally are one-story buildings with no common areas. Tenant spaces generally have less than 100% office use with the non-office space used for showroom, technical or light storage purposes. Medical office properties are generally connected to or located near hospitals, and most tenants in those properties are health-care providers.

Interest expense incurred by the Company is a combination of property specific long-term debt and long-term debt that is secured by properties across the Company's reportable segments. Interest expense incurred on property-specific debt is allocated to that property's segment. Interest expense incurred on long-term debt that is secured by properties across the Company's reportable segments is allocated to the reportable segments based on the square footage of properties in that segment that are associated with the long-term debt.

The net income for the office segment was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
Net operating income	\$12,409	\$13,765	\$ 24,819	\$ 26,908
Interest expense	(3,669)	(3,655)	(7,457)	(7,302)
Depreciation	(4,547)	(4,252)	(9,054)	(8,415)
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Segment net income	\$4,193	\$5,858	\$ 8,308	\$ 11,191
<hr style="border-top: 3px double black;"/>				

The decrease in segment net income for the three and six months ended June 30, 2003 compared to 2002 resulted from declining occupancy in this property segment and was partially offset by increases due to inclusion of a full year of operations in 2003 of properties acquired in 2002.

The net income for the office service center segment was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
Net operating income	\$254	\$434	\$ 610	\$ 1,100
Interest expense	(210)	(112)	(426)	(225)
Depreciation	(248)	(315)	(515)	(576)
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Segment net income (loss)	\$ (204)	\$ 7	\$	(331)	\$	299
=====						

The decrease in segment net income for the three and six months ended June 30, 2003 as compared to 2002 resulted from declining occupancy.

The net income for the medical office segment was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
Net operating income	\$1,189	-	\$ 2,635	--
Interest expense	(542)	-	(1,047)	--
Depreciation	(382)	-	(758)	--

Segment net income	\$258	-	\$ 830	--
=====				

The increase in segment net income for the year ended the three and six months ended June 30, 2003 resulted from the acquisition of the medical office properties on October 1, 2002.

Non-GAAP Financial Measures

Although not a GAAP measure, the Company believes that the inclusion of information regarding funds from operations (FFO) provides important information to shareholders and potential investors. The GAAP measure, net income applicable to common shares, includes depreciation and amortization expenses, gains or losses on property sales and minority interests. In presenting FFO, the Company eliminates substantially all of these items in order to provide an indication of the results from the Company's property operations. FFO is a widely recognized measure in the Company's business and is presented by nearly all publicly traded REITs. The Company's calculation of FFO may differ from the methodology for calculating FFO utilized by other real estate companies.

	Three months ended June 30,	
	2003	2002
Net income applicable to common shares	\$ 1,811	\$ 5,166
Adjustments to calculate funds from operations:		
Minority interests	7	15
Gain on sale of properties	-	(1,037)
Adjusted depreciation and amortization (a)	5,206	4,976
Funds from operations	\$ 7,024	\$ 9,120
=====		
Weighted average common shares outstanding- diluted	16,020	16,547
=====		

(a) Adjusted depreciation and amortization is calculated as follows:

	Three months ended June 30,	
	2003	2002
Depreciation and amortization in consolidated statements of cash flows	\$ 5,390	\$ 5,130
Less depreciation and amortization unrelated to properties	184	160
Adjusted depreciation and amortization	\$ 5,206	\$ 4,970
=====		
Six months ended June 30,		
	2003	2002

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Net income applicable to common shares	\$	4,541	\$	9,43
Adjustments to calculate funds from operations:				
Minority interests		16		2
Gain on sale of properties		-		(1,037)
Adjusted depreciation and amortization (a)		10,380		9,67
		-----		-----
Funds from operations	\$	14,937	\$	18,09
		=====		=====
Weighted average common shares outstanding- diluted		16,263		16,51
		=====		=====

(a) Adjusted depreciation and amortization is calculated as follows:

	Six months ended June 30,	
	2003	2002
Depreciation and amortization in consolidated statements of cash flows	\$ 10,725	\$ 9,99
Less depreciation and amortization unrelated to properties	345	31
	-----	-----
Adjusted depreciation and amortization	\$ 10,380	\$ 9,67
	=====	=====

EBITDA (earnings before interest, taxes, depreciation and amortization), a non-GAAP financial measure, represents net income before allocation to minority interests and before any deduction for interest expense, federal income tax expense (if any) and depreciation and amortization expense.

EBITDA is not intended to represent cash flow for the period, is not presented as an alternative to operating income as an indicator of operating performance, should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP and is not indicative of operating income or cash provided by operating activities as determined under GAAP.

EBITDA is presented solely as a supplemental disclosure because the Company believes it provides useful information regarding the Company's ability to service or incur debt. Because all companies do not calculate EBITDA the same way, the presentation of EBITDA may not be comparable to similarly titled measures of other companies.

The Company believes that net income and cash provided by operating activities are the financial measures calculated and presented in accordance with GAAP that are most directly comparable to EBITDA. The following is a reconciliation of EBITDA to each of net income and cash provided by operating activities for each of the periods for which EBITDA is presented in this Form 10-Q:

	For the six months	
	2003	
Calculation of EBITDA:		
Income before allocation to minority interests	\$	6,227
Depreciation and amortization from consolidated statements of cash flows		10,725
Non-cash portion of employee share loan termination		414
Interest expense		8,930
Discontinued operations, net		158

EBITDA	\$	26,454
		=====
Reconciliation of EBITDA to Cash Provided by Operating Activities:		
EBITDA	\$	26,454
Interest expense		(8,930)
Other adjustments from Consolidated Statements of Cash Flows:		
Other non-cash items		161

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Minority interests	(16)
Net changes in assets and liabilities:	
Rents receivable	(448)
Real estate tax escrows and other assets	9
Accounts payable, accrued expenses and other liabilities	374
Accrued real estate taxes	(1,343)
Payment of deferred leasing costs	(894)

Cash provided by operating activities	\$ 15,367
	=====

Liquidity and Capital Resources

The Company expects to meet its short-term liquidity requirements (other than significant capital improvements) principally through working capital borrowings and net cash provided by operating activities. The Company expects to meet its short-term liquidity requirements for significant capital improvements through targeted property dispositions and additional borrowings. The Company considers its cash provided by operating activities to be adequate to meet operating requirements and to fund the payment of dividends to the extent necessary to comply with certain federal income tax requirements applicable to real estate investment trusts (REITs). Cash flow from operating activities for the six months ended June 30, 2003 was \$15,367. This amount slightly exceeded common and preferred share dividends paid for the six months ended June 30, 2003. The Company expects that cash provided by operating activities in 2003 will exceed common and preferred share dividends paid in 2003.

The Board of Trustees determines the Company's dividend policy. The payment of dividends, other than those declared to date, is subject to future action of the Board of Trustees and will depend upon a variety of factors, including, but not limited to, the Company's cash position, operating results and general financial condition.

The Company expects to meet its short-term liquidity requirements for property acquisitions and significant capital improvements through targeted property dispositions and additional borrowings. On March 24, 2003, the Company entered into a \$29,200 secured credit facility. The facility bears interest at LIBOR plus 1.45% payable monthly, has a term of three years and is secured by the Company's four properties located in Dublin and Columbus, Ohio. Borrowings at June 30, 2003 totaled \$11,155. Future borrowings can be used for property acquisitions, tenant improvements, significant capital improvements, leasing costs and working capital. The Company has approximately \$45,000 of additional borrowing capacity through two secured credit facilities (including the \$29,200 secured credit facility described above). Anticipated occupancy levels at the Company's properties in 2003 may cause the Company to limit future acquisition activity funded by long-term borrowings to maintain liquidity for significant capital improvements and working capital. The Company expects to invest approximately \$1,500 for certain improvements at its property located at 1111 Touhy Avenue, Des Plaines, Illinois, over the next several years. While the Company expects to complete these improvements later in 2003 and 2004, the Company does have the option of limiting or curtailing these improvements as conditions warrant.

On January 16, 2003, the Company entered into a 10-year mortgage loan in an amount of \$40,000 secured by the medical office properties. This loan accrues interest at 5.43% per annum payable monthly along with monthly principal payments based on a 30-year amortization schedule. The proceeds of the loan were used to repay the \$36,000 bank loan payable secured by the medical office properties that was outstanding at December 31, 2002.

On July 8, 2003, the Company sold its properties located at 165 and 175 Hansen Court, Wood Dale, Illinois, for a contract price of \$3,900. The gain on sale of properties for this transaction of approximately \$1,600 will be recognized in the third quarter of 2003. The proceeds from sale of approximately \$3,900 were used for retirement of long-term debt (\$2,300) with the balance for working capital.

The Company has identified certain assets that it expects will be sold during the remainder of 2003 in addition to those assets classified as held for sale at June 30, 2003, and may consider selling additional properties if market conditions warrant. The Company has not entered into any definitive agreements with respect to any such additional disposition opportunities and there can be no assurances that the Company will consummate any dispositions in the remainder of 2003.

The Company expects to meet its long-term liquidity requirements (such as scheduled mortgage debt maturities, property acquisitions, and significant capital improvements) through long-term collateralized and uncollateralized borrowings, the issuance of debt or equity securities, subject to satisfactory conditions in the capital markets generally and real estate capital and finance markets, specifically, and targeted property dispositions. There can be no assurance that the Company will be able to access the credit or capital markets or consummate any such property dispositions when needed to fund such long-term liquidity requirements on an acceptable basis.

Forward-Looking Statements

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This report contains forward-looking statements that involve numerous risks and uncertainties. Statements in this document regarding the Company's expectations for tenant retention, new tenant leasing activity, vacancy trends, occupancy rates, acquisition and disposition volume and timing, the expectation regarding the performance of the economy and the office markets, the anticipated level and effect of tenant defaults and anticipated market and other economic conditions are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on what the Company believes to be reasonable assumptions and management's current expectations; however, actual results may vary from those implied by such forward-looking statements. Key factors that may cause actual results to differ from projected results include: conditions in the financial markets generally and the market for real estate finance specifically; local and/or national economic conditions; the pace of office space development and sub-lease availability; tenant office space demand; the financial position of the Company's tenants, including changes in such financial position that may lead to increases in tenant defaults and the performance of Legion Insurance Company; actual tenant default rates compared to anticipated default rates; performance of the medical office market generally and the local markets for the Company's medical office properties specifically; performance of the hospitals adjacent to the Company's medical office properties; changes in interest rates; and other risks inherent in the real estate business. The Company assumes no obligation to update or supplement forward-looking statements.

ITEM 3. MARKET RISK (Dollars in thousands)

The Company's interest income is sensitive to changes in the general levels of U.S. short-term interest rates.

The Company's interest expense is sensitive to changes in the general level of U.S. short-term and long-term interest rates as the Company has outstanding indebtedness at fixed and variable rates. A change in variable interest rates of 1% per annum would increase or decrease the Company's interest expense by \$162 per annum based on the amount of variable rate debt outstanding at June 30, 2003 (\$16,201).

Approximately \$66,200 of the Company's long-term debt bears interest at a variable rate based on LIBOR (\$49,295 at LIBOR plus 1.35%, \$11,155 at LIBOR plus 1.45% and \$5,750 at LIBOR plus 1.6%). In 2001, the Company entered into two separate interest rate swap agreements with notional amounts of \$25,000 each. One agreement effectively fixes the interest rate on \$25,000 of variable rate debt at a maximum of 4.27% until December 2003. Upon expiration of the swap agreement in December 2003, \$25,000 of the Company's outstanding debt will again be variable rate debt that bears interest at LIBOR plus 1.45%. The second swap agreement effectively fixes the interest rate on \$25,000 of variable rate debt at a maximum of 4.88% per annum until December 2004.

At June 30, 2003, the Company had \$294,850 of fixed rate debt outstanding at an average rate of 5.76% (after giving effect to the two swap agreements). The Company has long-term debt outstanding at fixed rates in the range of 4.3% to 7.44%. The general level of interest rates in the United States as of April 1, 2003 is such that refinancing this debt at current rates would be unlikely due to prepayment restrictions and penalties on its fixed rate debt. Accordingly, if the general level of interest rates in the United States were to fall further, the Company would not likely have the opportunity to refinance this fixed rate debt at lower interest rates.

In general, the Company believes long-term fixed rate debt is preferable as a financing vehicle for its operations due to the long-term fixed contractual rental income the Company receives from its tenants. As a result, the Company has 94% of its long-term debt outstanding at June 30, 2003 at fixed rates (including the debt affected by the swap agreements). The Company may, as market conditions warrant, enter into additional fixed rate long-term debt instruments on either a secured or unsecured basis.

A tabular presentation of interest rate sensitivity is as follows:

	Interest Rate Sensitivity Principal Amount by Expected Maturity Average Interest Rate			
	2003 (1)	2004	2005	2006
Liabilities:				
Fixed Rate				
Mortgage loans payable	\$ 2,892	\$ 6,116	\$ 6,508	\$ 2,000
Average interest rate of principal maturities	6.06%	6.08%	6.09%	
Fixed Rate				
Variable rate debt fixed by interest rate swap expiring in December 2003 (2)	\$ 357	\$ 729	\$ 749	\$ 749
Variable rate debt fixed by interest rate swap expiring in December 2004 (3)	\$ 357	\$ 729	\$ 749	\$ 749
Variable Rate				
Mortgage loans payable	\$ 1	\$ 1	\$ 1	\$ 1

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Average interest rate (4)					
Bank loan payable	--		--		\$
Average interest rate (5)					
Bonds payable	\$	--	\$	415	\$ 460 \$
Average interest rate (6)					

(1) Period from July 1, 2003 to December 31, 2003.

(2) The maximum interest rate is 4.27% per annum until December 2003. The average rate for the six months ended June 30, of 2003 was 4.27%.

(3) The maximum interest rate is 4.88% per annum until December 2004. The average interest rate for the six months ended June 30, of 2003 was 4.88%.

(4) At June 30, 2003, the interest rate was LIBOR plus 1.6% per annum. The average interest rate for the six months ended June 30, of 2003 was 2.90% per annum.

(5) The interest rate at June 30, 2003, was LIBOR plus 1.45%. The average interest rate for the six months ended June 30, of 2003 was 2.70%.

(6) The average interest rate for the six months ended June 30, of 2003 was 2.57%..

Item 4. Controls and Procedures

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Within the 90-day period prior to the filing of this report, an evaluation was carried out under the supervision and with the participation of the Company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures are effective.

Subsequent to the date of their evaluation, there have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls.

Part II Other Information

ITEM 5. Submission of Matters to a Vote of Security Holders

On May 14, 2003, the Company conducted its 2003 Annual Shareholders Meeting in Oak Brook, Illinois, pursuant to a Notice of Meeting and Proxy Statement dated April 11, 2003.

Eight members of the Company's Board of Trustees were nominated and elected to serve a one-year term at such Annual Meeting. The following is a list of individuals who were nominated and elected to the Board of Trustees: Matthew S. Dominski, Patrick R. Hunt, Daniel P. Kearney, Leandra R. Knes, Richard A. May, Donald E. Phillips, James E. Schragger and Richard E. Terry.

Issue: Election of Directors

Nominees:	Votes for	Votes withheld	Total
Matthew S. Dominski	14,335,591	154,772	14,490,363
Patrick R. Hunt	14,300,774	189,589	14,490,363
Daniel P. Kearney	14,365,084	125,279	14,490,363
Leandra R. Knes	14,288,716	201,647	14,490,363
Richard A. May	14,288,376	201,987	14,490,363
Donald E. Phillips	14,257,683	232,680	14,490,363
James E. Schragger	14,292,069	198,294	14,490,363
Richard E. Terry	14,337,697	152,666	14,490,363

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ITEM 6. Exhibits and Reports on Form 8-K

- (a) Exhibits
- 31 Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
 - 32 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (b) Reports of Form 8-K
- Item 12 Form 8-K dated and filed April 15, 2003 reporting the results of operations and financial condition for the period ended March 31, 2003.

SIGNATURES

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

Great Lakes REIT
(Registrant)

Date: August 12, 2003

By: /s/James Hicks
James Hicks
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

EXHIBIT 31

PRINCIPAL EXECUTIVE OFFICER'S CERTIFICATIONS PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Richard A. May, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Great Lakes REIT;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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. 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
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):>
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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- 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: August 12, 2003

/s/Richard A. May

Richard A. May

Chairman and Chief Executive Officer

**PRINCIPAL EXECUTIVE OFFICER'S CERTIFICATIONS PURSUANT TO SECTION
302 OF THE SARBANES-OXLEY ACT OF 2002**

I, James Hicks, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Great Lakes REIT;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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. 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
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2003

/s/James Hicks

James Hicks

Chief Financial Officer

Exhibit 32

Great Lakes REIT
823 Commerce Drive, Suite 300
Oak Brook, Illinois 60523

August 12, 2003

Securities and Exchange Commission
Judiciary Plaza
450 Fifth Street, N.W.
Washington, D.C. 20549

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

PRINCIPAL EXECUTIVE OFFICER'S CERTIFICATIONS PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

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Ladies and Gentlemen:

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Form 10-Q of Great Lakes REIT (the Company) for the quarter ended June 30, 2003, as filed with the Securities and Exchange Commission on the date hereof (the Report), each of the undersigned officers of the Company certifies, that, to such officer's knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report

/s/Richard A. May

Name: Richard A. May

Title: Chairman and Chief Executive Officer

/s/James Hicks

Name: James Hicks

Title: Chief Financial Officer