

RMR F.I.R.E. Fund
Form N-CSR
February 28, 2007

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM N-CSR
CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number: 811-21616

RMR F.I.R.E. FUND

(Exact name of registrant as specified in charter)

**400 CENTRE STREET
NEWTON, MASSACHUSETTS 02458**

(Address of principal executive offices)(Zip code)

(Name and Address of Agent for Service of Process)

Thomas M. O'Brien, President

RMR F.I.R.E. Fund
400 Centre Street
Newton, Massachusetts 02458

Copy to:

Robert N. Hickey, Esq.

Sullivan & Worcester LLP
1666 K Street, NW
Washington, DC 20006

Thomas J. Reyes, Esq.

State Street Bank and Trust Company
2 Avenue de Lafayette
Boston, Massachusetts 02111

Registrant's telephone number, including area code: **(617) 332-9530**

Date of fiscal year end: December 31

Date of reporting period: December 31, 2006

Item 1. Reports to Shareholders.

ANNUAL REPORTS
DECEMBER 31, 2006



RMR Real Estate Fund

RMR Hospitality and Real Estate Fund

RMR F.I.R.E. Fund

RMR Preferred Dividend Fund

RMR Asia Pacific Real Estate Fund

About information contained in this report:

Performance data is historical and reflects historical expenses and historical changes in net asset value. Historical results are not indicative of future results.

If RMR Advisors had not waived fees or paid all of each fund's organizational costs and a portion of each fund's offering costs, each fund's returns would have been reduced.

Please consider the investment objectives, strategies, risks, charges and expenses before investing in any of the funds. An investment in each fund's shares is subject to material risks, including but not limited to those described in each fund's prospectus, the registration statements and other documents filed with the SEC. Each fund's declaration of trust contains provisions which limit ownership of fund shares by any person or group of persons acting together and limit any persons ability to control a fund or to convert a fund to an open end fund. For more information about any of our funds please visit www.rmrfunds.com or call our investor relations group at 1-866-790-3165.

NOTICE CONCERNING LIMITED LIABILITY

THE AGREEMENTS AND DECLARATIONS OF TRUST OF RMR REAL ESTATE FUND, RMR HOSPITALITY AND REAL ESTATE FUND, RMR F.I.R.E. FUND, RMR PREFERRED DIVIDEND FUND AND RMR ASIA PACIFIC REAL ESTATE FUND, COPIES OF WHICH, TOGETHER WITH ALL AMENDMENTS AND SUPPLEMENTS THERETO, ARE DULY FILED IN THE OFFICE OF THE SECRETARY, CORPORATIONS DIVISION, OF THE COMMONWEALTH OF MASSACHUSETTS, PROVIDE THAT THE NAMES "RMR REAL ESTATE FUND", "RMR HOSPITALITY AND REAL ESTATE FUND", "RMR F.I.R.E. FUND", "RMR PREFERRED DIVIDEND FUND" AND "RMR ASIA PACIFIC REAL ESTATE FUND" REFER TO THE TRUSTEES UNDER THE AGREEMENTS AND DECLARATIONS COLLECTIVELY AS TRUSTEES, BUT NOT INDIVIDUALLY OR PERSONALLY, AND THAT NO TRUSTEE, OFFICER, SHAREHOLDER, EMPLOYEE OR AGENT OF ANY OF THE FUNDS SHALL BE HELD TO ANY PERSONAL LIABILITY, JOINTLY OR SEVERALLY, FOR ANY OBLIGATION OF, OR CLAIM AGAINST, ANY OF THESE FUNDS. ALL PERSONS DEALING WITH ANY OF THE FUNDS IN ANY WAY, SHALL LOOK ONLY TO THE ASSETS OF THAT FUND WITH WHICH HE OR SHE MAY DEAL FOR THE PAYMENT OF ANY SUM OR THE PERFORMANCE OF ANY OBLIGATION.

RMR Funds
December 31, 2006

February 16, 2007

To our shareholders,

We are pleased to present you with our 2006 annual report for five funds:

RMR Real Estate Fund (AMEX: RMR), which began operations in December 2003, beginning on page 2;

RMR Hospitality and Real Estate Fund (AMEX: RHR), which began operations in April 2004, beginning on page 19;

RMR F.I.R.E. Fund (AMEX: RFR), which began operations in November 2004, beginning on page 38;

RMR Preferred Dividend Fund (AMEX: RDR), which began operations in May 2005, beginning on page 56; and

RMR Asia Pacific Real Estate Fund (AMEX: RAP), which began operations in May 2006, beginning on page 70.

Our management team and board of trustees wasted no time becoming fellow shareholders of RMR Asia Pacific Real Estate Fund, having made investments of over \$800,000 of shares at the public offering price of \$20/share and in the open market. Our management team and board of trustees currently own shares in the RMR Funds with a market value in excess of \$21 million.

We invite you to read through the information contained in this report and to view our website at www.rmr-funds.com.

Sincerely,

Thomas M. O'Brien
President

RMR Real Estate Fund

December 31, 2006

To our shareholders,

In the pages that follow, you will find data summarizing our financial results for the year ended December 31, 2006, and our financial position as of December 31, 2006.

During 2006, our allocation to the sub-sector of mortgage real estate investment trusts, or REITs, increased from 2.2% to 10.1% of total investments, our largest sub-sector increase. During the same time period, our allocation to the office sub-sector decreased from 13.3% to 8.7% of total investments, our largest sub-sector decrease. These changes reflect our view of the business environments in these sub-sectors, the strengths and weaknesses of the companies that operate in those sub-sectors and the share prices of individual companies. During 2007, we will continue to monitor market conditions and position our portfolio according to our views of market conditions.

For securities that we held continuously during 2006, our three best performing investments were the common stocks of BNP Residential Properties, Inc., Glenborough Realty Trust and Omega Healthcare Investors, Inc. with total returns of 60%, 50% and 50%, respectively. Our three worst performing investments during the same period were the common stock of Brandywine Realty Trust, a series of preferred stock of The Mills Corp. and common stock of The Mills Corp. with total returns of positive 3%, negative 4% and negative 47%, respectively.

Thank you for your continued support. For more information, please view our website, at www.rmrfunds.com.

Sincerely,

Thomas M. O'Brien
President

RMR Real Estate Fund

December 31, 2006

Relevant Market Conditions

Real Estate Industry Fundamentals. We believe that the operating environment for real estate companies will continue to improve in 2007, although not at the same rate as 2006. We expect vacancy rates to decline, rental rates to improve and funds from operations, or FFO, an important measure of performance for real estate companies, to grow. Most public real estate companies have ample liquidity to make acquisitions to further increase their earnings potential.

Real Estate Industry Technicals. We believe demand for real estate securities over the long term will continue to increase. Demographic trends in the U.S. include growth in the over age 50 population; we believe that individuals in that age category tend to focus their investments in higher yielding stocks like REITs. Institutions have been increasing their allocations to real estate securities. We believe that the demand for real estate made 2006 the biggest merger and acquisition year ever in the real estate securities market.

Fund Strategies, Techniques and Performance

Our primary investment objective is to earn and pay a high level of current income to our common shareholders by investing in real estate companies. Our secondary investment objective is capital appreciation. There can be no assurances that we will meet our investment objectives.

During 2006, our total return on net asset value, or NAV (including NAV changes and assuming a hypothetical reinvestment of distributions at NAV) was 35.3%. During that same period, the total return for the MSCI US REIT Total Return Index (an unmanaged index of REIT common stocks) was 35.9% and the total return for the Merrill Lynch REIT Preferred Index (an unmanaged index of REIT preferred stocks) was 9.7%. We believe these two indices are relevant to us because our investments, excluding short term investments, as of December 31, 2006, include 73% REIT common stocks and 25% REIT preferred stocks. The S&P 500 Index (an unmanaged index published as Standard and Poor's Composite Index of 500 common stocks) total return for 2006 was 15.8%.

**Portfolio holdings by sub-sector as a percentage of investments
(as of December 31, 2006) ***

REITs	
Diversified	17%
Health care	15%
Hospitality	11%
Mortgage	10%
Others, less than 10% each	42%
	<hr/>
Total REITs	95%
Other	2%
Short term investments	3%
	<hr/>
Total investments	100%
	<hr/>

*

These percentages represent the Fund's portfolio holdings by sub-sector as a percentage of total portfolio holdings and do not agree with the percentages included in the Portfolio of Investments schedule which represent the Fund's portfolio holdings by sub-sector as a

percentage of the Fund's total net assets.

RMR Real Estate Fund
Portfolio of Investments

December 31, 2006

Company	Shares	Value
Common Stocks 99.6%		
Real Estate Investment Trusts 96.8%		
<i>Apartments 10.5%</i>		
Apartment Investment & Management Co.	58,100	\$ 3,254,762
Associated Estates Realty Corp.	100,400	1,379,496
BNP Residential Properties, Inc.	200,000	4,830,000
Home Properties, Inc.	71,800	4,255,586
United Dominion Realty Trust, Inc.	12,000	381,480
		14,101,324
<i>Diversified 22.3%</i>		
Centracore Properties Trust	28,050	906,856
Colonial Properties Trust	131,700	6,174,096
Cousins Properties, Inc.	10,100	356,227
Crescent Real Estate Equities Co.	372,500	7,356,875
Duke Realty Corp.	7,000	286,300
iStar Financial, Inc.	6,000	286,920
Lexington Corporate Properties Trust	252,400	5,658,808
Liberty Property Trust	24,000	1,179,360
National Retail Properties, Inc.	310,700	7,130,565
Newkirk Realty Trust, Inc.	8,000	144,320
Spirit Finance Corp.	17,500	218,225
Vornado Realty Trust	3,000	364,500
Washington Real Estate Investment Trust	300	12,000
		30,075,052
<i>Health Care 13.6%</i>		
Cogdell Spencer, Inc.	15,000	322,500
Health Care Property Investors, Inc.	19,080	702,526
Health Care REIT, Inc.	162,600	6,995,052
Healthcare Realty Trust, Inc.	11,200	442,848
Medical Properties Trust, Inc.	20,900	319,770
Nationwide Health Properties, Inc.	257,600	7,784,672
OMEGA Healthcare Investors, Inc.	85,200	1,509,744
Universal Health Realty Income Trust	7,000	272,860
		18,349,972
<i>Hospitality 2.7%</i>		
Ashford Hospitality Trust, Inc.	2,500	31,125
Eagle Hospitality Properties Trust, Inc.	60,000	550,800
Entertainment Properties Trust	22,000	1,285,680
Equity Inns, Inc.	5,000	79,800
FelCor Lodging Trust, Inc.	17,000	371,280
Hersha Hospitality Trust	6,100	69,174

See notes to financial statements and notes to portfolio of investments.

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Hospitality continued

Highland Hospitality Corp.	7,000	\$	99,750
LaSalle Hotel Properties	3,200		146,720
Supertel Hospitality, Inc.	150,000		1,039,500

3,673,829

Industrial 7.9%

DCT Industrial Trust, Inc.	12,500		147,500
EastGroup Properties, Inc.	4,400		235,664
First Industrial Realty Trust, Inc.	204,640		9,595,570
ProLogis	11,000		668,470

10,647,204

Manufactured Homes 1.8%

Sun Communities, Inc.	75,900		2,456,124
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Mortgage 11.2%

Abingdon Investment, Ltd. (a)(b)	550,000		5,500,000
Alesco Financial, Inc.	539,600		5,773,720
American Home Mortgage Investment Corp.	4,000		140,480
American Mortgage Acceptance Co.	22,800		384,864
Anthracite Capital, Inc.	2,000		25,460
Arbor Realty Trust, Inc.	1,200		36,108
Crystal River Capital, Inc.	26,800		684,204
HomeBanc Corp.	12,500		52,875
KKR Financial Corp.	5,500		147,345
New Century Financial Corp.	12,000		379,080
Newcastle Investment Corp.	17,600		551,232
NovaStar Financial, Inc.	43,500		1,159,275
Thornburg Mortgage, Inc.	7,000		175,910

15,010,553

Office 11.2%

American Financial Realty Trust	77,100		882,024
Boston Properties, Inc.	9,000		1,006,920
Brandywine Realty Trust	2,400		79,800
Columbia Equity Trust, Inc.	3,000		57,330
Corporate Office Properties Trust	11,500		580,405
Douglas Emmett, Inc.	12,500		332,375
Equity Office Properties Trust	140,000		6,743,800
Highwoods Properties, Inc.	55,000		2,241,800
Mack-Cali Realty Corp.	6,000		306,000

See notes to financial statements and notes to portfolio of investments.

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Office continued

Maguire Properties, Inc.	48,000	\$	1,920,000
Parkway Properties, Inc.	400		20,404
SL Green Realty Corp.	7,000		929,460

15,100,318

Other Financial Services 0.0%

Friedman Billings Ramsey Group, Inc.	5,000		40,000
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Retail 8.5%

CBL & Associates Properties, Inc.	24,000		1,040,400
Cedar Shopping Centers, Inc.	5,000		79,550
Developers Diversified Realty Corp.	2,000		125,900
Equity One, Inc.	5,000		133,300
Feldman Mall Properties, Inc.	3,000		37,500
Glimcher Realty Trust	93,400		2,494,714
New Plan Excel Realty Trust	187,780		5,160,194
Pennsylvania Real Estate Investment Trust	12,000		472,560
Ramco-Gershenson Properties Trust	3,000		114,420
Realty Income Corp.	18,200		504,140
Simon Property Group, Inc.	2,000		202,580
The Mills Corp.	45,100		902,000
Urstadt Biddle Properties, Inc.	6,800		129,812

11,397,070

Specialty 4.9%

Getty Realty Corp.	32,600		1,007,340
Resource Capital Corp.	12,000		203,400
Trustreet Properties, Inc.	322,200		5,429,070

6,639,810

Storage 2.2%

Sovran Self Storage, Inc.	50,000		2,864,000
U-Store-It Trust	5,000		102,750

2,966,750

Total Real Estate Investment Trusts (Cost \$103,536,842)

130,458,006

See notes to financial statements and notes to portfolio of investments.

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<i>Other 2.8%</i>		
American Capital Strategies, Ltd.	34,500	\$ 1,595,970
Iowa Telecommunication Services, Inc.	55,500	1,093,905
Seaspan Corp.	48,200	1,114,384
<i>Total Other (Cost \$3,026,416)</i>		3,804,259
<i>Total Common Stocks (Cost \$106,563,258)</i>		134,262,265
Preferred Stocks 33.0%		
Real Estate Investment Trusts 33.0%		
<i>Apartments 1.8%</i>		
Apartment Investment & Management Co., Series G	32,800	862,640
Apartment Investment & Management Co., Series T	60,000	1,527,000
		<hr/>
		2,389,640
<i>Diversified 1.4%</i>		
Colonial Properties Trust, Series D	10,000	261,200
Colonial Properties Trust, Series E	62,910	1,593,510
		<hr/>
		1,854,710
<i>Health Care 6.6%</i>		
Health Care REIT, Inc., Series G	20,000	620,000
LTC Properties, Inc., Series F	160,000	4,024,000
OMEGA Healthcare Investors Inc., Series D	160,000	4,277,600
		<hr/>
		8,921,600
<i>Hospitality 12.0%</i>		
Ashford Hospitality Trust, Series A	107,900	2,792,452
Eagle Hospitality Properties Trust, Inc., Series A	28,000	714,560
Equity Inns, Inc., Series B	34,000	895,050
FelCor Lodging Trust, Inc., Series A (c)	83,000	2,074,170
FelCor Lodging Trust, Inc., Series C	49,200	1,240,332
Innkeepers USA Trust, Series C	120,000	3,025,200
Strategic Hotels & Resorts, Inc., Series B	54,500	1,410,188
Winston Hotels, Inc., Series B	160,000	4,053,600
		<hr/>
		16,205,552
<i>Manufactured Homes 5.3%</i>		
Affordable Residential Communities, Series A	280,000	7,084,000
<i>See notes to financial statements and notes to portfolio of investments.</i>		

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<i>Mortgage 2.7%</i>		
New Century Financial Corp., Series A	20,000	\$ 485,000
RAIT Investment Trust, Series A	125,000	3,156,250
		3,641,250
<i>Office 0.7%</i>		
Alexandria Real Estate Equities, Inc., Series B	5,000	125,450
Corporate Office Properties Trust, Series J	4,000	103,500
Kilroy Realty Corp., Series F	30,000	760,500
		989,450
<i>Retail 2.5%</i>		
CBL & Associates Properties, Inc., Series B	20,000	1,007,000
Glimcher Realty Trust, Series F	20,000	521,800
Glimcher Realty Trust, Series G	50,000	1,267,500
The Mills Corp., Series E	7,100	163,726
The Mills Corp., Series G	17,000	373,150
		3,333,176
<i>Total Preferred Stocks (Cost \$42,265,067)</i>		44,419,378
<i>Short Term Investments 4.4%</i>		
<i>Other Investment Companies 4.4%</i>		
SSgA Money Market Fund, 4.99% (d) (Cost \$5,988,968)	5,988,968	5,988,968
<i>Total Investments 137.0% (Cost \$154,817,293)</i>		184,670,611
<i>Other assets less liabilities 0.1%</i>		150,264
<i>Preferred Shares, at liquidation preference (37.1%)</i>		(50,000,000)
<i>Net Assets applicable to common shareholders 100%</i>		\$ 134,820,875
<i>Notes to Portfolio of Investments</i>		

- (a) 144A securities. Securities restricted for resale to Qualified Institutional Buyers (4.1% of net assets).
- (b) As of December 31, 2006, this security had not paid a distribution.
- (c) Convertible into common stock.
- (d) Rate reflects 7 day yield as of December 31, 2006.

See notes to financial statements.

RMR Real Estate Fund

Financial Statements

Statement of Assets and Liabilities

December 31, 2006

Assets

Investments in securities, at value (cost \$154,817,293)	\$ 184,670,611
Cash	67,365
Dividends and interest receivable	1,279,823
	<hr/>
Total assets	186,017,799

Liabilities

Distributions payable - common shares	682,400
Advisory fee payable	94,449
Payable for investment securities purchased	62,280
Distributions payable - preferred shares	50,060
Accrued expenses and other liabilities	307,735
	<hr/>
Total liabilities	1,196,924

Preferred shares, at liquidation preference

Auction preferred shares, Series T; \$.001 par value per share; 2,000 shares issued and outstanding at \$25,000 per share liquidation preference	50,000,000
	<hr/>

Net assets attributable to common shares

\$ 134,820,875

Composition of net assets

Common shares, \$.001 par value per share; unlimited number of shares authorized, 6,824,000 shares issued and outstanding	\$ 6,824
Additional paid-in capital	96,510,797
Accumulated net realized gain on investment transactions	8,449,936
Net unrealized appreciation on investments	29,853,318
	<hr/>

Net assets attributable to common shares

\$ 134,820,875

Net asset value per share attributable to common shares (based on 6,824,000 common shares outstanding)

\$ 19.76

See notes to financial statements.

RMR Real Estate Fund**Financial Statements** continued

Statement of Operations

For the Year Ended December 31, 2006*Investment Income*

Dividends (Cash distributions, net of capital gain and return of capital distributions, received or due)	\$ 8,163,300
Interest	365,283
	<hr/>
Total investment income	8,528,583
	<hr/>

Expenses

Advisory	1,445,910
Excise tax	174,826
Preferred share remarketing	122,999
Administrative	115,153
Audit and legal	83,538
Custodian	78,927
Shareholder reporting	48,992
Compliance and internal audit	41,677
Trustees' fees and expenses	20,404
Other	97,241
	<hr/>

Total expenses	2,229,667
Less: expenses waived by the Advisor	(425,268)
	<hr/>

Net expenses	1,804,399
	<hr/>

Net investment income	6,724,184
	<hr/>

Realized and unrealized gain on investments

Net realized gain on investments	11,075,804
Net change in unrealized appreciation on investments	20,905,533
	<hr/>

Net realized and unrealized gain on investments	31,981,337
	<hr/>

Distributions to preferred shareholders from net investment income	(1,552,028)
Distributions to preferred shareholders from net realized gain on investments	(813,812)
	<hr/>

Net increase in net assets attributable to common shares resulting from operations	\$ 36,339,681
	<hr/>

See notes to financial statements.

RMR Real Estate Fund
Financial Statements continued

Statement of Changes in Net Assets

	Year Ended December 31, 2006	Year Ended December 31, 2005
<i>Increase (decrease) in net assets resulting from operations</i>		
Net investment income	\$ 6,724,184	\$ 4,370,527
Net realized gain on investments	11,075,804	6,758,346
Net change in unrealized appreciation/(depreciation) on investments	20,905,533	(7,347,940)
Distributions to preferred shareholders from:		
Net investment income	(1,552,028)	(667,974)
Net realized gain on investments	(813,812)	(928,346)
	<u>36,339,681</u>	<u>2,184,613</u>
Net increase in net assets attributable to common shares resulting from operations		
Distributions to common shareholders from:		
Net investment income	(5,371,982)	(3,702,553)
Net realized gain on investments	(2,816,818)	(5,168,647)
	<u>28,150,881</u>	<u>(6,686,587)</u>
Total increase (decrease) in net assets attributable to common shares		
<i>Net assets attributable to common shares</i>		
Beginning of year	106,669,994	113,356,581
	<u>134,820,875</u>	<u>106,669,994</u>
End of year		
<i>Common shares issued and repurchased</i>		
Shares outstanding, beginning of year	6,824,000	6,824,000
Shares issued		
	<u>6,824,000</u>	<u>6,824,000</u>
Shares outstanding, end of year		

See notes to financial statements.

RMR Real Estate Fund
Financial Highlights

Selected Data For A Common Share Outstanding Throughout Each Period

	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004	For the Period December 18, 2003(a) to December 31, 2003
<i>Per Common Share Operating Performance (b)</i>				
Net asset value, beginning of period	\$ 15.63	\$ 16.61	\$ 14.35	\$ 14.33(c)
<i>Income from Investment Operations</i>				
Net investment income (d)(e)	.99	.64	.47	.10
Net realized and unrealized appreciation/(depreciation) on investments (e)	4.69	(.08)	3.11	(.05)
Distributions to preferred shareholders (common stock equivalent basis) from:				
Net investment income (e)	(.23)	(.10)	(.05)	
Net realized gain on investments (e)	(.12)	(.14)	(.05)	
Net increase in net asset value from operations	5.33	.32	3.48	.05
Less: Distributions to common shareholders from:				
Net investment income (e)	(.79)	(.54)	(.53)	
Net realized gain on investments (e)	(.41)	(.76)	(.57)	
Common share offering costs charged to capital				(.03)
Preferred share offering costs charged to capital			(.12)	
Net asset value, end of period	\$ 19.76	\$ 15.63	\$ 16.61	\$ 14.35
Market price, beginning of period	\$ 13.15	\$ 14.74	\$ 15.00	\$ 15.00
Market price, end of period	\$ 17.48	\$ 13.15	\$ 14.74	\$ 15.00
<i>Total Return (f)</i>				
Total investment return based on:				
Market price (g)	43.77%	(1.96)%	6.42%	0.00%
Net asset value (g)	35.27%	2.10%	24.73%	0.14%
<i>Ratios/Supplemental Data:</i>				
Ratio to average net assets attributable to common shares of:				
Net investment income, before total preferred share distributions (d)(e)	5.60%	4.02%	3.22%	27.45%(h)
Total preferred share distributions	1.97%	1.47%	0.67%	0.00%(h)
Net investment income, net of preferred share distributions (d)(e)	3.63%	2.55%	2.55%	27.45%(h)
Expenses, net of fee waivers	1.50%	1.50%	1.69%	2.40%(h)
Expenses, before fee waivers	1.86%	1.87%	2.05%	2.65%(h)
Portfolio turnover rate	36.20%	22.15%	35.52%	17.49%
Net assets attributable to common shares, end of period (000s)	\$ 134,821	\$ 106,670	\$ 113,357	\$ 95,776
	\$ 50,000	\$ 50,000	\$ 50,000	\$

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Preferred shares, liquidation preference (\$25,000 per share) (000s)

Asset coverage per preferred share (i)	\$	92,411	\$	78,335	\$	81,679	\$
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- (a) Commencement of operations.
- (b) Based on average shares outstanding.
- (c) Net asset value at December 18, 2003, reflects the deduction of the average sales load and offering costs of \$0.67 per share paid by the holders of common shares from the \$15.00 offering price. We paid a sales load and offering cost of \$0.68 per share on 6,660,000 common shares sold to the public and no sales load or offering costs on 7,000 common shares sold to affiliates of the RMR Advisors for \$15 per share.
- (d) Amounts are net of expenses waived by RMR Advisors.
- (e) As discussed in Note A (6) to the financial statements, a portion of the distributions we received on our investments are not included in investment income for financial reporting purposes.
- (f) Total returns for periods of less than one year are not annualized.
- (g) Total return based on per share market price assumes the purchase of common shares at the market price on the first day and sales of common shares at the market price on the last day of the period indicated; dividends and distributions, if any, are assumed to be reinvested at market prices on the ex-dividend date. The total return based on net asset value, or NAV, assumes the purchase of common shares at NAV on the first day and sales of common shares at NAV on the last day of the period indicated; distributions are assumed to be reinvested at NAV on the ex-dividend date. Results represent past performance and do not guarantee future results. Total return would have been lower if RMR Advisors had not contractually waived a portion of its investment advisory fee.
- (h) Annualized.
- (i) Asset coverage per share equals net assets attributable to common shares plus the liquidation preference of the preferred shares divided by the total number of preferred shares outstanding at the end of the period.

See notes to financial statements.

RMR Real Estate Fund
Notes to Financial Statements

December 31, 2006

Note A

(1) Organization

RMR Real Estate Fund, or the Fund, was organized as a Massachusetts business trust on July 2, 2002, and is registered under the Investment Company Act of 1940, as amended, as a non-diversified closed-end management investment company. The Fund had no operations prior to December 18, 2003, other than matters relating to the Fund's establishment and registration of the Fund's common shares under the Securities Act of 1933.

(2) Use of Estimates

Preparation of these financial statements in conformity with accounting principles generally accepted in the United States requires the Fund's management to make estimates and assumptions that may affect the amounts reported in the financial statements and related notes. The actual results could differ from these estimates.

(3) Portfolio Valuation

Investment securities of the Fund are valued at the latest sales price whenever that price is readily available on that day; securities for which no sales were reported on that day, unless otherwise noted, are valued at the last available bid price on that day. Securities traded primarily on the NASDAQ Stock Market, or NASDAQ, are normally valued by the Fund at the NASDAQ Official Closing Price, or NOCP, provided by NASDAQ each business day. The NOCP is the most recently reported price as of 4:00:06 p.m., eastern time, unless that price is outside the range of the "inside" bid and asked prices (i.e., the bid and asked prices that dealers quote to each other when trading for their own accounts); in that case, NASDAQ will adjust the price to equal the inside bid or asked price, whichever is closer. Because of delays in reporting trades, the NOCP may not be based on the price of the last trade to occur before the market closes. Some fixed income securities may be valued using pricing provided by a pricing service. Any of the Fund's securities which are not readily marketable, which are not traded or which have other characteristics of illiquidity are valued by the Fund at fair value as determined in good faith under the supervision of the Fund's board of trustees. Numerous factors may be considered when determining fair value of a security, including cost at date of purchase, type of security, the nature and duration of restrictions on disposition of the security and whether the issuer of the security being fair valued has other securities of the same type outstanding. Short term debt securities with less than 60 days until maturity may be valued at cost, which when combined with interest accrued, approximates market value.

(4) Securities Transactions and Investment Income

Securities transactions are recorded on a trade date basis. Dividend income is recorded on the ex-dividend date. Non-cash dividends included in dividend income, if any, are recorded at the fair market value of the securities received. Interest income, including accretion of original issue discount, where applicable, and accretion of discount on short term investments, is recorded on the accrual basis. Realized gains and losses from securities transactions are recorded on the basis of identified cost.

(5) Federal Income Taxes

The Fund has qualified and intends to qualify in the future as a "regulated investment company" and to comply with the applicable provisions of subchapter M of the Internal Revenue Code of 1986, as amended, so

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that it will generally not be subject to federal income tax. However, the Fund may be subject to a 4% excise tax to the extent the Fund does not distribute substantially all taxable earnings.

(6) Distributable Earnings

The Fund earns income, net of expenses, daily on its investments. It is the policy of the Fund to pay a stable distribution amount to common shareholders on a monthly basis and distributions to Fund shareholders are declared pursuant to this policy. The Fund paid distributions of \$0.10 per common share on January 31, 2007. On February 12, 2007, the Fund declared distributions of \$0.10 per common share payable in February, March and April 2007. Distributions to shareholders are recorded on the ex-dividend date. The Fund's distributions may consist of ordinary income (net investment income and short term capital gains), long term capital gains and return of capital. To the extent the Fund's net realized capital gains, if any, can be offset by capital loss carry-forwards, it is the policy of the Fund not to distribute such gains. Distributions to preferred shareholders are determined as described in Note D.

The Fund has substantial investments in real estate investment trusts, or REITs, which are generally not subject to federal income taxes. Distributions that the Fund received from REITs can be classified as ordinary income, capital gain income or return of capital by the REITs that make these distributions to the Fund. The Fund has excluded from its investment income the portions of the distributions received from REITs classified by those REITs as capital gain income and return of capital. The Fund has included in its "net realized gain on investments" that portion of the distributions received from REITs that is classified by those REITs as capital gain income. Similarly, the Fund has credited its "net change in unrealized appreciation on investments" with that portion of the distributions received from REITs that is classified by those REITs as return of capital. The classification of distributions received from the Fund's investments were as follows:

	Year ended December 31, 2006	Year ended December 31, 2005
Ordinary income	\$ 8,163,300	\$ 5,904,080
Capital gain income	1,891,893	2,745,522
Return of capital	2,131,782	2,860,098
Total distributions received	\$ 12,186,975	\$ 11,509,700

The Fund distinguishes between distributions to shareholders on a tax basis and a financial reporting basis. Only distributions in excess of accumulated tax basis earnings and profits are reported in the financial statements as a tax return of capital. Differences in the recognition or classification of income between the financial statements and tax earnings and profits which result in temporary over distributions for financial statement purposes are classified as distributions in excess of net investment income or accumulated net realized gains in the components of net assets on the Statement of Assets and Liabilities.

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The tax character of distributions made by the Fund during the years ended December 31, 2006 and December 31, 2005, were as follows:

	Year ended December 31, 2006	Year ended December 31, 2005
Ordinary income	\$ 7,985,219	\$ 4,881,039
Net long term capital gains	2,569,421	5,586,481
	\$ 10,554,640	\$ 10,467,520

As of December 31, 2006, the components of distributable earnings on a federal income tax basis were as follows:

Undistributed ordinary income	\$	
Undistributed net long-term capital gains		8,659,498
Net unrealized appreciation		29,643,756

The differences between the financial reporting basis and tax basis of undistributed net long term capital gains and net unrealized appreciation are due to wash sales of portfolio investments.

The cost of investments for federal income tax purposes, gross unrealized appreciation and unrealized depreciation as of December 31, 2006, are as follows:

Cost	\$ 155,026,855
	\$ 31,319,332
Gross unrealized appreciation	(1,675,576)
	\$ 29,643,756
Gross unrealized depreciation	
Net unrealized appreciation	

(7) Concentration of Risk

Under normal market conditions, the Fund's investments will be concentrated in income producing common shares, preferred shares and debt securities, including convertible preferred and debt securities, issued by real estate companies and REITs. The value of Fund shares may fluctuate more than the shares of a fund not concentrated in the real estate industry due to economic, legal, regulatory, technological or other developments affecting the United States real estate industry.

(8) Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 is effective for fiscal years beginning after December 15, 2006. The Securities and Exchange Commission has since delayed the application of FIN 48 to open and closed end funds to not later than June 29, 2007. FIN 48 prescribes how the Fund should recognize, measure and present in the Fund's financial statements uncertain tax provisions that have been taken or expected to be taken in a tax return. Pursuant to FIN 48 the Fund can recognize a tax benefit only if it is "more likely than not" that a particular tax position will be sustained upon examination or audit. To the extent the "more likely than not" standard has been satisfied the benefits associated with a tax position is measured as the largest

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amount that is greater than 50% likely of being realized upon settlement. The Fund has evaluated the effect that the adoption of FIN 48 will have on its financial statements and does not anticipate the effect, if any, will be material.

In September 2006, FASB issued Statement of Accounting Standards No. 157, "Fair Value Measurements" (SFAS 157), which is effective for fiscal years beginning after November 15, 2007. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands required disclosures about fair value measurements. The Fund is currently evaluating the impact, if any, the adoption of SFAS 157 will have on its financial statements.

Note B

Advisory and Administration Agreements and Other Transactions with Affiliates

The Fund has an advisory agreement with RMR Advisors, Inc., or RMR Advisors, to provide the Fund with a continuous investment program, to make day-to-day investment decisions and generally to manage the business affairs of the Fund in accordance with its investment objectives and policies. Pursuant to the agreement, RMR Advisors is compensated at an annual rate of 0.85% of the Fund's average daily managed assets. Managed assets means the total assets of the Fund less liabilities other than any indebtedness entered into for purposes of leverage. For purposes of calculating managed assets, the liquidation preference of preferred shares are not considered liabilities.

RMR Advisors has contractually agreed to waive a portion of its annual fee equal to 0.25% of the Fund's average daily managed assets until December 18, 2008. The Fund incurred net advisory fees of \$1,020,642 in 2006.

RMR Advisors, and not the Fund, has contractually agreed to pay the lead underwriter of the Fund's initial public offering, an annual fee equal to 0.15% of the Fund's managed assets. This fee is paid quarterly in arrears during the term of RMR Advisors' advisory agreement and is paid by the RMR Advisors, not the Fund. The aggregate fees paid pursuant to the contract plus reimbursement of legal expenses of the underwriters in that offering will not exceed 4.5% of the total price of the common shares in the initial public offering.

RMR Advisors also performs administrative functions for the Fund pursuant to an administration agreement with the Fund. RMR Advisors has entered into a subadministration agreement with State Street Bank and Trust Company, or State Street, to perform substantially all Fund accounting and other administrative services. Under the administration agreement, RMR Advisors is entitled to reimbursement of the cost of providing administrative services. The Fund reimbursed RMR Advisors for \$115,153 of subadministrative fees charged by State Street in 2006.

Each trustee who is not a director, officer or employee of RMR Advisors and who is not an "interested person" of the Fund as defined under the Investment Company Act of 1940, as amended, is considered to be a "disinterested trustee". Disinterested trustees are each paid by the Fund an annual fee plus fees for board and committee meetings. The Fund incurred \$20,404 of trustee fees and expenses in 2006.

The Fund's board of trustees and separately the disinterested trustees authorized the Fund to make reimbursement payments to RMR Advisors for costs related to the Fund's compliance and internal audit programs. The Fund incurred \$41,677 of compliance and internal audit expense in 2006. The Fund also participates in

pooled insurance programs with RMR Advisors and other funds managed by RMR Advisors and makes payments of allocated portions of related premiums. The Fund incurred \$21,411 of insurance expense in 2006.

Note C

Securities Transactions

During the year ended December 31, 2006, there were purchases and sales transactions (excluding short term securities) of \$59,802,815 and \$59,305,648, respectively. Brokerage commissions on securities transactions amounted to \$64,920 during the year ended December 31, 2006.

Note D

Preferred Shares

The Fund's 2,000 outstanding Series T auction preferred shares have a liquidation preference of \$25,000 per share plus an amount equal to accumulated but unpaid distributions. The preferred shares are senior to the Fund's common shares and rank on parity with any other class or series of preferred shares of the Fund as to the payment of periodic distributions, including distribution of assets upon liquidation. If the Fund does not timely cure a failure to (1) maintain asset coverage for the preferred shares as required by rating agencies, or (2) maintain asset coverage, as defined in the Investment Company Act of 1940, as amended, of at least 200%, the preferred shares will be subject to redemption at an amount equal to their liquidation preference plus accumulated but unpaid distributions. The holders of the preferred shares have voting rights equal to the holders of the Fund's common shares and generally vote together with the holders of the common shares as a single class. Holders of the preferred shares, voting as a separate class, also are entitled to elect two of the Fund's trustees. The Fund pays distributions on the preferred shares at a rate set at auctions held generally every seven days. Distributions are generally payable every seven days, on the first business day following the end of a distribution period. The preferred share distribution rate was 5.15% per annum as of December 31, 2006.

Note E

Submission of Proposals to a Vote of Shareholders (unaudited)

The annual meeting of Fund shareholders was held on May 9, 2006. Following is a summary of the proposals submitted to shareholders for vote at the meeting and votes cast:

Proposal	Votes for	Votes withheld	Votes abstained
Common shares			
Election of Frank J. Bailey as trustee until the 2009 annual meeting.	6,380,655	73,798	
Preferred shares			
Election of Frank J. Bailey as trustee until the 2009 annual meeting.	391	47	
Election of Gerard M. Martin as trustee until the 2009 annual meeting.	391	47	

Report of Independent Registered Public Accounting Firm

*To the Board of Trustees and
Shareholders of RMR Real Estate Fund:*

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments, of RMR Real Estate Fund (the "Fund") as of December 31, 2006, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the periods indicated therein. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2006, by correspondence with the custodian and brokers, or by other appropriate auditing procedures where replies from brokers are not received. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of RMR Real Estate Fund at December 31, 2006, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the periods indicated therein, in conformity with U.S. generally accepted accounting principles.

Boston, Massachusetts
February 16, 2007

RMR Hospitality and Real Estate Fund

December 31, 2006

To our shareholders,

In the pages that follow, you will find data summarizing our financial results for 2006 and our financial position as of December 31, 2006.

For 2006, our investment allocation to the sub-sector of mortgage real estate investment trusts, or REITs, increased from 1% to 7% of total investments, our largest sub-sector increase. During the same time period, our allocation to the office sub-sector decreased from 20% to 13% of total investments, the largest sub-sector decrease. These changes reflect our view of the business environments in these sub-sectors, the strengths and weakness of the companies that operate in those sub-sectors and the share prices of individual companies. During 2007, we will continue to monitor market conditions and position our portfolio according to our views of market conditions.

For securities that we held continuously during 2006, our three best performing investments during the period were the common stocks of BNP Residential Properties, Inc., Nationwide Health Properties, Inc. and Health Care Property Investors, Inc., with total returns during this period of 60%, 49% and 45%, respectively. Our three worst performing investments during the same period were common shares of Crescent Real Estate Equities, Inc., preferred shares of LBA Realty, Inc. and common shares of The Mills Corp. with total returns of positive 7%, negative 14% and negative 47%, respectively.

Thank you for your continued support. For more information, please view our website, at www.rmrfunds.com.

Sincerely,

Thomas M. O'Brien
President

RMR Hospitality and Real Estate Fund

December 31, 2006

Relevant Market Conditions

Hospitality Industry Fundamentals. We expect the strong operating environment in 2006 to continue into 2007. Most companies operating in the hospitality business are seeing demand growth, which is driving revenues per available room, or RevPAR, a key operating measure in the hospitality industry, higher. Hotel room supply growth is currently increasing but was constrained in 2006 due to high investment cost and the lead time required for development. Private equity investors have eliminated the public securities of several hospitality companies which seems to have been a factor increasing the value of the remaining hospitality companies' securities.

Real Estate Industry Fundamentals We believe that the operating environment for real estate companies will continue to improve in 2007, although not at the same rate as 2006. We expect vacancy rates to decline, rental rates to improve and funds from operations, or FFO, an important measure of performance for real estate companies, to grow. Most public real estate companies have ample liquidity to make acquisitions to further increase their earnings potential.

Real Estate Industry Technicals. We believe demand for real estate securities over the long term will continue to increase. Demographic trends in the U.S. include growth in the over age 50 population; we believe that individuals in that age category tend to focus their investments in higher yielding stocks like REITs. Institutions have been increasing their allocations to real estate securities. We believe that demand for real estate made 2006 the biggest merger and acquisition year ever in the real estate securities market.

Fund Strategies, Techniques and Performance

Our primary objective is to earn and pay to our common shareholders a high level of current income by investing in hospitality and real estate companies. Our secondary objective is capital appreciation. There can be no assurance that we will achieve our investment objectives.

During 2006, our total return on net asset value, or NAV (including NAV changes and assuming a hypothetical reinvestment of distributions at NAV) was 25.9%. During that same period, the total return for the MSCI US REIT Total Return Index (an unmanaged index of REIT common stocks) was 35.9% and the total return for the Merrill Lynch REIT Preferred Index (an unmanaged index of REIT preferred stocks) was 9.7%. We believe these two indices are relevant to us because our investments, excluding short term investments, as of December 31, 2006, include 62% REIT common stocks and 30% REIT preferred stocks. The S&P 500 Index (an unmanaged index published as Standard and Poor's Composite Index of 500 common stocks) total return for 2006 was 15.8%.

Portfolio holdings by sub-sector as a percentage of investments (as of December 31, 2006) *

Hospitality real estate	31%
Diversified real estate	17%
Office real estate	13%
Health care real estate	10%
Others, less than 10% each	28%
Short term investments	1%
<hr/>	
Total investments	100%
<hr/>	
REITs	93%
Other	6%
Short term investments	1%
<hr/>	
Total investments	100%
<hr/>	

*

These percentages represent the Fund's portfolio holdings by sub-sector as a percentage of total portfolio holdings and do not agree with the percentages included in the Portfolio of Investments schedule which represent the Fund's portfolio holdings by sub-sector as a percentage of the Fund's total net assets.

RMR Hospitality and Real Estate Fund
Portfolio of Investments December 31, 2006

Company	Shares	Value
Common Stocks 92.2%		
Real Estate Investment Trusts 88.9%		
<i>Apartments 5.1%</i>		
Apartment Investment & Management Co.	36,200	\$ 2,027,924
Associated Estates Realty Corp.	5,600	76,944
BNP Residential Properties, Inc.	16,000	386,400
Home Properties, Inc.	5,500	325,985
United Dominion Realty Trust, Inc.	14,100	448,239
		3,265,492
<i>Diversified 22.2%</i>		
Centracore Properties Trust	14,150	457,470
Colonial Properties Trust	81,900	3,839,472
Cousins Properties, Inc.	10,000	352,700
Crescent Real Estate Equities Co.	166,500	3,288,375
iStar Financial, Inc.	6,000	286,920
Lexington Corporate Properties Trust	107,400	2,407,908
Liberty Property Trust	26,000	1,277,640
National Retail Properties, Inc.	89,850	2,062,057
Newkirk Realty Trust, Inc.	8,000	144,320
Spirit Finance Corp.	12,500	155,875
Washington Real Estate Investment Trust	300	12,000
		14,284,737
<i>Health Care 10.5%</i>		
Health Care Property Investors, Inc.	6,770	249,271
Health Care REIT, Inc.	75,740	3,258,335
Healthcare Realty Trust, Inc.	4,300	170,022
Medical Properties Trust, Inc.	17,050	260,865
Nationwide Health Properties, Inc.	86,000	2,598,920
OMEGA Healthcare Investors, Inc.	2,000	35,440
Universal Health Realty Income Trust	5,000	194,900
		6,767,753
<i>Hospitality 10.7%</i>		
Ashford Hospitality Trust, Inc.	59,000	734,550
Eagle Hospitality Properties Trust, Inc.	51,000	468,180
Entertainment Properties Trust	18,800	1,098,672
Equity Inns, Inc.	31,200	497,952
FelCor Lodging Trust, Inc.	20,000	436,800
Hersha Hospitality Trust	38,100	432,054
Highland Hospitality Corp.	9,000	128,250
Host Hotels & Resorts, Inc.	4,000	98,200
Innkeepers USA Trust	38,200	592,100
LaSalle Hotel Properties	5,200	238,420

See notes to financial statements and notes to portfolio of investments.

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<i>Hospitality continued</i>		
Strategic Hotels & Resorts, Inc.	2,000	\$ 43,580
Sunstone Hotel Investors, Inc.	8,000	213,840
Supertel Hospitality, Inc.	250,130	1,733,401
Winston Hotels, Inc.	10,000	132,500
		<hr/>
		6,848,499
<i>Industrial 9.1%</i>		
DCT Industrial Trust, Inc.	5,300	62,540
EastGroup Properties, Inc.	4,000	214,240
First Industrial Realty Trust, Inc.	104,160	4,884,062
ProLogis	11,000	668,470
		<hr/>
		5,829,312
<i>Manufactured Homes 0.1%</i>		
Sun Communities, Inc.	2,000	64,720
<i>Mortgage 7.9%</i>		
Abingdon Investment, Ltd. (a)(b)	200,000	2,000,000
American Mortgage Acceptance Co.	12,700	214,376
Arbor Realty Trust, Inc.	1,100	33,099
Crystal River Capital, Inc.	26,900	686,757
HomeBanc Corp.	12,500	52,875
KKR Financial Corp.	5,500	147,345
New Century Financial Corp.	9,000	284,310
Newcastle Investment Corp.	17,600	551,232
NovaStar Financial, Inc.	35,500	946,075
Thornburg Mortgage, Inc.	7,000	175,910
		<hr/>
		5,091,979
<i>Office 11.3%</i>		
American Financial Realty Trust	37,500	429,000
Brandywine Realty Trust	46,400	1,542,800
Columbia Equity Trust, Inc.	3,000	57,330
Corporate Office Properties Trust	11,500	580,405
Douglas Emmett, Inc.	8,300	220,697
Equity Office Properties Trust	50,000	2,408,500
Highwoods Properties, Inc.	45,000	1,834,200
Maguire Properties, Inc.	4,000	160,000
Parkway Properties, Inc.	300	15,303
		<hr/>
		7,248,235
<i>Other Financial Services 0.1%</i>		
Friedman Billings Ramsey Group, Inc.	5,000	40,000

See notes to financial statements and notes to portfolio of investments.

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<i>Retail 5.8%</i>		
CBL & Associates Properties, Inc.	9,000	\$ 390,150
Developers Diversified Realty Corp.	2,000	125,900
Equity One, Inc.	3,000	79,980
Glimcher Realty Trust	23,400	625,014
New Plan Excel Realty Trust	46,270	1,271,500
Pennsylvania Real Estate Investment Trust	2,000	78,760
Ramco-Gershenson Properties Trust	3,000	114,420
Realty Income Corp.	12,200	337,940
The Mills Corp.	36,100	722,000
Urstadt Biddle Properties, Inc.	800	15,272
		<hr/>
		3,760,936
<i>Specialty 5.4%</i>		
Getty Realty Corp.	34,000	1,050,600
Resource Capital Corp.	2,000	33,900
Truststreet Properties, Inc.	143,200	2,412,920
		<hr/>
		3,497,420
<i>Storage 0.7%</i>		
Sovran Self Storage, Inc.	8,100	463,968
<i>Total Real Estate Investment Trusts (Cost \$47,255,187)</i>		57,163,051
<i>Other 3.3%</i>		
American Capital Strategies, Ltd.	14,500	670,770
Iowa Telecommunication Services, Inc.	25,800	508,518
Seaspan Corp.	33,400	772,208
Wyndham Worldwide Corp. (b) (c)	6,000	192,120
<i>Total Other (Cost \$1,718,980)</i>		2,143,616
<i>Total Common Stocks (Cost \$48,974,167)</i>		59,306,667
<i>Preferred Stocks 42.0%</i>		
<i>Real Estate Investment Trusts 42.0%</i>		
<i>Apartments 1.0%</i>		
Apartment Investment & Management Co., Series U	24,000	612,480
<i>Diversified 2.4%</i>		
Colonial Properties Trust, Series E	23,067	584,288
Digital Realty Trust, Inc., Series A	15,000	389,850
LBA Realty LLC, Series B	30,000	600,000
		<hr/>
		1,574,138

See notes to financial statements and notes to portfolio of investments.

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<i>Health Care 4.1%</i>		
Health Care REIT, Inc., Series F	40,000	\$ 1,034,800
Health Care REIT, Inc., Series G	20,000	620,000
LTC Properties, Inc., Series F	40,000	1,006,000
		<hr/>
		2,660,800
<i>Hospitality 24.3%</i>		
Ashford Hospitality Trust, Series A	46,000	1,190,480
Eagle Hospitality Properties Trust, Inc., Series A	28,000	714,560
FelCor Lodging Trust, Inc., Series C	60,000	1,512,600
Hersha Hospitality Trust, Series A	44,000	1,155,000
Highland Hospitality Corp., Series A	170,000	4,311,200
Host Marriott Corp., Series E	100,000	2,659,000
Innkeepers USA Trust, Series C	27,000	680,670
LaSalle Hotel Properties, Series E	5,000	128,525
LaSalle Hotel Properties, Series G	10,000	254,500
Strategic Hotels & Resorts, Inc., Series C	20,000	515,000
Winston Hotels, Inc., Series B	99,000	2,508,165
		<hr/>
		15,629,700
<i>Manufactured Homes 0.4%</i>		
Affordable Residential Communities, Series A	9,600	242,880
<i>Mortgage 1.7%</i>		
HomeBanc Corp., Series A	25,000	613,750
New Century Financial Corp., Series A	20,000	485,000
		<hr/>
		1,098,750
<i>Office 7.7%</i>		
Alexandria Real Estate Equities, Inc., Series C	120,000	3,139,200
SL Green Realty Corp., Series D	70,000	1,818,250
		<hr/>
		4,957,450
<i>Retail 0.4%</i>		
The Mills Corp., Series E	1,800	41,508
The Mills Corp., Series G	10,000	219,500
		<hr/>
		261,008
<i>Total Preferred Stocks (Cost \$26,095,934)</i>		27,037,206
<i>See notes to financial statements and notes to portfolio of investments.</i>		

Company	Shares or Principal Amount	Value
Debt Securities 8.4%		
<i>Hospitality 8.4%</i>		
American Real Estate Partners LP, 8.125%, 06/01/2012	\$ 2,000,000	\$ 2,065,000
FelCor Lodging LP, 8.50%, 06/01/2011 (d)	1,600,000	1,704,000
Six Flags, Inc., 9.75%, 04/15/2013	1,760,000	1,652,200
<i>Total Debt Securities (Cost \$5,257,516)</i>		5,421,200
Short Term Investments 0.9%		
<i>Other Investment Companies 0.9%</i>		
SSgA Money Market Fund, 4.99% (e) (Cost \$566,344)	566,344	566,344
Total Investments 143.5% (Cost \$80,893,961)		92,331,417
Other assets less liabilities (0.0)%		(14,448)
Preferred Shares, at liquidation preference (43.5)%		(28,000,000)
Net Assets applicable to common shareholders 100%	\$	64,316,969

Notes to Portfolio of Investments

- (a) 144A securities. Securities restricted for resale to Qualified Institutional Buyers (3.1% of net assets).
- (b) As of December 31, 2006, this security had not paid a distribution.
- (c) A hospitality company.
- (d) Also a Real Estate Investment Trust.
- (e) Rate reflects 7 day yield as of December 31, 2006.

See notes to financial statements.

RMR Hospitality and Real Estate Fund

Financial Statements

Statement of Assets and Liabilities

December 31, 2006

<i>Assets</i>		
Investments in securities, at value (cost \$80,893,961)	\$	92,331,417
Cash		21,055
Dividends and interest receivable		873,900
		<hr/>
Total assets		93,226,372
		<hr/>
<i>Liabilities</i>		
Distributions payable - common shares		310,625
Advisory fee payable		47,476
Distributions payable - preferred shares		27,765
Accrued legal expenses		274,380
Accrued expenses and other liabilities		249,157
		<hr/>
Total liabilities		909,403
		<hr/>
<i>Preferred shares, at liquidation preference</i>		
Auction preferred shares, Series Th; \$.001 par value per share; 1,120 shares issued and outstanding at \$25,000 per share liquidation preference		28,000,000
		<hr/>
<i>Net assets attributable to common shares</i>	\$	64,316,969
		<hr/>
<i>Composition of net assets</i>		
Common shares, \$.001 par value per share; unlimited number of shares authorized, 2,485,000 shares issued and outstanding	\$	2,485
Additional paid-in capital		46,993,809
Accumulated net realized gain on investments		5,883,219
Net unrealized appreciation on investments		11,437,456
		<hr/>
<i>Net assets attributable to common shares</i>	\$	64,316,969
		<hr/>
<i>Net asset value per share attributable to common shares</i> <i>(based on 2,485,000 shares outstanding)</i>	\$	25.88
		<hr/>

See notes to financial statements.

RMR Hospitality and Real Estate Fund**Financial Statements** continued

Statement of Operations

For the Year Ended December 31, 2006*Investment Income*

Dividends (Cash distributions, net of capital gain and return of capital distributions, received or due)	\$ 3,754,791
Interest	776,146
	<hr/>
Total investment income	4,530,937
	<hr/>

Expenses

Advisory	743,003
Legal	707,268
Excise tax	136,292
Administrative	114,758
Preferred share remarketing	68,864
Custodian	68,487
Audit	55,997
Shareholder reporting	43,417
Compliance and internal audit	41,677
Trustees' fees and expenses	20,055
Other	76,185
	<hr/>
Total expenses	2,076,003
Less: expenses waived by the Advisor	(218,530)
	<hr/>
Net expenses	1,857,473
	<hr/>

Net investment income	2,673,464
	<hr/>

Realized and unrealized gain on investments

Net realized gain on investments	6,418,390
Net change in unrealized appreciation on investments	5,902,770
	<hr/>
Net realized and unrealized gain on investment transactions	12,321,160
	<hr/>
Distributions to preferred shareholders from net investment income	(748,592)
Distributions to preferred shareholders from net realized gain on investments	(579,000)
	<hr/>
Net increase in net assets attributable to common shares resulting from operations	\$ 13,667,032
	<hr/>

See notes to financial statements.

RMR Hospitality and Real Estate Fund
Financial Statements continued

Statement of Changes in Net Assets

	Year Ended December 31, 2006	Year Ended December 31, 2005
<i>Increase (decrease) in net assets resulting from operations</i>		
Net investment income	\$ 2,673,464	\$ 2,815,626
Net realized gain on investments	6,418,390	2,777,962
Net change in unrealized appreciation/(depreciation) on investments	5,902,770	(3,222,844)
Distributions to preferred shareholders from:		
Net investment income	(748,592)	(403,117)
Net realized gain on investments	(579,000)	(265,998)
	<u>13,667,032</u>	<u>1,701,629</u>
Net increase in net assets attributable to common shares resulting from operations		
Distributions to common shareholders from:		
Net investment income	(2,101,833)	(2,411,208)
Net realized gain on investments	(1,625,667)	(1,626,917)
<i>Capital shares transactions</i>		
Net proceeds from sale of preferred shares		10,708,615
		<u>10,708,615</u>
Net increase from capital share transactions		10,708,615
Less: Liquidation preference of preferred shares issued		(11,000,000)
		<u>9,939,532</u>
Total increase (decrease) in net assets attributable to common shares	9,939,532	(2,627,881)
<i>Net assets attributable to common shares</i>		
Beginning of year	54,377,437	57,005,318
	<u>64,316,969</u>	<u>54,377,437</u>
End of year	\$ 64,316,969	\$ 54,377,437
<i>Common shares issued and repurchased</i>		
Shares outstanding, beginning of year	2,485,000	2,485,000
Shares issued		
	<u>2,485,000</u>	<u>2,485,000</u>
Shares outstanding, end of year	2,485,000	2,485,000

See notes to financial statements.

RMR Hospitality and Real Estate Fund

Financial Highlights

Selected Data For A Common Share Outstanding Throughout The Period

	Year Ended December 31, 2006	Year Ended December 31, 2005	For the Period April 27, 2004(a) to December 31, 2004
<i>Per Common Share Operating Performance (b)</i>			
Net asset value, beginning of period	\$ 21.88	\$ 22.94	\$ 19.28(c)
<i>Income from Investment Operations</i>			
Net investment income (d)(e)	1.08	1.13	.71
Net realized and unrealized appreciation/(depreciation) on investments (e)	4.95	(.19)	3.95
Distributions to preferred shareholders (common stock equivalent basis)			
Net investment income (e)	(.30)	(.16)	(.06)
Net realized gain on investments (e)	(.23)	(.11)	(.01)
Net increase in net asset value from operations	5.50	.67	4.59
Less: Distributions to common shareholders from:			
Net investment income (e)	(.85)	(.96)	(.65)
Net realized gain on investments (e)	(.65)	(.65)	(.10)
Common shares offering costs charged to capital			(.04)
Preferred shares offering costs charged to capital		(.12)	(.14)
Net asset value, end of period	\$ 25.88	\$ 21.88	\$ 22.94
Market price, beginning of period	\$ 18.21	\$ 19.98	\$ 20.00
Market price, end of period	\$ 22.95	\$ 18.21	\$ 19.98
<i>Total Return (f)</i>			
Total investment return based on:			
Market price (g)	35.54%	(0.73)%	3.93%
Net asset value (g)	25.89%	2.54%	23.16%
<i>Ratios/Supplemental Data:</i>			
Ratio to average net assets attributable to common shares of:			
Net investment income, before total preferred share distributions (d)(e)	4.50%	5.04%	4.96%(h)
Total preferred share distributions	2.23%	1.20%	0.50%(h)
Net investment income, net of preferred share distributions (d)(e)	2.27%	3.84%	4.46%(h)
Expenses, net of fee waivers	3.13%	1.80%	1.86%(h)
Expenses, before fee waivers	3.49%	2.14%	2.18%(h)
Portfolio turnover rate	45.70%	23.95%	20.83%
Net assets attributable to common shares, end of period (000s)	\$ 64,317	\$ 54,377	\$ 57,005
Preferred shares, liquidation preference (\$25,000 per share) (000s)	\$ 28,000	\$ 28,000	\$ 17,000
Asset coverage per preferred share (i)	\$ 82,426	\$ 73,551	\$ 108,830

(a)

Commencement of operations.

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- (b) Based on average shares outstanding.
- (c) Net asset value at April 27, 2004, reflects the deduction of the average sales load and offering costs of \$0.72 per share paid by the holders of common shares from the \$20.00 offering price. We paid a sales load and offering cost of \$0.90 per share on 2,000,000 common shares sold to the public and no sales load or offering costs on 480,000 common shares sold to affiliates of RMR Advisors for \$20 per share.
- (d) Amounts are net of expenses waived by RMR Advisors.
- (e) As discussed in Note A (6) to the financial statements, a portion of the distributions we received on our investments are not included in investment income for financial reporting purposes.
- (f) Total returns for periods less than one year are not annualized.
- (g) Total return based on per share market price assumes the purchase of common shares at the market price on the first day and sales of common shares at the market price on the last day of the period indicated; dividends and distributions, if any, are assumed to be reinvested at market prices on the ex-dividend date. The total return based on net asset value, or NAV, assumes the purchase of common shares at NAV on the first day and sales of common shares at NAV on the last day of the period indicated; distributions are assumed to be reinvested at NAV on the ex-dividend date. Results represent past performance and do not guarantee future results. Total return would have been lower if RMR Advisors had not contractually waived a portion of its investment advisory fee.
- (h) Annualized.
- (i) Asset coverage per share equals net assets attributable to common shares plus the liquidation preference of the preferred shares divided by the total number of preferred shares outstanding at the end of the period.

See notes to financial statements.

RMR Hospitality and Real Estate Fund
Notes to Financial Statements

December 31, 2006

Note A

(1) Organization

RMR Hospitality and Real Estate Fund, or the Fund, was organized as a Massachusetts business trust on January 27, 2004, and is registered under the Investment Company Act of 1940, as amended, as a non-diversified closed-end management investment company. The Fund had no operations until April 27, 2004, other than matters relating to the Fund's establishment and registration of the Fund's common shares under the Securities Act of 1933.

(2) Use of Estimates

Preparation of these financial statements in conformity with accounting principles generally accepted in the United States requires the Fund's management to make estimates and assumptions that may affect the amounts reported in the financial statements and related notes. The actual results could differ from these estimates.

(3) Portfolio Valuation

Investment securities of the Fund are valued at the latest sales price whenever that price is readily available on that day; securities for which no sales were reported on that day, unless otherwise noted, are valued at the last available bid price on that day. Securities traded primarily on the NASDAQ Stock Market, or NASDAQ, are normally valued by the Fund at the NASDAQ Official Closing Price, or NOCP, provided by NASDAQ each business day. The NOCP is the most recently reported price as of 4:00:06 p.m., eastern time, unless that price is outside the range of the "inside" bid and asked prices (i.e., the bid and asked prices that dealers quote to each other when trading for their own accounts); in that case, NASDAQ will adjust the price to equal the inside bid or asked price, whichever is closer. Because of delays in reporting trades, the NOCP may not be based on the price of the last trade to occur before the market closes. Some fixed income securities may be valued using pricing provided by a pricing service. Any of the Fund's securities which are not readily marketable, which are not traded or which have other characteristics of illiquidity are valued by the Fund at fair value as determined in good faith under the supervision of the Fund's board of trustees. Numerous factors may be considered when determining fair value of a security, including cost at date of purchase, type of security, the nature and duration of restrictions on disposition of the security and whether the issuer of the security being fair valued has other securities of the same type outstanding. Short term debt securities with less than 60 days until maturity may be valued at cost, which when combined with interest accrued, approximates market value.

(4) Securities Transactions and Investment Income

Securities transactions are recorded on a trade date basis. Dividend income is recorded on the ex-dividend date. Non-cash dividends included in dividend income, if any, are recorded at the fair market value of the securities received. Interest income, including accretion of original issue discount, where applicable, and accretion of discount on short term investments, is recorded on the accrual basis. Realized gains and losses from securities transactions are recorded on the basis of identified cost.

(5) Federal Income Taxes

The Fund has qualified and intends to qualify in the future as a "regulated investment company" and to comply with the applicable provisions of subchapter M of the Internal Revenue Code of 1986, as amended, so

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that it will generally not be subject to federal income tax. However, the Fund may be subject to a 4% excise tax to the extent the Fund does not distribute substantially all taxable earnings.

(6) Distributable Earnings

The Fund earns income, net of expenses, daily on its investments. It is the policy of the Fund to pay a stable distribution amount to common shareholders on a monthly basis and distributions to Fund shareholders are declared pursuant to this policy. The Fund paid distributions of \$0.125 per common share on January 31, 2007. On February 12, 2007, the Fund declared distributions of \$0.125 per common share payable in February, March and April 2007. Distributions to shareholders are recorded on the ex-dividend date. The Fund's distributions may consist of ordinary income (net investment income and short term capital gains), long term capital gains and return of capital. To the extent the Fund's net realized capital gains, if any, can be offset by capital loss carry forwards, it is the policy of the Fund not to distribute such gains. Distributions to preferred shareholders are determined as described in Note D.

The Fund has substantial investments in real estate investment trusts, or REITs, which are generally not subject to federal income taxes. Distributions that the Fund received from REITs can be classified as ordinary income, capital gain income or return of capital by the REITs that make these distributions to the Fund. The Fund has excluded from its investment income the portions of the distributions received from REITs classified by those REITs as capital gain income and return of capital. The Fund has included in its "net realized gain on investments" that portion of the distributions received from REITs that is classified by those REITs as capital gain income. Similarly, the Fund has credited its "net change in unrealized appreciation on investments" with that portion of the distributions received from REITs that is classified by those REITs as return of capital. The classification of distributions received from the Fund's investments were as follows:

	Year ended December 31, 2006	Year ended December 31, 2005
Ordinary income	\$ 3,754,791	\$ 2,798,599
Capital gain income	1,114,453	1,213,155
Return of capital	807,737	659,644
Total distributions received	\$ 5,676,981	\$ 4,671,398

The Fund distinguishes between distributions to shareholders on a tax basis and a financial reporting basis. Only distributions in excess of accumulated tax basis earnings and profits are reported in the financial statements as a tax return of capital. Differences in the recognition or classification of income between the financial statements and tax earnings and profits which result in temporary over distributions for financial statement purposes are classified as distributions in excess of net investment income or accumulated net realized gains in the components of net assets on the Statement of Assets and Liabilities.

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The tax character of distributions made by the Fund during the years ended December 31, 2006 and December 31, 2005, were as follows:

	Year ended December 31, 2006	Year ended December 31, 2005
Ordinary income	\$ 3,356,410	\$ 3,719,492
Net long term capital gains	1,698,682	987,748
	\$ 5,055,092	\$ 4,707,240

As of December 31, 2006, the components of distributable earnings on a federal income tax basis were as follows:

Undistributed ordinary income	\$ 189,134
Undistributed net long term capital gains	5,781,266
Net unrealized appreciation	11,350,276

The differences between the financial reporting basis and tax basis of undistributed ordinary income, undistributed net long term capital gains and net unrealized appreciation are due to wash sales of portfolio investments and excise tax accruals.

The cost of investments for federal income tax purposes, gross unrealized appreciation and unrealized depreciation as of December 31, 2006, are as follows:

Cost	\$ 80,981,141
Gross unrealized appreciation	\$ 12,782,086
Gross unrealized depreciation	(1,431,810)
Net unrealized appreciation	\$ 11,350,276

(7) Concentration of Risk

Under normal market conditions, the Fund's investments are concentrated in income producing common shares, preferred shares and debt securities, including convertible preferred and debt securities, issued by hospitality and real estate companies and REITs. The value of Fund shares may fluctuate more than the shares of a fund not concentrated in the hospitality and real estate industries due to economic, legal, regulatory, technological or other developments affecting the United States hospitality and real estate industries.

(8) Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 is effective for fiscal years beginning after December 15, 2006. The Securities and Exchange Commission has since delayed the application of FIN 48 to open and closed end funds to not later than June 29, 2007. FIN 48 prescribes how the Fund should recognize, measure and present in the Fund's financial statements uncertain tax provisions that have been taken or expected to be taken in a tax return. Pursuant to FIN 48 the Fund can recognize a tax benefit only if it is "more likely than not" that a particular tax position will be sustained upon examination or audit. To the extent the "more likely

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than not" standard has been satisfied the benefits associated with a tax position is measured as the largest amount that is greater than 50% likely of being realized upon settlement. The Fund has evaluated the effect that the adoption of FIN 48 will have on its financial statements and does not anticipate the effect, if any, will be material.

In September 2006, FASB issued Statement of Accounting Standards No. 157, "Fair Value Measurements" (SFAS 157), which is effective for fiscal years beginning after November 15, 2007. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands required disclosures about fair value measurements. The Fund is currently evaluating the impact, if any, the adoption of SFAS 157 will have on its financial statements.

Note B

Advisory and Administration Agreements and Other Transactions with Affiliates

The Fund has an advisory agreement with RMR Advisors, Inc., or RMR Advisors, to provide the Fund with a continuous investment program, to make day-to-day investment decisions and generally to manage the business affairs of the Fund in accordance with its investment objectives and policies. Pursuant to the agreement, RMR Advisors is compensated at an annual rate of 0.85% of the Fund's average daily managed assets. Managed assets means the total assets of the Fund less liabilities other than any indebtedness entered into for purposes of leverage. For purposes of calculating managed assets, the liquidation preference of preferred shares are not considered liabilities.

RMR Advisors has contractually agreed to waive a portion of its annual fee equal to 0.25% of the Fund's average daily managed assets, until April 27, 2009. The Fund incurred net advisory fees of \$524,473 in 2006.

RMR Advisors, and not the Fund, has contractually agreed to pay the lead underwriters of the Fund's initial public offering, an aggregate annual fee equal to 0.15% of the Fund's managed assets. This fee is paid quarterly in arrears during the term of RMR Advisors' advisory agreement and is paid by the RMR Advisors, not the Fund. The aggregate fees paid pursuant to the contract plus reimbursement of legal expenses of the underwriters in that offering will not exceed 4.5% of the total price of the common shares in the initial public offering.

RMR Advisors also performs administrative functions for the Fund pursuant to an administration agreement with the Fund. RMR Advisors has entered into a subadministration agreement with State Street Bank and Trust Company, or State Street, to perform substantially all Fund accounting and other administrative services. Under the administration agreement, RMR Advisors is entitled to reimbursement of the cost of providing administrative services. The Fund reimbursed RMR Advisors for \$114,758 of subadministrative fees charged by State Street in 2006.

Each trustee who is not a director, officer or employee of RMR Advisors and who is not an "interested person" of the Fund as defined under the Investment Company Act of 1940, as amended, is considered to be a "disinterested trustee". Disinterested trustees are each paid by the Fund an annual fee plus fees for board and committee meetings. The Fund incurred \$20,055 of trustee fees and expenses in 2006.

The Fund's board of trustees and separately the disinterested trustees authorized the Fund to make reimbursement payments to RMR Advisors for costs related to the Fund's compliance and internal audit programs. The Fund incurred \$41,677 of compliance and internal audit expense in 2006. The Fund also participates in

pooled insurance programs with RMR Advisors and other funds managed by RMR Advisors and makes payments of allocated portions of related premiums. The Fund incurred \$17,580 of insurance expense in 2006.

Note C

Securities Transactions

During the year ended December 31, 2006, there were purchases and sales transactions (excluding short term securities) of \$39,030,833 and \$38,999,084, respectively. Brokerage commissions on securities transactions amounted to \$54,247 during the year ended December 31, 2006.

Note D

Preferred Shares

The Fund's 1,120 outstanding Series Th auction preferred shares, have a liquidation preference of \$25,000 per share, plus an amount equal to accumulated but unpaid distributions. The preferred shares are senior to the Fund's common shares and rank on parity with any other class or series of preferred shares of the Fund as to the payment of periodic distributions, including distribution of assets upon liquidation. If the Fund does not timely cure a failure to (1) maintain asset coverage for the preferred shares as required by rating agencies, or (2) maintain asset coverage, as defined in the Investment Company Act of 1940, as amended, of at least 200%, the preferred shares will be subject to redemption at an amount equal to their liquidation preference plus accumulated but unpaid distributions. The holders of the preferred shares have voting rights equal to the holders of the Fund's common shares and generally vote together with the holders of the common shares as a single class. Holders of the preferred shares, voting as a separate class, also are entitled to elect two of the Fund's trustees. The Fund pays distributions on the preferred shares at a rate set at auctions held generally every seven days. Distributions are generally payable every seven days, on the first business day following the end of a distribution period. The preferred share distribution rate was 5.10% per annum as of December 31, 2006.

Note E**Submission of Proposals to a Vote of Shareholders** (unaudited)

The annual meeting of Fund shareholders was held on May 9, 2006. Following is a summary of the proposals submitted to shareholders for vote at the meeting and votes cast:

Proposal	Votes for	Votes withheld	Votes abstained
Common shares			
Election of Frank J. Bailey as trustee until the 2009 annual meeting.	1,978,830	15,029	
Preferred shares			
Election of Frank J. Bailey as trustee until the 2009 annual meeting.	152	56	
Election of Gerard M. Martin as trustee until the 2009 annual meeting.	152	56	

Note F**Litigation**

The Fund commenced litigation against Mr. Phillip Goldstein, Bulldog Investors General Partnership, a hedge fund controlled by Mr. Goldstein and various other entities affiliated with Mr. Goldstein (collectively "Bulldog Investors"), on November 13, 2006. The purpose of this litigation is to enforce provisions in the organizational documents of the Fund that restrict the benefits of share ownership to 9.8% of the Fund's outstanding shares by any one shareholder of the Fund or group of shareholders acting together. The Bulldog Investors have contested personal jurisdiction in Massachusetts. A hearing on the matter is currently scheduled for March 22, 2007. During the year ended December 31, 2006, the Fund incurred \$697,661 of expenses in connection with the litigation and related matters, which is reflected as a component of legal expense on the statement of operations.

Report of Independent Registered Public Accounting Firm

*To the Board of Trustees and Shareholders
of RMR Hospitality and Real Estate Fund:*

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments, of RMR Hospitality and Real Estate Fund (the "Fund") as of December 31, 2006, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the periods indicated therein. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2006, by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the RMR Hospitality and Real Estate Fund at December 31, 2006, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the periods indicated therein, in conformity with U.S. generally accepted accounting principles.

Boston, Massachusetts
February 16, 2007

RMR F.I.R.E. Fund
December 31, 2006

To our shareholders,

In the pages that follow, you will find data summarizing our financial results for the year ended December 31, 2006 and our financial position as of December 31, 2006.

For 2006, our investment allocation to the mortgage sub-sector increased from 7% to 15% of total investments, the largest such increase. During the same time period, our allocation to the diversified real estate sub-sector decreased from 16% to 12% of total investments, the largest such decrease. These changes reflect our view of the business environments in these sub-sectors, the strengths and weaknesses of the companies that operate in those sub-sectors and the share prices of individual companies. During 2007, we will continue to monitor market conditions and position our portfolio according to our views of market conditions.

For securities that we held continuously during 2006, our three best performing investments were the common stocks of Nationwide Health Properties, Inc. and Health Care Property Investors, Inc. and the preferred stock of Affordable Residential Communities with total returns of 47%, 43% and 43%, respectively. Our three worst performing investments during the same period were the preferred stock of LBA Realty Inc., and the common shares of Beverly Hills Bancorp and The Mills Corp. with negative total returns during the same period of 16%, 17% and 47%, respectively.

Thank you for your continued support. For more information, please view our website, at www.rmrfunds.com.

Sincerely,

Thomas M. O'Brien
President

RMR F.I.R.E. Fund

December 31, 2006

Relevant Market Conditions

Financial Services Industry Fundamentals. Financial stocks had a good year in 2006. While some investors were concerned with the flat yield curve, a condition in which yields on U.S. treasury bonds are the same, or almost the same, no matter what the maturity of those bonds, and some were fearful of conditions they thought would lead to a substantial decline in the health of the residential real estate and mortgage markets, the potential for a rate cut by the Federal Reserve helped the stocks of financial companies to maintain or improve their values.

While we believe that some concerns still exist today and that the expectation for a Federal Reserve rate cut has been lessened, we believe that 2007 will include a strong U.S. economy, low levels of loan write offs by financial institutions and a generally stable interest rate environment, all of which we consider positive factors for financial stocks.

Financial Services Industry Technicals. The number of acquisitions in the banking industry has been relatively low over the years prior to 2006. However, last year we did see a pickup in the size of the deals. The acquisitions of Golden West, AmSouth, and Mellon led to a total acquisition value of over \$100 billion in 2006. We believe that this industry trend will continue.

Real Estate Industry Fundamentals. We believe that the operating environment for real estate companies will continue to improve in 2007, although not at the same rate as 2006. We expect vacancy rates to decline, rental rates to improve and funds from operations, or FFO, an important measure of performance for real estate companies, to grow. Most public real estate companies have ample liquidity to make acquisitions to further increase their earnings potential.

Real Estate Industry Technicals. We believe demand for real estate securities over the long term will continue to increase. Demographic trends in the U.S. include growth in the over age 50 population; we believe that individuals in that age category tend to focus their investments in higher yielding stocks like REITs. Institutions have been increasing their allocations to real estate securities. We believe that demand for real estate made 2006 the biggest merger and acquisition year ever in the real estate securities market.

Fund Strategies, Techniques and Performance

Our investment objective is to provide high total returns to our common shareholders through a combination of capital appreciation and current income. There can be no assurance that we will achieve our investment objective.

During 2006, our total return on net asset value, or NAV (including NAV changes and assuming a hypothetical reinvestment of distributions at NAV) was 21.5%. During the same period the S&P 500 Financial Sector Index (an unmanaged index of financial services common stocks) total return was 19.2%, the total return for the MSCI US REIT Total Return Index (an unmanaged index of REIT common stocks) was

35.9% and the Merrill Lynch REIT Preferred Index (an unmanaged index of REIT preferred stocks) was 9.7%. We believe these three indices are relevant to us because our investments, excluding short term investments, as of December 31, 2006, include 20% financial services stocks, 41% REIT common stocks and 38% REIT preferred stocks. The S&P 500 Index (an unmanaged index published as Standard and Poor's Composite Index of 500 common stocks) total return for 2006 was 15.8%.

**Portfolio holdings by sub-sector as a percentage of investments
(as of December 31, 2006) ***

Banks & Thrifts	10%
Other Financial Services	9%
Mortgage REITs	15%
Retail REITs	14%
Diversified REITs	12%
Hospitality REITs	12%
Other REITs less than 10%	25%
Other	2%
Short term investments	1%
	<hr/>
Total investments	100%
	<hr/>
REITs	78%
Financial Services	19%
Other	2%
Short term investments	1%
	<hr/>
Total investments	100%
	<hr/>

*

These percentages represent the Fund's portfolio holdings by sub-sector as a percentage of total portfolio holdings and do not agree with the percentages included in the Portfolio of Investments schedule which represent the Fund's portfolio holdings by sub-sector as a percentage of the Fund's total net assets.

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Company	Shares	Value
Common Stocks 90.6%		
Financial Services 26.5%		
<i>Banks 8.1%</i>		
Comerica, Inc.	4,000	\$ 234,720
Farmers Capital Bank Corp.	3,035	103,584
Fifth Third Bancorp	2,000	81,860
First Commonwealth Financial Corp.	28,000	376,040
First Horizon National Corp.	11,400	476,292
Firstmerit Corp.	12,800	308,992
FNB Corp.	28,500	520,695
National City Corp.	17,400	636,144
Trustco Bank Corp. NY	23,400	260,208
		2,998,535
<i>Thrifts 7.4%</i>		
Beverly Hills Bancorp, Inc.	58	481
Capitol Federal Financial	14,400	553,248
Flagstar Bancorp, Inc.	25,000	371,000
New York Community Bancorp, Inc.	72,200	1,162,420
Washington Mutual, Inc.	14,000	636,860
		2,724,009
<i>Other Financial Services 11.0%</i>		
American Capital Strategies, Ltd.	34,500	1,595,970
CharterMac	44,200	948,974
Fannie Mae	13,000	772,070
Friedman Billings Ramsey Group, Inc. *	54,000	432,000
Radian Group, Inc.	6,000	323,460
		4,072,474
<i>Total Financial Services (Cost \$10,807,340)</i>		9,795,018
<i>Real Estate 61.8%</i>		
<i>Apartments 2.9%</i>		
Apartment Investment & Management Co. *	14,000	784,280
Home Properties, Inc. *	300	17,781
United Dominion Realty Trust, Inc. *	8,000	254,320
		1,056,381
<i>Diversified 13.9%</i>		
Centracore Properties Trust *	9,600	310,368
Cousins Properties, Inc. *	6,900	243,363
Crescent Real Estate Equities Co. *	86,900	1,716,275
iStar Financial, Inc. *	17,000	812,940
Lexington Corporate Properties Trust *	45,000	1,008,900
National Retail Properties, Inc. *	38,350	880,133
Newkirk Realty Trust, Inc. *	8,000	144,320
		5,116,299

See notes to financial statements and notes to portfolio of investments.

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<i>Health Care 9.5%</i>		
Health Care Property Investors, Inc. *	16,850	\$ 620,417
Health Care REIT, Inc. *	34,904	1,501,570
Healthcare Realty Trust, Inc. *	13,500	533,790
Nationwide Health Properties, Inc. *	26,400	797,808
OMEGA Healthcare Investors, Inc. *	2,000	35,440
		<hr/>
		3,489,025
<i>Hospitality 1.3%</i>		
Eagle Hospitality Properties Trust, Inc. *	36,500	335,070
LaSalle Hotel Properties *	3,300	151,305
		<hr/>
		486,375
<i>Industrial 4.3%</i>		
DCT Industrial Trust, Inc. *	2,200	25,960
First Industrial Realty Trust, Inc. *	33,700	1,580,193
		<hr/>
		1,606,153
<i>Manufactured Homes 2.4%</i>		
Sun Communities, Inc. *	27,000	873,720
<i>Mortgage 13.0%</i>		
Abingdon Investment, Ltd. (a)(b)	100,000	1,000,000
Accredited Home Lenders Holding Co. (a)	4,000	109,120
Alesco Financial, Inc. *	133,400	1,427,380
American Mortgage Acceptance Co. *	7,400	124,912
HomeBanc Corp. *	7,500	31,725
KKR Financial Corp. *	2,500	66,975
New Century Financial Corp. *	13,000	410,670
Newcastle Investment Corp. *	22,500	704,700
NovaStar Financial, Inc. *	34,500	919,425
		<hr/>
		4,794,907
<i>Office 0.3%</i>		
American Financial Realty Trust *	9,000	102,960
Parkway Properties, Inc. *	300	15,303
		<hr/>
		118,263

See notes to financial statements and notes to portfolio of investments.

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<i>Retail 10.6%</i>		
CBL & Associates Properties, Inc. *	13,000	\$ 563,550
Developers Diversified Realty Corp. *	2,000	125,900
Equity One, Inc. *	3,000	79,980
Glimcher Realty Trust *	55,300	1,477,063
New Plan Excel Realty Trust *	40,650	1,117,062
Realty Income Corp. *	200	5,540
The Mills Corp. *	28,100	562,000
		<hr/>
		3,931,095
<i>Specialty 3.6%</i>		
Getty Realty Corp. *	4,000	123,600
Resource Capital Corp. *	2,000	33,900
Trustreet Properties, Inc. *	69,300	1,167,705
		<hr/>
		1,325,205
<i>Total Real Estate (Cost \$21,441,857)</i>		22,797,423
<i>Other 2.3%</i>		
Iowa Telecommunication Services, Inc.	42,500	837,675
<i>Total Other (Cost \$721,192)</i>		837,675
<i>Total Common Stocks (Cost \$32,970,389)</i>		33,430,116
<i>Preferred Stocks 60.6%</i>		
<i>Real Estate 57.8%</i>		
<i>Apartments 10.0%</i>		
Apartment Investment & Management Co., Series U *	32,500	829,400
Apartment Investment & Management Co., Series V *	27,700	711,890
Apartment Investment & Management Co., Series Y *	65,000	1,657,500
Home Properties, Inc., Series F *	18,800	477,708
		<hr/>
		3,676,498
<i>Diversified 5.2%</i>		
Cousins Properties, Inc., Series B *	20,000	510,600
Digital Realty Trust, Inc., Series A *	20,000	519,800
LBA Realty LLC, Series B *	45,000	900,000
		<hr/>
		1,930,400
<i>Health Care 3.3%</i>		
Health Care REIT, Inc., Series F *	26,900	695,903
OMEGA Healthcare Investors Inc., Series D *	19,000	507,965
		<hr/>
		1,203,868

See notes to financial statements and notes to portfolio of investments.

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<i>Hospitality 16.5%</i>		
Eagle Hospitality Properties Trust, Inc., Series A *	14,000	\$ 357,280
Entertainment Properties Trust, Series B *	40,000	1,011,200
Equity Inns, Inc., Series B *	50,000	1,316,250
FelCor Lodging Trust, Inc., Series C *	64,000	1,613,440
Host Marriott Corp., Series E *	10,000	265,900
LaSalle Hotel Properties, Series A *	36,000	914,400
Strategic Hotels & Resorts, Inc., Series B *	13,700	354,487
Winston Hotels, Inc., Series B *	10,900	276,152
		<hr/>
		6,109,109
<i>Manufactured Homes 0.5%</i>		
Affordable Residential Communities, Series A *	6,900	174,570
<i>Mortgage 9.7%</i>		
HomeBanc Corp., Series A *	10,000	245,500
MFA Mortgage Investments, Inc., Series A *	13,800	346,794
New Century Financial Corp., Series A *	20,000	485,000
RAIT Investment Trust, Series B *	59,000	1,524,855
Thornburg Mortgage, Inc., Series C *	40,000	999,600
		<hr/>
		3,601,749
<i>Office 2.2%</i>		
Alexandria Real Estate Equities, Inc., Series C *	31,600	826,656
<i>Retail 10.4%</i>		
CBL & Associates Properties, Inc., Series D *	10,000	256,000
Glimcher Realty Trust, Series F *	26,500	691,385
Glimcher Realty Trust, Series G *	41,000	1,039,350
Ramco-Gershenson Properties Trust, Series B *	36,000	973,800
Taubman Centers, Inc., Series G *	15,000	394,500
The Mills Corp., Series E *	9,500	219,070
The Mills Corp., Series G *	11,500	252,425
		<hr/>
		3,826,530
<i>Total Real Estate (Cost \$21,598,748)</i>		21,349,380
<i>Financial Services 2.8%</i>		
Corts-UNUM Provident Financial Trust	38,000	1,022,580
<i>Total Financial Services (Cost \$982,300)</i>		1,022,580
<i>Total Preferred Stocks (Cost \$22,581,048)</i>		22,371,960
<i>Short Term Investments 2.4%</i>		
<i>Other Investment Companies 2.4%</i>		
SSgA Money Market Fund, 4.99% (c) (Cost \$876,480)	876,480	876,480
<i>See notes to financial statements and notes to portfolio of investments.</i>		

Company	Value
Total Investments 153.6% (Cost \$56,427,917)	\$ 56,678,556
Other assets less liabilities 0.6%	233,059
Preferred Shares, at liquidation preference (54.2)%	(20,000,000)
Net Assets applicable to common shareholders 100%	\$ 36,911,615
Notes to Portfolio of Investments	

*

Real Estate Investment Trust, or REIT

- (a) As of December 31, 2006, this security had not paid a distribution.
- (b) 144A securities. Securities restricted for resale to Qualified Institutional Buyers (2.7% of net assets).
- (c) Rate reflects 7 day yield as of December 31, 2006.

See notes to financial statements.

RMR F.I.R.E. Fund
Financial Statements

Statement of Assets and Liabilities

December 31, 2006

Assets

Investments in securities, at value (cost \$56,427,917)	\$ 56,678,556
Cash	47,798
Dividends and interest receivable	595,240
	<hr/>
Total assets	57,321,594
	<hr/>

Liabilities

Distributions payable - common shares	216,664
Advisory fees payable	29,088
Distributions payable - preferred shares	19,832
Accrued expenses and other liabilities	144,395
	<hr/>
Total liabilities	409,979
	<hr/>

Preferred shares, at liquidation preference

Auction preferred shares, Series W; \$.001 par value per share; 800 shares issued and outstanding at \$25,000 per share liquidation preference	20,000,000
	<hr/>

Net assets attributable to common shares

	\$ 36,911,615
	<hr/>

Composition of net assets

Common shares, \$.001 par value per share; unlimited number of shares authorized, 1,484,000 shares issued and outstanding	\$ 1,484
Additional paid-in capital	35,173,277
Accumulated net realized gain on investments	1,486,215
Net unrealized appreciation on investments	250,639
	<hr/>

Net assets attributable to common shares

	\$ 36,911,615
	<hr/>

Net asset value per share attributable to common shares
(based on 1,484,000 common shares outstanding)

	\$ 24.87
	<hr/>

See notes to financial statements.

RMR F.I.R.E. Fund
Financial Statements continued

Statement of Operations

For the Year Ended December 31, 2006

Investment Income

Dividends (Cash distributions, net of capital gain and return of capital distributions, received or due)	\$ 3,287,880
Interest	67,066
	<hr/>
Total investment income	3,354,946
	<hr/>

Expenses

Advisory	460,884
Administrative	114,758
Audit and legal	68,335
Custodian	62,304
Preferred share remarketing	49,730
Compliance and internal audit	41,898
Excise tax	35,397
Trustees' fees and expenses	20,977
Shareholder reporting	15,545
Other	82,903
	<hr/>
Total expenses	952,731
Less: expenses waived by the Advisor	(135,553)
	<hr/>

Net expenses	817,178
	<hr/>

Net investment income	2,537,768
	<hr/>

Realized and unrealized gain on investments

Net realized gain on investments	2,091,017
Net change in unrealized appreciation on investments	3,090,835
	<hr/>

Net realized and unrealized gain on investment transactions	5,181,852
	<hr/>

Distributions to preferred shareholders from net investment income	(690,977)
Distributions to preferred shareholders from net realized gain on investments	(261,999)
	<hr/>

Net increase in net assets attributable to common shares resulting from operations	\$ 6,766,644
	<hr/>

See notes to financial statements.

RMR F.I.R.E. Fund
Financial Statements continued

Statement of Changes in Net Assets

	Year Ended December 31, 2006	Year Ended December 31, 2005
<i>Increase (decrease) in net assets resulting from operations</i>		
Net investment income	\$ 2,537,768	\$ 1,904,958
Net realized gain on investments	2,091,017	1,463,461
Net change in unrealized appreciation/(depreciation) on investments	3,090,835	(2,981,612)
Distributions to preferred shareholders from:		
Net investment income	(690,977)	(417,797)
Net realized gain on investments	(261,999)	(217,867)
	<hr/>	<hr/>
Net increase (decrease) in net assets attributable to common shares resulting from operations	6,766,644	(248,857)
Distributions to common shareholders from:		
Net investment income	(1,885,168)	(1,621,681)
Net realized gain on investments	(714,800)	(978,287)
	<hr/>	<hr/>
Total increase (decrease) in net assets attributable to common shares	4,166,676	(2,848,825)
<i>Net assets attributable to common shares</i>		
Beginning of year	32,744,939	35,593,764
	<hr/>	<hr/>
End of year	\$ 36,911,615	\$ 32,744,939
	<hr/>	<hr/>
<i>Common shares issued and repurchased</i>		
Shares outstanding, beginning of year	1,484,000	1,484,000
Shares issued		
	<hr/>	<hr/>
Shares outstanding, end of year	1,484,000	1,484,000
	<hr/>	<hr/>

See notes to financial statements.

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Selected Data For A Common Share Outstanding Throughout Each Period

Year Ended December 31, 2006	Year Ended December 31, 2005	For the Period November 22, 2004 (a) to December 31, 2004
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