

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP  
Form 10-Q  
August 08, 2014  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-31568

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## New England Realty Associates Limited Partnership

(Exact name of registrant as specified in its charter)

**Massachusetts**  
(State or other jurisdiction of  
incorporation or organization)

**04-2619298**  
(I.R.S. employer  
identification no.)

**39 Brighton Avenue, Allston, Massachusetts**  
(Address of principal executive offices)

**02134**  
(Zip Code)

Registrant's telephone number, including area code: **(617) 783-0039**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

|   |   |
|---|---|
| Large accelerated filer <input type="checkbox"/>  | Accelerated filer <input checked="" type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/><br>(Do not check if a smaller reporting company) | Smaller reporting company <input type="checkbox"/>    |

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

As of August 5, 2014, there were 102,891 of the registrant's Class A units (3,086,717 Depositary Receipts) of limited partnership issued and outstanding and 24,476 Class B units issued and outstanding.

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**NEW ENGLAND REALTY ASSOCIATES, L.P.**

**PART 1 FINANCIAL INFORMATION**

Item 1. Financial Statements

The accompanying unaudited consolidated balance sheets, statements of income, changes in partners' capital, and cash flows and related notes thereto, have been prepared in accordance with generally accepted accounting principles in the United States of America ( GAAP ) for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission ( SEC ). Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. The financial statements reflect all adjustments consisting only of normal, recurring adjustments, which are in the opinion of management, necessary for a fair presentation for the interim periods.

The consolidated balance sheet as of December 31, 2013 has been derived from the audited consolidated balance sheet at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

The aforementioned financial statements should be read in conjunction with the notes to the aforementioned financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and notes thereto included in New England Realty Associates L.P.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

The results of operations for the six month period ended June 30, 2014 are not necessarily indicative of the results to be expected for the entire fiscal year or any other period.

**NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

|  | <b>June 30,<br/>2014<br/>Unaudited</b> | <b>December 31,<br/>2013</b> |
|--|--|------------------------------|
| <b>ASSETS</b>                                |  |                              |
| Rental Properties                            | \$ 150,029,401                         | \$ 152,904,661               |
| Cash and Cash Equivalents                    | 12,613,346                             | 14,013,380                   |
| Rents Receivable                             | 556,853                                | 496,149                      |
| Real Estate Tax Escrows                      | 294,366                                | 375,560                      |
| Prepaid Expenses and Other Assets            | 3,575,816                              | 3,895,189                    |
| Investments in Unconsolidated Joint Ventures | 10,999,842                             | 12,025,142                   |

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|  |  |                |    |              |
|--|--|----------------|----|--------------|
| Financing Fees   |  | 1,636,903      |    | 1,635,076    |
| <b>Total Assets</b>  |  | \$ 179,706,527 | \$ | 185,345,157  |
| <b>LIABILITIES AND PARTNERS CAPITAL</b>  |  |                |    |              |
| Mortgage Notes Payable   |  | 195,634,372    |    | 198,520,478  |
| Distribution and Loss in Excess of Investment in Unconsolidated Joint Venture        |  | 1,347,680      |    | 1,252,346    |
| Accounts Payable and Accrued Expenses  |  | 2,622,206      |    | 3,178,495    |
| Advance Rental Payments and Security Deposits  |  | 4,575,466      |    | 4,242,401    |
| <b>Total Liabilities</b>   |  | 204,179,724    |    | 207,193,720  |
| Commitments and Contingent Liabilities (Notes 3 and 9)                               |  |                |    |              |
| Partners Capital 128,823 and 129,487 units outstanding in 2014 and 2013 respectively |  | (24,473,197)   |    | (21,848,563) |
| <b>Total Liabilities and Partners Capital</b>  |  | \$ 179,706,527 | \$ | 185,345,157  |

See notes to consolidated financial statements.

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## NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

|  | Three Months Ended<br>June 30, |              | Six Months Ended<br>June 30, |               |
|--|--------------------------------|--------------|------------------------------|---------------|
|  | 2014                           | 2013         | 2014                         | 2013          |
| <b>Revenues</b>  |                                |              |                              |               |
| Rental income  | \$ 10,439,568                  | \$ 8,904,762 | \$ 20,954,287                | \$ 17,828,769 |
| Laundry and sundry income                                    | 120,967                        | 98,000       | 224,177                      | 193,686       |
|  | 10,560,535                     | 9,002,762    | 21,178,464                   | 18,022,455    |
| <b>Expenses</b>  |                                |              |                              |               |
| Administrative   | 568,915                        | 697,238      | 1,099,482                    | 1,149,855     |
| Depreciation and amortization                                | 2,747,467                      | 1,479,860    | 5,471,646                    | 2,933,991     |
| Management fee   | 438,068                        | 374,622      | 865,461                      | 743,874       |
| Operating  | 1,020,323                      | 814,609      | 2,702,257                    | 2,246,784     |
| Renting  | 108,612                        | 26,815       | 145,469                      | 56,666        |
| Repairs and maintenance                                      | 1,601,307                      | 1,515,934    | 2,812,456                    | 2,597,213     |
| Taxes and insurance  | 1,351,043                      | 1,204,862    | 2,792,153                    | 2,365,792     |
|  | 7,835,735                      | 6,113,940    | 15,888,924                   | 12,094,175    |
| Income Before Other Income and<br>Discontinued Operations    | 2,724,800                      | 2,888,822    | 5,289,540                    | 5,928,280     |
| <b>Other Income (Expense)</b>                                |                                |              |                              |               |
| Interest income  | 199                            | 351          | 382                          | 715           |
| Interest expense   | (2,380,896)                    | (1,762,647)  | (4,767,062)                  | (3,603,716)   |
| (Loss) from investments in unconsolidated<br>joint ventures  | (62,382)                       | (336,332)    | (270,633)                    | (653,189)     |
|  | (2,443,079)                    | (2,098,628)  | (5,037,313)                  | (4,256,190)   |
| Income From Continuing Operations<br>Discontinued Operations | 281,721                        | 790,194      | 252,227                      | 1,672,090     |
| Income from discontinued operations                          |                                | 143          |                              | 19,873        |
| Gain on sale of real estate                                  |                                | 3,678,779    |                              | 3,678,779     |
|  |                                | 3,678,922    |                              | 3,698,652     |
| Net Income   | \$ 281,721                     | \$ 4,469,116 | \$ 252,227                   | \$ 5,370,742  |
| <b>Income per Unit</b>                                       |                                |              |                              |               |
| Income before discontinued operations                        | \$ 2.18                        | \$ 6.08      | \$ 1.95                      | \$ 12.85      |
| Income from discontinued operations                          |                                | 28.29        |                              | 28.43         |
| Net Income per Unit  | \$ 2.18                        | \$ 34.37     | \$ 1.95                      | \$ 41.28      |
| <b>Weighted Average Number of Units<br/>Outstanding</b>      |                                |              |                              |               |
|  | 128,988                        | 130,040      | 129,149                      | 130,114       |

See notes to consolidated financial statements.



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## NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' CAPITAL

(Unaudited)

|                             | Limited |         | Units   |          | Treasury | Total   | Partners' Capital |                | Total        |                 |
|-----------------------------|---------|---------|---------|----------|----------|---------|-------------------|----------------|--------------|-----------------|
|                             | Class A | Class B | General | Subtotal |          |         | Class A           | Class B        |              | General         |
| Balance                     |         |         |         |          |          |         |                   |                |              |                 |
| January 1,<br>2013          | 144,180 | 34,243  | 1,802   | 180,225  | 49,781   | 130,444 | \$ (18,017,082)   | \$ (4,273,666) | \$ (224,929) | \$ (22,515,677) |
| Distribution<br>to Partners |         |         |         |          |          |         | (1,560,476)       | (370,614)      | (19,506)     | (1,950,596)     |
| Stock<br>Buyback            |         |         |         |          | 404      | (404)   | (321,240)         | (74,335)       | (3,912)      | (399,487)       |
| Net Income                  |         |         |         |          |          |         | 4,296,594         | 1,020,441      | 53,707       | 5,370,742       |
| Balance                     |         |         |         |          |          |         |                   |                |              |                 |
| June 30,<br>2013            | 144,180 | 34,243  | 1,802   | 180,225  | 50,185   | 130,040 | \$ (15,602,204)   | \$ (3,698,174) | \$ (194,640) | \$ (19,495,018) |
| Balance                     |         |         |         |          |          |         |                   |                |              |                 |
| January 1,<br>2014          | 144,180 | 34,243  | 1,802   | 180,225  | 50,738   | 129,487 | \$ (17,485,327)   | \$ (4,145,076) | \$ (218,160) | \$ (21,848,563) |
| Distribution<br>to Partners |         |         |         |          |          |         | (1,548,307)       | (367,723)      | (19,354)     | (1,935,384)     |
| Stock<br>Buyback            |         |         |         |          | 664      | (664)   | (757,246)         | (175,019)      | (9,212)      | (941,477)       |
| Net Income                  |         |         |         |          |          |         | 201,782           | 47,923         | 2,522        | 252,227         |
| Balance                     |         |         |         |          |          |         |                   |                |              |                 |
| June 30,<br>2014            | 144,180 | 34,243  | 1,802   | 180,225  | 51,402   | 128,823 | \$ (19,589,098)   | \$ (4,639,895) | \$ (244,204) | \$ (24,473,197) |

See notes to consolidated financial statements.



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## NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

|  | Six Months Ended June 30, |              |
|--|---------------------------|--------------|
|  | 2014                      | 2013         |
| <b>Cash Flows from Operating Activities</b>                                      |                           |              |
| Net income   | \$ 252,227                | \$ 5,370,742 |
| Adjustments to reconcile net income to net cash provided by operating activities |                           |              |
| Gain on sale of real estate  |                           | (3,678,779)  |
| Depreciation and amortization  | 5,471,646                 | 2,933,991    |
| Loss from investments in joint venture   | 270,633                   | 653,189      |
| Depreciation and amortization - discontinued operations                          |                           | 2,111        |
| Change in operating assets and liabilities                                       |                           |              |
| (Increase) Decrease in rents receivable  | (60,704)                  | 45,591       |
| (Decrease) in accounts payable and accrued expense                               | (556,289)                 | (343,127)    |
| Decrease in real estate tax escrow   | 81,194                    | 102,232      |
| (Increase) in prepaid expenses and other assets                                  | (434,134)                 | (265,100)    |
| Increase in advance rental payments and security deposits                        | 333,065                   | 308,037      |
| Total Adjustments  | 5,105,411                 | (241,855)    |
| Net cash provided by operating activities  | 5,357,638                 | 5,128,887    |
| <b>Cash Flows from Investing Activities</b>                                      |                           |              |
| Proceeds from unconsolidated joint ventures                                      | 867,741                   | 2,205,880    |
| Net proceeds from sale of real estate  |                           | 2,155,546    |
| Distribution in excess of investment in unconsolidated joint ventures            | 100,000                   |              |
| (Investment in) unconsolidated joint ventures                                    | (117,741)                 | (10,880)     |
| Deposit and escrow held for the acquisition of real estate                       |                           | (4,103,906)  |
| Improvement of rental properties   | (1,642,788)               | (2,189,413)  |
| Net cash (used in) investing activities  | (792,788)                 | (1,942,773)  |
| <b>Cash Flows from Financing Activities</b>                                      |                           |              |
| Payment of financing costs   | (201,917)                 | (142,362)    |
| Proceeds of mortgage notes payable   | 609,555                   | 15,000,000   |
| Principal payments and payoffs of mortgage notes payable                         | (3,495,661)               | (19,383,890) |
| Stock buyback  | (941,477)                 | (399,487)    |
| Distributions to partners  | (1,935,384)               | (1,950,596)  |
| Net cash (used in) financing activities  | (5,964,884)               | (6,876,335)  |
| Net (Decrease) Increase in Cash and Cash Equivalents                             | (1,400,034)               | (3,690,221)  |
| Cash and Cash Equivalents, at beginning of period                                | 14,013,380                | 6,981,906    |
| Cash and Cash Equivalents, at end of period                                      | \$ 12,613,346             | \$ 3,291,685 |

See notes to consolidated financial statements.



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**NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2014**

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES**

*Line of Business:* New England Realty Associates Limited Partnership ( NERA or the Partnership ) was organized in Massachusetts in 1977. NERA and its subsidiaries own 24 properties which include 16 residential buildings; 4 mixed use residential, retail and office buildings; 3 commercial buildings and individual units at one condominium complex. These properties total 2,412 apartment units, 19 condominium units and 108,043 square feet of commercial space. Additionally, the Partnership also owns a 40-50% interest in 9 residential and mixed use properties consisting of 793 apartment units, 12,500 square feet of commercial space and a 50 car parking lot. The properties are located in Eastern Massachusetts and Southern New Hampshire.

*Basis of Presentation:* The preparation of the financial statements, in conformity with accounting principles generally accepted in the United State of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Accordingly, actual results could differ from those estimates.

*Principles of Consolidation:* The consolidated financial statements include the accounts of NERA and its subsidiaries. NERA has a 99.67% to 100% ownership interest in each subsidiary except for the nine limited liability companies (the Investment Properties or Joint Ventures ) in which the Partnership has a 40 - 50% ownership interest. The consolidated group is referred to as the Partnership. Minority interests are not recorded, since they are insignificant. All significant intercompany accounts and transactions are eliminated in consolidation. The Partnership accounts for its investment in the above-mentioned Investment Properties using the equity method of consolidation. (See Note 14: Investments in Unconsolidated Joint Ventures).

The Partnership accounts for its investments in joint ventures using the equity method of accounting. These investments are recorded initially at cost, as Investments in Unconsolidated Joint Ventures, and subsequently adjusted for equity in earnings and cash contributions and distributions. Generally, the Partnership would discontinue applying the equity method when the investment (and any advances) is reduced to zero and would not provide for additional losses unless the Partnership has guaranteed obligations of the venture or is otherwise committed to providing further financial support for the investee. If the venture subsequently generates income, the Partnership only recognizes its share of such income to the extent it exceeds its share of previously unrecognized losses. In 2013, the carrying value of an investment fell below zero. We intend to fund our share of the investments future operating deficits should the need arise. However, we have no legal obligation to pay for any of the liabilities of such investments nor do we have any legal obligation to fund operating deficits. (See Note 14: Investment in Unconsolidated Joint Ventures.)

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The authoritative guidance on consolidation provides guidance on the identification of entities for which control is achieved through means other than voting rights ( variable interest entities or VIEs ) and the determination of which business enterprise, if any, should consolidate the VIE (the primary beneficiary ). Generally, the consideration of whether an entity is a VIE applies when either (1) the equity investors (if any) lack one or more of the essential characteristics of a controlling financial interest, (2) the equity investment at risk is insufficient to finance that equity s activities without additional subordinated financial support or (3) the equity investors have voting rights that are not proportionate to their economic interests and the activities of the entity involve or are conducted on behalf of an investor with a disproportionately small voting interest. The primary beneficiary is defined by the entity having both of the following characteristics: (1) the power to direct the activities that, when taken together, most significantly impact the variable interest entity s performance; and (2) the obligation to absorb losses and rights to receive the returns from VIE that would be significant to the VIE.

*Impairment:* On an annual basis management assesses whether there are any indicators that the value of the Partnership s rental properties or investments in unconsolidated subsidiaries may be impaired. In addition to identifying any specific circumstances which may affect a property or properties, management considers other criteria for determining which properties may require assessment for potential impairment. The criteria considered by management include reviewing low leased percentages, significant near term lease expirations, recently acquired properties, current and historical operating and/or cash flow losses, near term mortgage debt maturities or other factors that might impact the Partnership s intent and ability to hold property. A property s value is impaired only if management s estimate of the aggregate future cash flows

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(undiscounted and without interest charges) to be generated by the property is less than the carrying value of the property. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying amount of the property over the fair value of the property. The Partnership's estimates of aggregate future cash flows expected to be generated by each property are based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for space, competition for tenants, changes in market rental rates, and costs to operate each property. As these factors are difficult to predict and are subject to future events that may alter management's assumptions, the future cash flows estimated by management in its impairment analyses may not be achieved.

*Revenue Recognition:* Rental income from residential and commercial properties is recognized over the term of the related lease. For residential tenants, amounts 60 days in arrears are charged against income. The commercial tenants are evaluated on a case by case basis. Certain leases of the commercial properties provide for increasing stepped minimum rents, which are accounted for on a straight-line basis over the term of the lease. Contingent rent for commercial properties are received from tenants for certain costs as provided in the lease agreement. The costs generally include real estate taxes, utilities, insurance, common area maintenance and recoverable costs. Rental concessions are also accounted for on the straight-line basis.

Above-market and below-market lease values for acquired properties are initially recorded based on the present value (using a discount rate which reflects the risks associated with the leases acquired) of the differences between (i) the contractual amounts to be paid pursuant to each in-place lease and (ii) management's estimate of fair market lease rates for each corresponding in-place lease, measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the term of any below-market fixed-rate renewal options for below-market leases. The capitalized above-market lease values for acquired properties are amortized as a reduction of base rental revenue over the remaining term of the respective leases, and the capitalized below-market lease values are amortized as an increase to base rental revenue over the remaining initial terms plus the terms of any below-market fixed-rate renewal options of the respective leases.

*Rental Properties:* Rental properties are stated at cost less accumulated depreciation. Maintenance and repairs are charged to expense as incurred; improvements and additions which improve or extend the life of the assets are capitalized. When assets are retired or otherwise disposed of, the cost of the asset and related accumulated depreciation is eliminated from the accounts, and any gain or loss on such disposition is included in income. Fully depreciated assets are removed from the accounts. Rental properties are depreciated by both straight-line and accelerated methods over their estimated useful lives. Upon acquisition of rental property, the Partnership estimates the fair value of acquired tangible assets, consisting of land, building and improvements, and identified intangible assets and liabilities assumed, generally consisting of the fair value of (i) above and below market leases, (ii) in-place leases and (iii) tenant relationships. The Partnership allocated the purchase price to the assets acquired and liabilities assumed based on their fair values. The Partnership records goodwill or a gain on bargain purchase (if any) if the net assets acquired/liabilities assumed exceed the purchase consideration of a transaction. In estimating the fair value of the tangible and intangible assets acquired, the Partnership considers information obtained about each property as a result of its due diligence and marketing and leasing activities, and utilizes various valuation methods, such as estimated cash flow projections utilizing appropriate discount and capitalization rates, estimates of replacement costs net of depreciation, and available market information. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant.

Other intangible assets acquired include amounts for in-place lease values and tenant relationship values, which are based on management's evaluation of the specific characteristics of each tenant's lease and the Partnership's overall relationship with the respective tenant. Factors to be considered by management in its analysis of in-place lease values include an estimate of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases at market rates during the expected lease-up periods, depending on local market conditions. In estimating costs to execute similar leases, management considers leasing commissions, legal and other related expenses. Characteristics considered by management in valuing tenant relationships include the nature and extent of the Partnership's existing business relationships with the tenant, growth prospects for developing new business with the tenant, the tenant's credit quality and expectations of lease renewals. The value of in-place leases are amortized to expense over the remaining initial terms of the respective leases. The value of tenant relationship intangibles are amortized to expense over the anticipated life of the relationships.

In the event that facts and circumstances indicate that the carrying value of a rental property may be impaired, an analysis of the value is prepared. The estimated future undiscounted cash flows are compared to the asset's carrying value to determine if a write-down to fair value is required.

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*Financing and Leasing Fees:* Financing fees are capitalized and amortized, using the interest method, over the life of the related mortgages. Leasing fees are capitalized and amortized on a straight-line basis over the life of the related lease. Unamortized balances are expensed when the corresponding fee is no longer applicable.

*Income Taxes:* The financial statements have been prepared on the basis that NERA and its subsidiaries are entitled to tax treatment as partnerships. Accordingly, no provision for income taxes have been recorded (See Note 13).

*Cash Equivalents:* The Partnership considers cash equivalents to be all highly liquid instruments purchased with a maturity of three months or less.

*Segment Reporting:* Operating segments are revenue producing components of the Partnership for which separate financial information is produced internally for management. Under the definition, NERA operated, for all periods presented, as one segment.

*Comprehensive Income:* Comprehensive income is defined as changes in partners' equity, exclusive of transactions with owners (such as capital contributions and dividends). NERA did not have any comprehensive income items in 2014 or 2013 other than net income as reported.

*Income Per Depositary Receipt:* Effective January 3, 2012, the Partnership authorized a 3-for-1 forward split of its Depositary Receipts listed on the NYSE Amex and a concurrent adjustment of the exchange ratio of Depositary Receipts for Class A Units of the Partnership from 10-to-1 to 30-to-1, such that each Depositary Receipt represents one-thirtieth (1/30) of a Class A Unit of the Partnership. All references to Depositary Receipts in the report are reflective of the 3- for-1 forward split.

*Income Per Unit:* Net income per unit has been calculated based upon the weighted average number of units outstanding during each period presented. The Partnership has no dilutive units and, therefore, basic net income is the same as diluted net income per unit (see Note 7).

*Concentration of Credit Risks and Financial Instruments:* The Partnership's properties are located in New England, and the Partnership is subject to the general economic risks related thereto. No single tenant accounted for more than 5% of the Partnership's revenues in 2014 or 2013. The Partnership makes its temporary cash investments with high-credit quality financial institutions. At June 30, 2014, substantially all of the Partnership's cash and cash equivalents were held in interest-bearing accounts at financial institutions, earning interest at rates from 0.01% to 0.35%. At June 30, 2014 and December 31, 2013, respectively approximately \$13,551,000 and \$15,275,000 of cash and cash equivalents, and security deposits included in prepaid expenses and other assets exceeded federally insured amounts.

*Advertising Expense:* Advertising is expensed as incurred. Advertising expense was \$56,662 and \$16,167 for the six months ended June 30, 2014 and 2013, respectively.

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*Discontinued Operations and Rental Property Held for Sale:* When significant assets are identified by management as held for sale, the Partnership discontinues depreciating the assets and estimates the sales price, net of selling costs, of such assets. If, in management's opinion, the net sales price of the assets which have been identified as held for sale is less than the net book value of the assets, a valuation allowance is established. Properties identified as held for sale and/or sold are presented in discontinued operations for all periods presented.

If circumstances arise that previously were considered unlikely and, as a result, the Partnership decides not to sell a property previously classified as held for sale, the property is reclassified as held and used. A property that is reclassified is measured and recorded individually at the lower of (a) its carrying amount before the property was classified as held for sale, adjusted for any depreciation (amortization) expense that would have been recognized had the property been continuously classified as held and used, or (b) the fair value at the date of the subsequent decision not to sell.

*Interest Capitalized:* The Partnership follows the policy of capitalizing interest as a component of the cost of rental property when the time of construction exceeds one year. During the six months ended June 30, 2014 and 2013 there was no capitalized interest.

*Extinguishment of Debt:* When existing mortgages are refinanced with the same lender and it is determined that the refinancing is substantially different, then they are recorded as an extinguishment of debt. However if it is determined that the refinancing is substantially the same, then they are recorded as an exchange of debt. All refinancing qualify as extinguishment of debt.

*Reclassifications:* Certain reclassifications have been made to prior period amounts in order to conform to current period presentation.



Table of Contents**NOTE 2. RENTAL PROPERTIES**

As of June 30, 2014, the Partnership and its Subsidiary Partnerships owned 2,412 residential apartment units in 20 residential and mixed-use complexes (collectively, the Apartment Complexes). The Partnership also owns 19 condominium units in a residential condominium complex, all of which are leased to residential tenants (collectively referred to as the Condominium Units). The Apartment Complexes and Condominium Units are located primarily in the metropolitan Boston area of Massachusetts.

Additionally, as of June 30, 2014, the Partnership and Subsidiary Partnerships owned a commercial shopping center in Framingham, commercial buildings in Newton and Brookline and mixed-use properties in Boston, Brockton and Newton, all in Massachusetts. These properties are referred to collectively as the Commercial Properties.

The Partnership also owned a 40% to 50% ownership interest in nine residential and mixed use complexes (the Investment Properties) at June 30, 2014 with a total of 793 units, accounted for using the equity method of consolidation. See Note 14 for summary information on these investments.

Rental properties consist of the following:

|                                     | June 30, 2014  | December 31, 2013 | Useful Life |
|-------------------------------------|----------------|-------------------|-------------|
| Land, improvements and parking lots | \$ 44,021,654  | \$ 43,919,728     | 15 40 years |
| Buildings and improvements          | 152,403,653    | 152,130,635       | 15 40 years |
| Kitchen cabinets                    | 6,308,459      | 5,956,078         | 5 10 years  |
| Carpets                             | 6,213,654      | 5,820,516         | 5 10 years  |
| Air conditioning                    | 720,908        | 707,928           | 5 10 years  |
| Laundry equipment                   | 420,737        | 404,775           | 5 7 years   |
| Elevators                           | 1,139,296      | 1,139,296         | 20 40 years |
| Swimming pools                      | 444,629        | 444,629           | 10 30 years |
| Equipment                           | 5,244,764      | 5,038,530         | 5 7 years   |
| Motor vehicles                      | 86,657         | 86,657            | 5 years     |
| Fences                              | 24,670         | 24,670            | 5 15 years  |
| Furniture and fixtures              | 5,831,275      | 5,564,621         | 5 7 years   |
| Smoke alarms                        | 236,719        | 216,223           | 5 7 years   |
| Total fixed assets                  | 223,097,075    | 221,454,286       |             |
| Less: Accumulated depreciation      | (73,067,674)   | (68,549,625)      |             |
|                                     | \$ 150,029,401 | \$ 152,904,661    |             |

In May 2013 the Partnership sold the Nashoba Apartments located in Acton, Massachusetts. The sale price was \$4,300,000; the net proceeds of approximately \$2,100,000 were transferred to Investment Property Exchange Services, Inc. a Qualified Intermediary. These funds were held by the intermediary in order to maintain the Partnership's ability to structure a tax free exchange in accordance with the Internal Revenue Service's rules under Sec. 1031. The gain on the sale in accordance with GAAP is approximately \$3,679,000. The proceeds were subsequently used in the acquisition of the Hamilton Green Apartments described below.

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On July 15, 2013, Hamilton Green Apartments, LLC, ( Hamilton Green ) a newly formed subsidiary of the Partnership, purchased Windsor Green at Andover, a 193 unit apartment complex located at 311 and 319 Lowell Street, Andover, Massachusetts. The purchase price was \$62,500,000. From the purchase price, the Partnership allocated approximately \$1,656,000 to the value of the in-place leases and approximately \$96,000 to the value of the tenant relationships. These amounts were amortized over 12 and 36 months respectively. To fund this purchase, the Partnership obtained short term financing of approximately \$40,000,000, used the funds of approximately \$2,100,000 from the sale of the Nashoba Apartments, and the balance from the Partnership's cash reserves. The closing costs associated with this short term financing were approximately \$38,000. The original mortgage matured in November 2013. On December 20, 2013, the Partnership refinanced the mortgage on Hamilton Green. The new mortgage is \$38,500,000, interest is fixed at 4.67% for 15 years, interest only for 2 years and the mortgage is amortized over 30 years. This refinancing required additional capital of approximately \$1,846,000 from the Partnership. The closing costs associated with this refinancing were approximately \$346,000.

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**NOTE 3. RELATED PARTY TRANSACTIONS**

The Partnership's properties are managed by an entity that is owned by the majority shareholder of the General Partner. The management fee is equal to 4% of gross receipts rental revenue and laundry income on the majority of the Partnership's properties and 3% on Linewt. Total fees paid were approximately \$865,000 and \$752,000 for the six months ended June 30, 2014 and 2013, respectively.

The Partnership Agreement permits the General Partner or Management Company to charge the costs of professional services (such as counsel, accountants and contractors) to NERA. During the six months ended June 30, 2014 and 2013, approximately \$372,000 and \$453,000, was charged to NERA for legal, accounting, construction, maintenance, rental and architectural services and supervision of capital improvements. Of the 2014 expenses referred to above, approximately \$148,000 consisted of repairs and maintenance, \$162,000 of administrative expense and \$6,000 for rental commission. Approximately \$56,000 of expenses for construction, architectural services and supervision of capital projects were capitalized in rental properties. Additionally in 2014, the Hamilton Company received approximately \$403,000 from the Investment Properties of which approximately \$330,000 was the management fee, approximately \$46,000 was for maintenance services and approximately \$25,000 was for administrative services. The management fee is equal to 4% of gross receipts rental income on the majority of investment properties and 2% on Dexter Park.

The Partnership reimburses the management company for the payroll and related expenses of the employees who work at the properties. Total reimbursement was approximately \$1,565,000 and \$1,388,000 for the six months ended June 30, 2014 and 2013, respectively. The Management Company maintains a 401K plan for all eligible employees whereby the employees may contribute the maximum allowed by law. The plan also provides for discretionary contributions by the employer. There were no employer contributions during 2014 and 2013.

Bookkeeping and accounting functions are provided by the Management Company's accounting staff, which consists of approximately 14 people. During the six months ended June 30, 2014 and 2013, the Management Company charged the Partnership \$62,500 (\$125,000 per year) for bookkeeping and accounting services included in administrative expenses above.

The President of the Management Company performs asset management consulting services and receives an asset management fee from the Partnership. The Partnership does not have a written agreement with this individual. During the six months ended June 30, 2014 and 2013 this individual received fees of \$37,500.

The Partnership has invested in nine limited partnerships, which have invested in mixed use residential apartment complexes. The Partnership has a 40% to 50% ownership interest in each investment property. The other investors are Harold Brown, the President of the Management Company and five other employees of the Management Company. Harold Brown's ownership interest is between 43.2% and 60%. See Note 14 for a description of the properties and their operations.

See Note 8 for information regarding the repurchase of Class B and General Partnership Units.

**NOTE 4. OTHER ASSETS**

Approximately \$2,125,000 and \$2,053,000 of security deposits are included in prepaid expenses and other assets at June 30, 2014 and December 31, 2013, respectively. The security deposits and escrow accounts are restricted cash.

Included in prepaid expenses and other assets at June 30, 2014 and December 31, 2013 is approximately \$202,000 and \$123,000, respectively, held in escrow to fund future capital improvements.

Intangible assets on the acquisition of Hamilton Green are included in prepaid expenses and other assets. Intangible assets are approximately \$134,000 net of accumulated amortization of approximately \$1,618,000 and approximately \$978,000 net of accumulated amortization of approximately \$774,000 at June 30, 2014 and December 31, 2013, respectively.

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Included in prepaid expenses and other assets at June 30, 2014 are approximately \$90,000 of deposits and prepaid financing fees for the refinancing of Westgate Apartments Burlington, LLC and approximately \$215,000 of deposits to be refunded from the refinancing of NERA Dean Street. (See Note 5.)

Financing and leasing fees of approximately \$1,637,000 and \$1,635,000 are net of accumulated amortization of approximately \$553,000 and \$548,000 at June 30, 2014 and December 31, 2013 respectively.

**NOTE 5. MORTGAGE NOTES PAYABLE**

At June 30, 2014 and December 31, 2013, the mortgages payable consisted of various loans, all of which were secured by first mortgages on properties referred to in Note 2. At June 30, 2014, the interest rates on these loans ranged from 3.76% to 5.97%, payable in monthly installments aggregating approximately \$808,000 including principal, to various dates through 2029. The majority of the mortgages are subject to prepayment penalties. At June 30, 2014, the weighted average interest rate on the above mortgages was 4.82%. The effective rate of 4.94% includes the amortization expense of deferred financing costs. See Note 12 for fair value information. The Partnership's mortgage debt and the mortgage debt of its unconsolidated joint ventures generally is non-recourse except for customary exceptions pertaining to misuse of funds and material misrepresentations.

The Partnership has pledged tenant leases as additional collateral for certain of these loans.

Approximate annual maturities at June 30, 2014 are as follows:

|                         |    |             |
|-------------------------|----|-------------|
| 2015 current maturities | \$ | 2,131,000   |
| 2016                    |    | 504,000     |
| 2017                    |    | 1,629,000   |
| 2018                    |    | 1,821,000   |
| 2019                    |    | 7,900,000   |
| Thereafter              |    | 181,649,000 |
|                         | \$ | 195,634,000 |

On February 25, 2013, the Partnership paid off the mortgage of approximately \$3,967,000 on Hamilton Cypress LLC. There was no penalty on the early payoff. The funds used to pay off the mortgage were from the Partnerships cash reserves.

On March 11, 2013, the Partnership refinanced the property owned by School Street 9 LLC. The new loan is \$15,000,000 with an interest rate of 3.7% due in 2023. The loan calls for interest only for three years followed by principal and interest payments over the remainder of the loan term. Principal payments will be on a 30 year amortization schedule. The Partnership paid off the prior mortgage in the amount of approximately \$15,284,000 with the proceeds of the new mortgage and the Partnership's cash reserves. The costs associated with this refinancing were approximately \$159,000.

On July 7, 2013, the Partnership refinanced the property owned by Boylston Downtown LP. The new 15 year \$40,000,000 mortgage has an interest rate of 3.97%. The terms of the loan are interest only for the first three years, with a 30 year amortization thereafter until maturity in August 2028. Approximately \$19,500,000 of loan proceeds was used to pay off the existing mortgage. The balance of the funds, approximately \$20,000,000, after closing costs, were used in connection with the purchase of Hamilton Green Apartments. The costs associated with this refinancing are approximately \$279,000.

On October 1, 2013, the Partnership refinanced the property owned by Westgate Apartments LLC. The new mortgage is \$15,700,000; the interest rate is 4.65%, interest only payable in 10 years. Approximately \$7,616,000 of the loan proceeds was used to pay off the existing mortgage. The mortgage matures in September 2023. The costs associated with the refinancing were approximately \$190,000.

On December 20, 2013, the Partnership refinanced the property owned by Hamilton Green Apartments LLP. The new mortgage is \$38,500,000; the interest rate is 4.67%; interest only for 2 years. After the first two years, principal is amortized on a 30-year amortization schedule through January 2029. The proceeds of the new mortgage as well as the Partnership's cash reserves of approximately \$1,846,000 were used to pay off the prior mortgage of \$40,000,000 and cover the cost of this refinancing. The costs associated with the refinancing were approximately \$346,000.

In February 2014, the Partnership paid off the mortgages on Linewt in the amount of approximately \$1,466,000 and Linhart in the amount of approximately \$1,926,000. There were no prepayment penalties. The Partnership's cash reserves were used to pay off these mortgages.

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On June 11, 2014, the Partnership refinanced the property owned by NERA Dean Street Associates, LLC. The new mortgage is \$5,687,000; the interest rate is 4.22%, interest only payable in 10 years. Approximately \$5,077,000 of the loan proceeds were used to pay off the existing mortgage. The mortgage matures in June 2024. The costs associated with the refinancing were approximately \$99,000.

As of June 30, 2014, the Partnership was in the process of refinancing the property owned by Westgate Apartments Burlington, LLC. Included in prepaid expenses and other assets is approximately \$90,000 in deposits and financing costs made by the Partnership for this refinancing. The refinancing was completed on July 11, 2014.( See Note 17- Subsequent Events).

**NOTE 6. ADVANCE RENTAL PAYMENTS AND SECURITY DEPOSITS**

The Partnership's residential lease agreements may require tenants to maintain a one-month advance rental payment and/or a security deposit. At June 30, 2014, amounts received for prepaid rents of approximately \$1,610,000 are included in cash and cash equivalents, and security deposits of approximately \$2,125,000 are included in prepaid expenses and other assets and are restricted cash.

**NOTE 7. PARTNERS' CAPITAL**

The Partnership has two classes of Limited Partners (Class A and B) and one category of General Partner. Under the terms of the Partnership Agreement, distributions to holders of Class B Units and General Partnership Units must represent 19% and 1%, respectively, of the total units outstanding. All classes have equal profit sharing and distribution rights, in proportion to their ownership interests.

Effective January 3, 2012, the Partnership authorized a 3-for-1 forward split of its Depositary Receipts listed on the NYSE Amex and a concurrent adjustment of the exchange ratio of Depositary Receipts for Class A Units of the Partnership from 10-to-1 to 30-to-1, such that each Depositary Receipt represents one-thirtieth (1/30) of a Class A Unit of the Partnership.

In 2014, the Partnership paid quarterly distributions of \$7.50 per unit (\$0.25 per receipt) on March 31 and June 30, 2014. The Board of Advisors approved a quarterly distribution of \$7.50 per unit (\$0.25 per receipt) payable September 30, 2014.

In 2013, the Partnership paid quarterly distributions of \$7.50 per unit (\$0.25 per receipt) in March, June, September, and December for a total distribution of \$30.00 per unit (\$1.00 per receipt) each year.

The Partnership has entered into a deposit agreement with an agent to facilitate public trading of limited partners' interests in Class A Units. Under the terms of this agreement, the holders of Class A Units have the right to exchange each Class A Unit for 30 Depositary Receipts. The following is information per Depositary Receipt:

|   | Six Months Ended<br>June 30, |         |
|---|------------------------------|---------|
|   | 2014                         | 2013    |
| Income per Depositary Receipt before Discontinued Operations    | \$ 0.07                      | \$ 0.43 |
| Income from Discontinued Operations                             | 0.00                         | 0.95    |
| Net Income per Depositary Receipt after Discontinued Operations | \$ 0.07                      | \$ 1.38 |
| Distributions per Depositary Receipt                            | \$ 0.50                      | \$ 0.50 |

**NOTE 8. TREASURY UNITS**

Treasury Units at June 30, 2014 are as follows:

|                     |        |
|---------------------|--------|
| Class A             | 41,122 |
| Class B             | 9,766  |
| General Partnership | 514    |
|                     | 51,402 |



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On August 20, 2007, NewReal, Inc., the General Partner authorized an equity repurchase program ( Repurchase Program ) under which the Partnership was permitted to purchase, over a period of twelve months, up to 300,000 Depositary Receipts (each of which is one-tenth of a Class A Unit). On January 15, 2008, the General Partner authorized an increase in the Repurchase Program from 300,000 to 600,000 Depositary Receipts. On January 30, 2008 the General Partner authorized an increase the Repurchase Program from 600,000 to 900,000 Depositary Receipts. On March 6, 2008, the General Partner authorized the increase in the total number of Depositary Receipts that could be repurchased pursuant to the Repurchase Program from 900,000 to 1,500,000. On August 8, 2008, the General Partner re- authorized and renewed the Repurchase Program for an additional 12-month period ended August 19, 2009. On March 22, 2010, the General Partner re-authorized and renewed the Repurchase Program that expired on August 19, 2009. Under the terms of the renewed Repurchase Program, the Partnership may purchase up to 1,500,000 Depositary Receipts from the start of the program in 2007 through March 31, 2015. The Repurchase Program requires the Partnership to repurchase a proportionate number of Class B Units and General Partner Units in connection with any repurchases of any Depositary Receipts by the Partnership based upon the 80%, 19% and 1% fixed distribution percentages of the holders of the Class A, Class B and General Partner Units under the Partnership's Second Amended and Restate Contract of Limited Partnership. Repurchases of Depositary Receipts or Partnership Units pursuant to the Repurchase Program may be made by the Partnership from time to time in its sole discretion in open market transactions or in privately negotiated transactions. From August 20, 2007 through June 30, 2014, the Partnership has repurchased 1,258,822 Depositary Receipts at an average price of \$25.13 per receipt (or \$753.90 per underlying Class A Unit), 2,229 Class B Units and 117 General Partnership Units, both at an average price of \$700.12 per Unit, totaling approximately \$33,422,000 including brokerage fees paid by the Partnership.

During the six months ended June 30, 2014, the Partnership purchased a total of 15,931 Depositary Receipts. The average price was \$46.26 per receipt or \$1,387.80 per unit. The total cost including commission was \$757,246. The Partnership was required to repurchase 126 Class B Units and 7 General Partnership units at a cost of \$175,019 and \$9,212 respectively.

From July 1, 2014 through August 5, 2014, the Partnership purchased a total of 5,049 Depositary Receipts. The average price was \$48.81 per receipt or \$1,464.30 per unit. The total cost was \$253,274. The Partnership is required to repurchase 40.0 Class B Units and 2.1 General Partnership Units at a cost of \$58,532 and \$3,081 respectively.

**NOTE 9. COMMITMENTS AND CONTINGENCIES**

From time to time, the Partnership is involved in various ordinary routine litigation incidental to their business. The Partnership either has insurance coverage or provides for any uninsured claims when appropriate. The Partnership is not involved in any material pending legal proceedings.

**NOTE 10. RENTAL INCOME**

During the six months ended June 30, 2014, approximately 92% of rental income was related to residential apartments and condominium units with leases of one year or less. The majority of these leases expire in June, July and August. Approximately 8% was related to commercial properties, which have minimum future annual rental income on non-cancellable operating leases at June 30, 2014 as follows:

|            |    | <b>Commercial<br/>Property Leases</b> |
|------------|----|---------------------------------------|
| 2015       | \$ | 2,615,000                             |
| 2016       |    | 2,398,000                             |
| 2017       |    | 1,602,000                             |
| 2018       |    | 1,231,000                             |
| 2019       |    | 863,000                               |
| Thereafter |    | 973,000                               |
|            | \$ | 9,682,000                             |

The aggregate minimum future rental income does not include contingent rentals that may be received under various leases in connection with common area charges and real estate taxes. Aggregate contingent rentals from continuing operations were approximately \$315,000 and \$345,000 for the six months ended June 30, 2014 and 2013 respectively. Staples and Trader Joes, tenants at Staples Plaza, are approximately 30% of the total commercial rental income.

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The following information is provided for commercial leases:

|                  | Annual base rent<br>for expiring leases | Total square feet<br>for expiring leases | Total number<br>of leases expiring | Percentage of<br>annual base rent for<br>expiring leases |
|------------------|---|--|------------------------------------|--|
| Through June 30, |   |  |                                    |  |
| 2015             | \$ 400,427                              | 20,511                                   | 12                                 | 13%  |
| 2016             | 718,834                                 | 26,744                                   | 8                                  | 24%  |
| 2017             | 525,725                                 | 18,157                                   | 7                                  | 18%  |
| 2018             | 352,082                                 | 10,725                                   | 7                                  | 12%  |
| 2019             | 206,836                                 | 6,403                                    | 4                                  | 7%   |
| 2020             | 556,058                                 | 18,932                                   | 4                                  | 19%  |
| 2021             | 64,800                                  | 1,800                                    | 1                                  | 2%   |
| 2022             | 0                                       | 0  | 0                                  | 0%   |
| 2023             | 0                                       | 0  | 0                                  | 0%   |
| 2024             | 157,443                                 | 4,771                                    | 1                                  | 5%   |
| Totals           | \$ 2,982,205                            | 108,043                                  | 44                                 | 100%   |

Rents receivable are net of an allowance for doubtful accounts of approximately \$459,000 and \$344,000 at June 30, 2014 and December 31, 2013. Included in rents receivable at June 30, 2014 is approximately \$194,000 resulting from recognizing rental income from non-cancelable commercial leases with future rental increases on a straight-line basis. The majority of this amount is for long-term leases with Staples and Trader Joe's at Staples Plaza in Framingham, Massachusetts.

Rents receivable at June 30, 2014 also includes approximately \$49,000 representing the deferral of rental concession primarily related to the residential properties.

For the six months ended June 30, 2014 rent at the commercial properties includes approximately \$1,100 of amortization of deferred rents arising from the fair values assigned to in-place leases upon the purchase of Cypress Street in Brookline, Massachusetts.

**NOTE 11. CASH FLOW INFORMATION**

During the six months ended June 30, 2014 and 2013, cash paid for interest was approximately \$4,074,000, and \$3,652,000 respectively. Cash paid for state income taxes was approximately \$49,000 and \$48,000 during the six months ended June 30, 2014 and 2013 respectively.

**NOTE 12. FAIR VALUE MEASUREMENTS**

Fair Value Measurements on a Recurring Basis

At June 30, 2014 and December 31, 2013, we do not have any significant financial assets or financial liabilities that are measured at fair value on a recurring basis in our consolidated financial statements.

#### Financial Assets and Liabilities not Measured at Fair Value

At June 30, 2014 and December 31, 2013 the carrying amounts of certain of our financial instruments, including cash and cash equivalents, accounts receivable, and note payable, accounts payable and accrued expenses were representative of their fair values due to the short-term nature of these instruments or, the recent acquisition of these items.

At June 30, 2014 and December 31, 2013, we estimated the fair value of our mortgages payable and other notes based upon quoted market prices for the same (Level 1) or similar (Level 2) issues when current quoted market prices are available. We estimated the fair value of our secured mortgage debt that does not have current quoted market prices available by discounting the future cash flows using rates currently available to us for debt with similar terms and maturities (Level 3). The differences in the fair value of our debt from the carrying value are the result of differences in interest rates and/or borrowing spreads that were available to us at June 30, 2014 and December 31, 2013, as compared with those in effect when the debt was issued or acquired. The secured mortgage debt contain pre-payment penalties or yield maintenance provisions that could make the cost of refinancing the debt at lower rates exceed the benefit that would be derived from doing so.

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The following methods and assumptions were used by the Partnership in estimating the fair value of its financial instruments:

- For cash and cash equivalents, accounts receivable, other assets, investment in partnerships, accounts payable, advance rents and security deposits: fair value approximates the carrying value of such assets and liabilities.
- For mortgage notes payable: fair value is generally based on estimated future cash flows, which are discounted using the quoted market rate from an independent source for similar obligations. Refer to the table below for the carrying amount and estimated fair value of such instruments.

The following table reflects the carrying amounts and estimated fair value of our debt.

|                        | Carrying Amount | Estimated Fair Value |
|------------------------|-----------------|----------------------|
| Mortgage Notes Payable |                 |                      |
| Partnership Properties |                 |                      |
| At June 30, 2014       | \$ 195,634,372  | \$ 203,344,074       |
| At December 31, 2013   | \$ 198,520,478  | \$ 196,059,827       |
| Investment Properties  |                 |                      |
| At June 30, 2014       | \$ 137,026,261  | \$ 147,317,566       |
| At December 31, 2013   | \$ 137,875,515  | \$ 147,975,521       |

Disclosure about fair value of financial instruments is based on pertinent information available to management as of June 30, 2014 and December 31, 2013. Although management is not aware of any factors that would significantly affect the fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since June 30, 2014 and current estimates of fair value may differ significantly from the amounts presented herein.

**NOTE 13. TAXABLE INCOME AND TAX BASIS**

Taxable income reportable by the Partnership and includable in its partners' tax returns is different than financial statement income because of tax free exchanges, accelerated depreciation, different tax lives, and timing differences related to prepaid rents, allowances and intangible assets at significant acquisitions. Taxable income was approximately \$4,300,000 less than statement income for the year ended December 31, 2013. The primary reason for the decrease is due to tax free exchanges of approximately \$3,700,000 from the sale of Nashoba and accelerated tax depreciation of approximately \$1,100,000 at the related acquisition of Hamilton Green and other depreciation timing difference and accelerated depreciation in prior years. The cumulative tax basis of the Partnership's real estate at December 31, 2013 is approximately \$4,800,000, less than the statement basis. The primary reasons for the lower tax basis are tax free exchanges, and accelerated depreciation. The Partnership's tax basis in its joint venture investments is approximately \$1,300,000 less than statement basis because of accelerated depreciation.

Certain entities included in the Partnership's consolidated financial statements are subject to certain state taxes. These taxes are not significant and are recorded as operating expenses in the accompanying consolidated financial statements.

Allowable accelerated depreciation deductions have expired for 2014. This may result in higher taxable income in future years. Future tax law changes may significantly affect taxable income.

The Partnership adopted the amended provisions related to uncertain tax provisions of ASC 740, Income Taxes. As a result of the implementation of the guidance, the Partnership recognized no material adjustment regarding its tax accounting treatment. The Partnership expects to recognize interest and penalties related to uncertain tax positions, if any, as income tax expense, which would be included in general and administrative expense.

In the normal course of business the Partnership or one of its subsidiaries is subject to examination by federal, state and local jurisdictions in which it operates, where applicable. As of June 30, 2014, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the year 2007 forward.

**NOTE 14. INVESTMENT IN UNCONSOLIDATED JOINT VENTURES**

Since November 2001, the Partnership has invested in nine limited partnerships and limited liability companies, the majority of which have invested in residential apartment complexes, with three partnerships investing in commercial property. The Partnership has between a 40%-50% ownership interests in each investment. The other investors are Harold

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Brown, the President of the Management Company and five other employees of the Management Company. Harold Brown's ownership interest is between 43.2% and 57%, with the balance owned by the others. A description of each investment is as follows:

On October 28, 2009 the Partnership invested approximately \$15,925,000 in a joint venture to acquire a 40% interest in a residential property located in Brookline, Massachusetts. The property, referred to as Dexter Park, is a 409 unit residential complex. The purchase price was \$129,500,000. The total mortgage was \$89,914,000 with an interest rate of 5.57% and it matures in 2019. The mortgage calls for interest only payments for the first two years of the loan and amortized over 30 years thereafter. The balance of this mortgage is approximately \$86,875,000 at June 30, 2014. In order to fund this investment, the Partnership used approximately \$8,757,000 of its cash reserves and borrowed approximately \$7,168,000 with an interest rate of 6% from HBC Holdings, LLC, an entity owned by Harold Brown and his affiliates ( HBC ). The term of the loan was four years with a provision requiring payment in whole or in part upon demand by HBC with six months notice. The loan was paid in full in April 2012. A majority of the apartments were leased at the time of the acquisition. As a result, the Partnership amortized the intangible assets associated with the in place leases over a 12 month period which began in November 2009. This investment, Hamilton Park Towers, LLC is referred to as Dexter Park.

On October 3, 2005, the Partnership invested \$2,500,000 for a 50% ownership interest in a 168-unit apartment complex in Quincy, Massachusetts. The purchase price was \$30,875,000. The Partnership sold 120 units as condominiums and retained 48 units for long-term investment. Gains from the sales of units were taxed at ordinary income rates. In February 2007, the Partnership refinanced the 48 units with a new mortgage in the amount of \$4,750,000 with an interest rate of 5.57%, interest only for five years. The loan will be amortized over 30 years thereafter and matures in March 2017. As of June 30, 2014, the balance of the mortgage is approximately \$4,606,000. This investment is referred to as Hamilton Bay Apartments, LLC. In April 2008, the Partnership refinanced an additional 20 units and obtained a new mortgage in the amount of \$2,368,000 with interest at 5.75%, interest only, which matured in 2013. On October 18, 2013, the Partnership and its joint venture partner each made capital contributions to the entity of \$660,000. The capital was used to pay off the outstanding mortgage. Five units have been sold during the first six months of 2014 with a gain of approximately \$301,000. As of August 5, 2014, 10 units are still owned by the Partnership. This investment is referred to as Hamilton Bay, LLC.

On March 7, 2005, the Partnership invested \$2,000,000 for a 50% ownership interest in a building comprising 48 apartments, one commercial space and a 50-car surface parking lot located in Boston, Massachusetts. The purchase price was \$14,300,000, with a \$10,750,000 mortgage. The Partnership plans to operate the building and initiate development of the parking lot. In June 2007, the Partnership separated the parcels, formed an additional limited liability company for the residential apartments and obtained a mortgage on the property. The new limited liability company formed for the residential apartments and commercial space is referred to as Hamilton Essex 81, LLC. In August 2008, the Partnership restructured the mortgages on both parcels at Essex 81 and transferred the residential apartments to Hamilton Essex 81, LLC. The mortgage on Hamilton Essex 81, LLC is approximately \$8,171,000, at June 30, 2014, amortizing over 30 years at 5.79% due in August 2016. The mortgage on Essex Development, LLC, or the parking lot is approximately \$2,014,000 with a variable interest rate of 2.25% over the daily Libor rate (0.155%) at June 30, 2014. This loan was extended to August 2013 with the same conditions except for the addition of fixed principal payments in the amount of \$4,301 per month. The cost associated with the extension was approximately \$6,000. In September 2013, the loan was extended for an additional two years to August 2015 with the same conditions except for the increased principal payments of \$4,443 per month. The costs associated with the extension were approximately \$9,000. Harold Brown has issued a personal guaranty up to \$1,000,000 of this mortgage. In the event that he is obligated to make payments to the lender as a result of this guaranty, the Partnership and other investors have, in turn, agreed to indemnify him for their proportionate share of any such payments. The investment in the parking lot is referred to as Hamilton Essex Development, LLC; the investment in the apartments is referred to as Hamilton Essex 81, LLC.

On March 2, 2005, the Partnership invested \$2,352,000 for a 50% ownership interest in a 176-unit apartment complex with an additional small commercial building located in Quincy, Massachusetts. The purchase price was \$23,750,000. The Partnership sold 127 of the units as condominiums and retained 49 units for long-term investment. The Partnership obtained a new 10-year mortgage in the amount of \$5,000,000 on the units to be retained by the Partnership. The interest on the new loan is 5.67% fixed for the 10 year term with interest only payments for five years and amortized over a 30 year period for the balance of the loan term. The balance of this mortgage is approximately \$4,840,000 at June 30, 2014. This investment is referred to as Hamilton 1025, LLC.

In August 2004, the Partnership invested \$8,000,000 for a 50% ownership interest in a 280-unit apartment complex located in Watertown, Massachusetts. The total purchase price was \$56,000,000. As of May 2008, the Partnership sold 137 units as condominiums. Gains from these sales were taxed as ordinary income. The majority of the sales proceeds were



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applied to reduce the mortgage with the final payment made during the second quarter of 2007. With the sale of the units and the payments of the liabilities, the assets were combined with Hamilton on Main Apartments, LLC. An entity partially owned by the majority shareholder of the General Partner and the President of the management company, 31% and 5%, respectively, was the sales agent and received a variable commission on each sale of 3% to 5%. Hamilton on Main, LLC is known as Hamilton Place.

In 2005, Hamilton on Main Apartments, LLC obtained a ten year mortgage on the three buildings to be retained. The mortgage was \$16,825,000, with interest only of 5.18% for three years and amortizing on a 30 year schedule for the remaining seven years when the balance is due. The net proceeds after funding escrow accounts and closing costs on the mortgage were approximately \$16,700,000, which were used to reduce the existing mortgage. At June 30, 2014, the remaining balance on the mortgage is approximately \$15,188,000. Hamilton on Main, LLC is in the process of refinancing its mortgage and has paid approximately \$357,000 in deposits for the refinancing. These deposits are included in prepaid expenses and other assets on the unconsolidated joint ventures balance sheets. The Partnership expects the refinancing will be completed in the fourth quarter of 2014.

In September 2004, the Partnership invested approximately \$5,075,000 for a 50% ownership interest in a 42-unit apartment complex located in Lexington, Massachusetts. The purchase price was \$10,100,000. In October 2004, the Partnership obtained a mortgage on the property in the amount of \$8,025,000 and returned \$3,775,000 to the Partnership. The Partnership obtained a new 10- year mortgage in the amount of \$5,500,000 in January 2007. The interest on the new loan is 5.67% fixed for the ten year term with interest only payments for five years and amortized over a 30 year period for the balance of the loan. This loan required a cash contribution by the Partnership of \$1,250,000 in December 2006. At June 30, 2014, the balance of this mortgage is approximately \$5,330,000. This investment is referred to as Hamilton Minuteman, LLC.

In November 2001, the Partnership invested approximately \$1,533,000 for a 50% ownership interest in a 40-unit apartment building in Cambridge, Massachusetts. In June 2013, the property was refinanced with a 15 year mortgage in the amount of \$10,000,000 at 3.87%, interest only for 3 years and is amortized on a 30-year schedule for the balance of the term. The Partnership paid off the prior mortgage of approximately \$6,776,000 with the proceeds of the new mortgage. After the refinancing, the property made a distribution of \$1,610,000 to the Partnership. As a result of the distribution, the carrying value of the investment fell below zero. The Partnership will continue to account for this investment using the equity method of accounting. Although the Partnership has no legal obligation, the Partnership intends to fund its share of any future operating deficits if needed. This investment is referred to as 345 Franklin, LLC.

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## Summary financial information as of June 30, 2014

|  | Hamilton<br>Essex 81 | Hamilton<br>Essex<br>Development | 345<br>Franklin       | Hamilton<br>1025    | Hamilton<br>Bay Sales | Hamilton<br>Bay Apts | Hamilton<br>Minuteman<br>Apts | Hamilton<br>on Main<br>Apts | Dexter<br>Park        |
|--|----------------------|----------------------------------|-----------------------|---------------------|-----------------------|----------------------|-------------------------------|-----------------------------|-----------------------|
| <b>ASSETS</b>  |                      |                                  |                       |                     |                       |                      |                               |                             |                       |
| Rental Properties  | \$ 8,575,457         | \$ 2,622,910                     | \$ 7,320,301          | \$ 5,272,805        | \$ 1,148,912          | \$ 6,533,725         | \$ 6,684,183                  | \$ 19,873,809               | \$ 99,637,389         |
| Cash & Cash<br>Equivalents   | 76,955               | 104,102                          | 107,038               | 6,968               | 57,296                | 1,878                | 66,660                        | 23,626                      | 968,685               |
| Rent Receivable  | 32,918               |                                  | 15,494                | 2,327               | 3,666                 | 6,965                | 5,798                         | 11,991                      | 141,005               |
| Real Estate Tax<br>Escrow  | 101,117              |                                  | 18,132                | 68,872              |                       | 28,886               | 39,093                        | 45,741                      | 369,900               |
| Prepaid Expenses &<br>Other Assets   | 83,547               | 1,230                            | 38,090                | 43,044              | 548,734               | 41,408               | 42,658                        | 748,027                     | 1,728,976             |
| Financing & Leasing<br>Fees  | 37,887               | 9,868                            | 93,219                | 12,106              |                       | 16,700               | 9,997                         | 4,286                       | 310,703               |
| <b>Total Assets</b>  | <b>\$ 8,907,881</b>  | <b>\$ 2,738,111</b>              | <b>\$ 7,592,274</b>   | <b>\$ 5,406,122</b> | <b>\$ 1,758,607</b>   | <b>\$ 6,629,562</b>  | <b>\$ 6,848,389</b>           | <b>\$ 20,707,480</b>        | <b>\$ 103,156,658</b> |
| <b>LIABILITIES<br/>AND PARTNERS<br/>CAPITAL</b>  |                      |                                  |                       |                     |                       |                      |                               |                             |                       |
| Mortgage Notes<br>Payable  | \$ 8,171,048         | \$ 2,014,488                     | \$ 10,000,000         | \$ 4,840,484        | \$                    | \$ 4,606,316         | \$ 5,330,234                  | \$ 15,188,407               | \$ 86,875,284         |
| Accounts Payable &<br>Accrued Expense  | 59,005               | 5,297                            | 57,752                | 30,368              | 18,811                | 12,526               | 47,027                        | 155,825                     | 698,090               |
| Advance Rental<br>Pmts & Security<br>Deposits  | 223,226              |                                  | 229,882               | 108,125             | 22,824                | 97,026               | 93,312                        | 322,519                     | 2,645,283             |
| <b>Total Liabilities</b>   | <b>8,453,279</b>     | <b>2,019,785</b>                 | <b>10,287,634</b>     | <b>4,978,977</b>    | <b>41,635</b>         | <b>4,715,869</b>     | <b>5,470,574</b>              | <b>15,666,750</b>           | <b>90,218,657</b>     |
| Partners Capital   | 454,602              | 718,325                          | (2,695,360)           | 427,145             | 1,716,973             | 1,913,694            | 1,377,815                     | 5,040,730                   | 12,938,001            |
| <b>Total Liabilities<br/>and Capital</b>   | <b>\$ 8,907,881</b>  | <b>\$ 2,738,111</b>              | <b>\$ 7,592,274</b>   | <b>\$ 5,406,122</b> | <b>\$ 1,758,607</b>   | <b>\$ 6,629,562</b>  | <b>\$ 6,848,389</b>           | <b>\$ 20,707,480</b>        | <b>\$ 103,156,658</b> |
| <b>Partners Capital %</b>  |                      |                                  |                       |                     |                       |                      |                               |                             |                       |
| - NERA   | 50%                  | 50%                              | 50%                   | 50%                 | 50%                   | 50%                  | 50%                           | 50%                         | 40%                   |
| <b>Investment in<br/>Unconsolidated<br/>Joint Ventures</b>   | <b>\$ 227,301</b>    | <b>\$ 359,163</b>                | <b>\$</b>             | <b>\$ 213,573</b>   | <b>\$ 858,486</b>     | <b>\$ 956,847</b>    | <b>\$ 688,907</b>             | <b>\$ 2,520,365</b>         | <b>\$ 5,175,200</b>   |
| <b>Distribution and<br/>Loss in Excess of<br/>investments in<br/>Unconsolidated<br/>Joint Ventures</b> | <b>\$</b>            | <b>\$</b>                        | <b>\$ (1,347,680)</b> | <b>\$</b>           | <b>\$</b>             | <b>\$</b>            | <b>\$</b>                     | <b>\$</b>                   | <b>\$</b>             |
| <b>Total Investment in<br/>Unconsolidated<br/>Joint Ventures<br/>(Net)</b>                             |                      |                                  |                       |                     |                       |                      |                               |                             |                       |
| <b>Total<br/>units/condominiums</b>  |                      |                                  |                       |                     |                       |                      |                               |                             |                       |
| Apartments   | 48                   |                                  | 40                    | 175                 | 120                   | 48                   | 42                            | 148                         | 409                   |
| Commercial   | 1                    | 1                                |                       | 1                   |                       |                      |                               |                             |                       |
| <b>Total</b>   | <b>49</b>            | <b>1</b>                         | <b>40</b>             | <b>176</b>          | <b>120</b>            | <b>48</b>            | <b>42</b>                     | <b>148</b>                  | <b>409</b>            |

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|  |    |   |    |     |     |    |    |     |     |
|--|----|---|----|-----|-----|----|----|-----|-----|
| Units to be retained   | 49 | 1 | 40 | 49  |     | 48 | 42 | 148 | 409 |
| Units to be sold   |    |   |    | 127 | 120 |    |    |     |     |
| Units sold through<br>August 1, 2014                                     |    |   |    | 127 | 110 |    |    |     |     |
| Unsold units   |    |   |    |     | 10  |    |    |     |     |
| Unsold units with<br>deposits for future<br>sale as of August 1,<br>2014 |    |   |    |     |     |    |    |     |     |

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Financial information for the six months ended June 30, 2014

|   | Hamilton<br>Essex 81 | Hamilton<br>Essex<br>Development | 345<br>Franklin  | Hamilton<br>1025   | Hamilton<br>Bay Sales | Hamilton<br>Bay Apts | Hamilton<br>Minuteman<br>Apts | Hamilton<br>on Main<br>Apts | Dexter<br>Park      | Total               |
|---|----------------------|----------------------------------|------------------|--------------------|-----------------------|----------------------|-------------------------------|-----------------------------|---------------------|---------------------|
| <b>Revenues</b>                             |                      |                                  |                  |                    |                       |                      |                               |                             |                     |                     |
| Rental Income                               | \$ 670,157           | \$ 146,472                       | \$ 658,488       | \$ 447,481         | \$ 106,721            | \$ 462,103           | \$ 456,812                    | \$ 1,440,362                | \$ 6,709,764        | \$ 11,098,360       |
| Laundry and<br>Sundry Income                | 8,120                |                                  | 235              |                    |                       |                      | 168                           | 19,148                      | 48,593              | 76,262              |
|   | 678,277              | 146,472                          | 658,723          | 447,481            | 106,721               | 462,103              | 456,980                       | 1,459,510                   | 6,758,357           | 11,174,622          |
| <b>Expenses</b>                             |                      |                                  |                  |                    |                       |                      |                               |                             |                     |                     |
| Administrative                              | 17,141               | 830                              | 19,861           | 4,161              | 2,674                 | 10,577               | 5,443                         | 30,762                      | 116,993             | 208,441             |
| Depreciation and<br>Amortization            | 216,170              | 5,644                            | 200,104          | 120,320            | 38,350                | 158,697              | 159,254                       | 473,132                     | 2,694,103           | 4,065,772           |
| Management<br>Fees                          | 29,105               | 5,859                            | 28,505           | 18,643             | 4,275                 | 18,600               | 18,953                        | 57,820                      | 148,442             | 330,201             |
| Operating                                   | 68,967               |                                  | 32,593           | 353                | 605                   | 1,039                | 44,102                        | 206,470                     | 736,853             | 1,090,983           |
| Renting                                     | 10,967               |                                  | 3,623            | 6,376              | 753                   | 5,042                | 6,088                         | 18,097                      | 57,536              | 108,481             |
| Repairs and<br>Maintenance                  | 73,827               | 3,150                            | 30,932           | 164,511            | 47,651                | 143,741              | 38,434                        | 190,403                     | 514,184             | 1,206,833           |
| Taxes and<br>Insurance                      | 116,996              | 27,640                           | 58,200           | 81,375             | 22,666                | 82,006               | 59,236                        | 191,586                     | 757,325             | 1,397,028           |
|   | 533,173              | 43,123                           | 373,817          | 395,737            | 116,973               | 419,702              | 331,509                       | 1,168,270                   | 5,025,436           | 8,407,740           |
| <b>Income Before<br/>Other Income</b>       | 145,104              | 103,349                          | 284,906          | 51,743             | (10,252)              | 42,401               | 125,471                       | 291,240                     | 1,732,921           | 2,766,883           |
| <b>Other Income<br/>(Loss)</b>              |                      |                                  |                  |                    |                       |                      |                               |                             |                     |                     |
| Interest Expense                            | (240,198)            | (27,896)                         | (195,574)        | (139,629)          | (399)                 | (131,333)            | (153,561)                     | (402,014)                   | (2,464,957)         | (3,755,560)         |
| Interest Income                             |                      |                                  |                  | 10                 |                       |                      |                               |                             |                     | 10                  |
| Interest Income<br>from Note                |                      |                                  |                  |                    | 468                   |                      |                               |                             |                     | 468                 |
| Gain on Sale of<br>Real Estate              |                      |                                  |                  |                    | 300,522               |                      |                               |                             |                     | 300,522             |
|   | (240,198)            | (27,896)                         | (195,574)        | (139,620)          | 300,591               | (131,333)            | (153,561)                     | (402,014)                   | (2,464,957)         | (3,454,561)         |
| <b>Net Income<br/>(Loss)</b>                | <b>\$ (95,094)</b>   | <b>\$ 75,453</b>                 | <b>\$ 89,332</b> | <b>\$ (87,877)</b> | <b>\$ 290,339</b>     | <b>\$ (88,932)</b>   | <b>\$ (28,090)</b>            | <b>\$ (110,774)</b>         | <b>\$ (732,036)</b> | <b>\$ (687,678)</b> |
| <b>Net Income<br/>(Loss) - NERA<br/>50%</b> | <b>\$ (47,547)</b>   | <b>\$ 37,727</b>                 | <b>\$ 44,666</b> | <b>\$ (43,938)</b> | <b>\$ 145,170</b>     | <b>\$ (44,466)</b>   | <b>\$ (14,045)</b>            | <b>\$ (55,386)</b>          |                     | <b>22,181</b>       |
| <b>Net Income<br/>(Loss) - NERA<br/>40%</b> |                      |                                  |                  |                    |                       |                      |                               |                             | <b>\$ (292,814)</b> | <b>(292,814)</b>    |
|   |                      |                                  |                  |                    |                       |                      |                               |                             |                     | <b>\$ (270,633)</b> |

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Financial information for the three months ended June 30, 2014

|   | Hamilton<br>Essex 81 | Hamilton<br>Essex<br>Development | 345<br>Franklin  | Hamilton<br>1025   | Hamilton<br>Bay Sales | Hamilton<br>Bay Apts | Hamilton<br>Minuteman<br>Apts | Hamilton<br>on Main<br>Apts | Dexter<br>Park      | Total               |
|---|----------------------|----------------------------------|------------------|--------------------|-----------------------|----------------------|-------------------------------|-----------------------------|---------------------|---------------------|
| <b>Revenues</b>                             |                      |                                  |                  |                    |                       |                      |                               |                             |                     |                     |
| Rental Income                               | \$ 341,387           | \$ 73,236                        | \$ 330,748       | \$ 216,294         | \$ 43,923             | \$ 223,212           | \$ 232,870                    | \$ 722,682                  | \$ 3,352,710        | \$ 5,537,062        |
| Laundry and<br>Sundry Income                | 4,200                |                                  | 657              |                    |                       |                      | (2)                           | 9,692                       | 23,213              | 37,761              |
|   | 345,587              | 73,236                           | 331,406          | 216,294            | 43,923                | 223,212              | 232,869                       | 732,375                     | 3,375,923           | 5,574,823           |
| <b>Expenses</b>                             |                      |                                  |                  |                    |                       |                      |                               |                             |                     |                     |
| Administrative                              | 13,963               | 513                              | 13,038           | 2,193              | 1,969                 | 5,732                | 2,440                         | 21,277                      | 62,450              | 123,574             |
| Depreciation and<br>Amortization            | 108,267              | 2,823                            | 100,379          | 60,167             | 19,175                | 79,383               | 79,852                        | 237,117                     | 1,348,640           | 2,035,802           |
| Management Fees                             | 15,829               | 2,929                            | 14,839           | 9,412              | 1,891                 | 9,140                | 9,643                         | 29,557                      | 76,544              | 169,784             |
| Operating                                   | 23,995               |                                  | 7,770            | 193                | 355                   | 580                  | 11,248                        | 64,310                      | 248,068             | 356,520             |
| Renting                                     | 10,850               |                                  | 180              | 624                |                       | 1,550                | 3,623                         | 11,268                      | 38,946              | 67,040              |
| Repairs and<br>Maintenance                  | 41,549               | 3,150                            | 18,595           | 84,068             | 23,827                | 70,304               | 21,547                        | 99,885                      | 317,690             | 680,615             |
| Taxes and<br>Insurance                      | 58,712               | 14,070                           | 28,555           | 40,771             | 10,768                | 41,247               | 29,664                        | 95,947                      | 376,140             | 695,874             |
|   | 273,165              | 23,485                           | 183,356          | 197,427            | 57,984                | 207,936              | 158,017                       | 559,361                     | 2,468,477           | 4,129,208           |
| <b>Income Before<br/>Other Income</b>       | 72,422               | 49,751                           | 148,049          | 18,867             | (14,061)              | 15,276               | 74,852                        | 173,013                     | 907,445             | 1,445,615           |
| <b>Other Income<br/>(Loss)</b>              |                      |                                  |                  |                    |                       |                      |                               |                             |                     |                     |
| Interest Expense                            | (120,829)            | (13,977)                         | (97,821)         | (70,070)           | (205)                 | (65,868)             | (77,061)                      | (201,634)                   | (1,237,262)         | (1,884,727)         |
| Interest Income                             |                      |                                  |                  | 5                  |                       |                      |                               |                             |                     | 5                   |
| Interest Income<br>from Note                |                      |                                  |                  |                    | 135                   |                      |                               |                             |                     | 135                 |
| Gain on Sale of<br>Real Estate              |                      |                                  |                  |                    | 248,239               |                      |                               |                             |                     | 248,239             |
|   | (120,829)            | (13,977)                         | (97,821)         | (70,065)           | 248,169               | (65,868)             | (77,061)                      | (201,634)                   | (1,237,262)         | (1,636,348)         |
| <b>Net Income<br/>(Loss)</b>                | <b>\$ (48,407)</b>   | <b>\$ 35,774</b>                 | <b>\$ 50,228</b> | <b>\$ (51,198)</b> | <b>\$ 234,108</b>     | <b>\$ (50,592)</b>   | <b>\$ (2,209)</b>             | <b>\$ (28,621)</b>          | <b>\$ (329,817)</b> | <b>\$ (190,733)</b> |
| <b>Net Income<br/>(Loss) - NERA<br/>50%</b> | <b>\$ (24,203)</b>   | <b>\$ 17,887</b>                 | <b>\$ 25,114</b> | <b>\$ (25,598)</b> | <b>\$ 117,054</b>     | <b>\$ (25,296)</b>   | <b>\$ (1,104)</b>             | <b>\$ (14,310)</b>          |                     | <b>69,545</b>       |
| <b>Net Income<br/>(Loss) - NERA<br/>40%</b> |                      |                                  |                  |                    |                       |                      |                               |                             | <b>\$ (131,927)</b> | <b>(131,927)</b>    |
|   |                      |                                  |                  |                    |                       |                      |                               |                             | <b>\$ (62,382)</b>  |                     |

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Future annual mortgage maturities at June 30, 2014 are as follows:

| Period End | Hamilon<br>Essex 81 | Hamilton<br>Essex 81<br>Development | 345<br>Franklin | Hamilton<br>1025 | Hamilton<br>Bay Apts | Hamilton<br>Minuteman | Hamilton on<br>Main Apts | Dexter<br>Park | Total          |
|------------|---------------------|-------------------------------------|-----------------|------------------|----------------------|-----------------------|--------------------------|----------------|----------------|
| 6/30/2015  | 133,411             | 53,316                              |                 | 70,660           | 75,940               | 77,390                | 15,188,407               | 1,571,909      | 17,171,033     |
| 6/30/2016  | 144,484             | 1,961,172                           |                 | 80,814           | 76,024               | 81,127                |                          | 1,459,214      | 3,802,835      |
| 6/30/2017  | 7,893,152           |                                     | 177,340         | 4,689,009        | 4,454,353            | 5,171,718             |                          | 1,542,599      | 23,928,170     |
| 6/30/2018  |                     |                                     | 187,209         |                  |                      |                       |                          | 1,630,749      | 1,817,958      |
| 6/30/2019  |                     |                                     | 194,584         |                  |                      |                       |                          | 1,723,938      | 1,918,522      |
| Thereafter |                     |                                     | 9,440,867       |                  |                      |                       |                          | 78,946,875     | 88,387,742     |
|            | \$ 8,171,048        | \$ 2,014,488                        | \$ 10,000,000   | \$ 4,840,484     | \$ 4,606,316         | \$ 5,330,234          | \$ 15,188,407            | \$ 86,875,284  | \$ 137,026,261 |

At June 30, 2014 the weighted average interest rate on the above mortgages was 5.38%. The effective rate was 5.46% including the amortization expense of deferred financing costs.

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Summary financial information as of June 30, 2013

|  | Hamilton<br>Essex 81 | Hamilton<br>Essex<br>Development | 345<br>Franklin       | Hamilton<br>1025    | Hamilton<br>Bay Sales | Hamilton<br>Bay Apts | Hamilton<br>Minuteman<br>Apts | Hamilton<br>on Main<br>Apts | Dexter<br>Park        |
|--|----------------------|----------------------------------|-----------------------|---------------------|-----------------------|----------------------|-------------------------------|-----------------------------|-----------------------|
| <b>ASSETS</b>  |                      |                                  |                       |                     |                       |                      |                               |                             |                       |
| Rental Properties  | \$ 8,947,591         | \$ 2,616,965                     | \$ 7,686,993          | \$ 5,505,467        | \$ 1,805,125          | \$ 6,827,232         | \$ 6,919,386                  | \$ 20,659,589               | \$ 104,817,498        |
| Cash & Cash<br>Equivalents   | 3,147                | 29,108                           | 231,329               | 9,023               | 23,732                | 10,077               | 25,303                        | 174,000                     | 659,245               |
| Rent Receivable  | 51,079               |                                  | 8,863                 | 6,873               | 4,061                 | 4,886                | 9,599                         | 10,729                      | 104,164               |
| Real Estate Tax<br>Escrow  | 83,964               |                                  | 23,711                | 74,507              |                       | 53,440               | 34,783                        | 68,934                      | 420,641               |
| Prepaid Expenses &<br>Other Assets   | 75,717               | 1,153                            | 27,615                | 42,202              | 123,516               | 24,192               | 51,529                        | 228,073                     | 1,464,682             |
| Financing & Leasing<br>Fees  | 55,373               | 1,081                            | 99,877                | 17,132              | 4,000                 | 23,062               | 13,965                        | 11,150                      | 370,020               |
| <b>Total Assets</b>  | <b>\$ 9,216,871</b>  | <b>\$ 2,648,307</b>              | <b>\$ 8,078,388</b>   | <b>\$ 5,655,204</b> | <b>\$ 1,960,434</b>   | <b>\$ 6,942,889</b>  | <b>\$ 7,054,565</b>           | <b>\$ 21,152,475</b>        | <b>\$ 107,836,250</b> |
| <b>LIABILITIES<br/>AND PARTNERS<br/>CAPITAL</b>  |                      |                                  |                       |                     |                       |                      |                               |                             |                       |
| Mortgage Notes<br>Payable  | \$ 8,292,287         | \$ 2,067,378                     | \$ 10,000,000         | \$ 4,901,467        | \$ 1,668,000          | \$ 4,670,319         | \$ 5,397,023                  | \$ 15,462,916               | \$ 87,999,131         |
| Accounts Payable &<br>Accrued Expense  | 50,228               | 5,461                            | 19,140                | 51,107              | 18,669                | 8,192                | 71,192                        | 196,455                     | 1,019,021             |
| Advance Rental<br>Pmts & Security<br>Deposits  | 176,827              |                                  | 175,850               | 93,473              | 29,033                | 96,673               | 66,703                        | 321,725                     | 2,059,401             |
| <b>Total Liabilities</b>   | <b>8,519,342</b>     | <b>2,072,839</b>                 | <b>10,194,990</b>     | <b>5,046,047</b>    | <b>1,715,702</b>      | <b>4,775,184</b>     | <b>5,534,918</b>              | <b>15,981,096</b>           | <b>91,077,553</b>     |
| Partners Capital   | 697,529              | 575,469                          | (2,116,602)           | 609,157             | 244,732               | 2,167,705            | 1,519,647                     | 5,171,379                   | 16,758,697            |
| <b>Total Liabilities<br/>and Capital</b>   | <b>\$ 9,216,871</b>  | <b>\$ 2,648,307</b>              | <b>\$ 8,078,388</b>   | <b>\$ 5,655,204</b> | <b>\$ 1,960,434</b>   | <b>\$ 6,942,889</b>  | <b>\$ 7,054,565</b>           | <b>\$ 21,152,475</b>        | <b>\$ 107,836,250</b> |
| <b>Partners Capital %</b>  |                      |                                  |                       |                     |                       |                      |                               |                             |                       |
| - NERA   | 50%                  | 50%                              | 50%                   | 50%                 | 50%                   | 50%                  | 50%                           | 50%                         | 40%                   |
| <b>Investment in<br/>Unconsolidated<br/>Joint Ventures</b>   | <b>\$ 348,764</b>    | <b>\$ 287,734</b>                | <b>\$</b>             | <b>\$ 304,578</b>   | <b>\$ 122,366</b>     | <b>\$ 1,083,852</b>  | <b>\$ 759,824</b>             | <b>\$ 2,585,689</b>         | <b>\$ 6,703,479</b>   |
| <b>Distribution and<br/>Loss in Excess of<br/>investments in<br/>Unconsolidated<br/>Joint Ventures</b> | <b>\$</b>            | <b>\$</b>                        | <b>\$ (1,058,301)</b> | <b>\$</b>           | <b>\$</b>             | <b>\$</b>            | <b>\$</b>                     | <b>\$</b>                   | <b>\$</b>             |
| <b>Total Investment in<br/>Unconsolidated<br/>Joint Ventures<br/>(Net)</b>                             |                      |                                  |                       |                     |                       |                      |                               |                             |                       |
| Total<br>units/condominiums  |                      |                                  |                       |                     |                       |                      |                               |                             |                       |
| Apartments   | 48                   |                                  | 40                    | 175                 | 120                   | 48                   | 42                            | 148                         | 409                   |
| Commercial   | 1                    | 1                                |                       | 1                   |                       |                      |                               |                             |                       |
| Total  | 49                   | 1                                | 40                    | 176                 | 120                   | 48                   | 42                            | 148                         | 409                   |
| Units to be retained   | 49                   | 1                                | 40                    | 49                  |                       | 48                   | 42                            | 148                         | 409                   |

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|   |     |     |
|---|-----|-----|
| Units to be sold  | 127 | 120 |
| Units sold through<br>August 1, 2013                                      | 127 | 105 |
| Unsold units  |     | 15  |
| Unsold units with<br>deposits for future<br>sale as of August 1 ,<br>2013 |     |     |



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Financial information for the six months ended June 30, 2013

|   | Hamilton<br>Essex 81 | Hamilton<br>Essex<br>Development | 345<br>Franklin     | Hamilton<br>1025   | Hamilton<br>Bay Sales | Hamilton<br>Bay Apts | Hamilton<br>Minuteman<br>Apts | Hamilton<br>on Main<br>Apts | Dexter<br>Park        | Total                 |
|---|----------------------|----------------------------------|---------------------|--------------------|-----------------------|----------------------|-------------------------------|-----------------------------|-----------------------|-----------------------|
| <b>Revenues</b>                             |                      |                                  |                     |                    |                       |                      |                               |                             |                       |                       |
| Rental Income                               | \$ 663,919           | \$ 143,792                       | \$ 616,034          | \$ 441,883         | \$ 121,472            | \$ 441,443           | \$ 432,789                    | \$ 1,353,188                | \$ 6,331,670          | \$ 10,546,190         |
| Laundry and<br>Sundry Income                | 8,997                |                                  | 1,933               |                    |                       |                      | 675                           | 17,281                      | 46,429                | 75,315                |
|   | 672,916              | 143,792                          | 617,967             | 441,883            | 121,472               | 441,443              | 433,464                       | 1,370,469                   | 6,378,099             | 10,621,505            |
| <b>Expenses</b>                             |                      |                                  |                     |                    |                       |                      |                               |                             |                       |                       |
| Administrative                              | 9,928                | 703                              | 14,431              | 3,805              | 3,586                 | 7,551                | 2,465                         | 18,408                      | 113,724               | 174,601               |
| Depreciation and<br>Amortization            | 212,066              | 4,488                            | 215,739             | 120,215            | 41,098                | 153,638              | 157,933                       | 488,767                     | 2,878,479             | 4,272,423             |
| Management<br>Fees                          | 26,015               | 5,752                            | 25,782              | 18,186             | 4,987                 | 17,887               | 17,076                        | 57,339                      | 133,507               | 306,531               |
| Operating                                   | 63,549               |                                  | 40,044              | 712                | 1,962                 | 617                  | 41,947                        | 191,181                     | 564,660               | 904,672               |
| Renting                                     | 9,550                |                                  | 1,788               | 3,925              | 1,425                 | 7,250                | 4,042                         | 3,305                       | 26,654                | 57,939                |
| Repairs and<br>Maintenance                  | 64,094               | 3,700                            | 38,179              | 157,409            | 45,986                | 147,694              | 25,537                        | 165,706                     | 454,017               | 1,102,322             |
| Taxes and<br>Insurance                      | 111,759              | 24,407                           | 56,255              | 77,131             | 20,619                | 71,147               | 61,948                        | 169,290                     | 742,955               | 1,335,511             |
|   | 496,961              | 39,050                           | 392,218             | 381,383            | 119,663               | 405,784              | 310,948                       | 1,093,996                   | 4,913,996             | 8,153,999             |
| <b>Income Before<br/>Other Income</b>       | 175,955              | 104,742                          | 225,749             | 60,500             | 1,809                 | 35,659               | 122,516                       | 276,473                     | 1,464,103             | 2,467,506             |
| <b>Other Income<br/>(Loss)</b>              |                      |                                  |                     |                    |                       |                      |                               |                             |                       |                       |
| Interest Expense                            | (243,202)            | (29,266)                         | (257,547)           | (141,481)          | (48,689)              | (132,973)            | (155,538)                     | (409,587)                   | (2,495,453)           | (3,913,736)           |
| Interest Income                             |                      |                                  | 30                  | 2                  | 86                    |                      |                               |                             | 57                    | 175                   |
| Interest Income<br>from Note                |                      |                                  |                     |                    | 2,007                 |                      |                               |                             |                       | 2,007                 |
| Other Income<br>(Expenses)                  |                      |                                  | (68,588)            |                    |                       |                      |                               |                             |                       | (68,588)              |
|   | (243,202)            | (29,266)                         | (326,105)           | (141,479)          | (46,596)              | (132,973)            | (155,538)                     | (409,587)                   | (2,495,396)           | (3,980,142)           |
| <b>Net Income<br/>(Loss)</b>                | <b>\$ (67,247)</b>   | <b>\$ 75,476</b>                 | <b>\$ (100,356)</b> | <b>\$ (80,979)</b> | <b>\$ (44,787)</b>    | <b>\$ (97,314)</b>   | <b>\$ (33,022)</b>            | <b>\$ (133,114)</b>         | <b>\$ (1,031,293)</b> | <b>\$ (1,512,636)</b> |
| <b>Net Income<br/>(Loss) - NERA<br/>50%</b> | <b>\$ (33,624)</b>   | <b>\$ 37,738</b>                 | <b>\$ (50,178)</b>  | <b>\$ (40,490)</b> | <b>\$ (22,394)</b>    | <b>\$ (48,657)</b>   | <b>\$ (16,511)</b>            | <b>\$ (66,557)</b>          |                       | <b>(240,672)</b>      |
| <b>Net Income<br/>(Loss) - NERA<br/>40%</b> |                      |                                  |                     |                    |                       |                      |                               |                             | <b>\$ (412,517)</b>   | <b>(412,517)</b>      |
|   |                      |                                  |                     |                    |                       |                      |                               |                             | <b>\$ (653,189)</b>   |                       |

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Financial information for the three months ended June 30, 2013

|   | Hamilton<br>Essex 81 | Hamilton<br>Essex<br>Development | 345<br>Franklin    | Hamilton<br>1025   | Hamilton<br>Bay Sales | Hamilton<br>Bay Apts | Hamilton<br>Minuteman<br>Apts | Hamilton<br>on Main<br>Apts | Dexter<br>Park      | Total               |
|---|----------------------|----------------------------------|--------------------|--------------------|-----------------------|----------------------|-------------------------------|-----------------------------|---------------------|---------------------|
| <b>Revenues</b>                             |                      |                                  |                    |                    |                       |                      |                               |                             |                     |                     |
| Rental Income                               | \$ 335,464           | \$ 71,896                        | \$ 311,745         | \$ 221,666         | \$ 61,864             | \$ 222,162           | \$ 216,932                    | \$ 676,242                  | \$ 3,171,661        | \$ 5,289,632        |
| Laundry and<br>Sundry Income                | 5,151                |                                  | 1,288              |                    |                       |                      | 464                           | 7,510                       | 24,997              | 39,410              |
|   | 340,615              | 71,896                           | 313,033            | 221,666            | 61,864                | 222,162              | 217,396                       | 683,752                     | 3,196,658           | 5,329,042           |
| <b>Expenses</b>                             |                      |                                  |                    |                    |                       |                      |                               |                             |                     |                     |
| Administrative                              | 6,074                | 386                              | 8,699              | 2,124              | 2,813                 | 3,669                | 2,042                         | 9,769                       | 66,845              | 102,421             |
| Depreciation and<br>Amortization            | 106,494              | 2,245                            | 110,055            | 60,128             | 20,035                | 76,840               | 79,225                        | 244,233                     | 1,440,022           | 2,139,277           |
| Management Fees                             | 13,762               | 2,876                            | 12,707             | 9,227              | 2,649                 | 9,422                | 8,538                         | 28,298                      | 68,497              | 155,976             |
| Operating                                   | 28,483               |                                  | 14,190             | 452                | 382                   | 195                  | 18,737                        | 77,185                      | 235,835             | 375,459             |
| Renting                                     | 200                  |                                  | 23                 | 3,220              | 1,425                 | 6,845                | 1,703                         | 1,994                       | 15,098              | 30,508              |
| Repairs and<br>Maintenance                  | 41,851               | 3,150                            | 24,593             | 81,300             | 23,216                | 72,781               | 15,442                        | 79,801                      | 272,433             | 614,567             |
| Taxes and<br>Insurance                      | 55,878               | 12,209                           | 28,069             | 38,381             | 10,389                | 35,468               | 31,082                        | 84,473                      | 346,742             | 642,691             |
|   | 252,742              | 20,866                           | 198,336            | 194,832            | 60,909                | 205,220              | 156,769                       | 525,753                     | 2,445,472           | 4,060,899           |
| <b>Income Before<br/>Other Income</b>       | 87,873               | 51,030                           | 114,697            | 26,834             | 955                   | 16,942               | 60,627                        | 157,999                     | 751,186             | 1,268,143           |
| <b>Other Income<br/>(Loss)</b>              |                      |                                  |                    |                    |                       |                      |                               |                             |                     |                     |
| Interest Expense                            | (122,047)            | (14,668)                         | (138,605)          | (70,998)           | (24,507)              | (66,707)             | (78,076)                      | (205,633)                   | (1,252,195)         | (1,973,436)         |
| Interest Income                             |                      |                                  | 15                 | 2                  | 41                    |                      |                               |                             | 57                  | 115                 |
| Interest Income<br>from Note                |                      |                                  |                    |                    | 911                   |                      |                               |                             |                     | 911                 |
| Other Income<br>(Expenses)                  |                      |                                  | (68,588)           |                    |                       |                      |                               |                             |                     | (68,588)            |
|   | (122,047)            | (14,668)                         | (207,178)          | (70,996)           | (23,555)              | (66,707)             | (78,076)                      | (205,633)                   | (1,252,138)         | (2,040,998)         |
| <b>Net Income<br/>(Loss)</b>                | <b>\$ (34,174)</b>   | <b>\$ 36,362</b>                 | <b>\$ (92,481)</b> | <b>\$ (44,162)</b> | <b>\$ (22,600)</b>    | <b>\$ (49,765)</b>   | <b>\$ (17,449)</b>            | <b>\$ (47,634)</b>          | <b>\$ (500,952)</b> | <b>\$ (772,855)</b> |
| <b>Net Income<br/>(Loss) - NERA<br/>50%</b> | <b>\$ (17,087)</b>   | <b>\$ 18,181</b>                 | <b>\$ (46,241)</b> | <b>\$ (22,081)</b> | <b>\$ (11,300)</b>    | <b>\$ (24,883)</b>   | <b>\$ (8,725)</b>             | <b>\$ (23,817)</b>          |                     | <b>(135,952)</b>    |
| <b>Net Income<br/>(Loss) - NERA<br/>40%</b> |                      |                                  |                    |                    |                       |                      |                               |                             | <b>\$ (200,381)</b> | <b>(200,381)</b>    |
|   |                      |                                  |                    |                    |                       |                      |                               |                             |                     | <b>\$ (336,332)</b> |

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In April 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This update changes the criteria for reporting a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. Only disposals representing a strategic shift in operations should be presented as discontinued operations. This accounting standard update is effective for annual filings beginning on or after December 15, 2014. Early adoption is permitted. The impact of the adoption of ASU 2014-08 on the Partnership's results of operations, financial position, cash flows and disclosures will be based on the Partnership's future disposal activity.

**NOTE 16. DISCONTINUED OPERATIONS AND SALES OF REAL ESTATE**

The following tables summarize income from discontinued operations and the related realized gain on sale of rental property for the six months ended June 30, 2014 and 2013:

|                                     | 2014 | 2013       |
|-------------------------------------|------|------------|
| Total Revenues                      | \$   | \$ 193,274 |
| Operating and other expenses        |      | 171,290    |
| Depreciation and amortization       |      | 2,111      |
|                                     |      | 173,401    |
| Income from discontinued operations | \$   | \$ 19,873  |

**NOTE 17 SUBSEQUENT EVENTS****Depository Receipts**

From July 1, 2014 through August 5, 2014, the Partnership purchased a total of 5,049 Depository Receipts. The average price was \$48.81 per receipt or \$1,464.30 per unit. The total cost was \$253,274. The Partnership is required to repurchase 40.0 Class B Units and 2.1 General Partnership Units at a cost of \$58,532 and \$3,081 respectively.

**Refinancing**

On July 11, 2014, the Partnership refinanced the property owned by Westgate Apartments Burlington, LLC. The new mortgage is \$2,500,000; the interest rate is 4.31%; interest only, payable in 10 years. Approximately \$2,010,000 of loan proceeds were used to pay off the existing mortgage. The balance of the funds is approximately \$435,000 after closing costs. The costs associated with the refinancing were approximately \$90,000.

**Line of Credit**

On July 31, 2014, the Partnership entered into an agreement for a \$25,000,000 revolving line of credit. The term of the line is three years with a floating interest rate equal to a base rate of the greater of (a) the Prime Rate (b) the Federal Funds Rate plus one-half of one percent per annum, or (c) the LIBOR Rate for a period of one month plus 1% per annum, plus an applicable margin of 2.5% to 3.5%. As of August 5, 2014, no funds have been drawn on this credit line.

The line of credit may be used for acquisition, refinancing, improvements, working capital and other needs of the Partnership. The line may not be used to pay dividends, make distributions or acquire equity interests of the Partnership.

The line of credit is collateralized by varying percentages of the Partnership's ownership interest in 23 of its subsidiary properties and joint ventures. Pledged interests range from 49% to 100% of the Partnership's ownership interest in the respective entities.

The Partnership paid fees to secure the line of credit. Any unused balance of the line of credit is subject to a fee ranging from 15 to 20 basis points per annum.

The line of credit agreement contains several covenants including, but not limited to, providing cash flow projections and compliance certificates, as well as other financial information. Additional covenants include certain restrictions on additional encumbrances of Partnership assets, limitations on debt, maintenance of leverage ratios, minimum tangible net worth, limitations on total aggregate indebtedness, minimum ratio of net operating income to total indebtedness debt service, disposition of properties, and other items.

See Form 8-K filed on August 6, 2014 for additional information.

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

**Forward Looking Statements**

Certain information contained herein includes forward looking statements, which are made pursuant to the safe harbor provisions of the Private Securities Liquidation Reform Act of 1995 (the "Act"). Forward looking statements in this report, or which management may make orally or in written form from time to time, reflect management's good faith belief when those statements are made, and are based on information currently available to management. Caution should be exercised in interpreting and relying on such forward looking statements, the realization of which may be impacted by known and unknown risks and uncertainties, events that may occur subsequent to the forward looking statements, and other factors which may be beyond the Partnership's control and which can materially affect the Partnership's actual results, performance or achievements for 2014 and beyond. Should one or more of the risks or uncertainties mentioned below materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. We expressly disclaim any responsibility to update our forward looking statements, whether as a result of new information, future events or otherwise. Accordingly, investors should use caution in relying on past forward looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

Since the Partnership's long-term goals include the acquisition of additional properties, a portion of the proceeds from the refinancing and sale of properties is reserved for this purpose. If available acquisitions do not meet the Partnership's investment criteria, the Partnership may purchase additional depository receipts. The Partnership will consider refinancing existing properties if the Partnership's cash reserves are insufficient to repay existing mortgages or if the Partnership needs additional funds for future acquisitions.

As anticipated, the Partnership's occupancy levels for the six months ended June 30, 2014 were on par with the first six months of 2013. For the coming quarters, Management expects both the urban and suburban portfolio occupancy levels to exceed last year's levels. Revenue gains adopted last year in September continue to reveal themselves in the operating statement. Based upon current leasing activity, Management expects continued revenue gains for the balance of the calendar year for the entire portfolio. Local employment gains coupled with the portfolio's curb appeal and locations combine for improving top line gains for 2014 and 2015. Increases in same store revenue were 6.2% and same store operating expenses were up 2.4% resulting in a 9.5% increase in same store Net Operating Income (NOI - income less operating expenses excluding depreciation). Rising real estate taxes, insurance and utility costs made up for the majority of the operating cost increases.

The Partnership has successfully closed on its two scheduled refinancings for 2014. Hamilton on Main, one of the unconsolidated joint ventures, will be refinanced in the fourth quarter. With the current terms committed, the expected total additional funds raised by the partnership will be over \$2 million. However, interest expense will decline by approximately \$84,000. Coupled with the 10 years of no principal amortization, the net cash flow will improve by over \$350,000 annually or \$3,500,000 for the next 10 years.

Since the first of the year Management has used existing cash reserves to purchase 15,931 Depository Receipts and anticipates a steady purchase of receipts, per its trading plan, for the balance of the year.

On July 31, 2014, the Partnership executed a \$25 million line of credit. The credit line has a three year term and can be used for acquisitions, capital improvements and to retire debt. The credit line is subject to certain covenants. ( See Note 17 - Subsequent Events to the consolidated

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financial statements). As of August 5, 2014 no funds have been drawn from this credit line. Management believes that the credit line and the Partnership's cash reserves put the Partnership in position to capitalize on investment opportunities should they reveal themselves in the near future.

In February 2014, the Partnership paid off the mortgages on Linewt in the amount of approximately \$1,466,000 and Linhart in the amount of approximately \$1,926,000. There were no prepayment penalties. The Partnership's cash reserves were used to pay off these mortgages.

On June 11, 2014, the Partnership refinanced the property owned by NERA Dean Street Associates, LLC. The new mortgage is \$5,687,000; the interest rate is 4.22%, interest only payable in 10 years. Approximately \$5,077,000 of the loan proceeds were used to pay off the existing mortgage. The mortgage matures in June 2024. The costs associated with the refinancing were approximately \$99,000.

The Stock Repurchase Program that was initiated in 2007 has purchased 1,258,822 Depositary Receipts through June 30, 2014 or 30% of the outstanding Class A Depositary Receipts. During the second quarter, the Partnership repurchased 9,418 Class A Depositary Receipts, 75 Class B units, and 4 General Partnership Units at a cost of approximately

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\$452,000, \$105,000 and \$5,500 respectively for a total cost of \$562,500. This purchase of receipts is in line with the Partnership's trading plan.

At August 1, 2014, Harold Brown, his brother Ronald Brown and the President of Hamilton, Carl Valeri, collectively own approximately 40% of the Depositary Receipts representing the Partnership Class A Units (including Depositary Receipts held by trusts for the benefit of such persons family members). Harold Brown also controls 75% of the Partnership's Class B Units, 75% of the capital stock of NewReal, Inc. (NewReal), the Partnership's sole general partner, and all of the outstanding stock of Hamilton. Ronald Brown also owns 25% of the Partnership's Class B Units and 25% of NewReal's capital stock. In addition, Ronald Brown is the President and director of NewReal and Harold Brown is NewReal's Treasurer and a director. The 75% of the issued and outstanding Class B units of the Partnership, controlled by Harold Brown, are owned by HBC Holdings LLC, an entity of which he is the manager.

In addition to the Management Fee, the Partnership Agreement further provides for the employment of outside professionals to provide services to the Partnership and allows NewReal to charge the Partnership for the cost of employing professionals to assist with the administration of the Partnership's properties. Additionally, from time to time, the Partnership pays Hamilton for repairs and maintenance services, legal services, construction services and accounting services. The costs charged by Hamilton for these services are at the same hourly rate charged to all entities managed by Hamilton, and management believes such rates are competitive in the marketplace.

Residential tenants sign a one year lease. During the six months ended June 30, 2014, tenant renewals were approximately 66% with an average rental increase of approximately 4.3%, new leases accounted for approximately 34% with rental rate increases of approximately 7.2%. During the six months ended June 30, 2014, leasing commissions were approximately \$73,000 compared to approximately \$22,000 for the six months ended June 30, 2013, an increase of approximately \$51,000 (231.8%) from 2013. Tenant concessions were approximately \$14,000 in for the six months ended June 30, 2014, compared to approximately \$19,000 for the six months ended June 30, 2013, a decrease of approximately \$5,000 (27.0%). Tenant improvements were approximately \$1,029,000 for the six months ended June 30, 2014, compared to approximately \$826,000 for the six months ended June 30, 2013, an increase of approximately \$203,000 (24.6%).

Hamilton accounted for approximately 5.3% of the repair and maintenance expense paid for by the Partnership during the six months ended June 30, 2014 and 6.0% during the six months ended June 30, 2013. Of the funds paid to Hamilton for this purpose, the great majority was to cover the cost of services provided by the Hamilton maintenance department, including plumbing, electrical, carpentry services, and snow removal for those properties close to Hamilton's headquarters. Several of the larger Partnership properties have their own maintenance staff. Those properties that do not have their own maintenance staff and are located more than a reasonable distance from Hamilton's headquarters in Allston, Massachusetts are generally serviced by local, independent companies.

Hamilton's legal department handles most of the Partnership's eviction and collection matters. Additionally, it prepares most long-term commercial lease agreements and represents the Partnership in selected purchase and sale transactions. Overall, Hamilton provided approximately \$99,000 (79.0%) and approximately \$106,000 (74.6%) of the legal services paid for by the Partnership during the six months ended June 30, 2014 and 2013, respectively.

Additionally, as described in Note 3 to the consolidated financial statements, The Hamilton Company receives similar fees from the Investment Properties.

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The Partnership requires that three bids be obtained for construction contracts in excess of \$15,000. Hamilton may be one of the three bidders on a particular project and may be awarded the contract if its bid and its ability to successfully complete the project are deemed appropriate. For contracts that are not awarded to Hamilton, Hamilton charges the Partnership a construction supervision fee equal to 5% of the contract amount. Hamilton's architectural department also provides services to the Partnership on an as-needed basis. During the six months ended June 30, 2014, Hamilton provided the Partnership approximately \$43,000 in construction and architectural services, compared to approximately \$34,000 for the six months ended June 30, 2013.

Hamilton's accounting staff perform bookkeeping and accounting functions for the Partnership. During the six months ended June 30, 2014, Hamilton charged the Partnership \$62,500 for bookkeeping and accounting services. For more information on related party transactions, see Note 3 to the Consolidated Financial Statements.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of the consolidated financial statements, in accordance with accounting principles generally accepted in the United States of America, requires the Partnership to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. The Partnership regularly and continually evaluates its estimates, including those related to acquiring, developing and assessing



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the carrying values of its real estate properties and its investments in and advances to joint ventures. The Partnership bases its estimates on historical experience, current market conditions, and on various other assumptions that are believed to be reasonable under the circumstances. However, because future events and their effects cannot be determined with certainty, the determination of estimates requires the exercise of judgment. The Partnership's critical accounting policies are those which require assumptions to be made about such matters that are highly uncertain. Different estimates could have a material effect on the Partnership's financial results. Judgments and uncertainties affecting the application of these policies and estimates may result in materially different amounts being reported under different conditions and circumstances. See Note 1 to the Consolidated Financial Statements, Principles of Consolidation.

*Revenue Recognition:* Rental income from residential and commercial properties is recognized over the term of the related lease. For residential tenants, amounts 60 days in arrears are charged against income. The commercial tenants are evaluated on a case by case basis. Certain leases of the commercial properties provide for increasing stepped minimum rents, which are accounted for on a straight-line basis over the term of the lease. Concessions made on residential leases are also accounted for on the straight-line basis.

*Discontinued Operations and Rental Property Held for Sale:* When significant assets are identified by management as held for sale, the Partnership discontinues depreciating the assets and estimates the sales price, net of selling costs, of such assets. If, in management's opinion, the net sales price of the assets which have been identified as held for sale is less than the net book value of the assets, a valuation allowance is established. Properties identified as held for sale and/or sold are presented in discontinued operations for all periods presented.

If circumstances arise that previously were considered unlikely and, as a result, the Partnership decides not to sell a property previously classified as held for sale, the property is reclassified as held and used. A property that is reclassified is measured and recorded individually at the lower of (a) its carrying amount before the property was classified as held for sale, adjusted for any depreciation (amortization) expense that would have been recognized had the property been continuously classified as held and used, or (b) the fair value at the date of the subsequent decision not to sell.

*Rental Properties:* Rental properties are stated at cost less accumulated depreciation. Maintenance and repairs are charged to expense as incurred; improvements and additions are capitalized. When assets are retired or otherwise disposed of, the cost of the asset and related accumulated depreciation is eliminated from the accounts, and any gain or loss on such disposition is included in income. Fully depreciated assets are removed from the accounts. Rental properties are depreciated by both straight-line and accelerated methods over their estimated useful lives. Upon acquisition of rental property, the Partnership estimates the fair value of acquired tangible assets, consisting of land, building and improvements, and identified intangible assets and liabilities assumed, generally consisting of the fair value of (i) above and below market leases, (ii) in-place leases and (iii) tenant relationships. The Partnership allocated the purchase price to the assets acquired and liabilities assumed based on their fair values. The Partnership records goodwill or a gain on bargain purchase (if any) if the net assets acquired/liabilities assumed exceed the purchase consideration of a transaction. In estimating the fair value of the tangible and intangible assets acquired, the Partnership considers information obtained about each property as a result of its due diligence and marketing and leasing activities, and utilizes various valuation methods, such as estimated cash flow projections utilizing appropriate discount and capitalization rates, estimates of replacement costs net of depreciation, and available market information. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant.

Intangible assets acquired include amounts for in-place lease values above and below market leases and tenant relationship values, which are based on management's evaluation of the specific characteristics of each tenant's lease and the Partnership's overall relationship with the respective tenant. Factors to be considered by management in its analysis of in-place lease values include an estimate of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases at market rates during the expected lease-up periods, depending on local market conditions. In estimating costs to execute similar leases, management considers leasing commissions, legal and other related expenses. Characteristics considered by management in valuing tenant relationships include the nature and

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extent of the Partnership's existing business relationships with the tenant, growth prospects for developing new business with the tenant, the tenant's credit quality and expectations of lease renewals. The value of in-place leases are amortized to expense over the remaining initial terms of the respective leases. The value of tenant relationship intangibles are amortized to expense over the anticipated life of the relationships.

In the event that facts and circumstances indicate that the carrying value of a rental property may be impaired, an analysis of the value is prepared. The estimated future undiscounted cash flows are compared to the asset's carrying value to determine if a write-down to fair value is required.

*Impairment:* On an annual basis management assesses whether there are any indicators that the value of the Partnership's rental properties may be impaired. A property's value is impaired only if management's estimate of the aggregate future cash flows (undiscounted and without interest charges) to be generated by the property is less than the carrying value of the property. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying

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amount of the property over the fair value of the property. The Partnership's estimates of aggregate future cash flows expected to be generated by each property are based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for space, competition for tenants, changes in market rental rates, and costs to operate each property. As these factors are difficult to predict and are subject to future events that may alter management's assumptions, the future cash flows estimated by management in its impairment analyses may not be achieved. The Partnership has not recognized an impairment loss during the first six months of 2014.

*Investments in Joint Ventures:* The Partnership accounts for its investments in joint ventures using the equity method of accounting. These investments are recorded initially at cost, as Investments in Unconsolidated Joint Ventures, and subsequently adjusted for equity in earnings and cash contributions and distributions. Generally, the Partnership would discontinue applying the equity method when the investment (and any advances) is reduced to zero and would not provide for additional losses unless the Partnership has guaranteed obligations of the venture or is otherwise committed to providing further financial support for the investee. If the venture subsequently generates income, the Partnership only recognizes its share of such income to the extent it exceeds its share of previously unrecognized losses. In 2013, the carrying value of an investment fell below zero. We intend to fund our share of the investments' future operating deficits should the need arise. However, we have no legal obligation to pay for any of the liabilities of such investments nor do we have any legal obligation to fund operating deficits. (See Note 14: Investment in Unconsolidated Joint Ventures.)

The authoritative guidance on consolidation provides guidance on the identification of entities for which control is achieved through means other than voting rights (variable interest entities or VIEs) and the determination of which business enterprise, if any, should consolidate the VIE (the primary beneficiary). Generally, the consideration of whether an entity is a VIE applies when either (1) the equity investors (if any) lack one or more of the essential characteristics of a controlling financial interest, (2) the equity investment at risk is insufficient to finance that entity's activities without additional subordinated financial support or (3) the equity investors have voting rights that are not proportionate to their economic interests and the activities of the entity involve or are conducted on behalf of an investor with a disproportionately small voting interest. The primary beneficiary is defined by the entity having both of the following characteristics: (1) the power to direct the activities that, when taken together, most significantly impact the variable interest entity's performance; and (2) the obligation to absorb losses and rights to receive the returns from VIE that would be significant to the VIE.

With respect to investments in and advances to the Investment Properties, the Partnership looks to the underlying properties to assess performance and the recoverability of carrying amounts for those investments in a manner similar to direct investments in real estate properties. An impairment charge is recorded if management's estimate of the aggregate future cash flows (undiscounted and without interest charges) to be generated by the property is less than the carrying value of the property.

*Legal Proceedings:* The Partnership is subject to various legal proceedings and claims that arise, from time to time, in the ordinary course of business. These matters are frequently covered by insurance. If it is determined that a loss is likely to occur, the estimated amount of the loss is recorded in the financial statements. Both the amount of the loss and the point at which its occurrence is considered likely can be difficult to determine.

**RESULTS OF OPERATIONS**

**Three Months Ended June 30, 2014 and June 30, 2013**

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The Partnership and its Subsidiary Partnerships earned income before interest expense, loss from investments in unconsolidated joint ventures and other income and expense of approximately \$2,725,000 during the three months ended June 30, 2014, compared to approximately \$2,889,000 for the three months ended June 30, 2013, a decrease of approximately \$164,000 (5.7%).

The rental activity is summarized as follows:

|                    | Occupancy Date |                |
|--------------------|----------------|----------------|
|                    | August 1, 2014 | August 1, 2013 |
| <b>Residential</b> |                |                |
| Units              | 2,431          | 2,238          |
| Vacancies          | 97             | 97             |
| Vacancy rate       | 4.0%           | 4.3%           |
| <b>Commercial</b>  |                |                |
| Total square feet  | 108,043        | 108,043        |
| Vacancy            | 0              | 11,603         |
| Vacancy rate       | 0%             | 10.7%          |

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|                        | Rental Income (in thousands)<br>Three Months Ended June 30, |                       |                  |                       |
|------------------------|---|-----------------------|------------------|-----------------------|
|                        | 2014  |                       | 2013             |                       |
|                        | Total Operations  | Continuing Operations | Total Operations | Continuing Operations |
| Total rents            | \$ 10,440   | \$ 10,440             | \$ 8,981         | \$ 8,905              |
| Residential percentage | 92%   | 92%                   | 91%              | 91%                   |
| Commercial percentage  | 8%  | 8%                    | 9%               | 9%                    |
| Contingent rentals     | \$ 162  | \$ 162                | \$ 170           | \$ 170                |

**Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013:**

|  | Three Months Ended June 30, |              | Dollar         | Percent  |
|--|-----------------------------|--------------|----------------|----------|
|  | 2014                        | 2013         | Change         | Change   |
| <b>Revenues</b>  |                             |              |                |          |
| Rental income  | \$ 10,439,568               | \$ 8,904,762 | \$ 1,534,806   | 17.2%    |
| Laundry and sundry income                                    | 120,967                     | 98,000       | 22,967         | 23.4%    |
|  | 10,560,535                  | 9,002,762    | 1,557,773      | 17.3%    |
| <b>Expenses</b>  |                             |              |                |          |
| Administrative   | 568,915                     | 697,238      | (128,323)      | (18.4)%  |
| Depreciation and amortization                                | 2,747,467                   | 1,479,860    | 1,267,607      | 85.7%    |
| Management fee   | 438,068                     | 374,622      | 63,446         | 16.9%    |
| Operating  | 1,020,323                   | 814,609      | 205,714        | 25.3%    |
| Renting  | 108,612                     | 26,815       | 81,797         | 305.0%   |
| Repairs and maintenance                                      | 1,601,307                   | 1,515,934    | 85,373         | 5.6%     |
| Taxes and insurance  | 1,351,043                   | 1,204,862    | 146,181        | 12.1%    |
|  | 7,835,735                   | 6,113,940    | 1,721,795      | 28.2%    |
| Income Before Other Income and Discontinued Operations       | 2,724,800                   | 2,888,822    | (164,022)      | (5.7)%   |
| <b>Other Income (Expense)</b>                                |                             |              |                |          |
| Interest income  | 199                         | 351          | (152)          | (43.3)%  |
| Interest expense   | (2,380,896)                 | (1,762,647)  | (618,249)      | 35.1%    |
| (Loss) from investments in unconsolidated joint ventures     | (62,382)                    | (336,332)    | 273,950        | (81.5)%  |
|  | (2,443,079)                 | (2,098,628)  | (344,451)      | 16.4%    |
| Income From Continuing Operations                            | 281,721                     | 790,194      | (508,473)      | (64.3)%  |
| <b>Discontinued Operations</b>                               |                             |              |                |          |
| Income from discontinued operations                          |                             | 143          | (143)          | (100.0)% |
| Gain on the sale of real estate from discontinued operations |                             | 3,678,779    | (3,678,779)    | (100.0)% |
|  |                             | 3,678,922    | (3,678,922)    | (100.0)% |
| Net Income   | \$ 281,721                  | \$ 4,469,116 | \$ (4,187,395) | (93.7)%  |

Rental income from continuing operations for the three months ended June 30, 2014 was approximately \$10,440,000, compared to approximately 8,905,000 for the three months ended June 30, 2013, an increase of approximately \$1,535,000 (17.2%). The factors which can be attributed to this increase are as follows: the acquisition of the Hamilton Green Apartments in July 2013 resulted in an increase in rental income of approximately \$1,001,000 and rental rate increases of approximately 6.2% in 2014. The Partnership Properties with the most significant increases in rental income include, 62 Boylston Street, Hamilton Cypress, 1144 Commonwealth Avenue, Hamilton Oaks, Westgate Woburn, School Street and Westside Colonial with increases of approximately \$78,000, \$75,000, \$62,000, \$55,000, \$42,000, \$36,000 and \$34,000, respectively. Included in rental income is contingent rentals collected on commercial properties. Contingent rentals include such charges as bill

backs of common area maintenance charges, real estate taxes, and utility charges.

Operating expenses from continuing operations for the three months ended June 30, 2014 were approximately \$7,836,000 compared to approximately \$6,114,000 for the three months ended June 30, 2013, an increase of approximately \$1,722,000 (28.2%). The operating expenses associated with Hamilton Green are approximately \$1,747,000 for the three months ended June 30, 2014. Excluding Hamilton Green's operating expenses, there is a net decrease of approximately \$34,000 in operating expenses from continuing operations for the three months ended June 30, 2014. The factors contributing to this net decrease, which are unrelated to Hamilton Green, are a decrease in administrative expenses of approximately \$174,000, due primarily to a decrease in financial costs; a decrease in repairs and maintenance expenses of approximately \$65,000 due to less demand for repairs to the properties; an increase in operating expenses of approximately \$99,000 due to increases in utility costs; an increase in taxes and insurance of approximately \$35,000 due to increases in real estate taxes; and an increase in renting expenses of approximately \$62,000, due to an increase in rental commissions.

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Interest expense for the three months ended June 30, 2014 was approximately \$2,381,000 compared to approximately \$1,763,000 for the three months ended June 30, 2013, an increase of approximately \$618,000 (35.1%). Approximately \$449,000 of this increase represents the interest on the mortgage on Hamilton Green. In addition, the Partnership refinanced four properties in 2013 which resulted in a higher average level of debt in the first six months of 2014 compared to 2013.

At June 30, 2014, the Partnership has between a 40% and 50% ownership interests in nine different Investment Properties. See a description of these properties included in the section titled Investment Properties as well as Note 14 to the Consolidated Financial Statements for a detail of the financial information of each Investment Property.

As described in Note 14 to the Consolidated Financial Statements, the Partnership's share of the net loss from the Investment Properties was approximately \$62,000 for the three months ended June 30, 2014, compared to approximately \$336,000 for the three months ended June 30, 2013, a decrease in the loss of approximately \$274,000 (81.5%). This decrease is primarily due to a gain of approximately \$248,000 on the sale of four units at Hamilton Bay LLC. Included in the loss for the three months ended June 30, 2014 is depreciation and amortization expense of approximately \$883,000. The allocable loss for the three months ended June 30, 2014 associated with the October 2009 investment in Dexter Park is approximately \$132,000 of which approximately \$539,000 is depreciation and amortization.

As a result of the changes discussed above, net income for the three months ended June 30, 2014 was approximately \$282,000 compared to income of approximately \$4,469,000 for the three months ended June 30, 2013, a decrease in income of approximately \$4,187,000 (93.7%). The decrease in net income is primarily due to the gain on the sale of Nashoba Apartments in 2013 and the loss of approximately \$1.2 million from Hamilton Green.

**Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013**

The Partnership and its subsidiary Partnerships earned income before other income and discontinued operations of approximately \$5,289,000 for the six months ended June 30, 2014, compared to approximately \$5,928,000 for the six months ended June 30, 2013, a decrease of approximately \$639,000 (10.8%). The following is a summary of the Partnership's operations for the six months ended June 30, 2014 and 2013:

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|  | Six Months Ended June 30, |               | Dollar         | Percent  |
|--|---------------------------|---------------|----------------|----------|
|  | 2014                      | 2013          | Change         | Change   |
| <b>Revenues</b>  |                           |               |                |          |
| Rental income  | \$ 20,954,287             | \$ 17,828,769 | \$ 3,125,518   | 17.5%    |
| Laundry and sundry income                                    | 224,177                   | 193,686       | 30,491         | 15.7%    |
|  | 21,178,464                | 18,022,455    | 3,156,009      | 17.5%    |
| <b>Expenses</b>  |                           |               |                |          |
| Administrative   | 1,099,482                 | 1,149,855     | (50,373)       | (4.4)%   |
| Depreciation and amortization                                | 5,471,646                 | 2,933,991     | 2,537,655      | 86.5%    |
| Management fee   | 865,461                   | 743,874       | 121,587        | 16.3%    |
| Operating  | 2,702,257                 | 2,246,784     | 455,473        | 20.3%    |
| Renting  | 145,469                   | 56,666        | 88,803         | 156.7%   |
| Repairs and maintenance                                      | 2,812,456                 | 2,597,213     | 215,243        | 8.3%     |
| Taxes and insurance  | 2,792,153                 | 2,365,792     | 426,361        | 18.0%    |
|  | 15,888,924                | 12,094,175    | 3,794,749      | 31.4%    |
| Income Before Other Income and Discontinued Operations       | 5,289,540                 | 5,928,280     | (638,740)      | (10.8)%  |
| <b>Other Income (expense)</b>                                |                           |               |                |          |
| Interest income  | 382                       | 715           | (333)          | (46.6)%  |
| Interest expense   | (4,767,062)               | (3,603,716)   | (1,163,346)    | 32.3%    |
| (Loss) from investments in unconsolidated joint ventures     | (270,633)                 | (653,189)     | 382,556        | (58.6)%  |
|  | (5,037,313)               | (4,256,190)   | (781,123)      | 18.4%    |
| Income From Continuing Operations                            | 252,227                   | 1,672,090     | (1,419,863)    | (84.9)%  |
| <b>Discontinued Operations</b>                               |                           |               |                |          |
| Income from discontinued operations                          |                           | 19,873        | (19,873)       | (100.0)% |
| Gain on the sale of real estate from discontinued operations |                           | 3,678,779     | (3,678,779)    | (100.0)% |
|  |                           | 3,698,652     | (3,698,652)    | (100.0)% |
| Net Income   | \$ 252,227                | \$ 5,370,742  | \$ (5,118,515) | (95.3)%  |

Rental income from continuing operations for the six months ended June 30, 2014 was approximately \$20,954,000 compared to approximately \$17,829,000 for the six months ended June 30, 2013, an increase of approximately \$3,125,000 (17.5%). Rental income from Hamilton Green acquired in July 2013 represents approximately \$2,044,000 of this increase. Rental income has increased at a number of other properties due to increased demand and increases in rental rates. The following properties experienced rental income increases: 62 Boylston Street, Hamilton Oaks, 1144 Commonwealth Avenue, Hamilton Cypress, Westgate Apartments, 9 School Street, and Westside Colonial, with increases of approximately \$185,000, \$127,000, \$123,000, \$87,000, \$83,000, \$82,000 and \$52,000 respectively.

Expenses from continuing operations for the six months ended June 30, 2014 were approximately \$15,889,000 compared to approximately \$12,094,000 for the six months ended June 30, 2013, an increase of approximately \$3,795,000 (31.4%). The operating expenses associated with Hamilton Green were approximately \$3,499,000 for the six months ended June 30, 2014. Excluding Hamilton Green's operating expenses, there is a net increase in operating expenses of approximately \$296,000 from continuing operations for the six months ended June 30, 2014. The factors contributing to this increase which are unrelated to Hamilton Green are an increase in operating expenses of approximately \$243,000, primarily due to an increase in utility costs; an increase in taxes and insurance of approximately \$134,000 due to an increase in both real estate taxes and insurance, partially offset by a decrease in administrative costs of approximately \$124,000, primarily due to a decrease in financial costs.

Interest expense for the six months ended June 30, 2014 was approximately \$4,767,000 compared to approximately \$3,604,000 for the six months ended June 30, 2013, an increase of approximately \$1,163,000 (32.3%). Approximately \$899,000 of this increase represents the interest on the mortgage on Hamilton Green. In addition, the Partnership refinanced four properties in 2013 which resulted in a higher average level of



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debt in the first six months of 2014 compared to 2013.

At June 30, 2014, the Partnership has between a 40 - 50% ownership interest in nine Investment Properties. See a description of these properties included in Note 14 to the Consolidated Financial Statements for a detail of the financial information of each Investment Property.

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As described in Note 14 to the Consolidated Financial Statements, the Partnership's share of loss from these Investment Properties was approximately \$271,000 for the six months ended June 30, 2014 compared to a loss of approximately \$653,000 for the six months ended June 30, 2013, a decrease of approximately \$382,000. The decrease is primarily due to a gain of approximately \$301,000 on the sale of five rental units at the property of Hamilton Bay, LLC. Included in the loss for the six months ended June 30, 2014 is depreciation and amortization of approximately \$1,763,000 compared to approximately \$1,848,000 in 2013. The allocable loss for the six months ended June 30, 2014 associated with the October 2009 investment in Dexter Park is approximately \$293,000 of which approximately \$1,078,000 is depreciation and amortization.

In May 2013, the Partnership sold the Nashoba Apartments in Acton, Massachusetts. The sale price was \$4,300,000. The net proceeds of approximately \$2,100,000 were transferred to Investment Property Exchange Services, Inc. a Qualified Intermediary. These funds were held by the intermediary in order to maintain the Partnership's ability to structure a tax free exchange in accordance with the Internal Revenue Service's rules under Sec. 1031. The gain on the sale is approximately \$3,679,000 and is included in income from discontinued operations.

As a result of the changes discussed above, net income for the six months ended June 30, 2014 was approximately \$252,000 compared to net income of \$5,371,000 a decrease of approximately \$5,119,000 (95.3%). The decrease in net income is primarily due to the gain on the sale of Nashoba Apartments in 2013, and the loss of approximately \$2.4 million from Hamilton Green.

**LIQUIDITY AND CAPITAL RESOURCES**

The Partnership's principal source of cash during the first six months of 2014 was the collection of rents. The Partnership's principal source of cash in 2013 was the collection of rents, proceeds on the sale and refinancing of real estate. The majority of cash and cash equivalents of \$12,613,346 at June 30, 2014 and \$14,013,380 at December 31, 2013 were held in interest bearing accounts at creditworthy financial institutions.

The decrease in cash of \$1,400,034 at June 30, 2014 is summarized as follows:

|  | <b>Six Months Ended June 30,</b> |                |
|--|----------------------------------|----------------|
|  | <b>2014</b>                      | <b>2013</b>    |
| Cash provided by operating activities                                | \$ 5,357,638                     | \$ 5,128,887   |
| Cash (used in) investing activities                                  | (792,788)                        | (1,942,773)    |
| Cash (used in) financing activities                                  | (3,088,023)                      | (4,526,252)    |
| Repurchase of Depositary Receipts, Class B and General Partner Units | (941,477)                        | (399,487)      |
| Distributions paid   | (1,935,384)                      | (1,950,596)    |
| Net (decrease) in cash and cash equivalents                          | \$ (1,400,034)                   | \$ (3,690,221) |

The increase in cash provided by operating activities is primarily due to an increase in rent collections and a decrease in cash operating expenses. The decrease in cash used in investing activities is due to a decrease in the improvements to rental properties in 2014 compared to the same period in 2013. The change in cash used in financing activities is due to the refinancing of the mortgages which required more cash contributions in 2013 compared to 2014.

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During the six months ended June 30, 2014, the Partnership purchased 15,931 Depositary Receipts for an average price of \$46.26 for a total cost of \$757,246; 126 Class B Units for a cost of \$175,019 and 7 General Partnership Units for a cost of \$9,212 for a total cost of \$941,477.

During 2014, the Partnership and its Subsidiary Partnerships completed improvements to certain of the Properties at a total cost of approximately \$1,643,000. These improvements were funded from cash reserves. These sources have been adequate to fully fund improvements. The most significant improvements were made at Redwood Hills, 1137 Commonwealth, Hamilton Green, Westgate Woburn, and Westside Colonial, at a cost of approximately \$220,000, \$177,000, \$162,000, \$156,000, and \$141,000 respectively. The Partnership plans to invest approximately \$1,667,000 in additional capital improvements in 2014.

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On June 11, 2014, the Partnership refinanced the property owned by NERA Dean Street Associates, LLC. The new mortgage is \$5,687,000; the interest rate is 4.22%, interest only, payable in 10 years. Approximately \$5,077,000 of the loan proceeds were used to pay off the existing mortgage. The mortgage matures in June 2024. The costs associated with the refinancing were approximately \$99,000. Approximately \$610,000 in cash was received from this refinancing.

In February 2014, the Partnership paid off the mortgages on Linewt in the amount of approximately \$1,466,000 and Linhart in the amount of approximately \$1,926,000.

On July 15, 2013, the Partnership, purchased Windsor Green at Andover, a 193 unit apartment complex located in Andover, Massachusetts. The purchase price was \$62,500,000. To fund this purchase, the Partnership obtained short term financing of approximately \$40,000,000, used the funds of approximately \$2,100,000 from the sale of the Nashoba Apartments, and the balance from the Partnership's cash reserves. The original mortgage matured in November 2013. On December 20, 2013, the Partnership refinanced the mortgage on Hamilton Green. The new mortgage is \$38,500,000, interest is fixed at 4.67% for 15 years, interest only for 2 years and the mortgage is amortized over 30 years. This refinancing required additional capital of approximately \$1,846,000 from the Partnership.

During the six months ended June 30, 2014 and 2013 the Partnership received distributions of approximately \$968,000 and \$2,206,000 from the investment properties respectively. Included in these distributions is the amount from Dexter Park of \$530,000 and \$600,000 for the six months ended June 30, 2014 and 2013 respectively. The Partnership received distributions of approximately \$1,463,000 from 345 Franklin Street LLC in the first six months of 2013, primarily due to the refinancing of the property.

In 2014, the Partnership approved distributions of \$7.50 per unit (\$0.25 per receipt) payable on March 31, 2014, June 30, 2014, and September 30, 2014.

The Partnership anticipates that cash from operations and interest bearing accounts will be sufficient to fund its current operations, pay distributions, make required debt payments and to finance current improvements to its properties. The Partnership may also sell or refinance properties. The Partnership's net income and cash flow may fluctuate dramatically from year to year as a result of the sale or refinancing of properties, increases or decreases in rental income or expenses, or the loss of significant tenants.

**Off-Balance Sheet Arrangements Joint Venture Indebtedness**

As of June 30, 2014, the Partnership had a 40%-50% ownership interest in nine Joint Ventures, all of which have mortgage indebtedness. We do not have control of these partnerships and therefore we account for them using the equity method of consolidation. At June 30, 2014, our proportionate share of the non-recourse debt related to these investments was approximately \$59,826,000. See Note 14 to the Consolidated Financial Statements.

**Contractual Obligations**

See Notes 5 and 14 to the Consolidated Financial Statements for a description of mortgage notes payable. The Partnerships has no other material contractual obligations to be disclosed.

### **Factors That May Affect Future Results**

Along with risks detailed in Item 1A and from time to time in the Partnership's filings with the Securities and Exchange Commission, some factors that could cause the Partnership's actual results, performance or achievements to differ materially from those expressed or implied by forward looking statements include but are not limited to the following:

- The Partnership depends on the real estate markets where its properties are located, primarily in Eastern Massachusetts, and these markets may be adversely affected by local economic market conditions, which are beyond the Partnership's control.
- The Partnership is subject to the general economic risks affecting the real estate industry, such as dependence on tenants' financial condition, the need to enter into new leases or renew leases on terms favorable to tenants in order to generate rental revenues and our ability to collect rents from our tenants.
- The Partnership is also impacted by changing economic conditions making alternative housing arrangements more or less attractive to the Partnership's tenants, such as the interest rates on single family home mortgages

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and the availability and purchase price of single family homes in the Greater Boston metropolitan area.

- The Partnership is subject to significant expenditures associated with each investment, such as debt service payments, real estate taxes, insurance and maintenance costs, which are generally not reduced when circumstances cause a reduction in revenues from a property.
- The Partnership is subject to increases in heating and utility costs that may arise as a result of economic and market conditions and fluctuations in seasonal weather conditions.
- Civil disturbances, earthquakes and other natural disasters may result in uninsured or underinsured losses.
- Actual or threatened terrorist attacks may adversely affect our ability to generate revenues and the value of our properties.
- Financing or refinancing of Partnership properties may not be available to the extent necessary or desirable, or may not be available on favorable terms.
- The Partnership properties face competition from similar properties in the same market. This competition may affect the Partnership's ability to attract and retain tenants and may reduce the rents that can be charged.
- Given the nature of the real estate business, the Partnership is subject to potential environmental liabilities. These include environmental contamination in the soil at the Partnership's or neighboring real estate, whether caused by the Partnership, previous owners of the subject property or neighbors of the subject property, and the presence of hazardous materials in the Partnership's buildings, such as asbestos, lead, mold and radon gas. Management is not aware of any material environmental liabilities at this time.
- Insurance coverage for and relating to commercial properties is increasingly costly and difficult to obtain. In addition, insurance carriers have excluded certain specific items from standard insurance policies, which have resulted in increased risk exposure for the Partnership. These include insurance coverage for acts of terrorism and war, and coverage for mold and other environmental conditions. Coverage for these items is either unavailable or prohibitively expensive.
- Market interest rates could adversely affect market prices for Class A Partnership Units and Depositary Receipts as well as performance and cash flow.

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- Changes in income tax laws and regulations may affect the income taxable to owners of the Partnership. These changes may affect the after-tax value of future distributions.
- The Partnership may fail to identify, acquire, construct or develop additional properties; may develop or acquire properties that do not produce a desired or expected yield on invested capital; may be unable to sell poorly- performing or otherwise undesirable properties quickly; or may fail to effectively integrate acquisitions of properties or portfolios of properties.
- Risk associated with the use of debt to fund acquisitions and developments.
- Competition for acquisitions may result in increased prices for properties.
- Any weakness identified in the Partnership's internal controls as part of the evaluation being undertaken could have an adverse effect on the Partnership's business.
- Ongoing compliance with Sarbanes-Oxley Act of 2002 may require additional personnel or systems changes.

The foregoing factors should not be construed as exhaustive or as an admission regarding the adequacy of disclosures made by the Partnership prior to the date hereof or the effectiveness of said Act. The Partnership expressly disclaims any obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Market risk is the exposure to loss resulting from changes in interest rates and equity prices. In pursuing its business plan, the primary market risk to which the Partnership is exposed is interest rate risk. Changes in the general level of interest rates prevailing in the financial markets may affect the spread between the Partnership's yield on invested assets and cost of funds and, in turn, its ability to make distributions or payments to its investors.

As of June 30, 2014, the Partnership, its Subsidiary Partnerships and the Investment Properties collectively have approximately \$332,661,000 in long-term debt, substantially all of which require payment of interest at fixed rates. Accordingly, the fair value of these debt instruments is affected by changes in market interest rates. This long term debt matures through 2028. For information regarding the fair value and maturity dates of these debt obligations, See Note 5 to the Consolidated Financial Statements Mortgage Notes Payable, Note 12 to the Consolidated Financial Statements Fair Value Measurements and Note 14 to the Consolidated Financial Statements Investment in Unconsolidated Joint Ventures.

For additional disclosure about market risk, see Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Factors That May Affect Future Results .

**ITEM 4. CONTROLS AND PROCEDURES**

*Disclosure Controls and Procedures.* The Partnership's management, with the participation of the Partnership's principal executive officer and principal financial officer, has evaluated the effectiveness of the Partnership's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act )) as of the end of the period covered by this report. Based on such evaluation, the Partnership's principal executive officer and principal financial officer have concluded that, as of the end of such period, the Partnership's disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Partnership in the reports that it files or submits under the Exchange Act.

*Changes in Internal Control over Financial Reporting.* There were no changes in our internal control over financial reporting during the second quarter of 2014 that materially affected or are reasonably likely to materially affect our internal control over financial reporting.

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**



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There are no material legal proceedings, other than ordinary routine litigation incidental to its business, to which the Partnership is a party to or to which any of the Properties is subject.

### Item 1A. Risk Factors

There were no material changes to the risk factors disclosed in our annual report on Form 10K for the year ended December 31, 2013.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) None

(b) None

(c) Issuer Purchase of Equity Securities during the second quarter of 2014:

| Period           | Average Price Paid | Depository Receipts<br>Purchased as Part of Publicly Announced Plan | Remaining number of Depository<br>Receipts that may be purchased<br>Under the Plan (as Amended) |
|------------------|--------------------|---|---|
| April 1-30, 2014 | \$ 46.95           | 3,547   | 248,304   |
| May 1-31, 2014   | \$ 47.73           | 4,516   | 243,788   |
| June 1-30, 2014  | \$ 51.61           | 1,355   | 242,433   |
| Total            |                    | 9,418   |   |

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On August 20, 2007, NewReal, Inc., the General Partner authorized an equity repurchase program ( Repurchase Program ) under which the Partnership was permitted to purchase, over a period of twelve months, up to 300,000 Depositary Receipts (each of which is one-tenth of a Class A Unit). On January 15, 2008, the General Partner authorized an increase in the Repurchase Program from 300,000 to 600,000 Depositary Receipts. On January 30, 2008 the General Partner authorized an increase the Repurchase Program from 600,000 to 900,000 Depositary Receipts. On March 6, 2008, the General Partner authorized the increase in the total number of Depositary Receipts that could be repurchased pursuant to the Repurchase Program from 900,000 to 1,500,000. On August 8, 2008, the General Partner re-authorized and renewed the Repurchase Program for an additional 12-month period ended August 19, 2009. On March 22, 2010, the General Partner re-authorized and renewed the Repurchase Program that expired on August 19, 2009. Under the terms of the renewed Repurchase Program, the Partnership may purchase up to 1,500,000 Depositary Receipts from the start of the program in 2007 through March 31, 2015. The Repurchase Program requires the Partnership to repurchase a proportionate number of Class B Units and General Partner Units in connection with any repurchases of any Depositary Receipts by the Partnership based upon the 80%, 19% and 1% fixed distribution percentages of the holders of the Class A, Class B and General Partner Units under the Partnership's Second Amended and Restated Contract of Limited Partnership. Repurchases of Depositary Receipts or Partnership Units pursuant to the Repurchase Program may be made by the Partnership from time to time in its sole discretion in open market transactions or in privately negotiated transactions. From August 20, 2007 through June 30, 2014, the Partnership has repurchased 1,258,822 Depositary Receipts at an average price of \$25.13 per receipt (or \$753.90 per underlying Class A Unit), 2,229 Class B Units and 117 General Partnership Units, both at an average price of \$700.12 per Unit, totaling approximately \$ 33,422,000 including brokerage fees paid by the Partnership.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosure**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

See the exhibit index below.



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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP  
 By: /s/ NEWREAL, INC.  
  
 Its General Partner  
 By: /s/ RONALD BROWN  
  
 Ronald Brown, *President*  
  
 Dated: August 8, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <b>Signature</b>                           | <b>Title</b>   | <b>Date</b>    |
|--|--|----------------|
| /s/ RONALD BROWN<br>Ronald Brown           | President and Director of the General Partner (Principal Executive Officer)                                  | August 8, 2014 |
| /s/ HAROLD BROWN<br>Harold Brown           | Treasurer and Director of the General Partner (Principal Financial Officer and Principal Accounting Officer) | August 8, 2014 |
| /s/ GUILLIAEM AERTSEN<br>Guilliaem Aertsen | Director of the General Partner  | August 8, 2014 |
| /s/ DAVID ALOISE<br>David Aloise           | Director of the General Partner  | August 8, 2014 |
| /s/ EUNICE HARPS<br>Eunice Harps           | Director of the General Partner  | August 8, 2014 |

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**EXHIBIT INDEX**

| <b>Exhibit No.</b> | <b>Description of Exhibit</b>  |
|--------------------|--|
| (31.1)             | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Ronald Brown, Principal Executive Officer of the Partnership (President and a Director of NewReal, Inc., sole General Partner of the Partnership)   |
| (31.2)             | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Harold Brown, Principal Financial Officer of the Partnership (Treasurer and a Director of NewReal, Inc., sole General Partner of the Partnership)   |
| (32.1)             | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Ronald Brown, Principal Executive Officer of the Partnership (President and a Director of NewReal, Inc., sole General Partner of the Partnership) and Harold Brown, Principal Financial Officer of the Partnership (Treasurer and a Director of NewReal, Inc., sole General Partner of the Partnership).   |
| (101.1)            | The following financial statements from New England Realty Associates Limited Partnership Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 formatted in XBRL: (i) Consolidated Balance Sheets, (unaudited) (ii) Consolidated Statements of Income, (unaudited) (iii) Consolidated Statements of Changes in Partners Capital, (unaudited) (iv) Consolidated Statements of Cash Flows, (unaudited) and (v) Notes to Consolidated Financial Statements, (unaudited). |