

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2012

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

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**

Securities registered pursuant to Section 12(b) of the Act:

Depository Receipts

(Title of each Class)

NYSE AMEX

(Name of each Exchange on which Registered)

Securities registered pursuant to Section 12(g) of the Act:

Class A

Limited Partnership Units

(Title of class)

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K

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

Accelerated filer

Non-accelerated filer
(Do not check if a smaller
reporting company)

Smaller reporting company

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

At June 30, 2012, the aggregate market value of the registrant's securities held by non-affiliates of the registrant was \$57,067,931 based on the closing price of the registrant's traded securities on the NYSE Amex Exchange on such date. For this computation, the Registrant has excluded the market value of all Depository Receipts reported as beneficially owned by executive officers and directors of the General Partner of the Registrant; such exclusion shall not be deemed to constitute an admission that any such person is an affiliate of the Registrant.

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

All references to Depository Receipts in the report are reflective of the 3-for-1 forward split.

As of March 1, 2013, there were 104,039 of the registrant's Class A units (3,121,176 Depository Receipts) of limited partnership issued and outstanding and 24,709 Class B units issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None.

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP

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NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP

PART I

ITEM 1. BUSINESS

General

New England Realty Associates Limited Partnership (“NERA” or the “Partnership”), a Massachusetts Limited Partnership, was formed on August 12, 1977 as the successor to five real estate limited partnerships (collectively, the “Colonial Partnerships”), which filed for protection under Chapter XII of the Federal Bankruptcy Act in September 1974. The bankruptcy proceedings were terminated in late 1984. In July 2004, the General Partner extended the termination date of the Partnership until 2057, as allowed in the Partnership Agreement.

The authorized capital of the Partnership is represented by three classes of partnership units (“Units”). There are two categories of limited partnership interests (“Class A Units” and “Class B Units”) and one category of general partnership interests (the “General Partnership Units”). The Class A Units were initially issued to creditors and limited partners of the Colonial Partnerships and have been registered under Section 12(g) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Each Class A Unit is exchangeable for 30 publicly traded depositary receipts (“Receipts”), which are currently listed on the NYSE Amex Exchange and are registered under Section 12(b) of the Exchange Act. The Class B Units were issued to the original general partners of the Partnership. The General Partnership Units are held by the current general partner of the Partnership, NewReal, Inc. (the “General Partner”). The Class A Units represent an 80% ownership interest, the Class B Units represent a 19% ownership interest, and the General Partnership Units represent a 1% ownership interest.

The Partnership is engaged in the business of acquiring, developing, holding for investment, operating and selling real estate. The Partnership, directly or through 24 subsidiary limited partnerships or limited liability companies, owns and operates various residential apartment buildings, condominium units and commercial properties located in Massachusetts and New Hampshire. As used herein, the Partnership’s subsidiary limited partnerships and limited liabilities companies are each referred to as a “Subsidiary Partnership” and are collectively referred to as the “Subsidiary Partnerships.”

The Partnership owns between a 99.67% and 100% interest in each of the Subsidiary Partnerships, except in nine limited liability companies (the “Investment Properties” or “Joint Ventures”) in which the Partnership has between a 40% and 50% ownership interest. The majority shareholder of the General Partner indirectly owns between 43.2% and 57%, the President of Hamilton owns between 2.5% and 4.5%, and five other management employees of Hamilton own collectively between 0% and 2.3%, respectively. The Partnership’s interest in the Investment Properties is accounted for on the equity method in the Consolidated Financial Statements. See Note 1 to the Consolidated Financial Statements—“Principles of Consolidation.” See Note 14 to the Consolidated Financial Statements—“Investment in Unconsolidated Joint Ventures” for a description of the properties and their operations. Of those Subsidiary Partnerships not wholly owned by the Partnership, except for the Investment Properties, the remaining ownership interest is held by an unaffiliated third party. In each such case, the third party has entered into an agreement with the Partnership, pursuant to which any benefit derived from its ownership interest in the applicable Subsidiary Partnerships will be returned to the Partnership.

The long-term goals of the Partnership are to manage, rent and improve its properties and to acquire additional properties with income and capital appreciation potential as suitable opportunities arise. When appropriate, the Partnership may sell or refinance selected properties. Proceeds from any such sales or refinancing will be used to reduce debt, reinvested in acquisitions of other properties,

distributed to the partners, repurchase equity interests, or used for operating expenses or reserves, as determined by the General Partner.

Operations of the Partnership

The Partnership is managed by the General Partner, NewReal, Inc., a Massachusetts corporation wholly owned by Harold Brown and Ronald Brown. The General Partner has engaged The Hamilton Company, Inc. (the “Hamilton Company” or “Hamilton”) to perform general management functions for the Partnership’s properties in exchange for management fees. The Hamilton Company is wholly owned by Harold Brown and employs Ronald Brown and Harold Brown. The Partnership, Subsidiary Partnerships, and the Investment Properties currently contract with the management company for 49 individuals at the Properties and 14 individuals at the Joint Ventures who are primarily involved in the supervision and maintenance of specific properties. The General Partner has no employees.

As of February 1, 2013, the Partnership and its Subsidiary Partnerships owned 2,251 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, the Condominium Units and the Investment Properties are located primarily in the metropolitan Boston area of Massachusetts.

As of February 1, 2013, the Subsidiary Partnerships also owned a commercial shopping center in Framingham, Massachusetts, one commercial building in Newton and one in Brookline, Massachusetts and commercial space in mixed-use buildings in Boston, Brockton and Newton, Massachusetts. These properties are referred to collectively as the “Commercial Properties.” See Note 2 to the Consolidated Financial Statements, included as a part of this Form 10-K.

Additionally, as of February 1, 2013, the Partnership owned a 40-50% interest in nine residential and mixed use complexes, the Investment Properties, with a total of 799 residential units, one commercial unit, and a parking lot. See Note 14 to the Consolidated Financial Statements for additional information on these investments.

The Apartment Complexes, Investment Properties, Condominium Units and Commercial Properties are referred to collectively as the “Properties.”

Harold Brown and, in certain cases, Ronald Brown, and officers and employees of the Hamilton Company own or have owned interests in certain of the Properties, Subsidiary Partnerships and Joint Ventures. See “Item 13. Certain Relationships, Related Transactions and Director Independence.”

The leasing of real estate in the metropolitan Boston area of Massachusetts is highly competitive. The Apartment Complexes, Condominium Units and the Investment Properties must compete for tenants with other residential apartments and condominium units in the areas in which they are located. The Commercial Properties must compete for commercial tenants with other shopping malls and office buildings in the areas in which they are located. Thus, the level of competition at each Property depends on how many other similarly situated properties are in its vicinity. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Factors that May Affect Future Results.”

The Second Amended and Restated Contract of Limited Partnership of the Partnership (the “Partnership Agreement”) authorizes the General Partner to acquire real estate and real estate related investments from or in participation with either or both of Harold Brown and Ronald Brown, or their affiliates, upon the satisfaction of certain terms and conditions, including the approval of the Partnership’s Advisory Committee and limitations on the price paid by the Partnership for such investments. The Partnership Agreement also permits the Partnership’s limited partners and the General Partner to make loans to the Partnership, subject to certain limitations on the rate of interest

that may be charged to the Partnership. Except for the foregoing, the Partnership does not have any policies prohibiting any limited partner, General Partner or any other person from having any direct or indirect pecuniary interest in any investment to be acquired or disposed of by the Partnership or in any transaction to which the Partnership is a party or has an interest in or from engaging, for their own account, in business activities of the types conducted or to be conducted by the Partnership. The General Partner is not limited in the number or amount of mortgages which may be placed on any Property, nor is there a policy limiting the percentage of Partnership assets which may be invested in any specific Property.

Industry Segments

The Partnership operates in only one industry segment—real estate. The Partnership does not have any foreign operations, and its business is not seasonal. See the Consolidated Financial Statements attached hereto and incorporated by reference herein for financial information relating to our industry segment.

Unit Distributions

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 ($\frac{1}{30}$) 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.

In 2012 the Partnership paid four quarterly distributions of an aggregate \$30.00 per Unit (\$1.00 per Receipt) for a total payment of \$3,932,410 in 2012. In 2011, the Partnership paid four quarterly distributions of an aggregate of \$28.00 per Unit (\$0.93 per Receipt) for a total payment of \$3,681,566 in 2011. In February 2013, the Partnership approved a quarterly distribution of \$7.50 per Unit (\$0.25 per Receipt), payable on March 31, 2013.

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-thirtieth 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 December 31, 2012, the Partnership has repurchased 1,219,927 Depositary Receipts at an average price of \$24.62 per receipt (or \$738.60 per underlying Class A Unit), 1,921 Class B Units and 101 General Partnership Units, both at an average

price of \$613.94 per Unit, totaling approximately \$31,386,000 including brokerage fees paid by the Partnership.

On September 17, 2008, the Partnership completed the issuance of an aggregate of 6,642 Class A Units held in treasury to current holders of Class B and General Partner Units upon the simultaneous retirement to treasury of 6,309 Class B Units and 333 General Partner Units pursuant to an equity distribution plan authorized by the Board of Directors of the General Partner on August 8, 2008 and as further described under Item 3.02 of the Partnership's Current Report on Form 8-K as filed with the Securities and Exchange Commission on September 18, 2008, which is incorporated herein by reference. Harold Brown, the treasurer of the General Partner, controls 75% of the issued and outstanding Class B Units of the Partnership and 75% of the issued and outstanding equity of the General Partner, Ronald Brown, the brother of Harold Brown and the president of the General Partner, owns 25% of the issued and outstanding Class B Units of the Partnership and 25% of the issued and outstanding equity of the General Partner. 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.

Property Transactions

On May 18, 2011, the Partnership sold Avon Street Apartments, a 66 unit residential apartment complex located at 130 Avon Street, Malden, Massachusetts. The sales price was \$8,750,000, which resulted in a financial statement gain of approximately \$7,700,000. The net proceeds of the sale, of approximately \$5,444,000 were held by a qualified intermediary in order for the Partnership to structure a tax free exchange in accordance with Section 1031 of the IRS code. This tax free exchange was completed with the purchase of Battle Green Apartments as described below.

On June 1, 2011, the Partnership purchased the Battle Green Apartments, a 48 unit residential apartment complex located at 34-42 Worthen Road, Lexington, Massachusetts. The purchase price was \$10,000,000. The Partnership used cash, the proceeds from the sale of Avon Street and borrowed \$3,998,573 from Harold Brown, Treasurer of the General Partner to make this purchase. This loan had an interest rate of 6% and was secured by the Partnership's ownership interest in Battle Green Apartments, LLC. The term of the loan is four years with a provision requiring payment in whole or in part upon demand within six months of notice or prepay without penalty. On July 27, 2011, the Partnership financed the Battle Green Apartments with a new \$5,000,000 mortgage at 4.95% which matures in August 2026. Principal payments will be made using a 30 year amortization schedule. Deferred financing costs associated with this mortgage totaled approximately \$100,000 and accordingly the effective interest rate is 5.07%. After paying off the existing loan of \$3,998,573, approximately \$1,000,000 was received by the Partnership. The interest paid on this loan to Harold Brown was \$38,123 in 2011. The mortgage balance outstanding on December 31, 2012 was \$4,893,448.

During 2012, the Partnership and its Subsidiary Partnerships completed improvements to certain of the Properties at a total cost of approximately \$2,360,000. These improvements were funded from cash reserves and, to some extent, escrow accounts established in connection with the financing or refinancing of the applicable Properties. These sources have been adequate to fully fund improvements. The most significant improvements were made at Westgate Woburn, Hamilton Oaks, 62 Boylston Street, Olde English, Clovelly, 1144 Commonwealth Ave and 140 North Beacon Street at a cost of approximately \$445,000, \$280,000, \$271,000, \$206,000, \$185,000, \$133,000 and \$113,000 respectively. The Partnership plans to invest approximately \$2,300,000 in capital improvements in 2013.

Advisory Committee

The Advisory Committee members are Gregory Dube, Robert Nahigian, and Edward Sarkesian. These Advisory Committee members are not affiliated with the General Partner. The Advisory

Committee meets with the General Partner to review the progress of the Partnership, assist the General Partner with policy formation, review the appropriateness, timing and amount of proposed distributions, approve or reject proposed acquisitions and investments with affiliates, and advise the General Partner on various other Partnership affairs. Per the Partnership Agreement, the Advisory Committee has no binding power except that it must approve certain investments and acquisitions or sales by the Partnership from or with affiliates of the Partnership.

Available Information

The Partnership's website is www.thehamiltoncompany.com. On its website, the Partnership makes available, free of charge, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended. These forms are made available as soon as reasonably practical after the Partnership electronically files or furnishes such materials to the Securities and Exchange Commission. In addition, the Partnership's website includes other items related to corporate governance matters, including, among other things, the Partnership's corporate governance guidelines, charters of various committees of the Board of Directors, and the Partnership's code of business conduct and ethics applicable to all employees, officers and directors. Copies of these documents may be obtained, free of charge, from the website. Any shareholder may obtain copies of these documents, free of charge, by sending a request in writing to: Director of Investor Relations, New England Realty Associates Limited Partnership, 39 Brighton Avenue, Allston, MA 02134.

ITEM 1A. RISK FACTORS

We are subject to certain risks and uncertainties as described below. These risks and uncertainties may not be the only ones we face; there may be additional risks that we do not presently know of or that we currently consider immaterial. All of these risks could adversely affect our business, financial condition, results of operations and cash flows. Our ability to pay distributions on, and the market price of, our equity securities may be adversely affected if any of such risks are realized. All investors should consider the following risk factors before deciding to purchase or sell securities of the Partnership.

We are subject to risks inherent in the ownership of real estate. We own and manage multifamily apartment complexes and commercial properties that are subject to varying degrees of risk generally incident to the ownership of real estate. Our financial condition, the value of our properties and our ability to make distributions to our shareholders will be dependent upon our ability to operate our properties in a manner sufficient to generate income in excess of operating expenses and debt service charges, which may be affected by the following risks, some of which are discussed in more detail below:

- changes in the economic climate in the markets in which we own and manage properties, including interest rates, the overall level of economic activity, the availability of consumer credit and mortgage financing, unemployment rates and other factors;
- a lessening of demand for the multifamily and commercial units that we own;
- competition from other available multifamily residential and commercial units and changes in market rental rates;
- increases in property and liability insurance costs;
- changes in real estate taxes and other operating expenses (e.g., cleaning, utilities, repair and maintenance costs, insurance and administrative costs, security, landscaping, pest control, staffing and other general costs);

- changes in laws and regulations affecting properties (including tax, environmental, zoning and building codes, and housing laws and regulations);
- weather and other conditions that might adversely affect operating expenses;
- expenditures that cannot be anticipated, such as utility rate and usage increases, unanticipated repairs and real estate tax valuation reassessments or mileage rate increases;
- our inability to control operating expenses or achieve increases in revenues;
- the results of litigation filed or to be filed against us;
- risks related to our joint ventures;
- risks of personal injury claims and property damage related to mold claims because of diminished insurance coverage;
- catastrophic property damage losses that are not covered by our insurance;
- risks associated with property acquisitions such as environmental liabilities, among others;
- changes in market conditions that may limit or prevent us from acquiring or selling properties;
- the perception of tenants and prospective tenants as to the attractiveness, convenience and safety of our properties or the neighborhoods in which they are located; and
- the Partnership does not carry directors and officers insurance.

We are dependent on rental income from our multifamily apartment complexes and commercial properties. If we are unable to attract and retain tenants or if our tenants are unable to pay their rental obligations, our financial condition and funds available for distribution to our shareholders will be adversely affected.

Our multifamily apartment complexes and commercial properties are subject to competition. Our properties and joint venture investments are located in developed areas that include other properties. The properties also compete with other rental alternatives, such as condominiums, single and multifamily rental homes, owner occupied single and multifamily homes, and commercial properties in attracting tenants. This competition may affect our ability to attract and retain residents and to increase or maintain rental rates.

The properties we own are concentrated in Eastern Massachusetts and Southern New Hampshire. Our performance, therefore, is linked to economic conditions and the market for available rental housing and commercial space in these states. A decline in the market for apartment housing and/or commercial properties may adversely affect our financial condition, results of operations and ability to make distributions to our shareholders.

Our insurance may not be adequate to cover certain risks. There are certain types of risks, generally of a catastrophic nature, such as earthquakes, floods, windstorms, act of war and terrorist attacks that may be uninsurable, or are not economically insurable, or are not fully covered by insurance. Moreover, certain risks, such as mold and environmental exposures, generally are not covered by our insurance. Should an uninsured loss or a loss in excess of insured limits occur, we could lose our equity in the affected property as well as the anticipated future cash flow from that property. Any such loss could have a material adverse effect on our business, financial condition and results of operations.

Debt financing could adversely affect our performance. The vast majority of our assets are encumbered by project specific, non-recourse, non-cross-collateralized mortgage debt. There is a risk that these properties will not have sufficient cash flow from operations for payments of required principal and interest. We may not be able to refinance these loans at an amount equal to the loan

balance and the terms of any refinancing may not be as favorable as the terms of existing indebtedness. If we are unable to make required payments on indebtedness that is secured by a mortgage, the Partnership will either invest additional money in the property or the property securing the mortgage may be foreclosed with a consequent loss of income and value to us.

Real estate investments are generally illiquid, and we may not be able to sell our properties when it is economically or strategically advantageous to do so. Real estate investments generally cannot be sold quickly, and our ability to sell properties may be affected by market conditions. We may not be able to diversify or vary our portfolio promptly in accordance with our strategies or in response to economic or other conditions.

Our access to public debt markets is limited. Substantially all of our debt financings are secured by mortgages on our properties because of our limited access to public debt markets.

Litigation may result in unfavorable outcomes. Like many real estate operators, we may be involved in lawsuits involving premises liability claims, housing discrimination claims and alleged violations of landlord-tenant laws, which may give rise to class action litigation or governmental investigations. Any material litigation not covered by insurance, such as a class action, could result in substantial costs being incurred. The Partnership does not carry directors and officers liability insurance.

Our financial results may be adversely impacted if we are unable to sell properties and employ the proceeds in accordance with our strategic plan. Our ability to pay down debt, reduce our interest costs, repurchase Depositary Receipts and acquire properties is dependent upon our ability to sell the properties we have selected for disposition at the prices and within the deadlines we have established for each respective property.

The costs of complying with laws and regulations could adversely affect our cash flow and ability to make distributions to our shareholders. Our properties must comply with Title III of the Americans with Disabilities Act (the “ADA”) to the extent that they are “public accommodations” or “commercial facilities” as defined in the ADA. The ADA does not consider apartment complexes to be public accommodations or commercial facilities, except for portions of such properties that are open to the public. In addition, the Fair Housing Amendments Act of 1988 (the “FHAA”) requires apartment complexes first occupied after March 13, 1990, to be accessible to the handicapped. Other laws also require apartment communities to be handicap accessible. Noncompliance with these laws could result in the imposition of fines or an award of damages to private litigants. We may be subject to lawsuits alleging violations of handicap design laws in connection with certain of our developments. If compliance with these laws involves substantial expenditures or must be made on an accelerated basis, our ability to make distributions to our shareholders could be adversely affected.

Under various federal, state and local laws, an owner or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances on, under or in the property. This liability may be imposed without regard to whether the owner or operator knew of, or was responsible for, the presence of the substances. Other law imposes on owners and operators certain requirements regarding conditions and activities that may affect human health or the environment. Failure to comply with applicable requirements could complicate our ability to lease or sell an affected property and could subject us to monetary penalties, costs required to achieve compliance and potential liability to third parties. We are not aware of any material noncompliance, liability or claim relating to hazardous or toxic substances or other environmental matters in connection with any of our properties. Nonetheless, it is possible that material environmental contamination or conditions exist, or could arise in the future, in the apartment communities or on the land upon which they are located.

We are subject to the risks associated with investments through joint ventures. Nine of our properties are owned by joint ventures in which we do not have a controlling interest. We may enter into joint

ventures, including joint ventures that we do not control, in the future. Any joint venture investment involves risks such as the possibility that the co-venturer may seek relief under federal or state insolvency laws, or have economic or business interests or goals that are inconsistent with our business interests or goals. While the bankruptcy or insolvency of our co-venturer generally should not disrupt the operations of the joint venture, we could be forced to purchase the co-venturer's interest in the joint venture or the interest could be sold to a third party. We also may guarantee the indebtedness of our joint ventures. If we do not have control over a joint venture, the value of our investment may be affected adversely by a third party that may have different goals and capabilities than ours.

We are subject to risks associated with development, acquisition and expansion of multifamily apartment complexes and commercial properties. Development projects and acquisitions and expansions of apartment complexes are subject to a number of risks, including:

- availability of acceptable financing;
- competition with other entities for investment opportunities;
- failure by our properties to achieve anticipated operating results;
- construction costs of a property exceeding original estimates;
- delays in construction; and
- expenditure of funds on, and the devotion of management time to, transactions that may not come to fruition.

We are subject to control by our directors and officers. The directors and executive officers of the General Partner and members of their families and related entities owned approximately 33.84% of our depositary receipts as of December 31, 2012. Additionally, management decisions rest with our General Partner without limited partner approval.

Competition for skilled personnel could increase our labor costs. We and our management company compete with various other companies in attracting and retaining qualified and skilled personnel who are responsible for the day-to-day operations of our properties. Competitive pressures may require that we enhance our pay and benefits package to compete effectively for such personnel. We may not be able to offset such added costs by increasing the rates we charge our tenants. If there is an increase in these costs or if we fail to attract and retain qualified and skilled personnel, our business and operating results could be harmed.

We depend on our key personnel. Our success depends to a significant degree upon the continued contribution of key members of the management company, who may be difficult to replace. The loss of services of these executives could have a material adverse effect on us. There can be no assurance that the services of such personnel will continue to be available to us. We do not hold key-man life insurance on any of our key personnel.

Changes in market conditions could adversely affect the market price of our Depositary Receipts. As with other publicly traded equity securities, the value of our depositary receipts depends on various market conditions, which may change from time to time. Among the market conditions that may affect the value of our depositary receipts are the following:

- the extent of investor interest in us;
- the general reputation of real estate companies and the attractiveness of our equity securities in comparison to other equity securities, including securities issued by other real estate companies;
- our financial performance; and
- general stock and bond market conditions.

The market value of our depositary is based primarily upon the market's perception of our growth potential and our current and potential future earnings and cash distributions. Consequently, our depositary receipts may trade at prices that are higher or lower than our net asset value per depositary receipt.

We face possible risks associated with the physical effects of climate change. We cannot predict with the certainty whether climate change is occurring and, if so at what rate. However, the physical effects of climate change could have a material effect on our properties, operations, and business. To the extent climate change causes changes in weather patterns, our markets could experience increases in storm intensity and rising sea levels. Over time, these conditions could result in declining demand for our buildings or the inability of us to operate the buildings at all. Climate change may also have indirect effects on our business by increasing the cost of (or making unavailable) property insurance on terms we find acceptable, increasing the cost of energy and increasing the cost of snow removal at our properties. Proposed federal legislation to address climate change could increase utility and other costs of operating our properties which, if not offset by rising rental income, would reduce our net income. There can be no assurance that climate change will not have a material adverse effect on our properties, operations or business.

Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer. In the ordinary course of our business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our tenants and business partners, including personally identifiable information of our tenants and employees, in our data centers and on our networks. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, disrupt our operations, and damage our reputation, which could adversely affect our business.

Risk of changes in the tax law applicable to real estate partnerships. Since the Internal Revenue Service, the United States Treasury Department and Congress frequently review federal income legislation, we cannot predict whether, when or to what extent new federal tax laws, regulations, interpretations or rulings will be adopted. Any such legislative action may prospectively or retroactively modify our tax treatment and therefore, may adversely affect taxation to us, and/or our partners.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Partnership and its Subsidiary Partnerships own the Apartment Complexes, the Condominium Units, the Commercial Properties and a 40-50% interest in nine Investment Properties.

See also "Item 13. Certain Relationships and Related Transactions and Director Independence" for information concerning affiliated transactions.

Apartment Complexes

The table below lists the location of the 2,251 Apartment Units, the number and type of units in each complex, the range of rents and vacancies as of February 1, 2013, the principal amount

outstanding under any mortgages as of December 31, 2012, the fixed interest rates applicable to such mortgages, and the maturity dates of such mortgages.

<u>Apartment Complex</u>	<u>Number and Type of Units</u>	<u>Rent Range</u>	<u>Vacancies</u>	<u>Mortgage Balance and Interest Rate As of December 31, 2012</u>	<u>Maturity Date of Mortgage</u>
Battle Green LLC	48 units		0	\$ 4,893,448	2026
34-42 Worthen Road	0 three-bedroom	N/A		4.95%	
Lexington, MA	24 two-bedroom	\$1,860-2,150			
	24 one-bedroom	\$1,490-1,710			
	0 studios	N/A			
Boylston Downtown L.P.	269 units		0	\$19,500,000	2013
62 Boylston Street	0 three-bedroom	N/A		4.84%	
Boston, MA	0 two-bedroom	N/A			
	53 one-bedroom	\$1,650-2,500			
	216 studios	\$1,190-1,850			
Brookside Associates, LLC	44 units		2	\$ 2,723,830	2020
5-7-10-12 Totman Road	0 three-bedroom	N/A		5.81%	
Woburn, MA	34 two-bedroom	\$1,175-1,340			
	10 one-bedroom	\$1,100-1,160			
	0 studios	N/A			
Clovelly Apartments L.P.	103 units		2	\$ 4,160,000	2023
160-170 Concord Street	0 three-bedroom	N/A		5.62%	
Nashua, NH	53 two-bedroom	\$865-1,260			
	50 one-bedroom	\$800-935			
	0 studios	N/A			
Commonwealth 1137 L.P.	35 units		0	\$ 3,750,000	2023
1131-1137 Commonwealth Ave.	29 three-bedroom	\$1,800-2,550		5.65%	
Allston, MA	4 two-bedroom	\$1,625-1,800			
	1 one-bedroom	\$775			
	1 studio	\$950			
Commonwealth 1144 L.P.	261 units		0	\$14,780,000	2023
1144-1160 Commonwealth Ave.	0 three-bedroom	N/A		5.61%	
Allston, MA	11 two bedroom	\$1,050-1,450			
	109 one-bedroom	\$875-1,425			
	141 studios	\$750-1,150			
Courtyard at Westgate, LLC	20 units		0	\$ 2,000,000	2015
105-107 Westgate Drive	0 three-bedroom	N/A		5.25%	
Burlington, MA	12 two bedroom	\$1,500-1,925			
	8 one-bedroom	\$1,235-1,360			
	0 studios	N/A			
Dean Street Associates, LLC	69 units		0	\$ 5,213,958	2014
38-48 Dean Street	0 three-bedroom	N/A		5.13%	
Norwood, MA	66 two-bedroom	\$1,150-1,325			
	3 one-bedroom	\$1,125			
	0 studios	N/A			
Executive Apartments L.P.	72 units		3	\$ 2,415,000	2023
545-561 Worcester Road	1 three-bedroom	\$1,350		5.59%	
Framingham, MA	47 two-bedroom	\$1,000-1,200			
	24 one-bedroom	\$760-1,100			
	0 studios	N/A			

<u>Apartment Complex</u>	<u>Number and Type of Units</u>	<u>Rent Range</u>	<u>Vacancies</u>	<u>Mortgage Balance and Interest Rate As of December 31, 2012</u>	<u>Maturity Date of Mortgage</u>
Hamilton Oaks Associates, LLC	268 units		10	\$11,925,000	2023
30–50 Oak Street Extension	0 three-bedroom	N/A		5.59%	
40–60 Reservoir Street	96 two-bedroom	\$1,200–1,325			
Brockton, MA	159 one-bedroom	\$840–1,050			
	13 studios	\$770–850			
Highland Street Apartments L.P.	36 units		2	\$ 1,050,000	2023
38–40 Highland Street	0 three-bedroom	N/A		5.59%	
Lowell, MA	24 two-bedroom	\$900–1,000			
	10 one-bedroom	\$775–885			
	2 studios	\$800			
Linhart L.P.	9 units		0	\$ 1,964,119	2014
4–34 Lincoln Street	0 three-bedroom	N/A		4.25%	
Newton, MA	0 two-bedroom	N/A			
	5 one-bedroom	\$1,050–1,250			
	4 studios	\$950–1,000			
Nashoba Apartments L.P.	32 units		1	\$ 2,000,000	2013
284 Great Road	0 three-bedroom	N/A		5.30%	
Acton, MA	32 two-bedroom	\$1,165–1,500			
	0 one-bedroom	N/A			
	0 studios	N/A			
North Beacon 140 L.P.	65 units		0	\$ 6,937,000	2023
140–154 North Beacon Street	10 three-bedroom	\$2,100–2,350		5.59%	
Brighton, MA	54 two-bedroom	\$1,550–1,870			
	1 one-bedroom	\$800			
	0 studios	N/A			
Olde English Apartments L.P.	84 units		1	\$ 3,080,000	2023
703–718 Chelmsford Street	0 three-bedroom	N/A		5.63%	
Lowell, MA	47 two-bedroom	\$990–1,215			
	30 one-bedroom	\$900–1,125			
	7 studios	\$825–900			
Redwood Hills L.P.	180 units		6	\$ 6,743,000	2023
376–384 Sunderland Road	0 three-bedroom	N/A		5.59%	
Worcester, MA	89 two-bedroom	\$995–1,225			
	91 one-bedroom	\$825–975			
	0 studios	N/A			
River Drive L.P.	72 units		1	\$ 3,465,000	2023
3–17 River Drive	0 three-bedroom	N/A		5.62%	
Danvers, MA	60 two-bedroom	\$1,025–1,225			
	5 one-bedroom	\$950–990			
	7 studios	\$825–890			
School Street 9, LLC	184 units		7	\$15,308,474	2013
9 School Street	0 three-bedroom	N/A		5.47%	
Framingham, MA	96 two-bedroom	\$1,145–1,350			
	88 one-bedroom	\$900–1,150			
	0 studios	N/A			
WCB Associates, LLC	180 units		3	\$ 7,000,000	2023
10–70 Westland Street	1 three-bedroom	\$1,200		5.66%	
985–997 Pleasant Street	94 two-bedroom	\$1,010–1,150			
Brockton, MA	85 one-bedroom	\$825–950			
	0 studios	N/A			

<u>Apartment Complex</u>	<u>Number and Type of Units</u>	<u>Rent Range</u>	<u>Vacancies</u>	<u>Mortgage Balance and Interest Rate As of December 31, 2012</u>	<u>Maturity Date of Mortgage</u>
Westgate Apartments, LLC	220 units		1	\$ 7,931,885	2014
2-20 Westgate Drive	0 three-bedroom	N/A		7.07%	
Woburn, MA	110 two-bedroom	\$1,190-1,500			
	110 one-bedroom	\$880-1,310			
	0 studios	N/A			

Current free rent concessions would result in an average reduction in unit rents of less than \$1.77 per month per unit. Free rent expense amortized in 2012 was approximately \$48,000 compared to approximately \$231,000 in 2011.

On June 1, 2011, the Partnership purchased the Battle Green Apartments, a 48 unit residential apartment complex located at 34-42 Worthen Road, Lexington, Massachusetts. The purchase price was \$10,000,000. The purchase price equates to a capitalization rate of 5.0% on the trailing 12 months actual operating income provided by the seller. Operating income is equal to earnings before interest, depreciation and income taxes. Based on the Partnerships operating expectation, the capitalization rate for this investment is 6.2%. The Partnership used cash reserves, the proceeds from the sale of Avon Street and borrowed \$3,998,573 from Harold Brown, Treasurer of the General Partner to make this purchase. This loan had an interest rate of 6% and was secured by the Partnership's ownership interest in Battle Green Apartments, LLC. On July 27, 2011, the Partnership financed the Battle Green Apartments with a new \$5,000,000 mortgage at 4.95% which matures in August 2026. Proceeds for the financing were used to pay off the loan from Harold Brown and the balance was deposited in the Partnerships operating account. Principal payments will be made using a 30 year amortization schedule. See Note 2 to the Consolidated Financial statements for additional information.

See Note 5 to the Consolidated Financial Statements, included as part of this Form 10-K, for information relating to the mortgages payable of the Partnership and its Subsidiary Partnerships.

Condominium Units

The Partnership owns and leases to residential tenants 19 Condominium Units in the metropolitan Boston area of Massachusetts.

The table below lists the location of the 19 Condominium Units, the type of units, the range of rents received by the Partnership for such units, and the number of vacancies as of February 1, 2013.

<u>Condominiums</u>	<u>Number and Type of Units Owned by Partnership</u>	<u>Rent Range</u>	<u>Vacancies</u>	<u>Mortgage Balance and Interest Rate As of December 31, 2012</u>	<u>Maturity Date of Mortgage</u>
Riverside Apartments	19 units		0	—	—
8-20 Riverside Street	0 three-bedroom	N/A			
Watertown, MA	12 two-bedroom	\$1,275-1,500			
	5 one-bedroom	\$1,250-1,350			
	2 studios	\$1,075			

Commercial Properties

BOYLSTON DOWNTOWN LP. In 1995, this Subsidiary Partnership acquired the Boylston Downtown property in Boston, Massachusetts ("Boylston"). This mixed-use property includes 17,218 square feet of rentable commercial space. As of February 1, 2013, the commercial space had a 0% vacancy rate, and the average rent per square foot was \$24.74. For mortgage balance, interest rate and maturity date information see "Apartment Complexes," above.

HAMILTON OAKS ASSOCIATES, LLC. The Hamilton Oaks Apartment complex, acquired by the Partnership in December 1999 through Hamilton Oaks Associates, LLC, includes 6,075 square feet of rentable commercial space, occupied by a daycare center. As of February 1, 2013, the commercial space was fully occupied, and the average rent per square foot was \$12.50. The Partnership also rents roof space for a cellular phone antenna at an average rent of approximately \$36,794 per year through November 2015. For mortgage balance, interest rate and maturity date information see “Apartment Complexes,” above.

LINHART LP. In 1995, the Partnership acquired the Linhart property in Newton, Massachusetts (“Linhart”). This mixed-use property includes 21,555 square feet of rentable commercial space. As of February 1, 2013, the commercial space was fully occupied, and the average rent per square foot was \$24.34. For mortgage balance, interest rate and maturity date information see “Apartment Complexes,” above.

NORTH BEACON 140 LP. In 1995, this Subsidiary Partnership acquired the North Beacon property in Boston, Massachusetts (“North Beacon”). This mixed-use property includes 1,050 square feet of rentable commercial space. The property was fully rented as of February 1, 2013, and the average rent per square foot as of that date was \$32.50. For mortgage balance, interest rate and maturity date information see “Apartment Complexes,” above.

STAPLES PLAZA. In 1999, the Partnership acquired the Staples Plaza shopping center in Framingham, Massachusetts (“Staples Plaza”). The shopping center consists of 39,600 square feet of rentable commercial space. As of December 31, 2012, the mortgage had an outstanding balance \$6,000,000 with interest rate of 5.97%, matures in 2018. As of February 1, 2013, Staples Plaza was fully occupied, and the average net rent per square foot was \$22.26.

HAMILTON LINEWT ASSOCIATES, LLC. In 2007, the Partnership acquired a retail block in Newton, Massachusetts. The property consists of approximately 6,000 square feet of rentable commercial space. The property was fully rented at an average rent of \$35.63 per square foot. The Partnership obtained a mortgage in January 2008 of \$1,700,000 on this property. The mortgage balance at December 31, 2012 is \$1,528,429 the interest rate is 5.75% and matures in January 2018.

HAMILTON CYPRESS LLC. In 2008, the Partnership acquired a medical office building in Brookline, Massachusetts. The property consists of approximately 20,000 square feet of rentable commercial space at December 31, 2012. The property was 71% occupied at an average rent of \$35.21 per square foot. One lease covering 7,037 square feet is expiring on March 31, 2013 which will increase the vacancy rate to 64%. The new rents are expected to average \$34.00 per square foot. The Partnership assumed a mortgage of approximately \$4,011,000. The mortgage balance at December 31, 2012 is \$3,686,380, the interest rate is 5.92% and matures in May 2013. This mortgage was paid off on February 25, 2013.

The following information is provided for commercial leases:

<u>Thru December 31,</u>	<u>Annual base rent for expiring leases</u>	<u>Total square feet for expiring leases</u>	<u>Total number of leases expiring</u>	<u>Percentage of Annual base rent for expiring leases</u>
2013	\$ 470,463	23,773	11	17%
2014	588,422	29,523	10	22%
2015	266,098	8,471	8	10%
2016	593,346	27,073	3	22%
2017	448,101	11,997	6	16%
2018	58,050	1,262	1	2%
2019	200,375	5,800	2	7%
2020	64,657	1,106	1	2%
2021	64,800	1,800	1	2%
2022	0	—	—	0%
Totals	<u>\$2,754,312</u>	<u>110,805</u>	<u>43</u>	<u>100%</u>

Commercial rental income is accounted for using the straight line method. Forty percent of our commercial leases contain rent escalations which range from \$0.50 – \$2.00 per square foot per year.

Investment Properties

See Note 14 to the Financial Statements and Exhibit 99.1 for additional information regarding the Investment Properties.

The Partnership has a 50% ownership interest in the properties summarized below:

<u>Investment Properties</u>	<u>Number and Type of Units</u>	<u>Range</u>	<u>Vacancies</u>	<u>Mortgage Balance and Interest Rate As of December 31, 2012</u>	<u>Maturity Date of Mortgage</u>
345 Franklin, LLC	40 Units		0	\$ 6,850,179	2014
345 Franklin Street Cambridge, MA	0 three-bedroom	N/A		6.90%	
	39 two-bedroom	\$2,200–2,750			
	1 one-bedroom	\$1,900			
	0 studios	N/A			
Hamilton on Main Apartments, LLC	148 Units		2	\$15,611,045	2015
223 Main Street Watertown, MA	0 three-bedroom	N/A		5.18%	
	93 two-bedroom	\$1,350–1,750			
	31 one-bedroom	\$1,200–1,650			
	24 studios	\$1,050–1,225			
Hamilton Minuteman, LLC	42 Units		0	\$ 5,433,472	2017
1 April Lane Lexington, MA	0 three-bedroom	N/A		5.67%	
	40 two-bedroom	\$1,485–1,850			
	2 one-bedroom	\$1,475–1,500			
	0 studios	N/A			
Hamilton Essex 81 LLC	49 Units		0	\$ 8,352,317	2016
Residential	0 three-bedroom	N/A		5.79%	
81–83 Essex Street Boston, Massachusetts	11 two-bedroom	\$1,390–2,225			
	38 one-bedroom	\$1,315–1,575			
	0 studios	N/A			
Hamilton Essex Development LLC	Parking Lot			\$ 2,093,184	2013
Commercial 81–83 Essex Street Boston, Massachusetts				2.8%	

<u>Investment Properties</u>	<u>Number and Type of Units</u>	<u>Range</u>	<u>Vacancies</u>	<u>Mortgage Balance and Interest Rate As of December 31, 2012</u>	<u>Maturity Date of Mortgage</u>
Hamilton 1025, LLC	48 Units		1	\$ 4,934,741	2016
Units to be retained	0 three-bedroom	N/A		5.67%	
1025 Hancock Street	32 two-bedroom	\$1,450–1,600			
Quincy, Massachusetts	16 one-bedroom	\$1,300–1,350			
	0 studios	N/A			
Hamilton Bay, LLC(A)	15 Units		2	\$ 1,668,000	2013
Units held for sale	0 three-bedroom	N/A		5.75%	
165–185 Quincy Shore Drive	0 two-bedroom	N/A			
Quincy, Massachusetts	15 one-bedroom	\$1,294–1,450			
	0 studios	N/A			
Hamilton Bay Apartments, LLC	48 Units		1	\$ 4,702,087	2017
165–185 Quincy Shore Drive	0 three-bedroom	N/A		5.57%	
Quincy, Massachusetts	24 two-bedroom	\$1,350–1,800			
	24 one-bedroom	\$1,350–1,750			

The Partnership has a 40% ownership interest in the property summarized below:

Hamilton Park Towers, LLC	409 Units		0	\$88,611,686	2019
175–185 Freeman Street,	71 three-bedroom	\$2,075–4,020		5.57%	
Brookline,	227 two-bedroom	\$2,025–3,325			
Massachusetts	111 one-bedroom	\$1,600–2,450			
	0 studios				

Current free rent concessions would result in an average reduction in unit rents of less than \$1.00 per month per unit.

(A) Represents unsold units at February 1, 2013.

345 FRANKLIN, 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. This property has a 12-year mortgage, with a remaining balance at December 31, 2012 of approximately \$6,850,000 at 6.9% which is amortized on a 30-year schedule, with a final payment of approximately \$6,685,000 in 2014. This investment is referred to as 345 Franklin, LLC.

HAMILTON ON MAIN, 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 (approximately \$50,000 per unit). The majority of the sales proceeds were 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 is \$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. Hamilton on Main LLC paid a fee of approximately \$400,000 in connection with this early extinguishment of debt. At December 31, 2012, the remaining balance on the mortgage is approximately \$15,611,000.

HAMILTON MINUTEMAN, LLC. 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 December 31, 2012 the remaining balance on this mortgage is approximately \$5,433,000. This investment is referred to as Hamilton Minuteman, LLC.

HAMILTON ESSEX 81, LLC. On March 7, 2005, the Partnership invested \$2,000,000 for a 50% ownership interest in a building comprising 49 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 \$8,600,000 at 5.79% amortized over 30 years, due in August 2016. The mortgage on Essex Development, LLC, or the parking lot is \$2,144,796 with a variable interest rate of 2.25% over the daily Libor rate (0.21% at December 31, 2012) and was originally due in August 2011. 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. 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. At December 31, 2012 the remaining balance on the mortgage at Essex 81 LLC is approximately \$8,352,000 and the remaining balance on the mortgage at Essex Development is approximately \$2,093,000. 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.

HAMILTON 1025, 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. At December 31, 2012, the mortgage balance is approximately \$4,935,000. This investment is referred to as Hamilton 1025, LLC.

HAMILTON BAY, LLC. 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 plans to sell the majority of units as condominium and retain 48 units for long-term investment. Gains from the sales of units will be taxed at ordinary income rates

(approximately \$47,000 per unit). In February 2007, the Partnership refinanced the 48 units which will be retained 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. The balance on the mortgage is approximately \$4,700,000 at December 31, 2012. 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 matures in 2013. At December 31, 2012, 15 of the 20 units are still owned by the Partnership. No unit was sold during the year ended December 31, 2012. As of February 1, 2013, the Partnership sold 105 units, the proceeds of which went to pay down the mortgage on the property. The balance on the new mortgage is approximately \$1,668,000 at December 31, 2012. This investment is referred to as Hamilton Bay, LLC.

HAMILTON PARK TOWERS, LLC 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 is \$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 \$88,612,000 at December 31, 2012. 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 is four years with a provision requiring payment in whole or in part upon demand by HBC with six months notice. On August 17, 2010, HBC gave six months written notice to the Partnership requesting a principal pay down of \$2,500,000. During the fourth quarter of 2010, the Partnership paid HBC \$2,500,000 as requested. During 2011, the Partnership elected to make principal payments of \$1,000,000 on August 1, 2011, \$1,000,000 on October 3, 2011, and an additional \$1,000,000 on December 15, 2011 reducing the loan balance to \$1,668,600. This loan will remain subject to the original terms of the Note, including HBC’s right to demand payment of the balance of the loan in whole or in part upon six months notice. The interest paid during the year ended December 31, 2012 and 2011 was \$18,960 and \$238,673, respectively. This loan is collateralized by the Partnership’s 99% ownership interest in 62 Boylston Street. 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. . The intangible asset was fully amortized effective November 2010. This investment, Hamilton Park Towers, LLC is referred to as Dexter Park.

ITEM 3. LEGAL PROCEEDINGS

The Partnership, the Subsidiary Partnerships, and the Investment Properties and their properties are not presently subject to any material litigation, and, to management’s knowledge, there is not any material litigation presently threatened against them. The properties are occasionally subject to ordinary routine legal and administrative proceedings incident to the ownership of residential and commercial real estate. Some of the legal and other expenses related to these proceedings are covered by insurance and none of these costs and expenses are expected to have a material adverse effect on the Consolidated Financial Statements of the Partnership.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Each Class A Unit is exchangeable, through Computershare Trust Company (“Computershare”) (formerly Equiserve LP), the Partnership’s Depository Agent, for 30 Depository Receipts (“Receipts”). The Receipts are listed and publicly traded on the NYSE Amex Exchange under the symbol “NEN.” There has never been an established trading market for the Class B Units or General Partnership Units.

In 2012, the high and low bid quotations for the Receipts were \$30.84 and \$23.02 respectively. The table below sets forth the high and low bids for each quarter of 2012 and 2011 and the distributions paid on the Partnership’s Depository Receipts:

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

All references to Depository Receipts in the report are reflective of the 3-for-1 forward split.

	2012				2011			
	Low Bid	High Bid	Close	Distributions	Low Bid	High Bid	Close	Distributions
First Quarter	\$23.02	\$28.96	\$27.50	\$0.25	\$21.35	\$22.58	\$22.27	\$0.233
Second Quarter	\$25.00	\$28.48	\$27.25	\$0.25	\$21.75	\$23.85	\$22.90	\$0.233
Third Quarter	\$25.98	\$29.98	\$28.97	\$0.25	\$20.53	\$24.00	\$22.98	\$0.233
Fourth Quarter	\$28.06	\$30.84	\$29.70	\$0.25	\$20.45	\$24.84	\$23.75	\$0.233

Distribution to Limited & General Partners were:

	2012	2011
Class A—Limited Partners (80%)	\$3,145,928	\$2,945,253
Class B—Limited Partners (19%)	747,158	699,497
Class C—General Partner (1%)	39,324	36,816
Total	<u>\$3,932,410</u>	<u>\$3,681,566</u>

On March 15, 2013, the closing price on the NYSE Amex Exchange for a Depository Receipt was \$35.50. There were 2,990,182 Depository Receipts outstanding and 4,359 Units (representing 130,770 receipts) held by 1,063 record holders.

Any portion of the Partnership’s cash, which the General Partner deems not necessary for cash reserves, is distributed to the Partners, and distributions are made on a quarterly basis. The Partnership has made annual distributions to its Partners since 1978. In 2012, the Partnership made distributions of \$30.00 per Unit (\$1.00 per Receipt) and in 2011, the Partnership made distributions of \$28.00 per Unit, (\$0.93 per Receipt). The total value of the distribution in 2012 was \$3,932,410 and \$3,681,566 in 2011. In February 2013, the Partnership declared a quarterly distribution of \$7.50 per Unit (\$0.25 per Receipt) payable on March 31, 2013.

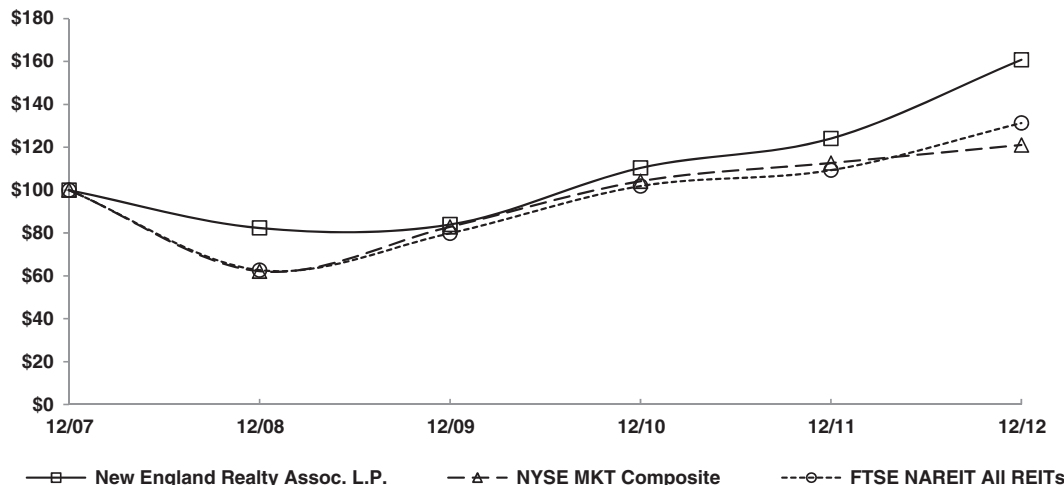
See “Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” for certain information relating to the number of holders of each class of Units.

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 December 31, 2012, the Partnership has repurchased 1,219,927 Depositary Receipts at an average price of \$24.62 per receipt (or \$738.60 per underlying Class A Unit), 1,921 Class B Units and 101 General Partnership Units, both at an average price of \$613.94 per Unit, totaling approximately \$31,386,000 including brokerage fees paid by the Partnership.

On September 17, 2008, the Partnership completed the issuance of an aggregate of 6,642 Class A Units held in treasury to current holders of Class B and General Partner Units upon the simultaneous retirement to treasury of 6,309 Class B Units and 333 General Partner Units pursuant to an equity distribution plan authorized by the Board of Directors of the General Partner on August 8, 2008 and as further described under Item 3.02 of the Partnership’s Current Report on Form 8-K as filed with the Securities and Exchange Commission on September 18, 2008, which is incorporated herein by reference. Harold Brown, the treasurer of the General Partner, owns 75% of the issued and outstanding Class B Units of the Partnership and 75% of the issued and outstanding equity of the General Partner, Ronald Brown, the brother of Harold Brown and the president of the General Partner, owns 25% of the issued and outstanding Class B Units of the Partnership and 25% of the issued and outstanding equity of the General Partner.

See Note 8 to the Consolidated Financial Statements for information concerning this repurchase program.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among New England Realty Assoc. L.P., the NYSE MKT Composite Index,
and the FTSE NAREIT All REITs Index



*\$100 invested on 12/31/07 in stock or index, including reinvestment of dividends.
 Fiscal year ending December 31.

The Partnership does not have any securities authorized for issuance under any equity compensation plans that are subject to disclosure under Item 201(d) of Regulation S-K.

ITEM 6. SELECTED FINANCIAL DATA

The information required by this Item is included on page 49 of this Form 10-K.

ITEM 7. 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 2012 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.

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 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.

- 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.

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 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.

Fourth quarter results reflect the high occupancy and increased rental rates that took hold during the second half of 2012. Demand imbalance and limited supply in September solidified the Partnership's revenue for the fourth quarter of 2012 and the first half of 2013. Revenues for the year exceeded those of 2011, operating expenses declined and operating income increased by approximately 13.7% for 2012 over 2011. Both national and local improvements in employment and the general business cycle continue to point to future revenue growth for 2013. Management expects operating expenses for 2013 to be relatively flat resulting in another year of improvement to operating income. It is unclear to management if the present consumer shift to rental housing versus home ownership is permanent or temporary. However, management believes that until this trend changes, upward pressure on rental rates will continue for the foreseeable future. Present empirical experience regarding the Partnership's occupancy level coupled with other anecdotal experiences leads Management to believe that the next 18-24 months will see positive revenue growth and sustained high occupancy.

While revenue from continuing operations increased by over 4.7% for 2012, expenses excluding depreciation for 2012 versus 2011 have actually declined by 0.9%. Increases in administrative expenses, management fee, repairs and maintenance expenses and taxes and insurance were offset by a 49.7% reduction in renting expenses and an 11.0% reduction in operating expenses. Bad debts also decreased 47%. The Partnership has experienced a 50% decrease in vacancy loss and an 85% decrease in rental concessions. An unseasonably warm winter and management's capitalization on energy conversion and purchasing power also led to a 6.6% reduction in utility costs.

Management expects to refinance approximately \$46,000,000 of maturing debt in 2013. The amount of the new loans will be approximately total of \$72,000,000 resulting in additional debt of approximately \$25,000,000. Upon receipt, management will consider deploying the excess refinancing proceeds to future acquisitions, stock repurchase and retirement of existing debt. Management will continue to balance and weigh each of these investment options. It is anticipated that the interest rates

on new debt will be less than the current interest rate. Management believes the existing trading range for the stock is worthy of continuing its Depositary Receipt Repurchase Program. Pursuant to which, 9,709 shares were acquired during the first quarter of 2013 at a total cost of \$321,240. When appropriate, Management will continue to repurchase shares per its trading plan and allowed by the SEC. Management continues to weigh investment alternatives including acquiring additional properties against cash liquidity and the current depositary receipt price. Management believes the increase in distributions in 2012 was appropriate given the sustained performance of the portfolio and the expected future earnings of the Partnership.

The Stock Repurchase Program that was initiated in 2007 has purchased 1,229,636 Depositary Receipts through March 12, 2013 or 30% of the outstanding class A Depositary Receipts. The Partnership has retained The Hamilton Company (“Hamilton”) to manage and administer the Partnership’s and Joint Ventures’ Properties. Hamilton is a full-service real estate management company, which has legal, construction, maintenance, architectural, accounting and administrative departments. The Partnership’s properties represent approximately 36% of the total properties and 42% of the residential properties managed by Hamilton. Substantially all of the other properties managed by Hamilton are owned, wholly or partially, directly or indirectly, by Harold Brown. The Partnership’s Second Amended and Restated Contract of Limited Partnership (the “Partnership Agreement”) expressly provides that the general partner may employ a management company to manage the properties, and that such management company may be paid a fee of up to 4% of rental receipts for administrative and management services (the “Management Fee”). The Partnership pays Hamilton the full annual Management Fee, in monthly installments.

At March 1, 2013, 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. One of NewReal’s directors, Roberta Ornstein also owns immaterial amounts of the Partnership’s Class A receipts. 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. In 2012, tenant renewals were approximately 67% with an average rental increase of approximately 3.7%, new leases accounted for approximately 33% with rental rate increases of approximately 5.2%. In 2012, leasing commissions decreased approximately 56% from 2011, while tenant concessions decreased approximately 36.6% from 2011. Tenant improvements were approximately \$1,159,000 in 2012, compared to approximately \$1,195,000 in 2011, a decrease of approximately \$36,000.

Hamilton accounted for approximately 5.7% of the repair and maintenance expense paid for by the Partnership in the year ended December 31, 2012 and 4.4% in the year ended December 31, 2011. 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 83% and 69% of the legal services paid for by the Partnership during the years ended December 31, 2012 and 2011, respectively.

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

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. In 2012, Hamilton provided the Partnership approximately \$40,000 in construction and architectural services, compared to \$56,000 for the year ended December 31, 2011.

Prior to 1991, the Partnership employed an outside, unaffiliated company to perform its bookkeeping and accounting functions. Since that time, such services have been provided by Hamilton's accounting staff, which consists of approximately 14 people. In 2012, Hamilton charged the Partnership \$125,000 per year (\$31,250 per quarter) 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 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 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 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 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 for the years ended December 31, 2012, 2011, and 2010.

Rental Property Held for Sale and Discontinued Operations: When 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.

Investments in Partnerships: The Partnership accounts for its 40%-50% ownership in the Investment Properties under the equity method of accounting, as it exercises significant influence over, but does not control these entities. These investments are recorded initially at cost, as Investments in Partnerships, and subsequently adjusted for the Partnership's share in earnings, cash contributions and distributions. Under the equity method of accounting, our net equity is reflected on the consolidated balance sheets, and our share of net income or loss from the Partnership is included on the consolidated statements of income.

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

Years Ended December 31, 2012 and December 31, 2011

The Partnership and its Subsidiary Partnerships earned income before interest expense, loss from investments in unconsolidated joint ventures and other income and loss of approximately \$12,922,000 during the year ended December 31, 2012, compared to approximately \$11,365,000 for the year ended December 31, 2011, an increase of approximately \$1,557,000.

The rental activity is summarized as follows:

	Occupancy Date	
	<u>February 1, 2013</u>	<u>February 1, 2012</u>
Residential		
Units	2,270	2,270
Vacancies	39	32
Vacancy rate	1.7%	1.4%
Commercial		
Total square feet	110,949	110,949
Vacancy	5,500	0
Vacancy rate	5.0%	0%

	Rental Income (in thousands)			
	Year Ended December 31,			
	<u>2012</u>		<u>2011</u>	
	<u>Total Operations</u>	<u>Continuing Operations</u>	<u>Total Operations</u>	<u>Continuing Operations</u>
Total rents	\$35,244	\$35,244	\$33,958	\$33,609
Residential percentage	90%	90%	90%	90%
Commercial percentage	10%	10%	10%	10%
Contingent rentals	\$ 661	\$ 661	\$ 633	\$ 633

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011:

	Year Ended December 31,		Dollar Change	Percent Change
	2012	2011		
Revenues				
Rental income	\$35,244,008	\$33,608,799	\$ 1,635,209	4.9%
Laundry and sundry income	388,401	426,803	(38,402)	(9.0)%
	<u>35,632,409</u>	<u>34,035,602</u>	<u>1,596,807</u>	<u>4.7%</u>
Expenses				
Administrative	1,825,951	1,707,408	118,543	6.9%
Depreciation and amortization	6,092,725	5,910,746	181,979	3.1%
Management fee	1,446,620	1,404,467	42,153	3.0%
Operating	3,633,619	4,080,647	(447,028)	(11.0)%
Renting	183,529	365,110	(181,581)	(49.7)%
Repairs and maintenance	5,179,408	5,056,054	123,354	2.4%
Taxes and insurance	4,348,492	4,146,554	201,938	4.9%
	<u>22,710,344</u>	<u>22,670,986</u>	<u>39,358</u>	<u>0.2%</u>
Income Before Other Income and Discontinued Operations				
	<u>12,922,065</u>	<u>11,364,616</u>	<u>1,557,449</u>	<u>13.7%</u>
Other Income (loss)				
Interest income	2,216	3,861	(1,645)	(42.6)%
Interest expense	(7,802,999)	(7,965,422)	162,423	(2.0)%
(Loss) from investments in unconsolidated joint ventures	(1,487,484)	(1,913,800)	426,316	(22.3)%
	<u>(9,288,267)</u>	<u>(9,875,361)</u>	<u>587,094</u>	<u>(5.9)%</u>
Income From Continuing Operations				
	<u>3,633,798</u>	<u>1,489,255</u>	<u>2,144,543</u>	<u>144.0%</u>
Discontinued Operations				
Income from discontinued operations	—	81,567	(81,567)	(100.0)%
Gain on the sale of real estate from discontinued operations	—	7,720,459	(7,720,459)	(100.0)%
	<u>—</u>	<u>7,802,026</u>	<u>(7,802,026)</u>	<u>(100.0)%</u>
Net Income				
	<u>\$ 3,633,798</u>	<u>\$ 9,291,281</u>	<u>\$(5,657,483)</u>	<u>(60.9)%</u>

Rental income from continuing operations for the year ended December 31, 2012 was approximately \$35,244,000, compared to approximately \$33,609,000 for the year ended December 31, 2011, an increase of approximately \$1,635,000 (4.9%). There are a number of factors which can be attributed to this increase as follows: the acquisition of the Battle Green Apartments in June 2011 resulted in an increase in rental income of approximately \$430,000; and rental rate increases of approximately 4.2% in 2012. The Partnership Properties with the most significant increases in rental income include 62 Boylston Street, Westgate Woburn, 1144 Commonwealth Avenue and School Street with increases of approximately \$293,000, \$178,000, \$115,000, and \$105,000, 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 year ended December 31, 2012 were approximately \$22,710,000 compared to approximately \$22,671,000 for the year ended December 31, 2011, an increase of approximately \$39,000 (0.2%). The most significant factors contributing to this increase were an increase in taxes and insurance of approximately \$202,000 (4.9%) due to increases in

both insurance premiums and real estate taxes; an increase in depreciation and amortization expenses of approximately \$182,000 (3.1%) due to the capital improvements to Partnership properties; an increase in repairs and maintenance expenses of approximately \$123,000 (2.4%) due to repairs at the properties to maintain occupancy and an increase in administrative expenses of approximately \$118,000 (6.9%) due primarily to increases in employee benefits and administrative service fees paid.

These increases are offset by a decrease in operating expenses of approximately \$447,000 (11.0%) due to a milder winter in 2012 resulting in lower snow removal and utility costs and a decrease in renting expenses of approximately \$182,000 (49.7%) due to a decrease in rental commissions and related rental expenses as a result of the increased demand for apartments and the lower vacancy levels.

Interest expense for the year ended December 31, 2012 was approximately \$7,803,000 compared to approximately \$7,965,000 for the year ended December 31, 2011, a decrease of approximately \$162,000 (2.0%). This decrease is due to a lower level of debt in 2012 compared to 2011.

At December 31, 2012, 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 \$1,487,000 for the year ended December 31, 2012, compared to approximately \$1,914,000 for the year ended December 31, 2011, a decrease in the loss of approximately \$426,000 (22.3%). This decrease in loss is consistent with the continued strength in the rental real estate market including approximately 5% increase in revenue. Included in the loss for the year ended December 31, 2012 is depreciation and amortization expense of approximately \$3,681,000. The allocable loss for the year ended December 31, 2012 associated with the October 2009 investment in Dexter Park is approximately \$981,000 of which approximately \$2,294,000 is depreciation and amortization.

Interest income for the year ended December 31, 2012 was approximately \$2,200 compared to approximately \$3,900 for the year ended December 31, 2011, a decrease of approximately \$1,700. This decrease is due to a drop in interest rates.

In June 2011, the Partnership sold the Avon Street Apartments located in Malden, Massachusetts. The net income from Avon Street for 2011 was approximately \$82,000 and the gain on the sale of Avon Street was approximately \$7,720,000. This is included in income from discontinued operations.

As a result of the changes discussed above, net income for the year ended December 31, 2012 was approximately \$3,634,000 compared to income of approximately \$9,291,000 for the year ended December 31, 2011, a decrease in income of approximately \$5,657,000.

Years Ended December 31, 2011 and December 31, 2010

The Partnership and its Subsidiary Partnerships earned income before interest expense, loss from investments in unconsolidated joint ventures and other income and loss of approximately \$11,365,000 during the year ended December 31, 2011, compared to approximately \$10,339,000 for the year ended December 31, 2010, an increase of approximately \$1,025,000 (9.9%).

The rental activity is summarized as follows:

	Occupancy Date	
	<u>February 1, 2012</u>	<u>February 1, 2011</u>
Residential		
Units	2,270	2,288
Vacancies	32	79
Vacancy rate	1.4%	3.5%
Commercial		
Total square feet	110,949	110,949
Vacancy	0	0
Vacancy rate	0%	0%

	Rental Income (in thousands)			
	Year Ended December 31,			
	<u>2011</u>		<u>2010</u>	
	<u>Total Operations</u>	<u>Continuing Operations</u>	<u>Total Operations</u>	<u>Continuing Operations</u>
Total rents	\$33,958	\$33,609	\$32,726	\$31,816
Residential percentage	90%	90%	90%	90%
Commercial percentage	10%	10%	10%	10%
Contingent rentals	\$ 633	\$ 633	\$ 653	\$ 653

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010:

	Year Ended December 31,		Dollar Change	Percent Change
	2011	2010		
Revenues:				
Rental income	\$33,608,799	\$ 31,816,175	\$ 1,792,624	5.6%
Laundry and sundry income	426,803	439,782	(12,979)	(3.0)%
	<u>34,035,602</u>	<u>32,255,957</u>	<u>1,779,645</u>	<u>5.5%</u>
Expenses				
Administrative	1,707,408	1,772,599	(65,191)	(3.7)%
Depreciation and amortization	5,910,746	5,531,509	379,237	6.9%
Management fees	1,404,467	1,330,157	74,310	5.6%
Operating	4,080,647	3,784,401	296,246	7.8%
Renting	365,110	528,686	(163,576)	(30.9)%
Repairs and maintenance	5,056,054	4,886,724	169,330	3.5%
Taxes and insurance	4,146,554	4,082,588	63,966	1.6%
	<u>22,670,986</u>	<u>21,916,664</u>	<u>754,322</u>	<u>3.4%</u>
Income Before Other Income and Discontinued Operations				
	<u>11,364,616</u>	<u>10,339,293</u>	<u>1,025,322</u>	<u>9.9%</u>
Other Income (Loss)				
Interest expense	(7,965,422)	(8,053,628)	88,206	(1.1)%
Interest income	3,861	5,932	(2,071)	(34.9)%
(Loss) from investment in unconsolidated joint ventures	(1,913,800)	(3,869,996)	1,956,196	(50.5)%
Other (loss)	—	(700)	700	(100.0)%
	<u>(9,875,361)</u>	<u>(11,918,392)</u>	<u>2,043,031</u>	<u>(17.1)%</u>
Income (loss) from Continuing Operations				
	<u>1,489,255</u>	<u>(1,579,099)</u>	<u>3,068,353</u>	<u>(194.3)%</u>
Discontinued Operations				
Income from discontinued operations	81,567	219,867	(138,300)	(62.9)%
Gain on the sale of real estate from discontinued operations	7,720,459	—	7,720,459	100.0%
	<u>7,802,026</u>	<u>219,867</u>	<u>7,582,159</u>	<u>3,448.5%</u>
Net Income (loss)				
	<u>\$ 9,291,281</u>	<u>\$ (1,359,232)</u>	<u>\$10,650,512</u>	<u>(783.6)%</u>

Rental income from continuing operations for the year ended December 31, 2011 was approximately \$33,609,000, compared to approximately \$31,816,000 for the year ended December 31, 2010, an increase of approximately \$1,793,000 (5.6%). There are a number of factors which can be attributed to this increase as follows: the acquisition of the Battle Green Apartments in June 2011 resulted in an increase of approximately \$552,000; the amortization in 2010 of approximately \$404,000 in connection with the free rents granted to tenants; an approximately 2% drop in the vacancies; and rental rate increases of approximately 2% – 4% in 2011. The Partnership Properties with the most significant increases in rental income include 62 Boylston Street, Hamilton Oaks, Westgate Woburn, Westside Colonial and 1144 Commonwealth Avenue with increases of approximately \$184,000, \$151,000, \$58,000, \$55,000 and \$38,000, 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 year ended December 31, 2011 were approximately \$22,671,000 compared to approximately \$21,917,000 for the year ended December 31, 2010, an increase of approximately \$754,000 (3.4%). The most significant factors contributing to this increase were an increase in depreciation and amortization expenses of approximately \$379,000 (6.9%) due to the acquisition of the Battle Green Apartments in June 2011; an increase in operating expenses of approximately \$296,000 (7.8%) due to increases in snow removal and water and sewer charges, an increase in repairs and maintenance expenses of approximately \$169,000 (3.5%) due to repairs at the properties to maintain occupancy and an increase in taxes and insurance of approximately \$64,000 (1.6%) due to increases in real estate taxes.

These increases are offset by a decrease in renting expenses of approximately \$164,000 (30.9%) due to a decrease in rental commissions and related rental expenses due to the increased demand for apartments and the lower vacancy levels, and a decrease in administrative expenses of approximately \$65,000 (3.7%) due to a decrease in administrative payroll.

Interest expense for the year ended December 31, 2011 was approximately \$7,965,000 compared to approximately \$8,054,000 for the year ended December 31, 2010, a decrease of approximately \$89,000 (1.1%). This decrease is due to a lower level of debt in 2011 compared to 2010.

At December 31, 2011, 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 \$1,914,000 for the year ended December 31, 2011, compared to approximately \$3,870,000 for the year ended December 31, 2010, a decrease in the loss of approximately \$1,956,000. This decrease in loss is due to the amortization of the in place leases of approximately \$1,600,000 in 2010. Included in the loss for the year ended December 31, 2011 is depreciation and amortization expense of approximately \$3,707,000. The allocable loss for the year ended December 31, 2011 associated with the October 2009 investment in Dexter Park is approximately \$1,152,000 of which approximately \$2,279,000 is depreciation and amortization.

Interest income for the year ended December 31, 2011 was approximately \$3,900 compared to approximately \$5,900 for the year ended December 31, 2010, a decrease of approximately \$2,000. This decrease is due to a drop in interest rates as well as a decrease in cash available for investment.

In June 2011, the Partnership sold the Avon Street Apartments located in Malden, Massachusetts. The net income from Avon Street for 2011 was approximately \$82,000 and the gain on the sale of Avon Street was approximately \$7,720,000. This is included in income from discontinued operations.

As a result of the changes discussed above, net income for the year ended December 31, 2011 was approximately \$9,291,000 compared to a loss of approximately \$1,359,000 for the year ended December 31, 2010, an increase in income of approximately \$10,650,000.

LIQUIDITY AND CAPITAL RESOURCES

The Partnership's principal source of cash during 2012 and 2011 was the collection of rents and proceeds on the sale of real estate. The majority of cash and cash equivalents of \$6,981,906 at December 31, 2012 and \$4,050,157 at December 31, 2011 were held in interest bearing accounts at creditworthy financial institutions.

This increase in cash of \$2,931,748 at December 31, 2012 is summarized as follows:

	<u>Year Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
Cash provided by operating activities	\$11,951,863	\$ 9,091,123
Cash (used in) investing activities	(1,053,399)	(2,980,150)
Cash (used in) financing activities	(3,128,091)	(1,624,611)
Repurchase of Depositary Receipts, Class B and General Partner Units . . .	(906,214)	—
Distributions paid	<u>(3,932,410)</u>	<u>(3,681,566)</u>
Net increase in cash and cash equivalents	<u>\$ 2,931,748</u>	<u>\$ 804,796</u>

The cash provided by operating activities is primarily due to the collection of rents less cash operating expenses. The decrease in cash used in investing activities is due to the acquisition of Battle Green Apartments in June 2011, significant improvements to Partnership properties offset by the sale of Avon Street in May 2011. The increase in cash used in financing activities is due to the payoff of notes payable of \$1,668,600 to HBC Holdings, LLC and prepaid financing costs of \$353,400 in 2012. In 2012 the Partnership purchased 24,967 Depositary Receipts for a cost of \$726,058, 198 Class B Units for a cost of \$171,148 and 10 General Partnership Units for a cost of \$9,008 for a total cost of \$906,214.

The Partnership did not buy any receipts, Class B Units or General Partnership Units in 2011. In 2010 the Partnership repurchased 20,688 Class A Depositary Receipts, 164 Class B Units and 9 General Partnership Units for a total cost of \$540,911 (\$432,920, \$102,591 and \$5,400 respectively). The purchase was funded from cash received from the refinancing of Partnership properties in 2010 and 2009.

During 2012, the Partnership and its Subsidiary Partnerships completed improvements to certain of the Properties at a total cost of approximately \$2,360,000. These improvements were funded from cash reserves and, to some extent, escrow accounts established in connection with the financing or refinancing of the applicable Properties. These sources have been adequate to fully fund improvements. The most significant improvements were made at Westgate Woburn, Hamilton Oaks, 62 Boylston Street, Olde English, Clovelly, 1144 Commonwealth Ave and 140 North Beacon Street at a cost of approximately \$445,000, 280,000, \$271,000, \$206,000, \$185,000, \$133,000 and \$113,000 respectively. The Partnership plans to invest approximately \$2,300,000 in capital improvements in 2013.

On June 1, 2011, the Partnership purchased the Battle Green Apartments, a 48 unit residential apartment complex located at 34-42 Worthen Road, Lexington, Massachusetts. The purchase price was \$10,000,000. The Partnership used cash reserves, the proceeds from the sale of Avon Street and borrowed \$3,998,573 from Harold Brown, Treasurer of the General Partner to make this purchase. This loan had an interest rate of 6% and was secured by the Partnership's ownership interest in Battle Green Apartments, LLC. The term of the loan is four years with a provision requiring payment in whole or in part upon demand within six months of notice or prepay without penalty. On July 27, 2011, the Partnership financed the Battle Green Apartments with a new \$5,000,000 mortgage at 4.95% which matures in August 2026. Principal payments will be made using a 30 year amortization schedule. Deferred financing costs associated with this mortgage totaled approximately \$100,000 and accordingly the effective interest rate is 5.07%. After paying off the existing loan of \$3,998,573, approximately \$1,000,000 was received by the Partnership. The interest paid on this loan to Harold Brown in 2011 was \$38,123.

On May 18, 2011, the Partnership sold Avon Street Apartments, a 66 unit residential apartment complex located at 130 Avon Street, Malden, Massachusetts. The sales price was \$8,750,000, which resulted in a gain of approximately \$7,700,000. The net proceeds of the sale, of approximately

\$5,444,000 were held by a qualified intermediary in order for the Partnership to structure a tax free exchange in accordance with Section 1031 of the IRS code. This tax free exchange was completed with the purchase of Battle Green Apartments.

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 \$88,612,000 at December 31, 2012. 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. On August 17, 2010, HBC gave six months written notice to the Partnership requesting a principal pay down of \$2,500,000. During the fourth quarter of 2010, the Partnership paid HBC \$2,500,000 as requested. During 2011, the Partnership elected to make principal payments of \$1,000,000 on August 1, 2011, \$1,000,000 on October 1, 2011, and an additional \$1,000,000 on December 15, 2011 reducing the loan balance to \$1,668,600 at December 31, 2011. In February 2012, the Partnership elected to make an additional principal payment of \$750,000 to HBC Holdings and the balance of \$918,600 was paid in April 2012. The interest paid during the year ended December 31, 2012 and 2011 was \$18,960 and \$238,673, respectively. 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.

During the year ended December 31, 2012, the Partnership received distributions of approximately \$1,366,000 from the investment properties of which \$802,000 was from Dexter Park.

In 2012 the Partnership paid four quarterly distributions of \$30.00 per Unit (\$1.00 per Receipt) for a total payment of \$3,932,410 in 2012. In 2011, the Partnership paid four quarterly distributions of an aggregate of \$28.00 per Unit (\$0.93 per Receipt) for a total payment of \$3,681,566 in 2011. In February 2013, the Partnership approved a quarterly distribution of \$7.50 per Unit (\$0.25 per Receipt) payable on March 31, 2013.

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 December 31, 2012, 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 December 31, 2012, our proportionate share of the non-recourse debt related to these investments was approximately \$60,267,000. 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.

ITEM 7A. 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 December 31, 2012, the Partnership, its Subsidiary Partnerships and the Investment Properties collectively have approximately \$276,312,000 in long-term debt, substantially all of which pay interest at fixed rates. Accordingly, the fair value of these debt instruments is affected by changes in market interest rates. These mortgages mature through 2026. For information regarding the fair value and maturity dates of these debt obligations, see Item 2. Properties and 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." See Note 18—Subsequent Events—for additional information about the refinancing anticipated in 2013.

For additional disclosure about market risk, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors That May Affect Future Results".

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements of the Partnership appear on pages F-1 through F-39 of this Form 10-K and are indexed herein under Item 15(a)(1).

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. We have evaluated the design and operation of our disclosure controls and procedures to determine whether they are effective in ensuring that the disclosure of required information is timely made in accordance with the Securities Exchange Act of 1934 ("Exchange Act") and the rules and forms of the Securities and Exchange Commission. This evaluation was made under the supervision and with the participation of management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of our General Partner as of the end of the period covered by this annual report on Form 10-K. The CEO and CFO have concluded, based on their reviews, that our disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e), are effective to ensure that information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Management's Report on Internal Control over Financial Reporting. We are responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) and 15-15(f) under the Exchange Act. We assessed the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control—Integrated Framework". Based on that assessment and those criteria, our management, with the participation of the CEO and CFO of the General Partner concluded that our internal control over financial reporting is effective as of December 31, 2012.

We believe that because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting during the fourth quarter of 2012 that materially affected or are reasonably likely to materially affect our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND COPORATE GOVERNANCE

Our General Partner, New Real, Inc. is a Massachusetts corporation wholly owned by Harold Brown and Ronald Brown, who are brothers. Harold Brown and Ronald Brown were individual general partners of the Partnership until May 1984, when NewReal, Inc. replaced them as the sole General Partner of the Partnership. The General Partner is responsible for making all decisions and taking all action deemed by it necessary or appropriate to conduct the business of the Partnership.

The General Partner engages The Hamilton Company, Inc. to manage the properties of the Partnership and its Subsidiary Partnerships. The Hamilton Company, Inc. is wholly owned by Harold Brown. See “Item 11. Executive Compensation” for information concerning fees paid by the Partnership to The Hamilton Company during 2012.

Because the General Partner has engaged The Hamilton Company as the manager for the Properties, the General Partner has no employees.

The directors of the General Partner are Ronald Brown, Harold Brown, Guilliaem Aertsen, Roberta Ornstein and David Aloise. The directors of the General Partner hold office until their successors are duly elected and qualified.

Ronald Brown and Harold Brown hold all of the executive officer positions of the General Partner. The executive officers of the General Partner serve at the pleasure of the Board of Directors.

On June 14, 2001, the Board of Directors of the General Partner created an Audit Committee, in accordance with Section 3(a)(58)(A) of the Exchange Act, consisting of three members, and approved the charter of the Audit Committee. As of November 6, 2007, the Audit Committee consisted of Guilliaem Aertsen, David Aloise, and Roberta Ornstein. The Board of Directors of the General Partner has determined that Guilliaem Aertsen is an audit committee financial expert, as that term is defined in Item 407 of Securities and Exchange Commission Regulation S-K.

The following table sets forth the name and age of each director and officer of the General Partner and each such person's principal occupation and affiliation during the preceding five years.

<u>Name and Position</u>	<u>Age</u>	<u>Other Position</u>
Ronald Brown, President and Director (since 1984)	77	Co-General Partner since the Partnerships formation in 1977. Associate, Hamilton Realty Company (since 1967); President, Treasurer, Clerk and Director of R. Brown Partners Inc. (since 1985), a real estate management company; Member, Greater Boston Real Estate Board (since 1981); Director, Brookline Chamber of Commerce (since 1978); Trustee of Reservations (since 1988); Director, Brookline Music School (1997-2004); President, Brookline Chamber of Commerce (1990-1992); Director, Coolidge Corner Theater Foundation (1990-1993); President, Brookline Property Owner's Association (1981-1990); Trustee, Brookline Hospital (1982-1989); Director, Brookline Symphony Orchestra (1996-2002); Director and Treasurer, Brookline Greenspace Alliance (since 1999). Mr. Brown is a graduate of Northeastern University earning a B.A. degree in Mechanical Engineering and an M.S. degree in Engineering Management. Based on Mr. Brown's ownership interest in the Partnership, ownership interest in the Partnership's General Partner, years of experience in the real estate industry and as a long standing member of the Board of Directors of the General Partner, the Board of Directors concluded that Mr. Brown has the requisite experience, qualifications, attributes and skills necessary to serve as a member of the Board of Directors.
Harold Brown, Treasurer and Director (since 1984)	88	Co-General Partner since the Partnerships formation in 1977. Sole proprietor, The Hamilton Company, Inc., manager and developer of residential and commercial real estate (since 1954); Trustee, Treasurer and Director of Wedgestone Realty Investors Trust (1982-1985); Chairman of the Board and principal stockholder of the Wedgestone Advisory Corporation (1980-1985); Director of AFC Financial Corp. (1983-1985); Director, Coolidge Bank and Trust (1980-1983). Mr. Brown is a graduate of the Massachusetts Institute of Technology. Based on Mr. Brown's ownership interest in the Partnership, ownership interest in the Partnership's General Partner, years of experience in the real estate industry and as a long standing member of the Board of Directors of the General Partner, the Board of Directors concluded that Mr. Brown has the requisite experience, qualifications, attributes and skills necessary to serve as a member of the Board of Directors.

Name and Position	Age	Other Position
Guilliaem Aertsen, IV, Director (since 2002)	65	<p>Director and Chairman of the Partnership’s Audit Committee. Chief Executive Officer, Aertsen Ventures LLC (since 1999) a private venture capital firm focused on early stage companies engaged in technology, real estate and distressed financial assets; Director and CFO of CineCast LLC (since 1999); Member of Premier Capital LLC (since 2000); Chairman of the Board of Directors of the Massachusetts Housing Investment Corporation (since 1997) a partnership of corporate investors, housing sponsors and public agencies engaged in the financing of affordable housing and community development projects in Massachusetts and New England; Chairman of the Board of Trustees of the Old South Church (1992-2002); Executive Vice President and member of the senior management group of BankBoston Corporation (1996-1998); Executive and management assignments including corporate lending, real estate, capital markets, venture capital and asset management Bank Boston Corporation (1973-1998). Mr. Aertsen is a graduate of Harvard University. Based on Mr. Aertsen’s familiarity with the Partnership as a member of the Board of Directors and as Chairman of the Audit Committee, his experience as a director with several other companies and his banking, management and financial expertise, the Board of Directors concluded that Mr. Aertsen has the requisite experience, qualifications, attributes and skills necessary to serve as a member of the Board of Directors.</p>
Roberta Ornstein, Director (since 2007)	63	<p>Director and member of the Partnership’s Audit Committee. Managing Director and Head of Product Development Deutsche Asset Management (2002-2005); Vice President and Managing Director, Scudder Investments (1998-2001); Director and Chief Financial Officer, Summit Partners (1997-1998); Vice President, Liberty Financial (1996-1997); Senior Vice President, Shearson Lehman Brothers (1993-1994); Senior Vice President—Treasury Group, The Boston Company (1983-1993). Previous Member of the Board of Directors of the Boston YMCA, the New England Organ Bank and the Town of Brookline, Massachusetts Advisory Committee. Ms. Ornstein is a graduate of Brown University and has earned a Master Degree in Business Administration from Boston College. Based on Ms. Ornstein’s financial, managerial and investment management experience, the Board of Directors concluded that Ms. Ornstein has the requisite experience, qualifications, attributes and skills necessary to serve as a member of the Board of Directors.</p>

<u>Name and Position</u>	<u>Age</u>	<u>Other Position</u>
David Aloise, Director (since 2007)	58	Director and member of the Partnership's Audit Committee. Founder and principal of Aloise & Associates, LLC (since 2000) a consulting firm that provides advisory, training and credit risk management services; BankBoston Corporation (1979-2000) Director of Commercial Loan Workout, Managing Director Small Business Banking, Vice President Restructured Real Estate, Vice President C & I Loan Workout; Board of Trustees New England Banking Institute; Advisory Board Member Wells Fargo Retail Finance, LLC; Senior Advisor to Eaton Vance Bank Loan Mutual Fund Group; Member of the Turnaround Management Association. Mr. Aloise is a graduate of Boston College and the National Commercial Lending Graduate School, University of Oklahoma. Based on Mr. Aloise's experience in banking, credit markets, small business management and business turnarounds, the Board of Directors concluded that Mr. Aloise has the requisite experience, qualifications, attributes and skills necessary to serve as a member of the Board of Directors.

COMPLIANCE WITH SECTION 16(A) OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934 requires the Partnership's directors, executive officers, and persons who own more than 10% of a registered class of the Partnership's equity securities to file with the Securities and Exchange Commission reports of ownership changes and changes in ownership of the Partnership. Officers, directors and greater-than-10% shareholders are required by SEC regulations to furnish the Partnership with copies of all Section 16(a) forms they file.

Based solely upon a review of Forms 3 and 4 furnished to the company under Rule 16a-3(e) of the Securities Exchange Act during its most recent fiscal year, Forms 5 furnished to the company with respect to its most recent fiscal year and any written representations received by the company from persons required to file such forms, the following persons—either officers, directors or beneficial owners of more than ten percent of any class of equity of the company registered pursuant to Section 12 of the Securities Exchange Act—failed to file on a timely basis reports required by Section 16(a) of the Securities Exchange Act during the most recent fiscal year:

CODE OF ETHICS

The Partnership, its General Partner and Hamilton, the Partnership's management company, have adopted a Code of Business Conduct and Ethics, which constitutes a "Code of Ethics" as defined by the SEC and applies to executive officers as well as to all other employees. A copy of the Code of Business Conduct and Ethics is available in the "NERA" section of the management company's website at www.thehamiltoncompany.com. To the extent required by the rules of the SEC, the Partnership and its related entities will disclose amendments to and waivers from the Code of Business Conduct and Ethics in the same place on the aforementioned website.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of NewReal Inc. (NewReal), which is the General Partner of New England Realty Associates Limited Partnership (“NERA” or the “Partnership”), is currently comprised of Guillaem Aertsen, IV, David Aloise, and Roberta Ornstein, each of whom is an independent director of NewReal. The Audit Committee operates under a written charter.

The Partnership’s management, which consists of NERA’s General Partner, is responsible for the preparation of the Partnership’s financial statements and for maintaining an adequate system of internal controls and processes for that purpose. Miller Wachman LLP (“Miller Wachman”) acts as the Partnership’s independent auditor and is responsible for conducting an independent audit of the Partnership’s annual financial statements, in accordance with generally accepted auditing standards, and issuing a report on the results of their audit. The Audit Committee is responsible for providing independent, objective oversight of both of these processes.

The Audit Committee has reviewed and discussed the audited financial statements for the year ended December 31, 2012 with management of the Partnership and with representatives of Miller Wachman. As a result of these discussions, the Audit Committee believes that NERA maintains an effective system of accounting controls that allow it to prepare financial statements that fairly present the Partnership’s financial position and results of its operations. Discussions with Miller Wachman also included the matters required by Statement on Auditing Standard No. 61 (Communications with Audit Committee).

In addition, the Audit Committee reviewed the independence of Miller Wachman. We received written disclosures and a letter from Miller Wachman regarding its independence as required by Independent Standards Board Standards No. 1 and discussed this information with Miller Wachman.

Based on the foregoing, the Audit Committee has recommended that the audited financial statements of the Partnership for the year ended December 31, 2012 be included in the Partnership’s annual report on form 10-K to be filed with the Securities and Exchange Commission.

Guillaem Aertsen, IV
David Aloise
Roberta Ornstein

ITEM 11. EXECUTIVE COMPENSATION

The Partnership does not have “Executive Compensation.” As more fully described below, the Partnership employs a management company to which it pays management fees and administrative fees.

The Partnership is not required to and did not pay any compensation to its officers or the officers and directors of the General Partner in 2012. As more fully described below, the Partnership employs a management company which is solely responsible for performing all management and policy making functions for the Partnership. The only compensation paid by the Partnership to any person or entity is in the form of management fees and administrative fees paid to the General Partner, or any management entity employed by the General Partner, in accordance with the Partnership Agreement.

Specifically, the Partnership Agreement provides that the General Partner, or any management entity employed by the General Partner, is entitled to a management fee equal to 4% (2% at Dexter Park and 3% at Linewt) of the rental and other operating income from the Partnership Properties and a mortgage servicing fee equal to 0.5% of the unpaid principal balance of any debt instruments received, held and serviced by the Partnership (the “Management Fee”). The Partnership Agreement also authorizes the General Partner to charge to the Partnership its cost for employing professionals to assist with the administration of the Partnership Properties (the “Administrative Fees”). The Administrative Fee is not charged against the Management Fee. In addition, upon the sale or disposition of any Partnership

Properties, the General Partner, or any management entity which is the effective cause of such sale, is entitled to a commission equal to 3% of the gross sale price (the "Commission"), provided that should any other broker be entitled to a commission in connection with the sale, the commission shall be the difference between 3% of the gross sale price and the amount to be paid to such broker.

The General Partner has engaged The Hamilton Company ("Hamilton") to operate and manage the Partnership, and in accordance with the Partnership Agreement, the Management Fee, the Administrative Fees and the Commission are paid to Hamilton. See "Item 10. Directors and Executive Officers of the Registrant." The total Management Fee paid to Hamilton during 2012 was approximately \$1,447,000. The management services provided by Hamilton include but are not limited to: collecting rents and other income; approving, ordering and supervising all repairs and other decorations; terminating leases, evicting tenants, purchasing supplies and equipment, financing and refinancing properties, settling insurance claims, maintaining administrative offices and employing personnel. In addition, the Partnership engages the president of Hamilton as a consultant to provide asset management services to the Partnership, for which the Partnership paid \$75,000 in 2012. The Partnership does not have a written agreement with this individual.

In 2012, the Partnership and its Subsidiary Partnerships paid administrative fees to Hamilton of approximately \$710,000 inclusive of construction supervision and architectural fees of approximately \$43,000, rental commissions of \$25,000, repairs and maintenance service fees of approximately \$295,000, legal fees of approximately \$198,000 and \$125,000 for accounting services. The administrative fees included \$24,000 that was paid by the Partnership to Ronald Brown for construction supervision services.

Additionally, the Hamilton Company received approximately \$728,000 from the 40-50% owned Investment Properties of which approximately \$567,000 was the management fee, approximately \$5,000 was for construction supervision and architectural fees, approximately \$64,000 was for maintenance services, \$76,000 for legal services, rental commissions of approximately \$6,000 and \$10,000 for construction costs. The Advisory Committee held 6 meetings during 2012, and a total of \$31,000 was paid for attendance and participation in such meetings. Additionally, the Audit Committee held 4 meetings in 2012 and a total of \$12,000 was paid for attendance and participation in such meetings.

Compensation Committee Interlocks and Insider Participation

The Board of Directors of our General Partner does not have a compensation committee. No member of the Board of Directors of the General Partner was at any time in 2012 or at any other time an officer or employee of the General Partner, and no member had any relationship with the Partnership requiring disclosure as a related-person transaction under Item 404 of Regulation S-K. No officer of the General Partner has served on the board of directors or compensation committee of any other entity that has or has had one or more executive officers who served as a member of the Board of Directors of the General Partner at any time in 2012.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

As of March 15, 2013, except as listed below, the General Partner was not aware of any beneficial owner of more than 5% of the outstanding Class A Units or the Depositary Receipts, other than Computershare, which, under the Deposit Agreement, as Depositary, is the record holder of the Class A Units exchanged for Depositary Receipts. As of March 15, 2013, pursuant to the Deposit Agreement, Computershare was serving as the record holder of the Class A Units with respect to which 2,990,182 Depositary Receipts had been issued to 847 holders. As of March 15, 2013, there were issued and outstanding 4,359 Class A Units (not including the Depositary Receipts) held by 216 unit holders, 24,707 Class B Units and 1,300 General Partnership Units held by the persons listed below. During 2012, 78 Class A Units were exchanged for 2,340 Depositary Receipts.

The following table sets forth certain information regarding each class of Partnership Units beneficially owned as of December 31, 2012 by (i) each person known by the Partnership to beneficially own more than 5% of any class of Partnership Units, (ii) each director and officer of the General Partner and (iii) all directors and officers of the General Partner as a group. For purposes of this table, all Depositary Receipts are included as if they were converted back into Class A Units. The inclusion in the table below of any Units deemed beneficially owned does not constitute an admission that the named persons are direct or indirect beneficial owners of such Units. Unless otherwise indicated, each person listed below has sole voting and investment power with respect to the Units listed.

	Class A		Class B		General Partnership	
	Number of Units Beneficially Owned	% Of Outstanding Units Beneficially Owned	Number of Units Beneficially Owned	% Of Outstanding Units Beneficially Owned	Number of Units Beneficially Owned	% Of Outstanding Units Beneficially Owned
Directors and Officers						
Harold Brown c/o New England Realty Associates Limited Partnership 39 Brighton Avenue Allston, MA 02134	(1)(2)	(1)(2)	18,588(3)	75%(3)	(4)	100%(4)
Harold Brown 1999 Revocable Trust . . . c/o Saul Ewing LLP 131 Dartmouth Street Boston, MA 02116	(2)	(2)				
HBC Holdings, LLC 39 Brighton Avenue Allston, MA 02134	(1)	(1)	(3)	(3)	0	0
Ronald Brown c/o New England Realty Associates Limited Partnership 39 Brighton Avenue Allston, MA 02134	2,872(5)	2.75%(5)	6,196	25%	(4)	100%(4)
Guilliaem Aertsen 160 Boylston Street #2149 Chestnut Hill, MA 02467	0	0	0	0	0	0
David Aloise 241 Cottage Park Road Winthrop, MA 02152	0	0	0	0	0	0
Roberta Ornstein 160 Boylston Street #2149 Chestnut Hill, MA 02467	178	0.17%	0	0	0	0
NewReal, Inc. 39 Brighton Avenue Allston, MA 02134	333	0.32%	0	0	1,304	100%
All directors and officers as a group . . .	35,311(6)	33.84%(6)	24,784(7)	100%(7)	(4)	100%(4)
5% Owners that are not Directors and Officers						
Carl Valeri 50 Udine Street Arlington, MA 02476	6,478(8)	6.21%(8)	0	0	0	0

(1) As of March 1, 2013, 507,849 Depositary Receipts are held of record by the HBC Holdings, LLC (HBC). Harold Brown is the sole manager of HBC with sole voting and dispositive control over the Depositary Receipts. Accordingly, Mr. Brown may be deemed to beneficially own the Depositary Receipts held by HBC. Because a Depositary Receipt represents beneficial ownership of one-thirtieth of a Class A Unit, Harold Brown may be deemed to beneficially own approximately

16,928 Class A Units (approximately 16.22% of the outstanding Class A Units). On January 12, 2011, the NERA 1994 Irrevocable Trust transferred 207,849 Depositary Receipts to HBC as partial consideration for additional economic interests in HBC. Also on January 12, 2011, the Harold Brown 1999 Revocable Trust transferred 300,000 Depositary Receipts to HBC as partial consideration for additional economic interest in HBC.

- (2) On October 15, 2009, the Harold Brown 1999 Revocable Trust (1999 Trust) effected an equity exchange with the NERA 1994 Irrevocable Trust (1994 Trust) pursuant to which the 1994 Trust transferred 660,000 Depositary Receipts to the 1999 Trust in exchange for property ownership interests held by the 1999 Trust. On June 4, 2010, the 1994 Trust transferred 90,000 Depositary Receipts to the 1999 Trust as consideration for a 2.18% economic interest in HBC Holdings, LLC (“HBC Holdings”). On January 12, 2011, the 1999 Trust transferred 300,000 Depositary Receipts to HBC as partial consideration for additional economic interest in HBC. As of March 1, 2013, 450,000 Depositary Receipts are held of record by the Harold Brown 1999 Revocable Trust. Harold Brown is the sole beneficiary of the 1999 Trust during his lifetime and is a co-trustee of the 1999 Trust and exercises voting and dispositive control over the Depositary Receipts beneficially owned by the Trust. Accordingly, Mr. Brown may be deemed to beneficially own the Depositary Receipts held by the Trust. Because a Depositary Receipt represents beneficial ownership of one-thirtieth of a Class A Unit, Harold Brown may be deemed to beneficially own approximately 15,000 Class A Units (approximately 14.37% of the outstanding Class A Units) and the Trust may be deemed to beneficially own approximately 15,000 Class A Units (approximately 14.37% of the outstanding Class A Units).
- (3) Consists of Class B Units held by HBC Holdings, LLC. See Note (1) above. Harold Brown, as Manager, has voting and investment power over the Class B Units held by the LLC, subject to the provisions of the LLC, and thus may be deemed to beneficially own the 18,588 Class B Units held by the LLC. On January 12, 2011, the NERA 1994 Irrevocable Trust transferred to HBC, 18,588 Class B Units for additional economic interest in HBC.
- (4) Since Harold Brown and Ronald Brown are the controlling stockholders, executive officers and directors of NewReal, Inc., they may be deemed to beneficially own all 1,304 of the General Partnership Units held of record by NewReal, Inc.
- (5) Consists of 86,160 Depositary Receipts held of record jointly by Ronald Brown and his wife. Because a Depositary Receipt represents beneficial ownership of one-thirtieth of a Class A Unit, Ronald Brown may be deemed to beneficially own approximately 2,872 Class A Units.
- (6) Consists of the Class A Units described in Notes (1) and (4) above, plus New Real, Inc. and Ms. Ornstein, as indicated in the table.
- (7) Includes the Class B Units described in Note (2) above.
- (8) Consists of 194,346 Depositary Receipts held by Carl Valeri and his immediate family members. Because a Depositary Receipt represents beneficial ownership of one thirtieth of a Class A Unit, Carl Valeri may be deemed to beneficially own approximately 6,478 Class A Units.

On November 13, 2000, the Partnership adopted a Policy for Establishment of Rule 10b5-1 Trading Plans. Pursuant to this Policy, the Partnership authorized its officers, directors and certain employees, shareholders and affiliates who are deemed “insiders” of the Partnership to adopt individual plans for trading the Partnership’s securities (“Trading Plans”), and established certain procedural requirements relating to the establishment, modification and termination of such Trading Plans. On May 14, 2001, the Partnership approved a Trading Plan of Harold Brown, providing for the purchase of up to 60,000 Depositary Receipts of the Partnership as such become available during the period from May 14, 2001 through May 13, 2002. Mr. Brown amended and restated this Trading Plan on November 19, 2001 to increase the number of Depositary Receipts which were to be purchased pursuant thereto from 60,000 to 150,000, expanding the date through which purchases could be made to September 30, 2002, and to provide that purchases under his Trading Plan were to be made only if the price per Depositary Receipt was \$15.00 or less. On November 7, 2007, Mr. Brown amended and restated the Trading Plan expanding the date through which Depositary Receipts may be purchased through September 30, 2009 for up to 150,000 Depositary Receipts at prices up to \$33.33 each. On November 4, 2009, Mr. Brown amended and restated the Trading Plan expanding the date through which Depositary Receipts may be purchase through September 30, 2012 for up to 150,000 Depositary Receipts at price up to \$28.33 each. On November 14, 2012, Mr. Brown amended and restated the Trading Plan extending the date through which Depositary Receipts may be purchased through September 30, 2016 for up to 600,000 Depositary Receipts at prices up to \$45.00.

The Partnership does not have any securities authorized for issuance pursuant to any equity compensation plans.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Harold Brown and Ronald Brown are brothers.

Guilliaem Aertsen and Roberta Ornstein are married.

There are no other family relationships among any of our directors. Messrs. Aertsen, Aloise and Ms. Ornstein representing a majority of our directors, are determined to be independent under the rules of the NYSE Amex Exchange and the SEC. The board holds regularly scheduled meetings.

The Partnership invested approximately \$34,049,000 in nine limited liability companies formed to acquire Investment Properties. The Partnership has a 40%-50% ownership interest in each of these limited liability companies accounted for on the equity method of consolidation. The majority stockholder of the General Partner owns between 43.2% and 57% and the President and five employees of the management company own between 0% and 6.8% in each of the Investment Properties. See Note 14 of the consolidated financial statements for a description of the Investment Properties.

See also “Item 2. Properties,” “Item 10. Directors and Executive Officers of the Registrant” and “Item 11. Executive Compensation” for information regarding the fees paid to The Hamilton Company, an affiliate of the General Partner.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Miller Wachman LLP served as the Partnership’s independent accountants for the fiscal year ended December 31, 2012 and has reported on the 2012 Consolidated Financial Statements. Aggregate fees rendered to Miller Wachman LLP for the years ended December 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Audit Fees		
Recurring annual audits and quarterly reviews	\$238,000	\$236,000
Subtotal	<u>238,000</u>	<u>236,000</u>
Other Audit Related Fees	<u>—</u>	<u>—</u>
Tax Fees		
Recurring tax compliance for the Partnership, 25 subsidiary Partnerships and 20 General Partnerships	80,000	80,000
Tax Planning and research	<u>—</u>	<u>—</u>
Subtotal	<u>80,000</u>	<u>80,000</u>
Other Fees	<u>—</u>	<u>—</u>
Total Fees	<u>\$318,000</u>	<u>\$316,000</u>

The Audit Committee’s charter provides that it has the sole authority to review in advance and grant any pre-approvals of (i) all auditing services to be provided by the independent auditor, (ii) all significant non-audit services to be provided by the independent auditors as permitted by Section 10A of the Securities Exchange Act of 1934, and (iii) all fees and the terms of engagement with respect to such services. All audit and non-audit services performed by Miller Wachman during fiscal 2012 and 2011 were pre-approved pursuant to the procedures outlined above.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements:

The following Financial Statements are included in this Form 10-K:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at December 31, 2012 and 2011

Consolidated Statements of Income for the years ended December 31, 2012, 2011 and 2010

Consolidated Statements of Changes in Partners' Capital for the years ended December 31, 2012, 2011 and 2010

Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010

Notes to Consolidated Financial Statements

2. Consolidated Financial Statement Schedules:

Financial statement schedules are omitted because they are not applicable or not required, or because the required information is included in the financial statements or notes thereto.

(b) Exhibits:

The exhibits filed as part of this Annual Report on Form 10-K are listed in the Exhibit Index included herewith.

SELECTED FINANCIAL DATA

	Year Ended December 31,				
	2012	2011	2010	2009	2008
INCOME STATEMENT INFORMATION					
Revenues	\$ 35,632,409	\$ 34,035,602	\$ 32,255,957	\$ 32,362,155	\$ 31,434,943
Expenses	22,710,344	22,670,986	21,916,664	21,555,223	22,032,644
Income before other income and discontinued operations	12,922,065	11,364,616	10,339,293	10,806,932	9,402,299
Other (Loss)	(9,288,267)	(9,875,361)	(11,918,392)	(9,433,313)	(13,060,859)
Income (loss) before discontinued operations	3,633,798	1,489,254	(1,579,099)	1,373,619	(3,658,560)
Discontinued operations	—	7,802,026	219,867	238,919	10,240,271
Net (Loss) Income	<u>\$ 3,633,798</u>	<u>\$ 9,291,281</u>	<u>\$ (1,359,232)</u>	<u>\$ 1,612,538</u>	<u>\$ 6,581,711</u>
Income (loss) before discontinued operations per Unit	\$ 27.69	\$ 11.33	\$ (11.99)	\$ 10.33	\$ (26.56)
Discontinued operations per Unit	—	59.34	1.67	1.80	74.33
Net income (loss) per Unit	<u>27.69</u>	<u>70.67</u>	<u>(10.32)</u>	<u>12.13</u>	<u>47.77</u>
Distributions to Partners per Unit	<u>\$ 30.00</u>	<u>\$ 28.00</u>	<u>\$ 28.00</u>	<u>\$ 28.00</u>	<u>\$ 28.00</u>
Net income (loss) per Depository Receipt	\$ 0.92	\$ 2.36	\$ (0.34)	\$ 0.40	\$ 1.59
Distributions to Partners per Depository Receipt	\$ 1.00	\$ 0.93	\$ 0.93	\$ 0.93	\$ 0.93
BALANCE SHEET INFORMATION					
Real Estate, gross	159,876,368	159,123,799	150,818,648	150,411,555	150,344,799
Real Estate, net	95,435,850	98,924,534	92,744,257	95,971,937	98,560,454
Total Assets	121,538,490	125,376,764	121,276,735	129,089,736	125,243,457
Total Debt Outstanding	138,055,522	140,830,212	142,349,260	144,809,354	138,160,262
Partners' Capital	(22,515,678)	(21,310,852)	(26,920,567)	(21,332,824)	(17,717,182)

The Partnership may purchase and/or sell properties at any time.

The table below reflects the totals of property available for rental at each December 31,

	Year Ended December 31,				
	2012	2011	2010	2009	2008
Residential					
Units	2,270	2,270	2,288	2,288	2,288
Vacancies	39	32	79	63	67
Vacancy rate	1.7%	1.4%	3.5%	2.8%	3.0%
Commercial					
Total square feet	110,949	110,949	110,949	110,949	110,949
Vacancy (in square feet)	5,500	0	0	2,384	0
Vacancy rate	5.0%	0%	0%	2.1%	0%

See Items 1A and 7 for factors that may affect future operations. The above tables may not be indicative of future results.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Partners

New England Realty Associates Limited Partnership:

We have audited the accompanying consolidated balance sheets of New England Realty Associates Limited Partnership (the "Partnership") as of December 31, 2012 and 2011 and the related consolidated statements of income, changes in partners capital and cash flows for each of the years in the three-year period ended December 31, 2012. These consolidated financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Partnership is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of New England Realty Associates Limited Partnership at December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

/s/ MILLER WACHMAN LLP

Boston, Massachusetts

March 22, 2013

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2012	2011
ASSETS		
Rental Properties	\$ 95,435,850	\$ 98,924,534
Cash and Cash Equivalents	6,981,906	4,050,157
Rents Receivable	475,083	434,252
Real Estate Tax Escrows	449,652	401,325
Prepaid Expenses and Other Assets	3,073,890	3,866,652
Investments in Unconsolidated Joint Ventures	13,986,173	16,780,657
Financing and Leasing Fees	1,135,936	919,187
Total Assets	\$121,538,490	\$125,376,764
LIABILITIES AND PARTNERS' CAPITAL		
Note Payable	\$ —	\$ 1,668,600
Mortgage Notes Payable	138,055,522	139,161,612
Accounts Payable and Accrued Expenses	2,361,942	2,253,696
Advance Rental Payments and Security Deposits	3,636,704	3,603,708
Total Liabilities	144,054,168	146,687,616
Commitments and Contingent Liabilities (Notes 3 and 9)	—	—
Partners' Capital 130,444 and 131,484 units outstanding in 2012 and 2011 respectively	(22,515,678)	(21,310,852)
Total Liabilities and Partners' Capital	\$121,538,490	\$125,376,764

See notes to consolidated financial statements.

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2012	2011	2010
Revenues			
Rental income	\$35,244,008	\$33,608,799	\$ 31,816,175
Laundry and sundry income	388,401	426,803	439,782
	<u>35,632,409</u>	<u>34,035,602</u>	<u>32,255,957</u>
Expenses			
Administrative	1,825,951	1,707,408	1,772,599
Depreciation and amortization	6,092,725	5,910,746	5,531,509
Management fee	1,446,620	1,404,467	1,330,157
Operating	3,633,619	4,080,647	3,784,401
Renting	183,529	365,110	528,686
Repairs and maintenance	5,179,408	5,056,054	4,886,724
Taxes and insurance	4,348,492	4,146,554	4,082,588
	<u>22,710,344</u>	<u>22,670,986</u>	<u>21,916,664</u>
Income Before Other Income (loss) and Discontinued Operations	<u>12,922,065</u>	<u>11,364,616</u>	<u>10,339,293</u>
Other Income (loss)			
Interest income	2,216	3,861	5,932
Interest expense	(7,802,999)	(7,965,422)	(8,053,628)
(Loss) from investments in unconsolidated joint ventures	(1,487,484)	(1,913,800)	(3,869,996)
Other (loss)	—	—	(700)
	<u>(9,288,267)</u>	<u>(9,875,361)</u>	<u>(11,918,392)</u>
Income (loss) From Continuing Operations	<u>3,633,798</u>	<u>1,489,255</u>	<u>(1,579,099)</u>
Discontinued Operations			
Income from discontinued operations	—	81,567	219,867
Gain on the sale of real estate	—	7,720,459	—
	<u>—</u>	<u>7,802,026</u>	<u>219,867</u>
Net Income (loss)	<u>\$ 3,633,798</u>	<u>\$ 9,291,281</u>	<u>\$ (1,359,232)</u>
Income (loss) per Unit			
Income (loss) before discontinued operations	\$ 27.69	\$ 11.33	\$ (11.99)
Income from discontinued operations	—	59.34	1.67
Net Income per Unit	<u>\$ 27.69</u>	<u>\$ 70.67</u>	<u>\$ (10.32)</u>
Weighted Average Number of Units Outstanding	<u>131,230</u>	<u>131,484</u>	<u>131,696</u>

See notes to consolidated financial statements.

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' CAPITAL

	Units					Partners' Capital				
	Limited		General Partnership	Subtotal	Treasury Units	Total	Limited		General Partnership	Total
	Class A	Class B					Class A	Class B		
Balance										
January 1,										
2010	144,180	34,243	1,802	180,225	47,879	132,346	\$(17,069,520)	\$(4,050,138)	\$(213,165)	\$(21,332,823)
Distribution to										
Partners	—	—	—	—	—	—	(2,950,080)	(700,644)	(36,876)	(3,687,600)
Stock Buyback	—	—	—	—	862	(862)	(432,920)	(102,591)	(5,400)	(540,911)
Net Loss	—	—	—	—	—	—	(1,087,386)	(258,254)	(13,592)	(1,359,232)
Balance										
December 31,										
2010	144,180	34,243	1,802	180,225	48,741	131,484	\$(21,539,906)	\$(5,111,627)	\$(269,033)	\$(26,920,566)
Distribution to										
Partners	—	—	—	—	—	—	(2,945,253)	(699,498)	(36,815)	\$ (3,681,566)
Net Income	—	—	—	—	—	—	7,433,025	1,765,343	92,913	\$ 9,291,281
Balance										
December 31,										
2011	144,180	34,243	1,802	180,225	48,741	131,484	\$(17,052,134)	\$(4,045,782)	\$(212,935)	\$(21,310,851)
Distribution to										
Partners	—	—	—	—	—	—	(3,145,928)	(747,158)	(39,324)	(3,932,410)
Stock Buyback	—	—	—	—	1,040	(1,040)	(726,058)	(171,148)	(9,008)	(906,214)
Net Income	—	—	—	—	—	—	2,907,038	690,422	36,338	3,633,798
Balance										
December 31,										
2012	<u>144,180</u>	<u>34,243</u>	<u>1,802</u>	<u>180,225</u>	<u>49,781</u>	<u>130,444</u>	<u>\$(18,017,082)</u>	<u>\$(4,273,666)</u>	<u>\$(224,929)</u>	<u>\$(22,515,677)</u>

See notes to consolidated financial statements.

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2012	2011	2010
Cash Flows from Operating Activities			
Net income (loss)	\$ 3,633,798	\$ 9,291,281	\$(1,359,232)
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	6,092,725	5,910,746	5,531,509
Loss from investments in joint venture	1,487,484	1,913,800	3,869,996
Depreciation and amortization—discontinued operations	—	30,132	90,886
(Gain) on the sale of real estate from discontinued operations		(7,720,459)	
Change in operating assets and liabilities			
(Increase) Decrease in rents receivable	(40,831)	188,692	415,876
Increase (Decrease) in accounts payable and accrued expense	108,246	(186,445)	244,896
(Increase) Decrease in real estate tax escrow	(48,327)	(99,472)	9,729
(Increase) Decrease in prepaid expenses and other assets	685,772	(432,957)	(480,598)
Increase in advance rental payments and security deposits	32,996	195,807	(9,460)
Total Adjustments	8,318,065	(200,156)	9,672,834
Net cash provided by operating activities	11,951,863	9,091,125	8,313,602
Cash Flows Used in Investing Activities			
Proceeds from unconsolidated joint ventures	1,366,383	1,408,950	1,140,801
(Investment in) unconsolidated joint ventures	(59,383)	(26,450)	(123,301)
Purchase and improvement of rental properties	(2,360,399)	(2,618,794)	(2,268,039)
Purchase of rental properties	—	(10,041,784)	—
Net proceeds from the sale of rental property	—	8,297,928	—
Net cash (used in) investing activities	(1,053,399)	(2,980,150)	(1,250,539)
Cash Flows from Financing Activities			
Payment of financing costs	(353,400)	(105,564)	(8,161)
Proceeds of mortgage notes payable	—	5,000,000	904,122
Proceeds of note payable	—	3,998,573	—
Principal payments of mortgage notes payable	(1,106,091)	(3,519,047)	(864,815)
Principal payments of note payable	(1,668,600)	(6,998,573)	(2,500,000)
Stock buyback	(906,214)	—	(540,911)
Distributions to partners	(3,932,410)	(3,681,566)	(3,687,600)
Net cash (used in) financing activities	(7,966,715)	(5,306,177)	(6,697,365)
Net Increase in Cash and Cash Equivalents	2,931,749	804,798	365,698
Cash and Cash Equivalents, at beginning of period	4,050,157	3,245,361	2,879,663
Cash and Cash Equivalents, at end of period	\$ 6,981,906	\$ 4,050,159	\$ 3,245,361

See notes to consolidated financial statements.

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

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 2,251 apartment units, 19 condominium units and 110,949 square feet of commercial space. Additionally, the Partnership also owns a 40-50% interest in nine residential and mixed use properties consisting of 799 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. 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.

On January 1, 2010, the Partnership adopted the updated provisions of ASC 810, pursuant to FASB No. 167, which amends FIN 46(R) to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. Additionally, FASB No. 167 amends FIN 46(R) to eliminate the quantitative approach previously required for determining the primary beneficiary of a variable interest entity, which was based on determining which enterprise absorbs the majority of the entity’s expected losses, receives a majority of the entity’s expected residual returns, or both. FASB No. 167 amends certain guidance in Interpretation 46(R) for determining whether an entity is a variable interest entity. Also, FASB No. 167 amends FIN 46(R) to require enhanced disclosures that

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

will provide users of financial statements with more transparent information about an enterprise's involvement in a variable interest entity. The enhanced disclosures are required for any enterprise that holds a variable interest in a variable interest entity. The adoption of this guidance did not have a material impact to these financial statements.

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 (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. The Partnership has not recognized an impairment loss since 1995.

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. Concessions made on residential leases 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.

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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).

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2012, 2011, or 2010 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 ($\frac{1}{30}$) 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 2012, 2011, or 2010. The Partnership makes its temporary cash investments with high-credit quality financial institutions. At December 31, 2012, 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 0.45%. At December 31, 2012 and 2011, respectively approximately \$8,000,000 and \$5,051,000 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 \$52,084, \$88,585 and \$70,074 in 2012, 2011 and 2010, respectively.

Discontinued Operations and Rental Property Held for Sale: When 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.

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 years ended December 31, 2012, 2011 and 2010 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.

NOTE 2. RENTAL PROPERTIES

As of December 31, 2012, the Partnership and its Subsidiary Partnerships owned 2,251 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 December 31, 2012, 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 December 31, 2012 with a total of 799 units, accounted for using the equity method of consolidation. See Note 14 for summary information on these investments.

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 2. RENTAL PROPERTIES (Continued)

Rental properties consist of the following:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>Useful Life</u>
Land, improvements and parking lots	\$ 27,849,721	\$ 27,614,537	15–40 years
Buildings and improvements	119,579,923	119,097,186	15–40 years
Kitchen cabinets	3,620,196	3,542,249	5–10 years
Carpets	3,354,593	3,307,499	5–10 years
Air conditioning	764,671	788,146	7–10 years
Laundry equipment	378,806	368,955	5–7 years
Elevators	1,139,296	1,139,296	20 years
Swimming pools	235,242	235,242	10 years
Equipment	1,586,591	1,744,006	5–7 years
Motor vehicles	101,657	107,788	5 years
Fences	22,445	22,974	5–10 years
Furniture and fixtures	1,038,136	1,039,439	5–7 years
Smoke alarms	205,091	116,482	5–7 years
Total fixed assets	<u>159,876,368</u>	<u>159,123,799</u>	
Less: Accumulated depreciation	<u>(64,440,518)</u>	<u>(60,199,265)</u>	
	<u>\$ 95,435,850</u>	<u>\$ 98,924,534</u>	

Real estate and accumulated depreciation as of December 31, 2012 is as follows:

	Encumbrances (First Mortgages)	Initial Cost to Partnerships(1)		Cost Capitalized Subsequent to Acquisition(2)	Gross Amount at Which Carried at Close of Period			Accumulated Depreciation(3)	Date Acquired
		Land	Buildings Improvements		Land	Buildings Improvements	Totals		
Boylston Downtown L.P. Residential Apartments Boston, Massachusetts	\$ 19,500,000	\$ 2,112,000	\$ 8,593,111	\$ 7,116,107	\$ 2,112,000	\$ 15,709,218	\$ 17,821,218	\$ 9,086,787	July 1995
Brookside Associates LLC Residential Apartments Woburn, Massachusetts	\$ 2,723,830	\$ 684,000	\$ 3,116,000	\$ 492,070	\$ 684,000	\$ 3,608,070	\$ 4,292,070	\$ 1,621,108	Oct. 2000
Courtyard @ Westgate Residential Units Burlington, Massachusetts	\$ 2,000,000	\$ 44,965	\$ 4,478,687	\$ 253,696	\$ 44,965	\$ 4,732,383	\$ 4,777,348	\$ 1,465,723	Sep. 2004
Clovelly Apartments L.P. Residential Apartments Nashua, New Hampshire	\$ 4,160,000	\$ 177,610	\$ 1,478,359	\$ 1,268,279	\$ 177,610	\$ 2,746,638	\$ 2,924,248	\$ 1,981,658	Sept. 1977
Commonwealth 1137 L.P. Residential Apartments Boston, Massachusetts	\$ 3,750,000	\$ 342,000	\$ 1,367,669	\$ 933,759	\$ 342,000	\$ 2,301,428	\$ 2,643,428	\$ 1,251,632	July 1995
Commonwealth 1144 L.P. Residential Apartments Boston, Massachusetts	\$ 14,780,000	\$ 1,410,000	\$ 5,664,816	\$ 1,616,613	\$ 1,410,000	\$ 7,281,429	\$ 8,691,429	\$ 4,373,285	July 1995
Condominium Units— Riverside Residential Units Massachusetts	\$ —	\$ 23,346	\$ 190,807	\$ 22,428	\$ 23,346	\$ 213,235	\$ 236,581	\$ 205,326	Sept. 1977
Executive Apartments L.P. Residential Apartments Framingham, Massachusetts	\$ 2,415,000	\$ 91,400	\$ 740,360	\$ 758,449	\$ 91,400	\$ 1,498,809	\$ 1,590,209	\$ 1,128,556	Sept. 1977

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 2. RENTAL PROPERTIES (Continued)

	Encumbrances (First Mortgages)	Initial Cost to Partnerships(1)		Cost Capitalized Subsequent to Acquisition(2)	Gross Amount at Which Carried at Close of Period			Accumulated Depreciation(3)	Date Acquired
		Land	Buildings Improvements		Land	Buildings Improvements	Totals		
Hamilton Battle Green LLC Residential Apartments Lexington, Massachusetts	\$ 4,893,448	\$ 1,341,737	\$ 8,457,497	\$ 31,849	\$ 1,341,737	\$ 8,489,346	\$ 9,831,083	\$ 612,568	Jun. 2011
Hamilton Cypress LLC Commercial— 1031Exchange Brookline, Massachusetts	\$ 3,686,380	\$ 2,362,596	\$ 4,613,985	\$ 51,823	\$ 2,362,596	\$ 4,665,808	\$ 7,028,404	\$ 696,283	Oct. 2008
Hamilton Linewt LLC Commercial— 1031Exchange Newton, Massachusetts	\$ 1,528,429	\$ 884,042	\$ 2,652,127	\$ 50,608	\$ 884,042	\$ 2,702,735	\$ 3,586,777	\$ 353,574	Nov. 2007
Hamilton Oaks Associates LLC Residential Apartments Brockton, Massachusetts	\$ 11,925,000	\$ 2,175,000	\$ 12,325,000	\$ 1,726,607	\$ 2,175,000	\$ 14,051,607	\$ 16,226,607	\$ 7,256,645	Dec. 1999
Highland Street Apartments, L.P. Residential Apartments Lowell, Massachusetts	\$ 1,050,000	\$ 156,000	\$ 634,085	\$ 400,178	\$ 156,000	\$ 1,034,263	\$ 1,190,263	\$ 569,822	Dec. 1996
Linhart L.P. Residential/ Commercial Newton, Massachusetts	\$ 1,964,119	\$ 385,000	\$ 1,540,000	\$ 1,157,151	\$ 385,000	\$ 2,697,151	\$ 3,082,151	\$ 1,769,651	Jan. 1995
Nashoba Apartments L.P. Residential Apartments Acton, Massachusetts	\$ 2,000,000	\$ 79,650	\$ 284,548	\$ 887,277	\$ 79,650	\$ 1,171,825	\$ 1,251,475	\$ 789,226	Sept. 1977
NERA Dean St. Associates LLC Residential Apartments Norwood, Massachusetts	\$ 5,213,958	\$ 1,512,000	\$ 5,701,480	\$ 426,220	\$ 1,512,000	\$ 6,127,700	\$ 7,639,700	\$ 2,477,008	Jun. 2002
North Beacon 140 L.P. Residential Units Boston, Massachusetts	\$ 6,937,000	\$ 936,000	\$ 3,762,013	\$ 1,490,223	\$ 936,000	\$ 5,252,236	\$ 6,188,236	\$ 3,120,665	July 1995
Olde English Apartments L.P. Residential Apartments Lowell, Massachusetts	\$ 3,080,000	\$ 46,181	\$ 878,323	\$ 1,161,011	\$ 46,181	\$ 2,039,334	\$ 2,085,515	\$ 1,345,108	Sept. 1977
River Drive L.P. Residential Apartments Danvers, Massachusetts	\$ 3,465,000	\$ 72,525	\$ 587,777	\$ 1,426,304	\$ 72,525	\$ 2,014,081	\$ 2,086,606	\$ 1,601,231	Sept. 1977
Redwood Hills L.P. Residential Units Worcester, Massachusetts	\$ 6,743,000	\$ 1,200,000	\$ 4,810,604	\$ 2,117,589	\$ 1,200,000	\$ 6,928,193	\$ 8,128,193	\$ 4,055,659	July 1995
School St Assoc LLC Residential Apartments Frammingham, Massachusetts	\$ 15,308,474	\$ 4,686,728	\$ 18,746,911	\$(1,928,307)	\$ 4,686,728	\$ 16,818,604	\$ 21,505,332	\$ 6,112,019	Apr. 2003
Staples Plaza Strip Mall Frammingham, Massachusetts	\$ 6,000,000	\$ 3,280,000	\$ 4,920,000	\$ 36,724	\$ 3,280,000	\$ 4,956,724	\$ 8,236,724	\$ 2,235,613	May 1999

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 2. RENTAL PROPERTIES (Continued)

	Encumbrances (First Mortgages)	Initial Cost to Partnerships(1)		Cost Capitalized Subsequent to Acquisition(2)	Gross Amount at Which Carried at Close of Period			Accumulated Depreciation(3)	Date Acquired
		Land	Buildings Improvements		Land	Buildings Improvements	Totals		
WCB Associates LLC Residential Apartments Brockton, Massachusetts .	\$ 7,000,000	\$ 1,335,000	\$ 7,565,501	\$ 1,083,048	\$ 1,335,000	\$ 8,648,549	\$ 9,983,549	\$ 4,552,121	Dec. 1999
Westgate Apartments LLC Residential Apartments Woburn, Massachusetts .	\$ 7,931,885	\$ 461,300	\$ 2,424,636	\$ 6,007,478	\$ 417,107	\$ 8,432,114	\$ 8,849,221	\$ 5,779,250	Sept. 1977
	<u>\$138,055,522</u>	<u>\$25,799,080</u>	<u>\$105,534,296</u>	<u>\$28,587,184</u>	<u>\$25,754,887</u>	<u>\$134,121,480</u>	<u>\$159,876,368</u>	<u>\$64,440,518</u>	

- (1) The initial cost to the Partnerships represents both the balance of mortgages assumed in September 1977, including subsequent adjustments to such amounts, and subsequent acquisitions at cost.
- (2) Net of retirements, which are not significant.
- (3) In 2012, rental properties were depreciated over the following estimated useful lives:

Assets	Life
Buildings and Improvements	15-40 years
Other Categories of Assets	5-20 years

A reconciliation of rental properties and accumulated depreciation is as follows:

	December 31,		
	2012	2011	2010
Rental Properties			
Balance, Beginning	\$ 159,123,799	\$ 150,818,648	\$ 150,411,555
Additions:			
Buildings, improvements and other assets	2,360,399	12,444,604	2,268,039
	<u>161,484,198</u>	<u>163,263,252</u>	<u>152,679,594</u>
Deduct:			
Write-off of retired or disposed assets	1,607,830	2,437,555	1,860,946
Rental properties held for sale and/or sold	—	1,701,898	—
Balance, Ending	<u>\$159,876,368</u>	<u>\$159,123,799</u>	<u>\$150,818,648</u>
Accumulated Depreciation			
Balance, Beginning	\$ 60,199,265	\$ 58,074,391	\$ 54,439,618
Add:			
Depreciation for the year	5,849,083	5,750,989	5,495,719
	<u>66,048,348</u>	<u>63,825,380</u>	<u>59,935,337</u>
Deduct:			
Accumulated depreciation of retired or disposed assets .	1,607,830	2,437,555	1,860,946
Accumulated depreciation of rental properties held for sale and/or sold	—	1,188,560	—
Balance, Ending	<u>\$ 64,440,518</u>	<u>\$ 60,199,265</u>	<u>\$ 58,074,391</u>

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 2. RENTAL PROPERTIES (Continued)

On May 18, 2011, the Partnership sold Avon Street Apartments, a 66 unit residential apartment complex located at 130 Avon Street, Malden, Massachusetts. The sales price was \$8,750,000, which resulted in a gain of approximately \$7,700,000. The net proceeds of the sale, of approximately \$5,444,000 were held by a qualified intermediary in order for the Partnership to structure a tax free exchange in accordance with Section 1031 of the IRS code. This tax free exchange was completed with the purchase of Battle Green Apartments described below.

On June 1, 2011, the Partnership purchased Battle Green Apartments, a 48 unit residential apartment complex located at 34-42 Worthen Road, Lexington, Massachusetts. The purchase price was \$10,000,000. The Partnership used cash reserves, the proceeds from the sale of Avon Street and borrowed \$3,998,573 from Harold Brown, Treasurer of the General Partner to make this purchase. This loan had an interest rate of 6% and was secured by the Partnership's ownership interest in Battle Green Apartments, LLC. The term of the loan is four years with a provision requiring payment in whole or in part upon demand within six months of notice or prepay without penalty. On July 27, 2011, the Partnership financed Battle Green Apartments with a new \$5,000,000 mortgage at 4.95% which matures in August 2026. Principal payments will be made using a 30 year amortization schedule. Deferred financing costs associated with this mortgage totaled approximately \$100,000 and accordingly the effective interest rate is 5.07%. After paying off the existing loan of \$3,998,573, approximately \$1,000,000 was received by the Partnership. The interest paid on this loan to Harold Brown in 2011 was \$38,123.

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 \$1,447,000, \$1,420,000 and \$1,367,000 in 2012, 2011 and 2010, 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. In 2012, 2011 and 2010, approximately \$686,000, \$758,000 and \$705,000, was charged to NERA for legal, accounting, construction, maintenance, rental and architectural services and supervision of capital improvements. Of the 2012 expenses referred to above, approximately \$295,000 consisted of repairs and maintenance and \$348,000 of administrative expense. Approximately \$43,000 of expenses for construction, architectural services and supervision of capital projects were capitalized in rental properties. Additionally in 2012, the Hamilton Company received approximately \$728,000 from the Investment Properties of which approximately \$567,000 was the management fee, approximately \$15,000 was for construction, architectural services and supervision of capital projects, approximately \$64,000 was for maintenance services and approximately \$82,000 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.

On January 1, 2004, all employees were transferred to the Management Company's payroll. The Partnership reimburses the management company for the payroll and related expenses of the employees who work at the properties. Total reimbursement was approximately \$2,606,000, \$2,537,000 and \$2,599,000 for the years ended December 31, 2012, 2011 and 2010, 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 in 2012, 2011 or 2010.

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 3. RELATED PARTY TRANSACTIONS (Continued)

Prior to 1991, the Partnership employed an outside, unaffiliated company to perform its bookkeeping and accounting functions. Since that time, such services have been provided by the Management Company's accounting staff, which consists of approximately 14 people. During the years ended December 31, 2012, 2011 and 2010 the Management Company charged the Partnership \$125,000 for bookkeeping and accounting services included in administrative expenses above.

In 1996, prior to becoming an employee of the Management Company, the President of the Management Company performed asset management consulting services for the Partnership. This individual continues to perform this service and receives an asset management fee from the Partnership. The Partnership does not have a written agreement with this individual. During the years ended December 31, 2012, 2011 and 2010 this individual received a quarterly fee of \$18,750 for a total fee of \$75,000.

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.

On October 28, 2009, the Partnership 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 is four years with a provision requiring payment in whole or in part upon demand by HBC with six months notice. The Partnership may also prepay the note without penalty. On August 17, 2010, HBC gave six months written notice to the Partnership requesting a principal pay down of \$2,500,000. During the fourth quarter of 2010, the Partnership paid HBC \$2,500,000 as requested. During 2011, the Partnership elected to make principal payments of \$1,000,000 on August 1, 2011, \$1,000,000 on October 1, 2011 and \$1,000,000 on December 15, 2011 reducing the loan balance to \$1,668,600. In February 2012, the Partnership elected to make an additional principal payment of \$750,000 to HBC Holdings and the balance of \$918,600 was paid in full in April 2012. The interest paid during the year ended December 31, 2012, 2011 and 2010 was \$18,960, \$238,673 and \$414,740 respectively.

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

NOTE 4. OTHER ASSETS

Approximately \$1,919,000 and \$1,879,000 of security deposits are included in prepaid expenses and other assets at December 31, 2012 and December 31, 2011, respectively. The security deposits and escrow accounts are restricted cash.

Included in prepaid expenses and other assets at December 31, 2012 and December 31, 2011 is approximately \$420,000 and \$1,014,000, respectively, held in escrow to fund future capital improvements.

Financing fees of approximately \$1,136,000 and \$919,000 are net of accumulated amortization of approximately \$772,000 and \$636,000 at December 31, 2012 and December 31, 2011, respectively.

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 5. MORTGAGE NOTES PAYABLE

At December 31, 2012 and 2011, the mortgages payable consisted of various loans, all of which were secured by first mortgages on properties referred to in Note 2. At December 31, 2012, the interest rates on these loans ranged from 4.25% to 7.07%, payable in monthly installments aggregating approximately \$742,000, including principal, to various dates through 2026. The majority of the mortgages are subject to prepayment penalties. At December 31, 2012, the weighted average interest rate on the above mortgages was 5.53%. The effective rate of 5.63% 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 December 31, 2012 are as follows:

2013—current maturities	\$ 41,275,000
2014	14,669,000
2015	2,184,000
2016	194,000
2017	205,000
Thereafter	<u>79,529,000</u>
	<u>\$138,056,000</u>

On July 27, 2011, the Partnership financed the Battle Green Apartments with a new \$5,000,000 mortgage at 4.95% which matures in August 2026. Principal payments will be made using a 30 year amortization schedule. Deferred financing costs associated with this mortgage totaled approximately \$100,000 and accordingly the effective interest rate is 5.07%.

The Partnership is currently in the process of refinancing the mortgages at Boylston Downtown LLC, Westgate Apartments LLC, School Street LLC, and Hamilton Cypress LLC. The total amount expected to be refinanced is approximately \$47,000,000. As of December 31, 2012, the Partnership has paid approximately \$353,000 of financing costs related to the expected refinancing. This amount is included in financing and leasing fees in consolidated balance sheets. The Partnership may incur prepayment penalties of approximately \$250,000 in connection with this refinancing. The Partnership has no lender commitment at this time and anticipates closing on these mortgages in the first half of 2013.

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 December 31, 2012, amounts received for prepaid rents of approximately \$1,339,000 are included in cash and cash equivalents, and security deposits of approximately \$1,919,000 are included in prepaid expenses and other assets and are restricted cash.

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

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 Depository Receipts listed on the NYSE Amex and a concurrent adjustment of the exchange ratio of Depository Receipts for Class A Units of the Partnership from 10-to-1 to 30-to-1, such that each Depository Receipt represents one-thirtieth ($\frac{1}{30}$) of a Class A Unit of the Partnership.

On February 4, 2013, the Partnership announced the approval of a quarterly distribution of its Class A Limited Partners and holders of Depository Receipts of record as of March 15, 2013 and payable on March 31, 2013, \$7.50 per unit and \$0.25 per receipt.

In 2012, 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). In 2011 and 2010 the Partnership paid quarterly distributions of \$7.00 per unit (\$0.23 per receipt) in March, June, September, and December for a total distribution of \$28.00 per unit (\$0.93 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 Depository Receipts. The following is information per Depository Receipt:

	Year Ended	
	December 31,	
	<u>2012</u>	<u>2011</u>
Income per Depository Receipt before Discontinued Operations	\$0.92	\$0.38
Income from Discontinued Operations	0	1.98
Net Income per Depository Receipt after Discontinued Operations . .	<u>\$0.92</u>	<u>\$2.36</u>
Distributions per Depository Receipt	<u>\$1.00</u>	<u>\$0.93</u>

NOTE 8. TREASURY UNITS

Treasury Units at December 31, 2012 are as follows:

Class A	39,825
Class B	9,458
General Partnership	<u>498</u>
	<u>49,781</u>

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 Depository Receipts (each of which is one-tenth of a Class A Unit). On

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 8. TREASURY UNITS (Continued)

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 December 31, 2012, the Partnership has repurchased 1,219,927 Depositary Receipts at an average price of \$24.62 per receipt (or \$738.60 per underlying Class A Unit), 1,921 Class B Units and 101 General Partnership Units, both at an average price of \$613.94 per Unit, totaling approximately \$31,386,000 including brokerage fees paid by the Partnership.

On September 17, 2008, the Partnership completed the issuance of an aggregate of 6,642 Class A Units held in treasury to current holders of Class B and General Partner Units upon the simultaneous retirement to treasury of 6,309 Class B Units and 333 General Partner Units pursuant to an equity distribution plan authorized by the Board of Directors of the General Partner on August 8, 2008 and as further described under Item 3.02 of the Partnership's Current Report on Form 8-K as filed with the Securities and Exchange Commission on September 18, 2008, which is incorporated herein by reference. Harold Brown, the treasurer of the General Partner, owns 75% of the issued and outstanding Class B Units of the Partnership and 75% of the issued and outstanding equity of the General Partner, Ronald Brown, the brother of Harold Brown and the president of the General Partner, owns 25% of the issued and outstanding Class B Units of the Partnership and 25% of the issued and outstanding equity of the General Partner.

During the year ended December 31, 2012, the Partnership purchased 24,967 Depositary Receipts for a cost of \$726,058, 198 Class B Units for a cost of \$171,148 and 10 General Partnership Units for a cost of \$9,008 for a total cost of \$906,214.

From January 1, 2013 through March 14, 2013, the Partnership purchased a total of 9,709 Depositary Receipts. The average price was \$32.24 per receipt or \$967.20 per unit. The total cost was \$321,240. The Partnership is required to repurchase 76.86 Class B Units and 4.05 General Partnership units at a cost of \$74,335 and \$3,912, respectively.

The Partnership did not purchase any Depositary Receipts during the year ended December 31, 2011.

During the year ended December 31, 2010, the Partnership purchased 20,688 receipts for \$432,920, 164 Class B Units for \$102,591 and 9 General Partnership units for \$5,400.

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

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 year ended December 31, 2012, approximately 90% 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 10% was related to commercial properties, which have minimum future annual rental income on non-cancellable operating leases at December 31, 2012 as follows:

	Commercial Property Leases
2013	\$2,384,000
2014	2,011,000
2015	1,583,000
2016	1,165,000
2017	485,000
Thereafter	775,000
	\$8,403,000

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 \$661,000, \$633,000 and \$653,000 for the years ended December 31, 2012, 2011 and 2010 respectively.

The following information is provided for commercial leases:

Thru December 31,	Annual base rent for expiring leases	Total square feet for expiring leases	Total number of leases expiring	Percentage of Annual base rent for expiring leases
2013	\$ 470,463	23,773	11	17%
2014	588,422	29,523	10	22%
2015	266,098	8,471	8	10%
2016	593,346	27,073	3	22%
2017	448,101	11,997	6	16%
2018	58,050	1,262	1	2%
2019	200,375	5,800	2	7%
2020	64,657	1,106	1	2%
2021	64,800	1,800	1	2%
2022	0	—	—	0%
Totals	\$2,754,312	110,805	43	100%

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
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DECEMBER 31, 2012

NOTE 10. RENTAL INCOME (Continued)

Rents receivable are net of an allowance for doubtful accounts of approximately \$381,000 and \$448,000. at December 31, 2012 and 2011. Included in rents receivable at December 31, 2012 is approximately \$268,000 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 December 31, 2012 also includes approximately \$25,000 representing the deferral of rental concession primarily related to the residential properties.

For the year ended December 31, 2012 rent at the commercial properties includes approximately \$4,100 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 years ended December 31, 2012, 2011 and 2010, cash paid for interest was approximately \$7,776,000, \$8,011,000 and \$8,182,000 respectively. Cash paid for state income taxes was approximately \$48,000, \$55,000 and \$35,000 during the years ended December 31, 2012, 2011 and 2010 respectively.

NOTE 12. FAIR VALUE MEASUREMENTS

Fair Value Measurements on a Recurring Basis

At December 31, 2012 and 2011, 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 December 31, 2012 and 2011 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 December 31, 2012 and 2011, 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 December 31, 2012 and 2011, 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.

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 12. FAIR VALUE MEASUREMENTS (Continued)

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.

	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>
Mortgage Notes Payable		
Partnership Properties		
At December 31, 2012	\$138,055,523	\$155,942,880
At December 31, 2011	\$139,161,612	\$158,050,039
Investment Properties		
At December 31, 2012	\$138,256,711	\$157,983,030
At December 31, 2011	\$140,159,839	\$160,535,764

Disclosure about fair value of financial instruments is based on pertinent information available to management as of December 31, 2012 and December 31, 2011. 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 December 31, 2012 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 \$530,000 greater than statement income for the year ended December 31, 2012. The primary reason for the increase is reduced tax depreciation due to tax free exchanges and accelerated depreciation in prior years. The cumulative tax basis of the Partnership's real estate at December 31, 2012 is approximately \$12,000,000, 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 \$1,700,000 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 13. TAXABLE INCOME AND TAX BASIS (Continued)

The following reconciles GAAP net income to taxable income:

	For the year ended December 31,		
	2012	2011	2010
	(in thousands)		
Financial statement (“book”) net income (loss)	\$3,634	\$ 9,291	\$(1,359)
Book/Tax differences from depreciation and amortization	51	(1,024)	(643)
Book/Tax differences on tax free exchanges	266	(7,707)	—
Book/Tax differences from Investment Properties	198	(161)	403
Increase (Decrease) in prepaid rent and allowances	(40)	29	(204)
Other	57	7	—
Taxable income (loss)	\$4,166	\$ 435	\$(1,803)

Allowable accelerated depreciation deductions have been reduced for 2013. 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 adjustments 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 December 31, 2012, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations is from the year 2004 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 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 \$88,612,000 at December 31, 2012. 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

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
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NOTE 14. INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (Continued)

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. On August 17, 2010, HBC gave six months written notice to the Partnership requesting a principal pay down of \$2,500,000. During the fourth quarter of 2010, the Partnership paid HBC \$2,500,000 as requested. During 2011, the Partnership elected to make principal payments of \$1,000,000 on August 1, 2011, \$1,000,000 on October 1, 2011, and an additional \$1,000,000 on December 15, 2011 reducing the loan balance to \$1,668,600 at December 31, 2011. In February 2012, the Partnership elected to make an additional principal payment of \$750,000 to HBC Holdings and the balance of \$918,600 was paid in April 2012. The interest paid during the year ended December 31, 2012 and 2011 was \$18,960 and \$238,673, respectively. 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 plans to sell the majority of units as condominium and retain 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 December 31, 2012, the balance of the mortgage is approximately \$4,702,000. 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 matures in 2013. We are working on refinancing the property with the current lender. At December 31, 2012, 15 of the 20 units are still owned by the Partnership. As of February 1, 2013, 105 units have been sold, the proceeds of which went to pay down the mortgage on the property. No unit was sold during the year ended December 31, 2012. The balance on the new mortgage is approximately \$1,668,000 at December 31, 2012. 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 49 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 \$8,352,000 amortizing over 30 years at 5.79% due in August 2016. The mortgage on Essex Development, LLC, or the parking lot is approximately \$2,093,000 with a variable interest rate of 2.25% over the daily Libor rate (0.21% at December 31, 2012). 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. Harold Brown has issued a personal guaranty up to \$1,000,000 of this mortgage. In the event that he is obligated to make

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
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NOTE 14. INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (Continued)

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 \$4,935,000 at December 31, 2012. This investment is referred to as Hamilton 1025, LLC.

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 December 31, 2012, the balance of this mortgage is approximately \$5,433,000. This investment is referred to as Hamilton Minuteman, 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 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 Apartments, 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. Hamilton on Main LLC paid a fee of approximately \$400,000 in connection with this early extinguishment of debt. At December 31, 2012, the remaining balance on the mortgage is approximately \$15,611,000.

In November 2001, the Partnership invested approximately \$1,533,000 for a 50% ownership interest in a 40-unit apartment building in Cambridge, Massachusetts. This property has a 12-year mortgage, with a remaining balance at December 31, 2012 of approximately \$6,850,000 at 6.9% which is amortized on a 30-year schedule, with a final payment of approximately \$6,000,000 in 2014. This investment is referred to as 345 Franklin, LLC.

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2012

NOTE 14. INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (Continued)

Summary financial information for the year ended December 31, 2012

	Hamilton Essex 81	Hamilton Essex Development	345 Franklin	Hamilton 1025	Hamilton Bay Sales	Hamilton Bay Apts	Hamilton Minuteman Apts	Hamilton on Main Apts	Dexter Park	Total
ASSETS										
Rental Properties	\$9,103,858	\$2,610,574	\$7,885,745	\$5,621,970	\$1,844,219	\$6,975,854	\$7,020,471	\$21,148,813	\$107,496,918	\$169,708,422
Cash & Cash Equivalents	27,848	20,214	3,533	2,706	20,695	62,473	44,170	103,990	941,391	1,227,018
Rent Receivable	44,005	—	600	7,283	2,200	2,686	2,626	11,108	35,250	105,758
Real Estate Tax Escrow	49,793	—	20,242	74,443	—	41,225	43,612	70,364	424,159	723,838
Prepaid Expenses & Other Assets	61,895	505	75,222	33,659	127,530	14,345	48,715	154,396	1,367,274	1,883,541
Financing & Leasing Fees	64,116	4,325	8,164	19,645	5,505	26,243	15,950	14,581	399,678	558,206
Total Assets	\$9,351,515	\$2,635,617	\$7,993,505	\$5,759,706	\$2,000,148	\$7,122,825	\$7,175,545	\$21,503,252	\$110,664,670	\$174,206,783
LIABILITIES AND PARTNERS' CAPITAL										
Mortgage Notes Payable	\$8,352,317	\$2,093,184	\$6,850,179	\$4,934,741	\$1,668,000	\$4,702,087	\$5,433,472	\$15,611,045	\$ 88,611,686	\$138,256,711
Accounts Payable & Accrued Expense	34,673	6,319	93,810	49,566	7,481	49,690	58,378	204,413	843,422	1,347,752
Advance Rental Pmts & Security Deposits	175,871	—	140,759	80,264	25,147	86,028	71,025	273,302	1,919,573	2,771,968
Total Liabilities	8,562,861	2,099,503	7,084,748	5,064,570	1,700,628	4,837,806	5,562,875	16,088,760	91,374,681	142,376,432
Partners' Capital	788,654	536,114	908,757	695,135	299,520	2,285,019	1,612,669	5,414,492	19,289,989	31,830,352
Total Liabilities and Capital	\$9,351,515	\$2,635,617	\$7,993,505	\$5,759,706	\$2,000,148	\$7,122,825	\$7,175,545	\$21,503,252	\$110,664,670	\$174,206,783
Partners' Capital—NERA 50%	\$ 394,327	\$ 268,057	\$ 454,379	\$ 347,568	\$ 149,760	\$1,142,510	\$ 806,335	\$ 2,707,246		6,270,181
Partners' Capital—NERA 40%									\$ 7,715,996	7,715,996
										\$ 13,986,177
Total units/condominiums										
Apartments	48	—	40	175	120	48	42	148	409	1,030
Commercial	1	1	—	1	—	—	—	—	—	3
Total	49	1	40	176	120	48	42	148	409	1,033
Units to be retained	49	1	40	49	—	48	42	148	409	786
Units to be sold	—	—	—	127	120	—	—	—	—	247
Units sold through March 1, 2013	—	—	—	127	105	—	—	—	—	232
Unsold units	—	—	—	—	15	—	—	—	—	15
Unsold units with deposits for future sale as of March 1, 2013	—	—	—	—	—	—	—	—	—	—

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2012

NOTE 14. INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (Continued)

Year ended December 31, 2012

	Hamilton Essex 81	Hamilton Essex Development	345 Franklin	Hamilton 1025	Hamilton Bay Sales	Hamilton Bay Apts	Hamilton Minuteman Apts	Hamilton on Main Apts	Dexter Park	Total
Revenues										
Rental Income	\$1,270,141	\$287,537	\$1,178,712	\$ 861,998	\$235,061	\$ 886,122	\$ 809,707	\$2,623,994	\$12,202,615	\$20,355,887
Laundry and Sundry Income	15,363	—	1,206	—	—	—	2,435	20,952	98,042	137,999
	<u>1,285,504</u>	<u>287,537</u>	<u>1,179,918</u>	<u>861,998</u>	<u>235,061</u>	<u>886,122</u>	<u>812,142</u>	<u>2,644,946</u>	<u>12,300,657</u>	<u>20,493,885</u>
Expenses										
Administrative	15,237	1,749	27,942	5,142	7,553	34,600	7,825	46,400	219,218	365,666
Depreciation and Amortization	409,488	11,638	441,704	256,696	82,287	297,737	317,231	957,452	5,733,920	8,508,153
Management Fees	55,308	11,502	48,596	34,517	9,894	34,659	32,615	104,807	261,355	593,253
Operating	112,172	—	62,277	816	1,251	1,190	73,092	341,054	1,006,570	1,598,421
Renting	18,350	—	5,326	6,815	1,894	4,053	3,538	10,974	74,705	125,655
Repairs and Maintenance	118,786	5,475	82,052	320,997	70,812	273,652	57,448	380,605	880,103	2,189,930
Taxes and Insurance	197,566	49,237	106,785	145,755	46,017	161,137	102,505	337,256	1,485,297	2,631,555
	<u>926,908</u>	<u>79,600</u>	<u>774,681</u>	<u>770,738</u>	<u>219,707</u>	<u>807,027</u>	<u>594,254</u>	<u>2,178,549</u>	<u>9,661,169</u>	<u>16,012,632</u>
Income Before Other Income	<u>358,596</u>	<u>207,937</u>	<u>405,237</u>	<u>91,260</u>	<u>15,354</u>	<u>79,095</u>	<u>217,888</u>	<u>466,397</u>	<u>2,639,488</u>	<u>4,481,253</u>
Other Income (Loss)										
Interest Expense	(497,631)	(60,451)	(486,051)	(288,470)	(98,361)	(271,283)	(317,448)	(840,874)	(5,092,838)	(7,953,407)
Interest Income	—	—	48	74	215	—	—	—	—	337
Interest Income from Note	—	—	—	—	6,180	—	—	—	—	6,180
	<u>(497,631)</u>	<u>(60,451)</u>	<u>(486,003)</u>	<u>(288,395)</u>	<u>(91,966)</u>	<u>(271,283)</u>	<u>(317,448)</u>	<u>(840,874)</u>	<u>(5,092,838)</u>	<u>(7,946,890)</u>
Net Income (Loss)	<u>\$ (139,035)</u>	<u>\$147,486</u>	<u>\$ (80,766)</u>	<u>\$(197,135)</u>	<u>\$(76,612)</u>	<u>\$(192,188)</u>	<u>\$(99,560)</u>	<u>\$(374,477)</u>	<u>\$(2,453,350)</u>	<u>\$(3,465,636)</u>
Net Income (Loss)—NERA 50%	<u>\$(69,517)</u>	<u>\$ 73,743</u>	<u>\$(40,383)</u>	<u>\$(98,567)</u>	<u>\$(38,306)</u>	<u>\$(96,094)</u>	<u>\$(49,780)</u>	<u>\$(187,239)</u>		<u>(506,143)</u>
Net Income (Loss)—NERA 40%									<u>\$(981,340)</u>	<u>(981,340)</u>
										<u>\$(1,487,483)</u>

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 14. INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (Continued)

Future annual mortgage maturities at December 31, 2012 are as follows:

Period End	Hamilton Essex 81	Hamilton Essex 81 Development	345 Franklin	Hamilton 1025	Hamilton Bay Sales	Hamilton Bay Apts	Hamilton Minuteman	Hamilton on Main Apts	Dexter Park	Total
	March 2005	March 2005	November 2001	March 2005	October 2005	October 2005	August 2004	August 2004	October 2009	
12/31/2013	125,660	2,093,184	165,412	65,157	1,668,000	66,163	71,363	293,222	1,275,835	7,082,229
12/31/2014	133,132		6,684,767	69,003		69,944	75,575	309,178	1,348,741	10,020,473
12/31/2015	141,048			73,077		73,941	80,036	15,008,646	1,425,814	18,208,704
12/31/2016	7,952,477			4,727,503		78,166	77,128		1,507,291	15,829,060
12/31/2017						4,413,873	5,129,371		1,593,424	12,708,108
Thereafter									81,460,581	163,299,264
	<u>\$8,352,317</u>	<u>\$2,093,184</u>	<u>\$6,850,179</u>	<u>\$4,934,741</u>	<u>\$1,668,000</u>	<u>\$4,702,087</u>	<u>\$5,433,472</u>	<u>\$15,611,045</u>	<u>\$88,611,686</u>	<u>\$138,256,711</u>

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2012

NOTE 14. INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (Continued)

At December 31, 2012 the weighted average interest rate on the above mortgages was 5.65%. The effective rate was 5.65% including the amortization expense of deferred financing costs.

Summary financial information for the year ended December 31, 2011

	<u>Hamilton Essex 81</u>	<u>Hamilton Essex Development</u>	<u>345 Franklin</u>	<u>Hamilton 1025</u>	<u>Hamilton Bay Sales</u>	<u>Hamilton Bay</u>	<u>Hamilton Minuteman</u>	<u>Hamilton on Main</u>	<u>Dexter Park</u>	<u>Total</u>
ASSETS										
Rental Properties	9,454,959	2,613,064	8,229,651	5,863,176	1,916,445	7,257,981	7,256,528	21,939,796	112,921,940	177,453,541
Cash & Cash Equivalents	47,526	1,529	17,027	1,848	19,416	5,026	31,125	90,940	836,347	1,050,783
Rent Receivable	73,459	—	—	15,682	—	2,512	7,457	8,593	86,722	194,425
Real Estate Tax Escrow	98,610	—	18,360	64,464	—	89,760	43,864	104,505	582,028	1,001,592
Prepaid Expenses & Other Assets	59,508	493	54,276	88,524	167,811	95,190	54,023	180,899	1,216,214	1,916,937
Financing & Leasing Fees	71,108	6,987	16,330	24,672	6,570	32,605	19,918	21,442	458,995	658,626
Total Assets	<u>9,805,169</u>	<u>2,622,073</u>	<u>8,335,644</u>	<u>6,058,364</u>	<u>2,110,241</u>	<u>7,483,074</u>	<u>7,412,916</u>	<u>22,346,175</u>	<u>116,102,247</u>	<u>182,275,903</u>
LIABILITIES AND PARTNERS' CAPITAL										
Mortgage Notes Payable	8,462,041	2,144,796	7,019,119	4,995,487	1,668,000	4,750,000	5,500,000	15,887,203	89,733,192	140,159,839
Accounts Payable & Accrued Expense	32,238	6,309	15,323	48,236	12,682	28,690	58,596	212,224	820,603	1,234,900
Advance Rental Pmts & Security Dep	152,940	—	114,179	69,970	20,027	85,575	69,592	257,780	1,800,113	2,570,176
Total Liabilities	<u>8,647,219</u>	<u>2,151,105</u>	<u>7,148,621</u>	<u>5,113,694</u>	<u>1,700,709</u>	<u>4,864,265</u>	<u>5,628,188</u>	<u>16,357,207</u>	<u>92,353,908</u>	<u>143,964,915</u>
Partners' Capital	1,157,950	470,968	1,187,023	944,670	409,532	2,618,809	1,784,728	5,988,968	23,748,339	38,310,988
Total Liabilities & Capital	<u>9,805,169</u>	<u>2,622,073</u>	<u>8,335,644</u>	<u>6,058,364</u>	<u>2,110,241</u>	<u>7,483,074</u>	<u>7,412,916</u>	<u>22,346,175</u>	<u>116,102,247</u>	<u>182,275,903</u>
Partners' Capital—NERA 50%	<u>578,975</u>	<u>235,484</u>	<u>593,512</u>	<u>472,335</u>	<u>204,766</u>	<u>1,309,404</u>	<u>892,364</u>	<u>2,994,484</u>	<u>9,499,335</u>	<u>7,281,325</u>
NERA 40%									<u>9,499,335</u>	<u>9,499,335</u>
										<u>16,780,660</u>
Total units/ condominiums										
Apartments	48	—	40	175	120	48	42	148	409	1,030
Commercial	1	1	—	1	—	—	—	—	—	3
Total	<u>49</u>	<u>1</u>	<u>40</u>	<u>176</u>	<u>120</u>	<u>48</u>	<u>42</u>	<u>148</u>	<u>409</u>	<u>1,033</u>
Units to be retained	49	1	40	49	—	48	42	148	409	786
Units to be sold	—	—	—	127	120	—	—	—	—	247
Units sold through January 25, 2012	—	—	—	127	105	—	—	—	—	232
Unsold units	—	—	—	—	15	—	—	—	—	15
Unsold units with deposits for future sale as of February 1, 2012	—	—	—	—	—	—	—	—	—	—

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2012

NOTE 14. INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (Continued)

Year ended December 31, 2011

	<u>Hamilton Essex 81</u>	<u>Hamilton Essex Development</u>	<u>345 Franklin</u>	<u>Hamilton 1025</u>	<u>Hamilton Bay Sales</u>	<u>Hamilton Bay</u>	<u>Hamilton Minuteman</u>	<u>Hamilton on Main</u>	<u>Dexter Park</u>	<u>Total</u>
Revenues										
Rental Income	1,244,322	255,050	1,136,831	816,015	232,938	863,657	789,897	2,491,957	11,559,414	19,390,080
Laundry and Sundry Income	16,589	—	2,367	—	—	—	1,362	20,599	97,275	138,193
	<u>1,260,911</u>	<u>255,050</u>	<u>1,139,198</u>	<u>816,015</u>	<u>232,938</u>	<u>863,657</u>	<u>791,258</u>	<u>2,512,556</u>	<u>11,656,690</u>	<u>19,528,273</u>
Expenses										
Administrative	20,839	1,339	24,424	11,258	5,396	18,625	10,249	36,155	163,511	291,796
Depreciation and Amortization	424,695	8,498	443,055	257,961	103,536	329,930	322,216	965,324	5,698,657	8,553,872
Management Fees	49,677	11,040	45,829	32,120	9,486	33,916	31,666	100,581	251,071	565,386
Operating	121,521	—	66,278	1,733	239	732	54,650	371,687	929,543	1,546,382
Renting	8,058	—	19,206	13,322	1,750	8,927	3,559	15,140	144,149	214,111
Repairs and Maintenance	127,528	3,050	71,479	300,534	78,167	316,782	98,904	371,109	935,839	2,303,393
Taxes and Insurance	184,119	47,709	97,028	143,002	45,303	155,681	92,300	325,868	1,300,995	2,392,005
	<u>936,438</u>	<u>71,636</u>	<u>767,299</u>	<u>759,930</u>	<u>243,877</u>	<u>864,593</u>	<u>613,544</u>	<u>2,185,864</u>	<u>9,423,765</u>	<u>15,866,945</u>
Income Before Other Income	<u>324,473</u>	<u>183,414</u>	<u>371,899</u>	<u>56,085</u>	<u>(10,939)</u>	<u>(936)</u>	<u>177,714</u>	<u>326,693</u>	<u>2,232,924</u>	<u>3,661,328</u>
Other Income (Loss)										
Interest Expense	(503,102)	(61,593)	(494,468)	(289,222)	(98,010)	(271,348)	(317,927)	(848,786)	(5,113,523)	(7,997,979)
Interest Income	—	—	49	88	457	—	—	—	3,219	3,814
Interest Income from Note	—	—	—	—	8,904	—	—	—	—	8,904
Gain on Sale of Real Estate	—	—	—	—	—	—	—	—	—	—
Other Income (Expenses)	(2,331)	—	(5,375)	(3,621)	—	(2,271)	(61,589)	(1,152)	(3,500)	(79,839)
	<u>(505,433)</u>	<u>(61,593)</u>	<u>(499,793)</u>	<u>(292,756)</u>	<u>(88,649)</u>	<u>(273,619)</u>	<u>(379,515)</u>	<u>(849,938)</u>	<u>(5,113,804)</u>	<u>(8,065,100)</u>
Net Income (loss)	<u>(180,960)</u>	<u>121,821</u>	<u>(127,894)</u>	<u>(236,671)</u>	<u>(99,588)</u>	<u>(274,555)</u>	<u>(201,801)</u>	<u>(523,245)</u>	<u>(2,880,880)</u>	<u>(4,403,772)</u>
Net Income (loss)—NERA 50%	<u>(90,480)</u>	<u>60,911</u>	<u>(63,947)</u>	<u>(118,335)</u>	<u>(49,794)</u>	<u>(137,277)</u>	<u>(100,900)</u>	<u>(261,622)</u>		<u>(761,446)</u>
NERA 40%								<u>(1,152,352)</u>		<u>(1,152,352)</u>
										<u>(1,913,798)</u>

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2012

NOTE 14. INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (Continued)

Summary financial information for the year ended December 31, 2010

	Hamilton Essex 81	Hamilton Essex Development	345 Franklin	Hamilton 1025	Hamilton Bay Sales	Hamilton Bay	Hamilton Minuteman	Hamilton on Main	Dexter Park	Total
ASSETS										
Rental Properties	9,827,917	2,595,266	8,648,591	6,078,526	2,006,989	7,569,060	7,582,687	22,822,785	118,468,247	185,600,068
Cash & Cash Equivalents	2,833	29,596	25,617	736	48,053	57,956	51,637	19,325	754,066	989,818
Rent Receivable	24,062	—	8,887	10,088	2,224	2,295	683	10,686	125,475	184,400
Real Estate Tax Escrow	85,348	—	18,649	58,089	—	82,370	34,331	98,036	484,566	861,390
Prepaid Expenses & Other Assets	49,518	480	50,720	76,810	209,610	94,181	43,655	418,289	1,089,897	2,033,161
Financing & Leasing Fees	96,105	4,175	24,496	29,698	11,634	38,966	23,887	28,304	518,395	775,660
Total Assets	10,085,783	2,629,517	8,776,960	6,253,948	2,278,510	7,844,829	7,736,879	23,397,425	121,440,647	190,444,498
LIABILITIES AND PARTNERS' CAPITAL										
Mortgage Notes Payable	8,566,871	2,162,000	7,176,827	5,000,000	1,668,000	4,750,000	5,500,000	16,151,526	89,914,000	140,889,224
Accounts Payable & Accrued Expense	33,190	6,239	36,027	43,541	6,346	5,693	65,588	206,997	787,584	1,191,205
Advance Rental Pmts & Security Dep	132,044	—	129,188	63,965	20,044	80,772	61,762	226,689	1,684,843	2,399,308
Total Liabilities	8,732,105	2,168,239	7,342,042	5,107,506	1,694,390	4,836,465	5,627,350	16,585,212	92,386,428	144,479,737
Partners' Capital	1,353,679	461,278	1,434,918	1,146,442	584,119	3,008,364	2,109,529	6,812,213	29,054,219	45,964,761
Total Liabilities & Capital	10,085,783	2,629,517	8,776,960	6,253,948	2,278,510	7,844,829	7,736,879	23,397,425	121,440,647	190,444,498
Partners' Capital—NERA 50%	676,839	230,639	717,459	573,221	292,060	1,504,182	1,054,765	3,406,107		8,455,271
NERA 40%									11,621,688	11,621,688
										20,076,959
Total units/ condominiums										
Apartments	48	—	40	175	120	48	42	148	409	1,030
Commercial	1	1	—	1	—	—	—	—	—	3
Total	49	1	40	176	120	48	42	148	409	1,033
Units to be retained	49	1	40	49	—	48	42	148	409	786
Units to be sold	—	—	—	127	120	—	—	—	—	247
Units sold through January 25, 2010	—	—	—	127	105	—	—	—	—	232
Unsold units	—	—	—	—	15	—	—	—	—	15
Unsold units with deposits for future sale as of February 1, 2011	—	—	—	—	0	—	—	—	—	—

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2012

NOTE 14. INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (Continued)

Year ended December 31, 2010

	Hamilton Essex 81	Hamilton Essex Development	345 Franklin	Hamilton 1025	Hamilton Bay Sales	Hamilton Bay	Hamilton Minuteman	Hamilton on Main	Dexter Park	Total
Revenues										
Rental Income	1,122,915	275,950	1,097,957	794,993	221,191	839,361	765,509	2,455,222	11,019,862	18,592,960
Laundry and Sundry Income	16,184	—	2,436	—	—	—	762	19,780	97,902	137,063
	<u>1,139,099</u>	<u>275,950</u>	<u>1,100,393</u>	<u>794,993</u>	<u>221,191</u>	<u>839,361</u>	<u>766,271</u>	<u>2,475,002</u>	<u>11,117,764</u>	<u>18,730,023</u>
Expenses										
Administrative	13,709	—	30,904	13,038	7,073	17,324	10,288	39,289	148,097	279,724
Depreciation and Amortization	425,450	6,254	439,666	269,475	98,678	359,727	320,553	981,881	9,428,284	12,329,966
Management Fees	46,734	11,040	45,559	31,795	9,245	33,345	31,563	97,239	244,178	550,698
Operating	134,016	—	62,994	1,777	—	411	63,841	358,827	960,328	1,582,193
Renting	24,785	—	49,517	8,576	375	6,213	3,770	15,361	281,545	390,142
Repairs and Maintenance	134,941	—	80,190	376,560	76,510	344,852	99,553	342,310	859,088	2,314,005
Taxes and Insurance	179,939	46,658	98,151	127,637	42,465	132,188	96,213	318,150	1,451,017	2,492,417
	<u>959,574</u>	<u>63,952</u>	<u>806,981</u>	<u>828,857</u>	<u>234,346</u>	<u>894,061</u>	<u>625,780</u>	<u>2,153,057</u>	<u>13,372,537</u>	<u>19,939,145</u>
Income Before Other Income	<u>179,525</u>	<u>211,998</u>	<u>293,412</u>	<u>(33,864)</u>	<u>(13,155)</u>	<u>(54,700)</u>	<u>140,491</u>	<u>321,944</u>	<u>(2,254,773)</u>	<u>(1,209,122)</u>
Other Income (Loss)										
Interest Expense	(507,425)	(62,694)	(504,667)	(289,042)	(97,909)	(271,389)	(317,360)	(860,500)	(5,116,598)	(8,027,583)
Interest Income	3	2	47	90	569	2	1,780	8	5	2,505
Interest Income from Note	—	—	—	—	11,445	—	—	—	—	11,445
Gain on Sale of Real Estate	—	—	—	—	—	—	—	—	—	—
Other Income (Expenses)	—	—	—	—	11,021	9,478	—	2,168	(17,720)	4,947
	<u>(507,422)</u>	<u>(62,692)</u>	<u>(504,619)</u>	<u>(288,952)</u>	<u>(74,874)</u>	<u>(261,909)</u>	<u>(315,581)</u>	<u>(858,323)</u>	<u>(5,134,313)</u>	<u>(8,008,686)</u>
Net Income (loss)	<u>(327,897)</u>	<u>149,305</u>	<u>(211,208)</u>	<u>(322,816)</u>	<u>(88,029)</u>	<u>(316,608)</u>	<u>(175,090)</u>	<u>(536,379)</u>	<u>(7,389,086)</u>	<u>(9,217,808)</u>
Net Income (loss)—NERA 50%	<u>(163,948)</u>	<u>74,653</u>	<u>(105,604)</u>	<u>(161,408)</u>	<u>(44,015)</u>	<u>(158,304)</u>	<u>(87,545)</u>	<u>(268,189)</u>		<u>(914,361)</u>
NERA 40%									<u>(2,955,635)</u>	<u>(2,955,635)</u>
										<u>(3,869,995)</u>

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 15. IMPACT OF RECENTLY-ISSUED ACCOUNTING STANDARDS

In May 2011, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2011-04, (*Fair Value Measurement Topic 820: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U. S. GAAP and IFRS*). ASU 2011-04 clarifies some existing concepts, eliminates wording differences between U.S. GAAP and International Financial Reporting Standards (“IFRS”), and in some limited cases, changes some principals to achieve convergence between U.S. GAAP and IFRS. ASU 2011-04 results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between GAAP and IFRS. ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. ASU 2011-04 was effective for us as of January 1, 2012. The adoption of this pronouncement did not materially impact our consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*, which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statements. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of equity. ASU 2011-05 was effective for us as of January 1, 2012. The adoption of this pronouncement did not materially impact our consolidated financial statements.

In August 2012, the FASB issued ASU 2012-03, *Technical Amendments and Corrections to SEC Sections: Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin (SAB) No. 114, Technical Amendments Pursuant to SEC Release No. 33-950, and Corrections Related to FASB Accounting Standards Update 2010-22 (SEC Update)*. This update amends a number of SEC sections in the FASB Accounting Standards Codification as a result of (1) the issuance of SAB 114, (2) the issuance of SEC Final Rule 33-9250, and (3) corrections related to ASU 2010-22. ASU 2012-03 was effective upon issuance. The adoption of this pronouncement did not have a material impact on our consolidated financial statements.

In October 2012, the FASB issued ASU 2012-04, *Technical Corrections and Improvements*. The amendments in this update cover a wide range of topics in the Accounting Standards Codification. These amendments include technical corrections and improvements to the Accounting Standards Codification and conforming amendments related to fair value measurements. ASU 2012-04 will be effective for us as of January 1, 2013. The adoption of this pronouncement did not have a material impact on our consolidated financial statements.

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

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 years ended December 31, 2012, 2011 and 2010:

	Year Ended December 31,		
	2012	2011	2010
Total Revenues	\$—	\$348,997	\$910,155
Operating and other expenses	—	237,298	599,402
Depreciation and amortization	—	30,132	90,886
	—	267,430	690,288
Income from discontinued operations	\$—	\$ 81,567	\$219,867
Gain on the sale of Avon Street:			
Sale price			\$8,750,000
Net book value			(594,035)
Expense of sale			(435,506)
Gain on the sale of real estate			\$7,720,459

NOTE 17. QUARTERLY FINANCIAL DATA (UNAUDITED)

	Three Months Ended				Total
	March 31, 2012	June 30, 2012	September 30, 2012	December 31, 2012	
Revenue	\$ 8,852,382	\$ 8,800,416	\$ 8,875,596	\$ 9,104,015	\$35,632,409
Expenses	5,861,694	5,413,735	5,730,319	5,704,596	22,710,344
Income Before Other Income	2,990,688	3,386,681	3,145,277	3,399,419	12,922,065
Other Income (loss)	(2,363,735)	(2,339,420)	(2,370,824)	(2,214,288)	(9,288,267)
Net Income	\$ 626,953	\$ 1,047,261	\$ 774,453	\$ 1,185,131	\$ 3,633,798
Net Income per Unit before discontinued operations	\$ 4.77	\$ 7.97	\$ 5.90	\$ 9.07	\$ 27.69
Income per Unit from discontinued operations	0.00	0.00	0.00	0.00	0.00
Net income per Unit	\$ 4.77	\$ 7.97	\$ 5.90	\$ 9.07	\$ 27.69
Income per depositary receipt before discontinued operations	0.16	0.27	0.20	0.30	0.92
Income per depositary receipt from discontinued operations	0.00	0.00	0.00	0.00	0.00
Net Income per depositary receipt	\$ 0.16	\$ 0.27	\$ 0.20	\$ 0.30	\$ 0.92

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 17. QUARTERLY FINANCIAL DATA (UNAUDITED) (Continued)

	Three Months Ended				Total
	March 31, 2011	June 30, 2011	September 30, 2011	December 31, 2011	
Revenue	\$ 8,280,894	\$ 8,345,643	\$ 8,648,526	\$ 8,760,538	\$34,035,602
Expenses	5,773,941	5,508,842	5,665,232	5,722,971	22,670,986
Income Before Other Income	2,506,953	2,836,801	2,983,294	3,037,567	11,364,616
Income (loss) from discontinued operations	68,599	7,736,789	(3,054)	(308)	7,802,026
Other Income (loss)	(2,402,740)	(2,480,305)	(2,523,314)	(2,469,002)	(9,875,361)
Net Income	<u>\$ 172,812</u>	<u>\$ 8,093,285</u>	<u>\$ 456,926</u>	<u>\$ 568,257</u>	<u>\$ 9,291,281</u>
Net Income per unit before discontinued operations	\$ 0.79	\$ 2.71	\$ 3.50	\$ 4.33	\$ 11.33
Income (loss) per unit from discontinued operations	0.52	58.84	(0.02)	—	59.34
Net income per unit	<u>\$ 1.31</u>	<u>\$ 61.55</u>	<u>\$ 3.48</u>	<u>\$ 4.33</u>	<u>\$ 70.67</u>
Income per depositary receipt before discontinued operations	0.02	0.09	0.12	0.15	0.38
Income per depositary receipt from discontinued operations	0.02	1.96	—	—	1.98
Net Income per depositary receipt	<u>\$ 0.04</u>	<u>\$ 2.05</u>	<u>\$ 0.12</u>	<u>\$ 0.15</u>	<u>\$ 2.36</u>

NOTE 18. SUBSEQUENT EVENTS

From January 1, 2013 through March 14, 2013, the Partnership purchased a total of 9,709 Depositary Receipts. The average price was \$32.24 per receipt or \$967.20 per unit. The total cost was \$321,240. The Partnership is required to repurchase 76.86 Class B Units and 4.05 General Partnership units at a cost of \$74,335 and \$3,912, respectively.

On February 4, 2013, the Partnership announced the approval of a quarterly distribution to its Class A Limited Partners and holders of Depositary Receipts of record as of March 15, 2013 and payable on March 31, 2013 of \$7.50 per unit and \$0.25 per receipt.

Discontinued Operations

At the February 4, 2013 meeting of the Advisory Committee, the Committee approved managements plan to seek a sale of the 32 unit Nashoba Apartments LP in Acton, Massachusetts. This complex will be accounted for as a discontinued operation in 2013. There is no assurance that the complex can be sold at an acceptable price. The selling price is expected to be well in excess of its book value and outstanding mortgage. Summary historical information is presented below:

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 18. SUBSEQUENT EVENTS (Continued)

Financial Statements for Nashoba Apartments LP is as follows:

Nashoba Apartments LP
Balance Sheets
(In Thousands)

	December 31,	
	2012	2011
Assets:		
Rental property	\$ 1,283	\$ 1,210
Accumulated depreciation	821	743
Rental property (net)	462	467
Other current assets	123	80
Other assets	2	6
Total assets	\$ 587	\$ 553
Liabilities:		
Mortgage note payable	\$ 2,000	\$ 2,000
Other liabilities	71	70
Total liabilities	2,071	2,070
Partner's equity	(1,484)	(1,517)
Total liabilities & partner's equity	\$ 587	\$ 553

Nashoba Apartments LP
Statements of Income
(In Thousands)

	Years ended December 31,		
	2012	2011	2010
Rental and other Income	\$462	\$451	\$450
Operating Expenses	241	260	261
Interest Expense	108	108	108
Depreciation	80	72	63
Total Expenses	429	440	432
Net Income	\$ 33	\$ 11	\$ 18

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 18. SUBSEQUENT EVENTS (Continued)

Nashoba Apartments LP
Cash Flow Information
(In Thousands)

	Years ended December 31,		
	2012	2011	2010
Distributions from (to) Nashoba	\$1	\$(72)	\$45

Mortgage Notes Payable—Refinancing

On February 25, 2013, the Partnership paid off the mortgage of approximately \$3,697,000 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 located at School Street. 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. The costs associated with this refinancing were approximately \$159,000.

Additionally, the Partnership is anticipating refinancing debt of approximately \$28,000,000 in maturing debt for Boylston Downtown LP and Westgate Apartments LLC. In connection with this refinancing, the Partnership may borrow additional debt of approximately \$29,000,000. These funds will be used for future acquisitions, repurchase of additional Depositary Receipts, improvements to its properties or other operating items.

Unaudited Pro Forma Financial Information

Four of the Partnerships mortgaged properties have or will have changes to their mortgage debt during 2013. On February 25, 2013, the Partnership paid off the mortgage of approximately \$3,697,000 on Hamilton Cypress LLC. On March 11, 2013, the Partnership refinanced the property held by School Street 9, LLC with a new mortgage loan in the amount of \$15,000,000. For the balance of 2013, the Partnership is working towards refinancing the properties held by Boylston Downtown L.P. and Westgate Apartments, LLC. As of March 22, 2013 no firm commitment had been executed with a lender. However, the Partnership anticipates refinancing the existing Boylston Downtown loan of \$19,500,000 with a new loan of \$40,000,000 and refinancing the existing Westgate Apartments loan of approximately \$7,932,000 with a new loan of \$17,000,000. The cumulative effects of these financing activities are presented in the following unaudited pro forma financial statements.

The following unaudited pro forma consolidated balance sheet as of December 31, 2012 has been prepared to give effect to the payoff and refinancing of mortgage debt occurring in the first quarter of 2013 and additional refinancing expected to occur during the balance of the year. The following unaudited pro forma balance sheet does not purport to reflect the actual transactions as the majority have yet to occur.

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 18. SUBSEQUENT EVENTS (Continued)

The following unaudited pro forma consolidated statement of income for the twelve months ended December 31, 2012 has been prepared to give effect of the payoff and refinancing of mortgage debt occurring in the first quarter of 2013 and additional refinancing expected to occur during the balance of the year.

The following unaudited pro forma financial statements have been prepared for informational purposes only and are not necessarily indicative of future results or actual results that would have been achieved had the Partnership structured its debt refinancing as presented.

New England Realty Associates Limited Partnership
Pro Forma Consolidated Balance Sheet
As of December 31, 2012
(Unaudited)

	<u>Historical NERA</u>	<u>Pro Forma</u>	
		<u>Adjustments Refinancings</u>	<u>Consolidated Totals</u>
ASSETS			
Rental Properties	\$ 95,435,850	\$ —	\$ 95,435,850
Cash and Cash Equivalents	6,981,906(a)	21,465,693	28,447,599
Rents Receivable	475,083	—	475,083
Real Estate Tax Escrows	449,652	—	449,652
Prepaid Expenses and Other Assets	3,073,890(b)	2,028,400	5,102,290
Investments in Unconsolidated Joint Ventures	13,986,173	—	13,986,173
Financing and Leasing Fees	1,135,936(c)	1,445,795	2,581,731
Total Assets	<u>\$121,538,490</u>	<u>\$24,939,888</u>	<u>\$146,478,378</u>
LIABILITIES AND PARTNERS' CAPITAL			
Mortgage Notes Payable	\$138,055,522(d)	\$24,980,014	\$163,035,536
Accounts Payable and Accrued Expenses	2,361,942	—	2,361,942
Advance Rental Payments and Security Deposits	3,636,704	—	3,636,704
Total Liabilities	<u>\$144,054,168</u>	<u>\$24,980,014</u>	<u>\$169,034,182</u>
Partners' Capital 130,444 units outstanding in 2012	<u>(22,515,678)</u>	<u>(40,126)</u>	<u>(22,555,804)</u>
Total Liabilities and Partners' Capital	<u>\$121,538,490</u>	<u>\$24,939,888</u>	<u>\$146,478,378</u>

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 18. SUBSEQUENT EVENTS (Continued)

New England Realty Associates Limited Partnership
Pro Forma Consolidated Statement of Income
For the Twelve Months Ended December 31, 2012
(Unaudited)

	<u>Historic NERA</u>	<u>Pro Forma Adjustments Refinancing</u>	<u>Consolidated Totals</u>
Revenues			
Rental income	\$35,244,008	\$ —	\$35,244,008
Laundry and sundry income	388,401	—	388,401
	<u>35,632,409</u>	<u>—</u>	<u>35,632,409</u>
Expenses			
Administrative	1,825,951	—	1,825,951
Depreciation and amortization	6,092,725(e)	112,948	6,205,673
Management fee	1,446,620	—	1,446,620
Operating	3,633,619	—	3,633,619
Renting	183,529	—	183,529
Repairs and maintenance	5,179,408	—	5,179,408
Taxes and insurance	4,348,492	—	4,348,492
	<u>22,710,344</u>	<u>112,948</u>	<u>22,823,292</u>
Income Before Other Income and Discontinued Operations	<u>12,922,065</u>	<u>(112,948)</u>	<u>12,809,117</u>
Other Income (Loss)			
Interest income	2,216	—	2,216
Interest expense	(7,802,999)(f)	72,822	(7,730,177)
(Loss) from investments in unconsolidated joint ventures	(1,487,484)	—	(1,487,484)
Other	—	—	—
	<u>(9,288,267)</u>	<u>72,822</u>	<u>(9,215,445)</u>
Income From Continuing Operations	<u>3,633,798</u>	<u>(40,126)</u>	<u>3,593,672</u>
Discontinued Operations			
Income from discontinued operations	—	—	—
Gain on the sale of real estate from discontinued operations	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>
Net Income	<u>\$ 3,633,798</u>	<u>\$ (40,126)</u>	<u>\$ 3,593,672</u>
Income per Unit			
Income before discontinued operations	\$ 27.69	\$ (0.31)	\$ 27.38
Income from discontinued operations	—	—	—
Net Income per Unit	<u>\$ 27.69</u>	<u>\$ (0.30)</u>	<u>\$ 27.38</u>
Weighted Average Number of Units Outstanding	<u>131,230</u>	<u>131,230</u>	<u>131,230</u>

Notes to unaudited pro forma consolidated balance sheet and consolidated statement of income:

- (a) Cash adjusted for new loan proceeds, existing loan payoff, financing fees, replacement reserves and changes to mortgage debt service.

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 18. SUBSEQUENT EVENTS (Continued)

- (b) Replacement reserves required by new debt agreement
- (c) Change in prepaid financing fees between existing debt and refinanced debt
- (d) Difference between existing debt balance and refinanced debt balance
- (e) Increase in the amortization of the balance of prepaid finance costs for the existing debt and the proportionate share of prepaid finance costs for the refinanced debt
- (f) Decrease in mortgage interest expense between existing mortgage debt and refinanced debt

NOTE 19. QUALIFYING ACCOUNTS

New England Realty Associates Limited Partnership
Valuation and Qualifying Accounts

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Additions</u>		<u>Deductions Describe(a)</u>	<u>Balance at end of Period</u>
		<u>Charged to Costs and Expenses</u>	<u>Charged to other account describe</u>		
Year ended December 31, 2012:					
Deducted from asset accounts:					
Allowance for doubtful accounts	448,119	190,032		257,443	380,708
Year ended December 31, 2011:					
Deducted from asset accounts:					
Allowance for doubtful accounts	482,518	265,807		300,206	448,119
Year ended December 31, 2010:					
Deducted from asset accounts:					
Allowance for doubtful accounts	475,684	374,597		367,763	482,518

(a) Uncollectible accounts written off

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
(3)	Second Amended and Restated Contract of Limited Partnership.(1)
(4)	(a) Specimen certificate representing Depositary Receipts.(2) (b) Description of rights of holders of Partnership securities.(2) (c) Deposit Agreement, dated August 12, 1987, between the General Partner and the First National Bank of Boston.(3)
(10.1)	Purchase and Sale Agreement by and between Sally A. Starr and Lisa Brown, Trustees of Omnibus Realty Trust, a nominee trust.(5)
(10.2)	Commitment letter from Wachovia Multifamily Capital, Inc. to The Hamilton Company dated January 11, 2008.(6)
(10.3)	Amendment dated February 27, 2008 to Commitment letter from Wachovia Multifamily Capital, Inc. to The Hamilton Company dated January 11, 2008.(7)
(10.4)	Purchase and Sale and Escrow Agreement dated September 1, 2009 by and between 175 Free Street Investors LLC, as Seller, The Hamilton Company, as Purchaser, and First American Title Insurance Company, as Escrow Agent.(8)
(10.5)	Limited Liability Company Operating Agreement of HBC Holdings, LLC.(9)
(10.6)	Limited Liability Company Agreement of Hamilton Park Towers, LLC.(10)
(10.7)	Pledge Agreement dated October 28, 2009 by and between New England Realty Associates Limited Partnership and HBC Holdings, LLC.(11)
(10.8)	Promissory Note dated October 28, 2009 of New England Realty Associates Limited Partnership in favor of HBC Holdings, LLC.(12)
(10.9)	MultiFamily Note—CME of Hamilton Park Towers, LLC, as Borrower, in favor of Wachovia Multifamily Capital, Inc., as Lender, in the principal amount of \$89,914,000 dated October 28, 2009.(13)
(10.10)	Purchase and sale agreement by and between Avon Street Apartments and 503-509 Pleasant Street, LLC.
(10.11)	Purchase and Sale Agreement dated May 20, 2011 by and between Battlegreen Apartments Trust and Hamilton Battle Green LLC(14).
(10.12)	Promissory Note dated June 1, 2011 by and between Avon Street Apartments Limited Partnership, as Maker, and Harold Brown, as Lender(15).
(10.13)	Pledge Agreement dated June 1, 2011 by and between Avon Street Apartments Limited Partnership, as Pledgor, and Harold Brown, as Pledgee(16).
(21)	Subsidiaries of the Partnership.(4)
(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)

Exhibit No.	Description of Exhibit
(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).
(99.1)	Combined Financial Statements of Significant Subsidiaries
(101.1)	The following financial statements from New England Realty Associates Limited Partnership Quarterly Report on Form 10-K for the year ended December 31, 2012 formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Changes in Partners' Capital, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements.
(1)	Incorporated by reference to Exhibit A to the Partnership's Statement Furnished in Connection with the Solicitation of Consents filed under the Securities Exchange Act of 1934 on October 14, 1986.
(2)	Incorporated herein by reference to Exhibit A to Exhibit 2(b) to the Partnership's Registration Statement on Form 8-A, filed under the Securities Exchange Act of 1934 on August 17, 1987.
(3)	Incorporated herein by reference to Exhibit 2(b) to the Partnership's Registration Statement on Form 8-A, filed under the Securities Exchange Act of 1934 on August 17, 1987.
(4)	Incorporated by reference to Notes 2 and 14 to Financial Statements included as part of this Form 10-K.
(5)	Incorporated by reference to Exhibit 2.1 to the Partnership's Current Report on Form 8-K dated June 30, 1995.
(6)	Incorporated herein by reference to Exhibit 10.1 to the Partnership's Current Report on Form 8-K dated January 11, 2008 and filed with the Securities and Exchange Commission on February 6, 2008.
(7)	Incorporated herein by reference to Exhibit 10.1 to the Partnership's Current Report on Form 8-K dated February 27, 2008 and filed with the Securities and Exchange Commission on March 4, 2008.
(8)	Incorporated herein by reference to Exhibit 10.1 to the Partnership's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2009.
(9)	Incorporated herein by reference to Exhibit 10.2 to the Partnership's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2009.
(10)	Incorporated herein by reference to Exhibit 10.3 to the Partnership's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2009.
(11)	Incorporated herein by reference to Exhibit 10.1 to the Partnership's Current Report on Form 8-K as filed with the Securities and Exchange Commission on November 3, 2009.
(12)	Incorporated herein by reference to Exhibit 10.2 to the Partnership's Current Report on Form 8-K as filed with the Securities and Exchange Commission on November 3, 2009.
(13)	Incorporated herein by reference to Exhibit 10.3 to the Partnership's Current Report on Form 8-K as filed with the Securities and Exchange Commission on November 3, 2009.
(14)	Incorporated herein by reference to Exhibit 10.1 to the Partnership's Current Report on Form 8-K as filed with the Securities and Exchange Commission on May 26, 2011
(15)	Incorporated herein by reference to Exhibit 10.1 to the Partnership's Current Report on Form 8-K as filed with the Securities and Exchange Commission on June 7, 2011.
(16)	Incorporated herein by reference to Exhibit 10.2 to the Partnership's Current Report on Form 8-K as filed with the Securities and Exchange Commission on June 7, 2011.

New England Realty Associates Limited Partnership
CERTIFICATION

I, Ronald Brown, certify that:

1. I have reviewed this Annual Report on Form 10-K of New England Realty Associates Limited Partnership;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ RONALD BROWN

Principal Executive Officer
(President and Director of the
Partnership's General Partner, NewReal, Inc.)

Date: March 27, 2013

CERTIFICATIONS

I, Harold Brown, certify that:

1. I have reviewed this Annual Report on Form 10-K of New England Realty Associates Limited Partnership;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ HAROLD BROWN

Principal Financial Officer
(Treasurer and Director of the
Partnership's General Partner, NewReal, Inc.)

Date: March 27, 2013

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of New England Realty Associates Limited Partnership for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Ronald Brown, as President and Director of the Partnership's General Partner, NewReal, Inc., and Harold Brown, the President and a Director of the Partnership's General Partner, NewReal, Inc., each hereby certifies, pursuant to 18.U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

/s/ RONALD BROWN

Ronald Brown
Principal Executive Officer
(President and Director of the
Partnership's General Partner, NewReal, Inc.)

Date: March 27, 2013

/s/ HAROLD BROWN

Harold Brown
Principal Financial Officer
(Treasurer and Director of the
Partnership's General Partner, NewReal, Inc.)

Date: March 27, 2013

This certification accompanies each Report pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Partnership for purposes of §18 of the Security Exchange Act of 1934, as amended.

A signed original of this written statement required by §906 has been provided to the Partnership and will be retained by the Partnership and furnished to the Securities and Exchange Commission or its staff upon request.

HAMILTON PARK TOWERS LLC
HAMILTON ON MAIN APARTMENTS LLC
Combined Financial Statements—Unconsolidated Significant Joint Ventures
As of December 31, 2012 and 2011
and for the years ended December 31, 2012, 2011 and 2010
Together With Report of Independent
Registered Public Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Joint Venture Members of
Hamilton Park Towers LLC and Hamilton on Main Apartments LLC

We have audited the accompanying combined balance sheets of Hamilton Park Towers LLC and Hamilton on Main Apartments LLC (the "Joint Ventures") as of December 31, 2012 and 2011, and the related combined statements of operation, changes in members' capital and cash flows for each of the years in the three-year period ended December 31, 2012. The combined financial statements are the responsibility of the Joint Ventures' management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Hamilton Park Towers LLC and Hamilton on Main Apartments LLC at December 31, 2012 and 2011 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

/s/ MILLER WACHMAN LLP
Boston, Massachusetts
March 22, 2013

Hamilton Park Towers LLC
Hamilton on Main Apartments LLC
(Unconsolidated Significant Joint Ventures)
Combined Balance Sheets

	December 31,	
	2012	2011
ASSETS		
Rental Properties	\$128,645,731	\$134,861,736
Cash and Cash Equivalents	1,045,381	927,287
Rents Receivable	46,358	95,315
Real Estate Tax Escrows	494,523	686,534
Prepaid Expenses and Other Assets	1,521,670	1,397,113
Financing and Leasing Fees	414,259	480,437
Total Assets	\$132,167,922	\$138,448,422
LIABILITIES AND MEMBERS' CAPITAL		
Mortgage Notes Payable	\$104,222,731	\$105,620,395
Accounts Payable and Accrued Expenses	1,047,835	1,032,827
Advance Rental Payments and Security Deposits	2,192,875	2,057,893
Total Liabilities	107,463,441	108,711,115
Commitments and Contingent Liabilities (Note7)		
Members' Capital	24,704,481	29,737,307
Total Liabilities and Members' Capital	\$132,167,922	\$138,448,422

See notes to accompany the combined financial statements.

Hamilton Park Towers, LLC
Hamilton on Main Apartments, LLC
(Unconsolidated Significant Joint Ventures)
Combined Statements of Operation
Years Ended December 31, 2012, 2011 and 2010

	Year Ended December 31,		
	2012	2011	2010
Revenues			
Rental Income	\$14,826,609	\$14,051,371	\$13,475,084
Laundry and Sundry Income	118,994	117,875	117,681
	<u>14,945,603</u>	<u>14,169,246</u>	<u>13,592,765</u>
Expenses			
Administrative	265,618	199,666	187,387
Depreciation and Amortization	6,691,372	6,663,981	10,410,164
Management Fees	366,162	351,652	341,417
Operating	1,347,626	1,301,230	1,319,155
Renting	85,679	159,289	296,906
Repairs and Maintenance	1,260,708	1,306,948	1,201,399
Taxes and Insurance	1,822,553	1,626,863	1,769,166
	<u>11,839,718</u>	<u>11,609,629</u>	<u>15,525,593</u>
Income (Loss) Before Other Income	<u>3,105,885</u>	<u>2,559,617</u>	<u>(1,932,829)</u>
Other Income (Loss)			
Interest Income	—	3,219	13
Interest Expense	(5,933,712)	(5,962,309)	(5,977,098)
Other Expenses	—	(4,652)	(15,552)
	<u>(5,933,712)</u>	<u>(5,963,742)</u>	<u>(5,992,636)</u>
Net Loss	<u><u>\$ (2,827,827)</u></u>	<u><u>\$ (3,404,125)</u></u>	<u><u>\$ (7,925,465)</u></u>

See notes to accompany the combined financial statements.

Hamilton Park Towers LLC and Hamilton on Main Apartments LLC
(Unconsolidated Significant Joint Ventures)
Combined Statements of Changes in Members' Capital

	<u>Hamilton Park Towers LLC</u>	<u>Hamilton on Main Apartments LLC</u>	<u>Total</u>
Balance, January 1, 2010	\$38,518,305	\$7,510,591	\$46,028,896
Distribution to members	(2,075,000)	(162,000)	(2,237,000)
Net Loss	<u>(7,389,086)</u>	<u>(536,378)</u>	<u>(7,925,465)</u>
Balance, December 31, 2010	\$29,054,219	\$6,812,213	\$35,866,432
Distribution to members	(2,425,000)	(300,000)	(2,725,000)
Net Loss	<u>(2,880,880)</u>	<u>(523,245)</u>	<u>(3,404,125)</u>
Balance, December 31, 2011	\$23,748,339	\$5,988,968	\$29,737,307
Distribution to members	(2,005,000)	(200,000)	(2,205,000)
Net Loss	<u>(2,453,350)</u>	<u>(374,477)</u>	<u>(2,827,827)</u>
Balance, December 31, 2012	<u>\$19,289,989</u>	<u>\$5,414,492</u>	<u>\$24,704,481</u>

Allocation to New England Realty Associations Limited Partnership for 2012:

	<u>40%</u>	<u>50%</u>	<u>Total</u>
Percentage Ownership			
Distributions Received	<u>\$ 802,000</u>	<u>\$ 100,000</u>	<u>\$ 902,000</u>
Net Loss	<u>\$ (981,340)</u>	<u>\$ (187,239)</u>	<u>\$ (1,168,579)</u>
Member's Capital	<u>\$ 7,715,996</u>	<u>\$2,707,246</u>	<u>\$10,423,242</u>

See notes to accompany the combined financial statements.

HAMILTON PARK TOWERS LLC
HAMILTON ON MAIN APARTMENTS LLC
(Unconsolidated Significant Joint Ventures)
Combined Statements of Cash Flow

	Year Ended December 31,		
	2012	2011	2010
Cash Flows from Operating Activities			
Net (Loss)	\$(2,827,827)	\$(3,404,125)	\$(7,925,465)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	6,691,372	6,663,981	10,410,165
Amortization of above market lease	—	—	301,729
Changes in operating assets and liabilities:			
(Increase) Decrease in rents receivable	48,957	40,846	(47,694)
Increase in accounts payable and accrued expenses	15,008	38,246	4,837
(Increase) Decrease in real estate tax escrow	192,010	(103,931)	(146,628)
(Increase) Decrease in prepaid expenses and other assets . .	(124,556)	111,073	(170,680)
Increase in advance rental payments and security deposits .	134,982	146,361	107,511
Total adjustments	6,957,773	6,896,576	10,459,240
Net cash provided by operating activities	4,129,946	3,492,451	2,533,775
Cash flows from investing activities			
Improvement of rental properties	(409,188)	(168,424)	(391,741)
Net cash (used in) investing activities	(409,188)	(168,424)	(391,741)
Cash flows from financing activities			
Payment of financing cost	—	—	(5,000)
Principal payments of mortgage notes payable	(1,397,664)	(445,131)	(250,827)
Distributions to members	(2,205,000)	(2,725,000)	(2,237,000)
Net cash (used in) financing activities	(3,602,664)	(3,170,131)	(2,492,827)
Net increase (decrease) in cash and cash equivalents	118,094	153,896	(350,793)
Cash and cash equivalents, at beginning of year	927,287	773,391	1,124,183
Cash and cash equivalents, at end of year	<u>\$ 1,045,381</u>	<u>\$ 927,287</u>	<u>\$ 773,391</u>
Supplementary cash flow statement information:			
Cash paid for interest	<u>\$ 5,882,231</u>	<u>\$ 5,919,142</u>	<u>\$ 5,933,103</u>
Cash paid for state taxes	<u>\$ 4,406</u>	<u>\$ 6,146</u>	<u>\$ 4,458</u>

See notes to accompany the combined financial statements.

HAMILTON PARK TOWERS LLC AND HAMILTON ON MAIN APARTMENTS LLC
(Unconsolidated Significant Joint Ventures)
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Principles of Combination: The combined financial statements include the accounts of Hamilton Park Towers LLC (“Dexter Park” or “Hamilton Park”) and Hamilton on Main Apartments LLC (“Hamilton Place Apartments”) collectively (the “Joint Ventures”). Hamilton Place Apartments is owned 50% and Hamilton Park is owned 40% by New England Realty Associates, Limited Partnership (“NERA”) and are “significant unconsolidated subsidiaries” under Rule 3-09 of Regulation S-X requiring separate financial statements. All significant intercompany accounts and transactions are eliminated in the combined statements between these two entities.

Line of Business: The Joint Ventures own and operate various residential apartment buildings located in Greater Boston.

Basis of Preparation: 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.

Revenue Recognition: Rental income from residential properties is recognized over the term of the related lease. For residential tenants, amounts 60 days in arrears are charged against income. Concessions made on residential leases are 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 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. Significant acquisitions with long term leases are evaluated to determine if a portion of the purchase price is allocable to intangibles such as non market rate rents.

Upon acquisition of rental property, the Joint Ventures estimate 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 Joint Ventures allocated the purchase price to the assets acquired

HAMILTON PARK TOWERS LLC AND HAMILTON ON MAIN APARTMENTS LLC
(Unconsolidated Significant Joint Ventures)
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

and liabilities assumed based on their fair values. The Joint Ventures record 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 Joint Ventures consider 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 Joint Ventures' 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. In estimating carrying costs, management includes real estate taxes, insurance and other operating expenses and estimates of lost rentals 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 Joint Ventures' 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.

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 the joint ventures are entitled to tax treatment as partnerships. Accordingly, no provision for income taxes has been recorded. (See note 11)

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

Comprehensive Income: Comprehensive income is defined as changes in members' equity, exclusive of transactions with owners (such as capital contributions and dividends). The Joint Ventures did not have any comprehensive income items in 2012, 2011, or 2010 other than net income as reported.

HAMILTON PARK TOWERS LLC AND HAMILTON ON MAIN APARTMENTS LLC
(Unconsolidated Significant Joint Ventures)
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit Risks and Financial Instruments: The Joint Venture's properties are located in Greater Boston, and are subject to the general economic risks related thereto. No single tenant accounted for more than 5% of the revenues in 2012, 2011 or 2010. The Joint Ventures make their temporary cash investments with high-credit-quality financial institutions. At December 31, 2012 and 2011, respectively approximately \$1,571,000 and \$1,430,000 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 \$18,000 in 2012, \$32,000 in 2011 and \$59,000 in 2010.

Interest Capitalized: The Joint Ventures follow the policy of capitalizing interest as a component of the cost of rental property when the time of construction exceeds one year. During the years ended December 31, 2012, 2011 and 2010 there was no capitalized interest.

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

NOTE 2. RENTAL PROPERTIES

Rental Properties Consist of the Following:

	<u>Year Ended December 31,</u>		<u>Useful Life</u>
	<u>2012</u>	<u>2011</u>	
Land, Improvements and Parking Lots	\$ 35,259,499	\$ 35,246,904	15–40 years
Buildings and Improvements	95,841,481	95,814,901	15–40 years
Kitchen Cabinets	198,445	259,617	5–10 years
Carpets	1,738,602	1,665,573	5–10 years
Air Conditioning	57,428	34,231	5–10 years
Laundry Equipment	157,278	—	5–10 years
Elevators	1,705,708	1,705,708	20 years
Equipment	7,268,284	7,237,647	5–7 years
Furniture and Fixtures	11,715,931	11,697,856	5–7 years
Smoke Alarms	943	943	5–7 years
	<u>153,943,600</u>	<u>153,663,381</u>	
Less Accumulated Depreciation	<u>(25,297,869)</u>	<u>(18,801,644)</u>	
	<u>\$128,645,731</u>	<u>\$134,861,736</u>	

HAMILTON PARK TOWERS LLC AND HAMILTON ON MAIN APARTMENTS LLC
(Unconsolidated Significant Joint Ventures)
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 2. RENTAL PROPERTIES (Continued)

	<u>Hamilton Park Towers LLC</u>	<u>Hamilton on Main Apts LLC</u>	<u>Total</u>
Rental Properties at Cost:			
Balance, January 1, 2010	\$124,628,719	\$31,679,194	\$156,307,913
Purchase of and addition to Property	363,261	28,480	391,741
Fully Depreciated Properties	—	(3,002,233)	(3,002,233)
Balance, December 31, 2010	<u>124,991,980</u>	<u>28,705,441</u>	<u>153,697,421</u>
Purchase of and addition to Property	92,950	75,474	168,424
Fully Depreciated Properties	—	(202,464)	(202,464)
Balance, December 31, 2011	<u>125,084,930</u>	<u>28,578,451</u>	<u>153,663,381</u>
Purchase of and addition to Property	249,581	159,607	409,188
Fully Depreciated Properties	—	(128,969)	(128,969)
Balance, December 31, 2012	<u>\$125,334,511</u>	<u>\$28,609,089</u>	<u>\$153,943,600</u>
Accumulated Depreciation:			
Balance, January 1, 2010	\$ 926,330	\$ 7,909,870	\$ 8,836,200
Depreciation for year	5,597,403	975,019	6,572,422
Fully Depreciation written off	—	(3,002,233)	(3,002,233)
Balance, December 31, 2010	<u>6,523,733</u>	<u>5,882,656</u>	<u>12,406,389</u>
Depreciation for year	5,639,257	958,463	6,597,720
Fully Depreciation written off	—	(202,464)	(202,464)
Balance, December 31, 2011	<u>12,162,990</u>	<u>6,638,655</u>	<u>18,801,644</u>
Depreciation for year	5,674,604	950,590	6,625,194
Fully Depreciation written off	—	(128,969)	(128,969)
Balance, December 31, 2012	<u>\$ 17,837,594</u>	<u>\$ 7,460,276</u>	<u>\$ 25,297,870</u>
Book Value	<u>\$107,496,917</u>	<u>\$21,148,814</u>	<u>\$128,645,731</u>

NOTE 3. RELATED PARTY TRANSACTIONS

The Joint Ventures' properties are managed by an entity that is owned by the majority shareholder of the General Partner. The management fee is equal to 4% at Hamilton Place Apartments and 2% at Hamilton Park Towers of gross receipts of rental revenue and laundry income. Total fees paid were approximately \$366,000, \$352,000 and \$341,000 in 2012, 2011 and 2010, respectively.

In 2012, the Management Company also received approximately \$3,000 for construction supervision and architectural fees, \$10,000 for maintenance services and \$66,000 for administrative services.

In 2011, the Management Company also received approximately \$1,000 for construction supervision and architectural fees, \$24,000 for maintenance service and \$31,000 for administrative services.

HAMILTON PARK TOWERS LLC AND HAMILTON ON MAIN APARTMENTS LLC
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NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 3. RELATED PARTY TRANSACTIONS (Continued)

In 2010, the Management Company also received approximately \$4,000 for construction supervision and architectural fees, \$28,000 for maintenance services and \$17,000 for administrative services.

NOTE 4. OTHER ASSETS

Financing and leasing fees of approximately \$414,000 and \$480,000 are net of accumulated amortization of approximately \$243,000 and \$176,000 at December 31, 2012 and 2011, respectively.

NOTE 5. MORTGAGE NOTES PAYABLE

At December 31, 2012 and 2011, the mortgages payable consisted of various loans, all of which were secured by first mortgages on properties referred to in Note 2. At December 31, 2012, the interest rates on these loans ranged from 5.18% to 5.57%, payable in monthly installments aggregating approximately \$607,000, including interest, to various dates through 2019. The majority of the mortgages are subject to prepayment penalties. At December 31, 2012, the weighted average interest rate on the above mortgages was 5.51%.

The Joint Ventures have pledged tenant leases as additional collateral for certain of these loans.

Approximate annual maturities at December 31, 2012 are as follows:

	<u>Hamilton Park Towers LLC</u>	<u>Hamilton on Main Apartments LLC</u>	<u>Total</u>
2013 Current Maturities	\$ 1,275,835	\$ 293,222	\$ 1,569,057
2014	1,348,741	309,178	1,657,919
2015	1,425,814	15,008,646	16,434,460
2016	1,507,291		1,507,291
2017	1,593,424		1,593,424
Thereafter	81,460,581		81,460,581
	<u>\$88,611,686</u>	<u>\$15,611,045</u>	<u>\$104,222,731</u>

NOTE 6. ADVANCE RENTAL PAYMENTS AND SECURITY DEPOSITS

The Joint Ventures' residential lease agreements may require tenants to maintain a one-month advance rental payment and/or a security deposit. At December 31, 2012, security deposits of approximately \$930,000 are included with other assets and it is restricted cash.

NOTE 7. COMMITMENTS AND CONTINGENCIES

From time to time, the Joint Ventures may be involved in various ordinary routine litigation incidentals to their business. The Joint Ventures either have insurance coverage or provide for any uninsured claims when appropriate. The Joint Ventures are not involved in any material pending legal proceedings.

HAMILTON PARK TOWERS LLC AND HAMILTON ON MAIN APARTMENTS LLC
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NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 8. RENTAL INCOME

Substantially all rental income was related to residential apartments and condominium units with leases of one year or less.

Rents receivable are approximately \$46,000, \$92,000 and \$136,000 net of allowances for doubtful accounts at December 31, 2012, 2011 and 2010, respectively.

NOTE 9. CASH FLOW INFORMATION

During the years ended December 31, 2012, 2011 and 2010, cash paid for interest was approximately \$5,882,000, \$5,919,000 and \$5,933,000 respectively.

NOTE 10. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Measurements on a Recurring Basis

At December 31, 2012 and 2011, 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 December 31, 2012 and 2011 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 December 31, 2012 and 2011, 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 December 31, 2012 and 2011, 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.

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

	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>
Mortgage Notes Payable		
At December 31, 2012	\$104,222,731	\$120,117,433
At December 31, 2011	\$105,620,395	\$121,777,340

Disclosure about fair value of financial instruments is based on pertinent information available to management as of December 31, 2012 and 2011. Although management is not aware of any factors that would significantly affect the fair value amounts, such amounts have not been comprehensively revalued

HAMILTON PARK TOWERS LLC AND HAMILTON ON MAIN APARTMENTS LLC
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NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 10. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

for purposes of these financial statements since December 31, 2012 and current estimates of fair value may differ significantly from the amounts presented herein.

NOTE 11. TAXABLE INCOME AND TAX BASIS

The Joint Ventures are not subject to income taxes as they file partnership tax returns whereby their income or loss is reportable by the members.

Taxable income or loss is different than financial statement income because of intangible assets, accelerated depreciation, different tax lives, and timing differences related to prepaid rents and allowances. The Partnerships share of the taxable loss is approximately \$180,000 less than statement loss for the year ended December 31, 2012. The cumulative tax basis of the Joint Ventures real estate allocated to the Partnership at December 31, 2012 is approximately \$1,600,000 less than the statement basis primarily due to the purchase price allocation to intangible assets at Hamilton Park Towers and accelerated depreciation.

The Joint Ventures adopted the amended provisions related to uncertain tax provisions of ASC 740, Income Taxes. As a result of the implementation of the guidance, the Joint Ventures recognized no material adjustments regarding its tax accounting treatment. The Joint Ventures 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 December 31, 2012, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations is from the year 2004 forward.

NOTE 12. INTANGIBLE ASSETS

The Joint Ventures estimate the fair value of intangible assets acquired at significant acquisitions as described in Note 1 including above market leases, in place leases and tenant relationships as though the acquisition is acquired “as if vacant”. Hamilton Park Towers, a 409 unit residential complex, was acquired on October 28, 2009. Substantially all of the property’s leases are for one year and there is substantial “turnover” of the existing tenants each year. The analysis of the above mentioned factors resulted in approximately \$4,900,000 of the \$129,500,000 purchase price allocated to intangible assets amortizable over a twelve month period as follows:

	Fair Value at Acquisition	Monthly Amortization
In-place leases	\$4,100,000	\$340,000
Tenant relationships	450,000	37,500
	4,550,000	377,500
Over-market leases	350,000	30,000
	\$4,900,000	\$407,500

HAMILTON PARK TOWERS LLC AND HAMILTON ON MAIN APARTMENTS LLC
(Unconsolidated Significant Joint Ventures)
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 12. INTANGIBLE ASSETS (Continued)

Approximate in-place leases and tenant relationships are amortized in operating expenses and amortization of over-market leases are a reduction of rental income as follows:

	<u>At Acquisition October 28, 2009</u>	<u>2009 Amortization</u>	<u>2010 Amortization</u>	<u>2011 Amortization</u>	<u>2012 Amortization</u>	<u>Book Value December 31, 2012</u>
In-place leases and tenant relationships	\$4,550,000	\$755,000	\$3,795,000	\$—	\$—	\$—
Over-market leases	<u>350,000</u>	<u>60,000</u>	<u>290,000</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>\$4,900,000</u>	<u>\$815,000</u>	<u>\$4,085,000</u>	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>

These deferred charges were fully amortized in 2010.

NOTE 13. COMBINING FINANCIAL STATEMENT SCHEDULES

Combining Balance Sheet

December 31, 2012

	<u>Hamilton Park Towers LLC</u>	<u>Hamilton on Main Apartments LLC</u>	<u>Total</u>
ASSETS			
Rental Properties	\$107,496,918	\$21,148,813	\$128,645,731
Cash & Cash Equivalents	941,391	103,990	1,045,381
Rent Receivable	35,250	11,108	46,358
Real Estate Tax Escrow	424,159	70,364	494,523
Prepaid Expenses & Other Assets	1,367,274	154,396	1,521,670
Financing & Leasing Fees	399,678	14,581	414,259
Total Assets	<u>\$110,664,670</u>	<u>\$21,503,252</u>	<u>\$132,167,922</u>
LIABILITIES AND MEMBERS' CAPITAL			
Mortgage Notes Payable	\$ 88,611,686	\$15,611,045	\$104,222,731
Accounts Payable & Accrued Expenses	843,422	204,413	1,047,835
Advance Rental Payments & Security Deposits	<u>1,919,573</u>	<u>273,302</u>	<u>2,192,875</u>
Total Liabilities	91,374,681	16,088,760	107,463,441
Members' Capital	<u>19,289,989</u>	<u>5,414,492</u>	<u>24,704,481</u>
Total Liabilities and Members' Capital	<u>\$110,664,670</u>	<u>\$21,503,252</u>	<u>\$132,167,922</u>
Member's Capital—NERA 50%	—	2,707,246	2,707,246
Member's Capital—NERA 40%	7,715,996	—	7,715,996
	<u>\$ 7,715,996</u>	<u>\$ 2,707,246</u>	<u>\$ 10,423,242</u>

HAMILTON PARK TOWERS LLC AND HAMILTON ON MAIN APARTMENTS LLC
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NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 13. COMBINING FINANCIAL STATEMENT SCHEDULES (Continued)

Combining Statement of Operation

Year Ended December 31, 2012

	Hamilton Park Towers LLC	Hamilton on Main Apartments LLC	Total
Revenues			
Rental Income	\$12,202,615	\$2,623,994	\$14,826,609
Laundry and Sundry Income	98,042	20,952	118,994
	<u>12,300,657</u>	<u>2,644,946</u>	<u>14,945,603</u>
Expenses			
Administrative	219,218	46,400	265,618
Depreciation and Amortization	5,733,920	957,452	6,691,372
Management Fees	261,355	104,807	366,162
Operating	1,006,572	341,054	1,347,626
Renting	74,705	10,974	85,679
Repairs and Maintenance	880,103	380,605	1,260,708
Taxes and Insurance	1,485,297	337,256	1,822,553
	<u>9,661,171</u>	<u>2,178,549</u>	<u>11,839,718</u>
Income Before Other Income	<u>2,639,488</u>	<u>466,397</u>	<u>3,105,885</u>
Other Income (Loss)			
Interest Expense	(5,092,838)	(840,874)	(5,933,712)
	<u>(5,092,838)</u>	<u>(840,874)</u>	<u>(5,933,712)</u>
Net (Loss)	<u>\$ (2,453,350)</u>	<u>\$ (374,477)</u>	<u>\$ (2,827,827)</u>
NERA 50%	—	(187,239)	(187,239)
NERA 40%	(981,340)	—	(981,340)
	<u>\$ (981,340)</u>	<u>\$ (187,239)</u>	<u>\$ (1,168,578)</u>

HAMILTON PARK TOWERS LLC AND HAMILTON ON MAIN APARTMENTS LLC
(Unconsolidated Significant Joint Ventures)
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 13. COMBINING FINANCIAL STATEMENT SCHEDULES (Continued)

Combining Statement of Cash Flow

Year Ended December 31, 2012

	Hamilton Park Towers LLC	Hamilton on Main Apartments LLC	Total
Cash Flows from Operating Activites			
Net (Loss)	\$(2,453,350)	\$ (374,477)	\$(2,827,827)
Adjustments to reconcile net income to net cash provided by (used in) operating activites:			
Depreciation and amortization	5,733,920	957,452	6,691,372
Changes in operating assets and liabilities:			
(Increase) Decrease in rent receivable	51,472	(2,515)	48,957
Increase (Decrease) in accounts payable and accrued exp	22,819	(7,811)	15,008
Decrease in real estate tax escrow	157,869	34,141	192,010
(Increase) Decrease in prepaid expenses and other assets	(151,059)	26,503	(124,556)
Increase in advance rental payments and security deposit	119,460	15,522	134,982
Total adjustments	5,934,481	1,023,292	6,957,773
Net cash provided by operating activites	3,481,131	648,815	4,129,946
Cash flows from investing activites			
Improvement of rental properties	(249,581)	(159,607)	(409,188)
Net cash used in investing activites	(249,581)	(159,607)	(409,188)
Cash flows from financing activites			
Principal payments of mortgage & notes payable	(1,121,506)	(276,158)	(1,397,664)
Distributions to members	(2,005,000)	(200,000)	(2,205,000)
Net cash used in financing activites	(3,126,506)	(476,158)	(3,602,664)
Net increase in cash and cash equivalents	105,044	13,050	118,094
Cash and cash equivalents, at beginning of year	836,347	90,940	927,287
Cash and cash equivalents, at end of year	\$ 941,391	\$ 103,990	\$ 1,045,381
Supplementary cash flow statement information:			
Cash paid for interest	\$ 5,052,227	\$ 830,004	\$ 5,882,231
Cash paid for state taxes	\$ 1,694	\$ 2,712	\$ 4,406

HAMILTON PARK TOWERS LLC AND HAMILTON ON MAIN APARTMENTS LLC
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NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 13. COMBINING FINANCIAL STATEMENT SCHEDULES (Continued)

Combining Balance Sheet

December 31, 2011

	Hamilton Park Towers LLC	Hamilton on Main Apartments LLC	Total
ASSETS			
Rental Properties	\$112,921,940	\$21,939,796	\$134,861,736
Cash & Cash Equivalents	836,347	90,940	927,287
Rent Receivable	86,722	8,593	95,315
Real Estate Tax Escrow	582,028	104,505	686,534
Prepaid Expenses & Other Assets	1,216,214	180,899	1,397,113
Financing & Leasing Fees	458,995	21,442	480,437
Total Assets	\$116,102,247	\$22,346,175	\$138,448,422
LIABILITIES AND MEMBERS' CAPITAL			
Mortgage Notes Payable	\$ 89,733,192	\$15,887,203	\$105,620,395
Accounts Payable & Accrued Expense	820,603	212,224	1,032,827
Advance Rental Payments & Security Deposits	1,800,113	257,780	2,057,893
Total Liabilities	92,353,908	16,357,207	108,711,115
Members' Capital	23,748,339	5,988,968	29,737,307
Total Liabilities and Members' Capital	\$116,102,247	\$22,346,175	\$138,448,422
Member's Capital—NERA 50%	—	2,994,484	2,994,484
Member's Capital—NERA 40%	9,499,335	—	9,499,335
	\$ 9,499,335	\$ 2,994,484	\$ 12,493,820

HAMILTON PARK TOWERS LLC AND HAMILTON ON MAIN APARTMENTS LLC
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NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 13. COMBINING FINANCIAL STATEMENT SCHEDULES (Continued)

Combining Statement of Operation

Year Ended December 31, 2011

	Hamilton Park Towers LLC	Hamilton on Main Apartments LLC	Total
Revenues			
Rental Income	\$11,559,414	\$2,491,957	\$14,051,371
Laundry and Sundry Income	97,275	20,599	117,875
	<u>11,656,690</u>	<u>2,512,556</u>	<u>14,169,246</u>
Expenses			
Administrative	163,511	36,155	199,666
Depreciation and Amortization	5,698,657	965,324	6,663,981
Management Fees	251,071	100,581	351,652
Operating	929,543	371,687	1,301,230
Renting	144,149	15,140	159,289
Repairs and Maintenance	935,839	371,109	1,306,948
Taxes and Insurance	1,300,995	325,868	1,626,863
	<u>9,423,765</u>	<u>2,185,864</u>	<u>11,609,629</u>
Income Before Other Income	<u>2,232,924</u>	<u>326,693</u>	<u>2,559,617</u>
Other Income (Loss)			
Interest Income	3,219	—	3,219
Interest Expense	(5,113,523)	(848,786)	(5,962,309)
Other (Expenses)	(3,500)	(1,152)	(4,652)
	<u>(5,113,804)</u>	<u>(849,938)</u>	<u>(5,963,742)</u>
Net (Loss)	<u>\$ (2,880,880)</u>	<u>\$ (523,245)</u>	<u>\$ (3,404,125)</u>
NERA 50%	—	(261,622)	(261,622)
NERA 40%	(1,152,352)	—	(1,152,352)
	<u>\$ (1,152,352)</u>	<u>\$ (261,622)</u>	<u>\$ (1,413,975)</u>

HAMILTON PARK TOWERS LLC AND HAMILTON ON MAIN APARTMENTS LLC
(Unconsolidated Significant Joint Ventures)
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 13. COMBINING FINANCIAL STATEMENT SCHEDULES (Continued)

Combining Statement of Cash Flow

Year Ended December 31, 2011

	Hamilton Park Towers LLC	Hamilton on Main Apartments LLC	Total
Cash Flows from Operating Activities			
Net (Loss)	\$(2,880,880)	\$ (523,245)	\$(3,404,125)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	5,698,657	965,324	6,663,981
Changes in operating assets and liabilities:			
Decrease in rent receivable	38,753	2,093	40,846
Increase in accounts payable and accrued expenses	33,019	5,227	38,246
(Increase) in real estate tax escrow	(97,462)	(6,469)	(103,931)
(Increase)Decrease in prepaid expenses and other assets	(126,318)	237,391	111,073
Increase in advance rental payments and security deposits	115,270	31,091	146,361
Total adjustments	5,661,919	1,234,657	6,896,576
Net cash provided by operating activities	2,781,039	711,412	3,492,451
Cash flows from investing activities			
Improvement of rental properties	(92,950)	(75,474)	(168,424)
Net cash used in investing activities	(92,950)	(75,474)	(168,424)
Cash flows from financing activities			
Principal payments of mortgage & notes payable	(180,808)	(264,323)	(445,131)
Distributions to members	(2,425,000)	(300,000)	(2,725,000)
Net cash used in financing activities	(2,605,808)	(564,323)	(3,170,131)
Net increase in cash and cash equivalents	82,281	71,615	153,896
Cash and cash equivalents, at beginning of year	754,066	19,325	773,391
Cash and cash equivalents, at end of year	\$ 836,347	\$ 90,940	\$ 927,287
Supplementary cash flow statement information:			
Cash paid for interest	\$ 5,077,302	\$ 841,839	\$ 5,919,142
Cash paid for state income taxes	\$ 2,751	\$ 3,395	\$ 6,146

HAMILTON PARK TOWERS LLC AND HAMILTON ON MAIN APARTMENTS LLC
(Unconsolidated Significant Joint Ventures)
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 13. COMBINING FINANCIAL STATEMENT SCHEDULES (Continued)

Combining Balance Sheet

December 31, 2010

	Hamilton Park Towers LLC	Hamilton on Main Apartments LLC	Total
ASSETS			
Rental Properties	\$118,468,247	\$22,822,785	\$141,291,032
Cash and Cash Equivalents	754,066	19,325	773,390
Rent Receivable	125,475	10,686	136,162
Real Estate Tax Escrow	484,566	98,036	582,603
Prepaid Expenses and Other Assets	1,089,897	418,289	1,508,187
Financing and Leasing Fees	518,395	28,304	546,699
Total Assets	\$121,440,647	\$23,397,425	\$144,838,072
LIABILITIES AND MEMBERS' CAPITAL			
Mortgage Notes Payable	\$ 89,914,000	\$16,151,526	\$106,065,526
Accounts Payable and Accrued Expense	787,584	206,997	994,582
Advance Rental Payments and Security Deposits	1,684,843	226,689	1,911,533
Total Liabilities	92,386,428	16,585,212	108,971,640
Members' Capital	29,054,219	6,812,213	35,866,432
Total Liabilities and Members' Capital	\$121,440,647	\$23,397,425	\$144,838,072
Member's Capital—NERA 50%	—	3,406,107	3,406,107
Member's Capital—NERA 40%	11,621,688	—	11,621,688
	\$ 11,621,688	\$ 3,406,107	\$ 15,027,794

HAMILTON PARK TOWERS LLC AND HAMILTON ON MAIN APARTMENTS LLC
(Unconsolidated Significant Joint Ventures)
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 13. COMBINING FINANCIAL STATEMENT SCHEDULES (Continued)

Combine Statement of Operation

Year Ended December 31, 2010

	Hamilton Park Towers LLC	Hamilton on Main Apartments LLC	Total
Revenues			
Rental Income	\$11,019,862	\$2,455,222	\$13,475,084
Laundry and Sundry Income	97,902	19,780	117,681
	11,117,763	2,475,001	13,592,765
Expenses			
Administrative	148,097	39,289	187,387
Depreciation and Amortization	9,428,284	981,881	10,410,164
Management Fees	244,178	97,239	341,417
Operating	960,328	358,827	1,319,155
Renting	281,545	15,361	296,906
Repairs and Maintenance	859,088	342,310	1,201,399
Taxes and Insurance	1,451,016	318,150	1,769,166
	13,372,537	2,153,057	15,525,593
Income (Loss) Before Other Income	(2,254,773)	321,944	(1,932,829)
Other Income (Loss)			
Interest Income	5	8	13
Interest Expense	(5,116,598)	(860,500)	(5,977,098)
Other Income (Expenses)	(17,720)	2,168	(15,552)
	(5,134,313)	(858,323)	(5,992,636)
Net (Loss)	\$(7,389,086)	\$(536,379)	\$(7,925,465)
NERA 50%	—	(268,189)	(268,189)
NERA 40%	(2,955,635)	—	(2,955,635)
	\$(2,955,635)	\$(268,189)	\$(3,223,824)

HAMILTON PARK TOWERS LLC AND HAMILTON ON MAIN APARTMENTS LLC
(Unconsolidated Significant Joint Ventures)
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 13. COMBINING FINANCIAL STATEMENT SCHEDULES (Continued)

Combining Statement of Cash Flow

Year Ended December 31, 2010

	Hamilton Park Towers LLC	Hamilton on Main Apartments LLC	Total
Cash Flows from Operating Activities			
Net (loss)	\$(7,389,086)	\$(536,379)	\$(7,925,465)
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Depreciation and amortization	9,428,284	981,881	10,410,165
Amortization of above market lease	301,729	—	301,729
Changes in operating assets and liabilities:			
(Increase) in rents receivable	(42,525)	(5,169)	(47,694)
(Decrease) Increase in accounts payable and accrued exp	33,916	(29,079)	4,837
(Increase) in real estate tax escrow	(146,176)	(452)	(146,628)
(Increase) in prepaid expenses and other assets	(81,863)	(88,817)	(170,680)
Increase in advance rental payments and security deposits	107,206	305	107,511
Total adjustments	9,600,571	858,669	10,459,240
Net cash provided by operating activities	2,211,485	322,290	2,533,775
Cash flows provided by (used in) investing activities			
Improvement of rental properties	(363,261)	(28,480)	(391,741)
Net cash (used in) investing activities	(363,261)	(28,480)	(391,741)
Cash flows provided by (used in) investing activities			
Payment of financing cost	(5,000)	—	(5,000)
Principal payments of mortgage notes payable	—	(250,827)	(250,827)
(Distributions) to members	(2,075,000)	(162,000)	(2,237,000)
Net cash (used in) financing activities	(2,080,000)	(412,827)	(2,492,827)
Net (decrease) in cash and cash equivalents	(231,776)	(119,017)	(350,793)
Cash and cash equivalents, at beginning of year	985,842	138,342	1,124,184
Cash and cash equivalents, at end of year	\$ 754,066	\$ 19,325	\$ 773,391
Supplementary cash flow statement information:			
Cash paid for interest	\$ 5,077,768	\$ 855,334	\$ 5,933,103
Cash paid for state income taxes	\$ 3,350	\$ 1,108	\$ 4,458

HAMILTON PARK TOWERS LLC AND HAMILTON ON MAIN APARTMENTS LLC
(Unconsolidated Significant Joint Ventures)
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

NOTE 14. NEW ACCOUNTING PRONOUNCEMENT

In May 2011, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2011-04, (*Fair Value Measurement Topic 820: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U. S. GAAP and IFRS*). ASU 2011-04 clarifies some existing concepts, eliminates wording differences between U.S. GAAP and International Financial Reporting Standards (“IFRS”), and in some limited cases, changes some principals to achieve convergence between U.S. GAAP and IFRS. ASU 2011-04 results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between GAAP and IFRS. ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. ASU 2011-04 was effective for us as of January 1, 2012. The adoption of this pronouncement did not materially impact our Joint Ventures’ consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*, which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statements. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of equity. ASU 2011-05 was effective for us as of January 1, 2012. The adoption of this pronouncement did not materially impact our Joint Ventures’ consolidated financial statements.

In August 2012, the FASB issued ASU 2012-03, *Technical Amendments and Corrections to SEC Sections: Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin (SAB) No. 114, Technical Amendments Pursuant to SEC Release No. 33-950, and Corrections Related to FASB Accounting Standards Update 2010-22 (SEC Update)*. This update amends a number of SEC sections in the FASB Accounting Standards Codification as a result of (1) the issuance of SAB 114, (2) the issuance of SEC Final Rule 33-9250, and (3) corrections related to ASU 2010-22. ASU 2012-03 was effective upon issuance. The adoption of this pronouncement did not have a material impact on our Joint Ventures’ consolidated financial statements.

In October 2012, the FASB issued ASU 2012-04, *Technical Corrections and Improvements*. The amendments in this update cover a wide range of topics in the Accounting Standards Codification. These amendments include technical corrections and improvements to the Accounting Standards Codification and conforming amendments related to fair value measurements. ASU 2012-04 will be effective for us as of January 1, 2013. The adoption of this pronouncement did not have a material impact on our Joint Ventures’ consolidated financial statements.