

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP  
Form 10-Q  
May 12, 2008

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## SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

### Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2008

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 0-12138

## 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)

**American Stock Exchange**  
(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 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

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subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the 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  Smaller reporting company   
(Do not check if a 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

As of May 12, 2008, there were 105,803 Class A units (1,058,032 Depositary Receipts) and 33,015 Class B units of the limited partnership units issued and outstanding.

(For this computation, the Registrant has excluded the market value of all Depositary 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.)

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## NEW ENGLAND REALTY ASSOCIATES, L.P.

## PART 1 FINANCIAL INFORMATION

## Item 1. Financial Statements

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

The aforementioned financial statements should be read in conjunction with the notes to the aforementioned financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and notes thereto included in New England Realty Associates L.P.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

The results of operations for the three month period ended March 31, 2008 are not necessarily indicative of the results to be expected for the entire fiscal year or any other period.

## NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

|   | March 31,<br>2008<br>(Unaudited) | December 31,<br>2007<br>(Audited) |
|---|----------------------------------|-----------------------------------|
| <b>ASSETS</b>                                       |                                  |                                   |
| Rental Properties                                   | \$ 95,880,634                    | \$ 96,730,044                     |
| Property Held for Sale                              | 436,692                          | 1,047,492                         |
| Cash and Cash Equivalents                           | 5,887,866                        | 6,890,525                         |
| Rents Receivable                                    | 516,445                          | 505,869                           |
| Real Estate Tax Escrows                             | 370,550                          | 483,010                           |
| Prepaid Expenses and Other Assets                   | 3,729,878                        | 3,335,431                         |
| Investment in Unconsolidated Joint Ventures         | 14,148,981                       | 15,011,786                        |
| Financing and Leasing Fees                          | 938,400                          | 387,613                           |
| <b>Total Assets</b>                                 | <b>\$ 121,909,446</b>            | <b>\$ 124,391,770</b>             |
| <b>LIABILITIES AND PARTNERS' CAPITAL</b>            |                                  |                                   |
| Note Payable  | \$                               | \$ 3,224,419                      |
| Mortgage Notes Payable                              | 132,820,063                      | 113,579,904                       |
| Accounts Payable and Accrued Expenses               | 1,549,653                        | 1,746,266                         |
| Advance Rental Payments and Security Deposits       | 3,155,015                        | 3,176,322                         |
| <b>Total Liabilities</b>                            | <b>137,524,731</b>               | <b>121,726,911</b>                |
| Commitments and Contingent Liabilities (Note 9)     |                                  |                                   |
| Partners' Capital 140,677 units outstanding in 2008 | (15,615,285)                     | 2,664,859                         |
| <b>Total Liabilities and Partners' Capital</b>      | <b>\$ 121,909,446</b>            | <b>\$ 124,391,770</b>             |

See notes to consolidated financial statements.



## NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

|  | Three Months Ended<br>March 31,<br>(Unaudited) |                    |
|--|--|--------------------|
|  | 2008   | 2007               |
| <b>Revenues</b>  |  |                    |
| Rental income  | \$ 7,922,823                                   | \$ 7,708,736       |
| Laundry and sundry income  | 109,144  | 104,896            |
|  | <u>8,031,967</u>                               | <u>7,813,632</u>   |
| <b>Expenses</b>  |  |                    |
| Administrative   | 425,789  | 390,913            |
| Depreciation and amortization  | 1,618,656                                      | 1,676,894          |
| Interest   | 1,925,859                                      | 1,838,521          |
| Management fees  | 322,280  | 310,929            |
| Operating  | 1,404,452                                      | 1,367,747          |
| Renting  | 80,211   | 66,432             |
| Repairs and maintenance  | 1,040,066                                      | 1,034,026          |
| Taxes and insurance  | 908,990  | 875,948            |
|  | <u>7,726,303</u>                               | <u>7,561,410</u>   |
| <b>Income Before Other Income (Loss) and Discontinued Operations</b> | <u>305,664</u>                                 | <u>252,222</u>     |
| <b>Other Income (Loss)</b>   |  |                    |
| Interest income  | 48,369   | 100,126            |
| Casualty (Loss)  |  | (60,000)           |
| (Loss) from investment in unconsolidated joint ventures              | (247,805)                                      | (420,225)          |
| Mortgage prepayment penalties  | (3,702,168)                                    |                    |
|  | <u>(3,901,604)</u>                             | <u>(380,099)</u>   |
| <b>(Loss) From Continuing Operations</b>                             | <u>(3,595,940)</u>                             | <u>(127,877)</u>   |
| <b>Discontinued Operations</b>                                       |  |                    |
| (Loss) Income from discontinued operations                           | (27,447)                                       | 68,322             |
| Gain on the sale of real estate                                      | 6,053,391                                      |                    |
|  | <u>6,025,944</u>                               | <u>68,322</u>      |
| <b>Net (Loss) Income</b>   | <u>\$ 2,430,004</u>                            | <u>\$ (59,555)</u> |
| <b>Income per Unit</b>   |  |                    |
| (Loss) before discontinued operations                                | \$ (23.76)                                     | \$ (0.73)          |
| Income from discontinued operations                                  | 39.81  | 0.39               |

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|  | <b>Three Months Ended<br/>March 31,<br/>(Unaudited)</b> |           |
|--|---|-----------|
| Net Income per Unit                          | \$ 16.05  | \$ (0.34) |
| Weighted Average Number of Units Outstanding | 151,384   | 173,252   |

See notes to consolidated financial statements.

## NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' CAPITAL

(UNAUDITED)

|                          | Units   |         |                     |          |                | Partner's Capital |              |              |                     |               |
|--------------------------|---------|---------|---------------------|----------|----------------|-------------------|--------------|--------------|---------------------|---------------|
|                          | Limited |         | General Partnership | Subtotal | Treasury Units | Total             | Limited      |              | General Partnership | Total         |
|                          | Class A | Class B |                     |          |                |                   | Class A      | Class B      |                     |               |
| Balance, January 1, 2007 | 144,180 | 34,243  | 1,802               | 180,225  | 6,973          | 173,252           | \$ 9,310,672 | \$ 2,214,737 | \$ 116,594          | \$ 11,642,003 |
| Distribution to Partners |         |         |                     |          |                |                   | (968,643)    | (230,053)    | (12,108)            | (1,210,804)   |
| Net Income               |         |         |                     |          |                |                   | (47,644)     | (11,315)     | (596)               | (59,555)      |
| Balance, March 31, 2007  | 144,180 | 34,243  | 1,802               | 180,225  | 6,973          | 173,252           | \$ 8,294,385 | \$ 1,973,369 | \$ 103,890          | \$ 10,371,644 |
| Balance, January 1, 2008 | 144,180 | 34,243  | 1,802               | 180,225  | 14,109         | 166,116           | \$ 1,052,816 | \$ 1,531,414 | \$ 80,629           | \$ 2,664,859  |
| Distribution to Partners |         |         |                     |          |                |                   | (772,254)    | (183,410)    | (9,653)             | (965,317)     |
| Stock Buyback            |         |         |                     |          | 25,439         | 25,439            | (19,744,831) |              |                     | (19,744,831)  |
| Net Income               |         |         |                     |          |                |                   | 1,944,003    | 461,701      | 24,300              | 2,430,004     |
| Balance, March 31, 2008  | 144,180 | 34,243  | 1,802               | 180,225  | 39,548         | 140,677           | (17,520,266) | 1,809,705    | 95,276              | (15,615,285)  |

See notes to consolidated financial statements.



## NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' CAPITAL (Continued)

(UNAUDITED)

## NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Three Months Ended<br>March 31,<br>(Unaudited) |                  |
|---|--|------------------|
|   | 2008   | 2007             |
| <b>Cash Flows from Operating Activities</b>   |  |                  |
| Net income  | \$ 2,430,004                                   | \$ (59,555)      |
| <b>Adjustments to reconcile net income to net cash provided by operating activities</b> |  |                  |
| Depreciation and amortization   | 1,618,656                                      | 1,711,456        |
| Loss from investment in unconsolidated joint ventures                                   | 247,805  | 420,225          |
| Income in the sale of real estate from discontinued operations                          | (6,053,391)                                    |                  |
| <b>Changes in operating assets and liabilities</b>                                      |  |                  |
| (Increase) in rents receivable  | (10,576)                                       | (41,343)         |
| (Increase) in insurance recovery receivable   |  | (100,000)        |
| (Increase) in financing and leasing fees  | (673,213)                                      | (8,201)          |
| Increase (Decrease) in accounts payable and accrued expense                             | (196,613)                                      | 360,690          |
| Decrease (Increase) in real estate tax escrow   | 112,460  | (26,953)         |
| (Increase) Decrease in prepaid expenses and other assets                                | (394,447)                                      | 56,225           |
| (Decrease) in advance rental payments and security deposits                             | (21,307)                                       | (14,130)         |
| <b>Total Adjustments</b>  | <b>(5,370,626)</b>                             | <b>2,357,969</b> |
| Net cash (used in) provided by operating activities                                     | (2,940,622)                                    | 2,298,414        |
| <b>Cash Flows Used in Investing Activities</b>  |  |                  |
| (Investment in) unconsolidated joint ventures   |  |                  |
| Proceeds from unconsolidated joint ventures   | 615,000  | 200,000          |
| Net proceeds from the sale of rental properties   | 3,991,247                                      |                  |
| Purchase and improvement of rental properties   | (673,876)                                      | (566,789)        |
| Net cash provided by (used in) investing activities                                     | 3,932,371                                      | (366,789)        |
| <b>Cash Flows Used in Financing Activities</b>  |  |                  |
| Proceeds of mortgage notes payable  | 22,176,956                                     |                  |
| Payment of note payable   | (3,224,419)                                    |                  |
| Principal payments of mortgage notes payable  | (236,797)                                      | (268,939)        |
| Stock buyback   | (19,744,831)                                   |                  |
| Distributions to partners   | (965,317)                                      | (1,210,804)      |
| Net cash (used in) financing activities   | (1,994,408)                                    | (1,479,743)      |
| Net Increase (Decrease in) Cash and Cash Equivalents                                    | (1,002,659)                                    | 451,882          |
| Cash and Cash Equivalents, at beginning of period                                       | 6,890,525                                      | 9,773,250        |

|   | <b>Three Months Ended<br/>March 31,<br/>(Unaudited)</b> |               |
|---|---|---------------|
| Cash and Cash Equivalents, at end of period | \$ 5,887,866  | \$ 10,225,132 |

See notes to consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2008**

**(UNAUDITED)**

**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 and operate various residential apartment buildings, condominium units and commercial properties located in Massachusetts and New Hampshire. NERA has also made investments in other real estate partnerships and has participated in other real estate-related activities, primarily located in Massachusetts.

*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 nine limited liability companies (the "Investment Properties" or "Joint Ventures") in which the Partnership has a 50% ownership interest. The consolidated group is referred to as the "Partnerships." 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 3: Investments in Unconsolidated Joint Ventures).

The Partnership accounts for its investments in unconsolidated joint ventures for which Financial Accounting Standards ("FASB") Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities ("FIN46") does not apply under the equity method of accounting as the company exercises significant influence, but does not control these entities. 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.

On a periodic basis, management assesses whether there are any indicators that the value of the Company's investments in unconsolidated joint ventures may be impaired. An investment is impaired only if management's estimate of the value of the investment is less than the carrying value of the investment, and such decline in value is deemed to be other than temporary. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying amount of the investment over the value of the investment. Management does not believe that the value of any of the company's investments in unconsolidated joint ventures is impaired.

*Accounting Estimates:* 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 and commercial properties is recognized over the term of the related lease. Amounts 60 days in arrears are charged against income. 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.

*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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

MARCH 31, 2008

(UNAUDITED)

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

depreciated assets are removed from the accounts. Rental properties are depreciated by both straight-line and accelerated methods over their estimated useful lives.

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 has been recorded.

*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 the three months ended March 31, 2008 or the year ended December 31, 2007.

*Income Per Unit:* Net income per unit has been calculated based upon the weighted average number of units outstanding during each year 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 2008 or 2007. The Partnership makes its temporary cash investments with high-credit-quality financial institutions. At March 31, 2008, substantially all of the Partnership's cash and cash equivalents were held in interest-bearing accounts at financial institutions, earning interest at rates from 1.5% to 3.6%. At March 31, 2008 and December 31, 2007, respectively, approximately \$6,694,000 and \$7,500,000 of cash and cash equivalents, and cash included in prepaid expenses and other assets exceeded federally insured amounts.

*Advertising Expense:* Advertising is expensed as incurred. Advertising expense was \$18,745 and \$36,101 for the three months ended March 31, 2008, and 2007 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

MARCH 31, 2008

(UNAUDITED)

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

assets which have been identified as held for sale is less than the net book of the assets, a valuation allowance is established. Properties identified as held for sale and/or sold are presented in discontinued operations for all periods presented.

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

*Interest Capitalized:* The Company 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 three months ended March 31, 2008 and the year ended December 31, 2007, there was no capitalized interest.

*Extinguishment of Debt:* When existing mortgages are refinanced with the same lender, EITF 96-19 "Debtors Accounting for a Modification or Exchange of Debt Instruments" require they be analyzed to determine if the refinancing are substantially different to be recorded as an extinguishment of debt or substantially the same be recorded as an exchange of debt. All refinancing qualify for 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 March 31, 2008, the Partnership and its Subsidiary Partnerships owned 2,316 residential apartment units in 21 residential and mixed-use complexes (collectively, the "Apartment Complexes"). The Partnership also owns 24 condominium units in two residential condominium complexes, 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 March 31, 2008, the Subsidiary Partnerships owned a commercial shopping center in Framingham and a commercial property in Newton and mixed-use properties in Boston, Brockton and Newton, all in Massachusetts. These properties are referred to collectively as the "Commercial Properties."

Additionally, as of March 31, 2008, the Partnership owned a 50% ownership interest in nine residential and mixed use complexes (the "Investment Properties") with a total of 398 units, accounted for using the equity method of consolidation. See Note 14 for summary information on these investments.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

MARCH 31, 2008

(UNAUDITED)

## NOTE 2. RENTAL PROPERTIES (Continued)

Rental properties consist of the following:

|                                     | March 31, 2008 | December 31, 2007 | Useful Life   |
|-------------------------------------|----------------|-------------------|---------------|
| Land, improvements and parking lots | \$ 23,834,956  | \$ 23,829,256     | 10 - 31 years |
| Buildings and improvements          | 107,404,417    | 107,200,909       | 15 - 31 years |
| Kitchen cabinets                    | 4,279,078      | 4,164,828         | 5 - 10 years  |
| Carpets                             | 3,558,010      | 3,441,808         | 5 - 10 years  |
| Air conditioning                    | 867,170        | 864,564           | 7 - 10 years  |
| Laundry equipment                   | 231,774        | 191,527           | 5 - 7 years   |
| Elevators                           | 944,324        | 896,394           | 20 years      |
| Swimming pools                      | 126,275        | 126,275           | 10 years      |
| Equipment                           | 1,752,493      | 1,668,493         | 5 - 7 years   |
| Motor vehicles                      | 120,800        | 105,800           | 5 years       |
| Fences                              | 226,171        | 226,171           | 5 - 10 years  |
| Furniture and fixtures              | 4,326,442      | 4,310,312         | 5 - 7 years   |
| Smoke alarms                        | 117,731        | 99,214            | 5 - 7 years   |
|                                     | 147,789,641    | 147,125,551       |               |
| Less accumulated depreciation       | (51,909,007)   | (50,395,507)      |               |
|                                     | \$ 95,880,634  | \$ 96,730,044     |               |

On January 3, 2008, the Partnership sold the Oak Ridge Apartments, a 61-unit residential apartment complex located in Foxboro, Massachusetts. The sale price was \$7,150,000, which resulted in a gain of approximately \$6,400,000. In November, the Partnership purchased a fully occupied commercial building located in Newton, Massachusetts, known as Linewt LLC. The purchase price was \$3,475,000 and the building consists of 5,850 square feet of commercial space. The Partnership utilized Section 1031 of the IRS code to affect a tax free exchange on the gain of Oak Ridge up to the purchase price of the Newton property. Most of the taxable gain of approximately \$3,000,000 will be taxed at the capital gain rates. In accordance with Section 1031, the Newton property was owned by a Qualified Intermediary for the period from the purchase date of the Newton property and the sale date of the Foxboro property. The Qualified Intermediary borrowed \$3,225,112 from Harold Brown, Treasurer of the General Partner, to purchase the Newton property. This loan was paid in full, with interest at 6% of \$34,401, from the proceeds of the Oak Ridge sale on January 3, 2008. On January 22, 2008, the Partnership financed the Newton property with a first mortgage of \$1,700,000 at 5.75% interest only until maturity in January 2018.

On March 5, 2008, the Partnership signed a purchase and sales agreement for the sale of Coach Apartments in Acton, Massachusetts. The sale price of \$4,600,000 will result in a gain to the Partnership of approximately \$3,600,000. This gain will substantially be taxed as a long term capital gain unless a new property is purchased that would allow for the deferral as described above. The Partnership will receive approximately \$2,600,000 from this transaction after payment of the existing mortgage of \$1,500,000 and prepayment penalties and closing costs of approximately \$500,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

MARCH 31, 2008

(UNAUDITED)

**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 rental revenue and laundry income. Total fees paid were approximately \$329,000 and \$324,000 in 2008 and 2007, 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 2008 and 2007, approximately \$155,000 and \$192,000, respectively, was charged to NERA for legal, accounting, construction, maintenance, rental and architectural services and supervision of capital improvements. Of the 2008 expenses referred to above, approximately \$70,000 consisted of repairs and maintenance and \$40,000 of administrative expense. Approximately \$21,000 of expenses for construction, architectural services and supervision of capital projects was capitalized in rental properties.

Additionally in 2008, the Hamilton Company received approximately \$121,000 from the Investment Properties of which approximately \$70,000 was the management fee, \$5,000 was for construction supervision and architectural fees, \$30,000 was for maintenance services and \$8,000 was for administrative services. The Hamilton Company legal department acts as closing attorney on certain condo sales receiving approximately \$9,000 during the three months ended March 31, 2008. As more fully described in Note 14, an entity partially owned by the majority shareholder of the General Partner is the sales agent for certain condominium sales receiving approximately \$38,000 of commissions in 2008.

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 directly employed by the properties. Total reimbursement was approximately \$505,000 for the three months ended March 31, 2008 and \$2,164,000 for the year ended December 31, 2007. 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 2008 and 2007.

In 1996, prior to becoming an employee and President of the Management Company, the current President of the Management Company performed asset management consulting services to the Partnership. This individual continues to perform this service and receives an asset management fee from the Partnership, receiving \$12,500 during the three months ended March 31, 2008 and \$50,000 during the year ended December 31, 2007.

The Partnership has invested in nine limited liability companies to purchase six residential apartment complexes (the "Investment Properties"). The Partnership owns 50% of each entity, the majority shareholder of the General Partner owns between 43.2% and 47.5% and 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. See Note 14 for a description of the properties and their operations.

On June 30, 2003, the Partnership purchased five condominium units in a 42-unit building located in Brookline, Massachusetts. These were purchased from Harvard 45 Associates LLC ("Harvard 45") which is owned 70% by the 75% shareholder and treasurer of the General Partner, and 5% by the President of Hamilton. The total purchase price for these condominiums was approximately \$2,416,000 and was approved both by the Partnership's Advisory Committee and the General Partner. Harvard 45

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

MARCH 31, 2008

(UNAUDITED)

**NOTE 3. RELATED PARTY TRANSACTIONS (Continued)**

realized a gain of approximately \$648,000 from these sales. Harvard 45 also sold 16 units to unrelated parties; the prices for all 21 units sold were comparable. The majority shareholder of the general partner has guaranteed the \$1,600,000 mortgage for these five units. The original mortgage of \$1,600,000 has been extended to August 2009. The mortgage rate of 6.5% is fixed for three years and the cost associated with this extension is approximately \$8,000. The Partnership is in the process of selling these condominiums, and have obtained a signed purchase and sales agreement on three of the units. The gain on the sale of these units is approximately \$137,000 and will be recorded in the second quarter of 2008. In as much as each unit can not be accurately separated, each sale will not be recorded as a discontinued operation.

The above 42-unit condominium building is managed by an entity wholly owned by the 25% shareholder and President of the General Partner. That entity will receive annual management fees from the five units of approximately \$1,500, and Hamilton will reduce its management fees to approximately 2%, so that the total management fee will not exceed the 4% allowed by the Partnership's Partnership Agreement.

In March 2005, the Partnership sold the Middlesex Apartments to an entity wholly owned by the majority shareholder of the General Partner. The selling price was \$6,500,000 which resulted in a capital gain for the Partnership of approximately \$5,800,000 and an increase in the Partnership's cash reserves of approximately \$4,800,000 after payment off the existing \$1,300,000 mortgage, prepayment penalties and other selling expenses. The buyer is selling the property as condominium units. An entity 31% owned by the majority shareholder of the General Partner and 5% owned by the President of the management company is the sales agent and will receive a variable commission of 3% to 5% on each sale. Total commissions paid to date are approximately \$138,000. Although the buyer is assuming the costs and economic risks of converting and selling the condominium units, if the net gains from the sale of these units exceed \$500,000, the excess will be split equally between the buyer and the Partnership. The buyer estimated that the gain from the sale of these units would exceed \$500,000. There is one remaining unit unsold at March 31, 2008.

**NOTE 4. OTHER ASSETS**

Included in prepaid expenses and other assets at March 31, 2008 and December 31, 2007 is a provision for insurance recovery from casualty losses of approximately \$726,000 and \$600,000, respectively. In addition approximately \$1,375,000 and \$1,325,000 of security deposits and prepaid rent deposits are included in prepaid expenses and other assets at March 31, 2008 and December 31, 2007, respectively.

Included in prepaid expenses and other assets at March 31, 2008 and December 31, 2007 is approximately \$739,000 and \$394,000, respectively, held in escrow to fund future capital improvements.

Financing and leasing fees of \$938,400 and \$387,613 are net of accumulated amortization of \$368,114 and \$609,843 at March 31, 2008 and December 31, 2007, respectively.

**NOTE 5. MORTGAGE NOTES PAYABLE**

At March 31, 2008 and December 31, 2007, the mortgages payable consisted of various loans, all of which were secured by first mortgages on properties referred to in Note 2. At March 31, 2008, the



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

MARCH 31, 2008

(UNAUDITED)

## NOTE 5. MORTGAGE NOTES PAYABLE (Continued)

fixed interest rates on these loans ranged from 4.84% to 8.46%, payable in monthly installments aggregating approximately \$710,000, including interest, to various dates through 2023. The majority of the mortgages are subject to prepayment penalties. At March 31, 2008, the weighted average interest rate on the above mortgages was 5.66%. The effective rate of 5.74% includes the amortization expense of deferred financing costs. See Note 12 for fair value information.

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

Approximate annual maturities at March 31, 2008 are as follows:

|                         |    |             |
|-------------------------|----|-------------|
| 2009 current maturities | \$ | 2,195,000   |
| 2011                    |    | 2,347,000   |
| 2012                    |    | 4,424,000   |
| 2013                    |    | 835,000     |
| 2014                    |    | 893,000     |
| Thereafter              |    | 122,126,000 |
|                         |    | <hr/>       |
|                         | \$ | 132,820,000 |
|                         |    | <hr/>       |

In January 2008, the Partnership obtained a \$1,700,000 mortgage on the unencumbered commercial property in Newton, Massachusetts known as Linewt LLC. The mortgage which matures in January 2018 requires interest only payments at 5.75% for the term of the mortgage.

In February 2008, the Partnership refinanced ten properties with outstanding 8.44% mortgages of approximately \$37,800,000 with new mortgages totaling approximately \$60,000,000. The new mortgages which mature in February 2023 require interest only payments at interest rates from 5.6% to 5.7%. Deferred costs associated with these mortgages totaled approximately \$710,000 and, accordingly, the effective interest rates are 5.7% to 5.8%. Prepayment penalties of approximately \$3,700,000 were incurred in these transactions. After payment of existing mortgages, prepayment penalties and other costs of the transactions, approximately \$17,000,000 was received by the Partnership.

In April, the Partnership refinanced a property with a mortgage balance of approximately \$3,500,000 at 8% with a new \$6,000,000 mortgage at 5.97% interest only mortgage which matures in April 2018. Prepayment penalties and other costs were approximately \$850,000. In addition, the Partnership is in the process of refinancing a second property with a balance of approximately \$4,600,000 maturing in 2008 with interest at a rate of 6.52% is scheduled to be refinanced in June 2008 with \$7,000,000 at 5.59% interest only mortgage maturing in June 2023. Closing costs are estimated to be \$100,000. There are no prepayment penalties.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

MARCH 31, 2008

(UNAUDITED)

## NOTE 5. MORTGAGE NOTES PAYABLE (Continued)

## PROFORMA INFORMATION IS AS FOLLOWS

|   | Three Months Ended<br>March 31, 2008 |                        |                  | Year Ended<br>December 31, 2007 |                        |                   |
|---|--------------------------------------|------------------------|------------------|---------------------------------|------------------------|-------------------|
|   | Historic                             | Proforma<br>Adjustment | Proforma         | Historic                        | Proforma<br>Adjustment | Proforma          |
| <b>Revenues</b>   |                                      |                        |                  |                                 |                        |                   |
| Rental income   | 7,922,823                            | 0                      | 7,922,823        | 31,228,847                      | 0                      | 31,228,847        |
| Laundry and sundry income                                 | 109,144                              | 0                      | 109,144          | 396,894                         | 0                      | 396,894           |
|   | <u>8,031,967</u>                     | <u>0</u>               | <u>8,031,967</u> | <u>31,625,741</u>               | <u>0</u>               | <u>31,625,741</u> |
| <b>Expenses</b>   |                                      |                        |                  |                                 |                        |                   |
| Administrative  | 425,789                              | 0                      | 425,789          | 1,617,349                       | 0                      | 1,617,349         |
| Depreciation and amortization                             | 1,618,656                            | 0                      | 1,618,656        | 6,903,790                       | 0                      | 6,903,790         |
| Interest  | 1,925,859                            | 48,952                 | 1,974,811        | 7,574,784                       | 258,756                | 7,833,540         |
| Management fees   | 322,280                              | 0                      | 322,280          | 1,279,770                       | 0                      | 1,279,770         |
| Operating   | 1,404,452                            | 0                      | 1,404,452        | 4,121,795                       | 0                      | 4,121,795         |
| Renting   | 80,211                               | 0                      | 80,211           | 496,335                         | 0                      | 496,335           |
| Repairs and maintenance                                   | 1,040,066                            | 0                      | 1,040,066        | 4,869,479                       | 0                      | 4,869,479         |
| Taxes and insurance                                       | 908,990                              | 0                      | 908,990          | 3,498,347                       | 0                      | 3,498,347         |
|   | <u>7,726,303</u>                     | <u>48,952</u>          | <u>7,775,255</u> | <u>30,361,649</u>               | <u>258,756</u>         | <u>30,620,405</u> |
| Income Before Other Income and<br>Discontinued Operations | <u>305,664</u>                       | <u>(48,952)</u>        | <u>256,712</u>   | <u>1,264,092</u>                | <u>(258,756)</u>       | <u>1,005,336</u>  |

The above proforma information shows the effect of the Partnership's refinancing of approximately \$41 million with interest at 7.84% to 8.44% with new mortgages of approximately \$64 million with interest of 5.54% to 5.97% as described above. The new mortgages are included in the March 31, 2008 balance sheet and the cash flows are included in the statement of cash flows for the three month then ended. Net cash flows necessary to service these new interest only mortgages is approximately \$158,000 less per year than the required repayments on the old mortgages which included principal payment of approximately \$420,000 per year.

## 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 March 31, 2008, amounts received for prepaid rents of approximately \$1,588,000 are included in cash and cash equivalents, and security deposits of approximately \$1,375,000 are included with other assets.

## 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, 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

MARCH 31, 2008

(UNAUDITED)

## NOTE 7. PARTNERS' CAPITAL (Continued)

In February 2008, the Partnership approved a quarterly distribution of \$7.00 per unit (\$0.70 per receipt) payable on March 31, 2008.

In 2007, the Partnership paid quarterly distributions of \$7.00 per unit (\$.70 per receipt) in March, June, September, and December 2007 for a total distribution of \$28.00 per unit (\$2.80 per receipt).

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 10 Depositary Receipts. The following is information per Depositary Receipt:

|  | Three Months Ended<br>March 31, |                  |
|--|---------------------------------|------------------|
|  | 2008                            | 2007             |
| (Loss) per Depositary Receipt before Discontinued Operations           | \$ (2.38)                       | \$ (0.07)        |
| Income from Discontinued Operations                                    | 3.98                            | 0.04             |
| <b>Net Income per Depositary Receipt after Discontinued Operations</b> | <b>\$ 1.60</b>                  | <b>\$ (0.03)</b> |
| Distributions per Depositary Receipt                                   | \$ 0.70                         | \$ 0.70          |

## NOTE 8. TREASURY UNITS

Treasury Units at March 31, 2008 are as follows:

|                     |               |
|---------------------|---------------|
| Class A             | 38,256        |
| Class B             | 1,228         |
| General Partnership | 64            |
|                     | <b>39,548</b> |

On August 20, 2007, the Partnership established a Depositary Receipts (each of which is one-tenth of a Class A Unit) Repurchase Program whereby up to 100,000 receipts may be purchased over a 12 month period. On January 15, 2008, the General Partner authorized an increase from 100,000 to 200,000 the total number of Depositary Receipts that could be repurchased pursuant to the Repurchase Program. On January 31, 2008, the General Partner authorized an additional increase in the total number of Depositary Receipts that could be repurchased pursuant to the Repurchase Program from 200,000 to 300,000, and to 500,000 on March 10, 2008. The timing and amount of repurchases is dependent upon market conditions including, but not limited to, trading price and availability and the Partnership may suspend the program at any time. As of March 31, 2008, the Partnership had repurchased 325,744 Depositary Receipts at an average price of \$72.13 per receipt totaling approximately \$25,126,000 including brokerage fees paid by the Partnership.

On January 18, 2008, 113,518 Depositary Receipts included above became available to purchase at a price of \$75.50 per receipt. In order for the Partnership to take advantage of this opportunity, the Partnership borrowed \$5,285,000 from Harold Brown, the Treasurer of the General Partner. This loan was paid in full, with interest at 6% or \$37,899, on February 29, 2008.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

MARCH 31, 2008

(UNAUDITED)

**NOTE 8. TREASURY UNITS (Continued)**

As of March 31, 2008, substantially as a result of the \$25,126,000 repurchase of Depositary Receipts described above, the Partnership has a negative Partners' Capital of \$15,615,285.

**NOTE 9. COMMITMENTS AND CONTINGENCIES**

From time to time, the Partnerships are involved in various ordinary routine litigation incidental to their business. The Partnership either has insurance coverage or has provided for any uninsured claims which, in the aggregate, are not significant. The Partnerships are not involved in any material pending legal proceedings.

**NOTE 10. RENTAL INCOME**

During the three months ended March 31, 2008, approximately 92% of rental income was related to residential apartments and condominium units with leases of one year or less. The remaining 8% was related to commercial properties, which have minimum future annual rental income on non-cancellable operating leases at March 31, 2008 as follows:

|            | <b>Commercial<br/>Property Leases</b> |
|------------|---------------------------------------|
| 2009       | \$ 2,069,000                          |
| 2010       | 1,784,000                             |
| 2011       | 1,556,000                             |
| 2012       | 1,406,000                             |
| 2013       | 1,194,000                             |
| Thereafter | 2,495,000                             |
|            | <b>\$ 10,504,000</b>                  |

The aggregate minimum future rental income does not include contingent rentals that may be received under various leases in connection with percentage rents, common area charges and real estate taxes. Aggregate contingent rentals from continuing operations were approximately \$120,000 and \$366,000 for the three months ended March 31, 2008 and for the year ended December 31, 2007.

Rents receivable are net of allowances for doubtful accounts of approximately \$637,000 and \$558,000 at March 31, 2008 and December 31, 2007, respectively. Included in rents receivable is approximately \$398,000 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.

**NOTE 11. CASH FLOW INFORMATION**

During the three months ended March 31, 2008 and 2007, cash paid for mortgage interest was \$1,936,402 and \$1,904,266.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

MARCH 31, 2008

(UNAUDITED)

**NOTE 12. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

For cash and cash equivalents, 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.

|                        | <u>Carrying Amount</u> | <u>Estimated Fair Value</u> |
|------------------------|------------------------|-----------------------------|
| Mortgage Notes Payable |                        |                             |
| At March 31, 2008      | \$ 132,820,063         | \$ 135,525,490              |
| At December 31, 2007   | \$ 113,579,904         | \$ 115,104,658              |

Disclosure about fair value of financial instruments is based on pertinent information available to management as of March 31, 2008 and December 31, 2007. 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, 2007 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 partner's tax returns is different than financial statement income because of accelerated depreciation, different tax lives, and timing differences related to prepaid rents and allowances. Taxable income is approximately \$150,000 greater than statement income for the three months ended March 31, 2008 and approximately \$1,000,000 greater than statement income for the year ended December 31, 2007. The cumulative tax basis of the Partnership's real estate at December 31, 2007 is approximately \$1,000,000 less than the statement basis. The primary reason for the lower basis is the acquisition of Linewt in 2007 utilizing a tax free exchange. The Partnership's tax basis in its joint venture investments is approximately \$400,000 less than statement basis. The tax free exchange in 2007 and depreciation rules that generated substantial tax deductions in 2004 and 2003 and expired in 2004, accordingly taxable income in future years may exceed statement income.

**NOTE 14. INVESTMENT IN PARTNERSHIPS**

Since November 2001, the Partnership has invested in nine limited partnerships (the "Investment Properties" or the "Joint Ventures"), each of which has invested primarily in residential apartment complexes. The Partnership has a 50% ownership interest 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 47.5%, with the balance of 6.8% and 2.5% owned by others. A description of each investment is as follows:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

MARCH 31, 2008

(UNAUDITED)

**NOTE 14. INVESTMENT IN PARTNERSHIPS (Continued)**

Partnership plans to sell the majority of units as condominiums and retain 48 units for long-term investment. The proceeds from the condominium sales are primarily to be used to reduce the above-mentioned mortgage. Gains from the sales of units will be taxed at ordinary income rates (approximately \$47,000 per unit). As of April 28, 2008, 99 units have been sold and an additional unit has a signed purchase and sales agreement. 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. In 2008, the Partnership decided to retain 20 of the units originally held for sale. In connection with that decision, the Partnership refinanced these 20 units with a new mortgage in the amount of \$2,368,000 with interest at 5.75% interest only which mature in 2013. The balance on the original loan on the units held for sale has been paid in full. 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 of 49 apartments, a 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. The plan may also include disposition of selected units, as condominiums, in order to reduce the above mentioned mortgage. Any profits from the condominium sales will be taxed at ordinary rates. 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 is referred to as Hamilton Essex 81 Apartments, LLC. The new mortgage of \$7,762,000 at 5.88% on the apartments matures in 2017. This mortgage requires interest only payments through August 2009. Principal payments thereafter are based on a 30-year amortization until maturity in 2017. The original mortgage with a balance of \$3,000,000 at 6.6% is on the commercial space and is due in 2009. This mortgage maybe extended for an additional two years, requiring that the balance be reduced by \$1,000,000 for each year's extension. The investment in the commercial property is referred to as 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 plans to sell the majority of units as condominiums and retain 49 units for long-term investment. The Partnership obtained a 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. As of April 28, 2008, 125 units have been sold. Gains from the sales of units (approximately \$56,000 per unit) will be taxed at ordinary income rates. 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 ten year mortgage in the amount of \$5,500,000. 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 new loan required a cash contribution by the Partnership of \$1,250,000 in 2006. The

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

MARCH 31, 2008

(UNAUDITED)

**NOTE 14. INVESTMENT IN PARTNERSHIPS (Continued)**

unamortized deferred financing costs of approximately \$30,000 were written off in the first quarter of 2007. 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. The Partnership plans to sell, over time, three buildings with a total of 137 units as condominiums commencing in January 2005. As of April 28, 2008, 136 units have been sold and an additional unit is under contract. Gains from these sales will be taxed as ordinary income (approximately \$33,000 per unit). The majority of the sales proceeds were applied to reduce the mortgage and final payment was made during the second quarter of 2007. Upon the sale of the remaining units and payment of liabilities, the remaining assets will be combined with Hamilton on Main Apartments. An entity partially owned by the majority shareholder of the General Partner and the President of the management company, 31% and 5% respectively, is the sales agent and will receive a variable commission on each sale of 3% to 5%. Hamilton on Main LLC is known to as Hamilton Place.

In 2005, Hamilton on Main Apartments, LLC obtained a new ten year mortgage on the three buildings to be retained. The new 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 new 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.

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 March 31, 2008 of \$7,558,527 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.

As required by the lender for the 2004 and 2005 acquisitions, the Treasurer of the General Partner has provided a limited repayment guaranty equal to fifty percent (50%) of the outstanding balance, reducing to zero percent (0%) upon the completion of the Curtailment Payments. 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

MARCH 31, 2008

(UNAUDITED)

## NOTE 14. INVESTMENT IN PARTNERSHIPS (Continued)

## Summary financial information for the three months ended March 31, 2008 (unaudited)

|   | Essex 81<br>Commercial | Essex 81<br>Apts  | 345<br>Franklin  | Hamilton<br>1025 | Hamilton<br>Bay Sales | Hamilton<br>Bay Apts | Minuteman<br>Apts | Hamilton<br>on Main<br>Apts | Hamilton<br>Place<br>Sales | Total             |
|---|------------------------|-------------------|------------------|------------------|-----------------------|----------------------|-------------------|-----------------------------|----------------------------|-------------------|
| <b>ASSETS</b>   |                        |                   |                  |                  |                       |                      |                   |                             |                            |                   |
| Rental Properties   | 2,822,838              | 10,663,494        | 9,217,122        | 7,069,822        | 3,712,583             | 8,482,664            | 8,611,109         | 25,143,592                  | 1,203,431                  | 76,926,655        |
| Cash & Cash<br>Equivalents                                  | 227,109                | 1,460             | 1,014            | 2,294            | 678                   | 30,673               | 24,855            | 5,830                       | 1,911                      | 295,824           |
| Rent Receivable   | 42,366                 | 27,870            |                  | 2,798            |                       |                      | (4,045)           |                             |                            | 68,990            |
| Real Estate Tax Escrow<br>Due From Investment<br>Properties |                        | 9,526             | 43,947           | 45,244           |                       | 29,692               | 25,849            | 418,329                     |                            | 572,588           |
| Prepaid Expenses &<br>Other Assets                          | 1,371                  | 132,496           | 109,802          | 64,501           | 473,323               | 39,045               | 62,873            | 299,656                     | 379,333                    | 1,562,399         |
| Financing & Leasing<br>Fees                                 | 30,557                 | 114,514           | 46,952           | 43,521           |                       | 56,461               | 36,797            | 49,772                      | 1,636                      | 380,209           |
| <b>Total Assets</b>   | <b>3,147,241</b>       | <b>10,949,359</b> | <b>9,418,837</b> | <b>8,416,179</b> | <b>4,186,585</b>      | <b>8,638,785</b>     | <b>8,757,438</b>  | <b>25,917,179</b>           | <b>2,747,641</b>           | <b>82,179,244</b> |
| <b>LIABILITIES AND PARTNERS' CAPITAL</b>                    |                        |                   |                  |                  |                       |                      |                   |                             |                            |                   |
| Mortgage Notes Payable<br>Due to Investment<br>Properties   | 3,000,000              | 7,762,000         | 7,558,527        | 5,000,000        |                       | 4,750,000            | 5,500,000         | 16,807,869                  |                            | 50,378,396        |
| Accounts Payable &<br>Accrued Exp                           | 69,221                 | 5,288             | 76,207           | 10,285           | 61,520                | 6,338                | 45,754            | 219,158                     | 13,101                     | 506,873           |
| Advance Rental<br>Pymts & Security Dep                      | 24,000                 | 114,824           | 116,794          | 60,385           | 24,124                | 86,650               | 42,710            | 153,937                     |                            | 623,424           |
| <b>Total Liabilities</b>                                    | <b>3,093,221</b>       | <b>7,882,113</b>  | <b>7,799,529</b> | <b>5,070,670</b> | <b>1,873,894</b>      | <b>4,842,989</b>     | <b>5,663,464</b>  | <b>17,642,294</b>           | <b>13,101</b>              | <b>53,881,273</b> |
| Partners' Capital   | 54,020                 | 3,067,247         | 1,619,308        | 3,345,509        | 2,312,691             | 3,795,796            | 3,093,973         | 8,274,886                   | 2,734,541                  | 28,297,970        |
| <b>Total Liabilities and<br/>Capital</b>                    | <b>3,147,241</b>       | <b>10,949,359</b> | <b>9,418,837</b> | <b>8,416,179</b> | <b>4,186,585</b>      | <b>8,638,785</b>     | <b>8,757,438</b>  | <b>25,917,179</b>           | <b>2,747,641</b>           | <b>82,179,244</b> |
| <b>Partners'<br/>Capital NERA 50%</b>                       | <b>27,010</b>          | <b>1,533,623</b>  | <b>809,654</b>   | <b>1,672,754</b> | <b>1,156,345</b>      | <b>1,897,898</b>     | <b>1,546,987</b>  | <b>4,137,443</b>            | <b>1,367,270</b>           | <b>14,148,985</b> |



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

MARCH 31, 2008

(UNAUDITED)

## NOTE 14. INVESTMENT IN PARTNERSHIPS (Continued)

|                                       | Essex 81<br>Commercial | Essex 81<br>Apts | 345<br>Franklin | Hamilton<br>1025 | HamiltonBay<br>Sales | HamiltonBay<br>Apts | Minuteman        | Hamilton<br>on Main | Hamilton<br>PI Sales | Total            |
|---------------------------------------|------------------------|------------------|-----------------|------------------|----------------------|---------------------|------------------|---------------------|----------------------|------------------|
| <b>Revenues</b>                       |                        |                  |                 |                  |                      |                     |                  |                     |                      |                  |
| Rental Income                         | 95,372                 | 270,191          | 260,505         | 198,927          | 50,441               | 203,708             | 186,315          | 589,877             | 1,747                | 1,857,084        |
| Laundry and<br>Sundry Income          |                        | (1,297)          | 416             |                  |                      |                     | 983              | 6,190               |                      | 6,292            |
|                                       | 95,372                 | 268,895          | 260,921         | 198,927          | 50,441               | 203,708             | 187,297          | 596,067             | 1,747                | 1,863,376        |
| <b>Expenses</b>                       |                        |                  |                 |                  |                      |                     |                  |                     |                      |                  |
| Administrative                        | 3,766                  | 1,881            | 6,219           | 3,696            | 6,322                | 2,087               | (804)            | 17,825              | 2,466                | 43,458           |
| Depreciation and<br>Amortization      | 29,882                 | 94,945           | 86,694          | 82,998           | 52,415               | 97,005              | 128,456          | 374,025             | 14,272               | 960,691          |
| Interest                              | 38,943                 | 116,169          | 131,682         | 71,951           | 5,318                | 67,613              | 79,060           | 221,550             | 7                    | 732,292          |
| Management Fees                       | 11,099                 | 8,157            | 10,330          | 7,797            | 2,638                | 8,071               | 7,247            | 24,736              | 51                   | 80,125           |
| Operating                             | 8,476                  | 27,636           | 15,996          | 487              | 1,294                | 241                 | 19,653           | 127,976             | 200                  | 201,959          |
| Renting                               |                        | 3,000            | 3,838           | 270              | 1,167                | 417                 | 555              | 8,585               |                      | 17,832           |
| Repairs and<br>Maintenance            | 739                    | 22,720           | 11,795          | 88,584           | 78,111               | 102,340             | 25,631           | 134,107             | 10,555               | 474,583          |
| Taxes and<br>Insurance                | 18,405                 | 25,326           | 21,716          | 36,703           | 22,310               | 34,385              | 34,403           | 81,130              | 3,468                | 277,847          |
|                                       | 111,310                | 299,833          | 288,270         | 292,486          | 169,574              | 312,160             | 294,201          | 989,935             | 31,019               | 2,788,787        |
| <b>Income Before<br/>Other Income</b> | (15,938)               | (30,939)         | (27,348)        | (93,559)         | (119,133)            | (108,451)           | (106,903)        | (393,868)           | (29,273)             | (925,411)        |
| <b>Other Income (Loss)</b>            |                        |                  |                 |                  |                      |                     |                  |                     |                      |                  |
| Interest Income                       | 726                    | 5                | 127             | 545              |                      | 245                 | 91               | 517                 | 2,571                | 4,827            |
| Gain on Sale of<br>Real Estate        |                        |                  |                 | 54,980           | 76,672               |                     |                  | 12,381              | 280,944              | 424,977          |
| Other Income<br>(Expenses)            |                        |                  |                 |                  |                      |                     |                  |                     |                      |                  |
|                                       | 726                    | 5                | 127             | 55,526           | 76,672               | 245                 | 91               | 12,898              | 283,515              | 429,804          |
| <b>Net Income (Loss)</b>              | <b>(15,212)</b>        | <b>(30,934)</b>  | <b>(27,222)</b> | <b>(38,033)</b>  | <b>(42,461)</b>      | <b>(108,207)</b>    | <b>(106,812)</b> | <b>(380,970)</b>    | <b>254,242</b>       | <b>(495,607)</b> |
| <b>P&amp;L NERA 50%</b>               | <b>(7,606)</b>         | <b>(15,467)</b>  | <b>(13,611)</b> | <b>(19,016)</b>  | <b>(21,230)</b>      | <b>(54,103)</b>     | <b>(53,406)</b>  | <b>(190,485)</b>    | <b>127,121</b>       | <b>(247,804)</b> |
| <b>Total units/</b>                   |                        |                  |                 |                  |                      |                     |                  |                     |                      |                  |
| condominiums                          | 1                      | 48               | 40              | 176              | 120                  | 48                  | 42               | 146                 | 137                  | 758              |
| Units to be retained                  | 1                      | 48               | 40              | 49               | 20                   | 48                  | 42               | 146                 |                      | 394              |
| Units to be sold                      |                        |                  |                 | 127              | 100                  |                     |                  |                     | 137                  | 364              |
| Units sold through<br>April 28, 2008  |                        |                  |                 | 125              | 99                   |                     |                  |                     | 136                  | 360              |

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|   | <u>Essex 81<br/>Commercial</u> | <u>Essex 81<br/>Apts</u> | <u>345<br/>Franklin</u> | <u>Hamilton<br/>1025</u> | <u>HamiltonBay<br/>Sales</u> | <u>HamiltonBay<br/>Apts</u> | <u>Minuteman</u> | <u>Hamilton<br/>on Main</u> | <u>Hamilton<br/>PI Sales</u> | <u>Total</u> |
|---|--------------------------------|--------------------------|-------------------------|--------------------------|------------------------------|-----------------------------|------------------|-----------------------------|------------------------------|--------------|
| Balance of unsold units   |                                |                          |                         | 2                        | 1                            |                             |                  |                             | 1                            | 4            |
| Unsold units with deposits for future sale as of April 28, 2008 |                                |                          |                         |                          | 1                            |                             |                  |                             | 1                            | 2            |

Future annual mortgage maturities at March 31, 2008 are as follows:

|                   | <u>Essex 81<br/>Commercial</u> | <u>Essex 81<br/>Apts</u> | <u>345<br/>Franklin</u>  | <u>Hamilton<br/>1025</u> | <u>HamiltonBay<br/>Sales</u> | <u>HamiltonBay<br/>Apts</u> | <u>Minuteman</u>       | <u>Hamilton<br/>on Main</u> | <u>Hamilton<br/>PI Sales</u> | <u>Total</u>      |
|-------------------|--------------------------------|--------------------------|--------------------------|--------------------------|------------------------------|-----------------------------|------------------------|-----------------------------|------------------------------|-------------------|
| <u>Period End</u> | <u>March<br/>2005</u>          | <u>March<br/>2005</u>    | <u>November<br/>2001</u> | <u>March<br/>2005</u>    | <u>October<br/>2005</u>      | <u>October<br/>2005</u>     | <u>August<br/>2004</u> | <u>August<br/>2004</u>      | <u>August<br/>2004</u>       | <u>Total</u>      |
| March 31, 2009    | 3,000,000                      |                          | 130,522                  |                          |                              |                             |                        | 243,736                     |                              | 3,374,258         |
| March 31, 2010    |                                | 75,629                   | 139,818                  |                          |                              |                             |                        | 254,117                     |                              | 469,563           |
| March 31, 2011    |                                | 95,588                   | 149,776                  |                          |                              |                             |                        | 267,597                     |                              | 512,961           |
| March 31, 2012    |                                | 100,212                  | 160,444                  | 19,763                   |                              | 5,131                       | 16,704                 | 281,792                     |                              | 584,046           |
| March 31, 2013    |                                | 107,585                  | 171,872                  | 62,402                   |                              | 63,462                      | 68,345                 | 296,741                     |                              | 770,406           |
| Thereafter        |                                | 7,382,987                | 6,806,096                | 4,917,835                |                              | 4,681,407                   | 5,414,951              | 15,463,886                  |                              | 44,667,162        |
|                   | <u>3,000,000</u>               | <u>7,762,000</u>         | <u>7,558,527</u>         | <u>5,000,000</u>         | <u>0</u>                     | <u>4,750,000</u>            | <u>5,500,000</u>       | <u>16,807,869</u>           |                              | <u>50,378,396</u> |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

MARCH 31, 2008

(UNAUDITED)

## NOTE 14. INVESTMENT IN PARTNERSHIPS (Continued)

*Unconsolidated Joint Venture Debt:*

The debt of the Partnership's unconsolidated joint ventures are non-recourse to the Partnership except for customary exceptions pertaining to such matters as intentional misuse of funds, environmental conditions and material misrepresentations.

## Summary financial information for the three months ended March 31, 2007 (unaudited)

|   | Essex 81          | 345<br>Franklin  | Hamilton<br>1025 | HamiltonBay<br>Sales | HamiltonBay<br>Apts | Minuteman        | Hamilton<br>on Main | Hamilton<br>PI Sales | Total              |
|---|-------------------|------------------|------------------|----------------------|---------------------|------------------|---------------------|----------------------|--------------------|
| <b>ASSETS</b>   |                   |                  |                  |                      |                     |                  |                     |                      |                    |
| Rental Properties   | 13,816,621        | 9,445,423        | 8,786,263        | 11,203,955           | 9,279,485           | 9,096,999        | 26,515,913          | 7,859,218            | 96,003,878         |
| Cash & Cash Equivalents                                   | 9,072             | 33,689           | 77,027           | 2,196                | 5,494               | 3,618            | 1,830               | 56,178               | 189,105            |
| Rent Receivable   | 56,713            | 2,215            | 3,840            | (1,689)              | 4,712               | 1,397            | 1,637               | 2,971                | 71,797             |
| Real Estate Tax Escrow                                    |                   | 46,617           | 24,006           |                      | 31,116              | 18,064           | 375,092             |                      | 494,895            |
| Due From Investment<br>Properties                         | 175,000           |                  | 300,000          | 4,699,931            |                     |                  |                     | 25,000               | 5,199,931          |
| Prepaid Expenses &<br>Other Assets                        | 71,732            | 109,509          | 95,296           | 147,946              | 85,373              | 63,987           | 334,980             | 3,416                | 912,239            |
| Financing & Leasing Fees                                  | 63,891            | 55,118           | 48,547           | 46,240               | 62,623              | 42,709           | 58,468              | 18,197               | 395,793            |
| <b>Total Assets</b>                                       | <b>14,193,029</b> | <b>9,692,571</b> | <b>9,334,979</b> | <b>16,098,579</b>    | <b>9,468,804</b>    | <b>9,226,774</b> | <b>27,287,920</b>   | <b>7,964,981</b>     | <b>103,267,638</b> |
| <b>LIABILITIES AND PARTNERS' CAPITAL</b>                  |                   |                  |                  |                      |                     |                  |                     |                      |                    |
| Mortgage Notes Payable<br>Due to Investment<br>Properties | 10,750,000        | 7,680,371        | 5,000,000        | 9,575,646            | 4,750,000           | 5,500,000        | 16,825,000          | 1,580,087            | 61,661,104         |
| Accounts Payable &<br>Accrued Exp                         | 111,202           | 63,063           | 11,616           | 123,106              | 4,306               | 39,706           | 132,806             | 70,449               | 556,256            |
| Advance Rental Pymts &<br>Security Dep                    | 135,744           | 136,229          | 65,704           | 87,028               | 77,410              | 38,197           | 148,770             | 15,358               | 704,440            |
| <b>Total Liabilities</b>                                  | <b>10,996,946</b> | <b>7,879,663</b> | <b>5,077,320</b> | <b>10,085,781</b>    | <b>9,531,647</b>    | <b>5,752,904</b> | <b>17,131,576</b>   | <b>1,665,894</b>     | <b>68,121,731</b>  |
| Partners' Capital**                                       | 3,196,083         | 1,812,908        | 4,257,659        | 6,012,799            | (62,844)            | 3,473,870        | 10,156,345          | 6,299,087            | 35,145,907         |
| <b>Total Liabilities and<br/>Capital</b>                  | <b>14,193,029</b> | <b>9,692,571</b> | <b>9,334,979</b> | <b>16,098,580</b>    | <b>9,468,804</b>    | <b>9,226,774</b> | <b>27,287,921</b>   | <b>7,964,981</b>     | <b>103,267,638</b> |
| <b>Partners' Capital NERA<br/>50%</b>                     | <b>1,598,042</b>  | <b>906,454</b>   | <b>2,128,829</b> | <b>3,006,400</b>     | <b>(31,422)</b>     | <b>1,736,935</b> | <b>5,078,173</b>    | <b>3,149,543</b>     | <b>17,572,954</b>  |

Future annual mortgage maturities at March 31, 2007 are as follows:

|                   | Essex 81              | 345<br>Franklin          | Hamilton<br>1025      | HamiltonBay<br>Sales    | HamiltonBay<br>Apts     | Minuteman              | Hamilton<br>on Main    | Hamilton<br>PI Sales   | Total |
|-------------------|-----------------------|--------------------------|-----------------------|-------------------------|-------------------------|------------------------|------------------------|------------------------|-------|
| <b>Period End</b> | <b>March<br/>2005</b> | <b>November<br/>2001</b> | <b>March<br/>2005</b> | <b>October<br/>2005</b> | <b>October<br/>2005</b> | <b>August<br/>2004</b> | <b>August<br/>2004</b> | <b>August<br/>2004</b> |       |

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|                | <b>Essex 81</b> | <b>345<br/>Franklin</b> | <b>Hamilton<br/>1025</b> | <b>HamiltonBay<br/>Sales</b> | <b>HamiltonBay<br/>Apts</b> | <b>Minuteman</b> | <b>Hamilton<br/>on Main</b> | <b>Hamilton<br/>PI Sales</b> |            |
|----------------|-----------------|-------------------------|--------------------------|------------------------------|-----------------------------|------------------|-----------------------------|------------------------------|------------|
| March 31, 2008 | 10,750,000      | 121,844                 |                          |                              |                             |                  | 19,552                      | 1,580,087                    | 12,471,483 |
| March 31, 2009 |                 | 130,522                 |                          | 9,575,646                    |                             |                  | 241,315                     |                              | 9,947,483  |
| March 31, 2010 |                 | 139,818                 |                          |                              |                             |                  | 254,117                     |                              | 393,934    |
| March 31, 2011 |                 | 149,776                 |                          |                              |                             |                  | 267,597                     |                              | 417,373    |
| March 31, 2012 |                 | 160,444                 |                          |                              |                             |                  | 281,792                     |                              | 442,236    |
| Thereafter     |                 | 6,977,967               | 5,000,000                |                              | 4,750,000                   | 5,500,000        | 15,760,627                  |                              | 37,988,594 |
|                | 10,750,000      | 7,680,371               | 5,000,000                | 9,575,646                    | 4,750,000                   | 5,500,000        | 16,825,000                  | 1,580,087                    | 61,661,104 |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

MARCH 31, 2008

(UNAUDITED)

## NOTE 14. INVESTMENT IN PARTNERSHIPS (Continued)

## Summary financial information for the three months ended March 31, 2007 (unaudited)

|   | Essex 81        | 345<br>Franklin | Hamilton<br>1025 | HamiltonBay<br>Sales | HamiltonBay<br>Apts | Minuteman        | Hamilton<br>on Main | Hamilton<br>PI Sales | Total              |
|---|-----------------|-----------------|------------------|----------------------|---------------------|------------------|---------------------|----------------------|--------------------|
| <b>Revenues</b>   |                 |                 |                  |                      |                     |                  |                     |                      |                    |
| Rental Income   | 363,135         | 260,062         | 227,195          | 317,657              | 61,771              | 179,855          | 588,842             | 102,449              | 2,100,966          |
| Laundry and Sundry Income   | 1,276           | 1,588           | 7,973            | 4,193                |                     |                  | 6,852               |                      | 21,881             |
|   | <u>364,411</u>  | <u>261,650</u>  | <u>235,168</u>   | <u>321,850</u>       | <u>61,771</u>       | <u>179,855</u>   | <u>595,693</u>      | <u>102,449</u>       | <u>2,122,847</u>   |
| <b>Expenses</b>   |                 |                 |                  |                      |                     |                  |                     |                      |                    |
| Administrative  | 3,796           | 7,612           | 6,585            | 14,413               | 2,163               | 45,860           | 14,283              | 2,426                | 97,139             |
| Depreciation and<br>Amortization**                                | 110,908         | 82,538          | 97,205           | 246,246              | 14,623              | 158,935          | 511,314             | 82,067               | 1,303,836          |
| Interest  | 201,673         | 133,738         | 71,050           | 224,984              | 34,542              | 86,075           | 218,910             | 38,260               | 1,009,230          |
| Management Fees   | 14,353          | 10,746          | 9,766            | 13,131               |                     | 7,314            | 23,860              | 3,960                | 83,130             |
| Operating   | 36,432          | 18,514          | 673              | 13,144               |                     | 23,230           | 87,288              | 1,310                | 180,593            |
| Renting   |                 | 1,403           | 2,459            | 1,207                |                     | 1,010            | 2,960               |                      | 9,038              |
| Repairs and Maintenance   | 17,428          | 9,136           | 73,127           | 106,969              | 23,158              | 16,696           | 73,624              | 71,122               | 391,259            |
| Taxes and Insurance   | 42,652          | 27,855          | 43,956           | 71,626               | 13,258              | 18,033           | 82,187              | 29,789               | 329,356            |
|   | <u>427,242</u>  | <u>291,541</u>  | <u>304,822</u>   | <u>691,719</u>       | <u>87,744</u>       | <u>357,153</u>   | <u>1,014,426</u>    | <u>228,934</u>       | <u>3,403,581</u>   |
| <b>Income Before Other Income</b>                                 | <b>(62,831)</b> | <b>(29,892)</b> | <b>(69,653)</b>  | <b>(369,869)</b>     | <b>(25,973)</b>     | <b>(177,299)</b> | <b>(418,732)</b>    | <b>(126,485)</b>     | <b>(1,280,734)</b> |
| <b>Other Income (Loss)</b>  |                 |                 |                  |                      |                     |                  |                     |                      |                    |
| Interest Income   | 563             | 239             | 2,000            | 109                  | 4                   | 5,470            | 108                 | 2,025                | 10,519             |
| Gain on Sale of Real Estate                                       |                 |                 | 141,323          | 163,195              |                     |                  |                     | 125,252              | 429,770            |
| Other Income (Expenses)   |                 |                 |                  |                      |                     |                  |                     |                      |                    |
|   | <u>563</u>      | <u>239</u>      | <u>143,322</u>   | <u>163,305</u>       | <u>4</u>            | <u>5,470</u>     | <u>108</u>          | <u>127,277</u>       | <u>440,289</u>     |
| <b>Net Income (Loss)</b>  | <b>(62,268)</b> | <b>(29,653)</b> | <b>73,669</b>    | <b>(206,564)</b>     | <b>(25,970)</b>     | <b>(171,829)</b> | <b>(418,624)</b>    | <b>792</b>           | <b>(840,445)</b>   |
| <b>P&amp;L NERA 50%</b>   |                 |                 |                  |                      |                     |                  |                     |                      |                    |
| Total units/ condominiums   | 49              | 40              | 176              | 120                  | 48                  | 42               | 146                 | 137                  | 758                |
| Units to be retained  | 49              | 40              | 49               | 0                    | 48                  | 42               | 146                 | 0                    | 374                |
| Units to be sold  |                 |                 | 127              | 120                  |                     |                  |                     | 137                  | 384                |
| Units sold through April 30,<br>2007                              |                 |                 | 112              | 55                   |                     |                  |                     | 101                  | 268                |
| Balance of unsold units   |                 |                 | 15               | 65                   |                     |                  |                     | 36                   | 116                |
| Unsold units with deposits for<br>future sale as of April 1, 2007 |                 |                 | 5                | 9                    |                     |                  |                     | 5                    | 19                 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

MARCH 31, 2008

(UNAUDITED)

**NOTE 15. NEW ACCOUNTING PRONOUNCEMENT**

In June 2005, the FASB ratified the consensus reached by the Emerging Issues Task Force ("EITF") regarding EITF 04-05, "Investor's Accounting for an Investment in a Limited Partnership When the Investor is the Sole General Partner and the Limited Partners Have Certain Rights." The conclusion provides a framework for addressing the question of when a sole general partner, as defined in EITF 04-05, should consolidate a limited partnership. The EITF has concluded that the general partner of a limited partnership should consolidate a limited partnership, unless the limited partners have either (a) the substantive ability to dissolve the limited partnership or otherwise remove the general partner without cause, or (b) substantive participating rights. In addition, the EITF concluded that the guidance should be expanded to include all limited partnerships, including those with multiple general partners. We adopted EITF 04-05 as of January 1, 2006. We have assessed our investments in unconsolidated real estate joint ventures and have determined that EITF 04-05 did not have an impact on our financial condition or results of operations.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 provides guidance for using fair value to measure assets and liabilities. This statement clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing the asset or liability. SFAS No. 157 establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lowest priority to unobservable data. SFAS No. 157 applies whenever other standards require assets or liabilities to be measured at fair value. This statement is effective in fiscal years beginning after November 15, 2007. We believe that the adoption of this standard on January 1, 2008 will not have a material effect on our consolidated financial statements.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 ("SAB 108"), which becomes effective for the first fiscal period ending after November 15, 2006. SAB 108 provides guidance on the consideration of the effects of prior period misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 provides for the quantification of the impact of correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on the current year financial statements. The adoption of SAB 108 on December 21, 2006 did not have a material effect on our consolidated financial statements.

In February 2007, the FASB issued statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS No. 159"). SFAS No. 159 expands opportunities to use fair value measurement in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. This Statement is effective for fiscal years beginning after November 15, 2007. We have not decided if we will early adopt SFAS No. 159 or if we will choose to measure any eligible financial assets and liabilities at fair value.

***FASB Statement No. 141(R) (revised 2007), ("FASB No. 141(R)"), Business Combinations***

In December 2007, the FASB issued FASB No. 141(R) which establishes principles and requirements for how the acquirer shall recognize and measure in its financial statements the identifiable assets acquired, liabilities assumed, any noncontrolling interest in the acquiree and goodwill acquired in a business combination. This statement is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

MARCH 31, 2008

(UNAUDITED)

## NOTE 15. NEW ACCOUNTING PRONOUNCEMENT (Continued)

December 15, 2008. The Partnership is currently assessing the potential impact that the adoption of FASB No. 141(R) will have on its financial position and results of operations.

*FASB Statement No. 160 ("FASB No. 160"), Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB No. 151*

In December 2007, the FASB issued No. 160, which establishes and expands accounting and reporting standards for noncontrolling interests, which will be recharacterized as noncontrolling interests, in a subsidiary and the deconsolidation of a subsidiary. FASB 160 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. This statement is effective for fiscal years beginning on or after December 15, 2008. The Partnership is currently assessing the potential impact that the adoption of FASB No. 160 will have on its financial position and results of operations.

## 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 three months ended March 31, 2008 and 2007:

|  | Three Months Ended<br>March 31 |            |
|--|--------------------------------|------------|
|  | 2008                           | 2007       |
| Total Revenues                             | \$ 142,598                     | \$ 328,802 |
| Operating and other expenses               | 133,873                        | 255,130    |
| Depreciation and amortization              | 36,172                         | 5,350      |
|  | 170,045                        | 260,480    |
| Income (loss) from discontinued operations | (27,447)                       | 68,322     |
| Gain on sale of discontinued operations    | 6,053,391                      |            |
|  | \$ 6,025,944                   | \$ 68,322  |

**Item 2 MANAGERMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

The following discussion should be read in conjunction with the financial statements and notes thereof appearing elsewhere in this Report. This Report, on Form 10-K, contains forward-looking statements within the meaning of securities law. Actual results of developments could differ materially from those projected in such statements as a result of certain factors set forth in the section below entitled "Factors That May Affect Future Results" and elsewhere in the Report.

For the first quarter of 2008, the Partnership was on target for revenue and occupancy. Management anticipates an increase in bad debt and vacancy levels during the latter half of 2008 and 2009 resulting in lower revenue collection. Although Massachusetts has temporarily been immune from the widely held event of a national recession, management believes that the rising unemployment rate and retail price inflation will negatively impact the bottom line for the Partnership for 2008. Underlying the operating expenses was an unusual reduction in heating costs which management does not believe will recur in the 4<sup>th</sup> quarter 2008 and 1<sup>st</sup> quarter 2009 given the continued run-up of utility costs in the futures market. Combined, Management continues to believe that these anticipated revenue declines and operating expense increases will likely reduce core net operating income, before debt service, to a level below 2007.

Management accomplished its goal of both sale and refinance of the Joint Venture Condominiums during the 1<sup>st</sup> quarter and is poised to sell the units in the future when the market rebounds. Meanwhile, the Partnership has had additional return of its capital (without bearing the market risk of continued sellout) at low interest rates with the added flexibility of individual unit sales when the opportunity arises. At this point, just 4 units remain to be sold with 2 units under agreement.

In addition to the sale of Oak Ridge Apartments in January 2008, the Partnership also sold Coach Estates for \$4,600,000 in April resulting in net proceeds of \$2,700,000 after paying off the first mortgage and related closing costs.. The excess funds from the sale were placed in a 1031 exchange to limit future capital gains tax if it is successful in identifying another comparable property in which to acquire.

With the previous round of financing in February, the recent Staples Plaza and Hamilton Bay refinance and the anticipated Westwide Colonial financing in June, Management will meet its goal of raising additional capital while reducing total debt service (principal & interest) by approximately \$200,000 annually. In the meantime, the debt placed on the properties gives the Partnership flexible refinancing alternatives while at the same time extending maturities out 15 years at rates not presently achievable in the marketplace.

Given market conditions during the last half of 2007 and the 1st quarter of 2008, Management believed that the stock repurchase program was a better alternative to purchasing real estate or making a one time distribution to the Partners. The Repurchase Program was adopted by management to provide long-term value to the Partners through the repurchase of Depositary Receipts at prices that management believed to be at a discount to the per Unit net realizable value of the Partnership. As a result of the Repurchase Program, which was solely accretive to the holders of Class A Units, the Class A Units now represent 75.3% of the equity of the Partnership and the Class B Units and General Partner Units now represent 23.5% and 1.2% of the equity of the Partnership, respectively. However, in accordance with the terms and conditions of the Partnership Agreement, the holders of Class A Units, Class B Units and General Partner Units remain entitled to an 80%, 19% and 1% share of profits, losses, distributions and other allocations of the Partnership, respectively. Prior to the adoption of the Repurchase Program, the economic interests of each class of Partnership Units was identical to its respective equity interest in the Partnership. The Repurchase Program was intended to provide long-term value to all Partners but was not intended to cause the economic and equity interests of each class of Units to be disproportionate. Consequently, management is considering whether, how and to what



extent it can restore proportionate economic and equity interests of the classes, including without limitation the repurchase of Class B or General Partner Units or the issuance of Class A Units in treasury in exchange of Class B Units and General Partner Units.

While Management is active in the stock repurchase plan, it weighs alternative investments in real estate and thus considers this when real estate opportunities avail themselves from time to time.

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 40% of the total properties and 70% 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 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 31, 2008, Harold Brown, his brother Ronald Brown and the President of Hamilton, Carl Valeri, collectively own approximately 24.4% 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 owns 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. Two of NewReal's other directors, Roberta Ornstein and Conrad DiGregorio, also own immaterial amounts of the Partnership's Class A Units or receipts.

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.

Hamilton accounted for approximately 7% of the repair and maintenance expense paid for by the Partnership during the three months ended March 31, 2008 and 5% during the year ended December 31, 2007. 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. However, several of the larger Partnership properties have their own maintenance staff. Further, 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 74% of the legal services paid for by the Partnership during the three months ended March 31, 2008 and approximately 59% for the year ended December 31, 2007.

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

R. Brown Partners, which is owned by Ronald Brown, manages the condominium association containing five condominium units located in Brookline, Massachusetts. That entity will receive annual management fees from the five units of approximately \$3,000, and Hamilton will reduce its management fees to approximately 2%, so that the total management fee will not exceed the 4% allowed by the Partnership's Partnership Agreement.

The Partnership requires that three bids be obtained for construction contracts in excess of \$5,000. 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 2008, Hamilton provided the Partnership approximately \$4,000 in construction and architectural services. In 2007, Hamilton provided construction and architectural services paid for by the Partnership totaling \$750,000.

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. During the three months ended March 31, 2008, Hamilton charged the Partnership \$25,000 for bookkeeping and accounting services and anticipates an addition \$25,000 each quarter for the remainder of 2008.

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. Amounts 60 days in arrears are charged against income. 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.

*Real Estate and Depreciation:* Real estate assets are stated at the lower of cost or fair value, less accumulated depreciation. Costs related to the acquisition, development, construction and improvement of properties are capitalized, including interest, wages and benefits, real estate taxes and insurance. Capitalization usually begins with commencement of development activity and ends when the property

is ready for leasing. Replacements and improvements, such as HVAC equipment, structural replacements, windows, appliances, flooring, carpeting and kitchen/bath replacements and renovations, are capitalized and depreciated over their estimated useful lives as follows:

Depreciation is computed on the straight-line and accelerated methods over the estimated useful lives of the related assets. In assessing estimated useful lives, the Partnership makes assumptions based on historical experience acquired from both within and outside the Partnership. These assumptions have a direct impact on the Partnership's net income.

Ordinary repairs and maintenance, such as unit cleaning and painting and appliance repairs, are expensed.

If there is an event or change in circumstances that indicates impairment in the value of a property, the Partnership's policy is to assess the impairment by making a comparison of the current and projected operating cash flows of the property over its remaining useful life, on an undiscounted basis, to the carrying amount of the property. If the carrying value is in excess of the estimated projected operating cash flows of the property, the Partnership would recognize an impairment loss equivalent to the amount required to adjust the carrying amount to its estimated fair value. The Partnership has not recognized an impairment loss since 1995.

*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 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 the carrying value of the investment exceeds its fair value.

*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**

Comparison of the three months ended March 31, 2008 to the three months ended March 31, 2007 (as adjusted for discontinued operations)

The Partnership and its Subsidiary Partnerships earned income before other income and discontinued operations of \$305,664 for the three months ended March 31, 2008 compared to \$252,222 for the three months ended March 31, 2007, an increase of \$53,442 (21%).

The rental activity is summarized as follows:

|  | Occupancy Date      |                          |                     |                          |
|--|---------------------|--------------------------|---------------------|--------------------------|
|  | April 28,<br>2008   | February 1,<br>2008      | April 30,<br>2007   |                          |
| <b>Residential</b>   |                     |                          |                     |                          |
| Units  | 2,297               | 2,316                    | 2,377               |                          |
| Vacancies  | 44                  | 58                       | 40                  |                          |
| Vacancy rate   | 1.9%                | 2.5%                     | 1.7%                |                          |
| <b>Commercial</b>  |                     |                          |                     |                          |
| Total square feet  | 90,848              | 90,848                   | 84,998              |                          |
| Vacancy  | 0                   | 0                        | 0                   |                          |
| Vacancy rate   | 0%                  | 0%                       | 0%                  |                          |
| <b>Rental Income (in thousands)</b><br><b>Three Months Ended March 31,</b> |                     |                          |                     |                          |
|  | 2008                |                          | 2007                |                          |
|  | Total<br>Operations | Continuing<br>Operations | Total<br>Operations | Continuing<br>Operations |
| Total rents  | \$ 8,175            | \$ 8,032                 | \$ 8,035            | \$ 7,814                 |
| Residential percentage   | 92%                 | 93%                      | 93%                 | 93%                      |
| Commercial percentage  | 8%                  | 7%                       | 7%                  | 7%                       |
| Contingent rentals   | \$ 120              | \$ 120                   | \$ 83               | \$ 83                    |

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Three Months Ended March 31, 2008 Compared to Three Months Ended March 31, 2007 (unaudited),

|   | March 31,<br>2008   | March 31,<br>2007  | Dollar<br>Change    | Percent<br>Change |
|---|---------------------|--------------------|---------------------|-------------------|
| <b>Revenues:</b>  |                     |                    |                     |                   |
| Rental income   | \$ 7,922,823        | \$ 7,708,736       | \$ 214,087          | 2.8%              |
| Laundry and sundry income                                     | 109,144             | 104,896            | 4,248               | 4.0%              |
|   | <u>8,031,967</u>    | <u>7,813,632</u>   | <u>218,335</u>      | <u>2.8%</u>       |
| <b>Expenses:</b>  |                     |                    |                     |                   |
| Administrative  | 425,789             | 390,913            | 34,876              | 8.9%              |
| Depreciation and amortization                                 | 1,618,656           | 1,676,894          | (58,238)            | (3.5)%            |
| Interest  | 1,925,859           | 1,838,521          | 87,338              | 4.8%              |
| Management fees   | 322,280             | 310,929            | 11,351              | 3.7%              |
| Operating   | 1,404,452           | 1,367,747          | 36,705              | 2.7%              |
| Renting   | 80,211              | 66,432             | 13,779              | 20.7%             |
| Repairs and maintenance                                       | 1,040,066           | 1,034,026          | 6,040               | 0.6%              |
| Taxes and insurance   | 908,990             | 875,948            | 33,042              | 3.8%              |
|   | <u>7,726,303</u>    | <u>7,561,410</u>   | <u>164,893</u>      | <u>2.2%</u>       |
| <b>Income Before Other Income and Discontinued Operations</b> | <u>305,664</u>      | <u>252,222</u>     | <u>53,442</u>       | <u>21.2%</u>      |
| <b>Other Income (Loss)</b>                                    |                     |                    |                     |                   |
| Interest income   | 48,369              | 100,126            | (51,757)            | (51.7)%           |
| Casualty (Loss)   |                     | (60,000)           | 60,000              | (100.0)%          |
| (Loss) from investment in unconsolidated joint ventures       | (247,805)           | (420,225)          | (172,420)           | (41.0)%           |
| Other income (loss)   | (3,702,168)         |                    | (3,702,168)         | (100.0)%          |
|   | <u>(3,901,604)</u>  | <u>(380,099)</u>   | <u>(3,521,505)</u>  | <u>926.5%</u>     |
| <b>(Loss) Income from Continuing Operations</b>               | <u>(3,595,940)</u>  | <u>(127,877)</u>   | <u>(3,468,063)</u>  | <u>2712.0%</u>    |
| <b>Discontinued Operations:</b>                               |                     |                    |                     |                   |
| Income (loss) from discontinued operations                    | (27,447)            | 68,322             | 95,769              | 140.2%            |
| Gain on the sale of real estate                               | 6,053,391           |                    | 6,053,391           | 100.0%            |
|   | <u>6,025,944</u>    | <u>68,322</u>      | <u>5,957,622</u>    | <u>8719.9%</u>    |
| <b>Net (Loss) Income</b>                                      | <u>\$ 2,430,004</u> | <u>\$ (59,555)</u> | <u>\$ 2,489,559</u> | <u>4180.3%</u>    |

Rental income from continuing operations for the three months ended March 31, 2008 was approximately \$7,923,000 compared to approximately \$7,709,000 for the three months ended March 31, 2007, an increase of approximately \$214,000 (2.8%). The primary reason for this increase is due to the acquisition of the property in Newton, Massachusetts (referred to as Linewt) which had rental income of approximately \$65,000 for the three months ended March 31, 2008. Other properties with significant increases include Redwood Hills with an increase of approximately \$25,000; Worcester Road with an increase of approximately \$21,000; 62 Boylston Street, 140 North Beacon Street Apartments, and 1144 Commonwealth Avenue each of which had increases of approximately \$20,000; and Hamilton Oaks with an increase of approximately \$18,000. The majority of the Partnership's other properties experienced minimal rental income increases.

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Total expenses from continuing operations for the three months ended March 31, 2008 were approximately \$7,726,000 compared to approximately \$7,561,000 for the three months ended March 31,

2007, an increase of approximately \$165,000 (2.1%). The most significant increases were in interest expenses of approximately \$87,000 (4.8%) due to a higher level of debt; an increase in renting expenses of approximately \$14,000 (20.7%) due to an increase in real estate commissions; and increase in administrative expenses of approximately \$35,000 (8.9%) due to an increases in salaries and wages as well as professional fees due to the increased SEC compliance costs; an increase in operating expenses of approximately \$37,000 (2.7%) due to increases in utility costs; and an increase in taxes and insurance of approximately \$33,000 (3.8%) due to increases in real estate taxes and insurance premiums. These increases are offset by a decrease in depreciation and amortization of approximately \$58,000. Depreciation expense decreased \$144,000 due to the \$67,000 GAAP/Tax depreciation adjustment in Main NERA and \$62,000 decrease on the School Street property where the final depreciation was taken on furniture and fixtures in the first quarter of 2007. Amortization expense increased in \$86,000 due to the write off of prepaid financing fees for refinanced properties.

At March 31, 2008, the Partnership has a 50% ownership interest in nine joint ventures. The net loss on these investments is \$247,805 for the three months ended March 31, 2008 compared to a loss of \$420,225 for the three months ended March 30, 2007, a decrease of \$172,420 (41%). Included in the loss is a gain on the sale of units of approximately \$213,000 and \$215,000 at March 31, 2008 and 2007, respectively. The decrease in the loss on the investment properties is due to the continued sale of units, many of which were vacant. Unit sales have resulted in a lower level of debt and a decrease in operating costs at the properties. See Note 14 to the Consolidated Financial Statements for financial information of these investment properties. The summaries are as follows:

Franklin Street, Cambridge, Massachusetts

The Partnership invested in a 40-unit property in 2001. The Partnership's share of loss on this investment is \$13,611 and \$14,827 for the three months ended March 31, 2008 and 2007, respectively. There was one vacant unit at April 28, 2008.

Hamilton on Main, Watertown, Massachusetts

The Partnership invested in 146 units in three buildings in August 2004. The Partnership plans to retain all of these units as a rental property. The Partnership's share of loss is approximately \$190,000 and \$209,000 for the three months ended March 31, 2008 and 2007, respectively. There are no vacant units at April 28, 2008.

Hamilton Place, Watertown, Massachusetts

The Partnership invested in 137 units in three buildings in August 2004. The Partnership plans to sell all of the units as condominiums. The Partnership's share of income for the three months ended March 31, 2008 and 2007 was approximately \$127,000 and \$396, respectively. The Partnership's share of income includes a gain on the sale of units of approximately \$141,000 and \$62,000 for the three months ended March 31, 2008 and 2007, respectively. At April 28, 2008, 136 units have been sold and 1 unit has a reservation agreement. There were no vacant units April 28, 2008.

Hamilton Minuteman, Lexington, Massachusetts

The Partnership invested in a 42-unit residential complex in September 2004. The Partnership's share of loss on this investment was approximately \$53,000 and \$86,000 for the three months ended March 31, 2008 and 2007, respectively. The loss for the three months ended March 31, 2007 includes the expensing of previously deferred condominium conversion costs as the conversion will not occur in the foreseeable future. There are no vacant units at April 28, 2008.

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Essex 81, Boston, Massachusetts

The Partnership invested in this property in March 2005. The property consists of 7,715 square feet of commercial space. The Partnership's share of loss on this investment is approximately \$8,000 for the three months ended March 31, 2008. There were no vacant units April 28, 2008.

Hamilton Essex 81 Apartments, Boston, Massachusetts

The Partnership invested in this property in March 2005. The property consists of 49 residential units and a 50 car surface parking lot. The Partnership's share of loss on this investment is approximately \$15,000 for the three months ended March 31, 2008. There are no vacant units at April 28, 2008.

1025 Hamilton, Quincy, Massachusetts

The Partnership invested in a 176-unit property in March 2005. The Partnership plans to sell 127 units as condominiums. The Partnership's share of loss is approximately \$19,000 and \$37,000 for the three months ended March 31, 2008 and 2007 respectively. Included in the loss for the three months ended March 31, 2008 and 2007 is a gain of approximately \$55,000 and \$141,000 on the sale of units. As of April 28, 2008, 125 units have been sold. There are no vacant units at April 28, 2008.

Hamilton Bay Apartments, Quincy, Massachusetts

The Partnership invested in a 48 unit apartment complex in October 2005. The Partnership plans to retain these units for long term investment. The Partnership's share of loss is approximately \$54,000 and \$13,000 for the three months ended March 31, 2008 and 2007, respectively. There are no vacant units at April 28, 2008.

Hamilton Bay Sales, Quincy, Massachusetts

The Partnership invested in a 120 unit apartment complex in October 2005. The Partnership plans to sell all of the units as condominiums. The Partnership's share of loss is approximately \$21,000 and \$103,000 for the three months ended March 31, 2008 and 2007, respectively. Included in the loss for the three months ended March 31, 2008 and 2007 is a gain on the sale of units of approximately \$38,000 and \$81,000, respectively. In April 2008, the Partnership refinanced 20 units and obtained a new mortgage of \$2,368,000, interest only at a rate of 5.75% which matures in 2013. The Partnership has temporarily suspended the marketing of these 20 units. At April 28, 2008, 99 units have been sold and one unit has a signed purchase and sales agreement. There are no vacant units at April 28, 2008.

Interest income was approximately \$48,000 for the three months ended March 31, 2008 compared to approximately \$100,000 for the three months ended March 31, 2007, a decrease of approximately \$52,000 (52%). This increase reflects a decrease in funds available for investment as well as a drop in the interest rates.

During the three months ended March 31, 2008, the Partnership refinanced the mortgage on ten properties. The penalty on the early repayment of these mortgages is \$3,702,168 and is included in other income (loss).

In January 2008, the Partnership sold the Oak Ridge Apartments in Foxboro, Massachusetts. The gain on the sale is approximately \$6,053,000, and the operating loss of approximately \$27,000 is included in discontinued operations.

As a result of the changes discussed above, net income for the three months ended March 31, 2008 was \$2,430,004 compared to a loss of \$59,555 for the three months ended March 31, 2007, a change of \$2,489,559.



**LIQUIDITY AND CAPITAL RESOURCES**

The Partnership's principal source of cash during 2008 and 2007 was the collection of rents and the refinancing of Partnership properties.

The majority of cash and cash equivalents of \$5,887,866 at March 31, 2008 and \$6,890,525 at

December 31, 2007 were held in interest bearing accounts at creditworthy financial institutions.

This decrease of \$1,002,659 for the three months ended March 31, 2008 is summarized as follows:

|   | <b>Three Months Ended<br/>March 31,</b> |                   |
|---|---|-------------------|
|   | <b>2008</b>                             | <b>2007</b>       |
| Cash (used in) provided by operating activities             | \$ (2,940,622)                          | \$ 2,298,414      |
| Cash provided by (used in) investing activities             | 3,932,371                               | (366,789)         |
| Cash provided by (used in) financing activities             | 18,715,740                              | (268,939)         |
| Repurchase of Depositary Receipts                           | (19,744,831)                            | 0                 |
| Distributions paid  | (965,317)                               | (1,210,804)       |
| <b>Net increase (decrease) in cash and cash equivalents</b> | <b>\$ (1,002,659)</b>                   | <b>\$ 451,882</b> |

The cash used in operating activities is primarily due to the prepayment penalties incurred in connection with the refinancing of ten Partnership properties. The increase in cash provided by investing activities is due to the sale of the Oak Ridge Apartments, as well distributions from the joint venture. The increase in cash provided by financing activities is due to the refinancing of ten mortgages resulting in an increase in cash of approximately \$22,000,000.

The Partnership paid a quarterly distribution of \$7.00 per unit (\$0.70 per depositary receipts) on March 31, 2008 for a total distribution of \$965,317. Management anticipates that similar distributions will continue to be made each quarter in 2008.

During the three months ended March 31, 2008, the Partnership repurchased 254,387 Depositary Receipts at a total cost of \$19,744,831. The purchase was funded from cash reserves, as well as from a loan from Harold Brown. In January, the Partnership borrowed \$5,825,000 from Harold Brown, at a rate of 6%. The loan was repaid in full on February 29, 2008, with interest of \$37,899.

In February 2008, the Partnership refinanced 10 properties. The new mortgages total approximately \$60,000,000 with interest rates ranging 5.6% to 5.8%. The new mortgages mature in 2023 and call for interest only payments. After payments of existing mortgages of approximately \$37,800,000 and prepayment penalties of approximately \$3,700,000, the excess funds were used to pay the loan of \$5,285,000 to Harold Brown and to purchase Depositary Receipts.

In April 2008, the Partnership signed a purchase and sales agreement for the sale of three condominiums located at Harvard Gardens. The gain on the sale of these units will be approximately \$137,000 and will be recorded in the second quarter of 2008.

During the three months ended March 31, 2008, the Partnership and its Subsidiary Partnerships completed certain improvements to their properties at a total cost of approximately \$674,000. The most significant improvements were made at the following properties: approximately \$110,000 at Redwood Hills in Worcester, Massachusetts; approximately \$87,000 at Westgate Apartments in Woburn, Massachusetts; approximately \$82,000 at School Street in Framingham, Massachusetts; and approximately \$62,000 at 62 Boylston Street in Boston, Massachusetts and approximately \$58,000 at 1144 Commonwealth Avenue in Boston, Massachusetts. All such improvements were funded from the Partnership's cash reserves and escrow accounts established in connection with the financing of the applicable properties.

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In addition to the improvements made to date in 2008, the Partnership and its Subsidiary Partnerships plan to invest approximately \$1,706,000 in capital improvements during the balance of 2008. The majority of these improvements will be made at 1144 Commonwealth Avenue, Westside Colonial, 62 Boylston, Executive Apartments and Westgate Woburn. These improvements will be funded from escrow accounts established in connection with the financing of applicable properties, as well as from the Partnership's cash.

In April 2008, the Partnership sold the Coach Apartments in Acton, Massachusetts. The sale price was \$4,600,000. After payment of the existing mortgage and closing costs of approximately \$500,000, the Partnership netted \$2,700,000 from the sale. The Partnership is considering a 1031 Exchange for this property and has deposited the funds with a qualified intermediary.

The Partnership anticipates that cash from operations and interest-bearing investments will be sufficient to fund its current operations, finance current improvements to its properties and meet bank obligations on current mortgages. The Partnership's net income and cash flow may fluctuate dramatically from year to year as a result of the sale of properties, mortgage financings, unanticipated increases in expenses, or the loss of significant tenants.

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

As of March 31, 2008, the Partnership had a 50% ownership 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 March 31, 2008, our proportionate share of the non-recourse debt related to these investments was equal to approximately \$25,189,000. See Note 14 to the Consolidated Financial Statements for details of the investment properties including results of operations, equity and units sales.

### **Contractual Obligations**

See Note 5 and 14 to the Consolidated Financial Statements for a description of mortgage notes payable. The Partnerships have no other contractual obligation to be disclosed.

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

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"). While forward looking statements reflect management's good faith beliefs when those statements are made, 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 2008 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.

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Along with risks detailed 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 tenant's financial condition and 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, 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 the 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.

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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.

Risks associated with the use of debt to fund acquisitions and developments.

Competition for acquisitions may result in increased prices for properties.

The sale of condominium units may not generate enough net proceeds to pay the minimum curtailment payments required at Hamilton Place and Hamilton Minuteman. The Partnership may be required to fund any deficiencies.

Any weakness identified in the Partnership's internal controls as part of the evaluation being undertaken by the Company and its independent public accountants pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 could have an adverse effect on the Company's business.

Ongoing compliance with Sarbanes-Oxley Act of 2002 may require additional personnel or system 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.

The residential real estate market in the Greater Boston area has softened and the Partnership anticipates the climate will remain the same in the foreseeable future. This may result in increases in vacancy rates and/or a reduction in rents. The Partnership believes its present cash reserves as well as anticipated rental revenue will be sufficient to fund its current operations, and to finance current planned improvements to its properties and continue dividend payments in the foreseeable future.

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. 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.

### **Item 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As of March 31, 2008, the Partnership and its subsidiary Partnerships collectively have approximately \$133,000,000 in long-term debt, all of which have fixed interest rates. Accordingly, the fair value of these debt instruments is affected by changes in market interest rates. Approximately \$3,000,000 of Investment Property mortgages payable are at a variable rate of 1.75% over the 30 day LIBOR rate (4.45% at March 31, 2008). These mortgages mature through 2009. For information regarding the fair value and maturity dates of these debt obligations, see Notes 5 and 12 to the Consolidated Financial Statements.

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

### **Item 4 CONTROLS AND PROCEDURES**

*Disclosure Controls and Procedures.* Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, our principal

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executive officer and principal financial officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective in recording, processing, summarizing, and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act.

*Internal Control Over Financial Reporting.* There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION****Item 1. Legal Proceedings****Item 1A. Risk Factors**

There were no material changes to the Risk Factors disclosed in our annual report on Form 10-K for the year ended December 31, 2007.

None.

**Item 2. Unregistered Sale of Equity Securities and Use of Proceeds**

(a)

None.

(b)

None.

(c)

Issuer Purchases of Equity Securities During the First Quarter of 2008:

| Period  | Average Price<br>Paid | Depository<br>Receipts<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Plan | Remaining<br>Number of<br>Depository<br>Repts that<br>may be<br>purchsd Under<br>the Plan<br>(as amended) |
|---|-----------------------|--|---|
| Balance of Authorized Repurchases at 12/31/2007 |                       |  | 428,643   |
| January 1 - 31, 2008                            | 74.82                 | 127,661  | 300,982   |
| February 1 - 29, 2008                           |                       | 0  | 300,982   |
| March 1 - 31, 2008                              | 80.44                 | 126,726  | 174,256   |
| Total:  | \$ 77.62              | 254,387  | 174,256   |

On August 20, 2007, the General Partner of the Partnership authorized a Depository Receipt Repurchase Program pursuant to which the Partnership was authorized to purchase up to 100,000 receipts of its authorize and issued Depository Receipts. On January 15, 2008, the General Partner authorized an increase in the total number of Depository Receipts that could be repurchased pursuant to the Repurchase Program from 100,000 to 200,000. On January 30, 2008, the General Partner authorized an increase in the total number of Depository Receipts that could be repurchased pursuant to the Repurchase Program from 200,000 to 300,000. On March 10, 2008, the General Partner authorized an increase in the total number of Depository Receipts that could be repurchased pursuant to the Repurchase Program from 300,000 to 500,000.

See Note 31 to the Consolidated Financial Statements for information concerning this repurchase program through March 14, 2008.

The program expires August 19, 2008. The authority may be exercised from time to time and in such amounts as market conditions warrant. Any repurchases are intended to make appropriate adjustments to the Partnership's capital structure.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.



**Item 5. Other Information**

None.

**Item 6. Exhibits**

- (a) See the exhibit index below.





**EXHIBIT INDEX**

| <b>Exhibit No.</b> | <b>Description of Exhibit</b>  |
|--------------------|--|
| (31.1)             | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Ronald Brown, Principal Executive Officer of the Partnership (President and a Director of NewReal, Inc., sole General Partner of the Partnership)   |
| (31.2)             | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Harold Brown, Principal Financial Officer of the Partnership (Treasurer and a Director of NewReal, Inc., sole General Partner of the Partnership)   |
| (32.1)             | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Ronald Brown, Principal Executive Officer of the Partnership (President and a Director of NewReal, Inc., sole General Partner of the Partnership). |
| (32.2)             | Certification Pursuant to Section 906 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). |

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