

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP
Form 10-Q
November 13, 2012
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UNITED STATES
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 September 30, 2012

OR

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

For the transition period from _____ to _____

Commission file number 001-31568

New England Realty Associates Limited Partnership

(Exact name of registrant as specified in its charter)

Massachusetts

(State or other jurisdiction of
incorporation or organization)

04-2619298

(I.R.S. employer
identification no.)

39 Brighton Avenue, Allston, Massachusetts

(Address of principal executive offices)

02134

(Zip Code)

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

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

Depository Receipts

(Title of each Class)

NYSE AMEX

(Name of each Exchange on which Registered)

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

Class A

Limited Partnership Units

(Title of class)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of September 30, 2012, there were 104,621 of the registrant's Class A units (3,138,643 Depositary Receipts) of limited partnership issued and outstanding and 24,847 Class B units issued and outstanding.

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NEW ENGLAND REALTY ASSOCIATES, L.P.

PART 1 FINANCIAL INFORMATION

Item 1. Financial Statements

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

The consolidated balance sheet as of December 31, 2011 has been derived from the audited consolidated balance sheet at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

The aforementioned financial statements should be read in conjunction with the notes to the aforementioned financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and notes thereto included in New England Realty Associates L.P.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

The results of operations for the three and nine month periods ended September 30, 2012 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

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
ASSETS		
Rental Properties	\$ 96,137,618	\$ 98,924,534
Cash and Cash Equivalents	5,322,287	4,050,157
Rents Receivable	545,496	434,252
Real Estate Tax Escrows	446,314	401,325
Prepaid Expenses and Other Assets	3,460,422	3,866,652
Investments in Unconsolidated Joint Ventures	14,786,580	16,780,657

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Financing and Leasing Fees		960,064		919,187
Total Assets	\$	121,658,781	\$	125,376,764
LIABILITIES AND PARTNERS CAPITAL				
Note Payable	\$		\$	1,668,600
Mortgage Notes Payable		138,335,670		139,161,612
Accounts Payable and Accrued Expenses		2,143,534		2,253,696
Advance Rental Payments and Security Deposits		3,604,570		3,603,708
Total Liabilities		144,083,774		146,687,616
Commitments and Contingent Liabilities (Notes 3 and 9)				
Partners Capital 130,776 and 131,484 units outstanding in 2012 and 2011 respectively		(22,424,993)		(21,310,852)
Total Liabilities and Partners Capital	\$	121,658,781	\$	125,376,764

See notes to consolidated financial statements.

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NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues				
Rental income	\$ 8,782,896	\$ 8,543,908	\$ 26,245,505	\$ 24,957,004
Laundry and sundry income	92,700	104,618	282,889	318,059
	8,875,596	8,648,526	26,528,394	25,275,063
Expenses				
Administrative	463,687	411,836	1,362,276	1,237,424
Depreciation and amortization	1,571,942	1,603,529	4,632,173	4,412,144
Management fee	360,578	347,833	1,078,188	1,032,069
Operating	731,618	774,998	2,684,760	3,104,722
Renting	48,483	63,482	148,602	260,819
Repairs and maintenance	1,487,272	1,421,084	3,857,918	3,800,836
Taxes and insurance	1,066,739	1,042,470	3,241,830	3,103,215
	5,730,319	5,665,232	17,005,747	16,951,229
Income Before Other Income and Discontinued Operations	3,145,277	2,983,294	9,522,647	8,323,834
Other Income (Expense)				
Interest income	554	895	1,746	3,129
Interest expense	(1,953,645)	(2,033,082)	(5,853,647)	(5,962,907)
(Loss) from investments in unconsolidated joint ventures	(417,733)	(491,128)	(1,222,077)	(1,443,374)
	(2,370,824)	(2,523,315)	(7,073,978)	(7,403,152)
Income From Continuing Operations	774,453	459,979	2,448,669	920,682
Discontinued Operations				
Income from discontinued operations		(2,245)		81,567
Gain on the sale of real estate		(808)		7,720,459
		(3,053)		7,802,026
Net Income	\$ 774,453	\$ 456,926	\$ 2,448,669	\$ 8,722,708
Income per Unit				
Income before discontinued operations	\$ 5.90	\$ 3.50	\$ 18.63	\$ 7.00
Income from discontinued operations		(0.02)		59.34
Net Income per Unit	\$ 5.90	\$ 3.48	\$ 18.63	\$ 66.34
Weighted Average Number of Units Outstanding				
	131,277	131,484	131,410	131,484

See notes to consolidated financial statements

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NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' CAPITAL

(Unaudited)

	Limited		Units		Treasury	Total	Partners' Capital			Total
	Class A	Class B	General	Subtotal			Class A	Class B	General	
Balance										
January 1, 2011	144,180	34,243	1,802	180,225	48,741	131,484	\$ (21,539,906)	\$ (5,111,628)	\$ (269,033)	\$ (26,920,567)
Distribution to										
Partners							(2,208,941)	(524,623)	(27,612)	(2,761,176)
Net Income							6,978,166	1,657,315	87,227	8,722,708
Balance										
September 30, 2011	144,180	34,243	1,802	180,225	48,741	131,484	\$ (16,770,681)	\$ (3,978,936)	\$ (209,418)	\$ (20,959,035)
Balance										
January 1, 2012	144,180	34,243	1,802	180,225	48,741	131,484	\$ (17,052,134)	\$ (4,045,783)	\$ (212,935)	\$ (21,310,852)
Distribution to										
Partners							(2,362,012)	(560,978)	(29,525)	(2,952,515)
Stock Buyback					708	(708)	(488,627)	(115,584)	(6,083)	(610,294)
Net Income							1,958,935	465,247	24,487	2,448,668
Balance										
September 30, 2012	144,180	34,243	1,802	180,225	49,449	130,776	\$ (17,943,838)	\$ (4,257,098)	\$ (224,057)	\$ (22,424,993)

See notes to consolidated financial statements.

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NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
Cash Flows from Operating Activities		
Net income	\$ 2,448,669	\$ 8,722,708
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	4,632,173	4,412,144
Loss from investments in joint venture	1,222,077	1,443,374
Depreciation and amortization - discontinued operations		30,295
Gain on the sale of rental property		(7,720,459)
Change in operating assets and liabilities		
(Increase) Decrease in rents receivable	(111,244)	(25,030)
Increase (Decrease) in accounts payable and accrued expense	(110,162)	(324,307)
(Increase) Decrease in real estate tax escrow	(44,989)	(90,999)
(Increase) Decrease in prepaid expenses and other assets	406,230	(579,064)
Increase in advance rental payments and security deposits	862	52,220
Total Adjustments	5,994,947	(2,801,826)
Net cash provided by operating activities	8,443,616	5,920,882
Cash Flows Used in Investing Activities		
Proceed from unconsolidated joint venture	772,000	890,710
Investment in unconsolidated joint venture		(40,710)
Purchase and improvement of rental properties	(1,640,502)	(11,871,330)
Net proceeds from the sale of rental property		8,297,928
Net cash (used in) investing activities	(868,502)	(2,723,402)
Cash Flows from Financing Activities		
Payment of financing costs	(245,633)	(101,689)
Proceeds of mortgage notes payable		5,000,000
Proceeds of note payable		3,998,573
Principal payments of mortgage notes payable	(825,943)	(3,263,623)
Principal payments of note payable	(1,668,600)	(4,998,573)
Stock buyback	(610,294)	
Distributions to partners	(2,952,514)	(2,761,176)
Net cash (used in) financing activities	(6,302,984)	(2,126,488)
Net Increase in Cash and Cash Equivalents	1,272,130	1,070,992
Cash and Cash Equivalents, at beginning of period	4,050,157	3,245,361
Cash and Cash Equivalents, at end of period	\$ 5,322,287	\$ 4,316,353

See notes to consolidated financial statements.

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NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Line of Business: New England Realty Associates Limited Partnership (NERA or the Partnership) was organized in Massachusetts in 1977. NERA and its subsidiaries own 24 properties which include 16 residential buildings; 4 mixed use residential, retail and office buildings; 3 commercial buildings and individual units at one condominium complex. These properties total 2,251 apartment units, 19 condominium units and 110,949 square feet of commercial space. Additionally, the Partnership also owns a 40-50% interest in nine residential and mixed use properties consisting of 799 apartment units, 12,500 square feet of commercial space and a 50 car parking lot. The properties are located in Eastern Massachusetts and Southern New Hampshire.

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

Principles of Consolidation: The consolidated financial statements include the accounts of NERA and its subsidiaries. NERA has a 99.67% to 100% ownership interest in each subsidiary except for the nine limited liability companies (the Investment Properties or Joint Ventures) in which the Partnership has between a 40 - 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 14: Investments in Unconsolidated Joint Ventures).

The Partnership accounts for its investments in joint ventures using the equity method of accounting. These investments are recorded initially at cost, as Investments in Unconsolidated Joint Ventures, and subsequently adjusted for equity in earnings and cash contributions and distributions. The authoritative guidance on consolidation provides guidance on the identification of entities for which control is achieved through means other than voting rights (variable interest entities or VIEs) and the determination of which business enterprise, if any, should consolidate the VIE (the primary beneficiary). Generally, the consideration of whether an entity is a VIE applies when either (1) the equity investors (if any) lack one or more of the essential characteristics of a controlling financial interest, (2) the equity investment at risk is insufficient to finance that entity's activities without additional subordinated financial support or (3) the equity investors have voting rights that are not proportionate to their economic interests and the activities of the entity involve or are conducted on behalf of an investor with a disproportionately small voting interest.

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The Partnership adopted the updated provisions of ASC 810, pursuant to FASB No. 167, which amends FIN 46(R) to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. Additionally, FASB No. 167 amends FIN 46(R) to eliminate the quantitative approach previously required for determining the primary beneficiary of a variable interest entity, which was based on determining which enterprise absorbs the majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both. FASB No. 167 amends certain guidance in Interpretation 46(R) for determining whether an entity is a variable interest entity. Also, FASB No. 167 amends FIN 46(R) to require enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise's involvement in a variable interest entity. The enhanced disclosures are required for any enterprise that holds a variable interest in a variable interest entity. The adoption of this guidance did not have a material impact to these financial statements.

Impairment: On an annual basis management assesses whether there are any indicators that the value of the Partnership's rental properties or investments in unconsolidated subsidiaries may be impaired. In addition to identifying any specific circumstances which may affect a property or properties, management considers other criteria for determining which

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properties may require assessment for potential impairment. The criteria considered by management include reviewing low leased percentages, significant near term lease expirations, recently acquired properties, current and historical operating and/or cash flow losses, near term mortgage debt maturities or other factors that might impact the Partnership's intent and ability to hold property. A property's value is impaired only if management's estimate of the aggregate future cash flows (undiscounted and without interest charges) to be generated by the property is less than the carrying value of the property. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying amount of the property over the fair value of the property. The Partnership's estimates of aggregate future cash flows expected to be generated by each property are based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for space, competition for tenants, changes in market rental rates, and costs to operate each property. As these factors are difficult to predict and are subject to future events that may alter management's assumptions, the future cash flows estimated by management in its impairment analyses may not be achieved.

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

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

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

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

expectations of lease renewals. The value of in-place leases are amortized to expense over the remaining initial terms of the respective leases. The value of tenant relationship intangibles are amortized to expense over the anticipated life of the relationships.

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

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

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

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

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

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

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

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

Concentration of Credit Risks and Financial Instruments: The Partnership's properties are located in New England, and the Partnership is subject to the general economic risks related thereto. No single tenant accounted for more than 5% of the Partnership's revenues in 2012 or 2011. The Partnership makes its temporary cash investments with high-credit quality financial institutions. At September 30, 2012, substantially all of the Partnership's cash and cash equivalents were held in interest-bearing accounts at financial institutions, earning interest at rates from 0.01% to 0.45%. At September 30, 2012 and December 31, 2011, respectively approximately \$6,243,000 and \$5,051,000 of cash and cash equivalents, and security deposits included in prepaid expenses and other assets exceeded federally insured amounts.

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Advertising Expense: Advertising is expensed as incurred. Advertising expense was \$43,190 and \$59,997 for the nine months ended September 30, 2012 and 2011, respectively.

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

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

Interest Capitalized: The Partnership follows the policy of capitalizing interest as a component of the cost of rental property when the time of construction exceeds one year. During the nine months ended September 30, 2012 and the year ended December 31, 2011 there was no capitalized interest.

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

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

NOTE 2. RENTAL PROPERTIES

As of September 30, 2012, the Partnership and its Subsidiary Partnerships owned 2,251 residential apartment units in 20 residential and mixed-use complexes (collectively, the Apartment Complexes). The Partnership also owns 19 condominium units in a residential condominium complex, all of which are leased to residential tenants (collectively referred to as the Condominium Units). The Apartment Complexes and Condominium Units are located primarily in the metropolitan Boston area of Massachusetts.

Additionally, as of September 30, 2012, the Partnership and Subsidiary Partnerships owned a commercial shopping center in Framingham, commercial buildings in Newton and Brookline and mixed-use properties in Boston, Brockton and Newton, all in Massachusetts. These properties are referred to collectively as the Commercial Properties.

The Partnership also owned a 40% to 50% ownership interest in nine residential and mixed use complexes (the Investment Properties) at September 30, 2012 with a total of 799 units, accounted for using the equity method of consolidation. See Note 14 for summary information on these investments.

Rental properties consist of the following:

	September 30, 2012	December 31, 2011	Useful Life
Land, improvements and parking lots	\$ 27,781,268	\$ 27,614,537	15 40 years
Buildings and improvements	119,318,092	119,097,186	15 40 years
Kitchen cabinets	3,990,449	3,542,249	5 10 years
Carpets	3,847,902	3,307,499	5 10 years
Air conditioning	830,218	788,146	7 10 years
Laundry equipment	375,167	368,955	5 7 years
Elevators	1,139,296	1,139,296	20 years
Swimming pools	235,242	235,242	10 years
Equipment	1,812,027	1,744,006	5 7 years
Motor vehicles	107,788	107,788	5 years
Fences	26,874	22,974	5 10 years
Furniture and fixtures	1,095,562	1,039,439	5 7 years
Smoke alarms	204,416	116,482	5 7 years
Total fixed assets	\$ 160,764,301	\$ 159,123,799	
Less: Accumulated depreciation	(64,626,683)	(60,199,265)	

\$ 96,137,618 \$ 98,924,534

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

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

NOTE 3. RELATED PARTY TRANSACTIONS

The Partnership's properties are managed by an entity that is owned by the majority shareholder of the General Partner. The management fee is equal to 4% of gross receipts of rental revenue and laundry income on the majority of the Partnership's properties and 3% on Linewt. Total fees paid were approximately \$1,078,000 and \$1,047,000 during the nine months ended September 30, 2012 and 2011 respectively.

The Partnership Agreement permits the General Partner or Management Company to charge the costs of professional services (such as counsel, accountants and contractors) to NERA. During the nine months ended September 30, 2012 and 2011, approximately \$503,000, and \$601,000, was charged to NERA for legal, accounting, construction, maintenance, rental and architectural services and supervision of capital improvements. Of the 2012 expenses referred to above, approximately \$216,000 consisted of repairs and maintenance and \$242,000 of administrative expense. Approximately \$22,000 of expenses for construction, architectural services and supervision of capital projects were capitalized in rental properties. Rental commissions were approximately \$23,000 for the nine months ended September 30, 2012. Additionally in 2012, the Hamilton Company received approximately \$552,000 from the Investment Properties of which approximately \$423,000 was the management fee, approximately \$10,000 was for construction supervision and architectural fees, approximately \$53,000 was for maintenance services and approximately \$62,000 was for administrative services. The management fee is equal to 4% of gross receipts of rental income on the majority of investment properties and 2% on Dexter Park.

On January 1, 2004, all employees were transferred to the Management Company's payroll. The Partnership reimburses the Management Company for the payroll and related expenses of the employees who work at the properties. Total reimbursement was approximately \$1,999,000 and \$1,923,000 for the nine months ended September 30, 2012 and 2011, respectively. The Management Company maintains a 401K plan for all eligible employees whereby the employees may contribute the maximum allowed by law. The plan also provides for discretionary contributions by the employer. There were no employer contributions in 2012 and 2011.

Prior to 1991, the Partnership employed an outside, unaffiliated company to perform its bookkeeping and accounting functions. Since that time, such services have been provided by the Management Company's accounting staff, which consists of approximately 14 people. During the nine months ended September 30, 2012 and 2011, the Management Company charged the Partnership \$93,750 (\$125,000 per year) for bookkeeping and accounting services included in administrative expenses of \$242,000 above.

In 1996, prior to becoming an employee of the Management Company, the President of the Management Company performed asset management consulting services for the Partnership. This individual continues to perform this service and receives an asset management fee from the Partnership. The Partnership does not have a written agreement with this individual. During each of the nine months ended September 30, 2012 and 2011, this individual received \$56,250.

The Partnership has invested in nine limited partnerships, which have invested in mixed use residential apartment complexes. The Partnership has between a 40% and 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 57%. See Note 14 for a description of the properties and their operations.

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On October 28, 2009, the Partnership borrowed approximately \$7,168,000 with an interest rate of 6% from HBC Holdings, LLC, an entity owned by Harold Brown and his affiliates (HBC). The term of the loan is four years with a provision requiring payment in whole or in part upon demand by HBC with six months notice. The Partnership may also prepay the note without penalty. On August 17, 2010, HBC gave six months written notice to the Partnership requesting a principal pay down of \$2,500,000. During the fourth quarter of 2010, the Partnership paid HBC \$2,500,000 as requested. During 2011, the Partnership elected to make principal payments of \$1,000,000 on August 1, 2011, \$1,000,000 on October 1, 2011 and \$1,000,000 on December 15, 2011 reducing the loan balance to \$1,668,600. In February 2012, the Partnership elected to make an additional principal payment of \$750,000 to HBC Holdings and the balance of \$918,600 was paid in April 2012. The interest paid during the nine months ended September 30, 2012 and 2011 was approximately \$18,960 and \$202,000, respectively.

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

NOTE 4. OTHER ASSETS

Approximately \$1,923,000 and \$1,879,000 of security deposits and prepaid rent deposits are included in prepaid expenses and other assets at September 30, 2012 and December 31, 2011, respectively. The security deposits and escrow accounts are restricted cash.

Included in prepaid expenses and other assets at September 30, 2012 and December 31, 2011 is approximately \$710,000 and \$1,014,000, respectively, held in escrow to fund future capital improvements.

Financing and leasing fees of approximately \$960,000 and \$919,000 are net of accumulated amortization of approximately \$740,000 and \$636,000 at September 30, 2012 and December 31, 2011, respectively.

NOTE 5. MORTGAGE NOTES PAYABLE

At September 30, 2012 and December 31, 2011, the mortgages payable consisted of various loans, all of which were secured by first mortgages on properties referred to in Note 2. At September 30, 2012, the interest rates on these loans ranged from 4.25% to 7.07%, payable in monthly installments aggregating approximately \$742,000, including principal, to various dates through 2026. The majority of the mortgages are subject to prepayment penalties. At September 30, 2012, the weighted average interest rate on the above mortgages was 5.53%. The effective rate of 5.62% includes the amortization expense of deferred financing costs. See Note 12 for fair value information. The Partnership's mortgage debt and the mortgage debt of its unconsolidated joint ventures generally is non-recourse except for customary exceptions pertaining to misuse of funds and material misrepresentations.

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

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Approximate annual maturities at September 30, 2012 are as follows:

2013 current maturities	\$	41,357,000
2014		7,889,000
2015		9,116,000
2016		192,000
2017		202,000
Thereafter		79,580,000
	\$	138,336,000

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

The Partnership is currently working on refinancing the mortgages at Boylston Street, Westgate Woburn, School Street and Cypress Street. The total amount expected to be refinanced is approximately \$47,000,000. The Partnership may incur prepayment penalties of approximately \$1,000,000 upon refinancing. The Partnership has no lender commitment at this time and does not anticipate closing on these mortgages in 2012.

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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 September 30, 2012, amounts received for prepaid rents of approximately \$1,314,000 are included in cash and cash equivalents, and security deposits of approximately \$1,832,000 are included in other assets and are restricted cash.

NOTE 7. PARTNERS' CAPITAL

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

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

On January 17, 2012, the Partnership announced the approval of a quarterly distribution to its Class A Limited Partners and holders of Depositary Receipts of record as of March 15, 2012 and payable on March 31, 2012. The quarterly distribution per Class A Limited Partnership Unit was increased from \$7.00 per unit to \$7.50 per unit. Taking into consideration the 3-for-1 forward split of Depositary Receipts that was completed on January 3, 2012, the quarterly distribution per Depositary Receipt has been increased from \$0.23 to \$0.25.

In 2012, the Partnership approved quarterly distributions of \$7.50 per unit (\$0.25 per receipt) payable on March 31, June 30, September 30, 2012 and December 31, 2012.

In 2011 the Partnership paid quarterly distributions of \$7.00 per unit (\$0.23 per receipt) in March, June, September, and December for a total distribution of \$28.00 per unit (\$0.93 per receipt).

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

	Nine Months Ended September 30,	
	2012	2011
Income per Depositary Receipt before Discontinued Operations	\$ 0.62	\$ 0.23

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Income from Discontinued Operations				1.98
Net Income per Depositary Receipt after Discontinued Operations	\$	0.62	\$	2.21
Distributions per Depositary Receipt	\$	0.75	\$	0.70

NOTE 8. TREASURY UNITS

Treasury Units at September 30, 2012 are as follows:

Class A	39,559
Class B	9,395
General Partnership	495
	49,449

On August 20, 2007, NewReal, Inc., the General Partner authorized an equity repurchase program (Repurchase Program). Under the terms of the Repurchase Program, the Partnership may purchase up to 1,500,000 Depositary Receipts from the start of the program in 2007 through March 31, 2015. The Repurchase Program requires the Partnership to repurchase a proportionate number of Class B Units and General Partnership Units in connection with any repurchases of any Depositary Receipts by the Partnership based upon the 80%, 19%, and 1% fixed distribution percentages of the holders of the Class A, Class B and General Partner Units under the Partnership's Second Amended and Restate Contract of Limited Partnership. Repurchases of Depositary Receipts or Partnership Units pursuant to the Repurchase Program may be made by the Partnership

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from time to time in its sole discretion in open market transactions or in privately negotiated transactions. From August 20, 2007 through September 30, 2012, the Partnership has repurchased 1,211,945 Depositary Receipts at an average price of \$24.59 per receipt (or \$737.70 per underlying Class A Unit), 1,859 Class B Units and 98 General Partnership Units, at an average price of \$604.92 per Unit, totaling approximately \$31,150,000 including brokerage fees paid by the Partnership.

During the nine months ended September 30, 2012, the Partnership purchased 16,985 Depositary Receipts for a cost of \$488,627; 135 Class B Units for a cost of \$115,585 and 7 General Partnership Units for a cost of \$6,083 for a total cost of \$610,294.

From October 1, 2012 through November 9, 2012, the Partnership purchased a total of 942 Depositary Receipts. The average price was \$28.85 per receipt or \$865.50 per unit. The total cost was \$28,344. The Partnership is required to repurchase 7.5 Class B Units and 0.39 General Partnership units at a cost of \$6,454 and \$340, respectively.

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 provides for any uninsured claims when appropriate. The Partnerships are not involved in any material pending legal proceedings.

NOTE 10. RENTAL INCOME

During the nine months ended September 30, 2012, approximately 90% of rental income was related to residential apartments and condominium units with leases of one year or less. The majority of these leases expire in June, July and August. Approximately 10% was related to commercial properties, which have minimum future annual rental income on non-cancellable operating leases at September 30, 2012 as follows:

	Commercial Property Leases
2013	\$ 2,453,000
2014	2,125,000
2015	1,601,000
2016	1,299,000
2017	508,000
Thereafter	828,000
	\$ 8,814,000

The aggregate minimum future rental income does not include contingent rentals that may be received under various leases in connection with common area charges and real estate taxes. Aggregate contingent rentals from continuing operations were approximately \$477,000 and \$461,000 for the nine months ended September 30, 2012 and 2011 respectively.

The following information is provided for commercial leases:

<u>Through September 30,</u>	Annual base rent for expiring leases	Total square feet for expiring leases	Total number of leases expiring	Percentage of Annual base rent for expiring leases
2013	\$ 518,465	19,182	10	19%
2014	599,370	30,118	13	21%
2015	146,240	6,415	5	5%
2016	715,380	24,210	6	26%
2017	497,412	16,818	6	18%
2018				
2019	123,200	3,850	1	4%
2020	141,831	3,056	2	5%
2021	64,800	1,800	1	2%
2022				
Totals	\$ 2,806,698	105,449	44	100%

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Rents receivable are net of an allowance for doubtful accounts of approximately \$563,000 and \$448,000 at September 30, 2012 and December 31, 2011, respectively. Included in rents receivable at September 30, 2012 is approximately \$285,000 resulting from recognizing rental income from non-cancelable commercial leases with future rental increases on a straight-line basis. The majority of this amount is for long-term leases with Staples and Trader Joe's at Staples Plaza in Framingham, Massachusetts.

Rents receivable also includes approximately \$14,000 representing the deferral of rental concession primarily related to the residential properties.

For the nine months ended September 30, 2012 rent at the commercial properties includes approximately \$3,600 of amortization of deferred rents arising from the fair values assigned to in-place leases upon the purchase of Cypress Street in Brookline, Massachusetts.

NOTE 11. CASH FLOW INFORMATION

During the nine months ended September 30, 2012 and 2011, cash paid for interest was approximately \$5,854,000, and \$6,008,000 respectively. Cash paid for state taxes was approximately \$23,000 and \$54,000 during the nine months ended September 30, 2012 and 2011 respectively.

NOTE 12. FAIR VALUE MEASUREMENTS

Fair Value Measurements on a Recurring Basis

At September 30, 2012 and December 31, 2011, we do not have any significant financial assets or financial liabilities that are measured at fair value on a recurring basis in our consolidated financial statements.

Financial Assets and Liabilities not Measured at Fair Value

At September 30, 2012 and December 31, 2011 the carrying amounts of certain of our financial instruments, including cash and cash equivalents, accounts receivable, and note payable, accounts payable and accrued expenses were representative of their fair values due to the short-term nature of these instruments or, the recent acquisition of these items.

At September 30, 2012 and December 31, 2011, we estimated the fair value of our mortgages payable and other notes based upon quoted market prices for the same (Level 1) or similar (Level 2) issues when current quoted market prices are available. We estimated the fair value of our secured mortgage debt that does not have current quoted market prices available by discounting the future cash flows using rates currently

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available to us for debt with similar terms and maturities (Level 3). The differences in the fair value of our debt from the carrying value are the result of differences in interest rates and/or borrowing spreads that were available to us at September 30, 2012 and December 31, 2011, as compared with those in effect when the debt was issued or acquired. The secured mortgage debt contain pre-payment penalties or yield maintenance provisions that could make the cost of refinancing the debt at lower rates exceed the benefit that would be derived from doing so.

The following 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.

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

	Carrying Amount		Estimated Fair Value
Mortgage Notes Payable			
Partnership Properties			
At September 30, 2012	\$ 138,335,689	\$	158,058,689
At December 31, 2011	\$ 139,161,612	\$	158,050,039
Investment Properties			
At September 30, 2012	\$ 138,735,174	\$	160,344,245

Disclosure about fair value of financial instruments is based on pertinent information available to management as of September 30, 2012 and December 31, 2011. Although management is not aware of any factors that would significantly affect the fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since September 30, 2012 and current estimates of fair value may differ significantly from the amounts presented herein.

NOTE 13. TAXABLE INCOME AND TAX BASIS

Taxable income reportable by the Partnership and includable in its partners' tax returns is different than financial statement income because of tax free exchanges, accelerated depreciation, different tax lives, and timing differences related to prepaid rents, allowances and intangible assets at significant acquisitions. Taxable income was approximately \$8,856,000 less than statement income for the year ended December 31, 2011. The primary reason for the decrease is the tax free sale of Avon Street and accelerated depreciation. The cumulative tax basis of the Partnership's real estate at December 31, 2011 is approximately \$12,000,000, less than the statement basis. The primary reasons for the lower tax basis are tax free exchanges, and accelerated depreciation. The Partnership's tax basis in its joint venture investments is approximately \$2,000,000 less than statement basis because of accelerated depreciation.

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

Certain allowable accelerated depreciation deductions have been reduced by 50% in 2012 and are expected to be eliminated for 2013. This will result in higher taxable income in those years. Future tax law changes may significantly affect taxable income.

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

In the normal course of business the Partnership or one of its subsidiaries is subject to examination by federal, state and local jurisdictions in which it operates, where applicable. As of September 30, 2012, the tax years that remain subject to examination by the major tax jurisdictions

under the statute of limitations is from the year 2004 forward.

NOTE 14. INVESTMENT IN UNCONSOLIDATED JOINT VENTURES

Since November 2001, the Partnership has invested in nine limited partnerships and limited liability companies, the majority of which have invested in residential apartment complexes, with three partnerships investing in commercial property. The Partnership has between a 40%-50% ownership interests in each investment. The other investors are Harold Brown, the President of the Management Company and five other employees of the Management Company. Harold Brown's ownership interest is between 43.2% and 57%, with the balance owned by the others. A description of each investment is as follows:

On October 28, 2009 the Partnership invested approximately \$15,925,000 in a joint venture to acquire a 40% interest in a residential property located in Brookline, Massachusetts. The property, referred to as Dexter Park, is a 409 unit residential complex. The purchase price was \$129,500,000. The total mortgage was \$89,914,000 with an interest rate of 5.57% and it matures in 2019. The mortgage calls for interest only payments for the first two years of the loan and amortized over 30 years thereafter. The balance of this mortgage is approximately \$88,891,000 at September 30, 2012. In order to fund this investment, the Partnership used approximately \$8,757,000 of its cash reserves and borrowed approximately \$7,168,000 with an interest rate of 6% from HBC Holdings, LLC, an entity owned by Harold Brown and his affiliates (HBC). The term of the loan was four years with a provision requiring payment in whole or in part upon demand by HBC with six months notice. On August 17, 2010, HBC gave six months written notice to the Partnership requesting a principal pay down of \$2,500,000. During the fourth

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quarter of 2010, the Partnership paid HBC \$2,500,000 as requested. During 2011, the Partnership elected to make principal payments of \$1,000,000 on August 1, 2011, \$1,000,000 on October 1, 2011, and an additional \$1,000,000 on December 15, 2011 reducing the loan balance to \$1,668,600 at December 31, 2011. In February 2012, the Partnership elected to make an additional principal payment of \$750,000 to HBC Holdings and the balance of \$918,600 was paid in April 2012. The interest paid during the nine months ended September 30, 2012 and 2011 was approximately \$18,960 and \$202,000, respectively. A majority of the apartments were leased at the time of the acquisition. As a result, the Partnership amortized the intangible assets associated with the in place leases over a 12 month period which began in November 2009. This investment, Hamilton Park Towers, LLC is referred to as Dexter Park.

On October 3, 2005, the Partnership invested \$2,500,000 for a 50% ownership interest in a 168-unit apartment complex in Quincy, Massachusetts. The purchase price was \$30,875,000. The Partnership plans to sell the majority of units as condominium and retain 48 units for long-term investment. Gains from the sales of units were taxed at ordinary income rates. In February 2007, the Partnership refinanced the 48 units 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. As of September 30, 2012, the balance of the mortgage is approximately \$ 4,717,000. This investment is referred to as Hamilton Bay Apartments, LLC. The loan will be amortized over 30 years thereafter and matures in March 2017. In April 2008, the Partnership refinanced an additional 20 units and obtained a new mortgage in the amount of \$2,368,000 with interest at 5.75%, interest only, which matures in 2013. As of November 1, 2012, 105 units have been sold, the proceeds of which went to pay down the mortgage on the property. The balance on the new mortgage is approximately \$1,668,000 at September 30, 2012. This investment is referred to as Hamilton Bay, LLC.

On March 7, 2005, the Partnership invested \$2,000,000 for a 50% ownership interest in a building comprising 49 apartments, one commercial space and a 50-car surface parking lot located in Boston, Massachusetts. The purchase price was \$14,300,000, with a \$10,750,000 mortgage. The Partnership plans to operate the building and initiate development of the parking lot. In June 2007, the Partnership separated the parcels, formed an additional limited liability company for the residential apartments and obtained a mortgage on the property. The new limited liability company formed for the residential apartments and commercial space is referred to as Hamilton Essex 81, LLC. In August 2008, the Partnership restructured the mortgages on both parcels at Essex 81 and transferred the residential apartments to Hamilton Essex 81, LLC. The mortgage on Hamilton Essex 81, LLC is approximately \$8,380,000 amortizing over 30 years at 5.79% due in August 2016. The mortgage on Essex Development, LLC, or the parking lot is approximately \$2,106,000 with a variable interest rate of 2.25% over the daily Libor rate (0.22% at September 30, 2012). This loan was extended to August 2013 with the same conditions except for the addition of fixed principal payments in the amount of \$4,301 per month. The cost associated with the extension was approximately \$6,000. Harold Brown has issued a personal guaranty up to \$1,000,000 of this mortgage. In the event that he is obligated to make payments to the lender as a result of this guaranty, the Partnership and other investors have, in turn, agreed to indemnify him for their proportionate share of any such payments. The investment in the parking lot is referred to as Hamilton Essex Development, LLC; the investment in the apartments is referred to as Hamilton Essex 81, LLC.

On March 2, 2005, the Partnership invested \$2,352,000 for a 50% ownership interest in a 176-unit apartment complex with an additional small commercial building located in Quincy, Massachusetts. The purchase price was \$23,750,000. The Partnership sold 127 of the units as condominiums and retained 49 units for long-term investment. The Partnership obtained a new 10-year mortgage in the amount of \$5,000,000 on the units to be retained by the Partnership. The interest on the new loan is 5.67% fixed for the 10 year term with interest only payments for five years and amortized over a 30 year period for the balance of the loan term. The balance of this mortgage is approximately \$4,950,000 at September 30, 2012. This investment is referred to as Hamilton 1025, LLC.

In September 2004, the Partnership invested approximately \$5,075,000 for a 50% ownership interest in a 42-unit apartment complex located in Lexington, Massachusetts. The purchase price was \$10,100,000. In October 2004, the Partnership obtained a mortgage on the property in the amount of \$8,025,000 and returned \$3,775,000 to the Partnership. The Partnership obtained a new 10-year mortgage in the amount of \$5,500,000 in January 2007. The interest on the new loan is 5.67% fixed for the ten year term with interest only payments for five years and amortized over a 30 year period for the balance of the loan. This loan required a cash contribution by the Partnership of \$1,250,000 in December 2006. At September 30, 2012, the balance of this mortgage is approximately \$5,450,000. This investment is referred to as Hamilton Minuteman, LLC.

In August 2004, the Partnership invested \$8,000,000 for a 50% ownership interest in a 280-unit apartment complex located in Watertown, Massachusetts. The total purchase price was \$56,000,000. As of May 2008, the Partnership sold 137 units as condominiums. Gains from these sales were taxed as ordinary income. The majority of the sales proceeds were applied to reduce the mortgage with the final payment made during the second quarter of 2007. With the sale of the units and the payments of the liabilities, the assets were combined with Hamilton on Main Apartments, LLC. An entity partially owned by the majority shareholder of the General Partner and the President of the management company, 31% and 5%, respectively, was

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the sales agent and received a variable commission on each sale of 3% to 5%. Hamilton on Main, LLC is known as Hamilton Place.

In 2005, Hamilton on Main Apartments, LLC obtained a ten year mortgage on the three buildings to be retained. The mortgage was \$16,825,000, with interest only of 5.18% for three years and amortizing on a 30 year schedule for the remaining seven years when the balance is due. The net proceeds after funding escrow accounts and closing costs on the mortgage were approximately \$16,700,000, which were used to reduce the existing mortgage. Hamilton on Main LLC paid a fee of approximately \$400,000 in connection with this early extinguishment of debt. At September 30, 2012, the remaining balance on the mortgage is approximately \$15,680,000.

In November 2001, the Partnership invested approximately \$1,533,000 for a 50% ownership interest in a 40-unit apartment building in Cambridge, Massachusetts. This property has a 12-year mortgage, with a remaining balance at September 30, 2012 of approximately \$6,894,000 at 6.9% which is amortized on a 30-year schedule, with a final payment of approximately \$6,000,000 in 2014. This investment is referred to as 345 Franklin, LLC.

As required by the lender, the Treasurer of the General Partner has provided a limited repayment guaranty equal to fifty percent (50%) of the outstanding balance for the loan on the for sale units at Hamilton Bay and a limited guaranty of \$1,000,000 for the loan on Hamilton Essex Development. In the event that he is obligated to make payments to the lenders as a result of these guaranties, the Partnership and other investors have, in turn, agreed to indemnify him for their proportionate share of any such payments.

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Summary financial information as of September 30, 2012

	Hamilton Essex 81	Hamilton Essex Development	345 Franklin	Hamilton 1025	Hamilton Bay Sales	Hamilton Bay Apts	Hamilton Minuteman Apts	Hamilton on Main Apts	Dexter Park	Total
ASSETS										
Rental Properties	\$ 9,201,729	\$ 2,611,197	\$ 7,962,705	\$ 5,685,935	\$ 1,863,770	\$ 7,045,549	\$ 7,077,941	\$ 21,317,705	\$ 108,880,125	\$ 171,646,656
Cash & Cash Equivalents	3,682	12,525	57,974	66	14,203	98	42,880	159,507	782,730	1,073,665
Rent Receivable	45,283		905	7,924	654	2,929	4,791	5,055	50,229	117,770
Real Estate Tax Escrow	49,793		39,686	71,850		95,568	42,857	109,839	430,978	840,573
Prepaid Expenses & Other Assets	96,118	807	97,491	102,622	152,270	107,997	76,040	292,984	1,328,474	2,254,803
Financing & Leasing Fees	64,805	5,946	10,205	20,902	2,771	27,833	16,942	16,296	414,507	580,208
Total Assets	\$ 9,461,410	\$ 2,630,476	\$ 8,168,966	\$ 5,889,300	\$ 2,033,669	\$ 7,279,975	\$ 7,261,451	\$ 21,901,385	\$ 111,887,043	\$ 176,513,675
LIABILITIES AND PARTNERS CAPITAL										
Mortgage Notes Payable	\$ 8,379,679	\$ 2,106,087	\$ 6,893,510	\$ 4,949,865	\$ 1,668,000	\$ 4,716,555	\$ 5,450,034	\$ 15,680,318	\$ 88,891,126	\$ 138,735,173
Accounts Payable & Accrued Expense	72,817	5,870	146,324	49,095	20,272	6,929	94,046	248,055	841,053	1,484,461
Advance Rental Pmts & Security Deposits	148,662		140,048	86,764	23,802	84,376	68,652	267,641	1,837,442	2,657,387
Total Liabilities	8,601,158	2,111,957	7,179,881	5,085,724	1,712,074	4,807,860	5,612,731	16,196,014	91,569,622	142,877,021
Partners Capital	860,252	518,519	989,085	803,576	321,595	2,472,115	1,648,720	5,705,372	20,317,421	33,636,654
Total Liabilities and Capital	\$ 9,461,410	\$ 2,630,476	\$ 8,168,966	\$ 5,889,300	\$ 2,033,669	\$ 7,279,975	\$ 7,261,451	\$ 21,901,385	\$ 111,887,043	\$ 176,513,675
Partners Capital - NERA 50%	\$ 430,126	\$ 259,259	\$ 494,542	\$ 401,788	\$ 160,798	\$ 1,236,057	\$ 824,360	\$ 2,852,686		6,659,616
Partners Capital - NERA 40%									\$ 8,126,969	8,126,969
										\$ 14,786,585
Total units/condominiums										
Apartments	48		40	175	120	48	42	148	409	1,030
Commercial	1	1		1						3
Total	49	1	40	176	120	48	42	148	409	1,033
Units to be retained	49	1	40	49		48	42	148	409	786
Units to be sold				127	120					247
Units sold through November 1, 2012				127	105					232
Unsold units					15					15
Unsold units with deposits for future sale as of November 1, 2012.										

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Summary financial information for the nine months ended September 30, 2012

	Hamilton Essex 81	Hamilton Essex Development	345 Franklin	Hamilton 1025	Hamilton Bay Sales	Hamilton Bay Apts	Hamilton Minuteman Apts	Hamilton on Main Apts	Dexter Park	Total
Revenues										
Rental Income	\$ 937,284	\$ 216,137	\$ 873,734	\$ 639,791	\$ 173,054	\$ 659,463	\$ 603,212	\$ 1,953,493	\$ 9,056,079	\$ 15,112,247
Laundry and Sundry Income	10,488		1,788				666	13,732	75,239	101,913
	947,772	216,137	875,522	639,791	173,054	659,463	603,878	1,967,225	9,131,318	15,214,160
Expenses										
Administrative	10,430	1,432	23,211	4,079	6,617	29,996	6,755	37,307	169,223	289,048
Depreciation and Amortization	308,642	9,394	336,339	190,555	59,208	224,008	238,621	717,664	4,314,274	6,398,704
Management Fees	40,573	8,645	36,070	25,964	7,268	25,753	24,241	78,862	196,041	443,417
Operating	85,319		42,933	636	1,237	1,070	54,385	242,157	764,389	1,192,125
Renting	16,664		3,459	5,718	1,450	3,660	3,013	8,845	71,830	114,639
Repairs and Maintenance	94,156	5,475	61,720	235,472	53,379	205,125	45,315	283,251	707,486	1,691,378
Taxes and Insurance	149,722	37,211	75,919	109,871	34,890	121,571	77,022	253,782	1,115,971	1,975,959
	705,506	62,158	579,650	572,294	164,047	611,182	449,351	1,621,867	7,339,215	12,105,270
Income Before Other Income	242,266	153,980	295,872	67,497	9,007	48,281	154,527	345,358	1,792,103	3,108,891
Other Income (Loss)										
Interest Expense	(373,357)	(45,437)	(366,348)	(216,254)	(73,609)	(203,375)	(238,036)	(628,955)	(3,818,020)	(5,963,390)
Interest Income			36	62	165					262
Interest Income from Note					4,901					4,901
	(373,357)	(45,437)	(366,311)	(216,193)	(68,543)	(203,375)	(238,036)	(628,955)	(3,818,020)	(5,958,227)
Net Income (Loss)	\$ (131,091)	\$ 108,543	\$ (70,439)	\$ (148,696)	\$ (59,537)	\$ (155,094)	\$ (83,509)	\$ (283,597)	\$ (2,025,917)	\$ (2,849,337)
Net Income (Loss) - NERA 50%	\$ (65,546)	\$ 54,271	\$ (35,220)	\$ (74,348)	\$ (29,768)	\$ (77,547)	\$ (41,754)	\$ (141,798)		(411,710)
Net Income (Loss) - NERA 40%									\$ (810,367)	(810,367)
										\$ (1,222,077)

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Summary financial information for the three months ended September 30, 2012

	Hamilton Essex 81	Hamilton Essex Development	345 Franklin	Hamilton 1025	Hamilton Bay Sales	Hamilton Bay Apts	Hamilton Minuteman Apts	Hamilton on Main Apts	Dexter Park	Total
Revenues										
Rental Income	\$ 311,281	\$ 72,046	\$ 295,031	\$ 218,064	\$ 61,862	\$ 223,301	\$ 204,535	\$ 656,122	\$ 2,993,242	\$ 5,035,486
Laundry and Sundry Income	3,415		600				175	3,752	31,384	39,327
	314,697	72,046	295,631	218,064	61,862	223,301	204,711	659,875	3,024,626	5,074,812
Expenses										
Administrative	2,824	317	7,845	1,599	2,514	6,285	3,823	11,209	59,789	96,206
Depreciation and Amortization	101,777	2,909	114,199	63,962	19,736	74,920	80,075	240,997	1,443,275	2,141,849
Management Fees	13,547	2,882	11,953	9,079	2,681	8,761	8,225	26,655	66,474	150,256
Operating	32,187		13,451	1	310	165	16,664	63,833	217,288	343,898
Renting	14,574		3,318	3,389		389	1,019	2,265	30,033	54,987
Repairs and Maintenance	39,279	950	17,401	89,279	21,202	71,906	15,818	85,358	277,534	618,728
Taxes and Insurance	48,843	12,025	25,358	36,279	11,329	39,893	26,154	85,473	371,328	656,683
	253,031	19,084	193,525	203,588	57,772	202,319	151,778	515,790	2,465,720	4,062,608
Income Before Other Income	61,665	52,962	102,106	14,476	4,090	20,982	52,933	144,085	558,906	1,012,205
Other Income (Loss)										
Interest Expense	(124,806)	(15,110)	(120,435)	(72,408)	(24,738)	(68,108)	(79,666)	(210,248)	(1,277,390)	(1,992,910)
Interest Income			12	21	51					84
Interest Income from Note					1,458					1,458
	(124,806)	(15,110)	(120,423)	(72,388)	(23,229)	(68,108)	(79,666)	(210,248)	(1,277,390)	(1,991,367)
Net Income (Loss)	\$ (63,141)	\$ 37,852	\$ (18,317)	\$ (57,912)	\$ (19,139)	\$ (47,126)	\$ (26,733)	\$ (66,164)	\$ (718,484)	\$ (979,163)
Net Income (Loss) - NERA 50%	\$ (31,571)	\$ 18,926	\$ (9,158)	\$ (28,956)	\$ (9,569)	\$ (23,563)	\$ (13,366)	\$ (33,082)		(130,339)
Net Income (Loss) - NERA 40%									\$ (287,394)	(287,394)
										\$ (417,733)

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Future annual mortgage maturities at September 30, 2012 are as follows:

Period End	Hamilton	Hamilton	Hamilton	Hamilton	Hamilton	Hamilton	Hamilton	Hamilton on	Dexter	Total
	Essex 81 March 2005	Essex Development March 2005	345 Franklin November 2001	1025 March 2005	Bay Sales October 2005	Bay Apts October 2005	Minuteman August 2004	Main Apts August 2004	Park October 2009	
9/30/2013	\$ 123,859	\$ 2,106,087	\$ 177,887	\$ 64,222	\$ 1,668,000	\$ 65,250	\$ 70,339	\$ 289,374	\$ 1,258,232	\$ 5,823,250
9/30/2014	131,223		6,715,623	68,013		68,979	74,491	305,121	1,330,133	8,693,582
9/30/2015	139,026			72,028		72,921	78,887	15,085,823	1,406,142	16,854,826
9/30/2016	7,985,570			75,510		77,088	82,697		1,486,495	9,707,361
9/30/2017				4,670,091		4,432,317	5,143,620		1,571,440	15,817,469
Thereafter									81,838,683	81,838,683
	\$ 8,379,678	\$ 2,106,087	\$ 6,893,510	\$ 4,949,864	\$ 1,668,000	\$ 4,716,555	\$ 5,450,034	\$ 15,680,318	\$ 88,891,125	\$ 138,735,171

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Summary financial information as of September 30, 2011

	Hamilton Essex 81	Hamilton Essex Development	345 Franklin	Hamilton 1025	Hamilton Bay Sales	Hamilton Bay Apts	Hamilton Minuteman	Hamilton on Main Apts	Dexter Park	Total
ASSETS										
Rental Properties	\$ 9,546,059	\$ 2,597,309	\$ 8,336,008	\$ 5,906,387	\$ 1,951,075	\$ 7,347,113	\$ 7,387,465	\$ 22,162,035	\$ 114,310,012	\$ 179,543,463
Cash & Cash Equivalents	117	12,916	10,019	33	24,382	12,951	14,118	281	815,551	890,367
Rent Receivable	92,005	19,146	879	9,278	904	1,819	2,222	12,054	172,623	310,930
Due from Investment Properties	15,000	15,000								
Real Estate Tax Escrow	93,721		38,291	60,411		86,578	44,193	102,117	620,090	1,045,402
Prepaid Expenses & Other Assets	98,142	789	91,158	86,663	189,773	93,298	81,180	526,254	1,178,633	2,345,890
Fin & Leasing Fees	78,711	9,607	18,371	25,928	7,836	34,195	20,911	23,158	473,908	692,624
Total Assets	\$ 9,923,756	\$ 2,639,767	\$ 8,494,727	\$ 6,088,700	\$ 2,173,969	\$ 7,575,954	\$ 7,550,088	\$ 22,825,899	\$ 117,570,816	\$ 184,843,676
LIABILITIES AND PARTNERS CAPITAL										
Mortgage Notes Payable	\$ 8,487,795	\$ 2,157,699	\$ 7,059,569	\$ 5,000,000	\$ 1,668,000	\$ 4,750,000	\$ 5,500,000	\$ 15,952,852	\$ 89,914,000	\$ 140,489,916
Due from Investment Properties	15,000	15,000								
Accts Pay & Acc Exp	50,338	5,826	71,853	48,147	17,514	6,661	83,378	200,478	750,820	1,235,011
Adv Rent										
Pmt & Sec Dep	149,104		111,782	70,319	21,446	83,709	63,134	244,407	1,764,347	2,508,248
Total Liabilities	8,687,238	2,178,525	7,243,205	5,118,466	1,706,960	4,840,370	5,646,512	16,397,734	92,429,166	144,248,175
Partners Capital	1,236,518	461,242	1,251,523	970,234	467,010	2,735,584	1,903,576	6,428,164	25,141,650	40,595,500
Total Liabilities & Capital	\$ 9,923,756	\$ 2,639,767	\$ 8,494,727	\$ 6,088,700	\$ 2,173,969	\$ 7,575,954	\$ 7,550,088	\$ 22,825,899	\$ 117,570,816	\$ 184,843,676
Partners Capital										
NERA 50%	\$ 618,259	\$ 230,621	\$ 625,761	\$ 485,117	\$ 233,505	\$ 1,367,792	\$ 951,788	\$ 3,214,082		7,726,925
NERA 40%									\$ 10,056,660	10,056,660
										\$ 17,783,585
Total units/condominiums										
Apartments	48		40	175	120	48	42	148	409	1,030
Commercial	1	1		1						3

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Total	49	1	40	176	120	48	42	148	409	1,033
Units to be retained	49	1	40	49		48	42	148	409	786
Units to be sold				127	120					247
Units sold through October 24, 2011				127	105				0	232
Unsold units					15					15
Unsold units with deposits for future sale as of October 24, 2011					0					

Table of Contents**Summary financial information for the nine months ended September 30, 2011**

	Hamilton Essex 81	Hamilton Essex Development	345 Franklin	Hamilton 1025	Hamilton Bay Sales	Hamilton Bay Apts	Hamilton Minuteman	Hamilton on Main	Dexter Park	Total
Revenues										
Rental Income	\$ 940,881	\$ 214,196	\$ 848,631	\$ 607,752	\$ 178,514	\$ 643,284	\$ 589,360	\$ 1,856,189	\$ 8,588,891	\$ 14,467,697
Laundry and Sundry Income	11,870		921				579	15,698	74,713	103,782
	952,750	214,196	849,552	607,752	178,514	643,284	589,939	1,871,887	8,663,605	14,571,479
Expenses										
Administrative	12,818	1,084	20,368	7,812	3,529	14,587	9,431	25,019	122,470	217,119
Depreciation and Amortization	317,669	5,048	333,321	194,986	67,248	235,595	244,550	724,597	4,276,964	6,399,978
Management Fees	36,596	8,280	34,012	24,089	7,320	25,268	23,493	74,867	188,088	422,011
Operating	91,167		53,705	1,148	170	378	30,360	285,510	699,466	1,161,904
Renting	7,667		14,979	9,338	1,750	6,755	2,676	12,791	133,066	189,022
Repairs and Maintenance	103,137	3,050	57,642	224,152	55,285	221,000	76,312	267,194	750,306	1,758,077
Taxes and Insurance	139,499	36,014	71,706	108,471	34,328	117,288	68,306	242,777	959,720	1,778,109
	708,553	53,476	585,734	569,995	169,630	620,870	455,128	1,632,755	7,130,079	11,926,220
Income Before Other Income	244,197	160,720	263,818	37,757	8,884	22,414	134,812	239,132	1,533,525	2,645,259
Other Income (Loss)										
Interest Income			37	66	378				3,219	3,701
Interest Expense	(376,847)	(46,036)	(371,875)	(216,310)	(73,297)	(202,923)	(237,765)	(636,029)	(3,824,313)	(5,985,397)
Gain on Sale of Real Estate										
Interest income from Note					6,926					6,926
Other Income (Expenses)	(2,331)		(5,375)	(3,621)		(2,271)		(1,152)		(14,751)
	(379,178)	(46,036)	(377,213)	(219,865)	(65,993)	(205,194)	(237,765)	(637,181)	(3,821,094)	(5,989,521)
Net Income (Loss)	\$ (134,981)	\$ 114,684	\$ (113,395)	\$ (182,108)	\$ (57,110)	\$ (182,781)	\$ (102,953)	\$ (398,049)	\$ (2,287,569)	\$ (3,344,262)
Net Loss - NERA 50%	\$ (67,491)	\$ 57,342	\$ (56,697)	\$ (91,054)	\$ (28,555)	\$ (91,390)	\$ (51,476)	\$ (199,024)		(528,346)
NERA 40%								\$ (915,028)		(915,028)
										\$ (1,443,374)

Table of Contents**Summary financial information for the three months ended September 30, 2011**

	Hamilton Essex 81	Hamilton Essex Development	345 Franklin	Hamilton 1025	Hamilton Bay Sales	Hamilton Bay Apts	Hamilton Minuteman	Hamilton Main	Hamilton on Dexter Park	Total
Revenues										
Rental Income	\$ 374,433	\$ 73,146	\$ 288,169	\$ 206,445	\$ 59,375	\$ 217,079	\$ 196,335	\$ 625,370	\$ 2,848,930	\$ 4,889,281
Laundry and Sundry Income	4,668		(307)				579	4,910	24,900	34,750
	379,102	73,146	287,862	206,445	59,375	217,079	196,914	630,280	2,873,830	4,924,031
Expenses										
Administrative	1,548	255	11,388	2,934	1,728	7,003	1,387	9,334	55,971	91,548
Depreciation and Amortization	106,099	1,922	112,028	65,582	22,416	78,381	81,891	242,907	1,429,538	2,140,763
Management Fees	11,495	2,760	11,372	8,182	2,416	8,516	7,589	24,345	64,815	141,490
Operating	26,096		17,674	280	75	159	9,789	75,443	205,322	334,838
Renting	487		4,572	2,209	675	2,166	899	5,740	34,679	51,427
Repairs and Maintenance	47,258		21,504	74,625	17,377	65,890	32,238	99,953	306,231	665,076
Taxes and Insurance	45,262	12,195	24,438	34,912	11,548	38,775	24,754	82,541	353,478	627,903
	238,245	17,132	202,976	188,724	56,235	200,889	158,546	540,263	2,450,035	4,053,046
Income Before Other Income	140,856	56,014	84,886	17,721	3,140	16,190	38,368	90,016	423,795	870,985
Other Income (Loss)										
Interest Income			12	22	108					142
Interest Expense	(126,599)	(15,349)	(123,353)	(72,913)	(24,715)	(68,403)	(80,190)	(213,905)	(1,288,240)	(2,013,666)
Gain on Sale of Real Estate										
Interest income from Note					2,145					2,145
Other Income (Expenses)	(2,331)		(5,375)	(3,621)		(2,271)		(1,152)		(14,751)
	(128,930)	(15,349)	(128,716)	(76,513)	(22,462)	(70,674)	(80,190)	(215,057)	(1,288,240)	(2,026,130)
Net Income (Loss)	\$ 11,926	\$ 40,665	\$ (43,830)	\$ (58,792)	\$ (19,322)	\$ (54,484)	\$ (41,822)	\$ (125,040)	\$ (864,445)	\$ (1,155,144)
Net Loss - NERA										
50%	\$ 5,963	\$ 20,333	\$ (21,915)	\$ (29,396)	\$ (9,661)	\$ (27,242)	\$ (20,911)	\$ (62,520)		(145,350)
NERA 40%									\$ (345,778)	(345,778)
										\$ (491,128)

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In May 2011, the FASB issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). The objective of ASU 2011-04 is to provide common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the amendments do not result in a change in the application of the requirements in ASC Topic 820 *Fair Value Measurement*. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. The Partnership does not expect this standard to have a material impact on the Partnership's consolidated financial statements.

NOTE 16. DISCONTINUED OPERATIONS AND SALES OF REAL ESTATE

The following tables summarize income from discontinued operations and realized gain and loss on the sale of rental property held for sale for the nine months ended September 30, 2012 and 2011:

	September 30, 2012	September 30, 2011
Total Revenues	\$	\$ 349,548
Operating and other expenses		235,441
Depreciation and amortization		32,540
		267,981
Income from discontinued operations	\$	\$ 81,567

Gain on the sale of Avon Street in the second quarter of 2011:

Sale price	\$	8,750,000
Net book value		(594,035)
Expense of sale		(435,506)
Gain on the sale of real estate	\$	7,720,459

NOTE 17. SUBSEQUENT EVENTS

From October 1, 2012 through November 9, 2012, the Partnership purchased a total of 942 Depository Receipts. The average price was \$28.85 per receipt or \$865.50 per unit. The total cost was \$28,344. The Partnership is required to repurchase 7.5 Class B Units and 0.39 General Partnership units at a cost of \$6,454 and \$340, respectively.

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

Forward Looking Statements

Certain information contained herein includes forward looking statements, which are made pursuant to the safe harbor provisions of the Private Securities Liquidation Reform Act of 1995 (the "Act"). Forward looking statements in this report, or which management may make orally or in written form from time to time, reflect management's good faith belief when those statements are made, and are based on information currently available to management. Caution should be exercised in

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interpreting and relying on such forward looking statements, the realization of which may be impacted by known and unknown risks and uncertainties, events that may occur subsequent to the forward looking statements, and other factors which may be beyond the Partnership's control and which can materially affect the Partnership's actual results, performance or achievements for 2012 and beyond. Should one or more of the risks or uncertainties mentioned below materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. We expressly disclaim any responsibility to update our forward looking statements, whether as a result of new information, future events or otherwise. Accordingly, investors should use caution in relying on past forward looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

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

As anticipated, the third quarter results reflect both last year's leasing gains as well as the current strong demand for rental units yielding revenue increases at the majority of the properties. These increases will be reflected over the next four quarters. Pending an early winter, we expect the 2012 results to continue to exceed 2011. Similar to the second quarter, the portfolio experienced higher tenant retention in the third quarter than it did for the same period in 2011. In addition to revenue growth, the portfolio continues to experience flat to lower operating expenses. External factors include, the rental housing supply/demand imbalance, limited additions to supply, national and local growth in the renter population, a historic shift in homebuyer sentiment and a local employment base stronger than the national average. These factors combined to produce an overall growth in rental income of 5.2% as compared to 2011. Management expects these increases to continue through the remainder of the 2012 calendar year. The Partnership properties and Joint Ventures have experienced a vacancy rate of 3% or less, with many properties 100% occupied as of November 1, 2012. Management believes that increasing student applications and a continued decline in the local unemployment rate will keep occupancy high for the next 18-24 months and revenue growth will continue to be positive during this time frame.

Eliminating depreciation from the comparative operations, operating expenses for the nine months ended September 30, 2012 compared to 2011 have actually declined by 1.3%. Contributing to this has been the dramatic reduction in leasing commissions of approximately \$76,000 (48%), a decrease in snow removal and heating costs due to an unseasonably warm winter in 2012 as well as management's capitalization of energy conversion and purchasing power. The high tenant retention experience has also resulted in no growth in the repairs and maintenance expenses for 2012 year to date.

Management expects to refinance at least \$28m in long term debt for 62 Boylston Street and Westgate Apartments during the first quarter 2013. It is anticipated that the interest rates for these new mortgages will be lower than the current mortgage interest rates. Management will be considering raising additional debt with these new loans in balance with its future acquisition goals and to take advantage of the historically low interest rate environment. Management believes the existing trading range for the stock is worthy of continuing its Depositary Receipt Repurchase Program. As such, during the third quarter 14,932 Class A Depositary Receipts were acquired during at a cost of \$432,849, 119 Class B units were acquired at a cost of \$102,663 and 6 General Partner Units were acquired at a cost of \$5,403. When appropriate, Management will continue to repurchase shares per its repurchase program as submitted to the SEC. Management continues to weigh investment alternatives against cash liquidity and the current depositary receipt price. Management believes the recent increase in distributions in 2012 is appropriate given the sustained performance of the portfolio and the expected future earnings that the Partnership will be realizing.

The Stock Repurchase Program that was initiated in 2007 has repurchased 1,211,945 Depositary Receipts through September 2012 or 39% of the outstanding Class A Depositary Receipts at September 30, 2012.

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The Partnership has retained The Hamilton Company (Hamilton) to manage and administer the Partnership s and Joint Ventures Properties. Hamilton is a full-service real estate management company, which has legal, construction, maintenance, architectural, accounting and administrative departments. The Partnership s properties represent approximately 36% of the total properties and 45% of the residential properties managed by Hamilton. Substantially all of the other properties managed by Hamilton are owned, wholly or partially, directly or indirectly, by Harold Brown. The Partnership s Second Amended and Restated Contract of Limited Partnership (the Partnership Agreement) expressly provides that the general partner may employ a management company to manage the properties, and that such management company may be paid a fee of up to 4% of rental receipts for administrative and management services (the Management Fee). The Partnership pays Hamilton the full annual Management Fee, in monthly installments.

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At September 30, 2012, Harold Brown, his brother Ronald Brown and the President of Hamilton, Carl Valeri, collectively own approximately 40% of the Depositary Receipts representing the Partnership Class A Units (including Depositary Receipts held by trusts for the benefit of such persons' family members). Harold Brown also controls 75% of the Partnership's Class B Units, 75% of the capital stock of NewReal, Inc. (NewReal), the Partnership's sole general partner, and all of the outstanding stock of Hamilton. Ronald Brown also owns 25% of the Partnership's Class B Units and 25% of NewReal's capital stock. In addition, Ronald Brown is the President and director of NewReal and Harold Brown is NewReal's Treasurer and a director. One of NewReal's directors, Roberta Ornstein also owns immaterial amounts of the Partnership's Class A Receipts. The 75% of the issued and outstanding Class B Units of the Partnership, controlled by Harold Brown, are owned by HBC Holdings LLC, an entity of which he is the manager.

In addition to the Management Fee, the Partnership Agreement further provides for the employment of outside professionals to provide services to the Partnership and allows Hamilton 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.

Residential tenants generally sign a one year lease. During the first nine months of 2012, tenant renewals were approximately 69% with an average rental increase of approximately 3%, new leases accounted for approximately 31% with rental rate increases of approximately 6%. Tenant improvements were approximately \$988,000 in 2012, compared to approximately \$868,000 in 2011, an increase of approximately \$120,000.

Hamilton accounted for approximately 5% of the repair and maintenance expense paid for by the Partnership for the nine months ended September 30, 2012 and 2011. Of the funds paid to Hamilton for this purpose, the great majority was to cover the cost of services provided by the Hamilton maintenance department, including plumbing, electrical, carpentry services, and snow removal for those properties close to Hamilton's headquarters. 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 \$148,000 (82%) and approximately \$137,000 (71%) of the legal services paid for by the Partnership during the nine months ended September 30, 2012 and 2011, respectively.

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

The Partnership requires that three bids be obtained for construction contracts in excess of \$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. During the nine months ended September 30, 2012, Hamilton provided the Partnership approximately \$20,000 in construction and architectural services, compared to \$44,000 for the nine months ended September 30, 2011.

Prior to 1991, the Partnership employed an outside, unaffiliated company to perform its bookkeeping and accounting functions. Since that time, such services have been provided by Hamilton's accounting staff, which consists of approximately 14 people. During the nine months ended September 30, 2012 and 2011, Hamilton charged the Partnership \$31,250 per quarter (\$125,000 per year) for bookkeeping and accounting services.

For more information on related party transactions, see Note 3 to the Consolidated Financial Statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the consolidated financial statements, in accordance with accounting principles generally accepted in the United States of America, requires the Partnership to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. The Partnership regularly and continually evaluates its estimates, including those related to acquiring, developing and assessing the carrying values of its real estate properties and its investments in and advances to joint ventures. The Partnership bases its estimates on historical

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

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

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

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

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

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

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expectations of lease renewals. The value of in-place leases are amortized to expense over the remaining initial terms of the respective leases. The value of tenant relationship intangibles are amortized to expense over the anticipated life of the relationships.

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

Impairment: On an annual basis management assesses whether there are any indicators that the value of the Partnership's rental properties may be impaired. A property's value is impaired only if management's estimate of the aggregate

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

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

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

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

RESULTS OF OPERATIONS

Three Months Ended September 30, 2012 and September 30, 2011

The Partnership and its Subsidiary Partnerships earned income before interest expense, loss from investments in unconsolidated joint ventures and interest income of approximately \$3,145,000 for the three months ended September 30, 2012, compared to approximately \$2,983,000 for the three months ended September 30, 2011, an increase of approximately \$162,000 (5.4%).

The rental activity is summarized as follows:

	Occupancy Date	
	November 1, 2012	October 24, 2011
Residential		
Units	2,270	2,270

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Vacancies	68	50
Vacancy rate	3.0%	2.2%
Commercial		
Total square feet	110,949	110,949
Vacancy	5,500	0
Vacancy rate	4.9%	0%

	Rental Income (in thousands)			
	Three Months Ended September 30,			
	2012		2011	
	Total Operations	Continuing Operations	Total Operations	Continuing Operations
Total rents	\$ 8,783	\$ 8,783	\$ 8,544	\$ 8,544
Residential percentage	90%	90%	90%	90%
Commercial percentage	10%	10%	10%	10%
Contingent rentals	\$ 167	\$ 167	\$ 168	\$ 168

Table of Contents**Three Months Ended September 30, 2012 compared to the Three months ended September 30, 2011:**

	Three Months Ended September 30,			
	2012	2011	Dollar Change	Percent Change
Revenues				
Rental income	\$ 8,782,896	\$ 8,543,908	\$ 238,988	2.8%
Laundry and sundry income	92,700	104,618	(11,918)	(11.4)%
	8,875,596	8,648,526	227,070	2.6%
Expenses				
Administrative	463,687	411,836	51,851	12.6%
Depreciation and amortization	1,571,942	1,603,529	(31,587)	(2.0)%
Management fee	360,578	347,833	12,745	3.7%
Operating	731,618	774,998	(43,380)	(5.6)%
Renting	48,483	63,482	(14,999)	(23.6)%
Repairs and maintenance	1,487,272	1,421,084	66,188	4.7%
Taxes and insurance	1,066,739	1,042,470	24,269	2.3%
	5,730,319	5,665,232	65,087	1.1%
Income Before Other Income and Discontinued Operations	3,145,277	2,983,294	161,983	5.4%
Other Income (Expense)				
Interest income	554	895	(341)	(38.1)%
Interest expense	(1,953,645)	(2,033,082)	79,437	(3.9)%
(Loss) from investments in unconsolidated joint ventures	(417,733)	(491,128)	73,395	(14.9)%
	(2,370,824)	(2,523,315)	152,491	(6.0)%
Income From Continuing Operations Discontinued Operations	774,453	459,979	314,474	68.4%
Income from discontinued operations		(2,245)	2,245	(100.0)%
Gain on the sale of real estate		(808)	808	(100.0)%
		(3,053)	3,053	(100.0)%
Net Income	\$ 774,453	\$ 456,926	\$ 317,527	69.5%

Rental income from continuing operations for the three months ended September 30, 2012 was approximately \$8,783,000, compared to approximately \$8,544,000 for the three months ended September 30, 2011, an increase of approximately \$239,000 (2.8%). The factors which can be attributed to this increase in rental income are rental rate increases and a drop in the vacancy rates at the majority of the Partnership properties. The Partnership Properties with the most significant increases in rental income include 62 Boylston Street, Westgate Woburn, 1144 Commonwealth Avenue, Westside Colonial, North Beacon and School Street with increases of approximately \$81,000, \$43,000, \$35,000, \$23,000, \$21,000, and \$16,000, respectively. Included in rental income is contingent rentals collected on commercial properties. Contingent rentals include such charges as bill backs of common area maintenance charges, real estate taxes, and utility charges. These rental income increases are offset by a decrease in rental income at Cypress Street of approximately \$77,000 due to the loss of tenants in 2012.

Operating expenses from continuing operations for the three months ended September 30, 2012 were approximately \$5,730,000 compared to approximately \$5,665,000 for the three months ended September 30, 2011, an increase of approximately \$65,000 (1.1%). The most significant factors contributing to this increase is an increase in repairs and maintenance expenses of approximately \$66,000 (4.7%) due to continued repairs to the properties to maintain occupancy, an increase in administrative expenses of approximately \$52,000 (12.6%) due to an increase in professional fees, an increase in taxes and insurance of approximately \$24,000 (2.3%) due to an increase in insurance recovery loss, and an increase in the management fee of approximately \$13,000 (3.7%) due to the increase in rental income.

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These increases are offset by decreases in operating expenses of approximately \$43,000 (5.6%) due to a decrease in utility charges in 2012 compared to the same period in 2011, a decrease in renting expenses of approximately \$15,000 (23.6%) due to decreases in rental commissions, advertising and rental concessions caused by the high occupancy rate at the majority of the Partnership properties, and a decrease in depreciation and amortization expense of approximately \$32,000 (2.0%) due to assets being fully depreciated in 2011.

Interest expense for the three months ended September 30, 2012 was approximately \$1,954,000 compared to approximately \$2,033,000 for the three months ended September 30, 2011, a decrease of approximately \$79,000 (3.9%). This decrease is due to a lower average level of debt outstanding in 2012 compared to 2011.

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At September 30, 2012, the Partnership has between a 40% and 50% ownership interests in nine different Investment Properties. See Note 14 to the Consolidated Financial Statements for a detail of the financial information of each Investment Property.

As described in Note 14 to the Consolidated Financial Statements, the Partnership's share of the net loss from the Investment Properties was approximately \$418,000 for the three months ended September 30, 2012, compared to approximately \$491,000 for the three months ended September 30, 2011, a decrease in the loss of approximately \$73,000 (14.9%). Included in the loss for the three months ended September 30, 2012 is depreciation and amortization expense of approximately \$927,000. The allocable loss for the three months ended September 30, 2012 associated with the investment in Dexter Park is approximately \$287,000 of which approximately \$577,000 is depreciation and amortization.

Interest income for the three months ended September 30, 2012 was approximately \$600 compared to approximately \$900 for the three months ended September 30, 2011, a decrease of approximately \$300. This decrease is due to a drop in interest rates.

In June 2011, the Partnership sold the Avon Street Apartments located in Malden, Massachusetts. The net income from Avon Street for the three months ended September 30, 2011 was approximately \$3,000 which is included in discontinued operations.

As a result of the changes discussed above, net income for the three months ended September 30, 2012 was approximately \$774,000 compared to approximately \$457,000 for the three months ended September 30, 2011, an increase of approximately \$317,000 (69.5%).

Nine Months Ended September 30, 2012 Compared to Nine Months ended September 30, 2011

The Partnership and its subsidiary Partnerships earned income before other income and discontinued operations of approximately \$9,523,000 for the nine months ended September 30, 2012, compared to approximately \$8,324,000 for the nine months ended September 30, 2011, an increase of approximately \$1,199,000 (14.4%). The following is a summary of the Partnership's operations for the nine months ended September 30, 2012 and 2011:

	Nine Months Ended September 30,		Dollar Change	Percent Change
	2012	2011		
Revenues				
Rental income	\$ 26,245,505	\$ 24,957,004	\$ 1,288,501	5.2%
Laundry and sundry income	282,889	318,059	(35,170)	(11.1)%
	26,528,394	25,275,063	1,253,331	5.0%
Expenses				
Administrative	1,362,276	1,237,424	124,852	10.1%
Depreciation and amortization	4,632,173	4,412,144	220,029	5.0%
Management fee	1,078,188	1,032,069	46,119	4.5%
Operating	2,684,760	3,104,722	(419,962)	(13.5)%
Renting	148,602	260,819	(112,217)	(43.0)%
Repairs and maintenance	3,857,918	3,800,836	57,082	1.5%

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Taxes and insurance	3,241,830	3,103,215	138,615	4.5%
	17,005,747	16,951,229	54,518	0.3%
Income Before Other Income and Discontinued Operations	9,522,647	8,323,834	1,198,813	14.4%
Other Income (Expense)				
Interest income	1,746	3,129	(1,383)	(44.2)%
Interest expense	(5,853,647)	(5,962,907)	109,260	(1.8)%
(Loss) from investments in unconsolidated joint ventures	(1,222,077)	(1,443,374)	221,297	(15.3)%
	(7,073,978)	(7,403,152)	329,174	(4.4)%
Income From Continuing Operations	2,448,669	920,682	1,527,987	166.0%
Discontinued Operations				
Income from discontinued operations		81,567	(81,567)	(100.0)%
Gain on the sale of real estate		7,720,459	(7,720,459)	(100.0)%
		7,802,026	(7,802,026)	(100.0)%
Net Income	\$ 2,448,669	\$ 8,722,708	\$ (6,274,039)	(71.9)%

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Rental income from continuing operations for the nine months ended September 30, 2012 was approximately \$26,246,000 compared to approximately \$24,957,000 for the nine months ended September 30, 2011, an increase of approximately \$1,289,000 (5.2%). The factors which can be attributed to this increase include the acquisition of the Battle Green Apartments in June 2011 which resulted in an increase in rental income of approximately \$404,000. In addition, the following properties experienced rental income increases: 62 Boylston Street, Westgate Woburn, 1144 Commonwealth Avenue, Westside Colonial, 140 North Beacon Street and School Street with increases of approximately \$194,000, \$144,000, \$64,000, \$62,000, \$55,000 and \$55,000 respectively. These increases are offset by decreases in commercial property rental income of approximately \$129,000 at Cypress Street due to vacancies at the property and a decrease of approximately \$28,000 at Linewt due to the restructuring of the tenant lease in an effort to maintain occupancy.

Expenses from continuing operations for the nine months ended September 30, 2012 were approximately \$17,006,000 compared to approximately \$16,951,000 for the nine months ended September 30, 2011, an increase of approximately \$55,000 (0.3%). The expenses with the most significant increases include an increase in depreciation and amortization of approximately \$220,000 (5.0%), an increase in taxes and insurance of approximately \$139,000 (4.5%), an increase in administrative expenses of approximately \$125,000 (10.1%), an increase in repairs and maintenance expenses of approximately \$57,000 (1.5%) and an increase in the management fee of approximately \$46,000 (4.5%). The increase in depreciation and amortization expense is due to the acquisition of the Battle Green Apartments in June 2011 resulting in nine months of depreciation for 2012 versus one quarter in 2011. The reason for the increases in the other expenses is discussed in the section for the results for the three months ended September 30, 2012.

These increases in expenses are offset by a decrease in operating expense of approximately \$420,000 (13.5%) and a decrease in renting expenses of approximately \$112,000 (43.0%). The decrease in operating expense is primarily due to the decreasing snow removal costs resulting from the markedly warm winter. The other reasons for these decreases are discussed in the section for the results for the three months ended September 30, 2012.

At September 30, 2012, the Partnership has between a 40 - 50% ownership interest in nine Investment Properties. See a description of these properties included in Note 14 to the Consolidated Financial Statements for a detail of the financial information of each Investment Property.

As described in Note 14 to the Consolidated Financial Statements, the Partnership's share of loss from these Investment Properties was approximately \$1,222,000 for the nine months ended September 30, 2012 compared to a loss of approximately \$1,443,000 for the nine months ended September 30, 2011, a decrease of approximately \$221,000 (15.3%). Included in the loss for the nine months ended September 30, 2012 is depreciation and amortization of approximately \$2,768,000.

As previously discussed, the Partnership sold the Avon Street Apartments in June 2011. The net income from Avon Street was approximately \$82,000 for the nine months ended September 30, 2011 and the gain on the sale of Avon Street was approximately \$7,720,000. The income and gain are included in discontinued operations.

Interest income for the nine months ended September 30, 2012 was approximately \$1,700 compared to approximately \$3,100 for the nine months ended September 30, 2011, a decrease of approximately \$1,400 (44.2%).

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As a result of the changes discussed above, net income for the nine months ended September 30, 2012 was approximately \$2,449,000 compared to approximately \$8,723,000 for the nine months ended September 30, 2011, a decrease of approximately \$6,274,000 (71.9%).

LIQUIDITY AND CAPITAL RESOURCES

The Partnership's principal source of cash during 2012 and 2011 was the collection of rents and refinancing of Partnership properties. The majority of cash and cash equivalents of \$5,322,287 at September 30, 2012 and \$4,050,157 at December 31, 2011 were held in interest bearing accounts at creditworthy financial institutions.

This increase of \$1,272,130 at September 30, 2012 is summarized as follows:

	Nine Months Ended September 30,	
	2012	2011
Cash provided by operating activities	\$ 8,443,616	\$ 5,920,882
Cash (used in) investing activities	(868,502)	(2,723,402)
Cash (used in) provided by financing activities	(2,740,176)	634,688
Repurchase of Depositary Receipts, Class B and General Partner Units	(610,294)	
Distributions paid	(2,952,514)	(2,761,176)
Net increase in cash and cash equivalents	\$ 1,272,130	\$ 1,070,992

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The cash provided by operating activities is primarily due to the collection of rents less cash operating expenses. The increase in cash provided by operating activities is due to the increase in rent from continuing operations in 2012 compared to the comparable period in 2011. The increase in cash used in financing activities is substantially due to the principal payments of \$1,668,600 of the note payable ; the decrease in the cash used in investing activities is due to the acquisition of the Battle Green Apartments, offset by the sale of Avon Street Apartments, both events occurring in 2011. In 2012, the Partnership purchased Depositary Receipts, and Class B and General Partnership Units for a total cost of \$610,294. The Partnership did not buy any receipts in 2011.

During 2012, the Partnership and its Subsidiary Partnerships completed improvements to certain of the Properties at a total cost of approximately \$1,641,000. These improvements were funded from cash reserves and, to some extent, escrow accounts established in connection with the financing or refinancing of the applicable Properties. These sources have been adequate to fully fund improvements. The most significant improvements were made at Westgate Woburn, 62 Boylston Street, Hamilton Oaks, Olde English, and 1144 Commonwealth Avenue at a cost of approximately \$341,000, \$211,000, \$208,000, \$164,000 and \$97,000 respectively. The Partnership plans to invest an additional \$174,000 in capital improvements in 2012.

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

On May 18, 2011, the Partnership sold Avon Street Apartments, a 66 unit residential apartment complex located at 130 Avon Street, Malden, Massachusetts. The sales price was \$8,750,000, which resulted in a gain of approximately \$7,720,000. The net proceeds of the sale, of approximately \$5,444,000 were held by a qualified intermediary in order for the Partnership to structure a tax free exchange in accordance with Section 1031 of the IRS code. This tax free exchange was completed with the purchase of Battle Green Apartments.

During the nine months ended September 30, 2012, the Partnership purchased 16,985 Depositary Receipts for a cost of \$488,627, 135 Class B Units for a cost of \$115,585 and 7 General Partnership Unit for a cost of \$6,083 for a total cost of \$610,294. There were no purchases of Depositary Receipts in 2011.

On October 28, 2009, the Partnership borrowed approximately \$7,168,000 with an interest rate of 6% from HBC Holdings, LLC, an entity owned by Harold Brown and his affiliates (HBC). The term of the loan was four years with a provision requiring payment in whole or in part upon demand by HBC with six months notice. The Partnership could also prepay the note without penalty. On August 17, 2010, HBC gave six months written notice to the Partnership requesting a principal pay down of \$2,500,000. During the fourth quarter of 2010, the Partnership paid HBC \$2,500,000 as requested. During 2011, the Partnership elected to make principal payments of \$1,000,000 on August 1, 2011, \$1,000,000 on October 1, 2011 and \$1,000,000 on December 15, 2011 reducing the loan balance to \$1,668,600. In February 2012, the Partnership elected to make an additional principal payment of \$750,000 to HBC Holdings and the balance of \$918,600 was paid in April 2012. The interest paid during the nine months ended September 30, 2012 and 2011 was approximately \$18,960 and \$141,000, respectively.

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During the nine months ended September 30, 2012, the Partnership received distributions of approximately \$772,000 from the investment properties of which \$562,000 was from Dexter Park. In 2012, Dexter Park is required to increase principal payments on its mortgage by approximately \$1,000,000. The Partnership's share of this increased amortization is

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approximately \$400,000. Distributions from Dexter Park for the nine months ended September 30, 2012 were \$562,000 compared to \$650,000 for the nine months ended September 30, 2011.

The Partnership approved quarterly distributions of \$7.50 per Unit (\$0.25 per Receipt) payable on March 31, 2012, June 30, 2012, September 30, 2012 and December 31, 2012.

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

Off-Balance Sheet Arrangements-Joint Venture Indebtedness

As of September 30, 2012, the Partnership had between a 40%-50% ownership interest in nine Joint Ventures, all of which have mortgage indebtedness. We do not have control of these partnerships and therefore we account for them using the equity method of consolidation. At September 30, 2012, our proportionate share of the non-recourse debt related to these investments was approximately \$60,478,000. See Note 14 to the Consolidated Financial Statements.

Contractual Obligations

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

Factors That May Affect Future Results

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

- The Partnership depends on the real estate markets where its properties are located, primarily in Eastern Massachusetts, and these markets may be adversely affected by local economic market conditions, which are beyond the Partnership's control.

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- The Partnership is subject to the general economic risks affecting the real estate industry, such as dependence on tenants' financial condition, the need to enter into new leases or renew leases on terms favorable to tenants in order to generate rental revenues and our ability to collect rents from our tenants.
- The Partnership is also impacted by changing economic conditions making alternative housing arrangements more or less attractive to the Partnership's tenants, such as the interest rates on single family home mortgages and the availability and purchase price of single family homes in the Greater Boston metropolitan area.
- The Partnership is subject to significant expenditures associated with each investment, such as debt service payments, real estate taxes, insurance and maintenance costs, which are generally not reduced when circumstances cause a reduction in revenues from a property.
- The Partnership is subject to increases in heating and utility costs that may arise as a result of economic and market conditions and fluctuations in seasonal weather conditions.
- Civil disturbances, earthquakes and other natural disasters may result in uninsured or underinsured losses.
- Actual or threatened terrorist attacks may adversely affect our ability to generate revenues and the value of our properties.
- Financing or refinancing of Partnership properties may not be available to the extent necessary or desirable, or may not be available on favorable terms.
- The Partnership properties face competition from similar properties in the same market. This competition may

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affect the Partnership's ability to attract and retain tenants and may reduce the rents that can be charged.

- Given the nature of the real estate business, the Partnership is subject to potential environmental liabilities. These include environmental contamination in the soil at the Partnership's or neighboring real estate, whether caused by the Partnership, previous owners of the subject property or neighbors of the subject property, and the presence of hazardous materials in the Partnership's buildings, such as asbestos, lead, mold and radon gas. Management is not aware of any material environmental liabilities at this time.

- Insurance coverage for and relating to commercial properties is increasingly costly and difficult to obtain. In addition, insurance carriers have excluded certain specific items from standard insurance policies, which have resulted in increased risk exposure for the Partnership. These include insurance coverage for acts of terrorism and war, and coverage for mold and other environmental conditions. Coverage for these items is either unavailable or prohibitively expensive.

- Market interest rates could adversely affect market prices for Class A Partnership Units and Depositary Receipts as well as performance and cash flow.

- Changes in income tax laws and regulations may affect the income taxable to owners of the Partnership. These changes may affect the after-tax value of future distributions.

- The Partnership may fail to identify, acquire, construct or develop additional properties; may develop or acquire properties that do not produce a desired or expected yield on invested capital; may be unable to sell poorly-performing or otherwise undesirable properties quickly; or may fail to effectively integrate acquisitions of properties or portfolios of properties.

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

- Competition for acquisitions may result in increased prices for properties.

- Any weakness identified in the Partnership's internal controls as part of the evaluation being undertaken could have an adverse effect on the Partnership's business.

- Ongoing compliance with Sarbanes-Oxley Act of 2002 may require additional personnel or systems changes

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of September 30, 2012, the Partnership, its Subsidiary Partnerships and the Investment Properties collectively have approximately \$277,071,000 in long-term debt, substantially all of which pays interest at fixed rates. Accordingly, the fair value of these debt instruments is affected by changes in market interest rates. These mortgages mature through 2026. For information regarding the fair value and maturity dates of these debt obligations, see Item 2. Properties and Note 5 to the Consolidated Financial Statements Mortgage Notes Payable, Note 12 to the Consolidated Financial Statements Fair Value Measurements and Note 14 to the Consolidated Financial Statements Investment in Unconsolidated Joint Ventures.

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

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. We have evaluated the design and operation of our disclosure controls and procedures to determine whether they are effective in ensuring that the disclosure of required information is timely made in accordance with the Securities Exchange Act of 1934 (Exchange Act) and the rules and forms of the Securities and Exchange Commission. This evaluation was made under the supervision and with the participation of management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) of our General Partner as of the end of the period covered by

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this quarterly report on Form 10-Q. The CEO and CFO have concluded, based on their reviews, that our disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), are effective to ensure that information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

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

PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There were no material changes to the risk factors disclosed in our annual report on Form 10K for the year ended December 31, 2011.

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

(a) None

(b) None

(c) Issuer Purchases of Equity Securities during the third Quarter of 2012:

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Period	Average Price Paid	Depository Receipts		Remaining number of Depository Receipts that may be purchased Under the Plan (as Amended)
		Purchased as Part of Publicly Announced Plan		
July 1 - 30, 2012	\$ 26.10	91		302,896
August 1- 31, 2012	\$ 27.62	360		302,536
September 1 - 30, 2012	\$ 29.00	14,481		288,055
Total		14,932		

On August 20, 2007, NewReal, Inc., the General Partner authorized an equity repurchase program (Repurchase Program). Under the terms of the Repurchase Program, the Partnership may purchase up to 1,500,000 Depository Receipts from the start of the program in 2007 through March 31, 2015. The Repurchase Program requires the Partnership to repurchase a proportionate number of Class B Units and General Partnership Units in connection with any repurchases of any Depository Receipts by the Partnership based upon the 80%, 19%, and 1% fixed distribution percentages of the holders of the Class A, Class B and General Partner Units under the Partnership's Second Amended and Restate Contract of Limited Partnership. Repurchases of Depository Receipts or Partnership Units pursuant to the Repurchase Program may be made by the Partnership from time to time in its sole discretion in open market transactions or in privately negotiated transactions. From August 20, 2007 through September 30, 2012, the Partnership has repurchased 1,211,945 Depository Receipts at an average price of \$24.59 per receipt (or \$737.70 per underlying Class A Unit), 1,859 Class B Units and 98 General Partnership Units, at an average price of \$604.92 per Unit, totaling approximately \$31,150,000 including brokerage fees paid by the Partnership.

From October 1, 2012 through November 9, 2012, the Partnership purchased a total of 942 Depository Receipts. The average price was \$28.85 per receipt or \$865.50 per unit. The total cost was \$28,344. The Partnership is required to repurchase 7.5 Class B Units and 0.39 General Partnership units at a cost of \$6,454 and \$340, respectively.

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Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosure

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

See the exhibit index below.

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SIGNATURES

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

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP

By: /s/ NEWREAL, INC.

Its General Partner

By: /s/ RONALD BROWN
Ronald Brown, *President*

Dated: November 13, 2012

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EXHIBIT INDEX

Exhibit No.	Description of Exhibit
(31.1)	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Ronald Brown, Principal Executive Officer of the Partnership (President and a Director of NewReal, Inc., sole General Partner of the Partnership)
(31.2)	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Harold Brown, Principal Financial Officer of the Partnership (Treasurer and a Director of NewReal, Inc., sole General Partner of the Partnership)
(32.1)	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Ronald Brown, Principal Executive Officer of the Partnership (President and a Director of NewReal, Inc., sole General Partner of the Partnership) and Harold Brown, Principal Financial Officer of the Partnership (Treasurer and a Director of NewReal, Inc., sole General Partner of the Partnership).
(101.1)	The following financial statements from New England Realty Associates Limited Partnership Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 formatted in XBRL: (i) Consolidated Balance Sheets (unaudited), (ii) Consolidated Statements of Income (unaudited), (iii) Consolidated Statements of Changes in Partners' Capital (unaudited), (iv) Consolidated Statements of Cash Flows (unaudited), and (v) Notes to Consolidated Financial Statements (unaudited).