

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP

Form 10-Q

November 08, 2018

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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, 2018

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

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

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted 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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 November 6, 2018, there were 99,509 of the registrant’s Class A units (2,985,282 Depositary Receipts) of limited partnership issued and outstanding and 23,633 Class B units issued and outstanding.

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NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP

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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, 2017 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, 2017.

The results of operations for the three and nine month periods ended September 30, 2018 are not necessarily indicative of the results to be expected for the entire fiscal year or any other period.

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NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	September 30, 2018	December 31, 2017
ASSETS	(Unaudited)	
Rental Properties	\$ 233,317,528	\$ 207,153,794
Cash and Cash Equivalents	9,234,900	7,238,905
Rents Receivable	666,603	592,045
Real Estate Tax Escrows	495,615	488,396
Prepaid Expenses and Other Assets	4,461,642	4,122,052
Investments in Unconsolidated Joint Ventures	1,804,747	7,212,044
Total Assets	\$ 249,981,035	\$ 226,807,236
LIABILITIES AND PARTNERS' CAPITAL		
Mortgage Notes Payable	252,781,336	233,221,258
Line of Credit	5,000,000	17,000,000
Distribution and Loss in Excess of Investment in Unconsolidated Joint Venture	18,001,998	2,806,319
Accounts Payable and Accrued Expenses	4,520,149	3,340,509
Advance Rental Payments and Security Deposits	5,758,960	5,754,327
Total Liabilities	286,062,443	262,122,413
Commitments and Contingent Liabilities (Notes 3 and 9)	—	—
Partners' Capital 124,386 and 124,386 units outstanding in 2018 and 2017 respectively	(36,081,408)	(35,315,177)
Total Liabilities and Partners' Capital	\$ 249,981,035	\$ 226,807,236

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,	
	2018	2017	2018	2017
Revenues				
Rental income	\$ 14,425,908	\$ 13,321,770	\$ 42,872,671	\$ 38,636,732
Laundry and sundry income	119,625	100,035	362,120	316,471
	14,545,533	13,421,805	43,234,791	38,953,203
Expenses				
Administrative	526,100	525,125	1,613,891	1,513,869
Depreciation and amortization	3,980,177	3,664,997	11,549,208	9,647,751
Management fee	590,908	544,399	1,740,766	1,599,647
Operating	1,101,251	1,051,910	4,186,091	3,797,935
Renting	312,579	301,423	586,019	482,157
Repairs and maintenance	2,951,750	2,678,780	7,081,073	6,187,673
Taxes and insurance	1,866,463	1,727,218	5,628,501	5,083,674
	11,329,228	10,493,852	32,385,549	28,312,706
Income Before Other Income (Expense)	3,216,305	2,927,953	10,849,242	10,640,497
Other Income (Expense)				
Interest income	64	416	301	1,132
Interest expense	(3,090,471)	(3,046,818)	(9,331,023)	(8,113,197)
Income from investments in unconsolidated joint ventures	534,431	990,169	1,073,692	2,721,231
	(2,555,976)	(2,056,233)	(8,257,030)	(5,390,834)
Net Income	\$ 660,329	\$ 871,720	\$ 2,592,212	\$ 5,249,663
Net Income per Unit	\$ 5.31	\$ 7.01	\$ 20.84	\$ 42.20
Weighted Average Number of Units Outstanding	124,386	124,387	124,386	124,394

See notes to consolidated financial statements.

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NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN PARTNER'S CAPITAL

(Unaudited)

Units Limited Class A	Class B	General Partnership	Subtotal	Treasury Units	Total	Partner's Capital			
						Limited Class A	Class B	General Partnership	Total
144,180	34,243	1,802	180,225	55,816	124,409	\$ (27,407,924)	\$ (6,475,961)	\$ (340,840)	\$ (34,224,725)
—	—	—	—	—	—	(2,686,919)	(638,143)	(33,586)	(3,358,648)
—	—	—	—	23	(23)	(34,038)	(8,084)	(426)	(42,548)
—	—	—	—	—	—	4,199,730	997,436	52,497	5,249,663
144,180	34,243	1,802	180,225	55,839	124,386	\$ (25,929,151)	(6,124,752)	(322,355)	(32,376,258)
144,180	34,243	1,802	180,225	55,839	124,386	\$ (28,280,285)	\$ (6,683,147)	\$ (351,745)	\$ (35,315,277)
—	—	—	—	—	—	(2,686,755)	(638,104)	(33,584)	(3,358,443)
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	2,073,770	492,520	25,922	2,592,212
144,180	34,243	1,802	180,225	55,839	124,386	\$ (28,893,270)	\$ (6,828,731)	\$ (359,407)	\$ (36,081,408)

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,	
	2018	2017
Cash Flows from Operating Activities		
Net income	\$ 2,592,212	\$ 5,249,663
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	11,549,208	9,647,751
Amortization of deferred financing costs	161,226	141,404
(Income) from investments in joint ventures	(1,073,692)	(2,721,231)
Change in operating assets and liabilities		
Distribution from unconsolidated joint ventures	7,436,515	4,901,250
(Increase) Decrease in rents receivable	(74,558)	8,579
Increase (Decrease) in accounts payable and accrued expense	1,179,640	(552,022)
Decrease in insurance recovery receivable	—	311,218
(Increase) in real estate tax escrow	(7,219)	(37,357)
(Increase) in prepaid expenses and other assets	(951,272)	(221,852)
Increase in advance rental payments and security deposits	4,633	201,385
Total Adjustments	18,224,481	11,679,125
Net cash provided by operating activities	20,816,693	16,928,788
Cash Flows From Investing Activities		
Distribution in excess of investment in unconsolidated joint ventures	15,347,796	468,420
(Investment) in unconsolidated joint ventures	(1,107,646)	(2,604,170)
Improvement of rental properties	(3,058,648)	(4,135,472)
Purchase of rental property	(13,213,294)	(45,571,670)
Net cash (used in) investing activities	(2,031,792)	(51,842,892)
Cash Flows from Financing Activities		
Payment of financing costs	(148,004)	(176,250)
Proceeds of mortgage notes payable	83,684	22,250,000
Proceeds of note payable	—	41,000,000
Payment of line of credit	(12,000,000)	(16,000,000)
Principal payments of mortgage notes payable	(1,366,143)	(1,308,735)
Stock buyback	—	(42,548)
Distributions to partners	(3,358,443)	(3,358,648)
Net cash (used in) provided by financing activities	(16,788,906)	42,363,819
Net Increase in Cash and Cash Equivalents	1,995,995	7,449,715
Cash and Cash Equivalents, at beginning of period	7,238,905	7,463,697

Cash and Cash Equivalents, at end of period	\$ 9,234,900	\$ 14,913,412
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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, 2018

(Unaudited)

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Line of Business: New England Realty Associates Limited Partnership (“NERA” or the “Partnership”) was organized in Massachusetts in 1977. NERA and its subsidiaries own 27 properties which include 19 residential buildings; 4 mixed use residential, retail and office buildings; 3 commercial buildings and individual units at one condominium complex. These properties total 2,711 apartment units, 19 condominium units and 108,043 square feet of commercial space. Additionally, the Partnership also owns a 40 - 50% interest in 8 residential and mixed use properties consisting of 695 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 financial statements have been prepared in conformity with GAAP. The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. These estimates and assumptions are based on management’s historical experience that are believed to be reasonable at the time. However, because future events and their effects cannot be determined with certainty, the determination of estimates requires the exercise of judgement. The Partnership’s critical accounting policies are those which require assumptions to be made about matters that are highly uncertain. Different estimates could have a material effect on the Partnership’s financial results. Judgements and uncertainties affecting the application of these policies and estimates may result in materially different amounts being reported under different conditions and circumstances.

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 eight limited liability companies (the “Investment Properties” or “Joint Ventures”) in which the Partnership has a 40 - 50% ownership interest. The consolidated group is referred to as the “Partnership”. Minority interests are not recorded, since they are insignificant. All significant intercompany accounts and transactions are eliminated in consolidation. The Partnership accounts for its investment in the above-mentioned Investment Properties using the equity method of consolidation. (See Note 14: Investment in Unconsolidated Joint Ventures.)

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

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

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variable interest entity's performance; and (2) the obligation to absorb losses and rights to receive the returns from VIE that would be significant to the VIE.

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

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

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

Rental Properties: Rental properties are stated at cost less accumulated depreciation. Maintenance and repairs are charged to expense as incurred; improvements and additions which improve or extend the life of the assets are capitalized. When assets are retired or otherwise disposed of, the cost of the asset and related accumulated depreciation is eliminated from the accounts, and any gain or loss on such disposition is included in income. Fully

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

Other intangible assets acquired include amounts for in-place lease values and tenant relationship values, which are based on management's evaluation of the specific characteristics of each tenant's lease and the Partnership's overall relationship with the respective tenant. Factors to be considered by management in its analysis of in-place lease values include an estimate of carrying costs during hypothetical expected lease-up periods considering current market

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conditions, and costs to execute similar leases at market rates during the expected lease-up periods, depending on local market conditions. In estimating costs to execute similar leases, management considers leasing commissions, legal and other related expenses. Characteristics considered by management in valuing tenant relationships include the nature and extent of the Partnership's existing business relationships with the tenant, growth prospects for developing new business with the tenant, the tenant's credit quality and expectations of lease renewals. The value of in-place leases are amortized to expense over the remaining initial terms of the respective leases. The value of tenant relationship intangibles are amortized to expense over the anticipated life of the relationships.

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

Leasing Fees: 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.

Deferred Financing Costs: Costs incurred in obtaining financing are capitalized and amortized over the term of the related indebtedness. Deferred financing costs are presented in the balance sheet as a direct deduction from the carrying value of the debt liability to which they relate, except deferred financing costs related to the revolving credit facility, which are presented in prepaid expenses and other assets. In all cases, amortization of such costs is included in interest expense and was approximately \$161,000 and \$141,000 for the nine months ended September 30, 2018 and 2017, respectively.

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 2018 or 2017 other than net income as reported.

Income (Loss) 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: Partner's Capital).

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 2018 or 2017. The Partnership makes its temporary cash investments with high-credit quality financial institutions. At September 30, 2018, 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 0.20%. At September 30, 2018 and December 31, 2017, respectively approximately \$10,658,000, and \$8,898,000 of cash and cash equivalents, and security deposits included in prepaid expenses and other assets exceeded federally insured amounts.

Advertising Expense: Advertising is expensed as incurred. Advertising expense was \$164,066 and \$153,287 for the nine months ended September 30, 2018 and 2017, respectively.

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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, 2018 and 2017 there was no capitalized interest.

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

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

NOTE 2. RENTAL PROPERTIES

As of September 30, 2018, the Partnership and its Subsidiary Partnerships owned 2,711 residential apartment units in 23 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, 2018, 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 eight residential and mixed use complexes (the “Investment Properties”) at September 30, 2018 with a total of 695 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, 2018	December 31, 2017	Useful Life
Land, improvements and parking lots	\$ 73,067,362	\$ 65,087,214	15 - 40 years
Buildings and improvements	222,320,052	201,844,565	15 - 40 years
Kitchen cabinets	14,411,246	12,338,627	5 - 10 years
Carpets	10,500,091	8,802,831	5 - 10 years
Air conditioning	641,079	641,079	5 - 10 years
Laundry equipment	403,211	263,275	5 - 7 years
Elevators	1,839,590	1,139,296	20 - 40 years
Swimming pools	444,629	444,629	10 - 30 years
Equipment	12,964,426	11,163,864	5 - 30 years
Motor vehicles	216,260	216,260	5 years
Fences	48,463	37,465	5 - 15 years
Furniture and fixtures	11,610,844	9,390,021	5 - 7 years
Smoke alarms	582,471	582,471	5 - 7 years
Total fixed assets	349,049,724	311,951,597	
Less: Accumulated depreciation	(115,732,196)	(104,797,803)	
	\$ 233,317,528	\$ 207,153,794	

On March 29, 2018, Hamilton Highlands, LLC (“Hamilton Highlands”), a wholly-owned subsidiary of New England Realty Associates Limited Partnership (the “Partnership”), purchased Webster Green Apartments, a 79 unit apartment complex located at 755-757 Highland Avenue, Needham, Massachusetts. The sale was consummated pursuant to the terms of a Purchase and Sale Contract by and between Webster Green Apartments, LLC, the prior owner of the Property, and The Hamilton Companies, Inc., an affiliate of the Partnership, which agreement was subsequently assigned by Hamilton to Hamilton Highlands.

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In connection with the purchase, the Hamilton Highlands entered into an Assumption and Modification Agreement dated as of March 29, 2018 with Brookline Bank pursuant to which the Hamilton Highlands assumed a note dated as of January 14, 2016 in the principal amount of \$21,500,000 and various agreements relating to the Note including a Mortgage, Assignment of Leases and Rents, Security Agreement, Fixture Filing dated as of January 14, 2016. The purchase price was \$34,500,000, consisting of a payment of approximately \$13,000,000 in cash and the assumption of the note and mortgage. Hamilton Highlands funded \$5,000,000 of the cash portion of the purchase price out of cash reserves and the remaining \$8,000,000 by drawing on an existing line of credit. The closing costs were approximately \$141,000. From the purchase price, the Partnership allocated approximately \$502,000 for in- place leases, and approximately \$40,000 to the value of tenant relationships. These amounts are being amortized over 12 and 24 months respectively.

On July 6, 2017, Woodland Park Partners, LLC, a newly formed subsidiary of the Partnership, purchased the Woodland Park Apartments, a 126-unit apartment complex located at 264-290 Grove Street, Newton, Massachusetts (the "Property"), for a purchase price of \$45,600,000. The closing costs were approximately \$64,000. To fund the purchase price, the Partnership borrowed \$25,000,000 under its outstanding line of credit with KeyBank, NA, and \$16,000,000 from HBC Holdings, LLC, a Massachusetts limited liability company controlled by Harold Brown. The loan from HBC Holdings was to mature on July 16, 2018, with interest only at 4.75%. The balance of the purchase price was funded by the Partnership's cash reserves. The line of credit was paid down to \$17,000,000 and the loan payable to HBC Holdings was paid in full through the refinancing of Woodland Park and partnership cash reserves by December 31, 2017. From the purchase price, the Partnership allocated approximately \$541,000 for in- place leases, and approximately \$42,000 to the value of tenant relationships. These amounts are being amortized over 12 and 24 months respectively.

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 \$1,741,000 and \$1,600,000 for the nine months ended September 30, 2018 and 2017, 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, 2018 and 2017, approximately \$1,016,000 and \$609,000, was charged to NERA for legal, accounting, construction,

maintenance, brokerage fees, rental and architectural services and supervision of capital improvements. Of the 2018 expenses referred to above, approximately \$296,000 consisted of repairs and maintenance, \$260,000 of administrative expense and \$34,000 for brokerage fees. Approximately \$427,000 of expenses for construction, architectural services and supervision of capital projects were capitalized in rental properties. Additionally in 2018, the Hamilton Company received approximately \$967,000 from the Investment Properties of which approximately \$493,000 was the management fee, approximately \$178,000 for brokerage fees, approximately \$42,000 was for maintenance services, approximately \$50,000 was for administrative services and approximately \$204,000 for architectural services and supervision of capital projects. The management fee is equal to 4% of gross receipts of rental income on the majority of investment properties and 2% on Dexter Park.

The Partnership reimburses the management company for the payroll and related expenses of the employees who work at the properties. Total reimbursement was approximately \$2,480,000 and \$2,508,000 for the nine months ended September 30, 2018 and 2017, respectively. The Management Company maintains a 401K plan for all eligible employees whereby the employees may contribute the maximum allowed by law. The plan also provides for discretionary contributions by the employer. There were no employer contributions during 2018 and 2017.

Bookkeeping and accounting functions are provided by the Management Company's accounting staff, which consists of approximately 14 people. During the nine months ended September 30, 2018 and 2017, the Management Company charged the Partnership \$93,750 (\$125,000 per year) for bookkeeping and accounting services included in administrative expenses above.

The former President of the Management Company performed asset management consulting services and received an asset management fee from the Partnership. The Partnership did not have a written agreement with this

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individual. During the nine months ended September 30, 2018 and 2017 this individual received fees of \$37,500. At June 29, 2018, the individual resigned his position.

The Partnership has invested in eight limited partnerships, which have invested in mixed use residential apartment complexes. The Partnership has a 40% to 50% ownership interest in each investment property. The other investors are Harold Brown, the President of the Management Company and five other employees of the Management Company. Harold Brown's ownership interest is between 43.2% and 56%. See Note 14 for a description of the properties and their operations.

NOTE 4. OTHER ASSETS

Approximately \$2,524,000, and \$2,420,000 of security deposits are included in prepaid expenses and other assets at September 30, 2018 and December 31, 2017, respectively. The security deposits and escrow accounts are restricted cash.

Included in prepaid expenses and other assets at September 30, 2018 and December 31, 2017 is approximately \$445,000 and \$357,000, respectively, held in escrow to fund future capital improvements.

Intangible assets on the acquisitions of Webster Green Apartments and Woodland Park Apartments are included in prepaid expenses and other assets. Intangible assets are approximately \$286,000 net of accumulated amortization of approximately \$824,000 and approximately \$302,000 net of accumulated amortization of approximately \$280,000 at September 30, 2018 and December 31, 2017, respectively.

Financing fees in association with the line of credit of approximately \$90,000 and \$121,000 are net of accumulated amortization of approximately \$39,000 and \$7,000 at September 30, 2018 and December 31, 2017 respectively.

NOTE 5. MORTGAGE NOTES PAYABLE

At September 30, 2018 and December 31, 2017, 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, 2018, the interest rates on these loans ranged from 3.76% to 5.81%, payable in monthly installments aggregating approximately \$1,139,000 including principal, to various dates through 2029. The majority of the mortgages are subject to prepayment penalties. At September 30, 2018, the weighted average interest rate on the above mortgages was 4.59%. The effective rate of

4.67% 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.

Financing fees of approximately \$1,485,000 and \$1,531,000 are net of accumulated amortization of approximately \$1,232,000 and \$1,149,000 at September 30, 2018 and December 31, 2017, respectively.

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

Approximate annual maturities at September 30, 2018 are as follows:

2019—current maturities	\$ 1,903,000
2020	4,328,000
2021	2,343,000
2022	2,657,000
2023	80,041,000
Thereafter	162,904,000
	254,176,000
Less: unamortized deferred financing costs	(1,395,000)
	\$ 252,781,000

On March 29, 2018, Hamilton Highlands, LLC (Hamilton Highlands), a wholly-owned subsidiary of New England Realty Associates Limited Partnership, purchased Webster Green Apartments, a 79 unit apartment complex

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located at 755-757 Highland Avenue, Needham, Massachusetts. The purchase was consummated pursuant to the terms of a Purchase and Sale Contract by and between Webster Green Apartments, LLC, the prior owner of the Property, and The Hamilton Companies, Inc., an affiliate of the Partnership, which agreement was subsequently assigned to Hamilton Highlands.

In connection with the purchase, Hamilton Highlands entered into an Assumption and Modification Agreement dated as of March 29, 2018 with Brookline Bank pursuant to which Hamilton Highlands assumed a note dated as of January 14, 2016 in the principal amount of \$21,500,000 and various agreements relating to the Note including a Mortgage, Assignment of Leases and Rents, Security Agreement, Fixture Filing dated as of January 14, 2016. The purchase price was \$34,500,000, consisting of a payment of approximately \$13,000,000 in cash and the assumption of the Note and Mortgage. Hamilton Highlands funded \$5,000,000 of the cash portion of the purchase price out of cash reserves and the remaining \$8,000,000 by drawing on an existing line of credit. The closing costs were approximately \$141,000.

On March 12, 2018, the loan for 659 Worcester Road was refinanced with Brookline Bank in the amount of \$6,083,683. The loan is due on March 12, 2023. Interest only until March 12, 2021. Commencing in April, 2021, monthly payments of principal and interest in the amount of \$32,427 are being made based on an assumed amortization period of thirty (30) years. The loan bears a fixed annual rate equal to 4.87%. The proceeds of the new loan were used to pay off the existing loan. The closing costs were approximately \$69,000

On September 29, 2017, Woodland Park Partners LLC, (“Woodland Park”), entered into a Multifamily Loan and Security Agreement with KeyBank National Association . The Loan Agreement provides for a term loan in the principal amount of \$22,250,000. The Loan is due on October 1, 2027, unless the due date is accelerated in accordance with the Loan’s terms, with interest only through October 1, 2022. Borrowings under the Loan will bear interest at the rate of 3.79%. The proceeds of the loan were used to pay off the loan from HBC Holdings, LLC and pay down the line of credit.

Line of Credit

On July 31, 2014, the Partnership entered into an agreement for a \$25,000,000 revolving line of credit. The term of the line was for three years with a floating interest rate equal to a base rate of the greater of (a) the Prime Rate (b) the Federal Funds Rate plus one-half of one percent per annum, or (c) the LIBOR Rate for a period of one month plus 1% per annum, plus the applicable margin of 2.5%.

The agreement originally expired on July 31, 2017, and was extended until October 31, 2020. The costs associated with the line of credit extension were approximately \$128,000. The Partnership borrowed \$25,000,000 to partially fund the purchase of Woodland Park. It paid down \$8,000,000 through the financing of the property and its’ cash reserve. As of December 31, 2017, the credit line had an outstanding balance of \$17,000,000.

On March 29, 2018, the Partnership drew down \$8,000,000 in conjunction with the purchase of Webster Green Apartments. On June 4, 2018, the Partnership paid down the credit line by \$16,000,000 as a result of the proceeds

from the refinancing of Hamilton Park Towers, LLC, also known as Dexter Park. In July, 2018, the Partnership paid down the line of credit by \$4,000,000. As of September 30, 2018, the credit line had an outstanding balance of \$5,000,000. Subsequent to the end of the quarter, the line was paid down to \$2,000,000.

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

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

The Partnership paid fees to secure the line of credit. Any unused balance of the line of credit is subject to a fee ranging from 15 to 20 basis points per annum. The Partnership paid approximately \$15,000 in fees for the nine months ended September 30, 2018.

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The line of credit agreement has several covenants, such as providing cash flow projections and compliance certificates, as well as other financial information. The covenants include, but are not limited to the following: maintain a leverage ratio that does not exceed 65%; aggregate increase in indebtedness of the subsidiaries and joint ventures should not exceed \$15,000,000; maintain a tangible net worth (as defined in the agreement) of a minimum of \$150,000,000; a minimum ratio of net operating income to total indebtedness of at least 9.5%; debt service coverage ratio of at least 1.6 to 1, as well as other items. The Partnership is in compliance with these covenants as of September 30, 2018.

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, 2018, amounts received for prepaid rents of approximately \$2,219,000 are included in cash and cash equivalents, and security deposits of approximately \$2,524,000 are included in prepaid expenses and other assets and are restricted cash.

NOTE 7. PARTNERS' CAPITAL

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

In 2018, the Partnership approved a quarterly distribution to its Class A Limited Partners and holders of Depositary Receipts of record as of March 15, 2018, June 15, 2018, and September 15, 2018, and payable on March 31, 2018, June 28, 2018, and September 28, 2018 of \$9.00 per unit (\$0.30 per receipt).

In 2017, regular quarterly distributions of \$9.00 per unit (\$0.30 per receipt) were paid in March, June, September and December. In December 2017, the Partnership paid a special distribution of \$28.50 per unit (\$0.95 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,
2018	2017

Net Income per Depositary Receipt	\$ 0.69	\$ 1.41
Distributions per Depositary Receipt	\$ 0.90	\$ 0.90

NOTE 8. TREASURY UNITS

Treasury Units at September 30, 2018 are as follows:

Class A	44,671
Class B	10,609
General Partnership	559
	55,839

On August 20, 2007, NewReal, Inc., the General Partner authorized an equity repurchase program (“Repurchase Program”) under which the Partnership was permitted to purchase, over a period of twelve months, up to 300,000 Depositary Receipts (each of which is one-tenth of a Class A Unit). Over time, the General Partner has authorized increases in the equity repurchase program. On March 10, 2015, the General Partner authorized an increase in the Repurchase Program from 1,500,000 to 2,000,000 Depositary Receipts and extended the Program for an additional five years from March 31, 2015 until March 31, 2020. The Repurchase Program requires the Partnership to repurchase a proportionate number of Class B Units and General Partner Units in connection with any repurchases of any Depositary

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Receipts by the Partnership based upon the 80%, 19% and 1% fixed distribution percentages of the holders of the Class A, Class B and General Partner Units under the Partnership’s Second Amended and Restate Contract of Limited Partnership. Repurchases of Depositary Receipts or Partnership Units pursuant to the Repurchase Program may be made by the Partnership from time to time in its sole discretion in open market transactions or in privately negotiated transactions. From August 20, 2007 through September 30, 2018, the Partnership has repurchased 1,365,306 Depositary Receipts at an average price of \$27.14 per receipt (or \$814.20 per underlying Class A Unit), 3,072 Class B Units and 162 General Partnership Units, both at an average price of \$926.26 per Unit, totaling approximately \$40,274,000 including brokerage fees paid by the Partnership.

During the nine months ended September 30, 2018, the Partnership did not purchase any Depositary Receipts.

NOTE 9. COMMITMENTS AND CONTINGENCIES

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

NOTE 10. RENTAL INCOME

During the nine months ended September 30, 2018, approximately 93% 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 7% was related to commercial properties, which have minimum future annual rental income on non-cancellable operating leases at September 30, 2018 as follows:

	Commercial Property Leases
2019	\$ 2,613,000
2020	2,185,000
2021	1,879,000
2022	1,040,000
2023	622,000
Thereafter	872,000
	\$ 9,211,000

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 \$632,000 and \$495,000 for the nine months ended September 30, 2018 and 2017 respectively. Staples and Trader Joes, tenants at Staples Plaza, are approximately 32% of the total commercial rental income.

The following information is provided for commercial leases:

Through September 30,	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	
2019	\$ 564,242	27,747	17	19	%
2020	165,607	4,033	5	6	%
2021	856,606	36,895	9	29	%
2022	519,523	16,343	6	18	%
2023	405,072	12,546	6	14	%
2024	251,627	6,629	2	9	%
2025	—	—	—	—	%
2026	—	—	—	—	%
2027	—	—	—	—	%
2028	—	—	—	—	%
2029	142,450	3,850	1	5	%
Totals	\$ 2,905,127	108,043	46	100	%

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Rents receivable are net of an allowance for doubtful accounts of approximately \$478,000 and \$644,000 at September 30, 2018 and December 31, 2017. Included in rents receivable at September 30, 2018 is approximately \$117,000 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 at 62 Boylston Street and Staples Plaza in Massachusetts.

Rents receivable at September 30, 2018 also includes approximately \$128,000 representing the deferral of rental concession primarily related to the residential properties.

NOTE 11. CASH FLOW INFORMATION

During the nine months ended September 30, 2018 and 2017, cash paid for interest was approximately \$9,240,000, and \$7,802,000 respectively. Cash paid for state income taxes was approximately \$52,000 and \$61,000 during the nine months ended September 30, 2018 and 2017 respectively. Additionally, the Partnership was involved in a non-cash financing activity of approximately \$21,000,000 in connection with the purchase of Webster Green Apartments.

NOTE 12. FAIR VALUE MEASUREMENTS

Fair Value Measurements on a Recurring Basis

At September 30, 2018 and December 31, 2017, 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, 2018 and December 31, 2017 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, 2018 and December 31, 2017, we estimated the fair value of our mortgages payable and other notes based upon quoted market prices for the same (Level 1) or similar (Level 2) issues when current quoted market prices are available. We estimated the fair value of our secured mortgage debt that does not have current quoted market prices available by discounting the future cash flows using rates currently available to us for debt with similar terms and maturities (Level 3). The differences in the fair value of our debt from the carrying value are the result of differences in interest rates and/or borrowing spreads that were available to us at September 30, 2018 and December 31, 2017, 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, accounts receivable, other assets, investment in partnerships, accounts payable, advance rents and security deposits: fair value approximates the carrying value of such assets and liabilities.
- For mortgage notes payable: fair value is generally based on estimated future cash flows, which are discounted using the quoted market rate from an independent source for similar obligations. Refer to the table below for the carrying amount and estimated fair value of such instruments.

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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, 2018	*	\$ 252,781,336	\$ 229,410,544
At December 31, 2017	*	\$ 233,221,258	\$ 237,895,708
Investment Properties			
At September 30, 2018	*	\$ 166,513,618	\$ 147,722,584
At December 31, 2017	*	\$ 124,145,012	\$ 125,519,974

* Net of unamortized deferred financing costs

Disclosure about fair value of financial instruments is based on pertinent information available to management as of September 30, 2018 and December 31, 2017. 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, 2018 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 is includable in its partners' tax returns and is different than financial statement income because of tax free exchanges, accelerated depreciation, different tax lives, timing differences related to prepaid rents, allowances and intangible assets related to significant acquisitions and the treatment of certain expenditures. Taxable income of approximately \$5,438,000 was approximately \$1,500,000 less than statement income for the year ended December 31, 2017. The primary reason for the difference was due to accelerated depreciation, tax free exchange and other differences in the treatment of certain expenditures. Substantial property acquisitions could also cause a significant difference between book and tax depreciation. The cumulative tax basis of the Partnership's real estate at December 31, 2017 is approximately \$1,532,000 less than the statement basis. The primary reasons for the lower tax basis were tax free exchanges, and accelerated depreciation. The Partnership's tax basis in its joint venture investments is approximately \$5,000,000 more 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.

While accelerated depreciation deductions are allowable, future tax law changes may significantly affect taxable income.

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

In the normal course of business the Partnership or one of its subsidiaries is subject to examination by federal, state and local jurisdictions in which it operates, where applicable. As of September 30, 2018, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the year 2014 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 interest in each investment. The other investors are Harold Brown, the former President of the Management Company and five other employees of the Management Company. Harold Brown's ownership interest is between 43.2% and 56%, with the balance owned by the others. A description of each investment is as follows:

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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, Hamilton Park Towers LLC, referred to as Dexter Park, or Hamilton 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 matured in 2019. The mortgage called for interest only payments for the first two years of the loan and amortized over 30 years thereafter.

On May 31, 2018, Hamilton Park Towers, LLC (“Hamilton Park”), entered into a Mortgage Note with John Hancock Life Insurance Company (U.S.A.) in the principal amount of \$125,000,000. Interest only payments on the Note is payable on a monthly basis at a fixed interest rate of 3.99% per annum, and the principal amount of the Note is due and payable on June 1, 2028. The Note is secured by a mortgage on the Dexter Park apartment complex located at 175 Freeman Street, Brookline, Massachusetts pursuant to a Mortgage, Assignment of Leases and Rents and Security Agreement dated May 31, 2018. The Note is guaranteed by the Partnership and HBC Holdings, LLC pursuant to a Guaranty Agreement dated May 31, 2018.

Hamilton Park used the proceeds of the loan to pay off an outstanding loan of approximately \$82,000,000 and distributed approximately \$41,200,000 to its’ owners. The Partnership’s share of the distribution was approximately \$16,500,000. As a result of the distribution, the carrying value of the investment fell below zero. The Partnership will continue to account for the investment using the equity method of accounting, although the Partnership has no legal obligation to fund its’ share of any future operating deficiencies as needed. In connection with this refinancing, the property incurred a defeasance charge of approximately \$3,830,000. Based on its’ ownership in the property, the Partnership incurred 40% of this charge, an expense of approximately \$1,532,000. This charge had a material effect on the 2018 net income.

At September 30, 2018, the balance on this mortgage before unamortized deferred financing costs is approximately \$125,000,000. 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 Joint Venture sold 120 units as condominiums and retained 48 units for long-term investment. In February 2007, the Joint Venture refinanced the 48 units with a new mortgage in the amount of \$4,750,000 with an interest rate of 5.57%, interest only for five years. The loan was to be amortized over 30 years thereafter and matured in March, 2017. On March 1, 2017, the mortgage balance was paid in full, with the Partnership contributing its share of the mortgage balance of approximately \$2,222,000. As of December 31, 2017, 29 units had been sold with a gain on the sales of approximately \$3,628,000. As of September 30, 2018, 3 additional units were under purchase and sale agreement, and the Partnership owned 4 units. 15 units were sold in the first nine months of 2018, resulting in a gain of approximately \$2,198,000. This investment is referred to as Hamilton Bay Apartments, LLC.

On March 7, 2005, the Partnership invested \$2,000,000 for a 50% ownership interest in a building comprising 48 apartments, one commercial space and a 50-car surface parking lot located in Boston, Massachusetts. The purchase price was \$14,300,000, with a \$10,750,000 mortgage. The Joint Venture planned to operate the building and initiate development of the parking lot. In June 2007, the Joint Venture 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 Joint Venture restructured the mortgages on both parcels at Essex 81. On September 28, 2015, Hamilton Essex Development, LLC paid off the outstanding mortgage balance of \$1,952,286. The Partnership made a capital contribution of \$978,193 to Hamilton Essex Development LLC for its share of the funds required for the transaction. Additionally, the Partnership made a capital contribution of \$100,000 to Hamilton Essex 81, LLC. On September 30, 2015, Hamilton Essex 81, LLC obtained a new 10 year mortgage in the amount of \$10,000,000, interest only at 2.18% plus the one month Libor rate. The proceeds of the note were used to pay off the existing mortgage of \$8,040,719 and the Partnership received a distribution of \$978,193 for its share of the excess proceeds. As a result of the distribution, the carrying value of the investment fell below zero. The Partnership will continue to account for this investment using the equity method of accounting. Although the Partnership has no legal obligation, the Partnership intends to fund its share of any future operating deficits if needed. 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. At September 30, 2018, the balance on this mortgage before unamortized deferred financing costs is approximately \$10,000,000.

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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 Joint Venture sold 127 of the units as condominiums and retained 49 units for long term investment. The Joint Venture obtained a new 10 year mortgage in the amount of \$5,000,000 on the units to be retained by the Joint Venture. The interest on the new loan was 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. On July 8, 2016, Hamilton 1025 LLC paid off the outstanding balance of the mortgage balance. The Partnership made a capital contribution of \$2,359,500 to Hamilton 1025, LLC for its share of the funds required for the transaction. 20 units were sold in the year ended December 31, 2017 with a gain on the sales of approximately \$2,380,000. As of September 30, 2018, 1 unit was under purchase and sales agreement and the Partnership owned 3 units. 15 units were sold in the first nine months of 2018, resulting in a gain of approximately \$1,715,000. 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 Joint Venture obtained a mortgage on the property in the amount of \$8,025,000 and returned \$3,775,000 to the Partnership. The Joint Venture obtained a new 10- year mortgage in the amount of \$5,500,000 in January 2007. The interest on the new loan was 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. On September 12, 2016, the property was refinanced with a 15 year mortgage in the amount of \$6,000,000, at 3.71%, interest only. The Joint Venture Partnership paid off the prior mortgage of approximately \$5,158,000 with the proceeds of the new mortgage and made a distribution of \$385,000 to the Partnership. The cost associated with the refinancing was approximately \$123,000. This investment is referred to as Hamilton Minuteman, LLC. At September 30, 2018, the balance on this mortgage before unamortized deferred financing costs is approximately \$6,000,000. This investment is referred to as Hamilton Minuteman, LLC. In 2018, the carrying value of the investment fell below zero. The Partnership will continue to account for this investment using the equity method of accounting, although the Partnership has no legal obligation to fund its share of any future operating deficiencies, if needed.

In August 2004, the Partnership invested \$8,000,000 for a 50% ownership interest in a 280 unit apartment complex located in Watertown, Massachusetts. The total purchase price was \$56,000,000. The Joint Venture sold 137 units as condominiums. The assets were combined with Hamilton on Main Apartments. 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. In August 2014, the property was refinanced with a 10 year mortgage in the amount of \$16,900,000 at 4.34% interest only. The Joint Venture paid off the prior mortgage of approximately \$15,205,000 with the proceeds of the new mortgage and distributed \$850,000 to the Partnership. The costs associated with the refinancing were approximately \$161,000. At September 30, 2018, the balance of the mortgage before unamortized deferred financing costs is approximately \$16,900,000. The investment is referred to as Hamilton on Main LLC. In 2018, the carrying value of the investment fell below zero. The Partnership will continue to account for this investment using the equity method of accounting, although the Partnership has no legal obligation to fund its share of any future operating deficiencies, if needed.

In November 2001, the Partnership invested approximately \$1,533,000 for a 50% ownership interest in a 40-unit apartment building in Cambridge, Massachusetts. In June 2013, the property was refinanced with a 15 year mortgage in the amount of \$10,000,000 at 3.87%, interest only for 3 years and is amortized on a 30-year schedule for the balance of the term. The Joint Venture paid off the prior mortgage of approximately \$6,776,000 with the proceeds of the new mortgage. After the refinancing, the Joint Venture made a distribution of \$1,610,000 to the Partnership. As a result of the distribution, the carrying value of the investment fell below zero. The Partnership will continue to account for this investment using the equity method of accounting. Although the Partnership has no legal obligation, the Partnership intends to fund its share of any future operating deficits if needed. At September 30, 2018, the balance of this mortgage before unamortized deferred financing costs is approximately \$9,601,000. This investment is referred to as 345 Franklin, LLC.

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Summary financial information as of September 30, 2018

	Hamilton Essex 81	Hamilton Essex Development	345 Franklin	Hamilton 1025	Hamilton Bay Apts	Hamilton Minuteman Apts	Hamilton on Main Apts	Dexter Park
	7,333,163	\$ 2,596,303	\$ 6,092,507	\$ 231,176	\$ 459,036	\$ 5,718,041	\$ 16,896,745	\$ 87,878,971
	116,301	101,948	56,599	57,985	52,371	89,079	275,344	1,391,714
	129,551	6,800	13,680	6,105	3,295	6,254	28,594	243,078
	69,794	—	50,280	—	0	33,038	104,618	0
	268,973	118,872	73,892	38,080	42,375	23,617	77,662	1,075,075
	7,917,782	\$ 2,823,923	\$ 6,286,958	\$ 333,346	\$ 557,077	\$ 5,870,029	\$ 17,382,963	\$ 90,588,838
	9,903,476	\$ —	\$ 9,535,846	\$ —	\$ —	\$ 5,893,955	\$ 16,805,030	\$ 124,375,311
	219,371	1,316	100,067	54,270	38,861	74,553	202,350	964,087
	289,586	—	239,839	8,440	1,965	118,562	402,612	2,345,031
	10,412,433	1,316	9,875,752	62,710	40,826	6,087,070	17,409,992	127,684,422
	(2,494,651)	2,822,607	(3,588,794)	270,636	516,251	(217,041)	(27,029)	(37,095,591)
	7,917,782	\$ 2,823,923	\$ 6,286,958	\$ 333,346	\$ 557,077	\$ 5,870,029	\$ 17,382,963	\$ 90,588,838
	50	%	50	%	50	%	50	%
	—	\$ 1,411,304	\$ —	\$ 135,318	\$ 258,126	\$ —	\$ —	\$ —
	(1,247,327)	\$ —	\$ (1,794,398)	\$ —	\$ —	\$ (108,522)	\$ (13,515)	\$ (14,838,231)
	48	—	40	175	48	42	148	409
	1	1	—	1	—	—	—	—

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49	1	40	176	48	42	148	409
49	1	40	1	—	42	148	409
—	—	—	175	48	—	—	—
—	—	—	173	44	—	—	—
—	—	—	2	4	—	—	—
—	—	—	—	3	—	—	—

Financial information for the nine months ended September 30, 2018

	Hamilton Essex 81	Hamilton Essex Development	345 Franklin	Hamilton 1025	Hamilton Bay Apts	Hamilton Minuteman Apts
Revenues						
Rental Income	\$ 1,221,779	\$ 168,608	\$ 1,171,913	\$ 91,719	\$ 63,968	\$ 804,611
Laundry and Sundry Income	10,570	—	3,547	—	—	(364)
	1,232,349	168,608	1,175,460	91,719	63,968	804,247
Expenses						
Administrative	17,850	6,452	22,582	4,606	10,553	5,505
Depreciation and Amortization	354,218	5,018	259,925	—	28,000	265,272
Management Fees	45,452	6,472	48,417	3,562	2,443	31,914
Operating	57,734	—	54,623	584	1,377	79,375
Renting	25,613	—	41,335	108	—	5,481
Repairs and Maintenance	121,920	7,928	107,766	91,461	74,821	83,902
Taxes and Insurance	187,018	48,614	107,916	39,169	31,275	94,751
	809,805	74,484	642,564	139,490	148,469	566,200
Income Before Other Income	422,544	94,124	532,896	(47,771)	(84,501)	238,047
Other Income (Loss)						
Interest Expense	(321,785)	—	(289,348)	(49)	(95)	(176,916)
Interest Income						
Gain on Sale of Real Estate	—	—	—	1,714,935	2,198,492	—
Other income (Expense)	—	—	—	—	—	—
	(321,785)	—	(289,348)	1,714,886	2,198,397	(176,916)
Net Income (Loss)	\$ 100,759	\$ 94,124	\$ 243,548	\$ 1,667,115	\$ 2,113,896	\$ 61,131
Net Income —NERA 50%	\$ 50,380	\$ 47,062	\$ 121,775	\$ 833,558	\$ 1,056,949	\$ 30,566
Net (Loss) —NERA 40%						

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Financial information for the three months ended September 30, 2018

	Hamilton Essex 81	Hamilton Essex Development	345 Franklin	Hamilton 1025	Hamilton Bay Apts	Hamilton Minuteman Apts	Hamilton on Main Apts
Revenues							
Rental Income	\$ 403,744	\$ 60,752	\$ 379,821	\$ 21,357	\$ 18,525	\$ 275,672	\$ 847,720
Laundry and Sundry Income	3,186	—	786	—	—	39	9,583
	406,930	60,752	380,607	21,357	18,525	275,711	857,303
Expenses							
Administrative	4,541	437	9,388	2,036	2,128	1,125	10,789
Depreciation and Amortization	120,236	3,689	87,166	—	6,000	89,430	258,281
Management Fees	16,743	2,158	15,618	948	522	11,052	33,222
Operating	17,701	—	17,704	397	187	19,000	58,789
Renting	14,563	—	36,118	—	—	1,173	6,054
Repairs and Maintenance	35,741	586	60,855	22,888	16,987	38,478	164,154
Taxes and Insurance	61,829	15,417	35,747	8,301	5,703	32,100	109,200
	271,354	22,287	262,596	34,570	31,527	192,358	640,484
Income Before Other Income	135,576	38,465	118,011	(13,213)	(13,002)	83,353	216,820
Other Income (Loss)							
Interest Expense	(113,864)	—	(95,873)	(2)	(20)	(59,507)	(193,666)
Interest Income	—	—	—	—	—	—	—
Gain on Sale of Real estate	—	—	—	409,521	447,183	—	—
Other Income (Expense)	—	—	—	—	—	—	—
	(113,864)	—	(95,873)	409,519	447,163	(59,507)	(193,666)
Net Income	\$ 21,712	\$ 38,465	\$ 22,138	\$ 396,306	\$ 434,161	\$ 23,846	\$ 23,182
Net Income —NERA 50%	\$ 10,856	\$ 19,233	\$ 11,069	\$ 198,153	\$ 217,080	\$ 11,923	\$ 11,591
Net Income —NERA 40%							

Future annual mortgage maturities at September 30, 2018 are as follows:

Period End	Hamilton Essex 81	345 Franklin	Hamilton Minuteman	Hamilton on Main Apts	Dexter Park	Total
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6/30/2019	\$ —	\$ 195,841	\$ —	\$ —	\$ —	\$ 195,841
6/30/2020	—	203,556	—	—	—	203,556
6/30/2021	—	211,575	—	—	—	211,575
6/30/2022	—	219,910	—	—	—	219,910
6/30/2023	—	228,573	—	—	—	228,573
Thereafter	10,000,000	8,541,311	6,000,000	16,900,000	125,000,000	166,441,311
	10,000,000	9,600,766	6,000,000	16,900,000	125,000,000	167,500,766
Less:						
unamortized deferred financing costs	(96,523)	(64,921)	(106,045)	(94,970)	(624,689)	(987,148)
	\$ 9,903,477	\$ 9,535,845	\$ 5,893,955	\$ 16,805,030	\$ 124,375,311	\$ 166,513,618

At September 30, 2018 the weighted average interest rate on the above mortgages was 3.87%. The effective rate was 3.98% including the amortization expense of deferred financing costs.

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Summary financial information as September 30, 2017

	Hamilton Essex 81	Hamilton Essex Development	345 Franklin	Hamilton 1025	Hamilton Bay Sales	Hamilton Bay Apts
ASSETS						
Rental Properties	\$ 7,704,425	\$ 2,622,401	\$ 6,408,017	\$ 2,155,441	\$ 0	\$ 3,438,875
Cash & Cash Equivalents	147,083	92,180	67,653	200,845	20,890	583,983
Rent Receivable	17,530	—	32,797	10,388	1,480	7,110
Real Estate Tax Escrow	103,996	—	47,566	—	—	—
Prepaid Expenses & Other Assets	120,823	1115	59,633	704,019	263	501,895
Total Assets	\$ 8,093,857	\$ 2,715,696	\$ 6,615,666	\$ 3,070,693	\$ 22,633	\$ 4,531,863
LIABILITIES AND PARTNERS' CAPITAL						
Mortgage Notes Payable	\$ 9,889,687	\$ —	\$ 9,717,606	\$ —	\$ —	\$ —
Accounts Payable & Accrued Expense	90,779	1,276	78,848	35,139	1,671	28,806
Advance Rental Pmts & Security Deposits	179,143	—	229,169	25,656	101	25,355
Total Liabilities	10,159,609	1,276	10,025,623	60,795	1,772	54,161
Partners' Capital	(2,065,752)	2,714,420	(3,409,957)	3,009,898	20,861	4,477,702
Total Liabilities and Capital	\$ 8,093,857	\$ 2,715,696	\$ 6,615,666	\$ 3,070,693	\$ 22,633	\$ 4,531,863
Partners' Capital %—NERA	50	% 50	% 50	% 50	% 50	% 50
Investment in Unconsolidated Joint Ventures	\$	\$ 1,357,209	\$	\$ 1,504,948	\$ 10,431	\$ 2,238,850
Distribution and Loss in Excess of investments in Unconsolidated Joint Ventures	\$ (1,032,876)	\$ —	\$ (1,704,979)	\$ —	\$ —	\$ —
Total Investment in Unconsolidated Joint Ventures (Net)						
Total units/condominiums						
Apartments	48	—	40	175	120	48
Commercial	1	1	—	1	—	—

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Total	49	1	40	176	120	48
Units to be retained	49	1	40	1	—	—
Units to be sold	—	—	—	176	120	48
Units sold through November 1, 2017	—	—	—	155	120	22
Unsold units	—	—	—	20	0	26
Unsold units with deposits for future sale as of November 1, 2017	—	—	—	4	—	6

Financial information for the nine months ended September 30, 2017

	Hamilton Essex 81	Hamilton Essex Development	345 Franklin	Hamilton 1025	Hamilton Bay Sales	Hamilton Bay Apts	Hamilton Minuteman Apts	Ham on M Apts
Revenues								
Rental Income	\$ 1,120,743	\$ 173,928	\$ 1,095,674	\$ 308,579	6,822	\$ 499,341	\$ 775,327	\$ 2,4
Laundry and Sundry Income	10,415	—	3,860	—	—	—	1,945	28
	1,131,158	173,928	1,099,534	308,579	6,822	499,341	777,272	2,5
Expenses								
Administrative	20,400	1,275	21,302	3,150	3,706	7,142	3,871	25
Depreciation and Amortization	341,332	2,122	260,841	136,877	41,750	243,755	261,519	74
Management Fees	46,989	6,957	45,786	11,084	245	18,332	30,327	99
Operating	55,178	—	51,188	305	38	2,289	75,819	25
Renting	26,618	—	29,166	392	181	241	5,044	31
Repairs and Maintenance	136,821	3,180	89,973	177,987	3,326	253,489	59,922	48
Taxes and Insurance	180,881	44,059	97,973	80,038	1,850	117,587	95,737	32
	808,219	57,593	596,229	409,833	51,096	642,835	532,239	1,9
Income Before Other Income	322,939	116,335	503,305	(101,254)	(44,274)	(143,494)	245,033	55
Other Income (Loss)								
Interest Expense	(256,232)	—	(295,670)	(967)	(2)	(41,876)	(177,821)	(5)
Gain on Sale of Real Estate	—	—	—	1,787,816	93,392	2,355,141	—	—
Interest Income from Note	—	—	—	—	—	—	—	—
Other Income (Expense)	—	—	—	—	—	—	—	—
	(256,232)	—	(295,670)	1,786,849	93,390	2,313,265	(177,821)	(5)
	\$ 66,707	\$ 116,335	\$ 207,635	\$ 1,685,595	49,116	\$ 2,169,771	\$ 67,212	\$ (2)

Net Income									
(Loss)									
Net Income									
(Loss)—NERA									
50%	\$ 33,354	\$ 58,168	\$ 103,818	\$ 842,798	24,558	\$ 1,084,886	\$ 33,606	\$ (1	
Net Income									
—NERA 40%									

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Financial information for the three months ended September 30, 2017

	Hamilton Essex 81	Hamilton Essex Development	345 Franklin	Hamilton 1025	Hamilton Bay Sales	Hamilton Bay Apts	Hamilton Minuteman Apts	Hamilton on Mai Apts
Revenues								
Rental Income	\$ 397,458	\$ 53,928	\$ 368,508	\$ 71,380	1,540	\$ 101,378	\$ 258,529	\$ 844,5
Laundry and Sundry Income	2,825	—	1,723	—	—	—	675	10,06
	400,283	53,928	370,231	71,380	1,540	101,378	259,204	854,6
Expenses								
Administrative	10,470	425	7,262	967	1,558	1,945	1,460	8,683
Depreciation and Amortization	114,334	707	87,406	45,626	80,190	41,157	87,709	256,8
Management Fees	15,011	2,157	16,322	2,281	37	3,463	9,858	33,68
Operating	15,471	—	14,768	205	—	915	23,816	73,39
Renting	17,102	—	16,918	60	—	60	941	9,764
Repairs and Maintenance	87,270	—	38,542	62,270	226	60,661	20,636	159,0
Taxes and Insurance	59,780	14,979	31,003	23,473	637	30,239	32,843	109,3
	319,438	18,268	212,221	134,882	82,648	138,440	177,263	650,8
Income Before Other Income	80,845	35,660	158,010	(63,502)	(81,108)	(37,062)	81,941	203,7
Other Income								
Other Income (Loss)								
Interest Expense	(91,838)	—	(97,877)	(190)	—	(135)	(59,802)	(194,
Interest Income	—	—	—	—	—	—	—	—
Gain on sale of Real Estate	—	—	—	848,484	—	1,017,221	—	—
	(91,838)	—	(97,877)	848,294	—	1,017,086	(59,802)	(194,
Net Income (Loss)	\$ (10,993)	\$ 35,660	\$ 60,133	\$ 784,792	(81,108)	\$ 980,024	\$ 22,139	\$ 9,617
Net Income (Loss)—NERA 50%	\$ (5,497)	\$ 17,830	\$ 30,066	\$ 392,396	(40,554)	\$ 490,011	\$ 11,070	\$ 4,809
Net Income —NERA 40%								

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NOTE 15. IMPACT OF RECENTLY-ISSUED ACCOUNTING STANDARDS

In February 2016, the FASB issued ASU 2016-02, modifying the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for in the same manner as operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The guidance supersedes previously issued guidance under ASC Topic 840 "Leases". The guidance is effective on January 1, 2019, with early adoption permitted. The Partnership has evaluated the impact the adoption of ASU 2016-02 will have on the Partnership's consolidated financial statements. Management foresees no significant impact at this time.

In March 2016, the FASB issued ASU 2016-07, which eliminates a requirement for the retroactive adjustment on a step by step basis of the investment, results of operations, and retained earnings as if the equity method had been effective during all previous periods that the investment had been held when an investment qualifies for equity method accounting due to an increase in the level of ownership or degree of influence. The cost of acquiring the additional interest in the investee is to be added to the current basis of the investor's previously held interest and the equity method of accounting should be adopted as of the date the investment becomes qualified for equity method accounting. This guidance is to be applied on a prospective basis and is effective for interim and annual periods beginning after December 15, 2016. Early adoption is permitted for financial statements that have not been previously issued. The adoption of ASU 2016-07 will have no significant impact on the Partnership's consolidated financial statements.

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

Forward Looking Statements

Certain information contained herein includes forward looking statements, which are made pursuant to the safe harbor provisions of the Private Securities Liquidation Reform Act of 1995 (the "Act"). Forward looking statements in this report, or which management may make orally or in written form from time to time, reflect management's good faith belief when those statements are made, and are based on information currently available to management. Caution should be exercised in interpreting and relying on such forward looking statements, the realization of which may be impacted by known and unknown risks and uncertainties, events that may occur subsequent to the forward looking statements, and other factors which may be beyond the Partnership's control and which can materially affect the Partnership's actual results, performance or achievements for 2018 and beyond. Should one or more of the risks or uncertainties mentioned below materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. We expressly disclaim any responsibility to update our forward looking statements, whether as a result of new information, future events or otherwise. Accordingly, investors should use caution in relying on past forward looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

Since the Partnership's long-term goals include the acquisition of additional properties, a portion of the proceeds from the refinancing and sale of properties is reserved for this purpose. If available acquisitions do not meet the Partnership's investment criteria, the Partnership may purchase additional 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.

The core portfolio continued to experience strong revenue gains and continued high occupancy during the first three quarters of 2018. As the majority of the Partnership's assets are in the category of Rent by Necessity (RBN) or student related housing, the properties continue to enjoy in place revenue gains established in the third and fourth quarters of last year. The Partnership's revenue increases continue to exceed national levels and Management expects rent will continue to increase through the balance of 2018.

Residential rents continue to increase with new lease and renewal increases of approximately 4.1%. Year to date revenue gains, including the new acquisitions, were 11.0%. Excluding the new acquisitions, revenue increased by 4.8%, expenses increased by 2.3%, and Income before other income (expense) increased by 11.4% as compared to the same nine month period in 2017. Excluding the new acquisitions, net operating income (income before other income excluding depreciation and amortization expense) was approximately \$20,763,000 during the nine months ended September 30, 2018, compared to approximately \$19,938,000 for the nine months ended September 30, 2017, an increase of approximately \$825,000 (4.1%).

For the balance of 2018, Management expects rental income to increase, and operating expenses to increase with inflation.

On March 29, 2018, the Partnership purchased Hamilton Highlands, formally known as Webster Green Apartments, a 79 unit apartment complex located at 755-757 Highland Avenue, Needham, Massachusetts. Since acquiring the property, the Partnership has renovated the common areas, added energy efficient lighting to the hallways and parking areas and renovated two apartments. As part of the purchase contract, the seller was required to complete the construction of three new apartments and resurface the parking lot. These projects were completed during the third quarter. These projects will enhance the curb appeal of the property and lead to additional revenue growth.

On May 31, 2018, the Investment Property, Hamilton Park Towers (Hamilton Park) was refinanced for \$125,000,000 with a 10 year term, interest only at a 3.99% fixed interest rate. Hamilton Park used the proceeds from the refinancing to pay off the existing mortgage of approximately \$82,000,000 and distributed approximately \$41,200,000 to its member owners. The Partnership's share of the distribution was approximately \$16,500,000.

The proceeds from the refinancing of Hamilton Park were used to pay down the Partnership's existing Line of Credit from \$25,000,000 to \$5,000,000. In October, the Partnership used excess cash reserves to pay down the balance by and additional \$3,000,000. As of November 1, 2018, the balance on the line of credit was \$2,000,000.

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In association with this refinancing, there was a defeasance cost of approximately \$3,830,000. Based on its 40% ownership in the property, the Partnership incurred an expense of approximately \$1,532,000, which is accounted for in income from investments in unconsolidated joint ventures. The cash flow of the new loan is approximately the same as that of the prior loan.

The Stock Repurchase Program that was initiated in 2007 has purchased 1,365,306 Depositary Receipts through September 30, 2018, or approximately 32% of the outstanding Class A Depositary Receipts. The Partnership has not purchased any Depositary Receipts in 2018.

At November 1, 2018, Harold Brown, his brother Ronald Brown and the former President of Hamilton collectively own approximately 33% of the Depositary Receipts representing the Partnership Class A Units (including Depositary Receipts held by trusts for the benefit of such persons' family members). Harold Brown also controls 75% of the Partnership's Class B Units, 75% of the capital stock of NewReal, Inc. ("NewReal"), the Partnership's sole general partner, and all of the outstanding stock of Hamilton. Ronald Brown also owns 25% of the Partnership's Class B Units and 25% of NewReal's capital stock. In addition, Ronald Brown is the President and director of NewReal and Harold Brown is NewReal's Treasurer and a director. The 75% of the issued and outstanding Class B units of the Partnership, controlled by Harold Brown, are owned by HBC Holdings LLC, an entity of which he is the manager.

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

Residential tenants sign a one year lease. During the nine months ended September 30, 2018, tenant renewals were approximately 64% with an average rental increase of approximately 3.7%, new leases accounted for approximately 36% with rental rate increases of approximately 4.6 %. During the nine months ended September 30, 2018, leasing commissions were approximately \$367,000 compared to approximately \$279,000 for the nine months ended September 30, 2017, an increase of approximately \$88,000 (31.5%) from 2017. Tenant concessions were approximately \$44,000 for the nine months ended September 30, 2018, compared to approximately \$32,000 for the nine months ended September 30, 2017, an increase of approximately \$12,000 (37.5%). Tenant improvements were approximately \$2,072,000 for the nine months ended September 30, 2018, compared to approximately \$1,953,000 for the nine months ended September 30, 2017, an increase of approximately \$119,000 (6.1%).

Hamilton accounted for approximately 4.2% of the repair and maintenance expenses paid for by the Partnership during the nine months ended September 30, 2018 and 3.2 % during the nine months ended September 30, 2017. Of the funds paid to Hamilton for this purpose, the great majority was to cover the cost of services provided by the Hamilton maintenance department, including plumbing, electrical, carpentry services, and snow removal for those

properties close to Hamilton's headquarters. Several of the larger Partnership properties have their own maintenance staff. Those properties that do not have their own maintenance staff and are located more than a reasonable distance from Hamilton's headquarters in Allston, Massachusetts are generally serviced by local, independent companies.

Hamilton's legal department handles most of the Partnership's eviction and collection matters. Additionally, it prepares most long-term commercial lease agreements and represents the Partnership in selected purchase and sale transactions. Overall, Hamilton provided approximately \$166,000 (76.7%) and approximately \$178,000 (81.9 %) of the legal services paid for by the Partnership during the nine months ended September 30, 2018 and 2017 respectively.

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

The Partnership requires that three bids be obtained for construction contracts in excess of \$15,000. Hamilton may be one of the three bidders on a particular project and may be awarded the contract if its bid and its ability to successfully complete the project are deemed appropriate. For contracts that are not awarded to Hamilton, Hamilton charges the Partnership a construction supervision fee equal to 5% of the contract amount. Hamilton's architectural department also provides services to the Partnership on an as-needed basis. During the nine months ended September 30, 2018, Hamilton provided the Partnership approximately \$427,000 in construction and architectural services, compared to approximately \$137,000 for the nine months ended September 30, 2017.

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Hamilton's accounting staff perform bookkeeping and accounting functions for the Partnership. During the nine months ended September 30, 2018 and 2017, Hamilton charged the Partnership \$93,750 for bookkeeping and accounting services. For more information on related party transactions, see Note 3 to the Consolidated Financial Statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the consolidated financial statements, in accordance with accounting principles generally accepted in the United States of America, requires the Partnership to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. The Partnership regularly and continually evaluates its estimates, including those related to acquiring, developing and assessing the carrying values of its real estate properties and its investments in and advances to joint ventures. The Partnership bases its estimates on historical experience, current market conditions, and on various other assumptions that are believed to be reasonable under the circumstances. However, because future events and their effects cannot be determined with certainty, the determination of estimates requires the exercise of judgment. The Partnership's critical accounting policies are those which require assumptions to be made about such matters that are highly uncertain. Different estimates could have a material effect on the Partnership's financial results. Judgments and uncertainties affecting the application of these policies and estimates may result in materially different amounts being reported under different conditions and circumstances. See Note 1 to the Consolidated Financial Statements, Principles of Consolidation.

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

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

leasing activities, and utilizes various valuation methods, such as estimated cash flow projections utilizing appropriate discount and capitalization rates, estimates of replacement costs net of depreciation, and available market information. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant.

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

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

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Impairment: On an annual basis management assesses whether there are any indicators that the value of the Partnership's rental properties may be impaired. A property's value is impaired only if management's estimate of the aggregate future cash flows (undiscounted and without interest charges) to be generated by the property is less than the carrying value of the property. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying amount of the property over the fair value of the property. The Partnership's estimates of aggregate future cash flows expected to be generated by each property are based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for space, competition for tenants, changes in market rental rates, and costs to operate each property. As these factors are difficult to predict and are subject to future events that may alter management's assumptions, the future cash flows estimated by management in its impairment analyses may not be achieved. The Partnership has not recognized an impairment loss during the first nine months of 2018.

Investments in Joint Ventures: 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 Joint Ventures, 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. Generally, the Partnership would discontinue applying the equity method when the investment (and any advances) is reduced to zero and would not provide for additional losses unless the Partnership has guaranteed obligations of the venture or is otherwise committed to providing further financial support for the investee. If the venture subsequently generates income, the Partnership only recognizes its share of such income to the extent it exceeds its share of previously unrecognized losses.

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

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

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

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RESULTS OF OPERATIONS

Three Months Ended September 30, 2018 and September 30, 2017

The Partnership and its Subsidiary Partnerships earned income before interest expense, income from investments in unconsolidated joint ventures, gain on sale of real estate and other income and expense of approximately \$3,216,000 during the three months ended September 30, 2018, compared to approximately \$2,928,000 for the three months ended September 30, 2017, an increase of approximately \$288,000 (9.8%).

The rental activity is summarized as follows:

	Occupancy Date			
	November 1, 2018		November 1, 2017	
Residential				
Units	2,730		2,651	
Vacancies	91		68	
Vacancy rate	3.3	%	2.6	%
Commercial				
Total square feet	108,043		108,043	
Vacancy	1,360		—	
Vacancy rate	1.3	%	0.0	%

	Rental Income (in thousands)			
	Three Months Ended September 30, 2018		September 30, 2017	
	Total Operations	Continuing Operations	Total Operations	Continuing Operations
Total rents	\$ 14,426	\$ 14,426	\$ 13,322	\$ 13,322
Residential percentage	93 %	93 %	93 %	93 %
Commercial percentage	7 %	7 %	7 %	7 %
Contingent rentals	\$ 183	\$ 183	\$ 176	\$ 176

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Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017:

	Three Months Ended September 30,		Dollar	Percent	
	2018	2017	Change	Change	
Revenues					
Rental income	\$ 14,425,908	\$ 13,321,770	\$ 1,104,138	8.3	%
Laundry and sundry income	119,625	100,035	19,590	19.6	%
	14,545,533	13,421,805	1,123,728	8.4	%
Expenses					
Administrative	526,100	525,125	975	0.2	%
Depreciation and amortization	3,980,177	3,664,997	315,180	8.6	%
Management fee	590,908	544,399	46,509	8.5	%
Operating	1,101,251	1,051,910	49,341	4.7	%
Renting	312,579	301,423	11,156	3.7	%
Repairs and maintenance	2,951,750	2,678,780	272,970	10.2	%
Taxes and insurance	1,866,463	1,727,218	139,245	8.1	%
	11,329,228	10,493,852	835,376	8.0	%
Income Before Other Income (Expense)	3,216,305	2,927,953	288,352	9.8	%
Other Income (Expense)					
Interest income	64	416	(352)	(84.6)	%
Interest expense	(3,090,471)	(3,046,818)	(43,653)	1.4	%
Income from investments in unconsolidated joint ventures	534,431	990,169	(455,738)	(46.0)	%
	(2,555,976)	(2,056,233)	(499,743)	24.3	%
Net Income	\$ 660,329	\$ 871,720	\$ (211,391)	(24.2)	%

Rental income for the three months ended September 30, 2018 was approximately \$14,426,000, compared to approximately \$13,322,000 for the three months ended September 30, 2017, an increase of approximately \$1,104,000 (8.3%). The factors that can be attributed to this increase are as follows: the acquisition of Hamilton Highland resulted in an increase in rental income of approximately \$489,000. In addition, rental income has increased at a number of properties due to increased demand and increases in rental rates. The Partnership Properties with the most significant increases in rental income include Captain Parker, 62 Boylston, Woodland Park, 1144 Commonwealth Avenue, Hamilton Oaks, and 140 North Beacon Street, with increases of approximately \$66,000, \$58,000, \$55,000, \$49,000, \$43,000, and \$36,000, respectively. Included in rental income is contingent rentals collected on commercial properties. Contingent rentals include such charges as bill backs of common area maintenance charges, real estate taxes, and utility charges.

Operating expenses for the three months ended September 30, 2018 were approximately \$11,329,000 compared to approximately \$10,494,000 for the three months ended September 30, 2017, an increase of approximately \$835,000 (8.0%). Excluding the increase in operating expenses attributable to the acquisition of Hamilton Highland of

approximately \$792,000, operating expenses increased approximately \$43,000 (0.4%). The factors contributing to this net increase are an increase in repairs and maintenance costs of approximately \$ 181,000 (6.7%), an increase in taxes and insurance of approximately \$76,000 (4.4%), partially offset by a decrease in depreciation and amortization of approximately \$230,000 (6.3%).

Interest expense for the three months ended September 30, 2018 was approximately \$3,090,000 compared to approximately \$3,046,000 for the three months ended September 30, 2017, an increase of approximately \$44,000 (1.4%). Excluding the increase in interest expense attributable to Hamilton Highland of approximately \$218,000, there was a decrease in interest expense of approximately \$174,000 (5.7%).

At September 30, 2018, the Partnership has between a 40% and 50% ownership interests in eight different Investment Properties. See a description of these properties included in the section titled Investment Properties as well as Note 14 to the Consolidated Financial Statements for a detail of the financial information of each Investment Property.

As described in Note 14 to the Consolidated Financial Statements, the Partnership's share of the net income from the Investment Properties was approximately \$534,000 for the three months ended September 30, 2018, compared

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to net income of approximately \$990,000 for the three months ended September 30, 2017, a decrease in income of approximately \$456,000 (46.0%). This decrease is primarily due to a decrease on the gain on the sale of real estate of approximately \$857,000, with the Partnership's share amounting to 50%, on the sale of 3 units at Hamilton Bay Apartments LLC, and 3 units at Hamilton 1025 LLC, compared to a gain of approximately \$1,866,000 on the sale of 8 units at Hamilton Bay Apartments LLC, 7 units at Hamilton 1025 LLC, and 1 unit at Hamilton Bay Sales LLC for the three months ended September 30, 2017. Included in the income for the three months ended September 30, 2018 is depreciation and amortization expense of approximately \$645,000. The proportional income for the three months ended September 30, 2018 from the investment in Dexter Park is approximately \$54,000.

As a result of the changes discussed above, net income for the three months ended September 30, 2018 was approximately \$660,000 compared to income of approximately \$871,000 for the three months ended September 30, 2017, a decrease in income of approximately \$211,000 (24.2 %).

Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017:

The Partnership and its Subsidiary Partnerships earned income before interest expense, income from investments in unconsolidated joint ventures, gain on sale of real estate and other income and expense of approximately \$10,849,000 during the nine months ended September 30, 2018, compared to approximately \$10,640,000 for the nine months ended September 30, 2017, an increase of approximately \$209,000 (2.0%).

	Nine Months Ended September				
	2018	2017	Dollar	Percent	
			Change	Change	
Revenues					
Rental income	\$ 42,872,671	\$ 38,636,732	\$ 4,235,939	11.0	%
Laundry and sundry income	362,120	316,471	45,649	14.4	%
	43,234,791	38,953,203	4,281,588	11.0	%
Expenses					
Administrative	1,613,891	1,513,869	100,022	6.6	%
Depreciation and amortization	11,549,208	9,647,751	1,901,457	19.7	%
Management fee	1,740,766	1,599,647	141,119	8.8	%
Operating	4,186,091	3,797,935	388,156	10.2	%
Renting	586,019	482,157	103,862	21.5	%
Repairs and maintenance	7,081,073	6,187,673	893,400	14.4	%
Taxes and insurance	5,628,501	5,083,674	544,827	10.7	%
	32,385,549	28,312,706	4,072,843	14.4	%
Income Before Other Income (Expense)	10,849,242	10,640,497	208,745	2.0	%
Other Income (Expense)					

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Interest income	301	1,132	(831)	(73.4)	%
Interest (expense)	(9,331,023)	(8,113,197)	(1,217,826)	15.0	%
Income from investments in unconsolidated joint ventures	1,073,692	2,721,231	(1,647,539)	(60.5)	%
	(8,257,030)	(5,390,834)	(2,866,196)	53.2	%
Net Income	\$ 2,592,212	\$ 5,249,663	\$ (2,657,451)	(50.6)	%

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Rental income for the nine months ended September 30, 2018 was approximately \$42,872,000, compared to approximately \$38,636,000 for the nine months ended September 30, 2017, an increase of approximately \$4,236,000 (11.0%). The factors that can be attributed to this increase are as follows: the acquisition of Hamilton Highland in 2018 and Woodland Park in the second quarter of 2017, resulted in an increase in rental income of approximately \$3,019,000. In addition, rental income has increased at a number of properties due to increased demand and increases in rental rates. The Partnership Properties with the most significant increases in rental income include, 62 Boylston, Hamilton Oaks, 1144 Commonwealth Avenue, Westside Colonial, and School Street 9 Associates, with increases of approximately \$263,000, \$164,000, \$160,000, \$110,000, and \$93,000 respectively. Included in rental income is contingent rentals collected on commercial properties. Contingent rentals include such charges as bill backs of common area maintenance charges, real estate taxes, and utility charges.

Operating expenses for the nine months ended September 30, 2018 were approximately \$32,386,000 compared to approximately \$28,313,000 for the nine months ended September 30, 2017, an increase of approximately \$4,073,000 (14.4%). Excluding the operating expenses attributable to the acquisition of Hamilton Highland and Woodland Park of approximately \$4,325,000, operating expenses increased approximately \$623,000 (2.3%). The factors contributing to this net increase are a decrease in depreciation and amortization of approximately \$423,000 (4.7%), an increase in repairs and maintenance costs of approximately \$617,000 (10.1%), an increase in taxes and insurance of approximately \$163,000 (3.2%), and an increase in operating expenses of approximately \$167,000 (4.5%).

Interest expense for the nine months ended September 30, 2018 was approximately \$9,331,000 compared to approximately \$8,113,000 for the nine months ended September 30, 2017, an increase of approximately \$1,218,000 (15.0%). Excluding the interest expense attributable to Hamilton Highland and Woodland Park of approximately \$1,077,000, there was an increase in interest expense of approximately \$327,000 (4.1%).

At September 30, 2018, the Partnership has between a 40% and 50% ownership interests in eight different Investment Properties. See a description of these properties included in the section titled Investment Properties as well as Note 14 to the Consolidated Financial Statements for a detail of the financial information of each Investment Property.

As described in Note 14 to the Consolidated Financial Statements, the Partnership's share of the net income from the Investment Properties was approximately \$1,073,000 for the nine months ended September 30, 2018, compared to net income of approximately \$2,721,000 for the nine months ended September 30, 2017, a decrease in income of approximately \$1,648,000 (60.5%). This decrease is primarily due to a defeasance charge of approximately \$3,830,000 incurred in connection with the refinancing of the property known as Dexter Park, and a gain on the sale of real estate of approximately \$3,913,000 on the sale of 15 units at Hamilton Bay Apartments LLC, and 15 units at Hamilton 1025 LLC, compared to a gain of approximately \$4,236,000 on the sale of 34 units at Hamilton Bay Apartments, Hamilton 1025, and Hamilton Bay LLC for the nine months ended September 30, 2017. Included in the income for the nine months ended September 30, 2018 is depreciation and amortization expense of approximately \$1,911,000. The proportional loss for the nine months ended September 30, 2018 from the investment in Dexter Park is approximately \$1,090,000.

As a result of the changes discussed above, net income for the nine months ended September 30, 2018 was approximately \$2,592,000 compared to income of approximately \$5,249,000 for the nine months ended September 30, 2017, a decrease in income of approximately \$2,657,000 (50.6%).

LIQUIDITY AND CAPITAL RESOURCES

The Partnership's principal source of cash during the first nine months of 2018 was the collection of rents, the proceeds from the line of credit, and the refinancing proceeds from Hamilton Park Towers, LLC. The Partnership's principal source of cash in 2017 was the collection of rents and the proceeds from the mortgage for Woodland Partners. The majority of cash and cash equivalents of \$9,234,900 at September 30, 2018 and \$7,238,905 at December 31, 2017 were held in interest bearing accounts at creditworthy financial institutions.

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The increase in cash of \$1,995,995 for the nine months ended September 30, 2018 is summarized as follows:

	Nine Months Ended September 30,	
	2018	2017
Cash provided by operating activities *	\$ 20,816,693	\$ 16,928,788
Cash (used in) investing activities *	(2,031,792)	(51,842,892)
Cash (used in) provided by financing activities	(13,430,463)	45,765,015
Repurchase of Depositary Receipts, Class B and General Partner Units	—	(42,548)
Distributions paid	(3,358,443)	(3,358,648)
Net increase in cash and cash equivalents	\$ 1,995,995	\$ 7,449,715

*Reclassified to comply with new FASB standard

The change in cash provided by operating activities is due to various factors, including a change in depreciation expense due to recent acquisitions, a change in income and distribution from joint ventures due to the defeasance charge for the refinancing at Dexter Park, and the sale of units, as well as other factors. The increase in cash used in investing activities is primarily due to the distribution from Dexter Park, partially offset by the acquisition of Hamilton Highlands, and a contribution to a joint venture. The change in cash provided by financing activities is primarily due to the pay down of the line of credit originally used for the purchase of Hamilton Highlands.

During 2018, the Partnership and its Subsidiary Partnerships have completed improvements to certain of the Properties at a total cost of approximately \$3,056,000. These improvements were funded from cash reserves. Cash reserves have been adequate to fully fund improvements. The most significant improvements were made at Redwood Hills, 62 Boylston Street, Hamilton Oaks, Captain Parker, School Street Associates, and 1144 Commonwealth, at a cost of approximately \$530,000, \$364,000, \$331,000, \$258,000, \$235,000 and \$233,000 respectively. The Partnership plans to invest approximately \$378,000 in additional capital improvements in 2018.

On July 6, 2017, Woodland Park Partners, LLC, a newly formed subsidiary of the Partnership, purchased the Woodland Park Apartments, a 126-unit apartment complex located at 264-290 Grove Street, Newton, Massachusetts (the "Property"), for a purchase price of \$45,600,000.

To fund the purchase price, the Partnership borrowed \$25,000,000 under its outstanding line of credit with KeyBank, NA, and \$16,000,000 from HBC Holdings, LLC, a Massachusetts limited liability company controlled by Harold Brown. The loan from HBC Holdings will mature on July 16, 2018, with interest only at 4.75%. The balance of the purchase price was funded by the Partnership's cash reserves. The Partnership paid off the loan of HBC Holdings on September 29, 2017, and the total interest paid on the loan was approximately \$182,000.

On September 29, 2017, Woodland Park Partners LLC, (“Woodland Park”), entered into a Multifamily Loan and Security Agreement with KeyBank National Association . The manager of Woodland Park is NewReal, Inc. (“New Real”), the general partner of New England Realty Associates Limited Partnership. The Partnership is the sole member of Woodland Park. The Loan Agreement provides for a term loan in the principal amount of \$22,250,000. The Loan is due on October 1, 2027 unless the due date is accelerated in accordance with the Loan’s terms, with interest only through October 1, 2022. Borrowings under the Loan will bear interest at the rate of 3.79%.

On March 29, 2018, Hamilton Highlands, LLC (Hamilton highlands”), a wholly-owned subsidiary of New England Realty Associates Limited Partnership, purchased Webster Green Apartments, a 79 unit apartment complex located at 755-757 Highland Avenue, Needham, Massachusetts. The sale was consummated pursuant to the terms of a Purchase and Sale Contract by and between Webster Green Apartments, LLC, the prior owner of the Property, and The Hamilton Companies, Inc., an affiliate of the Partnership , which agreement was subsequently assigned by Hamilton to the Purchaser. In connection with the purchase, Hamilton Highlands entered into an Assumption and Modification Agreement dated as of March 29, 2018 with Brookline Bank pursuant to which Hamilton Highlands assumed a note dated as of January 14, 2016 in the principal amount of \$21,500,000 and various agreements relating to the note including a Mortgage, Assignment of Leases and Rents, Security Agreement, Fixture Filing dated as of January 14, 2016. The purchase price was \$34,500,000, consisting of a payment of approximately \$13,000,000 in cash and the assumption of the note and mortgage. Hamilton Highlands funded \$5,000,000 of the cash portion of the purchase price out of cash reserves and the remaining \$8,000,000 by drawing on an existing line of credit.

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During the nine months ended September 30, 2018 the Partnership received distributions of approximately \$22,784,000 from the investment properties. For the nine months ended September 30, 2017, the Partnership received distributions of approximately \$5,370,000 from the investment properties. Included in these net distributions is the amount from Dexter Park of approximately \$17,708,000 and \$1,160,000 for the nine months ended September 30, 2018 and 2017 respectively. The increase in this distribution relates to the refinancing of the property (see Note 14).

On July 31, 2014, the Partnership entered into an agreement for a \$25,000,000 revolving line of credit. The term of the line was for three years with a floating interest rate equal to a base rate of the greater of (a) the Prime Rate (b) the Federal Funds Rate plus one-half of one percent per annum, or (c) the LIBOR Rate for a period of one month plus 1% per annum, plus the applicable margin of 2.5%.

The agreement originally expired on July 31, 2017, and was extended until October 31, 2020. The costs associated with the line of credit extension were approximately \$128,000. The Partnership borrowed \$25,000,000 to partially fund the purchase of Woodland Park. It paid down \$8,000,000 through the financing of the property and its' cash reserve. As of December 31, 2017, the credit line had an outstanding balance of \$17,000,000. An additional \$8,000,000 was drawn for the purchase of Hamilton Highlands on March 29, 2018, resulting in a balance of \$25,000,000 at March 31, 2018. With the proceeds of the distribution from Dexter Park, the Partnership paid down the Line of Credit by \$16,000,000. The line was paid down by \$4,000,000 in July, 2018.

As of September 30, 2018, the credit line had an outstanding balance of \$5,000,000. Subsequent to the end of the quarter, the line was paid down to \$2,000,000.

The Partnership anticipates that cash from operations and interest bearing accounts will be sufficient to fund its current operations, pay distributions, make required debt payments and 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, 2018, the Partnership had a 40%-50% ownership interest in eight Joint Ventures, five 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, 2018, our proportionate share of the non-recourse debt related to these investments was approximately \$71,250,000. See Note 14 to the Consolidated Financial Statements.

Contractual Obligations

As of September 30, 2018, we are subject to contractual payment obligations as described in the table below.

	Payments due by period						Total
	2019	2020	2021	2022	2023	Thereafter	
Contractual Obligations							
Long -term debt							
Mortgage debt	\$ 1,902,953	\$ 4,327,735	\$ 2,343,224	\$ 2,657,323	\$ 80,040,561	162,904,733	\$ 254,176,529
Other obligations	—	5,000,000	—	—	—	—	5,000,000
Total Contractual Obligations	\$ 1,902,953	\$ 9,327,735	\$ 2,343,224	\$ 2,657,323	\$ 80,040,561	\$ 162,904,733	\$ 259,176,529

* Excluding unamortized deferred financing costs

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We have various standing or renewable service contracts with vendors related to our property management. In addition, we have certain other contracts we enter into in the ordinary course of business that may extend beyond one year. These contracts are not included as part of our contractual obligations because they include terms that provide for cancellation with insignificant or no cancellation penalties.

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

Factors That May Affect Future Results

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

- The Partnership depends on the real estate markets where its properties are located, primarily in Eastern Massachusetts, and these markets may be adversely affected by local economic market conditions, which are beyond the Partnership's control.
- The Partnership is subject to the general economic risks affecting the real estate industry, such as dependence on tenants' financial condition, the need to enter into new leases or renew leases on terms favorable to tenants in order to generate rental revenues and our ability to collect rents from our tenants.
- The Partnership is also impacted by changing economic conditions making alternative housing arrangements more or less attractive to the Partnership's tenants, such as the interest rates on single family home mortgages and the availability and purchase price of single family homes in the Greater Boston metropolitan area.
- The Partnership is subject to significant expenditures associated with each investment, such as debt service payments, real estate taxes, insurance and maintenance costs, which are generally not reduced when circumstances cause a reduction in revenues from a property.
- The Partnership is subject to increases in heating and utility costs that may arise as a result of economic and market conditions and fluctuations in seasonal weather conditions.
- Civil disturbances, earthquakes and other natural disasters may result in uninsured or underinsured losses.

- Actual or threatened terrorist attacks may adversely affect our ability to generate revenues and the value of our properties.
- Financing or refinancing of Partnership properties may not be available to the extent necessary or desirable, or may not be available on favorable terms.
- The Partnership properties face competition from similar properties in the same market. This competition may affect the Partnership's ability to attract and retain tenants and may reduce the rents that can be charged.
- Given the nature of the real estate business, the Partnership is subject to potential environmental liabilities. These include environmental contamination in the soil at the Partnership's or neighboring real estate, whether caused by the Partnership, previous owners of the subject property or neighbors of the subject property, and the presence of hazardous materials in the Partnership's buildings, such as asbestos, lead, mold and radon gas. Management is not aware of any material environmental liabilities at this time.
- Insurance coverage for and relating to commercial properties is increasingly costly and difficult to obtain. In addition, insurance carriers have excluded certain specific items from standard insurance policies, which have resulted in increased risk exposure for the Partnership. These include insurance coverage for acts of

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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

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

As of September 30, 2018, the Partnership, its Subsidiary Partnerships and the Investment Properties collectively have approximately \$421,677,000 in long-term debt, substantially all of which require payment of interest at fixed rates. Accordingly, the fair value of these debt instruments is affected by changes in market interest rates. This long term debt matures through 2029. The Partnership, its Subsidiary Partnerships and the Investment Properties collectively have variable rate debt of \$55,900,000 (without taking out unamortized deferred financing costs) as of September 30, 2018. Interest rates ranged from LIBOR plus 195 basis points to LIBOR plus 350 basis points. Assuming interest-rate caps are not in effect, if market rates of interest on the Partnership's variable rate debt increased or decreased by 100 basis points, then the increase or decrease in interest costs on the Partnership's variable rate debt would be approximately \$559,000 annually and the increase or decrease in the fair value of the Partnership's fixed rate debt as of September 30, 2018 would be approximately \$21 million. For information regarding the fair value and maturity dates of these debt obligations, See Note 5 to the Consolidated Financial Statements — "Mortgage Notes Payable," Note 12 to the Consolidated Financial Statements — "Fair Value Measurements" and Note 14 to the Consolidated Financial Statements — "Investment in Unconsolidated Joint Ventures."

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

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. The Partnership's management, with the participation of the Partnership's principal executive officer and principal financial officer, has evaluated the effectiveness of the

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

Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting during the third quarter of 2018 that materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in Part 1, Item 1A, of our annual report on Form 10K for the fiscal year ended December 31, 2017, except for the risk factors discussed below.

If the IRS makes audit adjustments to our income tax returns for tax years beginning after December 31, 2017, it may assess and collect any taxes (including any applicable penalties and interest) resulting from such audit adjustment directly from us, in which case our cash available for distribution to our unitholders might be reduced.

Pursuant to the Bipartisan Budget Act of 2015, for tax years beginning after December 31, 2017, if the IRS makes audit adjustments to our income tax returns, it may assess and collect any taxes (including any applicable penalties and interest) resulting from such audit adjustments directly from the Partnership. If, as a result of any such audit adjustment, we are required to make payments of taxes, penalties and interest, our cash available for distribution to our partners might be substantially reduced. These rules are not applicable to us for tax years beginning on or prior to December 31, 2017.

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

(a)None

(b)None

(c)None

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosure

Not applicable.

Item 5. Other Information

Jameson Brown, the son of Harold Brown, has been appointed to the Board of Directors of New Real, Inc. the General Partner of the Partnership. Jameson joined The Hamilton Company in 2009 after graduating from Tulane University with a Bachelor of Science in Management. Since joining the company, Jameson has worked in various departments, including Leasing, Maintenance, and Property Management, Development and Acquisitions. He is currently the Co-Chief Executive Officer and the Chief Operating Officer of Hamilton. Prior to joining the company, Jameson worked as a third party real estate agent in Boston.

In addition to his current role of Co-Chief Executive Officer and Chief Operating Officer of Hamilton, Jameson's responsibilities include the analysis of investment and development opportunities, negotiating acquisitions, handling due diligence, and representing the owner through the construction and development process. He also continues to hold direct property management responsibilities over several properties in the portfolio, while staying involved in companywide management and leasing decisions.

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Item 6. Exhibits

See the exhibit index below.

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EXHIBIT INDEX

Exhibit No.	Description of Exhibit
(31.1)	<u>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).</u>
(31.2)	<u>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).</u>
(32.1)	<u>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).</u>
(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, 2018, 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).

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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 8, 2018

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

Signature	Title	Date
/s/ RONALD BROWN Ronald Brown	President and Director of the General Partner (Principal Executive Officer)	November 8, 2018
/s/ HAROLD BROWN Harold Brown	Treasurer and Director of the General Partner (Principal Financial Officer and Principal Accounting Officer)	November 8, 2018
/s/ GUILLIAEM AERTSEN Guilliaem Aertsen	Director of the General Partner	November 8, 2018
/s/ DAVID ALOISE David Aloise	Director of the General Partner	November 8, 2018
/s/ EUNICE HARPS Eunice Harps	Director of the General Partner	November 8, 2018

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